LEGISLATIVE AUDIT COMMISSION

Review of
Statewide Single Audit
Two Years Ended June 30, 2019

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REVIEW: 4522
STATEWIDE SINGLE AUDIT
YEAR ENDED JUNE 30, 2019

TOTAL FINDINGS/RECOMMENDATIONS: 69

TOTAL REPEATED FINDINGS: 51

TOTAL PRIOR AUDIT FINDINGS/RECOMMENDATIONS: 29

Beginning with FY 2000, the Office of the Auditor General (OAG) converted to a Statewide Single Audit approach to audit federal grant programs. In prior years, audits of federal grant programs were conducted on an agency by agency basis. This audit was conducted in accordance with auditing standards generally accepted in the USA, *Government Auditing standards,* and the federal Single Audit Act and federal regulations. The auditors (KPMG) indicated that the financial statements were fairly presented.

The audit includes all state agencies that are a part of the primary government and expend federal awards but does not include state universities nor finance authorities. The total expenditures reviewed total $29 billion.

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RECOMMENDATION 1-2
Office of the Governor and Office of the State Comptroller (GOMB)

2020-01. The auditors recommend the Office of the Governor, GOMB, and the IOC work together with the State agencies to establish a corrective action plan to address the quality of accounting information provided to and maintained by the IOC as it relates to year-end preparation of the SEFA. They further recommend the State develop a process to assess adjustments to the final SEFA for accuracy and materiality.

FINDING: *(Inadequate Process for Compiling the Schedule of Expenditures of Federal Awards)*

The State of Illinois' current financial reporting process does not allow the State to prepare a complete and accurate Schedule of Expenditures of Federal Awards (SEFA) in a timely manner. Reporting issues at various individual agencies caused delays in finalizing the Statewide SEFA.

Accurate financial reporting problems continue to exist even though the auditors have: (1) continuously reported numerous findings on the internal controls (material weaknesses and significant deficiencies), (2) commented on the inadequacy of the financial reporting process of the State, and (3) regularly proposed adjustments to the financial statements and SEFA year after year. These findings have been directed primarily towards major State agencies under the organizational structure of the Office of the Governor and towards the Illinois Office of Comptroller (IOC).

The State of Illinois has a highly-decentralized financial reporting process. The system requires State agencies to prepare financial reporting packages designed by the IOC. These financial reporting packages are completed by accounting personnel within each State agency who have varying levels of knowledge, experience, and understanding of IOC accounting policies and procedures. Agency personnel involved with this process are not under the organizational control or jurisdiction of the IOC.

Although these financial reporting packages are subject to review by the IOC's financial reporting staff during the Comprehensive Annual Financial Report (CAFR) preparation process and there are minimum qualifications for all new GAAP Coordinators who oversee the preparation of financial reporting forms, the current process still lacks sufficient internal controls at State agencies. As a result, adjustments relative to the SEFA continue to occur.

Additionally, internal control deficiencies have been identified and reported relative to the SEFA financial reporting process in each of the past seventeen years as a result of errors identified during the external audits performed on State agencies. These problems significantly impact the preparation and completion of the SEFA and the identification of major programs. The process is overly dependent on the post-audit program, even though the Illinois Office of the Auditor General has repeatedly informed State agency officials that the post-audit function is not a substitute for appropriate internal controls at State agencies.

During fiscal year 2019, the State's process for compilation of the SEFA was based on the financial information reported to the Illinois Office of Comptroller by the State agencies. The first official draft of the SEFA was provided in April 2020 and the SEFA and related notes were not finalized until June 2020.

The auditors also noted the following deficiencies in the SEFA preparation process which resulted in errors in the amounts initially reported in the SEFA provided for audit:

- Procedures were not implemented to identify errors made by State agencies in reporting information to the IOC. Specifically, they identified several differences between amounts provided for our audit and amounts reported to the IOC. In many cases these errors were the result of State agencies reporting changes in accrual accounting estimates or other errors in the cash basis expenditure information used by the State to compile the SEFA which needed to be corrected to prepare the SEFA on a cash basis of accounting. These items have been reported in agency level findings for the Illinois Department of Human Services (Finding Code 2019-018), the Illinois Department of Healthcare and Family Services (Finding Code 2019-026), the Illinois Department of Children and Family

Services (Finding Code 2019-031), the Illinois Department on Aging (Finding Code 2019-040), the Illinois State Board of Education (Finding Code 2019-045), the Illinois Community College Board (Finding Code 2019-047), the Illinois Department of Transportation (Finding Code 2019-050), the Illinois Department of Veterans Affairs (Finding Code 2019-054), and the Illinois Department of Employment Security (Finding Code 2019-068).

- Unsupported adjustments were made to change amounts previously reported by State agencies during the State's procedures to confirm the accuracy of amounts reported on the Statewide SEFA with State agencies. Specifically, they noted the Illinois Department of Children and Family Services requested adjustments to remove expenditures from the Foster Care Title IV-E program and to increase expenditures under the Adoption Assistance program in the amounts of $15.2 million and $1.5 million, respectively. These amounts were improperly adjusted and were corrected in the final SEFA.
- Negative expenditures reported by the Illinois Department of Healthcare and Family Services for a disallowance of costs from more than 20 years ago were netted against current year Medicaid Cluster program expenditures. As a result, Medicaid Cluster program expenditures were understated by $144,794,000 in the initial SEFA prepared by the State. This amount was corrected in the final SEFA.
- Expenditures which were not originally reported to the IOC were added to the SEFA. Specifically, they noted expenditures totaling $734 thousand were added to the SEFA based on a request by the Illinois Board of Higher Education (IBHE). Supporting documentation for the amounts reported for the SEFA compilation could not be provided. IBHE noted the adjustment was requested because no Federal expenditures were originally reported to the IOC; whereas, amounts provided to subrecipients were reported.

While many of the adjustments identified are not quantitatively material to the SEFA as a whole, the State does not have a process in place to evaluate items of this nature outside of the audit process. Accordingly, an error which may be material to the SEFA (in either quantitative or qualitative terms) could occur and not be detected by the State. When evaluating the SEFA errors identified by our audit procedures individually and in the aggregate, the auditors noted a change in our Type A threshold and the Federal expenditures reported for certain programs which changed our major program determination. Specifically, they noted our Type A threshold increased by $165,668 to $40,064,954 and the Veterans State Nursing Home Care – CFDA No. 64.015 (Veterans Care) program expenditures decreased by $308,000 to $39,879,000. As a result, this program was a Type B program which was unnecessarily tested as a major program.

Accordingly, the State made the following adjustments to the Federal expenditures and/or amounts provided to subrecipients (Subrecipient amounts) as a result of our audit procedures:

Major Program	SEFA Caption	Amount Initially Reported	Net Correction Made	Final SEFA Amount
SNAP Cluster	Federal expenditures	$2,775,562,000	$(1,384,000)	$2,774,178,000
Child Nutrition Cluster	Federal expenditures	681,974,000	231,000	682,205,000
Child Nutrition Cluster	Amounts passed through to subrecipients	681,125,000	193,000	681,318,000
WIC Special Supplemental Nutrition Program for Women, Infants, and Children	Federal expenditures	168,412,000	(1,411,000)	167,001,000

Child and Adult Care Food Program	Federal expenditures	147,044,000	92,000	147,136,000
Unemployment Insurance	Federal expenditures	1,760,036,000	(4,330,000)	1,775,706,000
Veterans Care	Federal expenditures	40,187,000	(308,000)	39,879,000
Title I Grants to Local Educational Agencies	Federal expenditures	650,685,000	166,000	650,851,000
Title I Grants to Local Educational Agencies	Amounts passed through to subrecipients	642,103,000	10,000	642,113,000
Special Education Cluster	Federal expenditures	546,883,000	1,071,000	547,954,000
Special Education Cluster	Amounts passed through to subrecipients	532,766,000	17,000	532,783,000
Career and Technical Education – Basic Grants to States	Federal expenditures	40,851,000	275,000	41,126,000
Rehabilitation Services Vocational Rehabilitation Grants to States	Federal expenditures	106,059,000	(681,000)	105,378,000
21st Century Community Learning Centers	Federal expenditures	47,629,000	(175,000)	47,454,000
21st Century Community Learning Centers	Amounts passed through to subrecipients	45,866,000	26,000	45,892,000
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	Federal expenditures	71,837,000	(169,000)	71,668,000
Aging Cluster	Federal expenditures	49,478,000	(42,000)	49,436,000
TANF Cluster	Federal expenditures	609,583,000	(285,000)	609,298,000
CCDF Cluster	Federal expenditures	$348,377,000	$(44,000)	$348,333,000
Foster Care Title IV-E	Federal expenditures	166,630,000	13,391,000	180,021,000
Adoption Assistance	Federal expenditures	79,995,000	(559,000)	79,436,000
Social Services Block Grant	Federal expenditures	82,928,000	(2,863,000)	80,065,000
Social Services Block Grant	Amounts passed through to subrecipients	55,166,000	(1,230,000)	53,936,000
Medicaid Cluster	Federal expenditures	11,435,157,000	109,939,000	11,545,096,000
Block Grants for Prevention and Treatment of Substance Abuse	Federal expenditures	45,561,000	(1,448,000)	44,113,000
Social Security Disability Insurance	Federal expenditures	75,727,000	(56,000)	75,671,000
Employment Service Cluster	Federal expenditures	34,571,000	(965,000)	35,536,000

Criteria or Requirement:

According to 2 CFR 200.510(b), a recipient of federal awards is required to prepare a schedule of expenditures of Federal awards (SEFA) for the period covered by the entity's financial statements which must include the total Federal awards expended as determined in accordance

with 2 CFR 200.502. Among other things required by 2 CFR 200.510(b), the SEFA must include the total amount provided to subrecipients from each Federal program.

Additionally, 2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure federal expenditures and amounts provided to subrecipients are accurately reported on the SEFA and information provided for audit purposes is complete and accurate.

Cause:

In discussing these conditions with the Illinois Governor's Office of Management and Budget (the Office), they stated, on behalf of themselves and the Office of the Governor, that ongoing efforts are underway to improve the State's reporting processes; the Office did not have enough information to identify all the issues in the reporting process in this first year of compiling the SEFA.

In discussing these conditions with IOC management, they stated errors and delays at the departmental level were caused by a lack of sufficient internal control processes in State agencies for the accurate accumulation and reporting of financial information. The decentralized system of tracking, reporting and compiling federal spending information is inadequate to allow for the timely and accurate completion of the SEFA.

Possible Asserted Effect:

Failure to establish effective internal controls at all agencies regarding financial reporting for the preparation of the SEFA may prevent the State from completing an audit in accordance with timelines set forth by the Uniform Guidance and may result in the suspension of federal funding.

Views of GOMB on behalf of themselves and the Governor's Office:

GOMB has worked with State agencies to develop better reporting capabilities and to encourage the development of positions within state government with appropriate qualifications to support enhanced reporting. For the upcoming year, GOMB plans to conduct trainings for agency accounting and auditing staff in the fall on the importance of this reporting and with advice on preparing the reports in a more accurate and timely manner.

Views of IOC Officials:

The Office accepts the recommendation. The Office agrees that the existing financial reporting systems need to be upgraded with a cost-effective statewide grants management system that is designed to provide the information needed to complete the SEFA report and to improve the quality of the accounting information provided to the IOC.

2019-02. The auditors recommend the State establish procedures to ensure the TSA is amended for any necessary changes in accordance with federal regulations in a timely manner.

FINDING: *(Inadequate Procedures for Amending the Treasury-State Agreement)*

The State does not have adequate procedures in place to ensure the Treasury State Agreement (TSA) is amended in accordance with federal regulations.

Annually, the State of Illinois and the U.S. Department of the Treasury (the Treasury) negotiate the TSA, which details the funding techniques to be used for the drawdown of federal funds. The TSA is required to include all major federal assistance programs exceeding $69,347,000 based on the most recent Statewide Single Audit Report; however, the State is also required to amend the TSA within 30 days of determining that a program will exceed the expenditure threshold.

During our audit, they noted the Social Services Block Grant (Title XX) program was expected to exceed the $69,347,000 program expenditure threshold in fiscal year 2019 based on amounts budgeted/expended; however, the TSA was not amended to include this program during fiscal year 2019. Upon further review of the procedures in place to amend the TSA, auditors noted the State performs an annual review of the programs it includes in the TSA; however, the State has not established procedures to ensure changes in grant awards or spending occurring throughout the fiscal year are identified in a timely manner to properly update the TSA.

Criteria or Requirement:

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. According to 31 CFR 205.7(c), 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. Also, a State must notify the Treasury 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 addition, 2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal control should include establishing procedures to ensure changes in grant awards or spending are identified in a timely manner to properly update the TSA.

Cause:

In discussing these conditions with GOMB officials, they stated that delays in receiving notice of changes requiring amendment of the TSA made it impossible to amend the TSA in a timely manner.

Possible Asserted Effect:

Failure to amend the TSA when required is a violation of the Treasury regulations and may result in interest liabilities being assessed to the State.

Views of GOMB Officials:

GOMB anticipates that additional training and prioritization of accurate and timely federal reporting will help improve the quality and timeliness of agency reporting, thus enabling the State to amend the TSA appropriately.

RECOMMENDATION 3-18
Illinois Department of Human Services (IDHS)

2019-03. The auditors recommend IDHS implement adequate user access control procedures for the IES system.

FINDING: *(Failure to Establish Adequate Controls over the Integrated Eligibility System)*

The Illinois Department of Human Services (IDHS) and the Department of Healthcare and Family Services (DHFS) did not have appropriate controls over the Integrated Eligibility System (IES) used for eligibility determinations performed for the Supplemental Nutrition Assistance Program (SNAP) Cluster, Temporary Assistance for Needy Families (TANF) Cluster, Children's Health Insurance Program (CHIP), and Medicaid Cluster programs.

IDHS administers the SNAP Cluster, the TANF Cluster, and certain Medicaid Cluster waiver programs and DHFS administers the CHIP and Medicaid Cluster programs. The Affordable Care Act of 2010 required the State to consolidate and modernize its eligibility determination functions into a single system which is known as the Integrated Eligibility System (IES). Effective October 1, 2013, the State implemented IES and began performing and documenting eligibility determinations for certain beneficiaries of its Medicaid Cluster program and later expanded the use of IES to eligibility determinations for beneficiaries of the SNAP Cluster, TANF Cluster, and CHIP programs. In addition, effective October 24, 2017, the State implemented Phase II of IES. With the implementation of Phase II, all eligibility determinations and redeterminations for beneficiaries of the SNAP Cluster, TANF Cluster, CHIP, and Medicaid Cluster programs are performed and documented in IES. IES was developed through a partnership between IDHS and DHFS with each agency providing system requirements specific to their respective federal programs.

During our test work, they were unable to perform adequate procedures to satisfy ourselves that certain general information technology controls over the IES system were operating effectively. Specifically, the auditors noted an excessive number of unique users (120) have administrative access to the IES database.

Accordingly, they were not able to rely on IES with respect to our testing of the eligibility and related allowability compliance requirements for beneficiary payments made under the TANF Cluster, CHIP, and Medicaid Cluster programs. The auditors were also not able to rely on IES with respect to the special test and provision – ADP System for SNAP related to the SNAP Cluster program and the Income Eligibility Verification System related to the TANF Cluster.

Details of the beneficiary payments paid by the State during the year ended June 30, 2019 for the SNAP Cluster, TANF Cluster, CHIP, and Medicaid Cluster programs are as follows:

Major Program	Total Beneficiary Payments in Fiscal Year 2019	Total Fiscal Year 2019 Program Expenditures	Percentage	Administering Agency
SNAP Cluster	$2,658,587,000	$2,774,178,000	95.8%	IDHS
TANF Cluster	34,612,000	609,298,000	5.7%	IDHS
CHIP	368,849,000	386,959,000	95.3%	DHFS
Medicaid Cluster	10,844,109,000	11,545,096,000	93.9%	DHFS

Criteria or Requirement:

In accordance with 42 USC 1397bb, 42 CFR 435.10, and the OMB Compliance Supplement, dated August 2019, the State is required to determine client eligibility in accordance with eligibility requirements defined in the approved State Plans for the TANF Cluster, CHIP, and Medicaid Cluster programs. 2 CFR 200.403 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 each expenditure must be adequately documented.

According to 7 CFR 272.10, the State is required to automate their SNAP operations and computerize their systems for obtaining, maintaining, utilizing, and transmitting information concerning SNAP. This includes processing and storing all case file information necessary for eligibility determination and benefit calculation, identifying specific elements that affect eligibility, and notifying the certification unit of cases requiring notices of case disposition, adverse action and mass change, and expiration.

In addition, 2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include establishing and maintaining adequate controls over information systems used to perform and document beneficiary eligibility determinations.

Cause:

In discussing these conditions with IDHS officials, they stated no formal process to review such access is currently in place.

Possible Asserted Effect:

Failure to establish adequate controls over systems used to determine the eligibility of program beneficiaries inhibits the ability of the State to properly determine eligibility in accordance with program requirements and may result in ineligible beneficiaries receiving federal benefits which are unallowable costs.

Views of IDHS Officials:

The Department accepts the recommendation. The Department began working with DoIT-DHS leadership staff in April 2020 to review all users with IES administrative access privileges from up-to-date listings provided by DoIT (internal users) and management third party vendor (external users). This scrutiny has been undertaken on all internal and external user provisioning for production, replica and database IES environments.

2019-4. The auditors recommend IDHS review its current process for maintaining and controlling beneficiary case records and consider the changes necessary to ensure case file documentation is maintained in accordance with federal regulations and the State Plans for each affected program.

FINDING: *(Failure to Properly Maintain and Control Case File Records)*

IDHS does not have appropriate controls over case file records maintained at its local offices for beneficiaries of the Supplemental Nutrition Assistance Program (SNAP) Cluster, Temporary Assistance for Needy Families (TANF) Cluster, Children's Health Insurance Program (CHIP), and Medicaid Cluster programs.

IDHS is the State agency responsible for performing eligibility determinations for the federal public welfare assistance programs. IDHS has established a series of local offices throughout the State at which eligibility determinations and redeterminations are performed and documented. The eligibility intake processes for each of the programs identified above require case workers to obtain and review supporting documentation including signed benefits applications, copies of source documents reviewed in verifying information reported by applicants, and other information.

Effective October 1, 2013, the State implemented the Integrated Eligibility System (IES) to perform and document eligibility determinations for certain beneficiaries of the SNAP Cluster, TANF Cluster, CHIP, and Medicaid Cluster programs. Since its initial implementation, the use of IES has continued to expand and documentation related to eligibility determinations performed using IES has generally resided solely within the information system. In addition, effective October 24, 2017, the State implemented Phase II of IES. With the implementation of Phase II, all eligibility determinations and redeterminations for beneficiaries of the SNAP Cluster, TANF Cluster, CHIP, and Medicaid Cluster programs are performed and documented in IES.

During our test work, they noted the procedures in place to maintain and control manual beneficiary case file records do not provide adequate safeguards against the potential for the loss of such records. Specifically, in our review of case files at two storage facilities, the auditors noted manual case files were generally available to all IDHS personnel and that formal procedures have not been developed for checking hard-copy case files in and out of the file rooms or for tracking their locations. The auditors selected 60 eligibility case records from two off-site case file storage facilities and noted 11 case records could not be located for our testing.

In addition, during our test work over case files selected for the TANF Cluster, CHIP, and Medicaid Cluster programs, they noted a number of case files were provided several weeks past the original request date due to the fact that case files had been transferred between local offices and were not easily located by IDHS.

Details of the beneficiary payments selected in our eligibility samples for the TANF Cluster, CHIP,

and Medicaid Cluster programs are as follows:

Major Program	Number of Cases Sampled	Total Amount of Payments for Cases Sampled	Total Beneficiary Payments in Fiscal Year 2019	Total Fiscal Year 2019 Program Expenditures
TANF Cluster	50	$12,342	$34,612,000	$ 609,298,000
CHIP	100	286,783	368,849,000	386,959,000
Medicaid Cluster	100	112,812	10,844,109,000	11,545,096,000

As discussed above, effective October 24, 2017, the State implemented Phase II of IES. With the implementation of IES Phase II, all eligibility determinations and redeterminations for beneficiaries of the SNAP Cluster, TANF Cluster, CHIP, and Medicaid Cluster programs are performed and documented in IES. As discussed in finding 2019-003, deficiencies in general information technology controls were identified in IES which affected the reliability of source documentation maintained in IES for eligibility determinations performed for the SNAP Cluster, TANF Cluster, CHIP and Medicaid Cluster programs.

IDHS has not established appropriate procedures to ensure documentation supporting eligibility determinations and redeterminations are properly maintained in accordance with program requirements.

Criteria or Requirement:

In accordance with 42 USC 1397bb, 42 CFR 435.10, and the OMB Compliance Supplement, dated August 2019, the State is required to determine client eligibility in accordance with eligibility requirements defined in the approved State Plans for the TANF Cluster, CHIP, and Medicaid Cluster programs.

In addition, 2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include maintaining adequate controls over beneficiary eligibility case files and related documentation.

Cause:

In discussing these conditions with IDHS officials, they stated the weakness identified can be attributed to the large volume of physical case files and the agency continuing the process to centralize storage of physical case files.

Possible Asserted Effect:

Failure to properly maintain and control beneficiary case file records may result in the loss of source documentation necessary to establish beneficiary eligibility and in unallowable costs being charged to the federal programs.

Views of IDHS Officials:

The Department accepts the recommendation. Due to office space limitations and the large volume of paper files, offsite storage facilities have been used. The Department continues to communicate to staff the importance of proper and accurate filing processes. Since October 2017 all case files have been maintained electronically. Over time, the number of case files maintained in hard copy form will be reduced as all new cases are maintained in the new electronic document system.

2019-05. 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.

FINDING: *(Missing Documentation in Beneficiary Eligibility Files)*

IDHS could not locate case file documentation supporting eligibility determinations for beneficiaries of the Temporary Assistance for Needy Families (TANF) Cluster, Children's Health Insurance Program (CHIP) and the Medicaid Cluster programs.

Details of the beneficiary payments selected in our samples for the TANF Cluster, CHIP, and Medicaid Cluster programs are as follows:

Case Type	Number of Cases Tested	Total Amount of Payments for Cases Tested	Total Amount of Payments Made on Behalf of Beneficiaries for Fiscal Year 2019	Total Fiscal Year 2019 Program Expenditures
TANF Cluster	50	$12,342	$34,612,000	$609,298,000
CHIP	100	286,783	368,849,000	386,959,000
Medicaid Cluster	100	112,812	10,844,109,000	11,545,096,000

During our test work, they selected eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits provided. The auditors noted the following exceptions during our test work:

- In 13 TANF Cluster, 5 CHIP, and 11 Medicaid Cluster cases (with payments sampled of $3,610, $18,649 and $32,001, respectively), IDHS could not locate the initial case application or redetermination completed and signed by the beneficiary. TANF Cluster cash assistance paid to these beneficiaries during the year ended June 30, 2019 totaled $42,137. Medical payments made on behalf of these beneficiaries during the year ended June 30, 2019 were $32,606 and $216,458 for the CHIP and Medicaid Cluster programs, respectively.
- In 1 CHIP case file (with medical payments sampled of $188), IDHS could not locate adequate documentation evidencing income verification was performed. Agency staff indicated that an income verification was performed but was not updated in the case profile. Medical payments made on behalf of this beneficiary during the year ended June 30, 2019 were $4,662 for the CHIP program.
- In 2 TANF Cluster cases (with a payment sampled of $637), IDHS could not locate the

Responsibility Service Plan completed and signed by the beneficiary. TANF Cluster cash assistance paid to these beneficiaries during the year ended June 30, 2019 totaled $6,153.

- In 4 TANF Cluster cases (with payments sampled of $882), IDHS could not provide adequate documentation evidencing the child on the case met the age requirement. TANF Cluster cash assistance paid to this beneficiary during the year ended June 30, 2019 totaled $8,821.
- In 1 TANF Cluster case (with payment sampled of $222), the initial TANF application was not signed by the beneficiary. TANF Cluster cash assistance paid to this beneficiary during the year ended June 30, 2019 totaled $3,454.
- In 1 TANF Cluster case (with payment sampled of $231), IDHS could not provide adequate documentation evidencing the beneficiary's income. TANF Cluster cash assistance paid to this beneficiary during the year ended June 30, 2019 totaled $2,387.
- In 1 TANF Cluster case (with payment sampled of $181), IDHS could not provide a completed Mid- Point Report (MPR) covering the payment date. TANF Cluster cash assistance paid to this beneficiary during the year ended June 30, 2019 totaled $2,300.
- In 2 TANF Cluster Child Support Non-Cooperation special test cases, IDHS could not provide evidence that the beneficiary was sanctioned subsequent to the beneficiary's failure to cooperate. TANF Cluster cash assistance paid to these beneficiaries during the year ended June 30, 2019 totaled $10,778.
- In 3 TANF Cluster Child Support Non-Cooperation special test cases, IDHS failed to take timely action in sanctioning the beneficiary subsequent to the beneficiary's failure to cooperate. TANF Cluster cash assistance paid to these beneficiaries during the year ended June 30, 2019 totaled $14,022.
- In 1 TANF Cluster Child Support Non-Cooperation special test case, a 1611 child support non- cooperation form was incorrectly issued. TANF Cluster cash assistance paid to this beneficiary during the year ended June 30, 2019 totaled $6,991.

The auditors also noted the State implemented IES on October 1, 2013 and has continued expanding the use of IES to additional groups of beneficiaries of the SNAP Cluster, TANF Cluster, CHIP, and Medicaid Cluster. Effective October 24, 2017, the State implemented Phase II of IES. With the implementation of Phase II, all eligibility determinations and redeterminations for beneficiaries of the SNAP Cluster, TANF Cluster, CHIP, and Medicaid Cluster programs are performed and documented in IES. As discussed in findings 2019-003, several errors were identified in IES which resulted in noncompliance with eligibility requirements and affected the reliability of source documentation maintained in IES for certain eligibility determinations performed for the SNAP Cluster, TANF Cluster, CHIP and Medicaid Cluster programs.

IDHS does not have adequate resources to perform and document eligibility determinations. Additionally, IDHS has not established appropriate monitoring procedures to ensure eligibility determinations are properly documented in accordance with program requirements.

Criteria or Requirement:

2 CFR 200.403 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 each expenditure must be necessary, reasonable, and supported by adequate documentation.

In accordance with 42 USC 602(a)(1)(B)(iii), 42 CFR 435.10, and the OMB Compliance Supplement, dated August 2019, IDHS is required to determine client eligibility in accordance with

eligibility requirements defined in the approved State Plan. The current State Plans require redeterminations of eligibility for beneficiaries on an annual basis. Additionally, 42 CFR 435.907 requires a signed application to be on file for all beneficiaries of the Medicaid Cluster and CHIP programs.

In addition, 2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include maintaining adequate controls over beneficiary eligibility case files and related documentation.

Cause:

In discussing these conditions with IDHS officials, they stated the cause of the deficiencies noted are attributable to documentation being incorrectly indexed, not properly documented by staff, or misplaced.

Possible Asserted Effect:

Failure to maintain client applications for benefits and/or source documentation for redetermination/income verification procedures performed may result in inadequate documentation of a recipient's eligibility and in federal funds being awarded to ineligible beneficiaries, which are unallowable costs.

Views of IDHS Officials:

The Department accepts the recommendation. The Department continues to communicate to staff the importance of proper and accurate filing processes. Since October 2017 all case files have been maintained electronically. The Department has used and is continuing to use electronic verifications available to establish factors of eligibility which are maintained as part of the electronic case file.

2019-06. The auditors recommend IDHS review its current process for performing eligibility redeterminations and consider changes necessary to ensure all redeterminations are performed within the timeframes prescribed within the State Plans for each affected program.

FINDING: *(Failure to Perform Eligibility Redeterminations within Prescribed Timeframes)*

IDHS did not perform "eligibility redeterminations" for individuals receiving benefits under the Temporary Assistance for Needy Families (TANF) Cluster, Children's Health Insurance Program (CHIP), and Medicaid Cluster programs in accordance with timeframes required by the respective State Plans.

Each of the State Plans for the TANF Cluster, CHIP, and Medicaid Cluster programs require the State to perform eligibility redeterminations on an annual basis. During our test work over eligibility, they noted the State was delinquent (overdue) in performing the eligibility redeterminations for individuals receiving benefits under the TANF Cluster, CHIP, and Medicaid Cluster programs. Specifically, effective with the implementation of Phase II of the Integrated

Eligibility System (IES) on October 24, 2017, they noted IDHS and the Department of Healthcare and Family Services (DHFS) made the decision to extend the due date by one year for any beneficiaries whose cases were overdue for a redetermination at the time Phase II went live. IDHS and DHFS also extended the due dates for beneficiaries whose cases were scheduled to be redetermined from the go live date (October 24, 2017) through the end of the calendar year (December 31, 2017). Neither IDHS, nor DHFS provided evidence that the extension of the redetermination due dates had been discussed with or approved by the US Department of Health and Human Services during our audit procedures.

During our testing, the auditors noted 10,281 TANF Cluster cases had their due dates extended one year through October 2018. They also noted 7,019 TANF Cluster cases were subsequently redetermined; however, 3,263 TANF Cluster cases were still not redetermined by the required due date.

Additionally, in our testing of case files selected for testing, evidence was not provided to document redeterminations were performed within required time frames for 5 TANF cluster cases, 5 CHIP cases, and 11 Medicaid Cluster cases (with payments sampled of $918, $21,068, and $63,591 respectively). Delays in performing redeterminations exceeded 12 months after the required timeframe. They were able to determine multiple cases which were affected by the due date extensions discussed in the previous paragraph.

Details of the beneficiary payments selected in our samples for the TANF Cluster, CHIP, and Medicaid Cluster programs are as follows:

Major Program	Number of Cases Sampled	Total Amount of Payments for Cases Sampled	Total Beneficiary Payments in Fiscal Year 2019	Total Fiscal Year 2019 Program Expenditures
TANF Cluster	50	$12,342	$34,612,000	$609,298,000
CHIP	100	286,783	368,849,000	386,959,000
Medicaid Cluster	100	112,812	10,844,109,000	11,545,096,000

IDHS does not have adequate resources to perform and document eligibility redeterminations. Additionally, IDHS has not established appropriate monitoring procedures to ensure eligibility redeterminations are completed in accordance with program requirements.

Criteria or Requirement:

In accordance with 42 USC 602(a)(1)(B)(iii), 42 CFR 435.10, and the OMB Compliance Supplement, dated August 2019, IDHS is required to determine client eligibility in accordance with eligibility requirements defined in the approved State Plans for the Medicaid Cluster, CHIP, and TANF Cluster programs. The current State Plans require redeterminations of eligibility for all recipients on an annual basis.

In addition, 2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include establishing procedures to ensure eligibility redeterminations are performed in accordance

with program requirements.

Cause:

In discussing these conditions with IDHS officials, they stated the deficiencies noted can be attributed to competing priorities in casework actions and staff turnover.

Possible Asserted Effect:

Failure to properly perform eligibility redetermination procedures in accordance with the State Plans may result in federal funds being awarded to ineligible beneficiaries, which are unallowable costs.

Views of IDHS Officials:

The Department accepts the recommendation. The redetermination process as part of IES Phase 2 now includes the tracking and auto initiating of renewal notices to eligible customers using a three-step process. The Department has worked to increase caseworker staffing to help ensure the timely processing of redeterminations. In addition, with the task-based business model, processing centers to help with aging tasks have been established to ensure redetermination timeliness.

2019-07. The auditors recommend IDHS review its current process for calculating beneficiary payments and consider changes necessary to ensure payments are properly calculated and paid.

FINDING: *(Improper TANF Cluster Beneficiary Payments)*

IDHS made improper payments to beneficiaries of the Temporary Assistance for Needy Families (TANF) Cluster program.

During our test work of 50 TANF Cluster program beneficiary payments, they noted five beneficiaries (with payments of $1,221) received payments that were improperly calculated. As a result of the calculation errors, the monthly payments for these beneficiaries were understated in total by $529. Total payments made to these beneficiaries under the TANF Cluster were $9,456 for the year ended June 30, 2019. As of the date of our testing (February 7, 2020), the payment errors identified in our sample had not been corrected by IDHS.

Beneficiary payments selected in our sample totaled $12,342. Payments made on behalf of beneficiaries of the TANF Cluster program totaled $34,612,000 during the year ended June 30, 2019.

Criteria or Requirement:

2 CFR 200.403 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 each expenditure must be necessary, reasonable, and supported by adequate documentation.

In accordance with the OMB Compliance Supplement, dated August 2019, IDHS is required to determine client eligibility in accordance with eligibility requirements defined in the approved State Plan. The current State Plan requires payments to be made to eligible beneficiaries in accordance with payment levels established within the State Plan.

In addition, 2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and The terms and conditions of the Federal award. Effective internal controls should include maintaining adequate controls over beneficiary eligibility case files and related documentation.

Cause:

In discussing these conditions with IDHS officials, they stated the deficiency noted can be attributed to listings in need of case actions not being thoroughly reviewed.

Possible Asserted Effect:

Failure to properly calculate benefit payments may result in unallowable costs being charged to the TANF Cluster.

Views of IDHS Officials:

The Department accepts the recommendation. During the testing period TANF grant levels changed. To ensure the proper calculation and issuance of benefits, the process of reviewing case actions that do not qualify for systematic updates is communicated and reinforced on an ongoing basis with staff and management.

2019-08. The auditors recommend IDHS implement the necessary procedures to ensure access to its information systems is adequately secured and the systems are able to generate a list of program changes.

FINDING: (*Inadequate Controls over Information Systems)*

IDHS does not have adequate program access and change management controls over information systems used to document and determine beneficiary eligibility and record program expenditures.

The information technology applications that support the IDHS major programs include the following:

- *Child Care Management System (CCMS)* – serves as the main database for the State's child care activities which is funded by the Child Care Development Funds (Child Care) Cluster and TANF Cluster programs. The system is used by IDHS and its subrecipients to store participant information, perform eligibility determinations for participants, and track the issuance and redemption of child care vouchers.
- *Cornerstone* – serves as the data management and analysis system for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). This system is

used by IDHS to store participant information, perform eligibility determinations for participants, and provide benefit information for payment.

During our test work of IDHS' controls over user access to the CCMS and Cornerstone applications, they noted the following:

- For four terminated employees (out of 25 tested), the auditors were unable to determine whether access was removed from the Cornerstone application after the date their employment with IDHS was terminated.
- Periodic user access reviews were not performed in fiscal year 2019 by IDHS in accordance with established procedures to ensure access rights were appropriate for the Cornerstone application.
- Administrative access to the Cornerstone application was not reviewed by IDHS during the fiscal year 2019 in accordance with established procedures to ensure user access rights were appropriate.
- IDHS' policies and procedures do not include specific procedures to review access rights to the CCMS or Cornerstone for users at subrecipient organizations who have been contracted to assist IDHS in carrying out compliance requirements for the Special Supplemental Nutrition Program for Women, Infants, and Children, Child Care Development Funds Cluster, and TANF Cluster programs

Then auditors also noted during our test work over changes made to IDHS' information systems that IDHS was not able to generate a list of changes made to the Cornerstone application. IDHS' current procedures include tracking changes made to Cornerstone in a database; however, the information input into the database is based on manual change request forms. Accordingly, they were unable to determine whether the list of changes to the Cornerstone application provided by IDHS from the database during our audit was complete.

Criteria or Requirement:

The A-102 Common Rule and 2 CFR 200.303 require nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include ensuring the information systems associated with the administration of the federal programs are adequately secured and have proper change management controls in place.

Cause:

In discussing these conditions with IDHS officials, they stated they stated the exceptions are the result of informally documented policies and procedures over user access.

Possible Asserted Effect:

Failure to adequately secure the information systems that are used to administer the federal programs could result in noncompliance with laws, regulations, and the grant agreement.

Views of IDHS Officials:

The Department accepts the recommendation. The Department's CCMS business owners are aware that system access provisioning for external partners review policies and procedures are

not adequately detailed at this time. The intent is to develop an internal formal documented procedure to audit CCMS access, with the assistance of DoIT-DHS. Cornerstone performs an internal access provisioning review annually, with the last review in August 2019. This is not a formal, documented review process and should be performed more frequently. The Department has published CCMS Systems Access and Usage Policies and Procedures effective September 2019, however more specific procedures and tracking for user access review will be developed and implemented.

The Department's Bureau of Family Nutrition currently prepares a user listing for WIC Providers to review for proper access; this process will be increased from annually to semi-annually in frequency.

2019-09. The auditors recommend IDHS review its process for monitoring compliance with the SAPT MOE and for maintaining documentation for expenditures used to meet its SAPT MOE requirement.

FINDING: *Failure to Provide Adequate Documentation for the SAPT MOE Requirement*

IDHS was unable to provide adequate documentation to substantiate the MOE requirements were met for the Block Grants for Prevention and Treatment of Substance Abuse (SAPT) program.

As a condition of receiving federal funding under the SAPT program, USDHHS requires the State to maintain the level of State and locally funded expenditures for substance abuse prevention and treatment activities at an amount that is at least equal to the average level of these same amounts for the prior two years. In addition, the State is required to maintain its level of expenditures for substance abuse prevention and treatment services provided to pregnant women and women with dependent children and individuals with tuberculosis.

During the current fiscal year, they noted IDHS was required to maintain aggregate State expenditures for State fiscal year June 30, 2019 of $103,322,412. IDHS reported actual aggregate State expenditures for State fiscal year June 30, 2019 of $130,252,827. However, IDHS could not provide detailed supporting documentation for managed care organization expenditures totaling $63,104,919. IDHS could not provide underlying specific capitation payment and beneficiary records during our audit procedures. Accordingly, these expenditures are not allowable for purposes of meeting the maintenance of effort requirement.

Criteria or Requirement:

According to 45 CFR 96.30(a), the fiscal control and accounting procedures of the State must be sufficient to permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant. Further, 45 CFR 96.134(a) states with respect to the principal agency of a State for carrying out authorized activities, the agency shall for each fiscal year maintain aggregate State expenditures by the principal agency for authorized activities at a level that is not less than the average level of such expenditures maintained by the State for the two year period preceding the fiscal year for which the State is applying for the grant.

In addition, 2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes,

regulations, and the terms and conditions of the Federal award. Effective internal controls should include establishing procedures to ensure the MOE requirement is met and maintaining adequate supporting documentation to support the expenditures used to meet the MOE requirement.

Cause:

In discussing these conditions with IDHS officials, management stated the Department is awaiting confirmation from Substance Abuse and Mental Health Services Administration (SAMHSA) and Center for Substance Abuse Treatment (CSAT) to implement a new protocol for supporting the MOE requirement.

Possible Asserted Effect:

Failure to maintain required State expenditure levels for MOE and maintain adequate supporting documentation to support expenditures used to meet the MOE requirement results in noncompliance with program requirements.

Views of IDHS Officials:

The Department accepts the recommendation. The Department developed protocol which was approved by SAMHSA/CSAT. There was a request by SAMHSA/CSAT for the Department to clarify the start date of the protocol and provide an example report related to the protocol. The Department's response to SAMHSA/CSAT was submitted on August 6, 2020 and confirmation from SAMHSA/CSAT is pending. This issue will be resolved once SAMHSA/CSAT confirmation of the protocol start date and report format is sent by SAMHSA/CSAT to the Department.

2019-10. The auditors recommend IDHS review its current process for identifying and reporting interagency expenditures and implement monitoring procedures to ensure that federal and state expenditures expended by other State agencies meet the applicable program regulations.

FINDING: (*Inadequate Process for Monitoring Interagency Program Expenditures)*

IDHS does not have an adequate process for monitoring interagency expenditures claimed under or used to meet maintenance of effort (MOE) requirements of the Supplemental Nutrition Assistance Program (SNAP) Cluster, Temporary Assistance for Needy Families (TANF) Cluster, Child Care Development Funds (Child Care) Cluster, and Social Services Block Grant (Title XX).

Federal and State expenditures under the SNAP Cluster, TANF Cluster, Child Care Cluster, and Title XX programs are comprised of programs operated by various State agencies. As the State agency responsible for administering these programs, IDHS has executed interagency agreements with each of the State agencies expending federal and/or State program funds. The interagency agreements require periodic reporting of a summary of the agency's "allowable" expenditures to IDHS for preparation of the financial reports required for each program. As the State agencies expending program funds do not determine under which program IDHS reports their expenditures, IDHS is responsible for establishing procedures to ensure the expenditures reported by the expending State agencies meet the applicable federal requirements.

During the year ended June 30, 2019, IDHS reported expenditures from other agencies that were claimed for reimbursement or used to meet MOE requirements as follows:

Program	Expending State Agency	Expenditures Claimed	Total Expenditures
SNAP Cluster	Department of Healthcare and Family Services	$2,230,000	$2,774,178,000
TANF Cluster	Department of Children and Family Services	301,818,000	609,298,000
TANF Cluster	Department of Healthcare and Family Services	366,000	609,298,000
TANF Cluster	Illinois Department of Revenue	89,025,000	609,298,000
TANF Cluster	Illinois Student Assistance Commission	10,167,000	609,298,000
TANF MOE	Department of Healthcare and Family Services	5,578,000	440,278,000
TANF MOE	Illinois State Board of Education	100,313,000	440,278,000
Child Care Cluster	Department of Children and Family Services	244,000	348,333,000
Child Care MOE	Department of Children and Family Services	16,364,000	161,458,000
Title XX	Illinois Department of Public Health	3,490,000	80,065,000

IDHS' procedures to monitor other State agencies expending program funds reported by IDHS include the following:

- Interagency agreements were reviewed and updated (where necessary) to ensure all State programs claimed under or used to meet MOE requirements of the SNAP Cluster, TANF Cluster, Child Care Cluster and Title XX programs were subject to an interagency agreement.
- Program questionnaires were developed and distributed to each of the State agencies to assist in documenting the nature of the expenditures provided to IDHS and the internal controls established to ensure compliance with the applicable federal regulations.
- Quarterly certification reports were collected from each of the State agencies to support amounts reported in the federal reports required for each federal program.
- Expenditure details were obtained from each of the State agencies and were reconciled to the quarterly certifications.

However, during our test work over the documentation of the monitoring procedures discussed above, the auditors noted the following deficiencies:

- Program questionnaires describing internal control procedures for fiscal year 2019 were not obtained by IDHS from the Department of Healthcare and Family Services, the Department of Revenue, the Department of Children and Family Services, the Illinois Student Assistance Commission, and the Illinois State Board of Education (TANF Cluster).
- Quarterly certification reports were not prepared accurately for the Department of Public Health (Title XX).
- IDHS did not perform a detailed review of costs claimed from expenditures reported by any of the other State agencies to ensure they met the specific program requirements. The other State agencies do not necessarily know which federal program or maintenance of effort requirement the costs they are providing to IDHS will be claimed or used and are not able to assess whether the costs are allowable.

Criteria or Requirement:

2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include procedures in place to ensure expenditures reported by the expending state agencies meet the applicable

federal requirements.

Cause:

In discussing these conditions with IDHS officials, they stated procedures were not followed to monitor other state agencies' expenditures, which are claimed by IDHS.

Possible Asserted Effect:

Failure to properly monitor interagency expenditures may result in claiming of expenditures that are inconsistent with the objectives of the federal program.

Views of IDHS Officials:

The Department accepts the recommendation. DHS will review its current monitoring procedures which are in part to ensure other State agency expenditures claimed to federal grants meet the applicable program regulations.

2019-11. The auditors recommend IDHS review its procedures for monitoring its service organizations and implement additional procedures to ensure appropriate follow up is performed relative to control deficiencies identified at its service organization. Such procedures should include documentation of IDHS' assessment of the impact of any control deficiencies and/or noncompliance identified in the service organization's control report on the SNAP Cluster program.

FINDING: (*Inadequate Procedures to Ensure Controls Are Operating Effectively at the Service Organization of the SNAP Cluster Program)*

IDHS has not established adequate procedures to ensure controls are operating effectively at its third party service organization for the Supplemental Nutritional Assistance Program (SNAP) Cluster.

IDHS issues SNAP benefits in the form of EBT (Electronic Benefits Transfer) cards to beneficiaries of the SNAP Cluster which are used to purchase food from retail stores. IDHS contracts with a service organization to pay retailers that have accepted EBT cards for food purchases. Among other things, the service organization is responsible for drawing cash from the U.S. Treasury which is used to reimburse retailers. IDHS is responsible for reconciling the payments made to retailers by its service organization with the amounts drawn from its EBT account with the U.S. Treasury on a monthly basis.

In order to ensure the service organization is properly performing its contracted duties relative to the EBT card settlement process, IDHS requires the service organization to have a service organization control report (SOC 1 report) in accordance with *Statement on Standards for Attestation Engagements No. 18* (SSAE 18). During our audit, they noted the auditors' report was modified for four control objectives that were not achieved. The four objectives that were not achieved relate to: 1) reasonable assurance that logical access to programs, data and computer resources is restricted to authorized and appropriate users, and such users are restricted to performing authorized and appropriate actions, 2) reasonable assurance that network infrastructure relevant to user entities' internal control over financial reporting is configured as

authorized to protect administered systems from unauthorized access, 3) reasonable assurance that application and system processing relevant to user entities' internal control over financial reporting are executed in a complete, accurate and timely manner and deviations, problems, and errors that may affect user entities' internal control over financial reporting are identified, tracked, recorded and revolved in a complete, accurate, and timely manner, and 4) reasonable assurance that migration of user entities' data was complete and accurate.

IDHS personnel responsible for reviewing the service organization report did not identify the report modification as an exception or control deficiency on their internal review checklist and did not perform procedures to assess the impact of the control deficiencies with respect to the SNAP Cluster program until this item was identified during our audit.

Criteria or Requirement:

2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include procedures to follow up on deficiencies identified in service organization control reports and assess their impact on the administration of the SNAP Cluster program.

Cause:

In discussing these conditions with IDHS officials, they stated the deficiencies found can be attributed to new program staff, and inadequate monitoring and documentation.

Possible Asserted Effect:

Failure to ensure controls are operating effectively at its third party service organization prohibits IDHS from assessing the effectiveness of internal controls over the reconciliation of payments made to retailers by its service organization.

View of IDHS Officials:

The Department accepts the recommendation. The Department continues to review its procedures for monitoring its service organizations to ensure needed follow-up is performed relative to identified internal control deficiencies.

2019-12. The auditors recommend IDHS establish procedures to ensure: (1) subrecipient single audit reports are obtained and reviewed within established deadlines, (2) management decisions are issued for all findings affecting its federal programs in accordance with the Uniform Guidance, and (3) follow up procedures are performed to ensure subrecipients have taken timely and appropriate corrective action.

FINDING: (*Inadequate Review of Single Audit Reports)*

IDHS did not adequately review single audit reports received from its subrecipients for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), Temporary Assistance for Needy Families (TANF) Cluster, Child Care Development Funds (Child Care) Cluster, Social

Services Block Grant (Title XX), and Block Grants for Prevention and Treatment of Substance Abuse (SAPT) programs on a timely basis.

Subrecipients who receive more than $750,000 in federal awards are required to submit a single audit report to IDHS. For subrecipients with fiscal year-ends prior to December 31, 2017, the Office of Contract Administration (OCA) is responsible for reviewing these reports and working with personnel to issue management decisions on any findings applicable IDHS programs. For subrecipients with fiscal year-ends December 31, 2017 and after, the Grant Accountability and Transparency Unit (GATU) is responsible for reviewing these reports and working with program personnel to issue management decisions on findings applicable to IDHS programs. For subrecipients with fiscal year-ends prior to December 31, 2017, a desk review checklist is used to document the review of the single audit reports. For subrecipients with fiscal year-ends December 31, 2017 and after, the Audit Report Review Management (ARRM) is used to document the review of the single audit reports. Subrecipients who are required to report their single audits to OCA must submit their audit report within 6 months of their fiscal year end. Subrecipients who are required to report their single audits to GATU must submit their audit report within 9 months of their fiscal year end. Subrecipients who fail to provide the required reporting package within that timeframe will be suspended, unless a deadline waiver or extension is granted.

During our review of a sample of 193 subrecipient single audit desk review files, they noted IDHS did not notify 71 subrecipients of the results of single audit desk reviews or issue management decisions on reported findings within 6 months of acceptance of the single audit report by the Federal Audit Clearinghouse (FAC) as required.

These reviews were completed as follows:

Desk Review Period	Number of Subrecipients
180-210 days after FAC acceptance	19
210-240 days after FAC acceptance	11
240+ days after FAC acceptance	41

The auditors also noted the single audit desk reviews are still in process and have not been finalized as of the date of our test work (February 21, 2020) for 72 subrecipients, 42 of which IDHS is the cognizant agency.

Additionally, they noted 7 subrecipients with fiscal year-ends December 31, 2017 and later who did not submit their reporting package to ARRM within 9 months of their fiscal year end in accordance with GATU policies. GATU's files did not contain evidence that waivers were granted or sanctions were imposed on these subrecipients. The auditors also noted 6 subrecipients with fiscal year-ends prior to December 31, 2017 who did not submit their reporting package to IDHS within 6 months of their fiscal year end in accordance with IDHS policies. IDHS's files did not contain evidence that waivers were granted or sanctions were imposed on these subrecipients

IDHS' subrecipient expenditures under the federal programs for the year ended June 30, 2019 were as follows:

Program	Total Fiscal Year 2019 Subrecipient Expenditures	Total Fiscal Year 2019 Program Expenditures	%
WIC	$160,698,000	$167,001,000	96.2%
TANF Cluster	160,354,000	609,298,000	26.3%
Child Care Cluster	336,923,000	348,333,000	96.7%
Title XX	53,936,000	80,065,000	67.4%
SAPT	44,113,000	44,113,000	100%

Criteria or Requirement:

According to 2 CFR 200.331(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure the 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. Further, 2 CFR 200.331(d)(3) and 2 CFR 200.521 state that a pass-through entity is required to issue a management decision on audit findings within six months of acceptance of the audit report by the Federal Audit Clearinghouse (FAC) and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings.

In addition, 2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include implementing procedures and hiring adequate resources to ensure single audit reports are reviewed in a timely manner and management decision letters are issued within required timeframes.

Cause:

In discussing these conditions with IDHS officials, they stated staff and management turnover, as well as other process changes, resulted in delays in completing reviews and issuing management decision letters within required timeframes.

Possible Asserted Effect:

Failure to obtain and review subrecipient single 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. Additionally, failure to issue management decisions within six months of acceptance of the single audit report by the FAC results in noncompliance with federal regulations.

Views of IDHS Officials:

The Department accepts the recommendation. In June of 2020 the Office of Contract Administration Financial and Cost Reporting Unit will submit a detailed list of recommended updates and changes to the State of Illinois Governor's Office of Management and Budget Grants Accountability and Transparency Unit Audit Report Review Management System (ARRMS). These updates and changes will allow for more timely processing of Grantee Audits through the ARMMS.

2019-13. The auditors recommend IDHS ensure programmatic on-site reviews are performed and documented for subrecipients in accordance with established policies and procedures. In addition, they recommend IDHS review its process for reporting and following up on findings relative to subrecipient on-site reviews to ensure timely corrective action is taken.

FINDING: (*Failure to Follow Established Subrecipient Monitoring Procedures)*

IDHS did not follow its established policies and procedures for monitoring subrecipients of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), Temporary Assistance for Needy Families (TANF) Cluster, Child Care Development Funds (Child Care) Cluster, Social Services Block Grant (Title XX), and Block Grants for Prevention and Treatment of Substance Abuse (SAPT) programs.

IDHS has implemented procedures whereby program staff perform periodic on-site and desk reviews of IDHS subrecipient compliance with regulations applicable to the federal programs administered by IDHS. Generally, these reviews are formally documented and include the issuance of a report of the review results to the subrecipient summarizing the procedures performed, results of the procedures, and any findings or observations for improvement noted. IDHS's policies require the subrecipient to respond to each finding by providing a written corrective action plan. Additionally, IDHS performs reviews of expenditure reports submitted by subrecipients. IDHS subrecipient monitoring procedures are subject to the review and approval of a supervisor.

During their test work over on-site review procedures performed for 214 subrecipients of the WIC, TANF Cluster, Child Care Cluster, Title XX, and SAPT programs, they noted IDHS did not follow its established monitoring procedures as follows:

- IDHS did not provide timely notification (within 60 days) of the results of the programmatic on- site reviews. The auditors noted the following exceptions:

Federal Program	Number of Late Communications	Number of Subrecipients Tested	Number of Days Late (Range)
WIC	3	40	11-43
TANF Cluster	1	40	5-6
Child Care Cluster	7	46	4-87
Title XX	2	44	4-6
SAPT	1	44	28-29

- IDHS did not receive corrective action plans (CAPs) on a timely basis (within 60 days) after communicating programmatic review findings or follow up with subrecipients on delinquent CAPs. The auditors noted the following exceptions:

Federal Program	Number of Late CAPs	Number of Subrecipients Tested	Number of Days Late

Child Care Cluster	9	46	2 - 485
WIC	2	40	9 - 39
TANF	2	40	23 - 137
SAPT	5	44	1 - 230

- During our test work performed, they noted that IDHS did not perform on-site monitoring reviews of subrecipients in fiscal year 2019 in accordance with IDHS' planned monitoring schedule. Specifically, the auditors noted the following exceptions:

Federal Program	Number of Reviews Not Performed	Number of Subrecipients Tested
Title XX	1	44
TANF Cluster	2	40
Child Care Cluster	15	46
SAPT	18	44

IDHS's subrecipient expenditures under the federal programs for the year ended June 30, 2019 were as follows:

Program	Total Fiscal Year 2019 Subrecipient Expenditures	Total Fiscal Year 2019 Program Expenditures	%
WIC	$160,698,000	$167,001,000	96.2%
TANF Cluster	160,354,000	609,209,000	26.3%
Child Care Cluster	336,923,000	348,333,000	96.7%
Title XX	53,936,000	80,065,000	67.4%
SAPT	44,214,000	44,113,000	97.0%

Criteria or Requirement:

According to 2 CFR 200.331(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 addition, 2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include ensuring on-site procedures and expenditure reviews are performed in a timely manner and are designed to monitor fiscal controls.

Cause:

In discussing these conditions with IDHS officials, they stated that the deficiencies noted are due to misplaced or misfiled documentation, untimely monitoring and inadequate staffing.

Possible Asserted Effect:

Failure to adequately perform and document on-site monitoring reviews of subrecipients and notify subrecipients of findings in a timely manner may result in subrecipients not properly administering the Federal programs in accordance with laws, regulations, and the grant agreement.

Views of IDHS Officials:

The Department accepts the recommendation. The Department will review its existing processes to ensure all reviews are performed and documented for subrecipients in accordance with established policies and procedures. The Department will also review its process for following up on findings relative to subrecipient on-site reviews. Furthermore, the Bureau of Compliance Monitoring has hired additional staff in an effort to complete site visit procedures in a timely manner.

2019-14. The auditors recommend IDHS review its process for performing eligibility determinations and consider changes necessary to ensure eligibility determinations are made and documented in accordance with program regulations.

FINDING: (*Failure to Determine Eligibility in Accordance with VR Program Regulations)*

IDHS did not determine the eligibility of beneficiaries under the Rehabilitation Services – Vocational Rehabilitation Grants to States (VR) program in accordance with federal regulations.

During our test work of Vocational Rehabilitation Grants to States program beneficiary payments, they selected 40 eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits. Auditors noted the following exceptions in our test work:

- For two cases, IDHS could not provide an eligibility case file and associated documentation of eligibility determination. Payments made on behalf of these beneficiaries during the year ended June 30, 2019 were $796,219. The payments selected in our sample for these beneficiaries were $150,727.

- For four cases, IDHS did not complete the required certification within 60 days of the application for benefits. Payments made on behalf of these beneficiaries during the year ended June 30, 2019 were $503,731. The payments selected in our sample for these beneficiaries were $121,454.

- For one beneficiary payment sampled, IDHS incorrectly classified the payment as a beneficiary payment, when it was a payment to a vendor where no associated eligibility determination was able to be provided. Payments made to these vendors during the year ended June 30, 2019 were $829,186. The payment selected in our sample was $35,097.

IDHS's procedures for determining eligibility for the VR program rely heavily on case workers' understanding of policies and program requirements which can be inhibited by case load volume. IDHS has not established appropriate monitoring procedures to ensure eligibility determinations are performed and documented in accordance with program requirements.

Payments made to beneficiaries of the Vocational Rehabilitation Grants to States program totaled $42,353,932 during the year ended June 30, 2019.

Criteria or Requirement:

2 CFR 200.203 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 each expenditure must be necessary, reasonable, and supported by adequate documentation.

The Administrative Code, Title 89, Chapter IV, Subchapter B, Section 553.50 states that prior to the end of the eligibility determination period of 60 days, a certificate of eligibility shall be completed.

In addition, 2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include procedures in place to ensure beneficiary eligibility determinations are performed and documented in accordance with program regulations.

Cause:

In discussing these conditions with IDHS officials, they stated that these issues were primarily the result of oversight, errors in documentation, and misclassification of payments.

Possible Asserted Effect:

Failure to properly determine and document the allowability of costs in accordance with program regulations may result in costs inconsistent with program objectives being claimed to federal programs.

Views of IDHS Officials:

The Department accepts the recommendation. The Department will review its policies, procedures, and trainings to ensure compliance with program regulations.

2019-15. The auditors recommend IDHS review its current process for calculating beneficiary payments and consider changes necessary to ensure payments are properly calculated and paid in accordance with program requirements.

FINDING: (*Improper Title XX Beneficiary Payment)*

IDHS made an improper payment on behalf of a beneficiary of the Social Services Block Grant (Title XX) program.

IDHS operates several State social service programs which qualify for Title XX funding. During our review of Title XX program expenditures, the auditors noted IDHS claimed approximately $23.3 million of expenditures under its Home Services program. IDHS' Home Services program involves

providing individuals with severe disabilities under the age of 60 who are at risk of moving into a nursing home or other facility with assistance with daily living activities in their homes.

During our test work of 25 Title XX program Homes Services beneficiary payments (totaling $28,015), auditors noted two payments made on behalf of two beneficiaries were improperly calculated. As a result of the calculation error, the payments on behalf of the two beneficiaries of $1,677 were overstated by $119. Total payments made on behalf of these beneficiaries under the Title XX program were $66,766 for the year ended June 30, 2019. As of the date of our testing (February 20, 2020), the payment error identified in our sample had not been corrected by IDHS.

Additionally, for a payment made on behalf of one beneficiary, IDHS could not provide adequate supporting documentation to support the payment amount. Payment made on behalf of this beneficiary was $808. Total payments made on behalf of this beneficiary under the Title XX program were $13,257 for the year ended June 30, 2019

IDHS' procedures for calculating Home Services payments is manual in nature and supervisory review procedures are not designed to operate at a level of precision to identify the error noted in our testing.

Payments made on behalf of beneficiaries of the Title XX program totaled $23,293,400 during the year ended June 30, 2019.

Criteria or Requirement:

According to 45 CFR 96.30(a), the State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds and fiscal control and accounting procedures of the State must be sufficient to permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant.

In addition, 2 CFR 200.303 require nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include procedures to monitor the accuracy of program beneficiary payments.

Cause:

In discussing these conditions with IDHS officials, they stated the errors noted were the result of human error. Mistakes were made when time worked was calculated in the field that was not caught during the processing. The inability to provide the documentation resulted in a filing error for the sampled voucher.

Possible Asserted Effect:

Failure to properly calculate benefit payments may result in unallowable costs being charged to the Title XX program.

Views of IDHS Officials:

The Department accepts the recommendation. The Department will review its procedures and trainings regarding calculating benefit payments to improve the accuracy of payments made.

2019-16. The auditors recommend IDHS review the process and procedures in place to prepare special reports required for the SNAP Cluster program and implement procedures necessary to ensure the reports are accurate.

FINDING: (*Inaccurate Special Report for the SNAP Cluster Program)*

IDHS did not prepare an accurate special report for the Supplemental Nutrition Assistance Program (SNAP) Cluster program.

IDHS is required to prepare a special report (FNS-209) identifying the Status of Claims Against Households for households that received more SNAP benefits than it is entitled to receive for the SNAP Cluster program on a quarterly basis. During our test work over the FNS-209 report for the quarters ending September 30, 2018 and March 31, 2019, the auditors noted IDHS inaccurately reported the following line items:

Report Line Item	Reported Amount	Actual Amount	Difference
Line 3a – Balance Adjustment: Inadvertent Household Error (Quarter Ending 9/30/18)	$143,709,608	$143,713,031	$(3,423)
Line 3a – Beginning Balance: State Agency Administrative Error (Quarter Ending 9/30/18)	10,939,359	10,778,582	160,777
Line 3a – Beginning Balance: Inadvertent Household Error (Quarter Ending 3/31/19)	144,926,861	144,930,284	(3,423)
Line 3a – Beginning Balance: State Agency Administrative Error (Quarter Ending 3/31/19)	11,178,112	11,177,620	492

Additionally, in considering the reporting process for the FNS-209 report, they noted IDHS does not perform analytical or other procedures during the report preparation process to ensure amounts reported are reasonable in relation to previously reported information or expectations relative to current program activities.

Criteria or Requirement:

According to 7 CFR 273.18(m)(1), the State must maintain an accounting system for monitoring recipient claims against households. Further, 7 CFR 273.18(m)(5) requires that the State's accounting system reconcile summary balances reported to individual supporting records on a quarterly basis. In addition, 2 CFR 200.303 require nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal

controls should include procedures to ensure data is accurately reported.

Cause:

In discussing these conditions with IDHS officials, they stated the exceptions were the result of system errors that produced incorrect data for the reported amounts.

Possible Asserted Effect:

Failure to accurately prepare special reports prevents the USDA from effectively monitoring the SNAP Cluster program.

Views of IDHS Officials:

The Department accepts the recommendation. A process review has been performed and a resolution is in the final stages of development. The fix will be scheduled for implementation after the final validation occurs. We have also revised procedures to verify submissions are reported accurately. The Department continues to seek improved communication between Integrated Eligibility System (IES) management and the Department of Innovation and Technology (DoIT) and IDHS (non-IES) technical leads.

2019-17. The auditors recommend IDHS review the process and procedures in place to prepare special reports required for the TANF Cluster program and implement procedures necessary to ensure the reports are accurate.

FINDING: (*Inaccurate Special Report for the TANF Cluster Program)*

IDHS did not prepare an accurate special report for the Temporary Assistance for Needy Families (TANF) Cluster program.

IDHS is required to prepare the ACF 204, *Annual Report including the Annual Report on State Maintenance-of-Effort (MOE) Programs*, for the TANF Cluster program on an annual basis. During our test work over the ACF-204 report for the federal fiscal year ended September 30, 2018, auditors noted IDHS inaccurately reported the following line items:

Report Line Item	Reported Amount	Actual Amount	Difference
Attachment B0: 6. Total State Expenditures for the Program for the Fiscal Year	$31,867,927	$31,882,616	$14,689
Attachment B0: 7. Total State MOE Expenditures under the Program for the Fiscal Year	4,889,344	4,963,891	74,547
Attachment B1: 6. Total State Expenditures for the Program for the Fiscal Year	7,486,894	7,349,321	(137,573)
Attachment B1: 7. Total State MOE Expenditures under the Program for the Fiscal Year	422,957	437,817	14,860

Attachment B2: 7. Total State MOE Expenditures under the Program for the Fiscal Year	443,550,312	437,909,316	(5,640,996)
Attachment B3: 6. Total State Expenditures for the Program for the Fiscal Year	172,838,066	189,979,057	17,140,991
Attachment B3: 7. Total State MOE Expenditures under the Program for the Fiscal Year	94,406,768	106,475,907	12,069,139
Attachment B5: 6. Total State Expenditures for the Program for the Fiscal Year	12,510,327	13,627,999	1,117,672
Attachment B5: 7. Total State MOE Expenditures under the Program for the Fiscal Year	1,148,580	1,146,172	(2,408)

Additionally, in considering the reporting process for the ACF-204 report, auditors noted IDHS does not perform analytical or other procedures during the report preparation process to ensure amounts reported are reasonable in relation to previously reported information or expectations relative to current program activities.

Criteria or Requirement:

According to 45 CFR 265.9(a), each State must file an annual report containing information on the TANF Cluster program and the State's MOE programs for the year. In addition, 2 CFR 200.303 require nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include procedures to ensure expenditures are accurately reported in the federal financial report.

Cause:

In discussing these conditions with IDHS officials, they stated the finding was due to a lack of internal communications of changes in reporting for the TANF Maintenance of Effort.

Possible Asserted Effect:

Failure to accurately prepare special reports prevents the USDHHS from effectively monitoring the TANF Cluster program.

Views of IDHS Officials:

The Department accepts the recommendation. The Department will review its processes and procedures and take steps to ensure timely and accurate reporting. Designated staff with knowledge of the reporting requirements will be in place to ensure timeliness and accuracy.

2019-18. The auditors recommend IDHS establish procedures to accurately report federal expenditures to the IOC (including subrecipient expenditures) that are used to prepare the SEFA.

FINDING: (*Inaccurate Reporting of Federal Expenditures)*

IDHS did not accurately report Federal expenditures, including amounts provided to subrecipients, under the Supplemental Nutrition Assistance (SNAP) Cluster, Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), Vocational Rehabilitation Grants to States (VR), Temporary Assistance for Needy Families (TANF) Cluster, Child Care Development Funds (Child Care) Cluster, Social Services Block Grant (Title XX), Children's Health Insurance Program (CHIP), Medicaid Cluster, Block Grants for Prevention and Treatment of Substance Abuse (SAPT), and Disability Insurance/SSI Cluster (SSDI) programs.

Federal expenditures, including amounts provided to subrecipients, reported to the Illinois Office of Comptroller (IOC) which were used to prepare the schedule of expenditure of federal awards (SEFA) did not agree to IDHS' financial records. Specifically, auditors noted the following differences between amounts provided for audit by IDHS and the SEFA amounts reported to the IOC for each program for the year ended June 30, 2019:

Federal Program	Federal Expenditures Reported in IDHS' Records	Federal Expenditures lly Reported to the IOC	Difference
TANF	$609,606,000	$609,583,000	$23,000
CCC	348,335,000	348,333,000	(2,000)
Title XX	82,262,000	82,928,000	(666,000)
SAPT	47,980,000	45,561,000	2,419,000
SSDI	75,736,000	75,727,000	9,000

Also, upon further review, auditors noted the cash basis expenditures provided by IDHS for our audit procedures included accrued (not paid) expenditures. Auditors also noted these same amounts were reported to the IOC and were used to prepare the SEFA. Specifically, auditors noted the following expenditures that were not paid as of June 30, 2019, but were erroneously reported as cash basis expenditures:

Federal Program	ıounts Accrued (Not Paid)	enditures Reported on the SEFA	%
SNAP Cluster	$1,384,000	$ 2,774,178,000	0.01%
WIC	1,412,000	167,001,000	0.8%
VR	681,000	105,378,000	0.6%
TANF Cluster	308,000	609,298,000	0.1%
Child Care Cluster	2,000	348,333,000	0.0%
Title XX	2,197,000	80,065,000	2.7%
SAPT	3,867,000	44,113,000	8.8%
SSDI	65,000	75,671,000	0.1%

Additionally, the following differences were identified relative to amounts provided to subrecipients for the following major program:

Federal Program	Amounts Provided to Subrecipients Reported in IDHS' Records	Amounts Provided to Subrecipients Initially Reported to the IOC	Difference
Title XX	53,936,000	55,166,000	1,230,000

The auditors also noted unsupported amounts relative to the CHIP and Medicaid Cluster programs identified in IDHS' financial statement audit that impacted the statewide SEFA. Specifically, they noted IDHS reported approximately $6,320,000 and $406,833,000 for the CHIP and Medicaid Cluster programs, respectively, which were provided by the Illinois Department of Healthcare and Family Services and not based upon expenditure documentation maintained by IDHS.

Although the differences identified are not quantitatively material to the SEFA, as a whole, the State does not have a process in place to evaluate items of this nature outside the audit process, as discussed in finding 2019-001. Accordingly, any error which may be material to the SEFA (in quantitative or qualitative terms) could occur and not be detected by the State. The State adjusted the SEFA for the errors reported in this finding.

Criteria or Requirement:

According to 2 CFR 200.510(b), a recipient of federal awards is required to prepare a SEFA for the period covered by the entity's financial statements which must include the total Federal awards expended as determined in accordance with 2 CFR 200.502. Among other things required by 2 CFR 200.510(b), the SEFA must include the total amount provided to subrecipients from each Federal program.

Additionally, 2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure federal expenditures are accurately reported on the SEFA.

Cause:

In discussing these conditions with IDHS officials, they stated that the differences in the amount of federal expenditures and amount passed through to subrecipients was due to inadequate procedures for analyzing expenditures and subrecipient amounts reported by the Bureau of Federal Reporting and failure to include revised amounts in the SEFA.

Possible Asserted Effect:

Failure to accurately report federal expenditures prohibits the completion of an audit in accordance with the Uniform Guidance which may result in the suspension of federal funding.

Views of IDHS Officials:

The Department accepts the recommendation. The Department will enhance processes and procedures to address reporting deficiencies found in the SEFA.

RECOMMENDATIONS 19-26
Illinois Department of Healthcare and Family Services (DHFS)

2019-19. The auditors recommend DHFS review its current process for maintaining documentation supporting eligibility determinations and consider changes necessary to ensure all eligibility determination documentation is properly maintained.

FINDING: (*Inadequate Procedures to Determine and Document Beneficiary Eligibility)*

DHFS does not have adequate procedures to determine and document eligibility for beneficiaries of the Children's Health Insurance Program (CHIP) and the Medicaid Cluster programs.

DHFS permits certain beneficiaries of the CHIP and Medicaid Cluster programs to begin receiving medical services based upon a presumption of eligibility. The individuals for which Medicaid presumptive eligibility is permitted are usually children and pregnant women. The initial Medicaid presumptive eligibility period generally begins on the date of the decision and ends the last day of the following month, but can also be extended 90 days starting with the date of application for on-going benefits.

During our testing of medical payments made on behalf of CHIP and Medicaid Cluster beneficiaries, auditors noted one CHIP case file (with a medical payment sampled of $43) for which the initial presumptive eligibility period was not discontinued on the last day of the month following the initial application. Medical payments made on behalf of this beneficiary during the year ended June 30, 2019 were $1,087 for the CHIP program.

Upon further discussion, auditors noted DHFS identified a system defect in September 2019 in which the eligibility status of certain Medicaid presumptive eligibility cases was not being updated at the end of the initial presumptive eligibility period. As a result of this system defect, 3,056 cases were not closed at the end of the Medicaid presumptive eligibility period which resulted in $374,731 in unallowable medical payments made on behalf of these beneficiaries being claimed during the year ended June 30, 2019. Upon review of the population of claims data provided during our audit, the auditors noted there were 48,202 Medicaid presumptive eligibility cases with $8,077,431 medical payments claimed during the year ended June 30, 2019.

The auditors also noted one CHIP case file (with a medical payment sampled of $95) for which DHFS could not locate adequate documentation evidencing income verification procedures were performed. Medical payments made on behalf of this beneficiary during the year ended June 30, 2019 were $4,662 for the CHIP program.

Details of the beneficiary payments selected in our samples for the CHIP and Medicaid Cluster programs are as follows:

Case Type	Number of Cases Tested	Total Amount of Payments for Cases Tested	Total Amount of Payments Made on Behalf of Beneficiaries for Fiscal Year 2019	Total Fiscal Year 2019 Program Expenditures
CHIP	100	$286,783	$368,849,000	$386,959,000
Medicaid Cluster	100	112,812	10,844,109,000	11,545,096,000

The auditors also noted the State implemented IES on October 1, 2013 and has continued expanding the use of IES to additional groups of beneficiaries of the SNAP Cluster, TANF Cluster, CHIP, and Medicaid Cluster. Effective October 24, 2017, the State implemented Phase II of IES. With the implementation of Phase II, all eligibility determinations and redeterminations for beneficiaries of the SNAP Cluster, TANF Cluster, CHIP, and Medicaid Cluster programs are performed and documented in IES. As discussed in finding 2019- 003, deficiencies in general information technology controls were identified in IES which affected the reliability of source documentation maintained in IES for eligibility determinations performed for the SNAP Cluster, TANF Cluster, CHIP and Medicaid Cluster programs.

DHFS does not have adequate resources to perform and document eligibility determinations. Additionally, DHFS has not established appropriate monitoring procedures to ensure eligibility determinations are properly documented in accordance with program requirements.

Criteria or Requirement:

2 CFR 200.403 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 each expenditure must be necessary, reasonable, and supported by adequate documentation.

In accordance with 42 USC 602(a)(1)(B)(iii), 42 CFR 435.10, and the OMB Compliance Supplement, dated August 2019, DHFS is required to determine client eligibility in accordance with eligibility requirements defined in the approved State Plan. The current State Plan permits presumptive eligibility determinations for program beneficiaries in accordance with 42 CFR 435.1102(b). Additionally, the State Plan requires income verification procedures to be performed in accordance with 42 CFR 435.601 or 42 CFR 435.603.

In addition, 2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include maintaining adequate controls over beneficiary eligibility case files and related documentation.

Cause:

In discussing these conditions with DHFS officials, they indicated the missing documentation was due to caseworker error.

Possible Asserted Effect:

Failure to maintain client applications for benefits and/or source documentation for redetermination/income verification procedures performed may result in inadequate documentation of a recipient's eligibility and in federal funds being awarded to ineligible beneficiaries, which are unallowable costs.

Views of DHFS Officials:

The Department accepts the recommendation. DHFS is working to improve staff training materials and communication as well as better documentation through use of electronic case records.

2019-20. The auditors recommend DHFS implement procedures to verify with recipients whether services billed by providers were received.

FINDING: (*Inadequate Process to Verify Procedures Billed by Providers with Beneficiaries)*
DHFS does not have adequate procedures in place to verify with beneficiaries of the Medicaid Cluster program whether services billed by providers were actually received.

During our test work, auditors noted DHFS procedures for verifying with beneficiaries whether services billed by providers were actually received by Medicaid Cluster beneficiaries consisted of special projects performed by the DHFS Office of Inspector General and Bureau of Comprehensive Health Services. However, the current projects only cover procedures billed by non-emergency transportation providers, optometric providers, and dental providers which account for less than 0.2% of total provider reimbursements. Additionally, they noted DHFS obtains an annual summary of the results of recipient verification procedures performed by managed care organizations. DHFS does not perform any verification procedures for services billed by the following fee for service provider types:

- Hospitals
- Mental Health Facilities
- Nursing Facilities
- Intermediate Care Facilities
- Physicians
- Other Practitioners
- Home and Community-Based Service Providers
- Physical Therapy Providers
- Occupational Therapy Providers

Payments made to non-emergency transportation providers, optometric providers, and dental providers totaled $21,274,000 during the year ended June 30, 2019. Payments made to managed care organizations totaled $7,675,818,000 during the year ended June 30, 2019. Payments made to providers on behalf of all beneficiaries of the Medicaid Cluster totaled $10,844,109,000 during the year ended June 30, 2019.

Criteria or Requirement:

According to 42 CFR 455.20(a), the State must have a method for verifying with recipients whether services billed by providers were received. In addition, 2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include procedures to verify with recipients whether services billed by providers were received.

Cause:

In discussing these conditions with DHFS officials, they stated they disagree with the finding.

Possible Asserted Effect:

Failure to verify with recipients whether services billed by providers were received may result in expenditures being made for services not actually provided to beneficiaries, which are unallowable costs.

Views of DHFS Officials:

The Department believes it is compliant with the regulation and no corrective action is necessary. The Managed Care Organizations (MCO), acting on the Department's behalf, send recipient verifications to recipients that have received services from various provider types. The Department provided the contracts requiring the verifications along with the MCO procedures outlining the MCO efforts. The Department's Office of the Inspector General (OIG) and the Bureau of Managed Care meet with the MCOs to discuss the results. While the Department does not send verifications to recipients of services of the same provider types the managed care organizations send, the Department focuses its efforts on high risk fee for service providers. In addition, a large portion of the dollars included in the finding are for DSH, supplemental payments, Medicare premiums and LTC. These dollars would not require EOBs. Finally, the OIG conducts prepayment and post payment audits of providers to ensure services were rendered. The Department believes the combined effort meets the federal requirement to have a methodology for verification. The Federal Medicaid Program Integrity auditors review compliance with this regulation every three years and have not noted any non-compliance.

Auditors' Comment:

We do not believe federal regulations permit the State to exclude approximately 70% of Medicaid expenditures from its procedures to verify services were provided.

2019-21. The auditors recommend DHFS review its current process for documenting the exceptions cleared during provider enrollment and implement any additional procedures necessary to ensure provider enrollment is appropriately documented and supported.

FINDING: (*Inadequate Procedures to Determine Provider Eligibility)*

Condition Found:

DHFS does not have adequate procedures for enrollment and screening of Medicaid providers.

In order to receive payments under the Medicaid Cluster program, medical service providers must be licensed in accordance with federal and state laws and regulations and provide certain disclosures to the State. The State plan includes the specific requirements for licensing and entering into agreements with providers.

In Illinois, Medicaid providers are required to input their initial enrollment information into the Illinois Medicaid Program Advanced Cloud Technology (IMPACT) system. The IMPACT system

maintains each provider's electronic enrollment information, including their professional licenses and the provider's history of sanctions.

The IMPACT system is designed to prevent providers who have not met enrollment requirements from receiving Medicaid reimbursements until any provider enrollment exceptions have been resolved. The procedures for resolving provider enrollment exceptions within the IMPACT system are manual and sometimes require staff to review documentation outside of the IMPACT system to clear the exception indicators within IMPACT. DHFS has not established procedures to maintain documentation or require a supervisory review to ensure resolutions were proper.
During our testing of DHFS' compliance with provider enrollment and screening requirements for 65 Medicaid Cluster program providers, they noted the IMPACT system did not contain documentation of the records reviewed outside of IMPACT to resolve screening exceptions at the time each sampled provider was enrolled or subsequently screened. Specifically, auditors identified Clinical Laboratory Improvement Amendment (CLIA) licenses documented in the IMPACT system were shown to have a name match issue at the date of initial enrollment for 16 providers sampled. Additionally, auditors identified no valid license information documented in the IMPACT system for 2 of the providers sampled. While DHFS was unable to provide documentation to evidence the provider was eligible subsequent to our testing, the information evaluated by DHFS at the time the provider was enrolled was not maintained.

Payments made to providers on behalf of beneficiaries of the Medicaid Cluster program totaled$10,844,109,000 during the year ended June 30, 2019.

Criteria or Requirement:

According to 42 CFR 455.412(b), the State Medicaid agency must confirm that the provider's license has not expired and that there are no current limitations on the provider's license.

In addition, 2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include establishing adequate procedures to document the resolution of potential exceptions to provider eligibility criteria and any professional judgments made. Effective internal controls should also include supervisory review procedures to ensure the effective completion of provider eligibility determinations and application of professional judgments.

Cause:

In discussing these conditions with DHFS officials, they stated the Department did not require documentations to be maintained if notes to support the actions taken were documented in IMPACT.

Possible Asserted Effect:

Failure to adequately review Medicaid Cluster program provider enrollment decisions may result in federal funds being paid to providers that should have been denied, which are unallowable costs.

Views of DHFS Officials:

The Department accepts the recommendation. The IMPACT Provider Enrollment Subsystem requires staff to review and update any information that cannot be systemically verified. Although on some occasions, DHFS Provider Services staff failed to note the action they took to manually verify information, DHFS provided post audit documentation to substantiate that all providers were eligible at the time that they were approved. Provider Enrollment has recently drafted a formal Quality Assurance standard operating procedure (SOP) and updated existing SOPs where appropriate to more clearly and fully outline the comment requirements and is preparing sample comment suggestions in an attempt to standardize the process amongst all staff. The new SOP and the updates are in the process of being shared with staff during staff training sessions. In addition, Provider Enrollment Services has clarified both the Application Approval Process for Individual Sole and the Provider enrollment License Update SOPs to more fully explain the CLIA verification process regarding a name mismatch.

2019-22. The auditors recommend DHFS review its current process for monitoring agencies operating Home and Community- Based Waivers to ensure monitoring is in accordance with the federal regulations.

FINDING: (Inadequate Procedures to Monitor Agencies Operating Home and Community-Based Waivers)

DHFS does not have an adequate process to monitor agencies operating the Home and Community-Based Services Waiver programs.

The Illinois Medicaid program, as administered by DHFS, currently has nine federally approved home and community-based waiver programs. Eight of the nine waivers are operated by another state agency. The federal Centers for Medicare and Medicaid Services (CMS) holds DHFS, as the Single State Medicaid agency, responsible for oversight and monitoring of the nine federally-approved home and community- based waiver programs operated by the State. To ensure compliance with these federal requirements, DHFS contracts with a Quality Improvement Organization (QIO) to independently perform onsite participant level review activities, known as Record Reviews, as well as more extensive reviews at the Provider level, known as Comprehensive Provider Reviews, for five of the nine waiver programs, including Elderly, Adult DD, Brain Injury, HIV and AIDS, and Persons with Disabilities. Record Reviews are conducted on a random sample of waiver participants who are Medicaid Fee for Service. DHFS has also contracted with the QIO to perform remediation reviews, where the QIO revisits a provider with prior period deficiencies to ascertain the effectiveness of corrections implemented. In fiscal year 2019, the QIO conducted 1,922 Record Reviews at 127 different site locations, comprised of primarily current period reviews.

During their review of monitoring procedures performed by DHFS and its service provider for 25 provider reviews sampled, auditor noted DHFS reviews on-site provider reviews with deficiencies to validate corrective action plans were implemented and that deficiencies were remediated. Following each on-site review, DHFS sends the other state agencies a letter notifying them of the deficiencies identified, with a request to respond within 60 days with plans for individual and systematic correction. However, no formal follow-up procedures were performed over 10 provider reviews sampled to ensure corrective action plans were implemented or whether the deficiencies may still exist.

Criteria or Requirement:

According to 42 CFR 431.10, the Medicaid agency is responsible for administering or supervising the administration of the State Plan. According to 42 CFR 441.302, states are required to provide assurance that necessary safeguards have been taken to protect the health and welfare of the beneficiaries of the services. Those safeguards must include adequate standards for all types of providers that provide services under the waiver; assurance that the standards of any State licensure or certification requirements are met for services or for individuals furnishing services that are provided under the waiver; and assurance that all facilities covered by section 1616(e) of the Act, in which home and community-based services will be provided, are in compliance with applicable State standards that meet the requirements of 45 CFR Part 1397 for board and care facilities.

In addition, 2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include establishing follow-up procedures on monitoring deficiencies to determine whether corrective action plans are implemented or whether the deficiencies still exist.

Cause:

In discussing these conditions with DHFS officials, they stated items found not remediated were not communicated to the operating agency for additional follow up due to an oversight.

Possible Asserted Effect:

Failure to adequately monitor agencies operating Home and Community-Based Waiver programs may result in provider health and safety standard violations and unallowable costs being claimed to the program.

Views of DHFS Officials:

The Department accepts the recommendation. The Department plans to follow-up until all items are remediated.

2019-23. The auditors recommend DHFS follow its established policies and procedures to ensure access to its information systems are adequately secured.

FINDING: (*Inadequate Controls over Information Systems)*

DHFS does not have adequate program access controls over information systems used to pay medical benefits to beneficiaries and record program expenditures.

The information technology applications that support the DHFS major programs include the *Programmatic and Administrative Accounting System (PAAS)* which serves as the financial accounting database for all of DHFS' federal programs and State-funded programs. This system is used by DHFS to track cash receipts and disbursements on an individual award basis. Information reported in this system is used to prepare financial reports.

During their test work over user access to PAAS, they noted 14 users inappropriately retained

access to the application after their termination date.

Criteria or Requirement:

2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include ensuring the information systems associated with the administration of the federal programs are adequately secured.

Cause:

In discussing these conditions with DHFS officials, they stated the lapse occurred due to vacancy/transition in the unit.

Possible Asserted Effect:

Failure to adequately secure the information systems that are used to administer the federal programs could result in noncompliance with laws, regulations and the grant agreement.

Views of DHFS Officials:

The Department accepts the recommendation. Corrective action to ensure access to the system is adequately secured began when the issue was noted as the result of the audit test work.

2019-24. The auditors recommend DHFS implement procedures to ensure quarterly expenditure reconciliations are performed and completed in a timely manner and adjustments identified in the reconciliation process are made in a timely manner.

FINDING: *(Failure to Complete Cash Management Reconciliations Timely)*

DHFS did not complete quarterly cash management reconciliations of cash draws to actual expenditures for assistance payments made under the Medicaid Cluster, Children's Health Insurance Program (CHIP), and Child Support Enforcement (CSE) programs timely or make adjustments identified as a result of these reconciliations in a timely manner.

The cash management process for the Medicaid Cluster and CHIP includes making assistance cash draws on a daily basis based on actual warrants issued the previous day, an estimate of the agency's overall federal participation rate, and any expected refunds. At the end of each quarter, DHFS reports actual assistance expenditures of the Medicaid Cluster and CHIP to USDHHS through the claim reporting process. At the end of the quarter, DHFS reconciles the actual expenditures of these programs to the amount drawn. The cash management process of CSE includes making administrative cash draws on the same day payroll is paid. Prior to the start of each quarter, DHFS prepares an estimate of CSE federal administrative expenditures based upon a combination of historical data in CSE administrative costs. At the end of the quarter, DHFS reconciles all actual expenditures of the CSE program to the amount drawn.

Since cash draws are based on estimated expenditures for each quarter, the reconciliations

identify the difference between the actual program expenditures and those estimates. The net cash position identified for each program in the quarterly reconciliation process is used to estimate the expenditures to be used for the next quarter's draws and to adjust future draws to ensure amounts drawn equal actual program expenditures.

During their test work, they noted the first quarter reconciliations were not timely performed for all three programs and that draws for the CHIP, Medicaid Cluster, and CSE programs were not adjusted for the quarterly net cash position identified in the reconciliations in a timely manner. Auditors noted the following differences in our review of the quarterly reconciliations of the CSE, CHIP, and Medicaid Cluster programs:

	Medicaid		CHIP		CSE	
Quarter	(Over)/Under Drawn Position	Date Reconciliation Completed	(Over)/Under Drawn Position	Date Reconciliation Completed	(Over)/Under Drawn Position	Date Reconciliation Completed
9/30/2018	($307,978,487)	1/3/2019	$63,443,117	1/3/2019	($1,619,562)	12/14/2018
12/31/2018	$3,957,338	2/15/2019	$45,450,021	2/15/2019	($1,632,755)	2/27/2019
3/31/2019	$119,022,312	5/16/2019	$30,642,504	5/16/2019	$1,524,682	5/23/2019
6/30/2019	$90,570,071	8/19/2019	$22,207,506	8/19/2019	($3,821,551)	8/19/2019

Criteria or Requirement:

According to 31 CFR 205.11(b), a State must limit the amount of funds transferred to the minimum required to meet a State's actual and immediate cash needs. 2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include procedures in place to ensure the cash draw reconciliations are performed timely to ensure funds requested meet actual cash needs and reconciling items can be resolved in a timely manner.

Cause:

In discussing these conditions with DHFS officials, they stated reconciliations were performed quarterly, however, the final supervisory review was late due to staff participation in the new IT development for MMIS and accounting systems.

Possible Asserted Effect:
Failure to complete reconciliations of cash draws to actual expenditures in a timely manner may result in the State requesting funds in excess of actual and immediate cash needs.

Views of DHFS Officials:

The Department accepts the recommendation.

2019-25. The auditors recommend DHFS ensure award information communicated to subrecipients is reviewed for completeness and accuracy.

FINDING: (*Failure to Communicate Award Information to Subrecipients)*

DHFS did not follow its established policies and procedures for monitoring subrecipients of the Child Support Enforcement (CSE) program.

During their test work of the award communications for our sample of subrecipients, they selected the fiscal year contracts awarded to each subrecipient in 2019 to review for compliance with federal award communication requirements. During our review of the award communication files for our sample of awards, they noted the CFDA number was not communicated in the subrecipient award agreement for 17 subrecipients. Amounts passed through to subrecipients under the CSE program was $11,106,000 during the year ended June 30, 2019.
Details of the subrecipient payments selected in our samples are as follows:

Major	Number of Subrecipient s Sampled	Amounts Passed Through to Subrecipients	Total Subrecipient Payments in	Total Fiscal Year 2019 Program Expenditure
CSE	25	$9,842,000	$11,106,000	$109,872,000

Criteria or Requirement:

According to 2 CFR 200.331(a), 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, award year, if the award is Research and Development, and name of Federal agency.

In addition, 2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include procedures in place to ensure required information is properly communicated and retained.

Cause:

In discussing these conditions with DHFS officials, they stated officials thought summary letters sent to the County Circuit Clerks at the end of the State fiscal year stating the CFDA numbers and expenditure amounts complied with the requirement.

Possible Asserted Effect:

Failure to properly communicate required federal award information to subrecipients can result in subrecipients reporting inaccurate information about their programs on their schedule expenditures of federal awards.

Views of DHFS Officials:

The Department accepts the recommendation.

2019-26. The auditors recommend DHFS establish procedures to accurately report federal expenditures used to prepare the SEFA to the IOC.

FINDING: (*Inaccurate Reporting of Federal Expenditures)*

DHFS did not accurately report Federal expenditures under the Medicaid Cluster program.

Federal expenditures reported to the Illinois Office of Comptroller (IOC) which were used to prepare the schedule of expenditure of federal awards (SEFA) did not agree to DHFS' financial records. Specifically, they noted the following differences between amounts provided for audit by DHFS and the SEFA amounts reported to the IOC for each program for the year ended June 30, 2019:

Federal Program	Federal Expenditures Reported in DHFS' Records	Federal Expenditures Initially Reported to the IOC	Difference
Medicaid Cluster	$11,545,096,000	$11,435,157,000	$109,939,000

Upon further review, the auditors noted the error in the reported federal expenditures for the Medicaid Cluster program were the result of the miscalculation of expenditures made by the Illinois Department of Human Services (IDHS) (resulting in an overstatement of expenditures of $34,855,000) which was detected during the IDHS departmental financial statement audit. Auditors also noted negative expenditures were reported by DHFS for a disallowance of costs from more than 20 years ago. These negative expenditures were netted against current year Medicaid Cluster program expenditures which resulted in an understatement of $144,794,000 in the initial SEFA provided for audit.

Although the difference identified above is not quantitatively material to the SEFA as a whole, the State does not have a process in place to evaluate items of this nature outside of the audit process. Accordingly, an error which may be material to the SEFA (in either quantitative or qualitative terms) could occur and not be detected by the State. The State adjusted the SEFA for the errors reported in this finding.

Criteria or Requirement:

According to 2 CFR 200.510(b), a recipient of federal awards is required to prepare a schedule of expenditures of Federal awards (SEFA) for the period covered by the entity's financial statements which must include the total Federal awards expended as determined in accordance with 2 CFR 200.502. Among other things required by 2 CFR 200.510(b), the SEFA must include the total amount provided to subrecipients from each Federal program.

Additionally, 2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure federal expenditures are accurately reported on the SEFA.

Cause:

In discussing these conditions with DHFS officials, they stated DHFS the error identified related to an unusual transaction which was not properly reflected in the amounts reported to the IOC.

Possible Asserted Effect:

Failure to accurately report federal expenditures prohibits the completion of an audit in accordance with the Uniform Guidance which may result in the suspension of federal funding.

Views of DHFS Officials:

The Department accepts the recommendation.

RECOMMENDATIONS 27-34
Illinois Department of Children and Family Services (DCFS)

2019-27. The auditors recommend DCFS review its current process for reporting adjustments and implement procedures to ensure the adjustments claimed for the Foster Care and Adoption Assistance programs are properly determined and supported. DCFS should also consider implementing additional monitoring controls to ensure the adjustments are reported in accordance with program requirements.

FINDING: *(Inadequate Process for Supporting Adjustments to the Title IV-E Claiming Report)*

DCFS does not have an adequate process for supporting adjustments to the Title IV-E claiming report.

DCFS is required to submit quarterly financial reports (CB-496) for both the Foster Care and Adoption Assistance programs, which include information such as current quarter claims and adjustments to amounts reported in previous quarterly claims. DCFS is required to maintain complete and accurate records to support amounts reported on its quarterly claiming reports. Increasing and decreasing adjustments to amounts previously claimed are required to be reported on a gross basis and supported by eligibility determinations or documentation that provides the basis for the adjustment.

During the year ended June 30, 2019, DCFS identified and reported 115 increasing and 90 decreasing adjustments to the Foster Care program. DCFS also identified and reported 27 increasing and 37 decreasing adjustments to the Adoption Assistance program. Increasing and decreasing adjustments reported on quarterly claims pertaining to the year ended June 30, 2019 totaled as follows:

	Foster Care		Adoption Assistance	
Quarter Ended	Increasing	Decreasing	Increasing	Decreasing
September 30, 2018	$10,202,521	$66,021	$7,375	$423,591
December 31, 2018	19,503,320	12,540,262	601,221	171,199
March 31, 2019	9,245,289	2,610,773	233,884	590,949
June 30, 2019	9,725,709	1,390,852	174,464	$95,605

During their test work over adjustments to the Foster Care and Adoption Assistance programs reported on quarterly claiming reports filed during the year ended June 30, 2019, auditors noted DCFS did not properly report adjustments on a gross basis. Accordingly, increasing and decreasing adjustments reported by DCFS were understated because they were reported net.

Additionally, in our testing of 40 individual adjusting transactions (32 from Foster Care totaling $39,915 and 8 from Adoption Assistance totaling $4,092), auditors noted that DCFS could not provide the reason the adjustment was made or documentation supporting the adjustment for one increasing adjustment totaling $606 sampled from a decreasing adjustment (of $189,477) for the Foster Care program.

Additionally, they noted that DCFS could not provide the reason the adjustment was made or documentation supporting the adjustment for one decreasing adjustment totaling $945 and for one increasing adjustment totaling $471 sampled from a decreasing adjustment (of $55,278) for the Adoption Assistance program. The amounts reported as questioned costs include both the federal participation and the required state matching amount.

In evaluating DCFS's process for identifying and documenting adjustments made to its quarterly claims, auditors noted DCFS has not implemented adequate supervisory reviews or other monitoring controls to determine if the adjustments being made are complete, accurate, and properly supported.

As of the date of our testing, DCFS had not quantified the impact of this reporting error.

Criteria or Requirement:

According to 42 USC 1320b-2, a State agency must file a claim for payment with respect to an expenditure made during any calendar quarter by the State within the two-year period which begins on the first day of the calendar quarter immediately following such calendar quarter. Any payment shall not be made on account of any such expenditure if the claim is not made within the two-year period, except with respect to any expenditure involving court-ordered retroactive payments, audit exceptions, or adjustments to prior year costs.

Additionally, according to 45 CFR 205.60(a), the State agency must maintain or supervise the maintenance of records necessary for the proper and efficient operation of the State plan, including records regarding applications, determination of eligibility, recipients whose benefits have been terminated, recipients whose benefits have been modified, and the dollar value of these denials, terminations, and modifications. The records will include facts essential to the determination of initial and continuing eligibility, and the basis for discontinuing assistance.

2 CFR 200.403 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, among other things, require that the expenditures must be necessary, reasonable, and supported by adequate documentation.

Additionally, 2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure all adjustments to prior year costs are properly determined and supported.

Cause:

In discussing these conditions with DCFS officials, they stated system limitations prevented DCFS from reporting adjustments on a gross basis as required by federal guidelines. They also stated

the timing of placement data entered into the system caused the adjustment errors.

Possible Asserted Effect:

Failure to properly report adjustments on a gross basis inhibits the ability of USDHHS to monitor the Foster Care and Adoption Assistance programs. Additionally, failure to maintain proper supporting documentation for expenditures (adjustments) claimed for the Foster Care and Adoption Assistance programs may result in payments to ineligible beneficiaries which are unallowable costs.

Views of DCFS Officials:

The Department agrees with the auditor recommendations. DCFS will be implementing system changes so that they can meet the CB-496 requirements to post adjustments on a gross basis beginning with the September 2020 quarter's claim. The Department will continue to train staff on the requirements and importance of timely and accurate entry of child placement information in order to ensure the accuracy of federal claiming**.**

2019-28. The auditors recommend DCFS implement procedures to ensure the provider licensing files are complete, including documentation that all required background checks have been performed and documentation that verifies safety considerations with respect to foster family homes and the staff of child-care institutions has been properly addressed. They also recommend DCFS evaluate its process for ensuring providers are properly licensed and meet program requirements prior to placing Foster Care beneficiaries in their care and claiming payments to these providers for federal reimbursement. In addition, the auditors recommend DCFS evaluate its control procedures relative to provider background checks and implement additional changes as considered necessary to ensure results are accurately documented and supported.

FINDING: (*Failure to Maintain Adequate Provider Licensing Files)*

DCFS did not maintain complete provider licensing files, including documentation of required background checks for foster care service providers.

The objective of the Foster Care program administered by DCFS is to provide safe, appropriate, substitute care for children in Illinois in need of temporary placement and care outside their homes. DCFS, as the State foster care licensing authority, is required to ensure foster family homes or child care service providers are fully licensed, which includes ensuring the required background checks have been performed and the safety considerations with respect to child-care institution staff have been addressed.

During their test work of 50 Foster Care maintenance assistance payments (totaling $60,059), they reviewed the associated provider licensing files for compliance with licensing requirements and for the allowability of related benefits paid, auditors noted the licensing files for 33 foster care beneficiary payments sampled (totaling $42,582) related to 16 child care service providers and 25 foster family homes did not contain documentation that verified the safety considerations with respect to staff of the institution had been addressed. Specifically, required background clearances were not obtained for all staff members and/or evidence of completed background

checks and results were not maintained. In reviewing supporting documentation, they also noted DCFS does not maintain documentation of the background check results after the information is manually input into its information systems. As a result, while background checks may have been performed prior to the service date for the assistance payments auditors sampled, supporting documentation was not maintained to evidence the timing of the background checks or the accuracy of the information input into DCFS' information systems.

DCFS claimed reimbursement for foster care maintenance payments made to these providers on behalf of these children totaling $241,031 during the year ended June 30, 2019. As of the date of our testing, DCFS has not evaluated whether additional errors exist or quantified the impact of these errors on the population.

In evaluating the controls in place relative to this compliance requirement, auditors noted DCFS did not follow its established procedures for ensuring foster care providers were properly licensed prior to claiming Foster Care maintenance payments. Additionally, supervisory review and other monitoring controls were not established to ensure licensing procedures were being followed and background check results were accurately documented or maintained.

Foster care maintenance payments during year the ended June 30, 2019 totaled $65,372,000.

Criteria or Requirement:

According to 42 USC 671(a)(20)(A), any prospective foster parent must submit to criminal records checks, including a fingerprint-based check of national crime information databases, and a child abuse and neglect registry check before the foster parent may be finally approved for placement of a child. According to 45 CFR 1356.30(f), in order for a child-care institution to be eligible for Title IV-E funding, the licensing file for the institution must contain documentation that verifies the safety considerations with respect to the staff of the institution has been addressed. According to State requirements (225 ILCS 10/4.1), any applicant, employee, or volunteer of a child care facility or non-licensed service provider must submit his or her fingerprints to the Department of State Police to be checked against the fingerprint records filed in the Department of State Police and Federal Bureau of Investigation criminal history records databases.

2 CFR 200.403 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, among other things, require that the expenditures must be necessary, reasonable, and supported by adequate documentation.

In addition, 2 CFR 200.303, requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include procedures to ensure the foster care provider licensing files are complete, including documentation that required criminal records checks and child abuse and neglect registry checks have been performed for all prospective foster parents, child- care institution applicants, employees, volunteers, or non-licensed service providers.

Cause:

In discussing these conditions with DCFS officials, they stated staff manually documented the Sex

Offender Registry and child abuse and neglect (CANTS) background checks on a manual form as formal documentation similar to the Illinois State Police and Federal Bureau of Investigation documentation is not provided to DCFS.

Possible Asserted Effect:

Failure to maintain complete provider licensing files for foster family homes and child-care institutions, including documentation that required criminal records checks and child abuse and neglect registry checks have been performed for all prospective foster parents, child-care institution applicants, employees, volunteers, or non-licensed service providers, could result in payments being made to ineligible service providers, which are unallowable costs.

Views of DCFS Officials:

The Department accepts the recommendation. The Department would like to note that, in every case the auditors looked at, the youth in care were placed in a home where all members of the household passed the background check process. The instances identified by the auditors were Child Welfare Agency staff that have no contact with youth unless and until they receive the proper clearances. The Department takes every precaution available to ensure the safe placement of all youth in care. The Department continues to look for ways to ensure the safe placement of its youth in care, comply with State and federal requirements and improve title IV-E claiming. A Licensing sub-committee workgroup of the Child Welfare Advisory Council will focus on adopting protocols and communication with private child welfare agencies to improve compliance with all licensing standards and background check clearances. The Department is also hiring an administrator with specific job duties to track and implement corrective actions required as a result of audit findings by recommending and adopting better processes and compliance measures.

2019-29. The auditors recommend DCFS implement procedures to ensure payments made to adoptive parents are only on behalf of eligible children in the continued care of their adoptive parents. Additionally, they recommend DCFS implement procedures to ensure information communicated by adoptive parents is tracked and case records and benefit payments are updated for any information impacting eligibility.

FINDING: (*Inadequate Procedures to Reasonably Ensure Children are in the Continued Care of Their Adoptive Parent)*

DCFS does not have adequate procedures to reasonably ensure adoptive children for which adoption assistance subsidies are paid are in the continued care of their adoptive parent(s).

The Adoption Assistance program provides funds to states to support the payment of subsidies and non- recurring expenses on behalf of eligible children with special needs. A child's eligibility for the program is determined initially at the time of adoption proceedings. However, it is the State's responsibility to establish a process to ensure that children on behalf of whom the State is making subsidy payments are in the continued care of their adoptive parent(s).

Prior to fiscal year 2019, the State sent a recertification form to the adoptive parent(s) of a child on behalf of whom the parent is receiving adoption subsidy payments on an annual basis. The form contains a series of questions concerning the parents' legal and financial responsibility of

the child. The adoptive parent(s) were required to answer the questions, sign and return the form to DCFS to demonstrate their continued legal and financial responsibility for the adopted child. Effective January 29, 2018, the State amended DCFS's policy guide to eliminate the requirement for the adoptive parent to complete, sign, and return the recertification form.

During their review of procedures in place at DCFS to ensure children are in the continued care of their adoptive parent, they noted DCFS has not made any changes to its forms or procedures relative to the DCFS policy guide change discussed above. As a result, the recertification forms sent to adoptive parents in fiscal year 2019 continued to state they are to be returned to the agency within 20 days of receipt. DCFS has not established procedures to track recertification forms returned by adoptive parents and were unable to determine if any forms had been returned by adoptive parents. Accordingly, DCFS personnel could not provide evidence that any recertification forms returned by adoptive parents had been reviewed or that the reported updates were made to the child's case record.

Adoption subsidies paid during the year ended June 30, 2019 totaled $60,803,000.

Criteria or Requirement:

2 CFR 200.403 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, among other things, require that the expenditures must be necessary, reasonable, and supported by adequate documentation.

According to 42 USC 673(a)(4), payments are discontinued when the state determines that the adoptive parents are no longer legally responsible for the support of the child. Parents must keep the state agency informed of circumstances that would make the child ineligible for adoption assistance payments or eligible for assistance payments in a different amount.

Additionally, 2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to monitor whether eligibility recertification forms have been obtained and any reported updates are included in the State's case record.

Cause:

In discussing these conditions with DCFS officials, they stated changes were made to the State Rule and to the relevant form letters but the changes were not implemented by the time this audit was completed.

Possible Asserted Effect:

Failure to establish adequate procedures to obtain, retain, and process changes reported on eligibility recertification forms may result in payments to ineligible beneficiaries, which are unallowable costs.

Views of DCFS Officials:

The Department agrees with the Auditor's Recommendation and believes its current procedures are adequate to address this finding. The adoptive parents reporting responsibilities are clearly stated in the executed adoption agreement. There are several methods available for the adoptive parent to report changes of care including; phone call to the post adoption worker, response to an annual reminder letter, calling the Path Beyond Adoption Hotline, or submitting a request through the Path Beyond Adoption website.

In addition, the adoption unit contacts the adoptive parent/guardian of each youth turning 17.5 years of age to determine if the youth is eligible for the subsidy to continue beyond age 18. The Post Adoption worker then completes the appropriate paperwork to make appropriate changes based on information provided by adoptive parent/guardian.

Annual certification letters have been updated to clarify adoptive parent reporting requirements. Current procedures require the Department to update their adoption case management system with the information reported on the certification letters from the adoptive parents, including an indication of no changes if that is what is reported. Stop payment orders are entered into the system if the response on the certification letter identifies the adoptive parent is no longer financially responsible for the youth in care.

2019-30. The auditors recommend DCFS review its procedures for retaining and documenting how beneficiaries have met eligibility requirements and implement changes necessary to ensure supporting documentation for all eligibility requirements is maintained. Additionally, they recommend DCFS evaluate its process for verifying eligibility requirements are met and adequately documented and implement additional procedures to ensure established procedures are followed.

FINDING: (*Missing Documentation in Adoption Assistance Eligibility Files)*

DCFS could not locate case file documentation supporting eligibility determinations for beneficiaries of the Adoption Assistance program.

The Adoption Assistance program provides funds to states to support the payment of subsidies and non- recurring expenses on behalf of eligible children with special needs. In order to be eligible to receive benefits under the adoption assistance program, certain judicial determinations must be made and other eligibility criteria must be evaluated. Evidence supporting eligibility determinations were performed is required to be maintained in the beneficiary case record.

During their test work of 50 Adoption Assistance beneficiary payments (totaling $28,267), they noted DCFS could not locate the Federal Bureau of Investigation, Child Abuse and Neglect Tracking System, and/or Sex Offender Registry background checks for at least one adoptive parent or member of the household over the age of 13 for seven adoption assistance payments (totaling $3,701). DCFS claimed reimbursement for adoption assistance benefits made on behalf of these children totaling $19,710 during the year ended June 30, 2019.

As of the date of our testing, DCFS has not evaluated whether additional errors exist or quantified the impact of these errors on the population.

In evaluating the controls in place relative to this compliance requirement, auditors noted case record documentation is maintained in several locations, including with third party contractors, and can be difficult for DCFS to locate. Additionally, adequate monitoring controls have not been established to ensure eligibility requirements were met and adequately documented in accordance with established procedures.

Criteria or Requirement:

According to 42 USC 671(a)(20), in order for the State to be eligible for payments, it shall have a plan approved by the Secretary that provides procedures for criminal records checks, including fingerprint-based checks of national crime information databases for any prospective adoptive parent. Additionally, the State plan must provide procedures such that the State shall check the child abuse and neglect registry maintained by the State for any prospective adoptive parent and on any other adult living in the home of such prospective parent.

According to 89 Ill. Adm. Code Chapter III, Subchapter d, Part 385.30, the following people are subject to background checks: 1) adult members of the household age 18 and older shall be fingerprinted to be screened for prior criminal convictions by submitting fingerprints to the Federal Bureau of Investigation (FBI), and 2) all members of the household age 13 and over shall be screened for a history of child abuse or neglect (CANTS) and for inclusion in the Illinois Sex Offender Registry (SOR).

2 CFR 200.403 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, among other things, require that the expenditures must be necessary, reasonable, and supported by adequate documentation.

Additionally, 2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure all relevant documentation to support the eligibility of children and background checks for prospective adoptive parents and applicable members of the household are properly obtained and maintained within case records.

Cause:

In discussing these conditions with DCFS officials, they stated insufficient resources as the cause for these errors.

Possible Asserted Effect:

Failure to maintain case file documentation, including relevant documentation to support the eligibility of children and evidence of required background checks for prospective adoptive parents and applicable members of the household, could result in payments to ineligible beneficiaries, which are unallowable costs.

Views of DCFS Officials:

The Department agrees with this finding. The Department is looking forward to a Comprehensive Child Welfare Information System (CCWIS) computer system that will be able to maintain

documentation of adoption cases more efficiently than current paper files.

2019-31. The auditors recommend DCFS establish procedures to accurately report federal expenditures used to prepare the SEFA to the IOC.

FINDING: (*Inaccurate Reporting of Federal Expenditures)*

DCFS did not accurately report Federal expenditures under the Foster Care – Title IV-E (Foster Care) and Adoption Assistance programs.

Federal expenditures reported to the Illinois Office of Comptroller (IOC) which were used to prepare the schedule of expenditure of federal awards (SEFA) did not agree to DCFS's financial records. Specifically, auditors noted the following differences between amounts provided for audit by DCFS and the SEFA amounts reported to the IOC for each program for the year ended June 30, 2019:

Federal Program	Federal Expenditures Reported in DCFS's Records	Federal Expenditures Initially Reported to the IOC	Difference
Foster Care	$180,021,000	$181,786,000	$1,765,000
Adoption Assistance	79,436,000	78,534,000	(902,000)

Although the differences identified are not quantitatively material to the SEFA, as a whole, the State does not have a process in place to evaluate items of this nature outside the audit process, as discussed in finding 2019-001. Accordingly, any error which may be material to the SEFA (in quantitative or qualitative terms) could occur and not be detected by the State. The State adjusted the SEFA for the errors reported in this finding.

Criteria or Requirement:

According to 2 CFR 200.510(b), a recipient of federal awards is required to prepare a schedule of expenditures of Federal awards (SEFA) for the period covered by the entity's financial statements which must include the total Federal awards expended as determined in accordance with 2 CFR 200.502. Among other things required by 2 CFR 200.510(b), the SEFA must include the total amount provided to subrecipients from each Federal program.

Additionally, 2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure federal expenditures are accurately reported on the SEFA.

Cause:

In discussing these conditions with DCFS officials, they stated their interpretation of applicable GAAP principles were misapplied to the calculation of prior period adjustments.

Possible Asserted Effect:

Failure to accurately report federal expenditures prohibits the completion of an audit in

accordance with the Uniform Guidance which may result in the suspension of federal funding.

Views of DCFS Officials:

The Department agrees with this recommendation. Department officials and the auditors discussed the causes of the discrepancies and the Department will make the necessary changes to procedures to ensure the accuracy of information reported for the SEFA.

2019-32. The auditors recommend DCFS implement procedures to ensure access to its information systems is adequately secured, terminated users are removed from applications and the mainframe in a timely manner, and a complete list of program changes can be generated from its information systems and applications.

FINDING: *(Inadequate Controls over Information Systems)*

DCFS does not have adequate access review controls over information systems used to document beneficiary eligibility determinations, to record program expenditures, and to identify amounts to be claimed under federal programs.

DCFS utilizes a federal claiming system to determine which expenditures can be claimed under the various federal programs. The system queries the general ledger and eligibility database in order to match expenditures to a beneficiary. Based on the eligibility of the beneficiary, the expenditure is further analyzed by the claiming system for allowability under the federal program for which the beneficiary is eligible. The claiming system applies the applicable eligibility percentage to the expenditure established for the program. Reports generated from the system are used to calculate the amount of expenditures claimable for federal reimbursement and to prepare the quarterly claim reports.

During their test work of DCFS's controls over user access to the federal claiming system applications, they noted one terminated user was not removed in a timely manner from the mainframe system and one terminated user was not removed in a timely manner from the network. There were 371 terminated users during the year ended June 30, 2019.

Additionally, they were unable to test the completeness and accuracy of a program changes listing as a system generated listing of program changes was unavailable for testing.

Criteria or Requirement:

2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring the information systems associated with the administration of the federal programs are adequately secured, system access rights are appropriate, established access review controls are operating as designed, and have proper change management controls in place.

Cause:

In discussing these conditions with DCFS officials, they stated quarterly report creation is not always completed timely which adversely effects the ability for the data stewards to complete their

reviews. They also stated that the manual reminder and notification processes did not provide the necessary tracking and accountability to ensure complete and timely review of user access.

Possible Asserted Effect:

Failure to adequately control the information systems that are used to administer the federal programs could result in noncompliance with laws, regulations, and the grant agreement.

Views of DCFS Officials:

The Department agrees with this recommendation. The Department has begun the process to develop an automated system with built in workflows to request and track approvals, decommissions and review of user access including reminders and escalation processes to support access management of its information systems. This system is scheduled to go live on December 31, 2020 and will help ensure timely action is taken on new and terminated users and a long with a list of program changes that can be generated.

2019-33. The auditors recommend DCFS implement procedures to ensure cash reconciliations are performed and reviewed in a timely manner throughout the year.

FINDING: (*Inadequate Process for Reconciling Cash Balances to IOC's Records)*

Condition Found:

DCFS does not have an adequate process to reconcile its cash balances in a timely manner to the records of the Illinois Office of Comptroller (IOC).

DCFS is the state agency responsible for expending program funds and requesting federal cash reimbursement for expenditures under the Foster Care – Title IV-E (Foster Care) and Adoption Assistance programs. The IOC is the official record keeper of the State and is responsible for paying vouchers processed by DCFS and other state agencies. DCFS is required to reconcile its records to the IOC records on a monthly basis and resolve any reconciling items on a timely basis.

During their test work over the monthly cash reconciliation process, they were unable to determine whether DCFS prepared monthly reconciliations of its cash balances to the IOC's records on a timely basis during the year ended June 30, 2019 as all 12 monthly reconciliations did not have evidence of the DCFS personnel who completed the reconciliation or the date of completion.

Additionally, auditors noted supervisory reviews of the monthly reconciliations were not consistently completed on a timely basis. Specifically, during their review of all 12 monthly reconciliations, auditors noted that six monthly reconciliations were not reviewed in a timely manner after month end. The number of days these reconciliations were reviewed after month end ranged from 33 to 139 days.

Criteria or Requirement:

2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to

ensure that cash reconciliations are properly performed and reviewed on a monthly basis during the year.

Cause:

In discussing these conditions with DCFS officials, they stated DCFS has struggled with timely filling key vacancies in their General Accounting division which caused the delays in completion of its reconciliations. Training of staff and development of new procedures with the implementation of SAP also contributed to delays.

Possible Asserted Effect:

Failure to appropriately reconcile cash records in a timely manner may result in inaccurate financial reporting and drawing federal funds in excess of expenditures incurred.

Views of DCFS Officials:

The Department agrees with this recommendation. The Department continued to struggle with timely completion of reconciliations in fiscal year 2020. After a review of its staffing and available resources, the Department has developed a strategy to improve the timeliness of its reconciliation processes which includes using consultants to help develop appropriate procedures according to industry standards and to assist when vacancies prevent otherwise timely performance of reconciliations.

2019-34. The auditors recommend DCFS implement necessary procedures to ensure initial services plans are prepared and completed in compliance with Federal and State requirements.

FINDING: (*Failure to Ensure Timely Preparation of Initial Case Plans)*

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

The case plan serves as DCFS's written documentation of the services planned for each child taken into protective custody. The case plan describes DCFS's 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's 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.

During a review of 40 case files selected for test work, they noted three of the initial case plans were completed within a range of 10 to 93 days over the 60-day federal requirement, and six of the initial case plans were completed within a range of 3 to 108 days over the 45-day State requirement.

Criteria or Requirement:

According to 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. According to State requirements (705 ILCS 405/2-10.1), the State has defined a reasonable time frame as 45 days.

Additionally, 2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure initial service plans are completed in a timely manner.

Cause:

In discussing these conditions with DCFS officials, they stated case plans are large and cumbersome for staff to create and enter into existing SACWIS system. In addition, oversight of compliance has been impacted by inefficient monitoring systems for both the public and private sector.

Possible Asserted Effect:

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.

Views of DCFS Officials:

The Department agrees with the recommendation. The Department believes that current procedures are adequate to ensure initial service plans are prepared and completed in compliance with Federal and State requirements. A pilot will be rolling out in the Immersion Sites with a new case plan format which simultaneously creates focus on family voice while eliminating duplicate and unnecessary components of current service plan. This effort, along with a focus on the use of the Child and Family Team meeting and enhancement of supervisory skills will improve both quality and timeliness of case plan development. In addition, the current structure of statewide foster care monitoring programs is under reform to ensure oversight and consistency in expectations of performance and outcomes.

RECOMMENDATIONS 35-37
Illinois Department of Public Health (IDPH)

2019-35. The auditors recommend IDPH review its current process for investigating complaints received against Medicaid providers and consider changes necessary to ensure all complaints are investigated within the time frames required by State law.

FINDING: *(Failure to Investigate Provider Complaints within Required Timeframes)*

IDPH did not investigate complaints received relative to providers of the Medicaid Cluster within required time frames.

The Office of Health Care Regulation within IDPH is responsible for receiving and investigating complaints received against providers of the Medicaid Cluster. State laws require the Office of Health Care Regulation to investigate complaints within 30 days of receipt unless the complaint alleges abuse or neglect. Complaints of abuse or neglect are required to be investigated within 7 days of receipt. As the time frames for complaint investigations included in the State's laws are

more stringent than those included in the federal Medicaid regulations, the State time frames are required to be followed.

During their test work of 40 complaints filed against Medicaid providers during the year ended June 30, 2019, auditors identified 9 complaints that were not investigated within the time frames required by the State's law. The delays in investigating these complaints ranged from 7 to 148 days in excess of required time frames.

Criteria or Requirement:

According to Section 5010 of the Centers for Medicare and Medicaid Services (CMS) State Operations Manual, each state is expected to have written policies and procedures to ensure that the appropriate response is taken for each complaint received against providers. Among other things, these policies and procedures are required to include timelines for investigating complaints which are at least as stringent as those included in federal regulations. Additionally, the Nursing Home Care Act (210 ILCS 45/3- 702(d)) requires complaints to be investigated within 30 days of receipt. Complaints of abuse or neglect are required to be investigated within 7 days of receipt, except that complaints of abuse or neglect which indicate that a resident's life or safety is in imminent danger shall be investigated within 24 hours after receipt of the complaint.

In addition, 2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include procedures to ensure provider complaints are investigated within required timeframes.

Cause:

In discussing these conditions with IDPH officials, they stated the lack of staffing, especially in the Bellwood Region, impacted the Department's ability to investigate the complaints In addition, Basic Surveyor Orientation (BSO) was not offered in time for new surveyors to be allowed to survey independently to help reduce the number of backlogged complaints or annual surveys.

Possible Asserted Effect:

Failure to investigate complaints against Medicaid providers within required time frames may prevent the State from identifying and correcting health and safety violations and from protecting the welfare of Medicaid beneficiaries.

Views of IDPH Officials:

The Department concurs with the finding and recommendation. The majority of the non-compliance occurred in a northern office that covers a large urban area. This office receives the majority of complaints for the State; this office also experiences ongoing staff retention difficulties and filling vacancies in that office has been and remains a priority.

The Basic Surveyor Orientation (BSO) was offered in the fall of 2019 for additional surveyors hired between July 2018 and April 2019. Seventeen new surveyors (including 4 Field Supervisors) completed that session. BSO will continue to be offered in a timely manner. The office in question will continue to ensure that all surveyors receive complaint training.

When survey schedules need to be re-aligned due to the number of complaints, this will occur to ensure that complaints are initiated on time. Middle manager positions (Field Supervisors) are responsible to monitor completion of complaint investigations. The Field Supervisors are responsible for tracking complaints. In addition, beginning on April 1, 2019, 25 facilities from the office were assigned to other regions. This realignment includes all annual surveys, revisits, complaints, and incident investigations. This allows for staff that would have been assigned to these tasks to be utilized on meeting time frames for the complaint investigations. Based on the Long Term Care Survey Process (LTCSP) Procedure Guide guidelines for the number of surveyors on an annual survey, this plan will save 412 surveyor days. In order to meet the required mandate, senior staff will monitor and must ensure that ALL complaints are assigned before the due date, without exception.

As part of the corrective action plan, reports, interval report and non-scheduled survey reports will continue to be run and submitted to the Division Chief. The records are utilized to indicate record of intake and date investigated, which allows the performance measure to be tracked and continue to monitor for additional issues. Regional management staff have been instructed to take daily action on these lists.

Office staff have been instructed that all 7-day complaints are to be scheduled on/before their due date. Without exception, all complaints received by the time of an annual survey will be completed at the same time as the annual. Regional SPSAs and Field Supervisors are responsible for ensuring seeing that complaints are assigned in a timely manner and investigated according to guidelines.

2019-36. The auditors recommend IDPH establish procedures to ensure subrecipient single audit reports are obtained and reviewed within established deadlines and management decisions are issued for all findings affecting its federal programs in accordance with required timeframes.

FINDING: (*Untimely Review of Subrecipient Single Audit Reports)*

IDPH did not obtain and adequately review single audit reports received from its subrecipients for the HIV Care Formula Grants (HIV Care) program on a timely basis.

The State of Illinois established the Grant Accountability Transparency Unit (GATU) to implement the provisions of the State's Grant Accountability and Transparency Act (GATA) on a centralized basis. GATU has established standardized reporting requirements for subrecipients of the various Federal programs administered by the State through its various departments. Subrecipients of the State are required to certify whether they expended more than $750,000 in federal awards during the fiscal year and submitted their single audit reporting packages to the Federal Audit Clearinghouse (FAC) (if required). GATU is then responsible for obtaining the single audit reporting package, verifying the report meets the single audit requirements, and assigning, to the applicable state agency, any findings attributable to amounts passed through to the subrecipient(s) by the State.

IDPH staff are responsible for reviewing the reports assigned to them by GATU and determining whether: (1) federal funds reported in the schedule of expenditures of federal awards (SEFA) reconcile to IDPH records and (2) issuing management decisions on findings reported within required time frames.

During their review of a sample of single audit desk review files for 8 subrecipients of the HIV Care program (with expenditures of $7,258,960), they noted the following exceptions:

- IDPH did not perform required subrecipient single audit reviews during State fiscal year 2019 for seven HIV Care subrecipients (with expenditures of $6,506,426).
- IDPH did not reconcile program expenditures for a single audit report reviewed in the GATA portal during State fiscal year 2019 for one HIV Care subrecipient (with expenditures of $752,534). Additionally, they noted the management decision letter for this subrecipient's single audit review was not issued by the State within six months of the FAC acceptance date.

IDPH's subrecipient expenditures under the HIV program for the year ended June 30, 2019 were as follows:

Program	Total Fiscal Year 2019 Subrecipient Expenditures	Total Fiscal Year 2019 Program Expenditures	Percentage
HIV	$7,356,000	$39,693,000	18.5%

Criteria or Requirement:

According to 2 CFR 200.331(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure the 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. Further, 2 CFR 200.331(d)(3) and 2 CFR 200.521(d) state that a pass-through entity is required to issue a management decision on audit findings within six months of acceptance of the subrecipient's audit report by the Federal Audit Clearinghouse and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings.

Additionally, 2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure single audit reports are reviewed in a timely manner and management decision letters are issued with required timeframes.

Cause:

In discussing these conditions with IDPH officials, they stated during fiscal year 2019, the Office of Performance Management (OPM) did not have adequate staff to monitor the activities of their subgrantees in compliance with 2 CFR 200.331 (d).

Possible Asserted Effect:

Failure to obtain and review subrecipient single audit reports in a timely manner may 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.

Views of IDPH Officials:

The Department concurs with the finding and recommendation. The OPM has hired qualified audit staff to perform the required duties associated with finding 2019-036. Going Forward, the OPM

will comply with federal regulations of 2 CFR 200.331 (d), 2 CFR 200.331 (d)(3), and 2 CFR 200.521 and 2 CFR 200.303 and All Federal requirements of 2 CFR 200 and the Grant Accountability Transparency Act 30 ILCS 708/1 *et seq.* Also, OPM will follow GATA procedures in the audit report review management system (AARMS). GATA ARRMS process requires: subgrantees submit the internal control questionnaire (ICQ) through the GATA portal, comply with the single audit requirements when necessary, upload their consolidated year- end financial reports timely and reconcile grant expenditures received from OPM. OPM will: review submission of the documentation submitted by the subgrantees for completeness, reconcile their reported investments derived from the department, complete all corrective action plans, and issue management decision letters in the required time frames.

2019-37. The auditors recommend IDPH make the necessary changes to its internal control procedures to ensure on-site compliances reviews are performed for all VFC provider within required timeframes.

FINDING: (*Failure to Follow Established VFC Provider Review Procedures)*

IDPH did not follow its established policies and procedures for performing on-site compliance reviews of Vaccines for Children (VFC) providers for the Immunization Cooperative Agreements (Immunization) program.

IDPH distributes vaccines to medical providers throughout the State under the VFC program. In accordance with guidance from the USDHHS Centers for Disease Control and Prevention (CDC), IDPH is responsible for conducting on-site compliance reviews of VFC providers every 24 months to determine whether the providers are appropriately maintaining and safeguarding the vaccines provided by IDPH and to verify provider medical records adequately document the use of vaccines.

During their review of a sample of on-site compliance reviews performed for 40 VFC providers (who were distributed vaccines with a net value of $4,335,229 during the year ended June 30, 2019), auditors noted IDPH did not perform the on-site compliance review within 24 months of the previous review for 17 VFC providers tested (who were distributed vaccines with a net value of $1,511,739 during the year ended June 30, 2019). Delays in performing on-site reviews for the 17 VFC providers ranged from 4 to 565 days late. The net value of vaccines distributed by IDPH to VFC providers during the year ended June 30, 2019 totaled $83,470,000.

IDPH has not assigned a sufficient number of personnel or implemented appropriate monitoring procedures to ensure on-site compliance reviews are completed for all VFC providers every 24 months.

Criteria or Requirement:

According to 42 USC 1396s(c)(2)(a)(iii), the provider is required to make vaccine records available to the State. Additionally, Section II.A.6 of the CDC Immunization Program Operations Manual for the period from January 1, 2013 to June 30, 2019 states compliance site visits will be completed for all (100%) enrolled providers within 24 months from the date of the last compliance visit so that providers are visited every other year. 2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective

internal controls should include having adequate resources to ensure VFC provider on-site reviews are performed within required timeframes.

Cause:

In discussing these conditions with IDPH officials, they stated that staff vacancies and time spent training new staff contributed to delays in performing onsite compliance reviews.

Possible Asserted Effect:

Failure to perform on-site reviews of VFC providers in a timely manner may result in noncompliance with requirements related to the safeguarding and use of vaccines and providers not properly documenting medical records in accordance with program requirements.

Views of IDPH Officials:

IDPH agrees with the finding and recommendation and have hired new staff and completed the appropriate training for staff and grantees.

RECOMMENDATIONS 38-40
Illinois Department on Aging (IDOA)

2019-38. The auditors recommend IDOA implement procedures to ensure risk assessments and on-site reviews are appropriately performed and completed for fiscal compliance requirements.

FINDING: *(Failure to Perform Required Risk Assessment and Adequately Monitor Subrecipients of Aging Cluster Program)*

IDOA did not perform risk assessments and on-site reviews of fiscal compliance requirements for subrecipients of the Aging Cluster program.

IDOA passed through approximately $48,443,000 of federal funding under the Aging Cluster program to 13 area agencies on Aging (subrecipients) during the year ended June 30, 2019. IDOA's monitoring policy requires IDOA to evaluate each subrecipient on their risk of noncompliance with Federal and State statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate level of ongoing monitoring. Additionally, it requires IDOA to monitor subrecipients to determine that each establishes and operates its fiscal system according to the conditions of the award document and to ensure that funds are requested and expended according to the Area Agency on Aging needs for eligible costs.

During their review of monitoring procedures performed by IDOA for the Aging Cluster program during the year ended June 30, 2019, they noted IDOA risk assessment and on-site monitoring procedures only covered programmatic risks and compliance requirements and did not consider any risks related to fiscal requirements. A separate risk assessment and on-site monitoring procedures were not performed for any subrecipients during the year ended June 30, 2019.

Criteria or Requirement:

According to 2 CFR section 200.331(d), a pass-through entity must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations and the terms and conditions of the subaward; and that the subaward performance goals are achieved. Additionally, according to 2 CFR section 200.331(b), a pass-through entity must evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward.

Additionally, 2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring the risk assessment and on-site monitoring procedures performed for Aging Cluster subrecipients consider all direct and material compliance requirements, including fiscal requirements.

Cause:

In discussing these conditions with IDOA officials, they stated formal risk assessments and on site- monitoring were not completed due to a lack of staffing and training.

Possible Asserted Effect:

Failure to perform required risk assessments and to adequately monitor subrecipients results in noncompliance and may result in subrecipients not properly administering the federal programs in accordance with laws, regulations, and the terms and conditions of the award.

Views of IDOA Officials:

IDOA agrees with this finding and is working on implementing procedures to ensure risk assessments and on-site monitoring reviews are completed timely and appropriately. IDOA is also trying to hire staff and provide the staff with adequate training to complete the on-site monitoring.

2019-39. The auditors recommend IDOA establish procedures to ensure subrecipient single audit report reviews are completed and documented in a timely manner. Additionally, IDOA should ensure procedures will permit issuance of management decisions within required timeframes.

FINDING: (*Inadequate Review of Subrecipient Single Audit Reports)*

IDOA did not adequately review single audit reports received from its subrecipients for the Aging Cluster program on a timely basis.

The State of Illinois established the Grant Accountability Transparency Unit (GATU) to implement the provisions of the State's Grant Accountability and Transparency Act (GATA) on a centralized basis. GATU has established standardized reporting requirements for subrecipients of the various Federal programs administered by the State through its various departments. Subrecipients of the State are required to certify whether they expended more than $750,000 in federal awards during

the fiscal year and submitted their single audit reporting packages to the Federal Audit Clearinghouse (if required). GATU is then responsible for obtaining the single audit reporting package, verifying the report meets the single audit requirements, and assigning, to the applicable state agency, any findings attributable to amounts passed through to the subrecipient(s) by the State.

IDOA staff are responsible for reviewing the reports assigned to them by GATU and determining whether: (1) federal funds reported in the schedule of expenditures of federal awards (SEFA) reconcile to IDOA records and (2) issuing management decisions on findings reported within required time frames.

During their testing of a sample of single audit desk review files for 6 subrecipients (with expenditures of $33,094,427), they noted IDOA did not reconcile the SEFAs to IDOA records and did not issue management decision letters to each subrecipient as of the date of our test work (January 31, 2020).

IDOA's subrecipient expenditures under the Aging Cluster program for the year ended June 30, 2019 were $48,443,000.

Criteria or Requirement:

According to 2 CFR 200.331(d), a pass-through entity must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations and the terms and conditions of the subaward, and that the subaward performance goals are achieved. Additionally, 2 CFR 200.331(d)(3) and 2 CFR 200.521 state that a pass through entity is required to issue a management decision on federal awards audit findings within six months of the acceptance of the report by the Federal Audit Clearinghouse and ensure the subrecipient takes timely and appropriate corrective action on all audit findings.

Additionally, 2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure Single Audit reports are reviewed in a timely manner and management decisions are issued within required timeframes.

Cause:

In discussing these conditions with IDOA officials, they stated IDOA staff did not provide the auditors with the correct reconciliations for the SEFA and single audit and all the reconciliations of the AAA audits were not completed timely due to a lack of staffing.

Possible Asserted Effect:

Failure to complete and document reviews of subrecipient single audit reports in a timely manner may result in federal funds being expended for unallowable purposes and subrecipients not administering the federal programs in accordance with laws, regulations and the grant agreement.

Views of IDOA Officials:

IDOA agrees with this finding and has established procedures to ensure subrecipient single audit report reviews are completed and documented in a timely manner. IDOA will establish procedures to issue management decision within the required timeframes.

2019-40. The auditors recommend IDOA establish procedures to accurately report federal expenditures used to prepare the SEFA to the IOC.

FINDING: (*Inaccurate Reporting of Federal Expenditures)*

IDOA did not accurately report Federal expenditures under the Aging Cluster.

Federal expenditures reported to the Illinois Office of Comptroller (IOC) which were used to prepare the schedule of expenditures of federal awards (SEFA) did not agree to IDOA's financial records. Specifically, they noted the following difference between amounts provided for audit by IDOA and the SEFA amounts reported to the IOC for the Aging Cluster for the year ended June 30, 2019:

SEFA Caption	Federal Expenditures Reported in IDOA's Records	Federal Expenditures Initially Reported to the IOC	Difference
Federal expenditures	$49,436,000	$49,478,000	($42,000)

Although the difference identified is not quantitatively material to the SEFA as a whole, the State of Illinois does not have an adequate process in place to identify and evaluate items of this nature outside the audit process, as discussed in finding 2019-001. Accordingly, an error which may be material to the SEFA (in quantitative or qualitative terms) could occur and not be detected by the State. The State adjusted the SEFA for the errors reported in this finding.

Criteria or Requirement:

According to 2 CFR 200.510(b), a recipient of federal awards is required to prepare a schedule of expenditures of Federal awards (SEFA) for the period covered by the entity's financial statements which must include the total Federal awards expended as determined in accordance with 2 CFR 200.502. Among other things required by 2 CFR 200.510(b), the SEFA must include the total amount provided to subrecipients from each Federal program.

Additionally, 2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure federal expenditures are accurately reported on the SEFA and information provided for audit purposes is complete and accurate.

Cause:

In discussing these conditions with IDOA officials, they stated the error is due to a timing difference involving the handling of refunds.

Possible Asserted Effect:

Failure to accurately report federal expenditures prohibits the completion of an audit in accordance with the Uniform Guidance which may result in the suspension of federal funding.

Views of IDOA Officials:

IDOA agrees with this finding and will continue to review and improve the procedures to accurately report federal expenditures used to prepare the SEFA to the IOC.

RECOMMENDATIONS 41-45
Illinois School Board on Education (ISBE)

2019-41. The auditors recommend ISBE review its monitoring procedures relative to the Special Education and CTE programs and implement additional procedures as necessary to ensure proper monitoring procedures are performed.

FINDING: (*Inadequate Monitoring of Special Education and CTE Subrecipients)*

ISBE did not perform adequate monitoring procedures over subrecipients of the Special Education Cluster (IDEA) (Special Education) and Career and Technical Education (CTE) programs.

ISBE selects subrecipients of certain USDE programs to perform on-site fiscal and administrative monitoring procedures using a risk based approach. ISBE's risk assessments are based on the funding level received by the entity, the financial status, the improvement status, any past audit findings, and the type of entity. Once the higher risk subrecipients are selected for monitoring, ISBE selects programs and individual locations within each subrecipient for additional reviews which may consist of on-site reviews, desk reviews, or analytical procedures.

During the year ended June 30, 2019, ISBE's programmatic monitoring procedures only included requirements pertaining to the Title I and Title II federal programs, as well as select fiscal requirements applicable to certain federal programs. Accordingly, program requirements pertaining to the Special Education and CTE programs were not included in the on-site reviews, desk reviews, or analytical procedures performed for ISBE's higher risk subrecipients during the year ended June 30, 2019.

While they noted ISBE may have performed additional monitoring procedures for a sample of subrecipients of the Special Education and CTE, those procedures were not based upon ISBE's risk assessment described above or other formally documented risk assessment procedures.

In addition, ISBE did not establish adequate controls to ensure its subrecipient risk assessment procedures properly addressed each of ISBE's federal programs as required by the Uniform Guidance.

ISBE's payments to subrecipients of the Special Education and CTE programs during the year ended June 30, 2019 totaled $532,766,000 and $22,837,000, respectively.

Criteria or Requirement:

According to 2 CFR section 200.331(d), a pass-through entity must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations and the terms and conditions of the subaward, and that the subaward performance goals are achieved. According to 2 CFR section 200.331(b), a pass-through entity must evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward.

Additionally, 2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include implementing the risk assessment procedures required by the Uniform Guidance and ensuring adequate monitoring procedures are performed for subrecipients.

Cause:

In discussing these conditions with ISBE officials, they stated revised risk assessment procedures and related documentation were still being formalized during fiscal year 2019.

Possible Asserted Effect:

Failure to implement required risk assessments and to adequately monitor subrecipients results in noncompliance and may result in subrecipients not properly administering the federal programs in accordance with laws, regulations, and the terms and conditions of the award.

Views of ISBE Officials:

The Agency agrees with the finding.

For CTE, in conjunction with the reauthorization of Perkins V, ISBE's CTE and Innovation Department has initiated the rewriting of monitoring procedures for CTE grants. The procedures, which will be implemented in state fiscal year 2021, will include an evaluation of each subrecipient's risk of noncompliance for the purposes of determining appropriate monitoring.

For Special Education, management continues to move forward with developing an expanded special education risk-based accountability and support system as scheduled, with implementation planned for the fall of 2020. The development process of the expanded system has included significant stakeholder involvement, research, and national-level technical support to ensure the end result of a robust, multi-tiered system to monitor and support all subrecipients, with the most support being directed to the highest risk subrecipients. The expansion will be considered an enhancement of prior monitoring practices, whereby the local educational agency (LEA) determination process was utilized as its risk-based approach.

2019-42. The auditors recommend ISBE establish procedures to ensure subrecipient single audit reports are obtained and reviewed within established deadlines and management decisions are issued for all findings affecting its federal programs in accordance with required timeframes.

FINDING: **(***Inadequate Review of Subrecipient Single Audit Reports)*

ISBE did not review single audit reports received from its subrecipients for the Child Nutrition Cluster (CNC), Child and Adult Care Food Program (CACFP), Title I – Grants to Local Educational Agencies (Title I), Special Education Cluster (IDEA) (Special Education), Career and Technical Education – Basic Grants to States (CTE), Twenty-First Century Community Learning Centers (21st Century), Supporting Effective Instruction State Grant (formerly Improving Teacher Quality State Grants) (Title II), and School Improvement Grants (SIG) programs on a timely basis. Additionally, ISBE does not have adequate resources in place to ensure audit reports are reviewed on a timely basis in order to issue a management decision within the required timeframe.

The State of Illinois established the Grant Accountability Transparency Unit (GATU) to implement the provisions of the State's Grant Accountability and Transparency Act (GATA) on a centralized basis. GATU has established standardized reporting requirements for subrecipients of the various Federal programs administered by the State through its various departments. Subrecipients of the State are required to certify whether they expended more than $750,000 in federal awards during the fiscal year and submitted their single audit reporting packages to the Federal Audit Clearinghouse (FAC) (if required). GATU is then responsible for obtaining the single audit reporting package, verifying the report meets the single audit requirements, and assigning, to the applicable state agency, any findings attributable to amounts passed through to the subrecipient(s) by the State.

ISBE staff are responsible for reviewing the reports assigned to them by GATU and determining whether: (1) federal funds reported in the schedule of expenditures of federal awards (SEFA) reconcile to ISBE records and (2) issuing management decisions on findings reported within required time frames.

During their review of a sample of 50 subrecipient single audit desk review files (sampled from each of ISBE's major programs and the SIG program), they noted ISBE did not issue management decisions on reported findings within six months of acceptance of the single audit report by the FAC as required for 11 subrecipients. The delay in management decision issuance ranged from 6 to 86 days beyond the required timeframe. Additionally, for one subrecipient, auditors noted ISBE had only issued a management decision relative to one of the two findings reported for programs administered by ISBE.

ISBE's subrecipient expenditures under the federal programs for the year ended June 30, 2019 were as follows:

Program	Number of Subrecipients Sampled	Total 2019 Subrecipient Expenditures for Sampled Subrecipients	Total Fiscal Year 2019 Subrecipient Expenditures	ISBE's Total Fiscal Year 2019 Program Expenditures
CNC	44	$322,046,417	$678,730,000	$678,855,000
CACFP	22	41,015,503	145,522,000	146,920,000
Title I	44	398,954,901	642,103,000	650,497,000
Special Education	44	232,865,604	532,766,000	544,763,000

CTE	16	14,395,724	22,837,000	23,836,000
21st Century	17	18,714,690	45,866,000	47,629,000
Title II	44	37,952,039	69,974,000	71,094,000
SIG	7	9,016,310	13,031,000	13,221,000

Criteria or Requirement:

According to 2 CFR section 200.331(d), a pass-through entity must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations and the terms and conditions of the subaward, and that the subaward performance goals are achieved. Additionally, 2 CFR 200.331(d)(3) and 2 CFR section 200.521(d) state that a pass-through entity is required to issue a management decision on Federal award audit findings within six months of acceptance of the subrecipient's audit report by the FAC and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings.

Additionally, 2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure Single Audit reports are reviewed in a timely manner and management decision letters are issued within required timeframes.

Cause:

In discussing these conditions with ISBE officials, they stated the delay in issuing management decision letters was due to a lack of resources and difficulties implementing the new GATA systems.

Possible Asserted Effect:

Failure to obtain and review subrecipient single audit reports in a timely manner may 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. Additionally, failure to issue required management decisions within six months of acceptance of the audit report by the FAC results in noncompliance with federal regulations.

Views of ISBE Officials:

The Agency agrees with the finding. In July 2019, the ISBE GATA Department hired two additional staff members to assist with single audit reviews and reconciliations. In addition, a new Finding System was put in place at ISBE in December 2019 to help process findings in a timelier manner. Beginning in November 2019, the GATA Department has used Federal Audit Clearinghouse reports to serve as a second measure to track single audit submissions and identify single audit reports which contain audit findings.

2019-43. The auditors recommend ISBE implement procedures to ensure cash draws are performed in accordance with applicable Treasury Regulations.

FINDING: (*Failure to Perform Cash Draws in Accordance with the Treasury Regulations)*

ISBE did not perform its cash draws in accordance with Treasury Regulations.

On an annual basis, the State of Illinois negotiates the Treasury-State Agreement (TSA) with the U.S. Department of the Treasury (the Treasury), which details, among other things, the funding techniques to be used for requesting federal funds. The TSA requires ISBE to draw funds using the pre-issuance technique for administrative and program costs related to the Child Nutrition Cluster (CNC), Child and Adult Care Food Program (CACFP), Title I – Grants to Local Educational Agencies (Title I), Special Education Grants to States (Special Education), and Supporting Effective Instruction State Grant (formerly Improving Teacher Quality State Grants) (Title II) programs. Additionally, federal assistance programs not specifically addressed in the TSA are governed by the Treasury Regulations at 31 CFR part 205 (Treasury Regulations) Subpart B which require funds to be drawn as close as administratively feasible to the actual cash outlay (generally defined as within three business days of receipt). Programs covered by the Treasury Regulations include the Career and Technical Education – Basic Grants to States (CTE) and Twenty-First Century Community Learning Centers (21st Century) programs as operated by ISBE.

During their review of 15 cash draws (totaling $21,372,456) for the 21st Century program during the year ended June 30, 2019, they noted administrative draw for payroll expenditures for which funds were not disbursed within three business days of receipt. Upon further review, auditors noted ISBE had requested the funding in advance for expected payroll costs for January through March in anticipation of a potential federal government shut down in December 2018. Upon reviewing the cash draw population for ISBE's other major programs, auditors noted administrative draws were also requested in advance for each of those programs. The amount drawn and days elapsed before amounts were disbursed for each of ISBE's major programs were as follows:

Program	Total Drawn	Date Cash Received	First Date Cash Disbursed	Date Amounts Were Fully Disbursed	Minimum Days Elapsed	ISBE's Total Fiscal Year 2019 Program Expenditures
CNC/CACFP	$505,900	12/24/2018	3/1/2019	3/1/2019	67	$825,775,000
Title I	953,523	12/26/2018	1/10/2019	1/10/2019	15	650,497,000
Special Education	1,369,006	12/26/2018	1/8/2019	1/16/2019	13	544,763,000
CTE	151,634	12/26/2018	1/8/2019	1/10/19	13	23,836,000
21st Century	78,678	12/26/2018	1/9/2019	1/10/19	14	47,629,000
Title II	24,613	12/26/2018	1/10/2019	1/10/2019	15	71,094,000

Criteria or Requirement:

According to 31 CFR 205.6(a), a TSA documents the accepted funding techniques and methods for calculating interest agreed upon by the U.S. Treasury and the State for each Federal program governed by subpart A of the Treasury regulations. Section 6.3.2 of the 2019 Treasury State Agreement (effective July 1, 2018 to June 30, 2019) states that the CNC, CACFP, Title I, Special Education Grants to States, and Title II programs are required to use the Pre-Issuance funding technique. Per section 6.2.1 of the 2019 Treasury State Agreement, the Pre-Issuance funding

technique requires the State to request funds such that they are deposited in a State account not more than three business days prior to the day the State makes a disbursement.

The Treasury Regulations require programs with less than $69,347,000 in expenditures (including the Special Education Preschool Grants, CTE and 21st Century programs) to follow Subpart B rules applicable to Federal Assistance Programs not included in a Treasury-State Agreement. According to 31 CFR 205.33(a), grantees following Subpart B are required to implement procedures to ensure that the timing and amount of fund transfers be as close as is administratively feasible to a State's actual cash outlay for program costs, which based on discussions with Federal agencies, has been interpreted to be within 3 business days of receipt of federal funds.

Additionally, 2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure that Federal cash draws are performed in accordance with the Treasury Regulations.

Cause:

In discussing these conditions with ISBE officials, they stated funding was drawn in advance to avoid a disruption in program operations resulting from the shutdown of the federal government from December 22, 2018 to January 25, 2019.

Possible Asserted Effect:

Failure to draw funds in accordance with the Treasury Regulations results in noncompliance.

Views of ISBE Officials:

ISBE agrees with the recommendation and will ensure cash draws are performed in accordance with applicable US Treasury regulations. Given the lack of definitive guidance from the US Department of Education (USDOE) regarding ISBE's ability to continue to draw cash during the federal government shutdown, ISBE drew funds in advance to ensure continuity of operations. ISBE drew funds in advance to meet payroll obligations and implemented additional controls to ensure that further cash draws were not completed until such time when cash was exhausted. Additionally, ISBE remitted interest payments to the federal government in accordance with the terms and conditions of the State of Illinois Treasury State Agreement.

2019-44. The auditors recommend ISBE review its monitoring procedures and implement additional procedures as necessary to ensure proper monitoring procedures are performed for all programs. Additionally, they recommend ISBE review its procedures for communicating monitoring results and closing out on-site monitoring files and implement additional procedures to ensure timely completion of these activities.

FINDING: (*Failure to Follow On-Site Monitoring Plan for CNC and CACFP Subrecipients)*

ISBE did not perform adequate on-site monitoring procedures in accordance with its established plan for subrecipients of the Child Nutrition Cluster (CNC) and the Child and Adult Care Food

Program (CACFP) programs.

USDA program regulations for the CNC and CACFP programs require ISBE to perform on-site fiscal and administrative monitoring procedures on a cyclical basis. For the CNC program, an administrative review of all school food authorities is required every three years (at a minimum).

For the CACFP program, at least 1/3rd of all institutions must be reviewed on-site annually. Technical assistance and follow-up procedures for prior reviews are conducted based upon a risk-based approach in addition to the required cycle reviews each year for both programs.

During our review of 11 CNC (5 from Summer Food Services, 5 from School Nutrition, and 1 from both) and 8 CACFP subrecipients selected for testing, auditors noted ISBE did not follow timeframes established in its on-site monitoring plan for communicating findings, collecting corrective action plans, and closing out monitoring files. Specifically, during our test work of the 11 CNC and 8 CACFP subrecipients referenced above, auditors noted ISBE did not communicate findings for 2 reviews (1 from each program) within 60 days of the completion of review procedures and did not close out 1 CNC review within 60 days of receipt of the subrecipients' corrective action plan (CAP). Delays in completing these activities ranged from 43 to 243 days.

The auditors also noted the CAP was not obtained in a timely manner once the review was completed for the CNC subrecipient whose monitoring file was not closed timely. The delay in receiving the CAP was 128 days after the subrecipient was notified of their findings, with 97 days elapsed between the ISBE's last communication with the subrecipient and CAP receipt. ISBE has not established adequate control procedures to ensure the timeframes outlined in its policies and procedures are met.

ISBE's subrecipient expenditures under the federal programs for the year ended June 30, 2019 were as follows:

Program Name	Total Fiscal Year 2019 Subrecipient Expenditures	ISBE's Total Fiscal Year 2019 Program Expenditures	Percentage
CNC	$678,730,000	$678,855,000	99.9%
CACFP	145,522,000	146,920,000	99.0%

Criteria or Requirement:

According to 2 CFR sections 200.331(d) through (g), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure the federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements, that performance goals are achieved, and consider whether the results of the subrecipient's audits or other monitoring indicate conditions that necessitate adjustments to the pass-through entity's own records.

Additionally, 2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include

ensuring adequate monitoring procedures are performed for subrecipients and the results of monitoring procedures are communicated and on-site review files are completed and closed out in a timely manner.

Cause:

In discussing these conditions with ISBE officials, they stated the manual nature of the process for communicating the results of monitoring reviews contributed to the delays identified.

Possible Asserted Effect:

Failure to properly monitor subrecipients and communicate monitoring results may result in undetected noncompliance and subrecipients not properly administering Federal programs in accordance with laws, regulations, and grant agreements.

Views of ISBE Officials:

The Agency agrees with the finding. Progress has been made in timeliness of issuing and follow up of review, but it remains a manual process for State fiscal year 2020 and part of State fiscal year 2021. Efforts will continue to be made to track and meet the timelines.

2019-45. The auditors recommend ISBE establish procedures to accurately report federal expenditures, including amounts provided to subrecipients, used to prepare the SEFA to the IOC.

FINDING: (*Inaccurate Reporting of Federal Expenditures)*

ISBE did not accurately report Federal expenditures, including amounts provided to subrecipients, under the Child Nutrition Cluster (CNC), Child and Adult Care Food Program (CACFP), Title I – Grants to Local Educational Agencies (Title I), Special Education Cluster (Special Education), Career and Technical Education (CTE), Twenty-First Century Community Learning Centers (21st Century), and Supporting Effective Instruction State Grant (formerly Improving Teacher Quality State Grants) (Title II) programs.

Federal expenditures and amounts provided to subrecipients reported to the Illinois Office of Comptroller (IOC) which were used to prepare the Schedule of Expenditures of Federal Awards (SEFA) did not agree to ISBE's financial records. Specifically, they noted the following differences between the amounts provided for audit by ISBE (excluding amounts expended by other State agencies) and the SEFA amounts reported to the IOC (adjusted for amounts reported by other State agencies) for each program for the year ended June 30, 2019:

Federal Program	Federal Expenditures Reported in ISBE's Records	Federal Expenditures Initially Reported to the IOC	Difference
CNC	$679,086,000	$678,855,000	$231,000
CACFP	147,012,000	146,920,000	92,000
Title I	650,663,000	650,497,000	166,000
Special Education	547,144,000	546,073,000	1,071,000
21st Century	47,454,000	47,629,000	(175,000)

Title II	70,925,000	71,094,000	(169,000)
CTE	23,883,000	23,836,000	47,000

Auditors also noted the following differences between the amounts provided for audit by ISBE (excluding amounts expended by other State agencies) and the SEFA amounts reported to the IOC (adjusted for amounts reported by other State agencies) for the amounts provided to subrecipients for each program for the year ended June 30, 2019:

Program	Amounts Provided to Subrecipients Reported in ISBE's Records	Amounts Provided to Subrecipients Initially Reported to the IOC	Difference
CNC	$678,923,000	$678,730,000	$(193,000)
Title I	642,113,000	642,103,000	10,000
Special Education	532,783,000	532,766,000	17,000
21st Century	45,892,000	45,866,000	26,000
CTE	22,834,000	22,837,000	(3,000)

Upon further investigation, they noted the differences identified in the tables above primarily relate to prior period adjustments to receivables and deferred revenue which should not be reflected in current year cash basis expenditures and amounts provided to component units of the State of Illinois reporting entity. Additionally, the differences between the federal expenditures and amounts provided to subrecipients reported in ISBE's records in the tables above and the Statewide SEFA may be the result of: (1) errors identified and corrected by the IOC, (2) errors reported by other auditors which were corrected in the SEFA, or (3) expenditures reported by other State agencies.

Although most of the differences identified in the tables above and discussed in the preceding paragraph are not quantitatively material to the SEFA as a whole, the State does not have a process in place to evaluate items of this nature outside of the audit process, as discussed in finding 2019-001. Accordingly, an error which may be material to the SEFA (in either quantitative or qualitative terms) could occur and not be detected by the State. The State adjusted the SEFA for the errors reported in this finding.

Criteria or Requirement:

According to 2 CFR 200.510(b), a recipient of federal awards is required to prepare a schedule of expenditures of Federal awards (SEFA) for the period covered by the entity's financial statements which must include the total Federal awards expended as determined in accordance with 2 CFR 200.502. Among other things required by 2 CFR 200.510(b), the SEFA must include the total amount provided to subrecipients from each Federal program.

Additionally, 2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure federal expenditures and amounts provided to subrecipients are accurately reported on the SEFA and information provided for audit purposes is complete and accurate.

Cause:

In discussing these conditions with ISBE officials, they stated the issues are primarily attributable to the statewide reporting process using the same form, Form SCO-563, for determining modified accrual and cash basis expenditures to report in the agency's financial statements and SEFA, respectively.

Possible Asserted Effect:

Failure to accurately report federal expenditures, including amounts provided to subrecipients, prohibits the completion of an audit in accordance with the Uniform Guidance which may result in the suspension of federal funding.

Views of ISBE Officials:

The Agency agrees with the finding. The State of Illinois GAAP reporting process does not have a process in place to evaluate non-cash transactions that are required to be included in expenditure data submitted to the IOC as part of the GAAP reporting process. ISBE will continue to follow Generally Accepted Accounting Principles as well as procedures outlined by the State Comptroller when compiling data for the preparation of the Agency's financial statements. In addition, a reconciliation will continue to be provided to the Auditors detailing the non-cash transactions which should be adjusted from the Form SCO-563 to prepare a cash basis SEFA.

We will continue to work closely with the auditors to provide all information required to be reported in the Auditors' Federal Expenditures Questionnaires. Finally, ISBE will work with the Governor's Office of Management and Budget (GOMB) to ensure immaterial non-cash differences are excluded from the statewide SEFA to agree to the Auditor's Federal Expenditures Questionnaires.

RECOMMENDATIONS 46-47
Illinois Community College Board (ICCB)

2019-46. The auditors recommend ICCB implement the changes necessary to ensure monitoring results are communicated and corrective action plans are obtained in accordance with timeframes established in ICCB monitoring policies and procedures.

FINDING: (*Failure to Follow Established Subrecipient Monitoring Procedures)*

ICCB did not follow its established policies and procedures for monitoring subrecipients of the Career and Technical Education (CTE) program.

ICCB selects subrecipients to perform fiscal and programmatic monitoring procedures on using a risk-based approach. The specific monitoring procedures may consist of on-site reviews, desk reviews, or discussions with the subrecipient depending on the results of the risk assessment. ICCB's monitoring procedures require each review to be formally documented with the issuance of a report summarizing the procedures performed, results of the procedures, and any findings or observations for improvement noted. ICCB's policies require monitoring reports to be issued within 45 days of the date the review is completed. Additionally, subrecipients are required to provide a written corrective action plan (CAP) for each finding within 60 days of receiving the

review report.

During their review of 11 CTE subrecipients selected for testing (with expenditures of $7,071,000), they noted ICCB did not follow timeframes established in its monitoring plan for communicating findings or reporting the results of its monitoring reviews to CTE subrecipients. Specifically, during our test work auditors noted the following:

- ICCB did not communicate findings within 45 days of the completion of review procedures for fiscal reviews tested for all 11 subrecipients sampled. Delays in communicating the review results ranged from 53 to 360 days past the established timeframe.
- For 6 programmatic reviews, ICCB did not communicate findings within 45 days of the completion of review procedures for programmatic reviews tested for 6 subrecipients (with expenditures of $5,901,000). Delays in communicating the review results ranged from 35 to 227 days past the established timeframe.

Auditors also noted the ICCB did not document the acceptance of the CAP for one subrecipient (with expenditures of $3,156,000).

ICCB has not established adequate supervisory review or other monitoring control procedures to ensure the results of its reviews and any findings identified are communicated to and CAPs are obtained from subrecipients in a timely manner as outlined in its policies and procedures.

Amounts passed through to subrecipients under the CTE program for the year ended June 30, 019 totaled $16,221,000.

Criteria or Requirement:

According to 2 CFR sections 200.331(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure the 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 addition, 2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include the results of monitoring procedures are communicated and CAPs are obtained in a timely manner.

Cause:

In discussing these conditions with ICCB officials, they stated significant staff turnover and lack of coordination inhibited ICCB's ability to follow its policies and processes in State fiscal year 2019.

Possible Asserted Effect:

Failure to properly communicate monitoring results and obtain CAPs may result in undetected noncompliance and subrecipients not properly administering Federal programs in accordance with laws, regulations, and grant agreements.

Views of ICCB Officials:

ICCB concurs with the recommendation and moving forward, ICCB staff will reassess the policies, processes, and timelines to ensure there is adequate time for staff to complete monitoring processes, while maintaining reasonable response time.

2019-47. The auditors recommend ICCB establish procedures to accurately report federal expenditures, including amounts provided to subrecipients, used to prepare the SEFA to the IOC.

FINDING: (*Inaccurate Reporting of Federal Expenditures)*

ICCB did not accurately report Federal expenditures, including amounts provided to subrecipients, under the Career and Technical Education – Basic Grants to States (CTE) program.

Federal expenditures, including amounts provided to subrecipients, reported to the Illinois Office of Comptroller (IOC) which were used to prepare the schedule of expenditure of federal awards (SEFA) did not agree to ICCB's financial records. Specifically, they noted the following differences between amounts provided for audit by ICCB (excluding amounts expended by other State agencies) and the SEFA amounts reported to the IOC (excluding amounts expended by other State agencies) for the CTE program for the year ended June 30, 2019:

SEFA Caption	Federal Expenditures Reported in ICCB's Records	Federal Expenditures Initially Reported to the IOC	Difference
Federal expenditures	$16,686,000	$16,458,000	$228,000
Amounts provided to subrecipients	16,221,000	–	16,221,000

Although the differences identified are not quantitatively material to the SEFA, as a whole, the State does not have a process in place to evaluate items of this nature outside the audit process, as discussed in finding 2019-001. Accordingly, any error which may be material to the SEFA (in quantitative or qualitative terms) could occur and not be detected by the State. The State adjusted the SEFA for the errors reported in this finding.

Criteria or Requirement:

According to 2 CFR 200.510(b), a recipient of federal awards is required to prepare a schedule of expenditures of Federal awards (SEFA) for the period covered by the entity's financial statements which must include the total Federal awards expended as determined in accordance with 2 CFR 200.502. Among other things required by 2 CFR 200.510(b), the SEFA must include the total amount provided to subrecipients from each Federal program.

Additionally, 2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure federal expenditures and amounts provided to subrecipients are accurately reported on the SEFA and information provided for audit purposes is complete and accurate.

Cause:

In discussing these conditions with ICCB officials, they stated GAAP package preparation is contracted through an accounting firm. Due to staff turnover and a miscommunication with ICCB staff regarding the forms for this fund, the amounts were not included in the forms filed with the IOC.

Possible Asserted Effect:

Failure to accurately report federal expenditures, including amounts provided to subrecipients, prohibits the completion of an audit in accordance with the Uniform Guidance which may result in the suspension of federal funding.

Views of ICCB Officials:

ICCB concurs with the finding and will ensure expenditures are reported accurately.

RECOMMENDATIONS 48-51
Illinois Department of Transportation (IDOT)

2019-48. The auditors recommend IDOT review its current process and consider any changes necessary to ensure weekly payroll certifications are received and approved in accordance with federal requirements and IDOT's procedures.

FINDING: (*Failure to Follow Established Control Procedures for Obtaining Certified Payrolls for the Highway Planning Program)*

IDOT did not obtain certified payrolls in accordance with its established internal control procedures for the Highway Planning and Construction Cluster (Highway Planning) 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. Each subcontractor subject to the Wage Rate Requirement (formally known as the Davis-Bacon Act) must submit payrolls on a weekly basis and include a signed certification that they have complied with the prevailing wage rates. The resident engineer on the construction site is required to keep a log of contractors and monitor payroll submission. These logs are reviewed by the resident engineer, which indicates the certified payrolls for that period have been received in accordance with IDOT's established controls.

IDOT's procedures require weekly certified payrolls to be provided by contractors within four weeks of the payroll payment date. IDOT's policy requires funding to be suspended if contractors do not submit late certified payrolls within 7 days of notification from IDOT.

During their test work of 50 Highway Planning contractor payments for regular construction projects (totaling approximately $32,006,000) and 15 Highway Planning contractor payments for advanced construction projects (totaling approximately $4,745,000), they noted the following:

- The certified payrolls for 3 Highway Planning contractor payments on regular construction projects (totaling approximately $2,182,000) and 2 Highway Planning contractor payments on advanced construction projects (totaling approximately $488,000) were not received in a timely manner. Delays in receiving the certified payrolls ranged from 32 to 68 days.
- The certified payrolls for 3 Highway Planning contractor payments on regular construction projects (totaling approximately $1,910,000) and 11 Highway Planning contractor payments on advanced construction projects (totaling approximately $2,464,000) were not date stamped. As a result, auditors were unable to determine whether they were received in compliance with federal requirements and IDOT's procedures.

Criteria or Requirement:

According to 29 CFR Section 5.5(a)(3)(ii)(A) and 5.5(a)(3)(ii)(B), the contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the Resident Engineer. Each payroll submitted shall be accompanied by a "Statement of Compliance" signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract.

In addition, 2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include procedures in place to ensure certified payrolls are received in a timely manner.

Cause:

In discussing these conditions with IDOT officials, they stated the condition noted is attributed to the volume of certified payrolls the Department is required to obtain and the reliance on contractors and subcontractors to submit the certified payrolls.

Possible Asserted Effect:

Failure to obtain certified payrolls in accordance with federal requirements and IDOT's established control procedures could result in contractors not paying the prevailing wage rate to employees.

Views of IDOT Officials:

IDOT agrees with the finding. Further consultation with district construction and compliance staff is necessary to attain full compliance with procedures. This will be an indefinite effort and continued every year via the district's spring Project Implementation meeting and through field visits by the Project Review Engineers in the Bureau of Construction. The development of a new web-based contract administration system continues. IDOT will now accept scanned images of payrolls in efforts to simplify submission. This began in earnest over the 2019 construction season. We are hopeful it will assist in correcting the issue.

The development of the web-based contract administration system (commonly referred to as CMMS) is ongoing. While we have received approval from the FHWA to receive scanned copies of certified payrolls, the collection of payrolls was not included in the development of CMMS (which is scheduled for full implementation in January 2021) and the development of a collection tool will not happen until CMMS is fully implemented.

Of a related subject, the Illinois Department of Labor is developing a web-based payroll collection system for projects covered by the Illinois Prevailing Wage Act. The IDOL has presented their system to IDOT and the FHWA for which we are hopeful the FHWA will accept the solution. This was scheduled for an April 1, 2020 release but the development was not completed as of March 9, 2020. The timeline for that solution in controlled by IDOL. In addition, recent events and the Governor's work from home directive for State employees will further delay release. We are hopeful this will assist in correcting the continuing audit finding.

2019-49. The auditors recommend IDOT establish controls to ensure single audit desk reviews are completed and documented in a timely manner to evidence whether Management decisions should be issued by IDOT within six months after the subrecipient audit report has been accepted by the Federal Audit Clearinghouse.

FINDING: (*Failure to Review Subrecipient Single Audit Reports)*

IDOT did not review single audit reports for subrecipients for the Airport Improvement Program (Airport Improvement) and the Highway Planning and Construction Cluster (Highway Planning).

The State of Illinois established the Grant Accountability Transparency Unit (GATU) to implement the provisions of the State's Grant Accountability and Transparency Act (GATA) on a centralized basis. GATU has established standardized reporting requirements for subrecipients of the various Federal programs administered by the State through its various departments. Subrecipients of the State are required to certify whether they expended more than $750,000 in federal awards during the fiscal year and submitted their single audit reporting packages to the Federal Audit Clearinghouse (if required). GATU is then responsible for obtaining the single audit reporting package, verifying the report meets the single audit requirements, and assigning, to the applicable State agency, any findings attributable to amounts passed through to the subrecipient(s) by the State.

IDOT staff are responsible for reviewing the reports assigned to them by GATU and determining whether: (1) federal funds reported in the schedule of expenditures of federal awards (SEFA) reconcile to IDOT records; and (2) issuing management decisions on findings reported within required time frames.

Auditors noted IDOT passed through approximately $21,999,000 and $160,042,000 to subrecipients of the Airport Improvement program and the Highway Planning program during the year ended June 30, 2019. During their test work, auditors determined single audit reports had not been reviewed for any Airport Improvement program or Highway Planning program subrecipients during the year ended June 30, 2019.

In addition, they noted IDOT has not established adequate monitoring controls to ensure subrecipient audit reports are reviewed and any management decisions are issued as required by the Uniform Guidance.

Subrecipient expenditures under the federal programs for the year ended June 30, 2019 were as follows:

Program	Total Fiscal Year 2019 Subrecipient Expenditures	Total Fiscal Year 2019 Program Expenditures	Percentage
Airport Improvement Program	$21,999,000	$39,805,000	55.3%
Highway Planning and Construction Cluster	$160,042,000	$1,228,149,000	13.0%

Criteria or Requirement:

According to 2 CFR 200.331(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure the 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.

Further, 2 CFR 200.331(d)(3) and 2 CFR 200.521 state that a pass-through entity is required to issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings.

Additionally, 2 CFR 200.303 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 to ensure (1) federal awards passed through to subrecipients have been properly included in the subrecipient's single audits, (2) subrecipients expending $750,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of Uniform Guidance, including that the audits are completed within nine months after the end of the subrecipient's fiscal year end, (3) the subrecipient audit reports are reviewed in a timely manner, and (4) management decisions on reported findings are issued within six months after acceptance of the subrecipient's audit reports by the Federal Audit Clearinghouse.

Cause:

In discussing these conditions with IDOT officials, they stated that due to lack of staff, the reviews of single audit reports were not performed as required.

Possible Asserted Effect:

Failure to review subrecipient single 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. Additionally, failure to obtain single audit reports and issue management decisions within six months of acceptance of the report by the Federal Audit Clearinghouse results in noncompliance.

Views of IDOT Officials:

IDOT agrees with the finding. Due to staffing issues in the Bureau of Investigation and Compliance's (BIC) Audit Compliance Unit, the resources have not been available to adequately review the audits mentioned in the findings. In order to review these audits as required, several vacant positions need to be filled. To correct this deficiency BIC 1) hired an Audit Compliance Unit Manager in January 2020, 2) began utilizing the services, in August 2019, of two Financial Reviewers retained under an auditing services contract with a CPA firm, 3) anticipates increasing

the manpower associated with the auditing services contract at the end of March 2020, and 4) anticipates hiring four additional employees to work in the unit later this year.

2019-50. The auditors recommend IDOT establish procedures to accurately report federal expenditures used to prepare the SEFA to the IOC.

FINDING: (*Inaccurate Reporting of Federal Expenditures)*

IDOT did not accurately report Federal expenditures under the Highway Planning and Construction Cluster (Highway Planning) program.

Federal expenditures reported to the Illinois Office of Comptroller (IOC) which were used to prepare the schedule of expenditure of federal awards (SEFA) did not agree to IDOT's financial records. Specifically, auditors noted IDOT had not properly reported certain payroll and fringe benefit expenditures (totaling $35,468,000) attributable to the Highway Planning program for the year ended June 30, 2019. These amounts were initially excluded from the Highway Planning program expenditures provided for audit and reported to the IOC as the labor distribution system used by IDOT to allocate these costs to federal programs was not operating during an eight month period (November 2018 through June 30, 2019). As the expenditures were paid within the fiscal year and IDOT had spending authority on the affected projects during the audit period, the delay in allocating these costs resulted in a financial reporting error which was not identified or corrected by IDOT prior to our audit procedures.

Although the difference identified above is not quantitatively material to the SEFA, as a whole, the State does not have a process in place to evaluate items of this nature outside the audit process, as discussed in finding 2019-001. Accordingly, any error which may be material to the SEFA (in quantitative or qualitative terms) could occur and not be detected by the State. The State adjusted the SEFA for the error reported in this finding.

Criteria or Requirement:

According to 2 CFR 200.510(b), a recipient of federal awards is required to prepare a schedule of expenditures of Federal awards (SEFA) for the period covered by the entity's financial statements which must include the total Federal awards expended as determined in accordance with 2 CFR 200.502. Among other things required by 2 CFR 200.510(b), the SEFA must include the total amount provided to subrecipients from each Federal program.

Additionally, 2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure federal expenditures are accurately reported on the SEFA.

Cause:

In discussing these conditions with IDOT officials, they stated the unreported expenditures for SEFA were due to a system error.

Possible Asserted Effect:

Failure to accurately report federal expenditures prohibits the completion of an audit in accordance with the Uniform Guidance which may result in the suspension of federal funding.

Views of IDOT Officials:

IDOT agrees with the finding. The unreported expenditures for SEFA were payroll-costs eligible for Federal reimbursement during State fiscal year 2019. However, the Automated Labor Distribution (ALD) software system used to determine payroll costs eligible for Federal reimbursement failed early in State fiscal year 2019. The Bureau of Information Processing management could not make restoration of the ALD system a priority due to other vital, mandated projects and the staff shortages caused by such. Department policy is to report only Federal payroll reimbursements received through lapse as a receivable at year end. In State fiscal year 2019 specifically, Federal reimbursed of payroll was significantly decreased because no payroll could be processed and identified as reimbursable through the Federal system due to the ALD failure. Federal receivables were reported consistent with Department policies and procedure rather than making an exception for State fiscal year 2019 and estimating a previously unknown Federal receivable amount. Should a failure such as this occur in the future, the Department will estimate, as is reasonably possible, reportable numbers. The Department will also reassess priorities in the event of system failures and give ALD a higher ranking.

2019-51. The auditors recommend IDOT implement procedures to ensure access to its information systems is adequately secured and changes identified in system access reviews are made on a timely basis. They also recommend IDOT implement procedures to ensure all information systems can generate a list of program changes from the information systems and applications or implement other procedures to establish the completeness and accuracy of the listing of program changes.

FINDING: (*Inadequate Controls over Information Systems)*

IDOT does not have adequate user access and program change management controls over the IDOT Integrated Transportation Project Management system.

The information technology applications that support the IDOT Integrated Transportation Project Management system include the following:

- The Electronic Contract Management System (ECM)
- The Electronic Letting Management System (ELM)
- The Illinois Construction Records System (ICORS)
- The Bureau of Contract Management System (BCM)
- The Fiscal Operations and Administration System (FOA)
- The Federal Payment Control System (FPC)

The ECM and ELM systems are used during the initial letting stages of the construction contract. The ECM houses the estimates made for the projects and the ELM system stores the bids from the contractors. The ICORS system is used by the resident engineers to record the progress of each job for billing purposes, which is interfaced with the BCM system. The data from the BCM system is interfaced with the FOA system to generate the payment to the contractor and is also

interfaced with the FPC system to generate the federal billing.

During their test work of IDOT's controls over user access and program change management controls over the applications identified above, they noted IDOT does not have formal policies and procedures in place related to terminations of employees on the network and application levels. Further, twelve employees (out of 63 tested) retained user access after their termination date for the applications identified above.

Additionally, during their test work over changes made to IDOT's information systems, they noted IDOT was not able to generate a list of changes made to its information systems from each respective information system or application. IDOT's current procedures include tracking changes made to its information systems in a database; however, the information input into the database is manually input. Accordingly, auditors were unable to determine whether the list of changes provided by IDOT from the database during our audit was complete.

Criteria or Requirement:

2 CFR 200.303 require nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include ensuring the information systems associated with the administration of the federal programs have proper user access and change management controls in place.

Cause:

In discussing these conditions with IDOT officials, they stated that the underlying cause of the residual network accounts, and associated permissions, following employees' separations was unreliable transactional data in the agency's human resources systems, an inconsistent handling of employee terminations and separations, and a technical and functional deficiency of the State of Illinois, DoIT hosted mainframes, as the mainframes do not have the capability to produce a system generated list.

Possible Asserted Effect:

Failure to ensure the information systems that are used to administer the federal programs have proper user access and change management controls in place could result in noncompliance with laws, regulations and the grant agreement.

Views of IDOT Officials:

IDOT concurs with these findings and will work to implement permanent measures to ensure access to its information systems is adequately secured and changes identified, and system access reviews are made on a timely basis. In regard to implementing procedures to ensure all information systems can generate a list of program changes from the information systems and applications, the older systems utilized by IDOT do not have the capability to perform this electronically. As an interim procedure IDOT has implemented a SharePoint site to track all system changes. IDOT is undergoing several major projects to replace these systems. All of these systems currently have on-going projects except FOA. In regard to FOA, Statewide Enterprise Resource Planning (ERP) which was implemented in January 2020 replaced a portion of the

functionality but over the next 12 months IDOT will be meeting with the ERP Team in an attempt to configure SAP to replace FOA and provide all necessary functionality currently provided by FOA. If it is determined in the next 12 months that ERP cannot serve as a viable replacement for FOA- IDOT will commence a separate effort/project to replace FOA with a new system. It is anticipated all of these systems will be replaced by December 31, 2022. The unknown at this time is the full replacement of FOA, which may or may not extend out this desired target date for all of the systems to be replaced.

RECOMMENDATION 52
Illinois Environmental Protection Agency (IEPA)

2019-52. The auditors recommend IEPA establish procedures to ensure subrecipient single audit reports are obtained and adequately reviewed within established deadlines and management decisions are issued for all findings affecting its federal programs in accordance with required timeframes.

FINDING: (*Untimely Review of Subrecipient Single Audit Reports)*

IEPA did not obtain and adequately review single audit reports received from its subrecipients for the Capitalization Grants for Clean Water State Revolving Funds (CWSRF) and Capitalization Grants for Drinking Water State Revolving Funds (DWSRF) programs on a timely basis.

IEPA requires subrecipients who expend more than $750,000 in federal awards during the subrecipient's fiscal year to submit a single audit report. IEPA staff are responsible for reviewing these reports and determining whether: (1) the audit reports meet the single audit requirements; (2) federal funds reported in the schedule of expenditures of federal awards (SEFA) reconcile to IEPA records; and (3) Type A programs (as defined by the Uniform Guidance) are being audited at least every three years. Additionally, IEPA staff are responsible for evaluating the type of audit opinion issued (i.e. unmodified, modified, or adverse) and issuing management decisions on findings reported within required time frames.

During their review of a sample of 8 CWSRF subrecipients (with 2018 expenditures of $38,088,368) and 7 DWSRF subrecipients (with 2018 expenditures of $ 7,036,502), auditors noted the following exceptions relative to the single audit desk reviews performed in 2019:

- One DWSRF subrecipient report was not reviewed in a timely manner (within six months of acceptance by the Federal Audit Clearinghouse). The delay in reviewing this report was 329 days after the required timeframe. Federal DWSRF disbursements to the selected subrecipient totaled $171,280 for their fiscal year under audit (2018).
- One DWSRF report was not filed with the FAC within required timeframes, which was not identified by IEPA until eight months after the report was due. This audit report contained 2 DWSRF findings for which a management decision had not been issued by IEPA as of the date of our testing (November 27, 2019). Federal DWSRF disbursements to the sampled subrecipient totaled $778,037 for their fiscal year under audit (2018).

In addition, auditors noted IEPA has not established adequate monitoring controls to ensure all subrecipient audit reports are received and reviewed, and any management decisions are issued as required by the Uniform Guidance.

IEPA's subrecipient expenditures under the federal programs for the year ended June 30, 2019 were as follows:

Program	Total Fiscal Year 2019 Subrecipient Expenditures	Total Fiscal Year 2019 Program Expenditures	Percentage
CWSRF	79,750,000	79,899,000	99.8%
DWSRF	63,136,000	64,879,000	97.3%

Criteria or Requirement:

According to 2 CFR 200.331(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure the 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. Further, 2 CFR 200.331(d)(3) and 2 CFR 200.521(d) state that a pass-through entity is required to issue a management decision on audit findings within six months of acceptance of the subrecipient's audit report by the Federal Audit Clearinghouse and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings.

Additionally, 2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure single audit reports are reviewed in a timely manner and management decision letters are issued within required timeframes.

Cause:

In discussing these conditions with IEPA officials, they stated due to human error a fiscal year end date was not entered into the system and a failure of accounting for other federal funding received by the subrecipient.

Possible Asserted Effect:

Failure to obtain and adequately review subrecipient single audit reports in a timely manner may 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.

Views of IEPA Officials:

Agree. An Agency procedure has been established to issue a management decision letter for all findings issued pertaining to the Federal award. IEPA will not be issuing management letters related to audit findings relating to the financial statements which are required to be reported in accordance with GAGAS. The Agency is adding a Post Loan Monitoring position to the Financial Capability Unit whose primary duties will be Post Loan Monitoring and Single Audit.

RECOMMENDATION 53
Illinois Emergency Management Agency (IEMA)

2019-53. The auditors recommend IEMA establish procedures to ensure: (1) subrecipient single audit reports are obtained and reviewed within established deadlines, (2)

management decisions are issued for all findings affecting its federal programs in accordance with the Uniform Guidance, and (3) follow up procedures are performed to ensure subrecipients have taken timely and appropriate corrective action.

FINDING: (*Inadequate Review of Single Audit Reports)*

IEMA did not adequately review single audit reports received from its subrecipients for the Homeland Security Grant Program on a timely basis.

The State of Illinois established the Grant Accountability Transparency Unit (GATU) to implement the provisions of the State's Grant Accountability and Transparency Act (GATA) on a centralized basis. GATU has established standardized reporting requirements for subrecipients of the various Federal programs administered by the State through its various departments. Subrecipients of the State are required to certify whether they expended more than $750,000 in federal awards during the fiscal year and submitted their single audit reporting packages to the Federal Audit Clearinghouse (FAC), if required. GATU is then responsible for obtaining the single audit reporting package, verifying the report meets the single audit requirements, and assigning, to the applicable State agency, any findings attributable to amounts passed through to the subrecipient(s) by the State.

IEMA staff are responsible for reviewing the reports assigned to them by GATU and determining whether: (1) federal funds reported in the schedule of expenditures of federal awards (SEFA) reconcile to IEMA records and (2) issuing management decisions on findings reported within required time frames.

During their review of a sample of five single audit desk reviews performed during State fiscal year 2019 for 5 subrecipients (with expenditures of $38,265,462), auditors noted IEMA did not communicate the results of single audit desk reviews or issue management decisions on reported findings within six months of acceptance of the single audit report by the FAC. As of the date of our testing (January 15, 2020), auditors noted result letters had not been sent for any of the five subrecipients tested. Additionally, one subrecipient (with expenditures of $23,766,811) had single audit findings which required a management decision.

IEMA's subrecipient expenditures under the Homeland Security Grant Program for the year ended June 30, 2019 were as follows:

Program	Total Fiscal Year 2019 Subrecipient Expenditures	Total Fiscal Year 2019 Program Expenditures	%
Homeland Security Grant Program	$58,424,000	$64,691,000	90.3%

Criteria or Requirement:

According to 2 CFR 200.331(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure the 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. Further, 2 CFR 200.331(d)(3) and 2 CFR 200.521 state that a

pass-through entity is required to issue a management decision on audit findings within six months of acceptance of the audit report by the FAC and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings.

In addition, 2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include implementing procedures and hiring adequate resources to ensure single audit reports are reviewed in a timely manner and management decision letters are issued with required timeframes.

Cause:

In discussing these conditions with IEMA officials, they stated they stated audit reports were not reviewed in a timely manner due to difficulties performing reconciliations of expenditures required by state rules. The GATA system is still being refined, issues within the process has caused much of the delays with completing reviews in a timely manner. The shortage of staff has also played a role in the completion of reviews.

Possible Asserted Effect:

Failure to obtain and review subrecipient single 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. Additionally, failure to issue management decisions within six months of acceptance of the single audit report by the FAC results in noncompliance with federal regulations.

Views of IEMA Officials:

Agreed. IEMA will review and update current procedures to help ensure that subrecipient single audit reports are reviewed with established deadlines, management decisions are issued on all findings related to federal programs and follow up on corrective action taken to resolve any findings.

RECOMMENDATION 54
Illinois Department of Veterans Affairs (IDVA)

2019-54. The auditors recommend IDVA establish procedures to accurately report federal expenditures used to prepare the SEFA to the IOC.

FINDING: (*Inaccurate Reporting of Federal Expenditures)*

IDVA did not accurately report Federal expenditures under the Veterans State Nursing Home Care (Veterans Care) program.

Federal expenditures reported to the Illinois Office of the Comptroller (IOC) which were used to prepare the schedule of expenditure of federal awards (SEFA) did not agree to IDVA's financial records. Specifically, they noted the following differences between amounts provided for audit by

IDVA and the SEFA amounts reported to the IOC for each program for the year ended June 30, 2019:

SEFA Caption	Federal Expenditures Reported in IDVA's Records	Federal Expenditures ly Reported to the IOC	Difference
Federal expenditures	$39,879,000	$40,187,000	($308,000)

Although the difference identified above is not quantitatively material to the SEFA as a whole, the State does not have a process in place to evaluate items of this nature outside of the audit process. Accordingly, an error which may be material to the SEFA (in either quantitative or qualitative terms) could occur and not be detected by the State. The State adjusted the SEFA for the error reported in this finding which resulted in this program being under the Type A threshold. As the program was not identified until December 2019 as potentially being a Type A program and the SEFA error was not corrected by the State until June 2020, the program had already been audited based on our assessment that it was a high risk Type A program December 2019.

Criteria or Requirement:

According to 2 CFR 200.510(b), a recipient of federal awards is required to prepare a schedule of expenditures of Federal awards (SEFA) for the period covered by the entity's financial statements which must include the total Federal awards expended as determined in accordance with 2 CFR 200.502. Among other things required by 2 CFR 200.510(b), the SEFA must include the total amount provided to subrecipients from each Federal program.

Additionally, 2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure federal expenditures are accurately reported on the SEFA.

Cause:

In discussing these conditions with IDVA officials, they stated process improvements were needed for accurate reporting.

Possible Asserted Effect:

Failure to accurately report federal expenditures prohibits the completion of an audit in accordance with the Uniform Guidance which may result in the suspension of federal funding.

Views of IDVA Officials:

Accepted. The Department agrees that when required to submit, established procedures should be implemented to ensure accurate reporting and have implemented new procedures to address.

RECOMMENDATIONS 55-58
Illinois Criminal Justice Information Authority (ICJIA)

2019-55. The auditors recommend ICJIA implement procedures to ensure supporting documentation is maintained for the earmarking requirement applicable to its federal programs. Additionally, procedures should be implemented to ensure earmarking requirements are met by the State.

FINDING: (Failure to Maintain Adequate Documentation for Earmarking Requirements of the Crime Victim Assistance Program)

ICJIA did not maintain adequate documentation to substantiate the earmarking requirements of the Crime Victim Assistance Program were met during the year ended June 30, 2019.

ICJIA is required to earmark a portion of its Crime Victim Assistance award to fund activities relative to victims of crimes in three priority areas designated by USDOJ (10% for each priority area) and to underserved victims (10%). The three priorities designated by USDOJ include sexual assault, domestic and family violence, and child abuse. Additionally, USDOJ has identified underserved victims to include: victims of federal crimes, survivors of homicide victims, or victims of assault, robbery, gang violence, hate and bias crimes, intoxicated drivers, bank robbery, economic exploitation and fraud, and elder abuse.

During their testing of the Illinois State Annual Performance Report for the federal fiscal year ended September 30, 2018 (filed in State fiscal year 2019), auditors noted ICJIA reported the following amounts for each of the earmarking requirements in the 2018 Illinois State Annual Performance Report for the 2015 Crime Victim Assistance Award (2015-VA-GX-0049):

Earmarking Requirement	2015-VA-GX-0049	
	Dollars	Percentage
Sexual assault priority area	$17,906,362	23.0%
Domestic and family violence priority area	24,467,910	32.0%
Child abuse priority area	3,802,886	5.0%
Underserved victims	5,252,346	7.0%

ICJIA was unable to provide documentation to support the amounts reported to meet the three priority area earmarking requirements and the underserved victims earmarking requirements.

Accordingly, auditors were unable to obtain sufficient and appropriate audit evidence to conclude on the earmarking compliance requirement applicable to the Crime Victim Assistance program. In addition, as noted above, the amounts reported for the child abuse priority area and underserved victims did not meet the 10% minimum requirement.

ICJIA has not established appropriate internal controls to ensure earmarking requirements are met and supported in accordance with federal requirements.

Criteria or Requirement:

According to 28 CFR 94.104(a) through (c), the State Administering Agency shall allocate a minimum of ten percent of each year's Victim of Crime Act grant to each of the three priority categories of victims including sexual assault, spousal abuse, and child abuse, and previously underserved victims of violent crime.

Additionally, 2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include implementing procedures to ensure supporting documentation for financial and other award information reported in required financial reports is maintained and earmarking requirements are met.

Cause:

In discussing these conditions with ICJIA officials, they stated the information was not retained due to issues occurring during the transition of reporting systems by the Office for Victims of Crime (OVC).

Possible Asserted Effect:

Failure to maintain supporting documentation for the earmarking requirements prohibits the completion of an audit and prevents the Department of Justice from monitoring the Crime Victim Assistance Program earmarking requirements.

Views of ICJIA Officials:

ICJIA accepts the recommendation and, while there has been no finding from OVC of our accounting for these funds for Federal fiscal year 2015, will implement procedures to ensure supporting documentation is maintained for the earmarking requirement applicable to its federal, and when applicable State, programs.

2019-56. The auditors recommend ICJIA implement risk assessment procedures required by the Uniform Guidance and procedures to ensure monitoring procedures are appropriately performed.

FINDING: *(Failure to Perform Risk Assessment and Adequately Monitor Subrecipients of Crime Victim Assistance Program)*

ICJIA did not perform a risk assessment of subrecipients of the Crime Victim Assistance program as required by the Uniform Guidance. Additionally, ICJIA did not perform programmatic and fiscal on-site visits in accordance with its established monitoring procedures.

The Uniform Guidance requires pass-through agencies to perform a risk assessment to establish appropriate monitoring procedures based upon the risks inherent at each subrecipient. The risk assessment procedures are to include, among other things, the results of recent audits/reviews and the amount of federal funding passed through to the subrecipients. ICJIA is required to monitor subrecipients to determine whether they establish and operate their fiscal system according to the conditions of the award document and to ensure that funds are requested and expended according to the subrecipient's cash needs and eligible costs. ICJIA's monitoring procedures for all subrecipients consists of performing single audit report desk reviews, reviewing fiscal and data reports submitted by subrecipients, and performing periodic program and fiscal site visits.

During their audit procedures, they noted ICJIA had not performed and documented risk assessments for each subrecipient to determine the monitoring to be performed. Accordingly, they were unable to determine the criteria used by ICJIA to select subrecipients for the 41 program and

6 fiscal on-site reviews conducted during the year ended June 30, 2019.

In reviewing the on-site monitoring procedures performed by ICJIA for 13 subrecipients (with expenditures totaling $44,382,994), auditors noted the following exceptions:

- ICJIA's program on-site monitoring reviews included completing a brief checklist to determine whether certain program-specific compliance requirements (activities allowed, matching, and maintenance of effort requirements) and select fiscal activities were being performed in accordance with the grant award. The procedures performed appeared to primarily consist of inquiries of personnel responsible for administering the program at the subrecipient location. ICJIA completed 41 program on-site monitoring reviews during the year ended June 30, 2019.

- ICJIA's fiscal on-site monitoring reviews included more detailed procedures over the various fiscal processes (payroll, procurement, and reporting) impacting compliance requirements applicable to most federal programs. These reviews also included sampling of transactions across multiple awards provided by ICJIA. ICJIA completed 6 fiscal on-site monitoring reviews during the year ended June 30, 2019.

- ICJIA did not consistently document the supervisory reviews of communications of on-site monitoring results to subrecipients in accordance with ICJIA's policies for 9 (69%) subrecipients tested.

ICJIA passed through approximately $58,967,000 of federal funding under the Crime Victim Assistance program during the year ended June 30, 2019.

Criteria or Requirement:

According to 28 CFR 94.106(a), the state administering agency (SAA) shall develop and implement a monitoring plan in accordance with the requirements of this section and 2 CFR 200.331. The monitoring plan must include a risk assessment plan. According to 2 CFR 200.331(b), a pass-through entity must evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward. Additionally, according to 2 CFR 200.331(d), a pass- through entity must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statues, regulations and the terms and conditions of the subaward; and that the subaward performance goals are achieved.

Additionally, 2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include implementing risk assessment procedures required by the Uniform Guidance and ensure monitoring procedures are performed and documented in accordance with established policies and procedures.

Cause:

In discussing these conditions with ICJIA officials, they stated the Victim of Crime Assistance fiscal audit position was vacated midyear resulting in fewer audits conducted for the year and the fiscal policy for assessing grantee risk was not completed by year-end.

Possible Asserted Effect:

Failure to perform required risk assessments and adequately monitor subrecipients results in noncompliance and may result in subrecipients not properly administering the federal programs in accordance with laws, regulations, and the terms and conditions of the award.

Views of ICJIA Officials:

ICJIA accepts the recommendation and will implement risk assessment procedures required by the Uniform Guidance and procedures to ensure monitoring procedures are appropriately performed.

2019-57. The auditors recommend ICJIA implement procedures to ensure personnel performing cash draws possess adequate knowledge to perform the draws in accordance with applicable Treasury Regulations.

FINDING: (*Failure to Perform Cash Draws in Accordance with Treasury Regulations)*

ICJIA did not perform its cash draws for the Crime Victim Assistance program in accordance with Treasury regulations.

Treasury regulations require ICJIA to minimize the time between the receipt of federal funds for the Crime Victim Assistance program and the disbursement of those funds for program purposes (defined as within 10 days of receipt). ICJIA typically determines the federal draw amount for the Crime Victim Assistance program based upon invoices that have been approved for payment by ICJIA and the expected payroll expenditures each period.

During their review of 25 cash draws (totaling $56,891,246) for the Crime Victim Assistance program during the year ended June 30, 2019, the auditors noted one draw tested (in the amount of $15,000,000) in which ICJIA requested funds in excess of the amount expected to be approved for payment within 10 days (amount approved for payment totaled $3,861,251) resulting in an advance of $11,138,749. ICJIA had requested the excess funding for expenditures expected to be paid in January, February, and March in anticipation of a potential federal government shut down in December 2018. ICJIA also used this advance to fund expenditures totaling $3,309,902 which were paid between 11 and 27 days after the receipt of federal funding. ICJIA returned $7,828,847 to the USDOJ on February 27, 2019.

Upon further review of other draws made during this timeframe, auditors noted ICJIA had also requested funding in advance for expected payroll and administrative expenditures (totaling $800,000). ICJIA expended these funds in their entirety and, accordingly, no funds were returned to the USDOJ; however, $761,947 funded expenditures were paid between 12 and 38 days after the receipt of federal funding.

Supervisory reviews and other monitoring procedures did not prevent the advance draws performed by ICJIA in anticipation of the federal government shut down. Additionally, approval was not requested from the USDOJ to perform these advance draws.

Criteria or Requirement:

The Treasury Regulations at 31 CFR part 205 (Treasury Regulations) require programs with less than $69,347,000 in expenditures to follow Subpart B rules applicable to Federal Assistance

Programs not included in a Treasury-State Agreement. According to 31 CFR 205.33(a), grantees following Subpart B are required to implement procedures to ensure that the timing and amount of fund transfers be as close as is administratively feasible to a State's actual cash outlay for program costs. The December 2017 Department of Justice Financial Guide section 3.1 states "organizations should request funds based upon immediate disbursement/reimbursement requirements. Draw down requests should be timed to ensure that Federal cash on hand is the minimum needed for disbursements/reimbursements to be made immediately or within 10 days. If not spent or disbursed within 10 days, funds must be returned to the awarding agency".

Additionally, 2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include adequate training for employees to ensure that Federal cash draws are performed in accordance with the Treasury Regulations and award specific cash management requirements.

Cause:

In discussing these conditions with ICJIA officials, they stated they believed they were permitted to draw in advance of expenditures to maintain operations during the government shutdown which began December 21, 2018.

Possible Asserted Effect:

Failure to draw funds in accordance with the Treasury Regulations results in noncompliance.

Views of ICJIA Officials:

ICJIA accepts the recommendation. ICJIA has procedures in place that keep us in compliance with the Treasury Regulations and with USDOJ's rules, our staff have the training and knowledge to perform drawdowns in accordance with applicable Treasury Regulations. In the event the agency is faced with those extremely rare emergency situations, management will seek advice from the Governor's Office of Management and Budget to make any possible changes to our agreement with Treasury for purposes of protecting the services afforded to victims of crime and avoiding hardship of our grantees. ICJIA's management understands the importance of compliance with Treasury Regulation and the USDOJ Financial Guide at all times and to seek prior approval for advances when those rare and unusual circumstances present themselves. However, after considering the feasibility of other options, like furlough days or shifting the federal payroll to our General Revenue Fund, the agency decided that to protect our grantees as well as ICJIA staff, it would draw down funds in advance while there was still an opportunity. Inasmuch as doing so resulted in a brief period of noncompliance with USDOJ's 10-day rule for disbursements, it allowed the agency to act in the best interests of our programs and the people they serve.

2019-58. The auditors recommend ICJIA implement additional review procedures necessary to ensure the reports are complete, accurate, and agree or reconcile to its financial records. We also recommend ICJIA ensure supervisory review procedures are performed and documented.

FINDING: (Inadequate Controls over Financial Status Reports)

ICJIA does not have adequate controls in place to ensure amounts reported on the federal financial status report (SF-425) are complete and accurate.

ICJIA is required to prepare financial status (SF-425) reports on a quarterly basis for each Crime Victim Assistance grant and a final report once the grant is closed. During our review of six quarterly reports and one final SF-425 report submitted during the year ended June 30, 2019, auditors noted supervisory review procedures were not performed for the one final SF-425 report submitted.

In addition, they noted the total recipient share of expenditures ($18,054,012) reported on the one final SF- 425 submitted for the Federal fiscal year 2015 Crime Victim Assistance grant did not agree to supporting documentation. Specifically, during our review of 25 subrecipient matching contributions (totaling $9,222,734) included in a spreadsheet prepared to support the SF-425 report, auditors noted three matching contributions did not agree to the underlying expenditure reports submitted by subrecipients. As a result of these errors, the total recipient share of expenditures was overstated by $504.

Criteria or Requirement:

2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure financial and other award information reported in required financial reports is accurate prior to submission.

Cause:

In discussing these conditions with ICJIA officials, they stated turnover resulted in the submission of the report without a supervisory review in order to meet the reporting deadline.

Possible Asserted Effect:

Failure to establish adequate controls may result in inaccurate financial reports which prevents the USDOJ from effectively monitoring the Crime Victim Assistance Program.

Views of ICJIA Officials:

ICJIA accepts the recommendation and will implement procedures to ensure reports are complete, accurate and reconcile to its financial records. The Agency will also provide adequate supervisory review is performed and documented.

RECOMMENDATION 59
Illinois Department of Commerce and Economic Opportunity (DCEO)

2019-59. The auditors recommend DCEO establish procedures to ensure subrecipient single audit reports are obtained and reviewed within established deadlines and management decisions are issued for all findings affecting its federal programs in accordance with required timeframes.

FINDING: *(Inadequate Review of Subrecipient Single Audit Reports)*

DCEO did not adequately review single audit reports for subrecipients of the Workforce Innovation and Opportunity Act Cluster (WIOA) program.

The State of Illinois established the Grant Accountability Transparency Unit (GATU) to implement the provisions of the State's Grant Accountability and Transparency Act (GATA) on a centralized basis. GATU has established standardized reporting requirements for subrecipients of the various Federal programs administered by the State through its various departments. Subrecipients of the State are required to certify whether they expended more than $750,000 in federal awards during the fiscal year and submit their single audit reporting packages to the Federal Audit Clearinghouse (if required). GATU is then responsible for obtaining the single audit reporting package, verifying the report meets the single audit requirements, and assigning, to the applicable State agency, any findings attributable to amounts passed through to the subrecipient(s) by the State.

DCEO staff are responsible for reviewing the reports assigned to them by GATU and determining whether: (1) federal funds reported in the schedule of expenditures of federal awards (SEFA) reconcile to DCEO records and (2) issuing management decisions on findings reported within required time frames.

During their test work of a sample of single audit desk review files for 25 WIOA Cluster subrecipients (with amounts passed-through totaling $105,121,000), auditors noted the following:

- DCEO did not issue management decisions on reported findings within 6 months of acceptance of the single audit report by the Federal Audit Clearinghouse (FAC) as required for one subrecipient. As of the date of our testing (May 6, 2020), a management decision letter had not been issued. Amounts passed through to this subrecipient during the year ended June 30, 2019 were $2,719,000.
- DCEO did not obtain or review the single audit report for one subrecipient. Amounts passed through to this subrecipient during the year ended June 30, 2019 were $646,000.

Auditors noted DCEO passed through approximately $131,987,000 to subrecipients of the WIOA cluster programs during the year ended June 30, 2019.

In addition, they noted DCEO has not established adequate monitoring controls to ensure subrecipient audit reports are reviewed and any management decisions are issued as required by the Uniform Guidance.

Subrecipient expenditures under the federal programs for the year ended June 30, 2019 were as follows:

Program	Total Fiscal Year 2019 Subrecipient Expenditures	Total Fiscal Year 2019 Program Expenditures	Percentage
WIOA Cluster	$131,987,000	$144,654,000	91.2%

Criteria or Requirement:

According to 2 CFR 200.331(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure the 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.

Further, 2 CFR 200.331(d)(3) and 2 CFR 200.521 state that a pass-through entity is required to issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes timely and appropriate corrective action on all

audit findings.

Additionally, 2 CFR 200.303 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 to ensure (1) federal awards passed through to subrecipients have been properly included in the subrecipient's single audits, (2) subrecipients expending $750,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of Uniform Guidance, including that the audits are completed within nine months after the end of the subrecipient's fiscal year end, (3) the subrecipient audit reports are reviewed in a timely manner, and (4) management decisions on reported findings are issued within six months after acceptance of the subrecipient's audit reports by the Federal Audit Clearinghouse.

Cause:

In discussing these conditions with DCEO officials, they stated that the State of Illinois implemented the Audit Report Review Management (ARRM), a centralized system for managing 2 CFR 200 requirements relevant to single audit reviews of subrecipients. These exceptions occurred as a result of the State of Illinois and DCEO implementing and acclimating to that system.

Possible Asserted Effect:

Failure to obtain and review subrecipient single audit reports in a timely manner may 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.

Views of DCEO Officials:

DCEO agrees with the recommendation.

RECOMMENDATIONS 60-69
Illinois Department of Employment Security (IDES)

2019-60. The auditors recommend IDES review its current procedures and consider any changes necessary to ensure supporting documentation for payroll and related costs is maintained in accordance with the applicable federal regulations.

FINDING: (*Failure to Provide Supporting Documentation for Payroll and Related Costs)*

IDES could not provide adequate supporting documentation to substantiate payroll and related costs claimed for federal reimbursement under the Employment Service Cluster program.

The Employment Service Cluster program is an administrative grant program which primarily funds personal service costs, fringe benefit expenditures, and indirect costs which are allocated to its Federal and State programs through the use of cost centers established for each of IDES' activities and programs. On a bi-weekly basis, IDES employees complete and sign manual effort reports (time sheets) to report and certify their time according to the appropriate cost centers. These effort reports are then reviewed and approved by the employee's immediate supervisor. Time sheets are manually entered in the time reporting system which is used to accumulate the

costs related to each cost center. Cost center data from the time reporting system is used to identify personal service expenditures attributable to IDES' State and federal programs and to calculate and allocate the related fringe benefit charges and indirect costs.

During their testing of 25 direct payroll expenditures charged to the Employment Service Cluster program (totaling $74,900) during the year ended June 30, 2019, they noted effort reports (supporting payroll expenditures sampled of $21,550) for nine Employment Service Cluster employees could not be provided for testing. IDES personnel stated they were unable to physically access their offices to locate the files as of the date of our testing (July 29, 2020) and were unable to provide a date on which they would be able to physically access the files. As a result, auditors were unable to determine whether the payroll and fringe benefit expenditures, as well as related indirect costs, were appropriately supported in accordance with federal requirements. Accordingly, they were unable to determine if the payroll, fringe benefits, and indirect costs were allowable or met earmarking requirements, if applicable.

Personal service expenditures, fringe benefits, and indirect costs charged to the ES Cluster program for the year ended June 30, 2019 were as follows:

Expenditure Type	Employment Service Cluster
Direct payroll	$13,257,000
Fringe benefits	$11,558,000
Indirect costs	$9,547,000
Total	$34,362,000

Criteria or Requirement:

2 CFR 200.403 establish 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.

According to 2 CFR 200.430(i), charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must be, among other things, supported by a system of internal control, comply with the established accounting policies and practices of the non-Federal entity, and support the distribution of the employee's salary or wages amount specific activities or cost objectives if the employee works on more than one federal award, activity, or cost objective.

In addition, 2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. IDES Procedure 2005.403 requires (1) IDES employees to prepare and sign their timesheets and to turn them into their supervisors for review; (2) IDES managers are to ensure the completeness and accuracy of employee timesheets and sign-off prior to entry into the time keeping system (3) IDES Expenditure Control/Payroll is to retain original copies of timesheets for a period of three years before they are transferred to external storage for an additional two years. Effective internal controls should include procedures to ensure required documentation is obtained to support payroll and related costs and to maintain documentation evidencing management approval of payroll information.

Cause:

In discussing these conditions with IDES officials, they stated personnel were unable to return to their offices to locate supporting documentation due to COVID-19 restrictions.

Possible Asserted Effect:

Failure to provide adequate documentation for payroll and related costs inhibits our ability to perform an audit in accordance with professional standards and may result in the federal funds being expended for unallowable purposes.

Views of IDES Officials:

The Department accepts this audit finding and will confer with senior management to implement a process to require timely submission of required timesheets.

2019-61. The auditors recommend IDES implement adequate internal control procedures over information systems used to document compliance with requirements applicable to its federal programs.

FINDING: (*Failure to Establish Adequate Controls Over Information Systems Used to Document Compliance with Certain Administrative Grants)*

IDES has not established adequate controls over the Enterprise Resource Planning (ERP) system used to document its compliance with certain requirements of administrative grants of the Employment Service Cluster and Unemployment Insurance (UI) programs.

Certain compliance requirements for the UI program are dependent on queries and other reports generated from data recorded within the State's ERP application. During their audit, they noted IDES was unable to provide a Service Organization Control (SOC) report covering the ERP application or the general information technology controls relevant to the ERP. As a result, auditors were unable to obtain sufficient and appropriate audit evidence relative to several direct and material compliance requirements as follows:

- IDES management was unable to provide supporting documentation which agreed to or could be reconciled to UI administrative cash draw requests made during the year ended June 30, 2019.
- IDES management was unable to demonstrate the population of UI administrative grant adjustments was complete and accurate due to ERP data integrity issues.
- Financial and special reports prepared by IDES for the Employment Service Cluster and UI programs were based upon queries of ERP data which could not be reperformed or tested for completeness and accuracy.

Additionally, they noted indirect costs are calculated within the ERP and are automatically recorded in the applicable program general ledger account. While auditors were able to recalculate a sample of indirect charges, they were not able to test the general information technology controls to rely on the application controls and IDES has not established any other manual controls over the calculation of indirect costs.

IDES reported total Employment Service Cluster and UI administrative expenditures of approximately $41,197,000 and $131,450,000, respectively, in the SEFA as of and for the year ended June 30, 2019.

Criteria or Requirement:

According to 2 CFR 200.302, each State must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions, and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.

In addition, 2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include maintaining adequate supporting cash draws for administrative cash draw requests, adjustments, and financial and special reports for the federal programs.

Cause:

In discussing these conditions with IDES officials, they stated gaps in data accuracy and ERP reporting capabilities are caused by resource limitations both at IDES and DoIT.

Possible Asserted Effect:

Failure to establish effective internal controls over information systems results in noncompliance and may inhibit the completion of the single audit.

Views of IDES Officials:

The Department accepts this finding and will continue to pursue the development of accurate federal reports and the remediation of the asset data in the ERP system with DoIT.

2019-62. The auditors recommend IDES implement procedures to ensure access to its information systems is adequately secured and user access reviews are performed. In addition, they recommend IDES implement procedures to verify relevant general IT controls are properly designed, implemented, and operating effectively for information systems administered by other State agencies which are used to meet compliance objectives of IDES' federal programs.

FINDING: (*Inadequate Controls over Information Systems)*

IDES does not have adequate controls over the information systems that support the Unemployment Insurance (UI) Program to remove terminated users in a timely manner.

The information technology systems that support the UI Program include the following:

- The Illinois Benefits Information System (IBIS)
- The Benefit Charging System (BCS)
- The Overpayment Recovery System (ORS)
- The Benefits Audit and Reporting System (BARTS)

The IBIS is the centrally maintained information system designed to perform and document claimant eligibility determinations, to process claims for unemployment insurance benefits, and to assist IDES in complying with the requirements of the UI Act rules, policies, and procedures applicable to the UI benefits. IBIS also interfaces with GenTax, an application administered by the Illinois Department of Revenue (IDOR), which is used to calculate the UI employer tax amount and store all of the employer wage data and remittance information for UI taxes, including the employer setup information. GenTax replaced the Wage Information System (WIS) and the Benefit Funding System (BFS), which were legacy systems used to administer UI tax in the State of Illinois. The BCS is the system that charges the employment tax rates to the employer accounts. The ORS is designed to detect and report over payments and the BARTS helps detect, determine and collect UI fraudulent claims.

Access to the information systems that support the UI Program is done through the mainframe system utilizing a security software system. The security software utilizes specific, individually assigned identifiers which control/limit access to the systems that support the UI Program.

Requests for new system access or termination of access must be approved by the cost center manager through the use of the TSS-001 Form. Each pay period, a job is run to check employee status against the personnel database. When this job identifies employees who have terminated, the user ID for the individual is automatically deleted. Any modification of access must also be approved by the cost center manager through the use of the TSS-006 Form. It is the cost center manager's responsibility to determine the proper on-line access for each employee.

During their test work over the access, program change and development, and computer operations controls over the applications identified above, auditors noted the following:

- User access review procedures were not performed for three of the 15 cost centers sampled in our testing.
- Access rights were terminated more than 15 days after the payroll termination date for two out of 15 terminated mainframe users tested. Delays in terminating access ranged from 1 to 22 days.

Additionally, auditors noted IDES has not established adequate controls over compliance to ensure the data it receives from the GenTax system is complete and accurate to meet the compliance objectives of the UI program. During our consideration of application controls over the employer experience rating and the Federal Unemployment Tax Act (FUTA) match compliance requirements and ETA 581 financial reports, they noted the following exceptions in our testing of general IT controls:

- A proper segregation of duties has not been established for changes to the application. Specifically, auditors noted 22 GenTax users have the ability to modify production code and data, as well as the ability to migrate changes into production. As a result, these individuals may introduce unintentional changes into production that may not be detected.
- Access rights were terminated more than 15 days after the payroll termination date for one out of 15 terminated GenTax users tested. The delay in terminating access was 23 days.

Criteria or Requirement:

2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include ensuring the information systems associated with the administration of IDES' federal programs, including applications not directly administered by IDES, are adequately secured, have proper change management controls in place, and that user access reviews are performed.

Cause:

In discussing these conditions with IDES officials, they stated they stated the Department has not held individuals responsible for completing security reviews in a timely manner. Regarding the lack of segregation of duties, the security profiles were not configured to restrict these functions.

Possible Asserted Effect:

Failure to adequately secure the information systems that are used to administer the federal programs could result in noncompliance with laws, regulations and the grant agreement.

Views of IDES Officials:

IDES accepts the finding and will further implement procedures to ensure the timely review of semi-annual RACF access reviews by reporting potential violations to the IDES Chief of Staff for corrective action (i.e. review and submission of the report). Also, IDES will use the notices of separation submitted via email from the Human Resource Manager as the basis for termination RACF and GenTax termination documents effective the business day following termination. With regard to the segregation of duties for GenTax developers, a restriction was implemented in the GenTax migration tool that enforces a 2nd party review and approval of all code changes prior to being implemented in production. This change was implemented on February 20, 2019.

2019-63. The auditors recommend IDES develop and implement written procedures to improve UI program integrity and reduce overpayments that incorporate the required monetary penalty on fraud overpayments and prohibit providing relief to employers who fail to provide timely and adequate responses to information requests.

FINDING: (*Failure to Implement UI Program Integrity and Overpayment Reduction Requirements)*

IDES did not implement Federal requirements to improve program integrity and reduce overpayments.

The State is required to establish written procedures for: (1) identifying overpayments, (2) classifying overpayments into categories based on the reason the overpayment occurred (i.e. employer error, non- response from employers, beneficiary fraud, etc.), and (3) establishing appropriate methods for following up on each category of overpayment. In establishing these procedures, the State is required to enter into three agreements prior to commencing recoveries.

The first agreement permits the State to offset State UI from Federal UI overpayments (Cross Program Offset and Recovery Agreement). The second agreement permits the State to recover overpayments from benefits being administered by another State (Interstate Reciprocal Overpayment Recovery Agreement). The third agreement permits the State to utilize the Treasury Offset Program to recover overpayments that remain uncollected one year after the debt was determined to be due. Additionally, the State is (1) required to impose a monetary penalty (not less than 15 percent) on claimants whose fraudulent acts resulted in overpayments, and (2) prohibited from providing relief from charges to employer's UI account when overpayments are the result of the employer's failure to respond timely or adequately to a request for information.

During their test work, auditors noted that while IDES has developed the written procedures relative to overpayments and entered into the required agreements described in the previous paragraph, the written procedures did not address the requirement to impose a monetary penalty on fraud overpayments. Additionally, they noted the policies do not address the prohibition of providing employers relief resulting from an employer failing to provide timely or adequate information.

Criteria or Requirement:

42 U.S.C. 503(a)(11)(A) requires States to impose a monetary penalty (not less than 15 percent) on claimants whose fraudulent acts resulted in overpayment. In addition, 26 U.S.C. 3303(f)(1)(A) prohibits States from providing relief from charges to an employer's UI account when overpayments are the result of the employer's failure to respond timely or adequately to a request for information.

26 U.S.C. 3304(a)(4)(D) and 42 U.S.C. 503(g)(1) require States to recover overpayments through offset against UC payments. In addition, 42 U.S.C.503(m) requires States to utilize the Treasury Offset Program for overpayments that remain uncollected one year after the debt was determined to be due.
In addition, 2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include procedures in place to ensure program integrity and overpayment reduction requirements are implemented.

Cause:

In discussing these conditions with IDES officials, they stated the implementation of an adjacent project contributed to the delay in completing the 15% fraud penalty. In addition, IDES continued to have difficulty in determining the best method for implementing the non-charging prohibition and additional time was needed in order to respond to the concerns and suggestions of multiple external stakeholders.

Possible Asserted Effect:

Failure to implement Federal requirements could result in noncompliance with laws, regulations and the grant agreement.

Views of IDES Officials:

The Department accepts this finding. The 15% penalty on fraud overpayments was implemented December 2019. The department also identified a process to implement the prohibition on non-charging due to employer fault per federal guidelines and passed a rule governing the process in July 2020.

2019-64. The auditors recommend IDES improve efforts to complete and document the resolution of each claim on the exception and monitoring report (including supervisory review) in a timely manner.

FINDING: (*Inadequate Documentation of Resolution of Exceptions and Supervisory Review of the Claim Exception and Monitoring Reports)*

The IDES local offices did not clearly document the resolution of the issues identified on the claim exception and monitoring reports and the reports did not always indicate that a supervisory review had been performed.

The IDES Central Office generates several system (exception and monitoring) reports to facilitate proper payment of Unemployment Insurance (UI) benefits, which are distributed to and monitored by personnel at local IDES offices. In accordance with federal program emphasis, several of the common reports reviewed locally are designed to report claims with unresolved issues that are preventing payment as a tool to ensure payments to eligible individuals are made timely. These reports include the following:

- *Certification Batch Reconciliation Report (CCP002R)* – This report identifies the batches of paper eligibility certifications entered each day as completed or pending. Batches identified as pending are reviewed, processed, certified, and filed by the local office each day.

- *Appeals Requiring Local Action Report (APL011R)* – This report identifies all appealed claims with a central office action that is in conflict with the initial local office action. These claims are reviewed by the local office to ensure the resulting payment actions are appropriate.

- *TRA modified WBA/DC Report (CLI014R)* – This report identifies any changes to a TRA claimant's information and provides the local office with a detailed listing of all manual changes made to the weekly benefit amount (WBA) or dependent information. The case records are reviewed centrally at IDES for claimants identified on this report to ensure appropriate documentation exists to support the changes.

- *Determination End Date Report (CLI011R)* – This report identifies all new claims that were stopped because of an issue that should have been resolved at the time the claim was filed. These claims are reviewed by the local office prior to the first certification to prevent late payments.

Auditors selected a sample of reports to inspect for each of the key reports identified above. The sample included all applicable local and regional office locations. They reviewed a total of 83 reports and noted that resolution of exceptions and supervisory review was not documented and performed on a consistent basis. Specifically, they noted five exception and monitoring reports

did not contain evidence of being worked by the local office staff in a timely manner.

Criteria or Requirement:

2 CFR 200.303 require non-Federal entities receiving Federal awards to 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 adequate timely follow up and documentation of review of claim exception reports.

Cause:

In discussing these conditions with IDES officials, they stated the designated staff assigned to review the reports were having computer problems which were not resolved in a manner that allowed for timely review of reports. In another instance, the designee was absent for several days. In each case, the backup reviewer was not activated.

Possible Asserted Effect:

Failure to adequately document resolution of claim and monitoring reports could result in the payment of UI benefits to ineligible claimants, which are unallowable costs.

Views of IDES Officials:

The Department accepts this finding. The Department has already revisited the procedures with regional management teams and has made them aware of the finding. Regional management teams have followed up with designated report reviewers and counseled them on the proper procedure. Completed reports are sent to the regional management team as verification of proper completion.

2019-65. The auditors recommend IDES review its procedures for preparing financial reports required for the UI program and implement analytical and any other procedures considered necessary to ensure the reports are accurate prior to submission to the USDOL.

FINDING: (*Inadequate Process for Preparing UI Financial Reports)*

IDES does not have an adequate process in place to ensure all financial reports prepared for the Unemployment Insurance (UI) program are accurate.

On a quarterly basis, IDES is required to report information on overpayments of intrastate and interstate UI claims under the regular State UI program and under federal UI programs, including Unemployment Compensation for Federal Employees (UCFE) and Unemployment Compensation for Ex-Service Members (UCX) on the *ETA 227 – Overpayment Detection and Recovery Activity* (ETA 227) report. The information required to be reported includes the number and dollar amounts of claims with overpayments during the quarter identifying what caused the overpayment and how it was detected. An aging and reconciliation of outstanding overpayments is also required to be reported.

During their test work of two quarterly ETA 227 reports, they noted the amounts reported by IDES on several required line items did not agree to the supporting documentation provided by IDES

during our audit. The errors identified related to the number of fraud and non-fraud overpayment cases established (Section B), the dollar amount recovery of the overpayments (Section C), and the aging of the benefit overpayment accounts (Section E). As of the date of our test work (February 26, 2020), IDES had not revised the report or reconciled any of the differences identified.

Additionally, in considering the reporting process for all required financial reports, auditors noted adequate internal controls have not been established to ensure reports prepared by IDES personnel are accurate. Specifically, they noted IDES does not perform analytical or other procedures during the report preparation process or supervisory reviews to ensure amounts reported are reasonable in relation to previously reported information or expectations relative to current program activities.

Criteria or Requirement:

According to ET Handbook 401, 5th Edition, IDES is required to submit quarterly overpayment detection and recovery activity reports (known as ETA 227 reports) by the first day of the second month after the quarter of reference.

In addition, 2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include procedures to ensure the accuracy of information reported in required financial reports.

Cause:

In discussing these conditions with IDES officials, they stated the discrepancies are a result of a currently manual process to compile the reports with data from multiple systems that do not interact.

Possible Asserted Effect:

Failure to establish adequate reporting controls may result in inaccurate reports which prevents the USDOL from effectively monitoring the UI program.

Views of IDES Officials:

The Department accepts the finding and is still in the process of integrating the functionality of legacy benefit payment control systems into the Illinois Benefit Information System (IBIS). This integration will provide for a single data source for reporting financial activity related to benefit overpayments. Though delayed multiple times, the project is near completion. The goal is to produce the ETA 227 report for the 1st quarter of 2021 which is scheduled to be submitted to ETA May 1, 2021.

2019-66. The auditors recommend IDES review its procedures for preparing the ETA 581 financial reports required for the UI program and any additional procedures

considered necessary to ensure the reports are complete and accurate prior to submission to the USDOL.

FINDING: (*Inadequate Process for Preparing ETA 581 Financial Report)*

IDES does not have an adequate process in place to ensure the ETA 581 financial reports prepared for the Unemployment Insurance (UI) program are complete and accurate.

On a quarterly basis, IDES is required to report information on volume of work and State agency performance in determining the taxable status of employers and the processing of wage items, on the collection of past due contributions and payments in lieu of contributions, on delinquent reports, on field audit activity, and on other information pertinent to the overall effectiveness of the tax program on the *ETA 581 – Contribution Operations* (ETA 581) report. IDES uses data from the Illinois Department of Revenue's (IDOR) GenTax system to prepare the quarterly ETA 581 reports.

During their test work of two quarterly ETA 581 reports, they noted several differences between the submitted reports and supporting documentation provided for our testing of receivable amounts reported for employers. IDES determined the differences in the amounts reported in the initial submission of the reports to USDOL resulted from incomplete and inaccurate system generated reports from the GenTax application; however, subsequent attempts to correct these reports identified additional data errors that have not been resolved by IDES. As of the date of our testing (April 2, 2020), IDES has been unable to determine if the information reported in the ETA 581 reports is complete and accurate for any of the quarterly reports submitted during the year ended June 30, 2019.

In considering the reporting process for the ETA 581 reports, auditors noted adequate internal controls have not been established to ensure reports prepared by IDES personnel are complete and accurate. Specifically, they noted IDES does not perform analytical or other procedures during the report preparation process or supervisory reviews to ensure amounts reported are reasonable in relation to previously reported information or expectations relative to current program activities. Additionally, system generated reports are not sufficiently tested by IDES management to determine if all required and relevant data has been reported.

Criteria or Requirement:

According to ET Handbook 401, 5th Edition, IDES is required to submit quarterly contribution operations reports (known as ETA 581 reports) by the 20th day of the second month following the quarter to which it relates.

In addition, 2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include procedures to ensure the completeness and accuracy of information reported in required financial reports.

Cause:

In discussing these conditions with IDES officials, they stated in the past there has been an issue where converted data was causing a shifting on previous submitted ETA 581 reports to DOL. This

shifting was the result of staff conducting maintenance on these converted accounts.

Possible Asserted Effect:

Failure to establish adequate reporting controls may result in incomplete and inaccurate reports which prevents the USDOL from effectively monitoring the UI program.

Views of IDES Officials:

IDES has accepted this finding and the following procedures that were implemented after the previous findings. IDES Federal Reporting Team along with the GenTax developers have implemented the procedures where the ETA 581 is run and tested in Illinois Production Staging (Testing Environment) which is a mirror image of Illinois Production (Live Environment). Once the ETA 581 is produced in Illinois Production Staging, the Federal Reporting Team begin to analyze the data from the previous quarter ending balances to the current quarter beginning balances to ensure the data is not shifting. If there are no errors or issues in Illinois Production Staging, then the report is then run in Illinois Production for submission to ETA/DOL. These procedures have resulted in IDES ensuring that the ETA 581 Reports are complete and accurate.

2019-67. The auditors recommend IDES implement procedures to ensure all required financial reports for the Employment Service Cluster are prepared and submitted to the USDOL or obtain clarification of the applicability of the reporting requirement from USDOL.

FINDING: (*Failure to Prepare and Submit Federal Financial Reports)*

IDES did not prepare and submit federal financial reports for the Employment Service Cluster.

IDES is required to prepare quarterly federal financial reports (SF-425) for Disabled Veterans' Outreach Program (Disabled Veterans') and Local Veterans' Employment Representative (Local Veterans') Program grants included in the Employment Service Cluster for submission to the USDOL. During our test work, management could not provide SF-425 reports for any Disabled Veterans' or Local Veterans' grants during the year ended June 30, 2019 as they had not prepared these reports. Accordingly, adequate internal controls have not been established to ensure required financial reports are prepared and submitted by IDES.

Criteria or Requirement:

According to the USDOL's Management Procedures & Guidelines manual, awardees must submit quarterly SF-425 financial reports no later than 30 days after the end of each quarter.

In addition, 2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include procedures to ensure all financial reports are prepared and submitted to the USDOL as required.

Cause:

In discussing these conditions with IDES officials, they stated they disagree with the finding as they do not believe the SF-425 reports are required.

Possible Asserted Effect:

Failure to prepare and submit financial reports results in noncompliance with program requirements and inhibits USDOL from effectively monitoring the Employment Service Cluster.

Views of IDES Officials:
The Department disagrees with this finding and is waiting for a response from the DOL on the matter.

Auditors' Comment:

As discussed in the finding above, IDES is required to submit the SF-425 financial reports to the USDOL no later than 30 days after the end of each quarter. We recommend IDES obtain clarification of the applicability of this reporting requirement from USDOL if the agency does not believe this is a required report.

2019-68. The auditors recommend IDES establish procedures to accurately report federal expenditures used to prepare the SEFA to the IOC.

FINDING: (*Inaccurate Reporting of Federal Expenditures)*

IDES did not accurately report Federal expenditure information under the Employment Service Cluster and Unemployment Insurance program.

Federal expenditures reported to the Illinois Office of the Comptroller (IOC) which were used to prepare the schedule of expenditure of federal awards (SEFA) did not agree to IDES' financial records. Specifically, auditors noted the following differences between amounts provided for audit by IDES and the SEFA amounts reported to the IOC for each program for the year ended June 30, 2019:

Federal Program	Federal Expenditures Reported in IDES' Records	Federal Expenditures Initially Reported to the IOC	Difference
Employment Service Cluster	$41,197,000	$42,162,000	($965,000)
Unemployment Insurance	$1,755,706,000	$1,760,036,000	($4,330,000)

Although the differences identified are not quantitatively material to the SEFA, as a whole, the State does not have a process in place to evaluate items of this nature outside the audit process, as discussed in finding 2019-001. Accordingly, any error which may be material to the SEFA (in quantitative or qualitative terms) could occur and not be detected by the State. The State adjusted the SEFA for the errors reported in this finding.

Criteria or Requirement:

According to 2 CFR 200.510(b), a recipient of federal awards is required to prepare a schedule of expenditures of Federal awards (SEFA) for the period covered by the entity's financial statements which must include the total Federal awards expended as determined in accordance with 2 CFR 200.502. Among other things required by 2 CFR 200.510(b), the SEFA must include the total amount provided to subrecipients from each Federal program.

Additionally, 2 CFR 200.303 requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure federal expenditures are accurately reported on the SEFA.

Cause:

In discussing these conditions with IDES officials, they stated the error was a result of the constraints of the State Comptroller Office (SCO) 563 form used to report this information.

Possible Asserted Effect:

Failure to accurately report federal expenditures prohibits the completion of an audit in accordance with the Uniform Guidance which may result in the suspension of federal funding.

Views of IDES Officials:

The Department agrees with the finding and will continue to work with the Comptroller to arrive at a resolution. Upon determining a mutually beneficial solution with IOC, IDES will establish new procedures to accurately report the expenditures meeting the requirements and needs of both the IOC and SEFA.

2019-69. The auditors recommend IDES review its internal control procedures and implement additional procedures to ensure fringe benefit expenditures charged to federal programs are complete and accurate.

FINDING: (*Inadequate Controls over Fringe Benefits Costs Charged to Federal Programs)*

IDES does not have adequate controls in place over determining fringe benefits to be charged to the Employment Service Cluster and Unemployment Insurance (UI) programs.

Personal service (payroll and fringe benefits) expenditures are approved on an annual basis (or more frequently if needed) through the completion of the Department of Central Management Services (DCMS) employee information (CMS-2) forms which are filed within each employee's personnel file. Among other things, the CMS-2 form details the employee's approved salary, job code, and cost center. On an annual basis, DCMS establishes rates for group insurance fringe benefit charges (including health insurance, dental insurance, and life insurance) to be used by all State agencies to determine the insurance premiums to be paid for State employees.

During their testing of 25 fringe benefit expenditures (totaling $44,000) charged to the Employment Service Cluster and 40 fringe benefit expenditures (totaling $58,000) charged to the

UI program, auditors noted the life insurance fringe benefit premiums were not charged to the UI program for four employees with premiums totaling $96. Upon further review resulting from our audit procedures, IDES determined the life insurance premiums for all employees who did not also elect corresponding health and dental benefits were not charged to any federal program during the pay periods from July 15 to December 15, 2018. IDES determined this error effected 47 employees with premiums totaling $5,576.

While the unreported fringe benefit charges are not material, auditors noted IDES has not established adequate monitoring or other internal control procedures to ensure the fringe benefit amounts claimed to its federal programs are complete and accurate.

Fringe benefits charged to the Employment Service Cluster and UI programs during the year ended June 30, 2019 totaled $11,558,000 and $34,679,000, respectively.

Criteria or Requirement:

According to 2 CFR 200.303, nonfederal entities are required to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include procedures to ensure the completeness and accuracy of fringe benefit expenditures.

Cause:

In discussing these conditions with IDES officials, they stated this was a system error with the human resource application that impacted a portion of the state fiscal year 2019.

Possible Asserted Effect:

Failure to establish effective internal control over the completeness and accuracy of fringe benefit expenditures claimed may result in the unallowable costs being charged to federal programs.

Views of IDES Officials:

The Department accepts this finding and will work with the Illinois Department of Central Management Services and their vendor who runs the human resource application to resolve any discrepancies.