
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
STATE OF ILLINOIS
FOR THE FISCAL YEAR
ENDED JUNE 30, 2007**

March 2009

A-77-09-00009

**MANAGEMENT
ADVISORY REPORT**



Mission

By conducting independent and objective audits, evaluations and investigations, we inspire public confidence in the integrity and security of SSA's programs and operations and protect them against fraud, waste and abuse. We provide timely, useful and reliable information and advice to Administration officials, Congress and the public.

Authority

The Inspector General Act created independent audit and investigative units, called the Office of Inspector General (OIG). The mission of the OIG, as spelled out in the Act, is to:

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.**
- Promote economy, effectiveness, and efficiency within the agency.**
- Prevent and detect fraud, waste, and abuse in agency programs and operations.**
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.**
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.**

To ensure objectivity, the IG Act empowers the IG with:

- Independence to determine what reviews to perform.**
- Access to all information necessary for the reviews.**
- Authority to publish findings and recommendations based on the reviews.**

Vision

We strive for continual improvement in SSA's programs, operations and management by proactively seeking new ways to prevent and deter fraud, waste and abuse. We commit to integrity and excellence by supporting an environment that provides a valuable public service while encouraging employee development and retention and fostering diversity and innovation.



SOCIAL SECURITY

MEMORANDUM

Date: March 26, 2009

Refer To:

To: Candace Skurnik
Director
Audit Management and Liaison Staff

From: Inspector General

Subject: Management Advisory Report: Single Audit of the State of Illinois for the Fiscal Year Ended June 30, 2007 (A-77-09-00009)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of Illinois for the Fiscal Year ended June 30, 2007. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

KPMG performed the audit. We have not received the results of the desk review conducted by the Department of Health and Human Services (HHS). We will notify you when we receive the results if HHS determines the audit did not meet Federal requirements. In reporting the results of the single audit, we relied entirely on the internal control and compliance work performed by KPMG and the reviews performed by HHS. We conducted our review in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

For single audit purposes, the Office of Management and Budget (OMB) assigns Federal programs a Catalog of Federal Domestic Assistance (CFDA) number. SSA's Disability Insurance (DI) and Supplemental Security Income (SSI) programs are identified by CFDA number 96. SSA is responsible for resolving single audit findings reported under this CFDA number.

The Illinois Disability Determination Services (DDS) performs disability determinations under SSA's DI and SSI programs in accordance with Federal regulations. The Illinois DDS is reimbursed for 100 percent of allowable costs. The Illinois Department of Human Services (DHS) is the Illinois DDS' parent agency.

The single audit reported weaknesses in the State's allocation of internal service fund charges to various Federal programs, including SSA.

1. There were no employee personnel activity reports to support the payroll and fringe benefit expenditures allocated to Federal programs from the internal service funds (Attachment A, Pages 1 through 3). The corrective action plan indicates the State will pursue a formal documentation procedure (Attachment A, Page 3).
2. Costs accumulated in the internal service funds were unallowable (Attachment A, Pages 4 through 6). The corrective action plan indicated that the effect of the unallowable expenditures was immaterial (Attachment A, Page 6).
3. Charges from the internal service funds' information technology services were not in accordance with the State's Cost Allocation Agreement and OMB Circular A-87 (Attachment A, Pages 7 through 10). The corrective action plan indicated disagreement with the finding (Attachment A, Page 9 and 10).

We recommend that SSA work with the Illinois DHS to verify that policies and procedures are in place to ensure charges to the Illinois DDS from the internal service funds were in accordance with the approved Cost Allocation Agreement and OMB Circular A-87 requirements.

The single audit also disclosed the following findings that may impact the DDS' operations although they are not specifically identified to SSA. I am bringing these matters to your attention as they represent potentially serious service delivery and financial control problems for the Agency.

- The State of Illinois did not have an adequate process in place to permit the timely compilation of a complete and accurate Schedule of Expenditures of Federal awards (Attachment B, Page 1).
- The Illinois DHS did not have a process in place to ensure financial information submitted to the Illinois Office of the Comptroller was accurate and timely (Attachment B, Pages 2 and 3).

Please send copies of the final Audit Clearance Document to Ken Bennett. If you have questions contact Ken Bennett at (816) 221-0315 extension 1558.



Patrick P. O'Carroll, Jr.

Attachments

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

State Agency: Illinois Department of Central Management Services (DCMS)

Federal Agency: US Department of Agriculture (USDA)
US Department of Housing and Urban Development (USHUD)
US Department of Labor (USDOL)
US Department of Transportation (USDOT)
US Department of Education (USDE)
US Election Assistance Commission (USEAC)
US Department of Health and Human Services (USDHHS)
US Social Security Administration (USSSA)
US Department of Homeland Security (USDHS)

Program Name: Food Stamp Cluster
Child Nutrition Cluster
Special Supplemental Nutrition Program for Women, Infants and Children
Child and Adult Care Food Program
Community Development Block Grant
Employment Services Cluster
Unemployment Insurance
Trade Adjustment Assistance – Workers
Workforce Investment Act Cluster
Airport Improvement Program
Highway Planning and Construction Cluster
Title I Grants to Local Educational Agencies
Special Education Cluster
Federal Family Education Loans – Guaranty Program
Vocational Education – Basic Grants to States
Rehabilitation Services – Vocational Rehabilitation Grants to States
Special Education – Grants for Infants and Families with Disabilities
Twenty-First Century Community Learning Centers
Reading First State Grants
Improving Teacher Quality State Grants
Help America Vote Act Requirements Payments
Aging Cluster
Immunization Grants
Centers for Disease Control and Prevention – Investigations and Technical Assistance
Temporary Assistance for Needy Families
Child Support Enforcement
Low-Income Home Energy Assistance
Community Services Block Grant
Child Care Development Funds Cluster
Foster Care – Title IV-E
Adoption Assistance
Social Services Block Grant
State Children’s Insurance Program
Medicaid Cluster
HIV Care Formula Grants
Block Grants for the Prevention and Treatment of Substance Abuse
Social Security – Disability Insurance
Homeland Security Cluster
Disaster Grants Public Assistance (Presidentially Declared Disasters)

CFDA # and Program Expenditures: 10.551/10.561 (\$1,646,762,000)
10.553/10.555/10.556/10.559 (\$364,197,000)
10.557 (\$187,330,000)
10.558 (\$108,492,000)
14.228 (\$25,889,000)
17.207/17.801/17.804 (\$38,238,000)
17.225 (\$1,917,798,000)
17.245 (\$25,759,000)
17.258/17.259/17.260 (\$163,864,000)
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93.767 (\$330,917,000)
93.775/93.777/93.778 (\$6,544,606,000)
93.917 (\$39,853,000)
93.959 (\$67,918,000)
96.001 (\$62,153,000)
97.004/97.042/97.053/97.067/97.071 (\$53,990,000)
97.036 (\$32,589,000)

Questioned Costs: Cannot be determined

Finding 07-85 *Inadequate Supporting Documentation for Payroll Costs*

Adequate supporting documentation does not exist to substantiate payroll costs paid by the Communications Revolving Fund (CRF) and Statistical Services Revolving Fund (SSRF) which are allocated for reimbursement under federal programs operated by the State.

During our audit testwork, we noted DCMS does not obtain effort certifications from employees who perform activities or services applicable to CRF and/or SSRF to verify that payroll expenditures reported in each of these funds correlate to the costs assignable to these funds. Specifically, we noted DCMS allocated 50% of the payroll costs for approximately 60 employees paid from SSRF to CRF and allocated 50% of the payroll costs for approximately 25 employees paid from CRF to SSRF. We noted the amounts allocated between the CRF and SSRF funds approximated \$1,942,000 and \$910,000, respectively. Total payroll and fringe benefit expenditures reported in CRF and SSRF during the year ended June 30, 2006 were \$53,482,000 and \$7,793,000, respectively.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments. To be allowable under federal awards, costs must meet certain general criteria. Those criteria require, among other things, that the expenditure be adequately documented. If an employee works on multiple activities, monthly personnel activity reports must be completed and signed by the employee. The personal activity report is required to be an after-the-fact distribution of effort and must account for 100% of the employee's activity.

In discussing these conditions with DCMS officials, they stated that they believed they were in compliance with the federal guidelines.

Inadequate documentation for payroll expenditures may result in federal funds being expended for unallowable purposes. (Finding Code 07-85)

Recommendation:

We recommend DCMS obtain effort certifications or personal activity reports where required for payroll and fringe benefit expenditures allocated to its federal programs through internal service fund charges.

DCMS Response:

OMB Circular A-87 Attachment B.8.h(4) allows for a "substitute system approved by the federally cognizant agency". The negotiators responsible for reviewing and approving the SSRF and CRF have accepted the methodology currently in use for many years. In addition, these staff are considered top level management overhead, and as such do not meet the criteria of "employees working on multiple cost objectives" as described in Attachment B.8.h(4)(a) through (e). Given the nature of these cost elements and the limited impact they have on specific federal programs, the existing distribution method has been deemed reasonable by USDHHS.

The particular allocations questioned by the auditor were at the Fund level. Subsequently, costs are reallocated through various federally approved means to the service levels. Based on the auditor's recommendation, the Department will pursue a more formal documentation during fiscal year 2008 for the Fund level allocation for the particular overhead staff cited by the auditors.

Auditors' Comment:

As of the date our report, DCMS did not have documentation supporting that a substitute system for documenting time and effort has been approved by USDHHS. Additionally, DCMS officials stated in their response that the individuals identified as exceptions in our finding do not work on multiple cost objectives; however, DCMS also maintained that it is appropriate to charge the payroll and fringe benefits costs of these individuals to more than one revolving fund which would suggest that these individuals work on more than one cost objective. To the extent the activities of these individuals represent "top level management overhead" as discussed above, they should be allocated to the revolving funds in accordance with a cost allocation methodology approved by USDHHS.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

State Agency: Illinois Department of Central Management Services (DCMS)

Federal Agency: US Department of Agriculture (USDA)
US Department of Housing and Urban Development (USHUD)
US Department of Labor (USDOL)
US Department of Transportation (USDOT)
US Department of Education (USDE)
US Election Assistance Commission (USEAC)
US Department of Health and Human Services (USDHHS)
US Social Security Administration (USSSA)
US Department of Homeland Security (USDHS)

Program Name: Food Stamp Cluster
Child Nutrition Cluster
Special Supplemental Nutrition Program for Women, Infants and Children
Child and Adult Care Food Program
Community Development Block Grant
Employment Services Cluster
Unemployment Insurance
Trade Adjustment Assistance – Workers
Workforce Investment Act Cluster
Airport Improvement Program
Highway Planning and Construction Cluster
Title I Grants to Local Educational Agencies
Special Education Cluster
Federal Family Education Loans – Guaranty Program
Vocational Education – Basic Grants to States
Rehabilitation Services – Vocational Rehabilitation Grants to States
Special Education – Grants for Infants and Families with Disabilities
Twenty-First Century Community Learning Centers
Reading First State Grants
Improving Teacher Quality State Grants
Help America Vote Act Requirements Payments
Aging Cluster
Immunization Grants
Centers for Disease Control and Prevention – Investigations and Technical Assistance
Temporary Assistance for Needy Families
Child Support Enforcement
Low-Income Home Energy Assistance
Community Services Block Grant
Child Care Development Funds Cluster
Foster Care – Title IV-E
Adoption Assistance
Social Services Block Grant
State Children’s Insurance Program
Medicaid Cluster
HIV Care Formula Grants
Block Grants for the Prevention and Treatment of Substance Abuse
Social Security – Disability Insurance
Homeland Security Cluster
Disaster Grants Public Assistance (Presidentially Declared Disasters)

CFDA # and Program Expenditures: 10.551/10.561 (\$1,646,762,000)
10.553/10.555/10.556/10.559 (\$364,197,000)
10.557 (\$187,330,000)
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97.004/97.042/97.053/97.067/97.071 (\$53,990,000)
97.036 (\$32,589,000)

Questioned Costs: Cannot be determined

Finding 07-86 Unallowable Costs Recorded in Internal Service Funds

DCMS recorded costs that are not allowed under OMB Circular A-87 in its internal service funds.

Certain administrative functions of the State, including communications, statistical services, and facilities management, are coordinated on a statewide basis through the use of internal service funds. DCMS is responsible for administering the internal service funds and determining the rates to be charged for the services provided. In determining the rates, DCMS estimates the costs of providing the administrative services on a statewide basis and the level of service to be provided based upon the costs recorded in its internal service funds.

During our audit, we noted other auditors had identified that DCMS had recorded unallowable costs in each of its internal service funds. Specifically, the auditors judgmentally selected a sample of 54 cash disbursements (totaling \$5,141,262) from DCMS' internal service funds and found 24 of the disbursements tested (totaling \$26,758) were for costs that did not pertain to the fund in which they were recorded or were not necessary or reasonable in relation to the services provided by the fund. Total expenditures recorded in these funds approximated \$498,502,000.

OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, 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 be: (1) reasonable and necessary; (2) allocable; (3) consistently treated; (4) in conformance with laws, regulations, and agreements; (5) net of applicable credits; and (6) adequately documented.

Additionally, the A-102 Common Rule 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 establishing procedures to ensure only allowable costs are charged to internal service funds.

In discussing these conditions with DCMS officials, they stated that they believed they were in compliance with the federal guidelines for the majority of these expenditures.

Failure to properly determine the allowability of costs in accordance with federal regulations may result in unallowable costs being claimed to federal programs. (Finding Code 07-86)

Recommendation:

We recommend DCMS implement procedures to ensure only expenditures meeting allowable cost criteria are used in establishing rates for expenditures charged to federal programs.

DCMS Response:

All of the expenditures cited by the auditor, with the exception of \$273 for bottled water, represented allowable costs under A-87 guidelines. The separate issue is whether the costs pertained solely to the fund in which they were recorded. The Department contends that expenditures totaling \$16,381 were for costs dedicated to the individual funds from which they were expended. Other payments totaling \$10,104 were for costs that benefited the agency as a whole. For administrative reasons these costs were targeted to individual funds rather than split among all funds. The effect of these expenditures on fund balances was immaterial.

Auditors' Comment:

As stated above, in order for costs to be allowable under OMB Circular A-87, they must be (1) reasonable and necessary; (2) allocable; (3) consistently treated; (4) in conformance with laws, regulations, and agreements; (5) net of applicable credits; and (6) adequately documented. The costs identified as exceptions in our finding above did not meet the A-87 allowable cost criteria and adequate controls have not been established by DCMS to prevent unallowable costs from being charged to the internal service funds. The documentation for the expenditures totaling \$16,281 referred to in DCMS' response above did not support that these expenditures pertained to the fund in which they were recorded. DCMS appears to agree with the other unallowable costs identified in our finding.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

State Agency: Illinois Department of Central Management Services (DCMS)

Federal Agency: US Department of Agriculture (USDA)
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US Department of Labor (USDOL)
US Department of Transportation (USDOT)
US Department of Education (USDE)
US Election Assistance Commission (USEAC)
US Department of Health and Human Services (USDHHS)
US Social Security Administration (USSSA)
US Department of Homeland Security (USDHS)

Program Name: Food Stamp Cluster
Child Nutrition Cluster
Special Supplemental Nutrition Program for Women, Infants and Children
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Community Development Block Grant
Employment Services Cluster
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Airport Improvement Program
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Temporary Assistance for Needy Families
Child Support Enforcement
Low-Income Home Energy Assistance
Community Services Block Grant
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Foster Care – Title IV-E
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Social Services Block Grant
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HIV Care Formula Grants
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Social Security – Disability Insurance
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Disaster Grants Public Assistance (Presidentially Declared Disasters)

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96.001 (\$62,153,000)
97.004/97.042/97.053/97.067/97.071 (\$53,990,000)
97.036 (\$32,589,000)

Questioned Costs: Cannot be determined

Finding 07-87 *Inadequate Process for Billing Costs to Users*

DCMS does not have an adequate process in place to bill State agencies for the use of services from the Statistical Services Revolving Fund (SSRF).

During our audit testwork, we noted certain State agencies using SSRF information technology services were billed in an inconsistent manner. Specifically, State agencies whose information technology services were consolidated into DCMS during fiscal year 2007 in accordance with Public Act 93-25, were billed the payroll and fringe benefit costs of the information technology personnel previously assigned to the State agency in a consolidated amount rather than at the rates established by CMS for the specific unit of service provided. We noted the units of services and rates calculated for each of the affected State agencies were specific to the State agency and were not calculated using the same methodology used to establish the standard SSRF billing rates. The State agencies subject to the consolidated billing process included the Illinois Department of Human Services, the Department of Public Health, the Department of Healthcare and Family Services, the Department of Revenue and the Department of Transportation. The amounts billed to State agencies using the consolidated billing approach totaled \$26,332,564 for the year ended June 30, 2007.

OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, 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. In accordance with Attachment C, Section C, to be allowable under federal awards, central service cost allocation plan must include all central service costs that will be claimed (either as a billed or an allocated cost). Section II of the Cost Allocation Agreement dated October 10, 2007 (covering the years ending June 30, 2006 and 2007) categorizes services from the Statistical Services Revolving Fund as billed services. Section III of this Agreement states that billed cost services are required to be billed in accordance with the rates established by the State.

Additionally, the A-102 Common Rule 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 establishing procedures to ensure internal service fund costs are billed in a manner consistent with the Cost Allocation Agreement.

In discussing these conditions with DCMS officials, they stated that they believed they were in compliance with the federal guidelines.

Failure to properly bill internal service fund costs in accordance with the approved Cost Allocation Agreement and federal regulations may result in unallowable costs being claimed to federal programs. (Finding Code 07-87)

Recommendation:

We recommend DCMS ensure that all State agencies are billed internal service fund costs in a consistent manner in accordance with OMB Circular A-87.

DCMS Response:

The Department does not bill IT services in an inconsistent manner. The auditors' assertion is that any form of direct bill for dedicated costs is unallowable. We can find no language in A-87 prohibiting such billings, and the auditor has not provided any. The Department has always had pass through charges approved in its SWCAP submissions. Specifically, the auditor states the following:

- In accordance with A-87, Attachment C, Section C, to be allowable under federal awards, central service cost allocation plans must include all central service costs that will be claimed (either as a billed or an allocated cost).

- Section II of the Cost Allocation Agreement dated October 10, 2007 categorizes services from the Statistical Services Revolving Fund as billed services.

Response: All our charges meet the definition of billed services in A-87 Attachment C, Section B, 1.

- Billed cost services are required to be billed in accordance with the rates established by the State.

Response: A direct billing is an individual rate for a dedicated service.

What is required in A-87 is to demonstrate that the billed entity received the benefit of the billed service. The consolidated agencies were the only agencies consuming the services of the direct billed staff, and the staff costs were billed back to the entities that they served.

During fiscal year 2008, the Department moved most of these direct billed costs for consolidated staff into other usage based rates as it had always planned to do once physical and functional consolidation were complete. But the billing procedures utilized during the interim period were in conformance with federal requirements.

Auditors' Comment:

As of the date of our report, DCMS was unable to provide documentation supporting that direct billed staff only worked on projects pertaining to the consolidated agency to which the staff costs were charged. DCMS did not track the time and effort spent by the direct billed staff to support that their activities solely benefited the consolidated agency to which they were direct billed. Rather, DCMS presumed that staff previously assigned to an agency worked solely on the activities of that agency which does not meet the requirements of OMB Circular A-87.

STATE OF ILLINOIS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

State Agency: Illinois Office of the Comptroller (IOC)

Federal Agency: All Federal Agencies

Finding 07-01 *Inadequate Process for Compiling the Schedule of Expenditures of Federal Awards*

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

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

In recent years, improvements have been made to automate the SEFA reporting process, which allowed the IOC to provide a preliminary SEFA to the OAG in November. However, the overall reporting process for the State continues to be delayed by the complexity and manual nature of the SCO forms and delays in their submission by the state agencies. Additionally, the process is further impeded by the numerous correcting adjustments that are required to be recorded to accurately report the financial information received from state agencies. The current reporting process does not allow for the timely completion of an audit in accordance with OMB Circular A-133.

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

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

Failure to prepare the SEFA in an accurate and timely manner prevents the State from completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 07-01, 06-01, 05-01, 04-01, 03-01, 02-01)

Recommendation:

We recommend the IOC review the current process and information systems for compiling the SEFA and consider changes that will allow for the completion of the State's OMB Circular A-133 audit within the required timeframe. This review should consider the cost/benefit of implementing a statewide grant accounting system.

IOC Response:

The IOC agrees the State does not have an adequate process in place to permit the timely compilation of the schedule of expenditures of federal awards. The IOC will continue to provide advice and support to the Governor's Office of Management and Budget (GOMB) to assist them in establishing and implementing monitoring procedures for State agency financial reporting in relation to the State's federal awards including the possible implementation of a statewide grant accounting system.

STATE OF ILLINOIS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: All Federal Agencies

Finding 07-02 *Inadequate Process for Accurate and Timely Financial Reporting*

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

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

During our review of the financial reporting process, we noted that the IDHS information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. Additionally, several correcting journal entries were required to accurately state amounts reported by IDHS.

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

In discussing this with IDHS officials, they stated they disagree with the finding.

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

Recommendation:

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

IDHS Response:

The Department submitted all SCO forms to the Illinois Office of the Comptroller (IOC) by the various due dates established by the IOC. The last due date was September 17, 2007 and the various SCO forms for each of the 54 GAAP packages were submitted by that date.

Auditors' Comment:

Although the Agency has made significant efforts to complete its GAAP forms in a more timely manner than prior years, the GAAP packages originally submitted by the Agency required significant adjustments to properly state amounts. Additionally, the Agency's prior year financial statements were restated due to the inaccurate reporting of revenue and expenditures. We believe the Agency's financial reporting process should be modified to ensure financial information submitted to the Illinois Office of the Comptroller is both timely and accurate.

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