

LEGISLATIVE AUDIT COMMISSION



Review of
Statewide Single Audit
Year Ended June 30, 2003

Limited Review Including
Comptroller, DHS, ISBE, ISAC, IDOT

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**REVIEW: 4219
STATEWIDE SINGLE AUDIT
YEAR ENDED JUNE 30, 2003**

**Limited Review Including
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FINDINGS/RECOMMENDATIONS - 64

REPEATED RECOMMENDATIONS - 34

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Beginning with FY2000, the Office of the Auditor General converted to a Statewide Single Audit approach to audit federal grant programs. In prior years, audits of federal grant programs were conducted on a department by department basis. This review summarizes the FY03 Statewide Single Audit of federal funds. The compliance audit testing performed in this audit was conducted in accordance with *Government Auditing Standards*, Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133. The auditors stated that the financial statements were fairly presented.

The Statewide Single Audit includes all State agencies that are a part of the primary government and expend federal awards. In total, 41 State agencies expended federal financial assistance in FY2003. The Statewide Single Audit does not include those agencies that are defined as component units such as the State universities and finance authorities.

The Schedule of Expenditures of Federal Awards (SEFA) reflected total expenditures of \$15.06 billion for the year ended June 30, 2003. This represents a \$2.04 billion increase over FY2002, or 15.7%. Overall, the State participated in 345 different federal programs; however, ten of these programs or program clusters accounted for approximately 82.3% (\$12.375 billion) of the total federal award expenditures as exhibited in the following table.

Federal Program Award	Total Expenditure	% of Total
Medicaid	\$ 5,160,500,000	34.3%
Unemployment Insurance	3,182,500,000	21.1%
Food Stamps	1,098,200,000	7.3%
Highway Planning, Construction	693,300,000	4.6%
TANF	613,500,000	4.1%

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Federal Program Award	Total Expenditure	% of Total
Title 1 Education Grants	\$ 424,500,000	2.8%
Special Education	355,500,000	2.4%
Foster Care	353,400,000	2.3%
Child Nutrition	308,700,000	2.0%
Child Care	184,900,000	1.2%
All Others	2,685,300,000	17.9%
Total Federal Awards	\$ 15,060,300,000	

The funding for the 345 programs was provided by 21 different federal agencies. The table below shows the five federal agencies that provided Illinois with the vast majority of federal funding in FY2003.

Federal Funding Agency	Total Grant	% of Total
Health & Human Services	\$7,090,600,000	47.1%
Labor	3,449,600,000	22.9%
Agriculture	1,738,300,000	11.5%
Education	1,470,600,000	9.8%
Transportation	826,400,000	5.5%
All Others	484,800,000	3.2%

A total of 45 federal programs (or 31 programs/clusters) were identified as major programs in FY2003. A major program was defined as any that meets certain criteria when applying the risk-based approach. In FY2003, all of the 31 major programs/clusters involved federal award expenditures exceeding \$30 million. The 31 major programs/clusters had combined expenditures of more than \$14.147 billion, and 300 non-major programs with combined expenditures of \$913.1 million. Nine State agencies accounted for approximately 97.2% of all federal dollars spent in FY2003 as depicted in the table below.

State Agency	Federal Expenditures	% of Total
Public Aid	\$ 5,214,300,000	34.6%
Employment Security	3,435,300,000	22.8%
Human Services	2,530,000,000	16.8%

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State Agency	Federal Expenditures	% of Total
Board of Education	\$ 1,556,700,000	10.3%
Transportation	816,500,000	5.4%
DCFS	536,700,000	3.6%
DCEO	202,600,000	1.4%
ISAC	184,400,000	1.2%
EPA	169,300,000	1.1%
All Others	414,500,000	2.8%

The table below summarizes the number of report findings by State agency and identifies the number of repeat findings.

State Agency	Number of Findings	Repeat Findings
State Comptroller	1	1
Human Services	14	5
Public Aid	6	4
DCFS	4	4
Aging	2	0
Board of Education	8	5
ISAC	7	4
Community College Board	3	0
Transportation	4	2
Commerce & Economic Opportunity	3	2
Employment Security	5	2
EPA	3	2
Corrections	2	1
Natural Resources	1	1
Public Health	1	1
TOTAL	64	34

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The findings for the first 14 recommendations are very similar and relate to the timely compilation of a complete and accurate schedule of expenditures of federal awards (SEFA). The State's process and source used to prepare the SEFA are from manual data collection forms designed and used by the Office of the Comptroller (IOC) in its preparation of the State's Basic Financial Statements. These agency prepared forms are reviewed by the IOC and subsequently, by each agency's post auditor, whose reviews often identify needed corrections and a lack of completeness in their original preparation.

The Auditors noted that the State's process for collecting information to compile the SEFA is inadequate to permit timely and accurate reporting in accordance with the March 31 deadline. Although the IOC made some improvements in the SEFA reporting process, problems remain in the submission and finalization of the State Comptroller forms due to their complex nature and manual process. The 13 agencies with the largest use of federal funds took between 127 days and 204 days from the end of FY03 (June 30, 2003) to submit to the OAG for SEFA compilation purposes.

RECOMMENDATIONS 1-14

Office of the Comptroller (Rec #1), DHS (Rec #2), DPA (Rec #3), DCFS (Rec #4), ISBE (Rec #5), ISAC (Rec #6), ICCB (Rec #7), IDOT (Rec #8), DCEO (Rec #9), IDES (Rec #10), IEPA (Rec #11), DOC (Rec #12), DNR (Rec #13), and DPH (Rec #14)

- 1. The auditors recommend the Office of the Comptroller implement an automated process for compiling the SEFA which will allow for the completion of the State's OMB Circular A-133 audit within the required timeframe. (Repeated-2002)**

Findings: The State does not have an adequate process in place to permit the timely compilation of a complete and accurate schedule of expenditures of federal awards (SEFA).

The State's process for compiling the SEFA requires each State agency to complete a series of manual financial reporting forms (SCO forms) which detail by fund the CFDA number, total program expenditures, funds passed through to subrecipients, and transfers of program funds between State agencies for each federal program. The SCO forms are collected by the Illinois Office of the Comptroller (IOC) and are reviewed for any discrepancies or errors. Once any of these identified errors and discrepancies have been resolved with the responsible State agency, the finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) in an electronic database for the compilation of the SEFA. As part of their compilation procedures, the OAG performs a series of analytical and verification procedures (including agreeing CFDA numbers, program expenditures, amounts passed through to subrecipients or passed to other State agencies to the reporting agency's records) to ensure amount reported are complete, accurate, and properly presented.

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During fiscal year 2003, improvements were made to automate the SEFA reporting process, which allowed the IOC to provide a preliminary SEFA to the OAG in November. However, the overall reporting process for the State continues to be delayed by the complexity and manual nature of the SCO forms and delays in their submission by the State agencies. A number of the final SCO forms were not completed or available to the OAG until late January resulting in the compilation of the SEFA being completed in late March (approximately nine months after the State's fiscal year end). The current reporting process does not allow for the timely completion of an audit in accordance with OMB Circular A-133.

According to OMB Circular A-133, a recipient of federal awards is required to prepare appropriate financial statements (Comprehensive Annual Financial Report issued by the IOC), including the schedule of expenditures of federal awards and to ensure that audits required by this part are properly performed and submitted when due. Additionally, the non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

In discussing these conditions with the IOC, they stated the State does not have a process in place to monitor the accuracy of State agency financial reporting in relation to the State's federal awards.

Failure to prepare the SEFA in a timely manner prevents the State from completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding.

Response: The Office of the Comptroller (IOC) agrees the State does not have an adequate process in place to permit the timely compilation of the schedule of expenditures of federal awards (SEFA). The IOC will consult with other members of the State's Executive Branch to establish and implement monitoring procedures for State agency financial reporting in relation to the State's federal awards. Executive Branch members consulted with will include:

- *The Governor.* Pursuant to the Illinois Constitution, Article V, Section 9, the Governor has the power to appoint State officers whose election or appointment is not otherwise provided. In addition, pursuant to the Illinois Constitution, Article V, Section 8, the Governor has supreme executive power and has the responsibility for the execution of laws. With such powers, the Governor is the only member of the Executive Branch who has the appropriate level of power to appropriately discipline the State officers of agencies not having adequate reporting procedures.
- *The Director of the Department of Central Management Services (Director).* The Department of Central Management Services Law (20 ILCS 405/405-10) states, "It shall be the duty of the Director and the policy of the State of Illinois to do the following: (1) Place financial responsibility on State agencies . . . and hold them accountable for the proper discharge of this responsibility. (2) Require professional, accurate, and current accounting with the State agencies."
- *The Governor's Office of Management and Budget (GOMB).* The Governor's Office of Management and Budget Act (20 ILCS 3005/5.1) specifies that the

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GOMB shall be responsible for approving federal grant applications for agencies under the Governor's jurisdiction upon reviewing State agency reports of program costs and other commitments resulting from the receipt of the federal grant.

The IOC will also continue to automate reporting forms and assist agencies in completing financial reporting forms. These efforts should facilitate more timely completion of the State's schedule of federal awards in the future.

Updated Response: Implemented. On January 13, 2004, the Illinois Office of the Comptroller established an automated web-based reporting system for the federal grants and contracts. For Fiscal Year 2004, the Comptroller's personnel entered the beginning balances from the prior year records. The Fiscal Year 2004 transactions were entered online by state agencies to generate the ending balances. This database information is available in electronic or paper format to compile the SEFA.

- 2. The auditors recommend IDHS review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. (Repeated-2002)**

Findings: IDHS does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

During the review of the financial reporting process, the auditors noted that the information available for the preparation of the State's financial statements and SEFA was not finalized for IDHS until January 12, 2004. Additionally, several correcting journal entries were required to accurately state amounts reported by IDHS.

In discussing this with IDHS officials, they stated the decision for maximizing federal claiming for TANF was not determined on a timely basis. In addition, IDHS must rely on other State agencies for TANF claiming and this information is not received on a timely basis.

Response: Accepted. The Department will review the current process for reporting financial information to the IOC. In the current process, all GAAP packages are reviewed to verify that the information reported in the GAAP package agrees to the back up information available at the time of the preparation of the GAAP package. Due to the complexity of the TANF, Child Care, and Title XX Grants and the desire to maximize federal funding, changes to GAAP packages are often required after additional information is received from other entities outside our control. IDHS needs to ensure expenditures incurred by all entities, which are eligible for reimbursement, are claimed on the final federal grant reports.

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In addition, IDHS is participating in a workgroup with other Single Audit state agencies. The goal of the workgroup is to review the current process for financial reporting and to improve the statewide compilation process.

Updated Response: Accepted. The Department will review the current process for reporting financial information to the IOC. In the current process, all GAAP packages are reviewed to verify that the information reported in the GAAP package agrees to the back up information available at the time of the preparation of the GAAP package. Due to the complexity of the TANF, Child Care and Title XX Grants and the desire to maximize federal funding, changes to GAAP packages are often required after additional information is received from other entities outside our control. IDHS needs to ensure expenditures incurred by all entities, which are eligible for reimbursement, are claimed on the final federal grant reports. The reconciliations of federal expenditures to the GAAP reporting packages were completed for FY'2004.

- 3. The auditors recommend IDPA review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, IDPA should ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC.**

Findings: IDPA does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each state agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible state agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During the review of the financial reporting process, the auditors noted that the information available for the preparation of the State's financial statements and SEFA was not finalized for IDPA until January 7, 2004. Additionally, several correcting journal entries were required to accurately state amounts reported by IDPA.

According to OMB Circular A-133 § .300(d) and (e), a recipient of federal awards is required to prepare appropriate financial statements, including the schedule of expenditures and to ensure that audits required by this part are properly performed and submitted when due. Additionally, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to

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reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

In discussing this with IDPA officials, they stated that the process of preparing agency-level financial statements relies heavily upon entities outside of their control. The current overall process is not efficient enough to enable agencies to accurately meet the required compressed reporting timeframes.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 03-03)

Response: The Department accepts the finding. It should be noted that the Department did meet all GAAP package due dates established by the IOC. Due to the compressed time frame inherent to the GAAP reporting process, Department review of financial data is necessary after they are submitted to the IOC. This continued review discovered additional entries that were needed to various GAAP packages. The Department will continue to review its GAAP and financial statement preparation processes to ensure accuracy and efficiency.

As part of this review, the Department is participating in a workgroup involving other State agencies, IOC and OAG staff. The purpose of the workgroup is to collaboratively focus on the statewide process to identify and remedy any noted deficiencies in efficiency and procedures.

Updated Response: Implemented. The Department reviewed and continues to review its financial statement process. Efficiencies were identified that improved the overall time frame for preparing GAAP and financial statement information for SFY'04 reporting. The Department also participated in a workgroup attended by other agencies, IOC, and OAG staff. Discussions were held regarding the overall process and commitments were made by various staff involved for improvements to certain steps within the overall process.

- 4. The auditors recommend DCFS review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, DCFS should ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC. (Repeated-2002)**

Findings: DCFS does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

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The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each state agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible state agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During the review of the financial reporting process, the auditors noted that the information available for the preparation of the State's financial statements and SEFA was not finalized for DCFS until January 15, 2004. Additionally, several correcting journal entries were required to accurately state amounts reported by DCFS.

According to OMB Circular A-133 § .300(d) and (e), a recipient of federal awards is required to prepare appropriate financial statements, including the schedule of expenditures and to ensure that audits required by this part are properly performed and submitted when due. Additionally, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

In discussing this with DCFS officials, they stated that under the current financial reporting process followed in the State and with limited staff resources, it is difficult to meet the due dates established. The Department works to comply with the schedule established by the Office of the Comptroller.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 03-04, 02-03)

Response: Department is evaluating its procedures for timely and accurate completion of the required forms. Additionally, we will be participating in the State task force for assessing the procedures followed by agencies to prepare the financial information in a timely manner.

The Department will respond timely to requests made by the Office of the Comptroller by gathering and submitting the financial information to assist the Office of the Auditor General in their review of the SEFA data.

Updated Response: Accepted. The Department participated with the Comptroller's Office and other agencies with changing process in FY04 whereby the Comptroller's Office prepared the various financial reports using data supplied by DCFS and based on requests made by the Comptroller's Office. We then reviewed the draft reports for DCFS.

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- 5. The auditors recommend ISBE review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, ISBE should ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC.**

Findings: ISBE does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

During the review of the financial reporting process, the auditors noted that the information available for the preparation of the State's financial statements and SEFA was not finalized for ISBE until January 20, 2004. Additionally, several correcting journal entries were required to accurately state amounts reported by ISBE.

In discussing this with ISBE officials, they stated that ISBE recognizes there were delays in the financial reporting process which were primarily due to multiple external parties' involvement.

Response: ISBE concurs that the reporting of federal expenditures should be timely and accurate and will continue to make every effort to meet that goal. It should be noted that the agency did file the GAAP packages by the due date. However, some correcting entries will always be necessary after that initial submission as part of the reconciliation process between the IOC and the agencies, and the majority of the adjustments ISBE had to make resulted from that process. ISBE would be happy to participate in discussions with the IOC, the Auditor General and other state agencies concerning any potential reporting process improvements.

Updated Response: Accepted. ISBE continues to make every effort to report federal expenditures in a timely and accurate manner. FY FY03, the GAAP packages were filed by the due date; however, some correcting entries well always be necessary as part of the reconciliation process between the Comptroller and the agencies. For FY04, the GAAP packages were filed by the due date and all adjustments were completed by December 20, 2004.

- 6. The auditors recommend ISAC review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, ISAC should ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC. (Repeated-2002)**

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Findings: ISAC does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

During the review of the financial reporting process, the auditors noted that the information available for the preparation of the State's financial statements and SEFA was not finalized for ISAC until January 15, 2004. Additionally, several correcting journal entries were required to accurately state amounts reported by ISAC.

In discussing this with ISAC officials, they stated that the growing complexity of the programs coupled with the number of parties involved in the financial reporting process makes it difficult to finalize the financial information within the required timeframe.

Updated Response: ISAC continues to be committed to working with the Illinois Office of the Comptroller and the Illinois Office of the Auditor General to ensure timely completion of the SCO reporting requirements. All agency GAAP packages were submitted within the requested time frames for FY04.

- 7. The auditors recommend the ICCB review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, ICCB should ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC.**

Findings: ICCB does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each State agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible State agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During the review of the financial reporting process, the auditors noted that the information available for the preparation of the State's financial statements and SEFA was not finalized for ICCB until November 13, 2003. Additionally, correcting journal entries were required to accurately state amounts reported by ICCB.

According to OMB Circular A-133 § .300(d) and (e), a recipient of federal awards is required to prepare appropriate financial statements, including the schedule of expenditures and to ensure that audits required by this part are properly performed and

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submitted when due. Additionally, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

In discussing this with ICCB officials, they stated that the process of preparing the agency's SCO forms relies heavily upon entities outside of their control.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 03-07)

Response: The Agency accepts the finding. The Agency will continue to review its GAAP and financial statement preparation processes to ensure accuracy and efficiency.

Updated Response: Accepted. The Board continues to work with the Office of the Comptroller and Office of the Auditor General to improve the accuracy and the timing of the review of the GAAP package.

- 8. The auditors recommend IDOT review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, IDOT should ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC. (Repeated-2002)**

Findings: IDOT does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

During the review of the financial reporting process, the auditors noted that the information available for the preparation of the State's financial statements and SEFA was not finalized for IDOT until January 6, 2004. Additionally, several correcting journal entries were required to accurately state amounts reported by IDOT.

In discussing this with IDOT officials, they stated that even though review of departmental financial statements was not done until January 6, 2004, proper steps are taken to ensure the timely submission of complete and accurate forms to the IOC.

Response: The Department agrees with the recommendation. The initial agency submission date of the final fund package was made by the Department to the Comptroller on October 15, 2003. Based on subsequent review, changes were made to Infrastructure on December 4, 2003, however, the changes did not have any impact on the SEFA. The SEFA is considered final once the Letter of Agreed Upon Procedures is

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submitted to the Office of the Comptroller. The Department's auditing firm, BKD LLP, prepared the Letter of Agreed Upon Procedures for the Comptroller on January 6, 2004.

The Department is currently involved with a GAAP workgroup with other state agencies and the IOC to discuss this process. In addition, the Department will continue to work closely with the Office of the Comptroller to improve and enhance the timing and accuracy of GAAP reporting requirements.

When fund packages are submitted, a reconciliation of the reporting package to the accounting system and report to federal agencies is completed. During FY 2003, this information was prepared by the General Accounting Unit Supervisor and then was reviewed by the Accounting Unit Manager.

Updated Response: The current status of this finding is not available at this time. KPMG has yet to present the Department with their draft audit findings for the FY 2004 Statewide Single Audit. As this information becomes available, it will be provided to the Legislative Audit Commission for its review.

- 9. The auditors recommend DCEO review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, DCEO should ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC. (Repeated-2002)**

Findings: DCEO does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each state agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible state agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During the review of the financial reporting process, the auditors noted that the information available for the preparation of the State's financial statements and SEFA was not finalized for DCEO until November 18, 2003. Additionally, several correcting journal entries were required to accurately state amounts reported by DCEO.

According to OMB Circular A-133 § .300(d) and (e), a recipient of federal awards is required to prepare appropriate financial statements, including the schedule of

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expenditures and to ensure that audits required by this part are properly performed and submitted when due. Additionally, the A-102 Common Rule requires that non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

In discussing this with DCEO officials, they indicated they met all deadlines for financial reporting with the Illinois Office of the Comptroller. DCEO officials agree journal entries were made or corrected after financial statements were submitted as a result of the agency being dependent upon the Comptroller's Office to supply financial data to complete or revise the forms.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 03-09, 02-07)

Response: The department agrees to continue to work closely with the Illinois Office of the Comptroller to improve timely submission of complete and accurate forms. Accounting changes were implemented during this audit period that will make it easier for the department to complete the financial statements in the future. Financial information will continue to have a supervisory review before reports are submitted to the Illinois Office of the Comptroller.

10. The auditors recommend IDES review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, IDES should ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC. (Repeated-2002)

Findings: IDES does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each State agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible State agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During the review of the financial reporting process, the auditors noted that the information available for the preparation of the State's financial statements and SEFA

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was not finalized for IDES until December 11, 2003. Additionally, several correcting journal entries were required to accurately state amounts reported by IDES and subrecipient information was omitted from the SCO 563 form.

According to OMB Circular A-133 § .300(d) and (e), a recipient of federal awards is required to prepare appropriate financial statements, including the schedule of expenditures and to ensure that audits required by this part are properly performed and submitted when due. Additionally, the A-102 Common Rule requires that non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

In discussing this with IDES officials, they stated that award and grant payments to Welfare to Work (WTW) sub-recipients were missed in SCO563C (Schedule of Sub-recipients). The WTW grants were overlooked in the internal report request to Information Services, although the total amounts to sub-recipients by program was in the SCO563 schedule. The supervisor who reviewed the schedule before it was submitted to IOC missed this one item.

A revised SCO563 (Grant/Contract Analysis) was submitted to the Illinois Office of Comptroller (IOC) primarily on WIA grants to correct the erroneous allocation of allocated grants expenditures to the various formula grants, although the bottom-line June 30, CY Receivable (+) Liability (-) remained unchanged.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 03-10, 02-08)

Response: We concur. We have reviewed our procedures as a result of the prior year's audit and believe the procedures adequately address timely and accurate submission of financial information to the Illinois Office of the Comptroller.

IDES is participating in a GAAP workgroup comprising state agencies with major federal programs and participants from the Illinois Office of the Comptroller (IOC) to address how to eliminate the GAAP audit finding that most agencies received as part of the Statewide Single Audit.

Effective July 1, 2003 all WIA and NEG grants have been transferred to the Illinois Department of Commerce and Employment Opportunity (DCEO) by the Governor's Executive Order Number 11.

Updated Response: Implemented. We reviewed and revised the process for GAAP submission and worked with the Illinois Office of the Comptroller (IOC) to reconcile and ensure accuracy of the reports. There was supervisory review of all SFY 2004 submitted reports. We also worked with the IOC on the review process for SCO 563.

11. The auditors recommend IEPA review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, IEPA should ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC. (Repeated-2002)

Findings: IEPA does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each State agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible State agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During our review of the financial reporting process, we noted that the information available for the preparation of the State's financial statements and SEFA was not finalized for IEPA until January 2, 2004. Additionally, several correcting journal entries were required to accurately state amounts reported by IEPA.

According to OMB Circular A-133 § .300(d) and (e), a recipient of federal awards is required to prepare appropriate financial statements, including the schedule of expenditures and to ensure that audits required by this part are properly performed and submitted when due. Additionally, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

In discussing this with Agency Management, they stated that the original submission of the SCO forms and the SEFA were submitted to the IOC and the Office of the Auditor General by due dates established by the IOC. A SFY2003 Financial audit of the Fund 270 – Water Revolving Loan Fund was conducted and finalized after the SCO forms were submitted. The Firm conducting the audit disagreed with the methodology for determining receivables and payables. These changes required a considerable manual effort of our Agency staff with assistance from the IOC staff to arrive at an acceptable receivable and payable number. This necessitated changes to the financial statements and the SEFA after several discussions which concluded in January 2004.

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Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 03-11, 02-10)

Response: Partially Accepted. The Agency has submitted GAAP packages and the SEFA in accordance with IOC deadlines. Currently, all SCO reports are reconciled to the Agency accounting records and there is a supervisory review of the package before submittal to the Comptroller. There is a need, however, for improvement in coordination between the Agency, OAG and the external auditors to ensure that adjustments are made timely to avoid late adjustments to the SEFA and financial statements.

The Agency will continue our review of the current reporting process to identify opportunities for additional improvements.

Updated Response: Accepted. The Agency continues to work with the IOC to ensure timely submission of complete and accurate reports. In 2003 the Agency did submit GAAP packages and the SEFA in accordance with IOC deadlines but was subsequently required to make changes in financial statements as a result of the audit. The Agency has implemented the methodology for determining receivables and payables as directed by the audit firm, which will eliminate the need for correcting journal entries made to the SEFA.

- 12. The auditors recommend IDOC review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, IDOC should ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC.**

Findings: IDOC does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each State agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible State agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During our review of the financial reporting process, we noted that the information available for the preparation of the State's financial statements and SEFA was not

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finalized for IDOC until December 15, 2003. Additionally, several correcting journal entries were required to accurately state amounts reported by IDOC.

According to OMB Circular A-133 § .300(d) and (e), a recipient of federal awards is required to prepare appropriate financial statements, including the schedule of expenditures and to ensure that audits required by this part are properly performed and submitted when due. Additionally, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

In discussing this with IDOC officials, they stated that the late submission was due in part to the decentralized nature of the grants function.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 03-12)

Response: Recommendation accepted. The Department is in the process of installing a centralized accounting system for the grants unit. Both grant programs will be consolidated into a single Grants Unit effective July 1, 2004. The oversight for all federal funding will be centralized. Standard reconciliation procedures will be developed. A supervisory review will be performed of reported information to help ensure accuracy and timeliness.

Updated Response: Implemented. The Department of Corrections has installed a comprehensive, integrated grants accounting software system. Effective July 1, 2004, all grant accounting functions have been consolidated under the Fiscal Services Unit. The grants accounting information is reconciled to the Office of the Comptroller data on a monthly basis by the Central Accounting Section. The obligations, appropriations, vouchers and other accounting and funding information are reconciled in conjunction by the grant accountants and by an employee without the responsibility to maintain the grants. The Supervisor of the Central Accounting Section reviews all financial information and prepares comprehensive Department-wide financial statements. The financial statements are presented to the Comptroller for review and approval.

- 13. The auditors recommend IDNR review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, IDNR should ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC. (Repeated-2002)**

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Findings: IDNR does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each State agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible State agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During our review of the financial reporting process, we noted that the information available for the preparation of the State's financial statements and SEFA was not finalized for IDNR until November 4, 2003. Additionally, several correcting journal entries were required to accurately state amounts reported by IDNR.

According to OMB Circular A-133 § .300(d) and (e), a recipient of federal awards is required to prepare appropriate financial statements, including the schedule of expenditures and to ensure that audits required by this part are properly performed and submitted when due. Additionally, the A-102 Common Rule requires that non-Federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

In discussing this with IDNR officials, they indicated that the delay in submitting federal expenditure information and the review of such information was due to reporting deadlines that require submission before final information is received from existing accounting systems and program personnel.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 03-13, 02-9)

Response: The Office of Fiscal Management established new procedures in 2003 to ensure that expenditures on the Department's Federal grant programs were accurately reported to the Comptroller. However, IDNR's "schedule of expenditures of federal awards" for FY 2003 was submitted to the Comptroller approximately one month after its due date. This occurred due to retirements and the resulting loss of staff knowledgeable in financial reporting procedures and the unavailability of data from existing automated financial systems by reporting due dates.

Fiscal Management is currently conducting a risk assessment with an accounting contractor. The contractor is to identify weaknesses and make recommendations for corrective action by September 2004. Additionally, Fiscal Management will have a

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financial systems assessment conducted by the end of 2004 to identify risks and recommended corrective actions that would result in more timely reporting. Until the findings and recommendations are complete, Fiscal Management plans to assign additional staff to the reporting process for FY 2004 and contract with an accounting consultant to assist in expediting the submission of future reports on Federal expenditures.

It should be noted that part of the accurate and timely reporting issues result from a systemic problem with the due dates for information. Some of the information is due before or immediately after the end of the lapse period. Since reporting must reflect lapse period activity, it is not possible to file accurate data by the current due dates.

Updated Response: The Department's Office of Fiscal Management has had a risk assessment conducted by an accounting contractor and used this contractor to expedite preparation of FY 2004 IOC forms for review by IDNR supervisory staff prior to submission to IOC by its due date. Additionally, the contractor will provide written procedures and training to IDNR staff in calendar year 2005. However, it should be noted this recommendation is purely theoretical and fails to consider the systemic problems with the due dates for the forms and the inadequacies of the available expenditure processing systems. The vast majority of the forms are due before or immediately after the end of the lapse period. Since accurate reporting and reconciliations must reflect lapse period activity, it is not possible to file accurate forms by the current due dates. Moreover, the minimum upgrades necessary to existing expenditure processing systems to permit a timely and accurate reconciliation is estimated to cost in excess of \$1,000,000 and the federal reports cited in the recommendation are neither prepared nor required until approximately 75 days after the due dates of the IOC forms.

- 14. We recommend IDPH review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, IDPH should ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC. (Repeated-2002)**

Findings: IDPH does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each State agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible State agency,

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the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During the review of the financial reporting process, the auditors noted that the information available for the preparation of the State's financial statements and SEFA was not finalized for IDPH until December 11, 2003. Additionally, several correcting journal entries were required to accurately state amounts reported by IDPH.

According to OMB Circular A-133 § .300(d) and (e), a recipient of federal awards is required to prepare appropriate financial statements, including the schedule of expenditures and to ensure that audits required by this part are properly performed and submitted when due. Additionally, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

In discussing this with IDPH officials, they stated that they are aware of the reporting requirements and the time frames but some forms were late due to delayed receipt of the SCO 567 and SCO 568 forms from other state agencies, colleges, and universities.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 03-14, 02-12)

Response: The Department concurs that the process for reporting federal expenditures to the IOC should be timely and accurate. With respect to the time period covered by the audit, it should be mentioned that the Department submitted all GAAP statements on time. Thirty three special state funds were submitted on August 22, 2003. The GRF and federal trust funds (there were five) were submitted on August 29, 2003. The SCO-563 was also submitted on time. Interfund activity forms (SCO-567 and SCO-568) were necessarily revised several times because of other agencies' corrections and delay in responding. The Departments makes every effort to accurately report expenditures to the IOC yet some correcting journal entries were necessary as part of the reconciliation process between the IOC and the agencies.

Updated Response: Accepted and Implemented .The agency has submitted it's 2004 GAAP packages and the SEFA accurately and in accordance with IOC deadlines. All GAAP reports are reconciled to the agency accounting system and are reconciled to the reports submitted to the federal agencies. There is a supervisory review of all GAAP packages and reports submitted to the comptroller, auditors, federal agencies or any other external parties. Agency staff actively sought the Comptroller's Office assistance in reviewing the GAAP packages on time to ensure all corrections and changes were made timely to avoid late adjustments to GAAP statements and the SEFA report.

RECOMMENDATIONS 15-27
Department of Human Services

- 15. The auditors recommend IDHS review its process for accumulating TANF, Child Care, and Title XX expenditures and implement procedures to ensure that federal and state expenditures are identified and accounted for in accordance with the applicable program regulations.**

Findings: IDHS does not have an adequate process for identifying and accounting for expenditures claimed under the Temporary Assistance for Needy Families (TANF), Child Care Cluster (Child Care), and Social Services Block Grant (Title XX) programs.

On an annual basis, the State applies for and receives grant awards from USDHHS under the TANF, Child Care, and Title XX programs. As a condition of receiving the federal grant awards under the TANF and Child Care programs, the State is also required to maintain a level of State funded expenditures. The State plans submitted to USDHHS for the TANF, Child Care, and Title XX programs generically describe the types of programs and beneficiaries on which the State plans to expend its federal and State funding.

During testwork the auditors noted the State agencies expending program funds do not determine under which program IDHS reported their expenditures. Additionally, IDHS does not perform monitoring procedures to ascertain that the expenditures claimed meet the specific criteria applicable to the program for which it was claimed. During the year ended June 30, 2003, IDHS claimed more than \$876 million in expenditures from other agencies under the TANF, Child Care, and Title XX programs.

In addition, in an effort to maximize its federal funds, IDHS modified the expenditures originally reported in the claim reports for the TANF, Child Care, and Title XX programs that were submitted during the State's fiscal year ended June 30, 2003 in preparing its final federal fiscal year claims for the year ended September 30, 2003. The final federal fiscal claims for the year ended September 30, 2003 were not submitted until December 2003. Consequently, IDHS could not identify all of the federal expenditures claimed or all of the State expenditures used to meet its maintenance of effort requirements under these programs for the State's fiscal year ended June 30, 2003 until December 2003 which inhibits the ability to audit these programs in accordance with the requirements of OMB Circular A-133. This is indicative that the State does not have an adequate process or information system to identify and account for federal expenditures reported during the State's fiscal year ended June 30, 2003.

Grantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. Additionally, entities receiving Federal awards must establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

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In discussing these conditions with IDHS personnel, they state the accounting system utilized is adequate for federal reporting needs, but budgetary planning and procedures need to be enhanced to allow for more timely reporting from the State perspective. The ability to claim only those services that were earned, rather than all services that were paid, inhibits the Department's ability to both budget and fully utilize grant funds.

Updated Response: Accepted. IDHS has reviewed its processes and procedures for accumulating expenditures for TANF, Child Care and Title XX. An independent consultant was hired to assist with the review process. Their recommendations were implemented and the year-end reporting process was performed in a more timely manner in SFY 2004. Federal and State expenditures are identified and accounted for in accordance with applicable program regulations. The real issue is related to timeliness as relates to State financial reporting needs rather than federal reporting needs. The issues surrounding timely and accurate accumulation of federal expenditures for the state year-end can be resolved by standardizing procedures to enable adequate reconciliation between the federal expenditures reports, which are reported on a cash basis, and departmental financial statements that are reported on a modified accrual basis.

Additionally, the auditor notes that final federal fiscal year reports for the fourth quarter were not filed until December 2003. The Title XX Social Services Block Grant report is an annual expenditure report which is due 90 days after the end of the award period (December 30, 2003). The Title XX report was completed and submitted by the required due date. For TANF, the original report for the quarter ended September 30, 2003 was filed December 5, 2003, but the report was due November 14, 2003. This report was late because expenditure information from another State agency was not available. The Department requested a 30-day extension of the due date, but this was denied by the Administration for Children and Families (ACF). However, the other State agency's request for an extension was approved, which resulted in delaying the receipt of required expenditure information due to IDHS in time to meet IDHS' due date. A revised TANF report for the quarter ended September 30, 2003 was submitted December 30, 2003. The Child Care Quarterly report was due October 30, 2003, and was filed by the due date. Subsequently, an expenditure adjustment was received from another State agency that required a revised Child Care report to be completed and submitted December 5, 2003.

16. The auditors recommend IDHS implement procedures to ensure only expenditures made for programs that are included in the State plan and that meet one of the four purposes of TANF are claimed.

Findings: IDHS claimed expenditures under the TANF program for a State operated program that did not meet one of the four purposes of the TANF program.

During the State fiscal year ended June 30, 2003, IDHS claimed approximately \$17.3 million in expenditures under its TANF program from the Regional Safe Schools program operated by the Illinois State Board of Education. The purpose of the Regional Safe

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Schools program is to provide an alternative education to Illinois residents who have been expelled from local school districts for behavioral problems.

In discussing these conditions with IDHS personnel, they state that in order to maximize and retain federal financial participation for Illinois programs, the department must continue to look for innovative approaches to reach families so that they get the essential supports necessary to get a job, succeed at work, and move out of poverty. Further, it is DHS' understanding that there is no requirement that a state amend its State Plan at a certain time.

Response: Do not agree. The Regional Safe Schools expenditures do meet at least one of the four purposes of TANF. Specifically, they meet the purpose of Goal 3, which is to prevent and reduce out-of-wedlock pregnancies. These expenditures are described in the State Plan, and they are not generally available to other residents of the state.

This program is an alternative education program that is designed to help break the cycle of disruptive behavior, reduce the incidence of teen pregnancy, and provide positive career opportunities for these children, who are also at high risk for dropping out of school. Illinois recognizes that these children are at risk of becoming teen parents and entering public welfare caseloads. The program fits within TANF as it promotes work and encourages students to acquire the necessary skills to get a job and it also reduces out of wedlock births. This program is not generally available to residents of the state. It is only available to a very specific and high-risk population. This target group represents a very small proportion of students who pose serious safety concerns, who are subject to multiple out-of-school suspensions/expulsion, and who are at high risk of dropping out of school. The goal is to keep these children in an educational environment where they will receive the skills to secure good jobs rather than keep them at home or on the street where they are likely to continue behavioral patterns that will lead them toward becoming teen parents and entering public welfare caseloads.

There is no requirement that a state amend its State Plan at a certain time. The Department amended the State Plan in accordance with the Federal rules. The statute does not directly address when States must amend their plans, and ACF has not regulated in this area. The State Plan that identifies this program was approved by the United States Department of Health and Human Services (USDHHS) on March 26, 2004.

Auditors' Comment: As previously stated, the Regional Safe Schools program is an education program available for all individuals who have been expelled from local school districts for behavior problems. We do not believe the purpose of TANF was to provide funding for broad based educational programs. Additionally, we fail to see a direct correlation between this program and its ability to prevent or reduce out-of-wedlock pregnancies and thus, these expenditures are clearly questionable.

IDHS stated in its response above that it amended the State Plan subsequent to our audit to include this program. However, the amendment does not clearly describe the program. To say that it has been approved by the USDHHS, in our view, is misleading.

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The State Plan is highly summarized and does not provide the details behind each State program that is included. Specifically, the descriptions included for the Regional Safe School program in the amended State Plan is as follows: “Alternative Education - Programs to help break the cycle of disruptive behavior, reduce the incidence of teen pregnancy and provide positive career opportunities.”

- 17. The auditors recommend IDHS review its current process for performing eligibility re-determinations and consider changes necessary to ensure all redetermination are performed within the timeframes prescribed within the State Plans for each affected program.**

Findings: IDHS is not performing “eligibility redeterminations” for individuals receiving benefits under the TANF, State Children’s Insurance Program (SCHIP), and Medicaid programs in accordance with timeframes required by the respective State Plans.

Each of the State Plans for the TANF, SCHIP, and Medicaid programs require the State to perform eligibility re-determinations on an annual basis. These procedures typically involve a face to face meeting with the beneficiary to verify eligibility criteria including income level and assets. During our test work over eligibility, we noted the State, as of August 7, 2003, was delinquent (overdue) in performing the eligibility re-determinations as follows:

Program	Number of Overdue Redeterminations	Total Number of Cases	Percentage of Overdue Cases
TANF	2,556	38,234	6.7%
SCHIP	51,747	433,144	11.9%
Medicaid	31,492	388,170	8.1%

In discussing these conditions with IDHS officials, they stated that the Department believes there is an adequate process in place for ensuring cases are re-determined timely. There are many offices with a 100% redetermination currency rate. Although some offices have recently fallen behind in redeterminations, it is not a function of suspect local office procedures, but rather the result of recent staffing shortages.

Response: Agree. IDHS reviewed the process for performing eligibility re-determinations and believe that it is adequate.

- 18. We recommend IDHS implement procedures to ensure only expenditures made for programs or services for families or children who meet the specified income requirements of the program are claimed. (Repeated-2002)**

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Findings: Adequate supporting documentation did not exist to substantiate that expenditures claimed by IDHS met the earmarking requirement for the Social Services Block Grant (Title XX) program.

During the State fiscal year ended June 30, 2003, IDHS transferred \$20 million from the TANF program to the Title XX program. Funds transferred from TANF are required to be used only for programs and services to children or their families whose income is less than 200% of the official poverty guidelines. The expenditures used by IDHS to meet the earmarking requirement are for services provided to children and families served by IDHS under its Early Intervention and Home Services programs.

During testwork of 60 expenditures, the auditors noted 15 expenditures tested (totaling \$1,747) related to grants to providers of the Early Intervention Program for case management which could not be directly linked to specific beneficiaries meeting the poverty level criteria. As such, IDHS was not able to provide documentation that the individuals served met the earmarking requirement. Grants for case management claimed during the year ended June 30, 2003 were approximately \$1.5 million.

In discussing these conditions with IDHS personnel, they state that adequate documentation does exist and was provided to the auditor.

Response: Do not agree. IDHS has procedures to ensure only expenditures made for programs or services for families or children who meet the specified income requirements of the program are claimed. In discussions with the auditors, they state that they were unable to trace the sampled expenditures to supporting documentation that was directly linked to specific beneficiaries meeting the poverty level criteria, that IDHS is using an improper allocation methodology to determine the cost, and further that the department requires federal approval of the methodology. IDHS has traced the expenditures in the sample to supporting documentation that was directly linked to specific beneficiaries meeting the poverty level criteria. Targeted Case Management (TCM) is a case coordination service, which is an allowable service under Medicaid, Early Intervention and Social Services Block Grants. IDHS calculates a client cost per service month in order to provide for consistent treatment in distributing costs among multiple federal grants. Specifically, the questioned costs are Early Intervention Program Targeted Case Management (TCM) expenditures made pursuant to contracts with Child and Family Connections (CFCs) agents. Some of these costs are claimable under Medicaid, and some under Title XX (Regular and TANF transfer). Payments are made to CFCs based on a rate that is tied to a specific child. This process takes the exact monthly amount the CFC received and divides it into the exact number of children served each month to determine cost per service month that is applied to the income eligible children and claimed.

Auditors' Comment: We believe that IDHS is improperly treating these expenditures as direct costs similar to "fee for service". The grant award for case management is a fixed amount each quarter. The amount claimed is based on individuals that "could have been served" (including non-eligible person) instead of those

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who were. The allocation methodology results in significant changes in the amount claimed per individual each month which inhibits their ability to directly link an eligible individual with the amount claimed for reimbursement.

- 19. The auditors recommend IDHS review its current process for coordinating and reporting MOE expenditures and consider changes necessary to ensure all MOE expenditures are adequately supported.**

Findings: IDHS does not have an adequate process to determine whether maintenance of effort expenditures for its TANF program are adequately supported.

The TANF program requires states to maintain a level of “qualified” state funded expenditures for programs or services benefiting eligible families. In Illinois, maintenance of effort (MOE) expenditures for the TANF program are required to approximate total federal expenditures. As the State agency responsible for administering the TANF program, IDHS is responsible for coordinating and reporting the expenditures used to meet the MOE requirement. The TANF MOE requirement is met through the use of a series of State programs administered by IDHS and various other State agencies including the Illinois Department of Public Aid (IDPA). During our testwork over MOE expenditures, we noted the following:

- IDHS did not maintain supporting documentation for MOE expenditures made by the Illinois Department of Public Aid (IDPA) under a State sponsored medical assistance program. As a result, the detail of expenditures used to support the MOE were required to be “recreated” during our audit and reconciled to amounts reported on the quarterly claim. Additionally, IDHS could not provide supporting documentation for \$2 million in MOE expenditures reported in the quarterly claims.
- One expenditure selected for testwork from January 2003 for \$90,000 does not appear to have been paid to the provider as it was not a valid expenditure.

In discussing these conditions with IDHS officials, they stated that this was the first time this level of detail was requested, so reports that were routinely deleted after a specified period of time needed to be recreated for the review.

Response: Agree. Procedures now require that all MOE expenditures are adequately supported and documented. A hard copy of all supporting documentation is now provided by IDPA to IDHS and will be available for review by auditors. We are looking into the possibility of also receiving these reports on CD to address storage issues.

- 20. The auditors recommend IDHS review its current process for maintaining documentation supporting eligibility determinations and consider changes necessary to ensure all eligibility determination documentation is properly maintained. In addition, we recommend IDHS review its process for determining TANF benefits and consider changes necessary to ensure all**

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benefit calculations are adequately supported and documented. (Repeated 2001)

Findings: IDHS did not properly calculate benefits for the Temporary Assistance for Needy Families (TANF) program and could not locate case file documentation supporting client eligibility determinations for beneficiaries of TANF, State Children's Insurance Program (SCHIP), and Medicaid Cluster.

During testwork of TANF, SCHIP, and Medicaid beneficiary payments, the auditors selected 90 eligibility files (30 for each program) to review for compliance with eligibility requirements and for the allowability of the related benefits. The auditors noted exceptions in 11 files.

In each of the case files missing documentation, all information necessary to establish and support the client's eligibility for the period was available; however, the respective application and/or source documentation related to the redetermination/income verification procedures performed including evidence of case worker review and approval could not be located.

Updated Response: Implemented. IDHS reviewed the methods and processes for determining and documenting Medicaid and TANF benefits and believe they are adequate. Policy, procedure, and policy smart computer support are methods used by IDHS to ensure benefit calculations are correctly calculated and documented. This should be resolved when sufficient staff can be hired.

The federal expenditure report was revised on December 1, 2004 to back out the \$10 in questioned costs. Questioned costs were replaced with previously unclaimed allowable expenditures.

21. The auditors recommend IDHS review its current process for sanctioning beneficiaries not cooperating with the State's Child Support Enforcement efforts and refusing to comply with work requirements and consider changes necessary to ensure benefits are reduced or denied in accordance with the State Plan.

Findings: IDHS did not enforce sanctions required by the State Plan for individuals receiving benefits under the TANF program who did not cooperate with Child Support Enforcement efforts and who refused to work.

As a condition of receiving cash assistance under the TANF program, beneficiaries are required to assist the State in establishing paternity or establishing, modifying, or enforcing Child Support orders by providing information to the Illinois Department of Public Aid (IDPA) to help identify and locate non-custodial parents. Additionally, TANF beneficiaries are required to work, seek employment, or follow the educational steps outlined in his/her Responsibility Services Plan (RSP) as a condition of receiving benefits.

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In the event a TANF beneficiary fails to assist IDPA or fails to meet his/her work requirements without good cause, IDHS is required to reduce or deny his/her TANF benefits.

During testwork over the Child Support Non-Cooperation and Penalty for Refusal to Work Special Tests of the TANF program, the auditors selected 30 Child Support cases referred by IDPA for non-cooperation without good cause and 30 cases in which the beneficiary was not working. We noted the following exceptions during our testwork:

- In three Child Support cases, IDHS did not sanction beneficiaries for non-cooperation. There was no evidence in these case files documenting that good cause existed for non-cooperation. Benefits paid to these individuals during the year ended June 30, 2003 were \$11,187.
- In two Child Support cases, IDHS did not reduce benefits in a timely manner after non-cooperation without good cause was reported by IDPA. In these cases, beneficiaries were not sanctioned for periods of five to six months after the non-cooperation was identified. Benefits paid to these individuals after the identification of non-cooperation during the year ended June 30, 2003 totaled \$1,685.
- In four Child Support cases, IDHS did not reduce benefits in a timely manner after non-cooperation without good cause was reported by IDPA. In these cases, beneficiaries were not sanctioned as they eventually cooperated with IDPA; however, the beneficiaries did not cooperate for time periods ranging from three and nine months after IDPA reported non-cooperation. Benefits paid to these individuals after the identification of non-cooperation during the year ended June 30, 2003 totaled \$5,818.
- In three Refusal to Work cases, IDHS did not sanction beneficiaries for failing to meet work requirements. There was no evidence in these case files documenting that the beneficiaries were (1) exempt from the work requirement; (2) were actively seeking employment; or (3) were complying with the educational steps in the RSP. Benefits paid to these individuals during the year ended June 30, 2003 were \$12,523.
- In one eligibility case, IDHS did not sanction a beneficiary for failing to meet work activity requirements. The beneficiary's case file indicated she was required to participate in a substance abuse treatment program; however, this work activity was not documented in her RSP and she did not comply with this work activity requirement. Benefits paid to this individual during the year ended June 30, 2003 were \$3,960.

If the State determines a beneficiary is not cooperating with Child Support Enforcement efforts without good cause, the State must take appropriate action by deducting an amount equal to at least 25% of the family's assistance payment or denying the family any assistance under the program. Additionally, if an individual refuses to engage in required work without good cause, the State must reduce or terminate the amount of assistance payable to the family.

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In discussing these conditions with IDHS officials, they stated that the problem was due to inadequate communication with IDPA in reporting Child Support noncompliance incidents.

Updated Response: Accepted. Implementation is in process. Department staff continue to monitor and address the issue of sanctioning for non-cooperation with child support enforcement efforts. The number of cases eligible for sanction due to child support non-cooperation increased dramatically when IDPA reengineered its intake process last April by not routinely scheduling TANF approvals for interviews and using mail-in questionnaires instead of interviews for Medicaid cases.

Department staff have met regularly with DCSE to monitor this issue. From these meetings, DCSE changed its Intake practices by: 1) scheduling all TANF approvals for interviews, 2) relaxing requirements for interviewing Medicaid cases (more get interviews, fewer get the questionnaire), and 3) mailing second chance letters to Medicaid cases failing to return questionnaires to give them another 15 days to cooperate. All of these changes work toward improving the collection of child support enforcement information and reducing the number of cases eligible for sanction.

The federal expenditure report was revised on December 1, 2004 to back out the \$35,173 in questioned costs. Questioned costs were replaced with previously unclaimed allowable expenditures.

22. The auditors recommend IDHS review the process and procedures in place to prepare cost allocation calculations and supporting schedules and implement changes necessary to ensure accurate application of the allocation methodologies. (Repeated-2002)

Findings: IDHS did not accurately allocate costs to its federal programs in accordance with the Public Assistance Cost Allocation Plan (PACAP).

IDHS administers several federal and State programs to assist Illinois families in achieving self-sufficiency, independence, and health. In administering each of these programs, IDHS incurs significant expenditures, which are directly and indirectly attributable to the administration of its programs. In order to allocate costs to the programs to which they are attributable, IDHS has submitted a PACAP to the USDHHS describing its overall organizational structure, the federal programs it administers, and the methodologies it has developed to allocate administrative expenditures to its federal programs. The PACAP is submitted to USDHHS periodically for review and approval of the allocation methodologies used by IDHS. IDHS has developed the methodologies for allocating costs to its programs, which IDHS believes best represent the actual costs associated with the program.

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During a review of costs allocated to federal programs during the quarter ended March 31, 2003, the auditors noted the following errors in the application of allocation methodologies:

- The allocation method used for the Office of the Associate Secretary was not consistent with the methodology defined in the PACAP. Costs were allocated to Medicaid and SCHIP, but not to Family Care which resulted in the federal programs being allocated more than their proportionate share of costs.
- Costs allocated for the Division of Mental Health and Developmental Disabilities Services (DMHDDS) were allocated directly to the Bureau of Pharmacy Clinical Support Services instead of to the three offices of DMHDDS resulting in an inaccurate allocation of costs to the State and federal programs.

In discussing these conditions with IDHS officials, they stated the allocation statistics were not available during the quarter reviewed to properly allocate costs associated with the Office of the Associate Secretary. This was a new statistic, so additional time was required to calculate it. Staff did not realize that the Division of Mental Health and Division of Developmental Disabilities cost allocation methodology was inaccurate.

Updated Response: Implemented. Allocation statistics have been provided by the IDPA and are now used on an ongoing quarterly basis. A prior period adjustment was submitted during quarter ended 3-31-04 to correct the quarter ended 3-31-03 allocation. This adjustment shifted total costs of \$243.49 (\$121.74 FFP) from Medicaid Title XIX to Family Care, and shifted total costs of \$1,947.97 (\$1,266.18 FFP) from State non-match to Medicaid Title XXI. Prior period adjustments for DMHDDS were calculated and submitted during quarter ended 9-30-04.

23. The auditors recommend IDHS implement procedures to ensure risk assessments are documented for each subrecipient.

Findings: IDHS is not adequately documenting risk assessments of subrecipients.

The Office of Contract Administration (OCA) of IDHS performs on-site monitoring reviews of subrecipients to ensure that they are fiscally capable of administering federal programs. IDHS has implemented a risk-based approach for selecting subrecipients for on-site monitoring reviews. A risk assessment is performed for each subrecipient who received \$300,000 or more of funding from IDHS and is primarily based upon information in the Fiscal/Administrative Review checklist submitted by each subrecipient. Of the 120 questions, management of IDHS has identified 30 which they believe may indicate higher risk.

During a review of 140 subrecipients of the WIC, Vocational Rehabilitation, TANF, Child Care Cluster, Title XX and SAPT programs, the auditors noted risk assessments were not adequately documented for all subrecipients. Although the subrecipients in our

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sample appear to have met one or more of the high-risk criterion, IDHS did not document which criterion was met or the rationale for these risk assessments.

In discussing these conditions with IDHS officials, they stated a risk assessment approach was used when selecting providers for site reviews but not all providers were included in that assessment. Providers receiving less than \$300,000 from DHS and those that did not have a year-end financial requirement were excluded.

Response: Agree. IDHS revised their risk assessment procedures to include analysis of all providers and will implement beginning in FY'05. The procedures use a comprehensive set of factors (20+) that measure the relative risk of all providers. Providers that are +1 standard deviation or greater from the mean will be targeted for review. This process will be documented in the provider review protocol manual.

24. The auditors recommend IDHS review its process for reporting and following up on findings relative subrecipient on-site reviews to ensure timely corrective action is taken. (Repeated-2002)

Findings: IDHS did not communicate or follow up on findings from its on-site fiscal monitoring reviews for subrecipients of the Special Supplemental Nutritional Program for Women, Infants, and Children (WIC), Rehabilitation Services – Vocational Rehabilitation Grants to States (Vocational Rehabilitation), Temporary Assistance for Needy Families (TANF), Child Care Cluster, Social Services Block Grant (Title XX) or Block Grants for Prevention and Treatment of Substance Abuse (SAPT) programs in a timely manner.

During testwork of 140 subrecipients of the WIC, Vocational Rehabilitation, TANF, Child Care Cluster, Title XX, and SAPT programs, the auditors noted the following:

- 37 subrecipients were not notified of findings relative to the program reviews within 60 days. Findings were not reported for timeframes ranging from 65 to 879 days after the end of the on-site review.
- Five subrecipients have not submitted corrective action plans within 60 days for program reviews. Corrective action plans were not submitted for timeframes ranging from 80 to 197 days from the date of notification.
- Two subrecipients did not submit corrective action plans for program reviews as of the end date of our fieldwork. Additionally, we noted no evidence of follow up by IDHS relative to the missing plans.

In addition, during our testwork of expenditures to subrecipients of the Vocational Rehabilitation, TANF, Title XX and SAPT programs, we noted 231 subrecipients for whom on-site program reviews have not been performed within the last three years.

In discussing these conditions with IDHS officials, they state staffing shortages or retirements, complex and lengthy monitoring instruments and an increase in the number

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and type of providers requiring review affected the completion of on-site review or documentation of reviews and resulted in untimely communications and follow up.

Updated Response: Accepted. The Department will review its processes to improve assignment, report issuance and initiation of timely corrective action. In addition some monitoring instruments have been streamlined to permit additional monitoring reviews and timely reports with less staff. The Division of Community Health Prevention reviewed all regions processes and implemented changes to ensure timeliness; is developing a database for the purpose of tracking review dates, and to track due dates on the follow-up; and regional staff assignments have been reorganized to coordinate the entire review process, making it easier to coordinate the review schedule and ensure timely completion and follow-up of required review components.

25. The auditors recommend IDHS revise its peer review sampling procedures to require the independent reviewer to select a representative sample of client/beneficiary case files for review.

Findings: IDHS does not have an adequate process for selecting cases for its peer reviews of service providers under the Block Grants for Prevention and Treatment of Substance Abuse (SAPT) program.

During a review of the sampling procedures used to select client case files for the peer review of SAPT service providers, the auditors noted IDHS requested the service providers being reviewed to select the sample of case files. As a result, the cases evaluated during the peer reviews were not independently selected by IDHS and may not be representative of the population of clients served by the providers.

In discussing these conditions with IDHS officials, they state that they believed that the selection process was adequate because it was more important to have a representative sample that tested specific characteristics and that it was more efficient to have the service providers select the sample.

Updated Response: Implemented. IDHS has changed the sample selection process that requires a representative sample is independently selected. This will be implemented with the peer reviews conducted during FY'05.

26. The auditors recommend IDHS implement procedures to require an independent review of the report and supporting schedules from a person knowledgeable of the reporting requirements prior to submission of the report.

Findings: IDHS does not have an adequate segregation of duties in place relative to the compilation and review of the annual RSA-2 Program Cost Report.

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During a review of the process for preparing and submitting the annual RSA-2 Program Cost Report, the auditors noted the same individual is responsible for the compilation, review, approval, and submission of the report. An independent supervisory review of the report is not performed by anyone other than the preparer.

In discussing this condition with IDHS officials, they stated that staffing shortages caused by the Early Retirement Initiative have made it difficult to provide for an independent review of the RSA-2 Program Cost Report.

Response: Agree. The Bureau of Federal Reporting, Office of Fiscal Services, will provide the required supervisory review of the RSA-2.

27. The auditors recommend IDHS re-certify the accuracy of the clearance patterns for its programs in accordance with federal regulations.

Findings: IDHS did not properly re-certify its clearance patterns specified in the Treasury-State Agreement related to cash draws for the Food Stamps, Vocational Rehabilitation (VR), and Social Security Disability Insurance (SSDI) programs.

During the year ended June 30, 2003, IDHS improperly recertified its clearance patterns for the Food Stamps, VR, and SSDI programs. Specifically, IDHS included both federal and non-federal disbursements in its calculation instead of using just federal disbursements as required by the Money and Finance Treasury Code Regulations.

In discussing these conditions with IDHS personnel, they state payroll clearance patterns were not previously certified because of staffing shortages and the unavailability of payroll clearance information.

Updated Response: Implemented. IDHS reviewed the specific appropriations/pay codes that relate to the CMIA programs. The calculations were adjusted to incorporate only pay codes that pertain to the federal CMIA programs in order to better limit the calculation of the clearance pattern to payroll cost that is actually allocated to the federal program.

RECOMMENDATIONS 28-32 Department of Public Aid

28. The auditors recommend IDPA implement procedures for tracking, investigating, and reviewing employer information request responses to ensure all potential third party insurers from whom potential reimbursement should be available are identified. (Repeated-2001)

Findings: IDPA does not adequately follow up with employers to identify third parties who may be liable for medical services provided to a beneficiary.

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IDPA has developed a number of methods for identifying third party insurers who may be liable for medical payments made on the behalf of a Medicaid beneficiary. The method, which has the greatest potential for identifying third party insurers, includes performing a data match with the Illinois Department of Employment Security to identify Medicaid beneficiaries who are employed and who have earned wages in excess of \$5,000. When a potential employer for a beneficiary is identified by the quarterly match, IDPA sends a letter to the employer requesting information related to the existence of employer provided health insurance. When a response is received from an employer indicating the existence of a potential third party insurer, the information is input to the Medicaid Management Information System (MMIS).

During our test work, we noted IDPA does not have a process in place to track information requests sent to employers. As no formal record of information requests is maintained, IDPA does not have the capability to identify or investigate non-responses. Further, IDPA does not have a review process in place to ensure all responses received are entered into MMIS or information entered is accurate and complete.

42 CFR sections 433.135 through 433.154 requires the State to have a system to identify medical services that are the legal obligation of third parties, such as private health or accident insurers. Such third party resources should be exhausted prior to paying claims with program funds. Where a third party liability is established after the claim is paid, reimbursement from the third party should be sought.

In discussing these conditions with IDPA, they state that the limited staff resources were better utilized by concentrating their efforts on other areas of identifying third party insurers and maintaining the accuracy of the MMIS TPL database. The employed recipient match to which the recommendation refers is not a mandated TPL activity under 42 CFR 433.135 through 433.154. The match is one of ten or more mechanisms used by TPL to identify potential third party resources. Illinois employers have no legal obligation (state or federal) to respond to TPL's inquiries regarding possible employer-provided health insurance coverage.

Failure to identify third parties liable for medical services paid on the behalf of a Medicaid beneficiary may result in expenditures charged to the Medicaid program for which reimbursement is not sought. (Finding Code 03-28, 02-14, 01-03)

Response: DPA considers its process to be in compliance with the federal requirement to establish a system to identify third party insurers and does not agree that the process is inadequate. The employed recipient match is only one mechanism of at least ten utilized by the Department. 42 CFR Section 433.138(a) requires the agency to take reasonable measures to determine the legal liability of the third parties. The employed recipient match was responsible for just under a quarter of IDPA TPL adds during calendar 2001. While this is a significant TPL resource, any statement made towards the entire process, when actually directed at one TPL source, is not accurate in context.

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The audit finding does not address other TPL resources specifically required by law, the intake and re-determination processes. Nor does it address the DCSE Responsible Relative match, the Medical/Independent Support Order source, referrals from the Bureau of Investigations, referrals from DCFS, referrals from the BC/BS match, referrals from the DHS Bureau of Research and Analysis (City of Chicago match, Chicago Board of Education match, Cook County Hospital match), referrals from CIMRO, referrals from the Missouri match, referrals from IDPA providers or any other referral source.

To address the single source of the audit finding, the employed recipient match, one must first acknowledge three key facts:

1. The employed recipient match was developed, and is implemented and maintained exclusively by Illinois TPL staff. We are aware of no other states that perform such a match and the match itself is not required or addressed by Federal or State law.
2. Employers, Illinois or out-of-state, are not required by Federal or State law to respond to these inquiries. It is a credit to employers that we receive a response rate in the area of 75%, considering this fact.
3. The requests for TPL information are automatically generated and sent to employers for all recipients who are employed at certain income levels and are on the MMIS system.

In light of these facts, the audit finding remains that IDPA, “Does not have a process in place to track information requests sent to employers. As no formal record of information requests is maintained, IDPA does not have the capability to identify or investigate non-responses”.

IDPA does have the capability to identify and investigate non-responses, which is evidenced by management’s review of the employer response rate. IDPA is better served by having its TPL staff concentrate on the identification of new TPL, and on the posting and maintenance of TPL on MMIS, than it is by having its staff record or follow-up on non-responses from employers. This is particularly true when law mandates neither the project nor compliance by the employer.

It should be noted that the federal auditor responsible for addressing this issue does not concur with this finding and stated they have submitted paperwork to close the audit, based on their non-concurrence with this audit finding and recommendation.

Auditors’ Comment: The federal regulations clearly require IDPA to have a system to identify medical services that are the legal obligation of third parties and that third party resources should be exhausted prior to paying claims with program funds. These regulations, however, do not specifically articulate what constitutes an “adequate system.” As with most federal regulations, judgment must be applied in considering what is the substantive intent of the legislation and what a “prudent person” would consider is reasonable in similar circumstances. Prudent business practice suggests that simply sending a letter to an employer once every eighteen months with no follow up is not adequate. Additionally, prudent business practice suggests that IDPA should explore the

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potential for greater recoveries by undertaking certain simple follow up procedures with non-responsive employers.

Additionally, IDPA could not provide the auditors with the log of employer letters sent, the number of responses, and the number of third party resources added to the MMIS/TPL subsystem mentioned in the response above.

Finally, official documentation of resolution of this finding had not been provided to the auditors as of the end of fieldwork.

Updated Response: Partially Accepted. The Department notes that the information identified in the second paragraph of the Auditor's Comments section was provided to the auditor during their fieldwork and a two-year history of that data remains available. The Department also notes that this is only one of several mechanisms employed to identify third party liability. Taken as a whole, our system has proven very effective in identifying and collecting from third party insurers. However, the Department will develop a process to track non-responsive employers.

29. The auditors recommend IDPA follow procedures established to ensure interviews with custodial parents are performed on a timely basis. We also recommend IDPA ensure the results of interviews with custodial parents are documented along with attempts to obtain additional information or locate the non-custodial parent. (Repeated-2001)

Findings: IDPA did not conduct interviews with custodial parents in a timely manner and did not adequately document its attempts to locate non-custodial parents within the Key Information Delivery System (KIDS).

IDPA is responsible for administering the Child Support Enforcement Program. The objectives of this program are to enforce support obligations owed by a non-custodial parent, to locate the absent parent, establish paternity, and obtain child and spousal support. When an initial referral or application for services under this program has been received, IDPA opens a case record in KIDS and assesses the information received to determine if all necessary information has been received to begin location procedures. If IDPA determines additional information is required from the custodial parent to begin location services, a request is made to schedule an interview with the custodial parent.

During testwork of 50 child support cases, the auditors noted the following:

- 9 cases (20%) in which interviews with custodial parents were not scheduled for timeframes ranging from 21 to 127 days after the referral or application had been received.
- 1 case (2%) in which interviews were never scheduled or performed and for which further location procedures do not appear to have been performed.

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- 5 cases (14%) in which interviews with custodial parents were performed; however, location procedures for the noncustodial parent were not performed or adequately documented.

According to 45 CFR 303.2(b), within 20 calendar days of the receipt of a referral of a case or an application for services the State IV-D agency must open a case and determine necessary action, including to solicit necessary and relevant information from the custodial parent and other relevant sources and initiate verification of information. If there is inadequate location information to proceed with the case, the Title IV-D agency must request additional information or refer the case for further location attempts. According to 45 CFR 303.3(b)(3), within no more than 75 calendar days of determining that location is necessary, the State IV-D agency must access all appropriate location sources, including transmitting appropriate cases to the Federal Parent Locator Service, and ensure that location information is sufficient to take the next appropriate action in a case.

In discussing these conditions with IDPA officials, they state all cases automatically go into a scheduling queue by priority. The scheduling queue is used to avoid notifying clients too far in advance. Experience shows that scheduling too far in advance leads to clients forgetting their appointments. Appointments are scheduled three weeks out to give the client time to make arrangements to attend.

Failure to conduct interviews and properly perform parent location procedures could result in child support payments not being collected and remitted to the custodial parent. (Finding Code 03-29, 02-15, 01-04)

Response: IDPA accepts the finding. As of April 2004 the reengineering plan has been implemented for intake processing. The KIDS system has been automated to ensure the new interview and locate processes will occur timely.

Updated Response: Implemented. Automated system changes and procedural changes implemented with the reengineering plan mentioned above ensure parents are contacted timely and the new procedures strengthen the non-custodial parent location process.

30. The auditors recommend IDPA:

- Implement procedures to ensure that (1) the rationale for selecting claims data for further review is documented; (2) formal claims data review procedures are documented; and (3) any claiming errors identified are resolved in a timely manner.
- Develop comprehensive written procedures for on-site reviews which includes the methodology for determining which subrecipients should be reviewed, required documentation, and procedures to be performed. If a risk based approach is utilized for selecting subrecipients for review, we

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recommend IDPA establish formal risk criteria and ensure that all risk assessments are adequately documented.

Findings: IDPA is not adequately monitoring subrecipients of the Medicaid Cluster.

IDPA passed through approximately \$93,944,000 in Medicaid funding to the Local Education Agencies (LEAs) during the year ended June 30, 2003 to assist IDPA in identifying students whose families may need Medicaid assistance and to monitor the coordination of the student's medical care. IDPA's subrecipient monitoring process includes (1) providing subrecipients with technical guidance through training sessions, provider notices, and handbooks; (2) performing data analysis of electronic claims data; (3) performing desk reviews of quarterly administrative claims documentation; (4) performing on-site reviews of subrecipient operations; and (5) performing desk reviews of single audit reports. However, during our review of the monitoring procedures performed by IDPA for 30 subrecipients, we noted the following:

- On a quarterly basis, LEA's are required to submit electronic claim data to support amounts claimed for reimbursement. The quarterly claims are subject to data analysis performed by the claims system. In order to identify erroneous claims data, an exception report is generated from the data analysis which details all claims which are outside parameters set by IDPA. However, during our review of the claims selection process used by IDPA, we noted the rationale for claims selection was not documented, nor were all claims identified on the exception report selected for further review procedures. Additionally for the reviews that had been performed, the specific procedures performed were not documented, nor were adjustments identified during the review made in a timely manner.
- There are no comprehensive procedures for performing on-site reviews. Additionally, on-site reviews were performed for only three out of approximately 900 LEA's during the year ended June 30, 2003.

According to OMB Circular A-133 § .400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

In discussing these conditions with IDPA officials, they stated that staffing and resource limitations have resulted in the low number of on-site visits and inadequate documentation of all monitoring activities.

Failure to adequately monitor subrecipients could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 03-30)

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Response: The Department accepts the finding and is implementing steps to improve documentation. A comprehensive method by which subrecipients are monitored is in place. This finding is primarily due to inadequate documentation of instances in which no corrective action was warranted. The Department will, however, implement steps to document all monitoring activity, regardless of action taken against a subrecipient, as well as improve documentation of monitoring criteria. The Department also agrees to increase on-site monitoring, within existing budgetary constraints.

Updated Response: Accepted. The Department has updated the existing risk assessment and implemented steps to improve documentation of the subrecipient monitoring process. In addition, in FY05 the number of projected on-site reviews scheduled has increased.

31. The auditors recommend IDPA review the process and procedures in place to communicate cost allocation plan amendments and implement changes necessary to ensure the proper allocation methodologies are used.

Findings: IDPA did not accurately allocate costs to its federal programs in accordance with the statewide Early Retirement Incentive (ERI) Cost Allocation Plan.

Illinois Public Act 92-0556 offered qualified employees that terminated employment by December 31, 2002 incentives to retire early, which included lump sum payments for accrued vacation, sick leave, and personal leave. As these costs were a direct result of the ERI program, they were considered to be mass severance pay and were required to be approved by the cognizant federal agency. Accordingly, the Governor's Office of Management and Budget (formally the Bureau of the Budget) negotiated a cost allocation plan with USDHHS which detailed how each participating state agency would allocate ERI related costs to its federal programs and other operations. The ERI cost allocation plan was approved by USDHHS as submitted with an amendment affecting the allocation of costs to Child Support Enforcement, State Children's Health Insurance Program (SCHIP), and the Medicaid Cluster.

During our review of the ERI costs allocated to Child Support Enforcement, SCHIP, and the Medicaid Cluster, we noted the costs were allocated in accordance with the methodology included in the cost allocation plan originally submitted instead of the revised methodology approved by USDDHS. The differences between the costs IDPA allocated to Child Support Enforcement, SCHIP, and the Medicaid Cluster and the costs that should have been allocated to the programs were approximately \$47,400, \$737,800, and \$223,000, respectively.

According to 45 CFR part 95.517, a State must claim costs associated with a program in accordance with its approved cost allocation plan.

In discussing this occurrence with IDPA officials, IDPA states that the agency inadvertently allocated the ERI costs incorrectly.

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Failure to allocate costs in accordance with the approved ERI cost allocation plan may result in disallowances of costs. (Finding Code 03-31)

Response: Accepted. The Department allocated the ERI costs based on what was thought to be the correct allocation. As soon as it was discovered that the costs had been allocated in error, the Department corrected the allocation in accordance with the revised methodology approved by USDHHS. This correction occurred in the quarter ending September 30, 2003 and there was no disallowance of costs.

32. The auditors recommend IDPA follow procedures established to ensure initiating interstate cases are properly referred to the responding state and to provide accurate and adequate documentation of its actions, determinations, and communications related to responding cases. (Repeated-2001)

Findings: IDPA did not adequately perform case management procedures for initiating interstate cases and failed to accurately and adequately document interstate cases within the Key Information Delivery System (KIDS).

The Child Support Enforcement program requires the State to provide additional support services related to cases in which the child and custodial parent live in one state and the non-custodial parent lives in another state. IDPA has established an interstate central registry, which is charged with the responsibilities of initiating and responding to interstate case requests and documenting related information in KIDS. The interstate central registry's responsibilities relative to interstate cases are different depending on whether the interstate case is an initiating or responding case.

In initiating cases, the custodial parent and child are living in Illinois and the non-custodial parent resides in another state. IDPA is required to:

- refer the case to the appropriate responding state within twenty calendar days of determining the non-custodial parent lives in another state;
- provide the responding state sufficient and accurate information to act on the case;
- provide additional information to the responding state as requested or notify the responding state when requested information will be provided within thirty calendar days of receipt of the request;
- notify the responding state of any new information obtained within ten working days of receipt; and
- request reviews of child support orders by other states within twenty days of determining a review by the other state should be requested.

In responding cases, the non-custodial parent lives in Illinois and the custodial parent and child live in another state. IDPA is required to:

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- provide location services, notify the initiating state if inadequate documentation has been provided, and process the case to the extent possible if documentation is inadequate within 75 calendar days;
- forward the documentation to the appropriate jurisdiction or state, if the non-custodial parent is located in another jurisdiction or state, and notify the initiating state of actions within 10 working days of locating the non-custodial parent;
- provide child support services including establishing obligations, processing and enforcing orders, collecting and monitoring support orders, reviewing and adjusting support orders in accordance with intrastate child support case timeframes;
- provide notice of formal hearings to the initiating state in a timely manner;
- notify the initiating state of any new information within ten working days of receipt;
- notify the initiating state when the case is closed.

During our test work of 25 initiating and 25 responding cases (total of 50 cases), we noted the following:

- Two initiating cases were not referred to the responding state within the twenty day federal timeframe after IDPA had determined the non-custodial parent was located in another state. The delay in referring these cases were 53 and 77 days, respectively, after the required federal timeframe.
- Three initiating cases were not referred to the responding state after IDPA had determined the non-custodial parent was located in another state.
- In four responding cases, IDPA did not forward the case to the State Parent Locator Services for action or acknowledge receipt of the case.

According to 45 CFR 303.7, the State IV-D agency must provide the appropriate child support services needed for interstate cases and meet the related required timeframes pertaining to the child support service provided.

In discussing these conditions with IDPA officials, they state new procedures have been implemented to help eliminate these oversights.

Failure to (1) properly manage interstate child support cases and (2) accurately and adequately document case activity may result in IDPA failing to provide required and appropriate child support services. (Finding Code 03-32, 02-19, 01-08)

Response: The Department accepts the finding. A workgroup has been developed as of May 2004 to address potential reengineering processes in regards to initiating and responding case procedures.

Updated Response: Accepted. The Department implemented new procedures in April 2004 for contacting clients quicker to obtain needed information and expedites sending initiating cases to another state for action to begin. The workgroup is revising the process for ensuring all responding cases are addressed timely. Management continues to remind staff to document all actions on KIDS' notes for tracking purposes.

RECOMMENDATIONS 33-35
Department of Children and Family Services

- 33. The auditors recommend DCFS implement procedures to monitor whether or not permanency hearings have been performed for all beneficiaries within federally prescribed timeframes. Such procedures should include identifying children who are not eligible for assistance under the Foster Care program as a result of permanency hearings not being performed within required timeframes. (Repeated-2002)**

Findings: DCFS did not ensure that foster care permanency hearings were performed within the federally required timeframes.

DCFS is required to prepare a “permanency plan” for each child in the Foster Care program which includes goals for placement of the child in a permanent living arrangement, which may include reunification, adoption, legal guardianship, placement with a fit and willing relative, or placement in another planned permanent living arrangement. This plan must also include the services that DCFS expects to perform to achieve these goals. Currently, each child’s permanency plan is reviewed on a periodic basis at a permanency hearing which serves as the judicial determination that reasonable efforts to finalize the permanency plan have been made.

During our testwork over 50 case files of the Foster Care program, we noted permanency hearings were not performed within the required timeframe for three of the beneficiaries tested. The delay in performing the permanency hearings ranged from 35 days to more than 365 days after the required timeframe rendering these beneficiaries ineligible until the permanency hearing was held. DCFS claimed reimbursement for foster care maintenance payments made on the behalf of the three beneficiaries during the “period of ineligibility” totaling \$4,940. Additionally, DCFS does not have an adequate process in place to ensure permanency hearings were completed within required timeframes for all beneficiaries or to identify beneficiaries for whom permanency hearings had not been conducted.

According to 45 CFR 1356.21(b), the State agency must obtain a judicial determination that it has made reasonable efforts to finalize the permanency plan that is in effect within twelve months of the date the child is considered to have entered foster care and at least once every twelve months thereafter while the child is in foster care. If such a judicial determination regarding reasonable efforts is not made in accordance with these requirements, the child becomes ineligible under Title IV-E at the end of the month in which the judicial determination was required to have been made and remains ineligible until such a determination is made.

In discussing these conditions with DCFS officials, they stated the delay caused when the federal requirement for specific language for permanency hearings changed, which required further clarification by ACF, resulted in confusion as to the timeframe specifics of those requirements. The delays being experienced, as indicated in the sample, may be

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attributed in part to one or more court-related issues with which the Department has taken steps to work with the Illinois Courts to ensure required language is used.

Failure to ensure permanency hearings are completed in a timely manner may result in payments being claimed for ineligible beneficiaries, which are unallowable. (Finding Code 03-33, 02-29)

Response: The Department agrees and has developed and implemented a procedure for identifying and notifying foster and adoptive caretakers of hearings and reviews for permanency hearings. The Department will continue to work with Illinois Court system to ensure permanency hearings meet the federal requirements. The Department has made the appropriate claiming adjustment for the questioned cost noted.

Updated Response: During August 16-19, 2004, staff from the Central and Regional Offices of the Administration for Children and Families (ACF) and the Illinois Department of Children and Family Services (DCFS) conducted an eligibility review of the Illinois title IV-E foster care program. The review identified only four error cases and two ineligible payment cases. Therefore, because less than five cases were in error, ACF determined that the Illinois title IV-E foster care maintenance program is in substantial compliance with the Federal child and provider eligibility requirements for the period under review. Because Illinois was found to be in substantial compliance a secondary review will not be required. The next primary review must be held in three years.

34. **The auditors recommend DCFS implement procedures to ensure:**
- **OMB Circular A-133 Reports are received within 180 days subsequent to subrecipient's year-end.**
 - **Desk reviews are performed on a timely basis for OMB Circular A-133 reports including review of reports, follow up on subrecipient findings and implementation of corrective action plans, receipt and review of applicable management letters, and documentation of such review.**

Additionally, we recommend that DCFS evaluate the current staffing of the fiscal monitoring department to ensure resources are adequate. DCFS should also consider revising its on-site monitoring policy for federal programs to use a risk based approach for selecting subrecipients for on-site visits. (Repeated-1999)

Findings: DCFS is not adequately performing fiscal monitoring procedures for subrecipients who receive awards under the Temporary Assistance for Needy Families, Foster Care, Adoption Assistance, and Social Services Block Grant programs.

In our sample of 50 subrecipient monitoring files out of a total of 108 subrecipients (totaling \$61,759,797 of \$455,674,000 in total subrecipient expenditures), we noted the following items of noncompliance:

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- 23 subrecipients had submitted their required audit reports (OMB Circular A-133, financial statement, program-specific) after the 180-day deadline. These files contained no documentation of an extension of the timeframe requirement by DCFS.
- 25 subrecipient audit reports were reviewed in excess of 60 or more days after their receipt. The time elapsed between the receipt and review of these reports ranged from 82 to 292 days.
- Seven subrecipient files did not evidence any review of the A-133 audit reports received.

Additionally, DCFS is not performing on-site monitoring visits to review internal controls or the fiscal and administrative capabilities of its subrecipients. We noted none of the 50 subrecipients selected for testwork had been subject to a fiscal on-site review within the last three years.

Per OMB Circular A-133 Compliance Supplement, dated March 2003, a pass-through entity is required to monitor its subrecipients' activities to provide reasonable assurance that the subrecipient administers federal awards in compliance with federal requirements, to ensure required audits are performed, to require the subrecipient to take prompt corrective action on any audit findings, and to evaluate the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

In discussing these conditions with DCFS officials, they state procedures are in place to notify subrecipients of audit requirements, track the receipt of all required audits, to ensure all required components are received, and to follow-up on all audits that are not received within the required time frame. The portion of the plan to increase staffing to complete quick reviews of all audits that are received has yet to be completed.

Failure to adequately monitor subrecipients could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 03-34, 02-30, 01-18, 00-18, DCFS 99-6, DCFS 99-9)

Response: The Department has developed and implemented a procedure to track the receipt of all required audits, and follow up on all audits that are not received within the required time frame. An initial screening process takes place to let the subrecipients know if any documents are missing. The size of the audit staff is to be increased by the start of the next fiscal year. The audit staff is to grow from three auditors to ten auditors, with a manager, and clerical support person. Subrecipients selected for audit are generated from the desk reviews completed the prior year that have notable negative issues.

The Department also has programmatic units that perform on-site compliance reviews of subrecipients. As part of their on-site review/field audit process, the auditors meet with the programmatic monitors and the licensing representatives to learn about any potential

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problems at the subrecipients prior to beginning the audit to aid in determining overall risk and aid in the assignment of resources.

Updated Response: Improvements implemented. The size of the audit staff was increased by five during the fiscal year. The field audit unit completed audits of 18 agencies between April 4, and October 21, 2004, as well as 247 desk reviews of fiscal year 2003 audit reports. Procedures to receive and review fiscal audit reports from subrecipients were changed as the Department developed and implemented a new procedure to track the receipt of all required audits, and follow up on all audits that are not received within 180 days of year-end. An initial screening process takes place to let the subrecipients know if any documents are missing. Subrecipients selected for audit are generated from the desk reviews completed the prior year that have notable negative issues. Administrative rules that govern much of the work the unit and subrecipients reporting requirements have undergone revision for implementation with FY04 reporting.

As part of the on-site review/field audit process, the Auditors meet with the programmatic monitors and the licensing representatives to learn about any potential problems at the subrecipients prior to beginning the audit to aid in determining overall risk and aid in the assignment of resources.

A Residential Performance Monitoring (RPM) Unit was established, a training curriculum was developed, and a weeklong initial training scheduled was held. Further training will be held on a regular basis until the entire training curriculum has been covered. A draft monitoring protocol has been presented to the Child Welfare Advisory Committee, and input from the group was incorporated into the document.

35. We recommend DCFS stress the importance of preparing and completing the initial service plans timely to all caseworkers to comply with Federal requirements. DCFS should consider disciplinary action for those caseworkers that do not comply with this requirement. (Repeated-1999)

Findings: DCFS did not prepare initial case plans in a timely manner for Child Welfare Services beneficiaries.

The case plan serves as DCFS' written documentation of the services planned for each child taken into protective custody. The case plan describes DCFS' plans to improve or protect the welfare of the child. Information documented in the case plan includes the health and education records of the child, a description of the type of home or institution in which the child is to be placed, DCFS' plan for assuring the child receives safe and proper care and services to improve the condition of the child's home in order to facilitate his or her return home, as well as other pertinent information. Part I of Title IV-B, Child Welfare Services requires that an initial case plan must be developed for each child within 60 days of placement. During a review of fifty case files selected for testwork, we noted five of the initial case plans being completed within a range of seven to 44 days

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over the 60 day federal requirement. Additionally, in one case an initial case service plan was not included in the child's case file nor could it be located by DCFS personnel.

Part I of Title IV-E, Child Welfare Services requires that an initial case plan must be developed for each child within 60 days of placement. Per 45 CFR 1356.21(g)(2), case plans are required to be developed within a reasonable period, to be determined by the State, but no later than 60 days from the child's removal from their home. Per State requirements (705 ILCS 405/2-10.1), the State has defined a reasonable timeframe as 45 days.

In discussing these conditions with DCFS officials, they state timely preparation of case plans is an ongoing concern. Unfortunately, due to staff reductions and placement changes, there are times when case plans are not prepared within the established timeframes.

Failure to prepare case plans in a timely manner could result in Child Welfare Services not being performed/provided in accordance with Title IV-E or the State law. (Finding Code 03-35, 02-33, 01-20, 00-20, DCFS 99-5)

Response: The Department continues to stress the importance of adequate and timely documentation for child case files. The Department has been developing Best Practices for Child Welfare, which is being used in the design of the federally funded SACWIS project. SACWIS will be an integrated system that will automate the preparation of case plans and other required documentation. In the interim, we continue to stress the importance of adequate and timely case planning as a key component of providing quality service to children.

RECOMMENDATIONS 36-37 Department on Aging

- 36. The auditors recommend IDOA perform periodic on-site reviews which include reviewing financial and programmatic records, observation of operations and/or processes to ensure their subrecipients are administering the federal program in accordance with the applicable laws, regulations, and the annual area plan.**

Findings: IDOA is not adequately monitoring subrecipients receiving federal awards under the Aging Cluster.

IDOA passes through federal funding to thirteen area agencies throughout the State. Each of these agencies works with IDOA to develop an annual area plan detailing how funds will be used to meet the goals and objectives of the Aging Cluster programs. IDOA has established policies and procedures for monitoring its subrecipients which includes:

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performing evaluations (on-site reviews), reviewing periodic financial, programmatic, and single audit reports, and providing training and guidance to subrecipients as necessary.

During our testwork of seven subrecipients of the Aging Cluster with total expenditures of \$29,866,000, we noted no on-site monitoring procedures had been performed since 1998. Total awards passed through to subrecipients of the Aging Cluster were \$38,854,000 during the year ended June 30, 2003.

According to OMB Circular A-133 § ____ .400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring documentation of on-site review procedures adequately supports procedures performed and the results obtained.

In discussing these conditions with IDOA officials, they state they believe the current monitoring procedures are adequate and that on-site monitoring procedures are not necessary.

Failure to adequately perform subrecipient monitoring procedures could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the annual area plan. (Finding Code 03-36)

Response: The above recommendation to IDOA states: “We recommend IDOA perform periodic on-site reviews which include ...” The heading to this finding above states: “Inadequate Monitoring of Subrecipients.” There is a difference between monitoring and reviews (or evaluations). IDOA staff members have been on-site many times over the past years with all the AAAs. During the time staff members are at an AAA, they provide technical assistance to help the AAA meet its requirements both programmatic and fiscally.

IDOA staff members are puzzled as to why the auditors are requesting that on-site financial reviews be conducted. The AAAs already have independent auditors on-site each year conducting this sort of a review as a part of the A-133 Audit. This would appear to be a costly duplication of effort.

IDOA would like to propose that Chapter 1000 of the Department’s “Policies, Procedures and Standards for Area Agencies on Aging” Manual be revised to clearly state that Monitoring and Evaluations may be conducted on-site, if desired by IDOA, but do not have to be done on-site.

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Auditors' Comment: IDOA has indicated that the performance of on-site procedures would be a duplication of the effort performed by the area agency external auditors; however, due to the nature of the major program selection criteria required by the single audit, the Aging Cluster may or may not be audited as part of the area agency's single audit. Additionally, on-site monitoring procedures typically cover program requirements in more detail than single audit procedures and are included in IDOA's policies and procedures for monitoring its subrecipients.

37. The auditors recommend IDOA review its procedures for performing desk reviews of OMB Circular A-133 reports to ensure desk reviews are performed and documented in a timely manner for all subrecipients.

Findings: IDOA did not review the OMB Circular A-133 audit report received from one of its subrecipients.

IDOA passes through federal awards to thirteen area agencies throughout the State. Each of these agencies is required to submit an audit report in accordance with OMB Circular A-133. IDOA has developed a desk review checklist that is used to assist IDOA personnel in evaluating whether the single audit report meets the requirements of OMB Circular A-133 and in evaluating findings reported. Additionally, the desk review process includes a reconciliation of expenditures reported in the schedule of expenditures of federal awards to the annual grant close out report submitted by each subrecipient and to IDOA records.

During our testwork of seven subrecipients of the Aging Cluster with total expenditures of \$29,866,000, we noted IDOA did not perform a desk review of the OMB Circular A-133 for its largest subrecipient. Although IDOA had received the audit report within the required timeframe, the report had not been reviewed to 1) ensure the audit was properly performed, 2) identify any findings that could have impacted the Aging Cluster, and 3) reconcile federal expenditures reported to IDOA records. Total awards passed through to subrecipients of the Aging Cluster were \$38,854,000 during the year ended June 30, 2003.

According to OMB Circular A-133 § ____.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring documentation of on-site review procedures adequately supports procedures performed and the results obtained.

In discussing the desk review process with IDOA officials, they state the A-133 is just one part of the overall monitoring that the Department does for fiscal compliance and IDOA

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relied on the audit review presumed to have been performed by the area agency's federal cognizant agency.

Failure to adequately obtain and review subrecipient OMB Circular A-133 audit reports in a timely manner could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations and the grant agreement. (Finding Code 03-37)

Response: The IDOA will review its procedures.

Updated Response: The IDoA has changed its procedures and is now reviewing the OMB Circular A-133 for all sub-recipients.

RECOMMENDATIONS 38-44
Illinois State Board of Education

38. The auditors recommend ISBE review the cash position for closed-out grant years on a quarterly basis, and return any excess cash on hand to the USDA.

Findings: SBE does not have adequate procedures to reconcile the "cash position" of the Child Nutrition Cluster (CNC) and Child and Adult Care Food programs (CACFP). Additionally, ISBE did not return almost \$1.3 million in excess funds to the USDA for grant years 1996 through 2002 in a timely manner.

In discussing these conditions with ISBE officials, they state that the excess funds for fiscal years 1996-2002 is due to refunds received from subrecipients after the close out of the grant year. There is no procedure in place to ensure that ISBE staff regularly review the cash position of closed-out grants, therefore, they are often times unaware of the issue.

Updated Response: Partially implemented. ISBE agrees to conduct and document quarterly reviews for significant amounts of cash on hand for closed years. MIDAS reports showing cash on hand for closed years will be documented and significant balances will be returned to USDA. The quarterly reconciliations will occur on a federal fiscal year basis.

The FY02 cash on hand amount was reduced through subsequent reconciliations to \$16,750, and that sum was refunded to the USDA in May, 2004. The previous fiscal year amounts are being reconciled and the resulting balance will be sent to the USDA.

39. The auditors recommend ISBE obtain prior approval from the State of Illinois' cognizant federal agency prior to claiming reimbursement for severance costs under early retirement programs.

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Findings: ISBE did not obtain approval from the State's cognizant federal agency (US Department of Health and Human Services) prior to claiming reimbursement for the lump sum payouts of accrued vacation and sick and personal leave for employees who terminated employment under an early retirement program of the State.

In discussing these conditions with ISBE officials, they state the severance costs are classified as fringe benefits as described in the Cost Allocation Plan approved by USDE and therefore determined to be allowable without prior approval under OMB Circular A-87.

Response: ISBE allocated the lump sum payouts as required under the indirect cost allocation agreement with its federal cognizant agency for indirect costs, the U.S. Department of Education (USDE). This agreement specifies that such costs should be treated as fringe benefits as stated in OMB Circular A-87, Attachment B, 11.d, rather than severance pay, which requires specific approval under OMB Circular A-87, Attachment B, 11.g (3). Under ISBE's agreement with USDE the lump sum payouts are to be allocated to the individual federal programs as required under the regular cost allocation plan, and the agency followed this requirement.

The Illinois Bureau of the Budget submitted to the Department of Health and Human Services (USDHHS), the cognizant federal agency for the State of Illinois, A Cost Allocation Plan for State of Illinois Early Retirement Incentive (ERI) Accrued Benefit Payout Costs (State Plan) as required under OMB Circular A-87, Attachment B, 11.g (3) for abnormal or mass severance pay. ISBE was not aware of any requirement to obtain special approval for lump sum payouts from the State's cognizant agency. USDHHS approved the State Plan as proposed, which includes the same treatment ISBE used under its agreement with USDE. In the event that early retirement will become available again, ISBE will make efforts to have its treatment of lump sum payouts incorporated in any state-wide agreement with USDHHS.

ISBE has asked the USDE to determine whether charging ERI payouts pursuant to its agreements were appropriate or how this issue should best be resolved.

40. The auditors recommend ISBE establish a review period of not more than 60 days from the receipt of the OMB Circular A-133 audit reports. For subrecipients that are not required to have an OMB Circular A-133 audit performed, we recommend ISBE require the subrecipients to certify that less than \$300,000 was expended in total federal awards. (Repeated-2002)

Findings: ISBE did not review OMB Circular A-133 audit reports received from its subrecipients on a timely basis. Additionally, ISBE did not determine whether subrecipients which received less than \$300,000 from ISBE were required to have an OMB Circular A-133 audit performed.

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During the auditors' review of 280 subrecipient monitoring files, they noted that for 195 subrecipient files ISBE had not completed the desk review of the subrecipient OMB Circular A-133 reports within 60 days of their receipt by ISBE. Of the 120 subrecipients reviewed six months after the date of receipt of the audit report, ISBE was required to issue management decisions on seven.

In discussing the desk review process with ISBE officials, they state untimely reviews were due to a lack of staffing. One person in the ISBE staff was performing desk reviews during the current fiscal year.

Updated Response: Implemented. All subrecipients file either an A-133 or a statement certifying that an A-133 audit is not required. Federal A-133 requirements regarding the timeliness of management decisions being issued are being met. To ensure the above, the Agency has implemented additional controls and is in the process of hiring additional staff.

41. The auditors recommend ISBE include fiscal and administrative review procedures when performing on-site monitoring procedures for the Special Education Cluster. (Repeated-2000)

Findings: ISBE is not adequately performing on-site reviews of subrecipients receiving federal awards for the Special Education Cluster.

The on-site reviews for the Special Education Cluster do not include any fiscal and administrative review procedures. During the year ended June 30, 2003, ISBE passed through \$348,193,000 to subrecipients of the Special Education Cluster.

In discussing these conditions with ISBE officials, they stated that due to lack of staffing this function could not be implemented during FY03.

Updated Response: Implemented. The Agency's External Assurance division took over the responsibility of performing fiscal reviews of Special Education subrecipients. Beginning in FY04, Special Education subrecipients were incorporated into the External Assurance division's review schedule and received on-site fiscal reviews by the division.

42. The auditors recommend ISBE review its advance funding policies and techniques for subrecipients and implement policies, techniques and a monitoring process to ensure subrecipients receive no more than 30 days of funding on an advance basis. (Repeated-2002)

Findings: ISBE provided funds to subrecipients of the Special Education Cluster and Vocational Educational Basic Grants to State (Vocational Education) programs in excess of their immediate cash needs.

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The auditors reviewed payments to 50 subrecipients of both the Special Education and Vocational Education programs for timely monitoring of cash advance payments. Seven subrecipients in the Special Education program and 28 subrecipients in the Vocational Education program received payments on a quarterly basis totaling \$1,198,279 and \$9,252,523, respectively, for the year ended June 30, 2003. Thus, advances to subrecipients were for more than 30 days of funding needs. Total subrecipient expenditures for the Special Education and Vocational Educational programs were \$348,193,000 and \$24,017,000, respectively, for the year ended June 30, 2003.

In discussing these conditions with ISBE personnel, they stated this issue was initially reported in the previous year's audit report. Time did not allow for new procedures to be implemented in FY 03; however, adequate procedures are now in place for FY04 to address this finding.

Updated Response: Implemented. The Agency implemented monthly disbursements to Vocational Education subrecipients and quarterly expenditure reporting. The grant review and approval process for Special Education was also modified to ensure that subrecipients receive only immediate cash needs. In addition, both program divisions have developed additional guidance regarding payment schedules and cash flow needs, as well as providing technical assistance to subrecipients. The External Assurance division now performs on-site fiscal monitoring for both programs' subrecipients and when instances of excess cash on hand are found, the division recovers the imputed interest on the amount and forwards it to the USDE.

43. The auditors recommend ISBE reconcile the monthly GAPS reports to its accounting records within MIDAS on a timely basis throughout the year to ensure that cash draws are properly accounted for and recorded in MIDAS. (Repeated-2002)

Findings: ISBE did not complete all of its monthly reconciliation between the Federal Grants Administration and Payment System (GAPS) and the Agency's Management Information Database Accounting System (MIDAS).

ISBE draws its Department of Education funding using GAPS. GAPS is a web-based program which requires the user to enter data consisting of the draw amount, date, grant number, etc. The information entered into GAPS is also entered into the Agency's internal accounting system MIDAS. ISBE's procedures require that a reconciliation between these two systems be prepared on a monthly basis by the fiscal consultant (employee) and reviewed by the division administrator.

During testwork over the reconciliation process between the GAPS and MIDAS systems, the auditors noted ISBE did not prepare the reconciliations on a monthly basis. Specifically, ISBE only performed two reconciliations during the year ended June 30, 2003: the first on March 25, 2003 and the second on June 30, 2003.

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In discussing this with ISBE personnel, they state that monthly reconciliations were not performed due to change in staffing and shortage of personnel.

Updated Response: Implemented: As of 6/30/03 the GAPS to MIDAS reconciliations have been performed on a monthly basis.

- 44. The auditors recommend ISBE review the process and procedures in place to prepare the Accountability Report. Additionally, the report and supporting documentation (schedules) should be reviewed by an individual who is independent of the preparation process and is knowledgeable of the reporting requirements.**

Findings: ISBE did not accurately prepare the fiscal year 2002 "Accountability Report Consolidated Annual Performance, Accountability, and Financial Status Report" (Accountability Report).

The auditors obtained and reviewed ISBE's Annual Accountability Report for fiscal year 2002, prepared and submitted in December 2002. This report contains data to be used in determining whether ISBE met its adjusted performance levels for the following core indicators 1) attainment of academic and vocational skills; 2) attainment of diploma or credential; 3) placement and retention; and 4) participation in, preparation for, and completion of program leading to non-traditional occupation, and contains narrative, status of funds, and performance indicators. Expenditures reported in the Status of Funds were underreported by \$233,026 and \$279,226 for the State Programs (total) and Subrecipient Payments line items, respectively. Additionally, ISBE did not reconcile the amounts included in the Accountability Report to supporting documentation.

In discussing these conditions with ISBE officials, they stated that this was a clerical error. Written correspondence from U.S. Department of Education officials indicated amendments to the interim Financial Status Report were not required. Necessary adjustments were made to the final FSR.

Updated Response: Implemented. Necessary adjustments made to the final FY02 Financial Status Report were filed and accepted by the USDE. The USDE indicated no amendments to the interim report were needed. The spreadsheet formulas have been corrected and the reports will be reviewed before filing.

**RECOMMENDATIONS 45-50
Illinois Student Assistance Commission**

- 45. The auditors recommend ISAC consult with the USDE to interpret the federal laws and regulations relating to the processing and submission of**

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reinsurance claims to the USDE and make any necessary changes, if any, to conform with those requirements.

Findings: ISAC has significant unresolved issues regarding compliance with federal laws and regulations related to the processing and submission of reinsurance claims to the USDE under the Federal Family Education Loan Program which were identified during an audit by the U.S. Department of Education Office of the Inspector General (ED-OIG).

During 2003, the ED-OIG conducted an audit of the Federal Family Education Loan program. Based on communications received from ISAC, the draft report stated ED-OIG reviewed 50 reinsurance claims, totaling \$123,521, selected from a universe of 21,732 reinsurance claims submitted during the audit period. Of the 50 claims tested, the report indicated 32 claims, totaling \$75,077, should have been returned to the lenders because the claim packet was missing accurate collection and/or payment histories or contained evidence of a due diligence violation(s). In addition, the draft report stated ISAC's claims review process is not adequate as it is limited to a brief review of summary information reported on the claim form submitted by the lender.

The ED-OIG draft audit reports states that ISAC's process is not sufficient to fulfill their administrative responsibility. The ED-OIG draft audit report recommends that ISAC require its claims analysts to verify lender due diligence activities. ISAC officials contend that the regulations do not specifically require such a review or "audit" during the claims review process. Further, they contend that the period of time which should be evaluated during the claims review process is that period occurring after the initial date of delinquency through the period ending in a lender filing a claim. ISAC indicates that their current procedures conform with industry practice and federal regulations as interpreted in the Common Manual.

Due to the differences in the interpretation of the regulations and our inability to evaluate ISAC's compliance with the provisions of laws and regulations related to the processing and submission of reinsurance claims to the USDE, the auditors were not able to perform sufficient audit procedures to satisfy ourselves whether ISAC complied with the requirements that are applicable to the Federal Family Education Loan Program.

Updated Response: Accepted. Discussions on this issue, which impact all Federal Family Education Loan Program guarantors in the nation, have been on-going. This effort has been coordinated by the National Council of Higher Education Loan Programs (NCHELP), of which ISAC is a member, due to the impact on all guarantors. In addition, Executive Director Larry Matejka continues to have conversations with key U.S. Department of Education personnel on this issue. As indicated in our response, based on the outcome of these discussions, ISAC will modify our claims process if necessary when final guidance on this issue is provided by the U.S. Department of Education.

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- 46. The auditors recommend ISAC establish written policies and procedures requiring the completeness and accuracy of imaging be verified before claims packets are destroyed and establish controls to ensure polices and procedures are followed.**

Findings: ISAC does not have an adequate process to ensure that original documentation submitted by lenders for reinsurance claims are accurately and completely imaged for document retention requirements of the Federal Family Education Loan Program.

ISAC officials stated they have an unwritten rule requiring imaging personnel to verify the first ten pages of each claim packet were imaged correctly.

During the auditors' review of the supporting documentation for 30 claims submitted for re-insurance, several files were missing information.

In discussing these conditions with ISAC officials, they state a combination of factors contributed to the situation including malfunction of aging imaging equipment and clerical errors.

Response: ISAC management has documented operating policies and procedures for imaging claim packets and has communicated the policies and procedures to staff. A specific effort is being made to ensure that adequate controls are in place to address imaging exceptions. Staff has also received additional training in this area.

An internal reconciliation process has been established to ensure that a complete claim file resides on ISAC's imaging system. Staff from the Imaging and Claims Services departments is working collaboratively with this quality assurance process for claim file documentation. Follow-up is occurring on irregularities and exceptions to determine cause and implement corrective action.

Updated Response: Implemented. As indicated in our original audit response, ISAC has documented operating policies and procedures for imaging, provided additional staff training and has established an internal reconciliation process. We do not anticipate that this finding will be repeated.

- 47. The auditors recommend ISAC follow the newly developed reconciliation procedures and perform the monthly reconciliations within 15 days after month end.**

Findings: ISAC did not reconcile cash receipts to cash posting in the loan subsidiary ledger system (Odyssey) on a timely basis.

During the year ended June 30, 2003, ISAC implemented a new loan subsidiary ledger (Odyssey). With this implementation, ISAC was not able to perform the monthly

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reconciliations on a timely basis. As of the time of our audit, monthly reconciliations had not been prepared for the months of October 2002 through February 2003.

In discussing these conditions with ISAC officials, they state monthly reconciliations were not performed on a timely basis due to the implementation of the new loan subsidiary ledger system (Odyssey). Odyssey reports used to prepare the monthly cash reconciliations could not be generated. Also, staff performing the reconciliations were unfamiliar with the new reporting formats generated by the new system. ISAC officials also state that a Reconciliation Activity Definition Report was developed subsequent to the fiscal year end (June 30, 2003) which describes its new procedures to reconcile cash receipts to the Odyssey Accounting System. These procedures were implemented in October 2003.

Response: Although ISAC agrees that the reconciliation activities were not completed at the time of the audit, it should be noted that considerable effort and resources have been and continue to be devoted to reconciling information produced through Odyssey, ISAC's new information system. ISAC staff have underway a set of activities which will result in a comprehensive reconciliation of financial information for all of the months beginning from October 2002 and continuing through June 2004 (the present month). All reconciliations are now current.

Updated Response: Partially Accepted/Implemented. Procedures are now in place to reconcile data on a monthly basis and all reconciliations are current. However, the audit recommendation is that the reconciliations be completed within 15 days of month end. Due to the complexity of the reconciliation process and current insufficient staffing levels, the reconciliations cannot be completed within the recommended 15 days. Thirty days are needed to complete the reconciliations. We do not anticipate that this finding will be repeated.

48. The auditors recommend ISAC work with the USDE to reconcile and eliminate the carry forward differences in its quarterly Guaranty Agency Financial Report (Form 2000) and the USDE's NSLDS report. (Repeated-2000)

Findings: During the review of the quarterly report and supporting documentation, the auditors noted amounts reported in the Form 2000 consistently do not agree to the USDE's National Student Loan Data System (NSLDS). Specifically, the reported loan information as of September 30, 2002 was as follows:

Line #	Description	Amount per Form 2000	Amount per NSLDS	Difference
A-1	Loans Guaranteed	\$14,027,501,952	\$13,621,896,057	\$405,605,895
A-4	Other Loans Cancelled	1,205,085,084	1,099,306,587	105,778,497
A-8	Total Loan Guarantees	1,066,011,905	1,066,011,905	-
A-15	Default Claims Paid	1,709,749,948	1,419,507,425	290,242,523

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A-17	Bankruptcy Claims Paid	77,366,262	53,833,975	23,532,287
A-28	Paid in full	6,380,307,873	6,340,433,101	39,874,772

The Form 2000 report, which reflects internal agency data, did not reconcile to the NSLDS because the agency's internal data was cumulative; whereas, the NSLDS was current. It was recommended (and implemented) that ISAC use the NSLDS when preparing its Form 2000. Thus, the discrepancies that were prevalent in the early 1990's still exist, as ISAC continues to add the actual data per quarter to prior reported amounts when preparing its Form 2000 report. ISAC is working to identify the various reconciling items between the reports.

In discussing the above condition with ISAC officials, they state the discrepancies between the Form 2000 report and NSLDS report are attributable to the change in the collection and reporting of data, which occurred in the early 1990s. ISAC management has indicated that the implementation of the new Odyssey system has ensured that the agency is now using the same base data for reporting to both systems.

Response: ISAC is currently working to resolve this historical data discrepancy through a series of reconciliation activities.

The implementation of the new Odyssey information system has resolved this issue going forward. Data reported to the federal NSLDS system and the federal financial management system via Form 2000 has been reconciled for the most recent two years.

ISAC will work with the US Department of Education to resolve any remaining discrepancies once our reconciliation activities are complete.

Updated Response: Accepted. As indicated in our original audit response, ISAC has undertaken a series of reconciliations activities to resolve this audit finding and is working with the U.S. Department of Education in this effort. We do not anticipate that this finding will be repeated.

49. The auditors recommend ISAC substantiate all credit bureau reports by establishing a separated database that has the capability to retain all appropriate supporting documentation. (Repeated-1997)

Findings: ISAC does not maintain any documentation support to verify the accuracy of the information located on the Credit Bureau Reports. The information on the Credit Bureau Reports issued by ISAC was not supported by internal documentation.

In discussing these conditions with ISAC officials, they state that although the current system does now identify that information was sent to credit bureaus, the re-creation of the data submitted to the credit bureaus is not yet in production.

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Response: ISAC has developed a separate database for credit reporting. The credit bureau report detail history database is currently in the testing phase. Once testing is complete, this database will be moved to production which should occur by the end of July 2004.

Updated Response: Implemented. The database for credit reporting was moved into production as reported. We do not anticipate that this finding will be repeated.

50. The auditors recommend the Agency adopt formal guidelines and standards for timely reconciliation of the students' loan accounts assigned to the collection agencies and resolution of differences. (Repeated-1999)

Findings: ISAC student loan account records do not agree/reconcile to the collection agencies' reports.

ISAC uses six collection agencies to assist collection efforts of past due loans under the Federal Family Education Loans program. Once ISAC has completed its due diligence activities, which includes (1) calling the borrower and (2) sending collection letters to the borrower, the past due loan is forwarded to one of the collection agencies. The collection agency then performs its collection efforts in an attempt to collect on the past due amount. During compliance testwork, ISAC loan records do not agree to the monthly reports prepared by the collection agencies. Discrepancies between the ISAC reports and the collection agencies exist in terms of the total number of borrowers and accounts assigned for collection. ISAC has deemed a 4% variance between their records and those of the collection agencies acceptable. As of June 30, 2003, the loan amounts per ISAC were \$73.5 million and the loan amounts per the collection agencies was \$75.3 million.

In discussing the variances with ISAC officials, they state reconciliations are being prepared on a monthly basis. Additionally, they have enlisted the assistance of ISAC information systems personnel to assist in identifying reconciling items between ISAC loan records and the monthly collection agency reports.

Updated Response: Accepted/Partially Implemented. ISAC has established policies and procedures that require that monthly reconciliations between Collection Agency and ISAC data occur and has set 4% as the balance tolerance level. Additional reconciliation activities occur if the 4% tolerance is not met for any one agency.

Reconciliations were conducted on a monthly basis in 2004 for each of the four collection agencies with whom ISAC contracts. At this time, there are reconciliations outstanding for two agencies that did not meet the 4% balance tolerance for five months of 2004. Due to staff shortages and the current hiring freeze, ISAC is still working to resolve the balance variances outstanding to within the 4% tolerance. It is anticipated that this work will be completed by the end of January 2005.

RECOMMENDATIONS 51-52
Illinois Community College Board

51. The auditors recommend ICCB include fiscal and administrative review procedures when performing on-site monitoring procedures for the Vocational Education program.

Findings: ICCB is not adequately performing on-site reviews of subrecipients receiving federal awards for the Vocational Education (post-secondary education) program.

The Illinois State Board of Education provided ICCB with an interagency grant of \$17,190,000 to establish vocational education programs at community colleges throughout the State of Illinois. As a pass through entity, ICCB monitors its subrecipients (community colleges) by performing on-site reviews, inspections, and implementation visits, examining annual external audit reports, and comparing budget to actual expenditures. However, the on-site reviews for the Vocational Education (post-secondary education) program do not include any fiscal and administrative review procedures.

During the year ended June 30, 2003, ICCB passed through the following amounts to subrecipients of the Vocational Education program:

Program	Total Fiscal Year 2003 ICCB Subrecipient Expenditures	Total Fiscal Year 2003 ICCB Program Expenditures	%
Vocational Education Basic Grants to States	\$16,657,000	\$17,190,000	96.9%

In accordance with CFR Title 34, Subpart C, Section 80.40, grantees are responsible for managing the day-to-day operations of the grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program function or activity.

In discussing these conditions with ICCB officials, they believed that their programmatic reviews procedures were adequate and addressed all the applicable federal requirements.

Failure to adequately monitor subrecipients could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal

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programs in accordance with laws, regulations and the grant agreement. (Finding Code 03-51)

Response: The Agency agrees, and staff resources will be reallocated in FY2004 to develop an on-site fiscal monitoring system for postsecondary Perkins subrecipients to be implemented in FY2005.

Updated Response: Implemented. A schedule for monitoring the postsecondary Perkins subrecipients has been established and a monitoring instrument was developed. Fiscal monitoring of subrecipients began in December, 2004.

52. The auditors recommend ICCB review its advance funding policies and techniques for subrecipients and implement policies, techniques and a monitoring process to ensure subrecipients receive no more than 30 days of funding on an advance basis.

Findings: ICCB provided funds to subrecipients of the Vocational Educational Basic Grants to States (post secondary education) program in excess of their immediate cash needs.

We reviewed payments to twelve subrecipients of Vocational Education (post secondary education) program for timely monitoring of cash advance payments. We noted eight subrecipients of the Vocational Education (post secondary education) program that received payments on a quarterly basis, for the year ended June 30, 2003. Thus, advances to subrecipients were for more than 30 days of funding needs. Total subrecipient expenditures for the Vocational Education (post secondary education) program administered by the ICCB were \$16,657,000 for the year ended June 30, 2003.

When funds are provided in advance of expenditure, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. Specifically, 34 CFR 80.20 requires that pass-through entities monitor cash advances to subrecipients to ensure those advances are for immediate cash needs only. Based on discussions with Federal agencies, we have interpreted "immediate cash needs" as 30 days or less of advance funding.

In discussing these conditions with ICCB personnel, they were of the opinion that funding Vocational Education (post secondary education) on a quarterly basis qualified as advancing only immediate cash needs as the timelines for immediate cash needs are not clearly defined in the regulations.

Providing subrecipients funding advances of greater than 30 days results in additional costs of financing for the U.S. Treasury. (Finding Code 03-52)

Response: The Agency agrees. For postsecondary subrecipients quarterly payments will be disbursed at the beginning of the third month of each quarter.

RECOMMENDATIONS 53-55
Department of Transportation

53. The auditors recommend IDOT establish procedures to ensure weekly payroll certifications are received prior to payments to the contractors.

Findings: IDOT did not obtain weekly payroll certifications prior to payment to contractors for the Airport Improvement program.

Non-federal entities are required to comply with the requirements of the Davis-Bacon Act and the Department of Labor regulations applicable to contracts governing federally financed and assisted construction. These regulations require, in part, that all laborers and mechanics employed by contractors or subcontractors who work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid prevailing wage rates established for the locality of the project. The Department's process to comply with these requirements includes informing their contractors of the applicability of these requirements through communications in the bid documents and the final contract, which provides specifics as to the actual prevailing wage amounts and payroll certification requirements. The Department keeps a "two week calendar" that indicates the job that each contractor is completing, and monitors the submission of the required certified payrolls.

During a review of the certified payroll reports, the auditors noted that the weekly payroll certification reports were not obtained for four of the thirty contractor payments selected for test work, totaling approximately \$902,000. IDOT paid approximately \$44,541,000 for construction contracts subject to the Davis-Bacon Act during the year ended June 30, 2003.

In discussing these conditions with IDOT personnel, they stated that the Division would not have released retainage on the project until all payrolls were received, but they were not aware that they were required to receive the weekly payrolls prior to any payment to the contractor.

Response: The Department agrees with the recommendation. The Division of Aeronautics, after meeting with the Consultant Engineering Council of Illinois (CECI), decided that the Resident Engineer, for Airport Construction projects, would ensure that weekly payroll certifications are received prior to submitting his request for payment to the contractor. The Resident Engineer will attest that he has done this on the payment request document and he will then mail the payrolls for filing to the Aeronautics Office.

54. The auditors recommend IDOT:

- **Establish procedures to monitor and follow up on the submission of delinquent OMB Circular A-133 reports from subrecipients. The follow up**

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and correspondence with subrecipients should be documented in the monitoring files.

- Establish procedures to require all subrecipients receiving federal awards to either submit their OMB Circular A-133 reports, or submit a statement that they did not expend more than \$300,000 in federal awards and thus did not have an OMB Circular A-133 audit performed.
- Evaluate the current staffing of the audit section to ensure resources are adequate to review the OMB Circular A-133 audit reports within sixty days of receipt. (Repeated-2002)

Findings: IDOT does not have an adequate process to follow up on delinquent OMB Circular A-133 reports from subrecipients. Additionally, IDOT is not reviewing the OMB Circular A-133 audit reports received within sixty days and is not requesting OMB Circular A-133 reports for all subrecipients.

IDOT passed through \$169,015,177 and \$18,785,449 to subrecipients of the Highway Planning and Construction and Airport Improvement programs, respectively, during the year ended June 30, 2003. Of the 44 subrecipients who received greater than \$300,000 from IDOT, the required current year OMB Circular A-133 reports were not received for 26 subrecipients (59%) as of the date of testwork (September 30, 2003). Additionally, there was no documentation of its attempts to collect these reports and follow up with subrecipients, and IDOT requests OMB Circular A-133 Audit Reports from only those subrecipients who receive \$300,000 or more of federal awards from IDOT.

The auditors selected a sample of 10 of the 44 subrecipients and noted that five reports were received late and five reports were not reviewed within sixty days. The time elapsed between receipt and review of the five delinquent reports ranged from 63 days to 150 days.

In discussing the desk review process with Department officials, they state since the current system for obtaining OMB Circular A-133 reports is decentralized within the Department, there have been inherent delays in monitoring such reports from the various local agencies and units of local government.

Response: The Department agrees with the recommendation. The Department does follow up on the submission of delinquent OMB Circular A-133 reports. However, due to the fact that the submission of these reports has been decentralized within the Department, inherent delays have resulted in reports not being monitored within the accepted time limits.

The Department's Audit Section will consolidate and centralize the system to obtain and monitor submission of OMB Circular A-133 reports. Procedures will also be established to require all subrecipients receiving federal awards to either submit their OMB Circular A-133 reports, or submit a statement that they did not expend more than \$300,000 in federal awards and thus did not have an OMB Circular A-133 audit performed. The Audit

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Section will also continue to emphasize its efforts at completing its review of these reports within sixty days of receipt.

- 55. The auditors recommend IDOT re-certify the accuracy of the clearance pattern for administrative draws based on disbursements from three consecutive months.**

Findings: IDOT did not properly re-certify its clearance pattern specified in the Treasury-State Agreement related to administrative cash draws for the Highway Planning and Construction program.

During the year ended June 30, 2003, IDOT improperly re-certified the clearance patterns related to payroll costs (administrative cash draws) for the Highway Planning and Construction program. Specifically, IDOT randomly selected sixty disbursements from the months of October, 2002, December, 2002, and February, 2003 instead of using all disbursements from three consecutive months to determine the average number of days of clearance for warrants (disbursements).

In discussing these conditions with Department personnel, they state the failure to re-certify the clearance patterns accurately was due to its interpretation of the regulations that it was acceptable to take a random sample from three random months and not from all twelve months.

Response: The Department agrees with the recommendation. The Department will revise its administrative cost clearance pattern testing procedures to comply with the applicable Federal regulations. Federal regulations allow states to use statistical sampling to develop a clearance pattern based on a sample size sufficient to ensure a 96 percent confidence interval. The Department will employ such techniques on which to base its administrative cost clearance pattern. The sample will be taken from the full twelve-month universe of applicable administrative costs.

RECOMMENDATIONS 56-57 Department of Commerce and Economic Opportunity

- 56. The auditors recommend DCEO continue to obtain effort certifications or personal activity reports for all payroll and fringe benefit expenditures charged to its federal programs as specified by OMB Circular A-87. (Repeated-2002)**

Findings: Adequate supporting documentation does not exist to substantiate payroll claimed for federal reimbursement under the Low Income Home Energy Assistance Program (LIHEAP) and Community Service Block Grant (CSBG) programs administered by the DCEO for the period from July 1, 2002 through March 31, 2003.

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DCEO did not obtain effort certifications from employees who work on the LIHEAP and CSBG programs to verify that payroll expenditures claimed under these programs correlate to the costs incurred from July 1, 2002 to March 31, 2003. Upon identification of this noncompliance from the 2002 audit, DCEO implemented procedures beginning in April 2003 to require employees to prepare effort certification on a semi-monthly basis. Total payroll and fringe benefit expenditures charged to the LIHEAP and CSBG for the period from July 1, 2002 through March 31, 2003 were \$1,225,480 and \$628,404, respectively.

OMB Circular A-87 establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments. To be allowable under federal awards, costs must meet certain general criteria. Those criteria require, among other things, that the expenditure be adequately documented. If an employee works solely on one federal program and 100% of their salary or wages are charged to the program, DCEO must obtain a certification from the employee or their direct supervisor that 100% of their time is spent on the single federal program. This certification must be kept on file and is required to be obtained at least every six months. However, if an employee works on multiple activities, monthly personnel activity reports must be completed and signed by the employee. The personal activity report is required to be an after-the-fact distribution of effort and must account for 100% of the employee's activity.

In discussing these conditions with DCEO officials, they stated they had documentation supporting an equitable distribution of administrative costs to these federal programs, but their documentation was not in compliance with OMB Circular A-87's requirements.

Inadequate documentation for payroll expenditures and indirect costs may result in federal funds being expended for unallowable purposes. (Finding Code 03-56, 02-50)

Response: The Department agrees to continue to obtain effort certifications or timesheets for all payroll and fringe benefit expenditures to allocate administrative costs in compliance with Circular A-87. As noted in the finding, the Department already implemented corrective action immediately after identifying this noncompliance from the 2002 audit. As a result, the Department transferred payroll costs at the end of fiscal year 2003 to balance the payrolls with the actual timesheets.

DCEO Updated Response: Please note the Low Income Home Energy Assistance Program transferred to the Department of Public Aid on July 1, 2004.

DPA Updated Response: Implemented. The LIHEAP Program transferred to the Department of Public Aid on July 1, 2004. The Department has continued DCEO's new procedures of obtaining a monthly certification sheet from employees who work on the LIHEAP and CSBG programs.

57. The auditors recommend DCEO establish monitoring procedures to ensure compliance with the earmarking percentages (requirements) of the LIHEAP program.

Findings: DCEO does not monitor earmarking requirements related to energy needs reduction for the Low Income Home Energy Assistance program (LIHEAP)

Under the LIHEAP program, DCEO is required to limit expenditures of federal funds related to planning and administration, weatherization, home energy needs reduction, and the identification, development and demonstration of leveraging programs based on federal earmarking requirements. In order to maintain and monitor these limits, at the beginning of each grant year, DCEO establishes a budget for each subrecipient, which includes the maximum to be spent on these activities.

During our testwork, we noted DCEO did not monitor expenditures for the home energy needs reduction programs to ensure compliance with the earmarking requirements. There is no requirement for the subrecipients to report total amounts spent on home energy needs reduction to DCEO, throughout the course of the grant year.

The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include monitoring procedures for compliance with earmarking requirements.

In discussing these conditions with DCEO officials, they state staff did monitor the earmarking requirement on a statewide program basis that includes expenditures from both state and federal LIHEAP funds. The state administers LIHEAP as a program, as referenced in the state plan as approved by the USDHHS, regardless of the fund source. Staff did acknowledge they were unable to produce a formal monitoring document or report that isolates earmarking expenditures for just the federal funding source at the entrance of the audit.

Failure to adequately monitor the earmarking requirements could result in federal funds being expended for unallowable costs. (Finding Code 03-57)

Response: The Department agrees they could not produce a formal monitoring document or report at the entrance of the audit; however, a report was prepared from information provided by the local administering agencies to support that only 2.79% or \$2,517,762.84 of \$90,351,297 (or 1.62% of \$154,947,932 total of state and federal LIHEAP) was expended on earmarking activities, particularly the home energy needs reduction activity. That report indicates the 5% limitation was not exceeded; therefore, no disallowed costs were incurred. The department conducted monitoring at management level on at least a monthly basis to ensure that the 5% limitation was not exceeded on a statewide program basis. Program staff are required to monitor the local administering agencies at least once annually to ensure program compliance. Although there was no

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specific question that related to monitoring for earmarking, the staff are very familiar with the expenditures of the program and are aware that most of the expenditures are related to taking applications, office space and associated costs, and outreach. The department restructured both the federal and state LIHEAP grants in FY04 as each grant, regardless of funding source, does not allocate more than 5% for program support of which home energy needs reduction activities are a component. Therefore, the department agrees to continue to monitor at the management level on at least a monthly basis to ensure that the 5% limitation for home energy needs reduction is not exceeded.

DCEO Updated Response: Please note the Low Income Home Energy Assistance Program transferred to the Department of Public Aid on July 1, 2004.

DPA Updated Response: Implemented. The LIHEAP Program transferred to the Department of Public Aid on July 1, 2004. The Department has continued DCEO's new procedures of obtaining a monthly certification from each grantee and monitoring the receipt of the certifications.

RECOMMENDATIONS 58-61 Department of Employment Security

58. The auditors recommend IDES establish procedures to:

- **Monitor and follow up on the submission of delinquent OMB Circular A-133 reports from subrecipients. Follow up action and correspondence with subrecipients should be documented in the monitoring files.**
- **Issue management decisions within six months.**
- **Implement review procedures to ensure on-site reviews are adequately documented using the monitoring checklists.**

Findings: IDES does not have an adequate process to follow up on delinquent OMB Circular A-133 reports from subrecipients and to ensure management decisions on program findings are issued within six months. Additionally, IDES is not adequately documenting the procedures performed for on-site fiscal and programmatic monitoring.

The Illinois Department of Employment Security (IDES) receives OMB Circular A-133 audit reports from subrecipients who expend \$300,000 or more of federal awards in their fiscal year. The A-133 audit reports are due to IDES nine months after the subrecipient's year-end. IDES performs a desk review of the A-133 audit reports and is required to issue a management decision regarding violations of program requirements (findings) within six months of receipt of the reports. IDES also performs on-site programmatic monitoring on an annual basis for all of its subrecipients. IDES completes a standardized checklist for each of its desk review and on-site programmatic reviews.

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IDES passed through \$168,137,000 to 26 subrecipients of the Workforce Investment Act Cluster during the year ended June 30, 2003. Of the 26 subrecipients, we noted the following relating to the OMB Circular A-133 reports required to be submitted by subrecipients:

- Two of the OMB Circular A-133 audit reports were received late.
- Eleven of the OMB Circular A-133 reports had not been received as of the date of our testwork (September 30, 2003). These reports ranged from 30 to 820 days late.
- There was no documentation of IDES' attempts to collect delinquent OMB Circular A-133 reports and follow up with subrecipients.
- IDES did not issue a management decision on audit findings within six months for one of its subrecipients

Additionally, IDES is not adequately documenting the procedures performed for on-site fiscal and programmatic monitoring. Specifically, we noted the following:

- The programmatic monitoring file for one subrecipient referred to additional supporting documentation that could not be located.
- Questions on the standardized fiscal monitoring checklist for one subrecipient were not answered and the checklist was not completed at all for another subrecipient.

Per the OMB Circular A-133 Compliance Supplement, dated March, 2003, a pass-through entity is required to monitor its subrecipients' activities to provide reasonable assurance that the subrecipient administers federal awards in compliance with federal requirements, to ensure required audits are performed, to require the subrecipient to take prompt corrective action on any audit findings, and to evaluate the impact of subrecipient activities on the pass-through entity's ability to comply with federal regulations.

In discussing this with IDES personnel, they stated that the incomplete monitoring checklists were due to oversight. The deficiencies noted in the monitoring of the OMB Circular A-133 audit reports were due to the retirement of the staff person responsible for this function in December 2002, the inexperience of his replacement, and the transition of the Workforce Investment Act (WIA) program to the Department of Commerce and Economic Opportunity (DCEO).

Failure to adequately monitor subrecipients could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 03-58)

Response: We agree with the finding that the agency did not fully comply with the requirements of OMB Circular A-133. The agency did partially implement a system to begin reviewing and monitoring OMB Circular A-133 submissions by recipients. This

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system included a formal presentation at quarterly WIA meetings specifying compliance requirements, non-submitters and non-submission penalties. A formal notification to non-submitters was not fully implemented and DES was unable to implement the recommendations as stated due to the transfer of the Workforce Investment Act (WIA) program from DES to the Department of Commerce and Economic Opportunity (DCEO) effective July 1, 2003. This was the result of the Governor's Executive Order No. 11. The audit finding has been forwarded to DCEO for their review and consideration in implementing the recommendations.

DCEO Updated Response: Accepted. The Workforce Investment Act Program transferred to DCEO from the Illinois Department of Employment Security (IDES) on July 1, 2003. DCEO is now responsible for the corrective action for this IDES finding.

Corrective action is currently in progress. DCEO is restructuring the organization of the Workforce Development Bureau. This restructuring will provide the necessary staff resources to allow WIA staff to adequately address the Circular A-133 monitoring deficiencies.

59. The auditors recommend IDES implement procedures to ensure cash draws are made in accordance with the U.S. Treasury Regulations.

Findings: IDES does not have adequate procedures to ensure cash draws are performed in accordance with U.S. Treasury Regulations.

The State of Illinois is required to follow the Treasury State Agreement (TSA), which is negotiated annually with the U.S. Department of the Treasury and details the funding techniques to be used for the draw down of federal funds. The TSA must include federal programs exceeding \$60,000,000 in expenditures, and must be amended at least annually or as needed to add or delete federal assistance programs subject to the TSA. During the year ended June 30, 2003, IDES drew down funds using the pre-issuance method, a common advance funding technique prescribed in the TSA, for the WIA Adult Program, the WIA Youth Activities, and the Employment Services Cluster. However, these programs were not included in the TSA.

The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure cash draws are performed in accordance with the U.S. Treasury Regulations.

In discussing this with IDES personnel, they stated that the funding techniques specified in the TSA were applied to all programs whether or not they were included in the TSA. This was done as a practical matter and to approximate an interest neutral liability.

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Failure to draw funds in accordance with the U.S. Treasury Regulations could result in an interest liability to the Federal government. (Finding Code 03-59)

Response: We concur that the Federal assistance programs for WIA-Adult, WIA-Youth Activities and the Employment Services Cluster did not meet the \$60 million annual expenditures threshold requirement to be included in the Treasury-State Agreement (TSA) and therefore subject to Subpart A of CMIA (31CFR Part 205 - Money and Finance: Treasury; Rules and Procedures for Efficient Federal-State Transfers). However, as a practical matter, it is not administratively feasible to employ funding techniques different from the TSA for the Adult and Youth components of the WIA program and for the Employment Services Cluster. Although the Treasury Regulations will permit a State to elect to lower the threshold for Federal assistance programs for inclusion in its TSA, this is an impracticable solution for IDES because it would affect all agencies within the State (See Subpart A, 205.3) Upon a State's request, we will make additional Federal assistance programs subject to subpart A by lowering the funding threshold in the Treasury-State agreement. All of a State's programs that meet this lower threshold would be subject to this subpart A. By default, Federal assistance programs that do not meet the threshold are subject to Subpart B and are not included in the State's TSA. Under Subpart B, 205.33(a), a state must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal Program purposes. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. States should exercise sound cash management in funds transfers to subgrantees in accordance with OMB Circular A-102. OMB Circular A-102 (Common Rule), 97.20(b)(7) (Cash Management) states "Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used...the grantee must make drawdowns as close as possible to the time of making disbursements." Additionally, Subpart B, 205.33(b) states: "Neither a State nor the Federal government will incur an interest liability under this part on the transfer of funds for a Federal assistance program subject to this subpart B." We believe the funding technique prescribed in the State's TSA for IDES meets the standards of Subpart B, 205.33 of 31CFR and OMB Circular A-102. As described in the TSA, IDES funding technique is a Payment Schedule or Pre-Issuance as necessary where payroll and administrative costs equal to one twenty-fourth of the grant are to be drawn twice a month and received on each pay day. The pre-issuance funding technique is only to be used if sufficient funds were not available in IDES Special Administrative Account (SAA) and sufficient SAA funds were available for the time period in question. The TSA describes the Payment Schedule funding technique as "interest neutral" as permitted by Subpart A, 205.18: (a) A State and FMS may agree, in a Treasury-State agreement, to the following funding conventions for indirect costs and administrative costs: (1) The State will draw down a prorated amount of administrative costs on the date of the State payday. For example, the State would draw one-third of its quarterly administrative costs if payroll is monthly, or one-sixth of its quarterly administrative costs if payroll is semi-monthly. (b) Notwithstanding any other provision of this part, no interest liabilities will be incurred or calculated for indirect costs and administrative costs,

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provided the funding conventions described in paragraph (a) of this section are properly applied. Since the goal of effective cash management is to minimize the exchange of interest between a State and the Federal government, it appears that the IDES is complying with OMB Circular A-102 (Common Rule) to perform in accordance with the U.S. Treasury Regulations as described in Subpart B, 205.33 (a)(1) & (b) with respect to the Federal assistance programs subject to Subpart B. We will seek the advice and consent of the U.S. Treasury-Financial Management Services through the State's CMIA representative to enable IDES to continue using the funding technique for Federal assistance programs under Subpart B as prescribed in the TSA for the Unemployment Insurance program.

Auditors' Comment: If management believes that it is not "administratively feasible" to use the funding technique required in subpart B of the U.S. Treasury regulations, IDES should consult with the U.S. Treasury and consider including the program in the Treasury-State Agreement. We believe that management's assessment of "feasibility" is not appropriate justification to violate the Treasury regulations.

Updated Response: Implemented. Through IDES' Cash Management Improvement Act (CMIA) state representative in the Governor's Office of Management and Budget, we asked the Department of the Treasury, Financial Management Service (FMS), if the interest neutral funding techniques in the Treasury-State Agreement (TSA) could also be used for non-TSA programs. On November 18, 2004, FMS sent an e-mail response. They referred to subpart B of the federal rules which broadly states that non-TSA programs should be administered in a way that minimizes interest liabilities and that neither a State nor the Federal government will incur an interest liability subject to this subpart B. In conversations with FMS, our CMIA state representative confirmed that it does not matter what funding technique is used, only that the technique minimizes interest liabilities. Federal rules do not prohibit the use of TSA funding techniques for non-TSA programs.

60. We recommend IDES establish procedures to review and certify the accuracy of the clearance pattern for administrative draws at least once every five years. Such procedures should include performing a statistical study to compute the actual clearance pattern of each program. (Repeated-2002)

Findings: IDES did not review or re-certify the accuracy of the clearance patterns specified in the Treasury-State Agreement related to administrative cash draws for the WIA Dislocated Workers and UI programs.

Annually, the State of Illinois negotiates the Treasury-State Agreement (TSA) with the U.S. Department of the Treasury (the Treasury) which details the funding techniques to be used for the draw down of federal funds. Certain approved funding techniques utilized by the State require the use of a clearance pattern that identifies the average number of days disbursements (warrants) take to clear the State Treasurer's account. The established clearance pattern is then used to determine the date the State should draw

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down funds from the federal government in order to minimize the time elapsing between the draw down and the State Treasurer's clearance of funds.

In accordance with the TSA in effect for the year ended June 30, 2003, the WIA and UI programs are required to maintain a clearance pattern of 2.5 banking days for payroll warrants and 4.41 banking days for administration. The clearance patterns were initially approved for the programs based on a review performed by the Federal Management Service (FMS) branch of the Treasury when the TSA was established in 1993. During our testwork for the year ended June 30, 2003, we noted IDES did not perform a review of the accuracy of the "outdated" clearance patterns. We also noted an IDES authorized official has not re-certified the accuracy of the clearance pattern within the last eight years.

According to The Money and Finance Treasury Code Regulations (31 CFR 205.20), a State shall ensure that a clearance pattern accurately represents the flow of Federal funds and that a clearance pattern reflects seasonal or other periodic variations in clearance activity. A State shall also ensure that a clearance pattern is auditable. Additionally, an authorized State official shall certify (31 CFR 205.22) that a clearance pattern corresponds to a program's clearance activity and shall re-certify the accuracy of the clearance pattern at least every five years.

In discussing these conditions with IDES personnel, they stated that clearance patterns were evaluated in December 2003, however the TSA had not yet been updated for the revised clearance patterns.

Failure to evaluate and re-certify a program's clearance pattern violates the requirement of 31 CFR 205.8 and could result in the inaccurate calculation of IDES' interest obligation to the Treasury. (Finding Code 03-60, 02-52)

Response: Since the inception of CMIA, the Treasury-State agreement allowed the State to use the FMS supplied Clearance Patterns (FMS' April 1993 Statistically Valid Clearance Patterns or Clearance Pattern Workbook). On December 17, 2003 the agency sent internally developed clearance pattern calculations to the CMIA (Cash Management Improvement Act) State representative. On January 26, 2004, the changes were submitted by the representative to the federal government via an amendment to the CMIA agreement. A signed copy has not been received to date.

Updated Response: Implemented. On December 17, 2003, IDES sent internally developed clearance pattern calculations to the Cash Management Improvement Act (CMIA) state representative. These clearance patterns have been included in the Treasury-State Agreement (TSA) for the year ending June 30, 2005 and certified with the Department of the Treasury, Financial Management Service (FMS) by the Director, Governor's Office of Management and Budget, on August 12, 2004. A procedure has been established to ensure an accurate re-certification of clearance patterns at least every five years.

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61. The auditors recommend IDES work with the Governor's Office of Management and Budget to ensure all programs exceeding the CMIA threshold are included in the TSA.

Findings: The WIA Dislocated Workers program is not included in the Treasury State Agreement (TSA) for the year ended June 30, 2003.

Annually, the State of Illinois negotiates the TSA with the U.S. Department of the Treasury (the Treasury), which details the funding techniques to be used for the draw down of federal funds. The TSA is required to include all major federal assistance programs based on the most recent Statewide Single Audit Report schedule of expenditures of federal awards for those programs that exceeded \$60,000,000 in expenditures. During our cash management test work we noted that IDES did not include the WIA Dislocated Workers program in the TSA, nor did IDES request that this program specifically be excluded from the TSA. Based upon the June 30, 2002 single audit report, this program was considered a major federal assistance program. The program expenditures exceeded the \$60,000,000 threshold during the year ended June 30, 2003. As such, the program should have been included in the TSA.

According to 31 CFR 205.9(b), a State must use its most recent Single Audit report as a basis for determining the funding thresholds for major Federal assistance programs to be included in the TSA, and the TSA must be amended as needed to change or clarify its language when the terms of the existing agreement are either no longer correct or no longer applicable. According to 31 CFR 205.7(c), a State must notify Federal Management Services within 30 days of the time the State becomes aware of a change, and must describe the change in the notification. Amendments may address, but are not limited to, additions and deletions of Federal assistance programs subject to the TSA.

In discussing this with IDES personnel, they stated they thought the WIA programs were correctly included as a cluster in the TSA instead of applying the threshold to each of the three components to determine if inclusion was necessary.

Failure to include all required programs in the TSA is a violation of the Cash Management Improvement Act (CMIA) and may result in the IDES utilizing an unapproved funding technique. (Finding Code 03-61)

Response: There was some confusion on the agency's part when the Catalog of Federal Domestic Assistance (CFDA) for the single number assigned to the WIA cluster was broken out into six CFDA numbers by the Employment and Training Administration for CMIA purposes, but treated as an audit cluster for Single Audit purposes. The agency included the CFDA for the WIA cluster (17.255) in the 2003 Treasury State Agreement instead of looking at each component of the WIA cluster under the new numbers. For FY 2003, only the Dislocated Workers Program would have been considered a major program and should have been included in the TSA under the newly established CFDA number of 17.260. The WIA programs were transferred to the Department of Commerce

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and Economic Opportunity effective July 1, 2003 so the inclusion of these programs is no longer an issue.

**RECOMMENDATIONS 62-63
Environmental Protection Agency**

62. The auditors recommend that IEPA properly implement the use of an expanded desk review checklist and any other procedures necessary to document and ensure that a sufficient review is performed on the OMB Circular A-133 reports. Additionally, appropriate follow up procedures should be performed for all subrecipients whose OMB Circular A-133 reports include findings. (Repeated-2002)

Findings: IEPA is not adequately reviewing OMB Circular A-133 audit reports that are required to be received from subrecipients.

The Illinois Environmental Protection Agency (IEPA) receives OMB Circular A-133 audit reports from subrecipients who expend \$300,000 or more of federal awards in their fiscal year. IEPA reviews these reports to assess whether or not there are violations of program requirements (findings). As part of this review process, IEPA completes a short checklist, which primarily consists of questions related to whether or not the subrecipient audit report discloses any audit findings. However, no documentation exists to support that:

- IEPA performs a thorough “desk review” of the report to determine whether the audits were performed in accordance with OMB Circular A-133,
- the federal funds reported in the schedule of expenditures of federal awards reconciles to funding notifications, and
- IEPA program grants that are Type A programs (as defined by OMB Circular A-133) are being audited at least every three years

Subrecipient expenditures under the federal programs for the year ended June 30, 2003 were as follows:

Program	Total Fiscal Year 2003 Subrecipient Expenditures	Total Fiscal Year 2003 Program Expenditures	%
Capitalization Grants for Clean Water State Revolving Funds	\$76,027,000	\$100,306,000	75.8%
Capitalization Grants for Drinking Water State Revolving Funds	\$24,715,000	\$ 26,800,000	92.2%

According to OMB Circular A-133 § .400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that Federal awards are

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used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that project goals are achieved.

In discussing the desk review process with IEPA officials, they state that in addition to the desk review process, the Infrastructure Financial Assistance Section performs a detailed review of the application documents, plans and specifications, bidding documents, change orders, invoices, etc. prior to disbursement of federal funds to ensure that loan assistance is used for the purposes authorized in the loan agreement. This ongoing monitoring of a project is conducted regardless of the needs to prepare a Single Audit and provides additional assurance that federal funds are not being expended for unallowable purposes.

Failure to adequately obtain and review subrecipient OMB Circular A-133 audit reports could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations and the grant agreement. (Finding Code 03-62, 02-55)

Response: Accepted. The Agency agreed to revise the procedures and corresponding checklist for the review of OMB Circular A-133 report in response to the 2002 Single Audit finding. Since the 2002 audit was not received until FY2003, the revised procedures were not implemented prior to the on-site visit for the 2003 audit.

Updated Response: Implemented. The Agency fully implemented the use of the recommended checklist and procedures in April 2004. Approximately 80 audits have been reviewed under the new process.

63. The auditors recommend IEPA review its current process for preparing subrecipient funding notifications to ensure all required information is properly communicated to its subrecipients. (Repeated-2002)

Findings: IEPA did not provide required program information relative to federal funds passed through to the subrecipients of the Capitalization Grants for Clean Water State Revolving Funds and Capitalization Grants for Drinking Water State Revolving Funds programs for the year ended June 30, 2003.

IEPA does not communicate the specific program or CFDA number under which federal funding had been provided in grant award documents or in funding notification letters sent to subrecipients. Additionally, subrecipients receiving less than \$300,000 in federal funding from IEPA were not provided any notification that the funds they received were federal.

Subrecipient expenditures under the federal programs for the year ended June 30, 2003 were as follows:

	Total Fiscal	Total Fiscal	
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Program	Year 2003 Subrecipient Expenditures	Year 2003 Program Expenditures	%
Capitalization Grants for Clean Water State Revolving Funds	\$76,027,000	\$100,306,000	75.8%
Capitalization Grants for Drinking Water State Revolving Funds	\$24,715,000	\$26,800,000	92.2%

According to OMB Circular A-133 §__400(d), a pass-through entity is required to identify federal awards made by informing each subrecipient of the CFDA title and number, award name and number, and award year.

In discussing these conditions with Department officials, they state compliance with the Single Audit Act is required in Agency rules and reiterated in the standard conditions of each loan offer. The standard conditions have been revised to include the CFDA title and number, award name and number, and the name of the Federal agency as agreed to in the 2002 Single Audit Report.

Failure to inform subrecipients of federal award information could result in subrecipients improperly omitting expenditures from their schedule of expenditures of federal awards, expending federal funds for unallowable purposes, or not receiving a single audit in accordance with OMB Circular A-133. (Finding Code 03-63, 02-56)

Response: Accepted. The Standard Conditions to the Loan Agreements have been revised.

Updated Response: Implemented. The Standard Condition contained in all subrecipient funding agreements has been modified to include the notification of federal funding. Correspondence regarding the amount of federal funds provided is also sent to each recipient.

**RECOMMENDATION 64
Department of Corrections**

64. The auditors recommend IDOC implement a standardized, centralized federal accounting function that integrates with their primary accounting system. IDOC should also implement standardized procedures for reconciling to Comptroller records and providing accurate information to the Comptroller as part of the annual GAAP reporting process. (Repeated-1999)

Findings: IDOC does not have a centralized federal accounting function to account for all federal funds received and expended by the Department.

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During fiscal year 2003, IDOC expended \$16,246,000 of federal funds from 27 separate federal programs. Funding was received from seven federal entities and several additional pass through entities.

The Department's current system used to account for federal funds consists of various subsystems maintained by individual grant administrators resulted in inefficiencies and less than effective financial controls. We noted the following weaknesses with this system:

- There is no standardized methodology for accounting for individual grant programs. Records are maintained on computer spreadsheet programs and the Accounting Information System.
- There is no standardized reconciliation process. Two area grant administrators reconcile their individual grant records to various internal Department or Comptroller reports. There is no consistency in the reconciliation process.
- Due to lack of coordination for reporting federal financial information to the State Comptroller as part of the annual GAAP reporting process, information for the statewide schedule of expenditures of federal awards had to be compiled from several accounting sources.
- IDOC was unable to provide the status of federal grant activity on a Department-wide basis at any particular point in time without significant effort in compiling and summarizing totals. Department officials indicated two area grant managers have been responsible for accounting for their own programs.

Good business practice dictates that IDOC develop an efficient standardized federal accounting system that can provide management with the information necessary to properly account for and administer their federal programs. (Finding Code 03-64, 02-62, 01-50, 00-35, IDOC 99-1)

Response: Recommendation accepted. The Department is in the process of installing a centralized accounting system for the grants unit. Both grant programs will be consolidated into a single Grants Unit effective July 1, 2004. The oversight for all federal funding will be centralized. Standard reconciliation procedures will be developed. A supervisory review will be performed of reported information to help ensure accuracy and timeliness.

Updated Response: Implemented. The Department of Corrections established a central grant function effective July 1, 2004, with all grant accountants reporting to the Fiscal Services Unit. The integration of the grants accountants into the Fiscal Services Unit allows for a maximization of resources and streamlines the federal accounting function. A standardized comprehensive, integrated accounting software system was installed and is being utilized by the grants section. The grants accounting information is reconciled on a monthly basis to the comptroller's records by the Central Accounting Section. The Supervisor of the Central Accounting Section reviews all financial

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information and prepares comprehensive Department-wide financial statements. The financial statements are presented to the Comptroller for review and approval.