
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
STATE OF ILLINOIS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2008**

March 2010 A-77-10-00005

**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, 2010

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, 2008 (A-77-10-00005)

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, 2008. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

KPMG LLP performed the audit. The results of the desk review conducted by the Department of Health and Human Services (HHS) concluded that the audit met Federal requirements. In reporting the results of the single audit, we relied entirely on the internal control and compliance work performed by KPMG LLP 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.¹

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 DDS is reimbursed for 100 percent of allowable costs. The Department of Human Services (DHS) is the DDS' parent agency.

¹ In January 2009, the President's Council on Integrity and Efficiency was superseded by the Council of the Inspectors General on Integrity and Efficiency, *Inspector General Reform Act of 2008*, Pub. L. No. 110-409 § 7, 5 U.S.C. App. 3 § 11.

The single audit reported that DHS did not amend the cost allocation plan (CAP) to include changes in program administration. Therefore, the methods used to allocate the cost of the administrative offices to various Federal programs were not approved by HHS (Attachment A, pages 1 and 2). The corrective action plan indicated DHS amended the CAP to include the administrative offices (Attachment A, page 2). We recommend that, upon HHS' approval of the amended CAP, SSA work with DHS to ensure that indirect costs charged to the Illinois DDS during State Fiscal Year 2008 were in accordance with the CAP's approved methodologies.

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

1. Procedures were not adequate to identify fund balances that exceeded the maximum amount allowable (Attachment A, pages 3 through 5). The corrective action plan indicated that adjustments will be made annually and interest will be imputed as compensation for any delay in refunding excess balances (Attachment A, page 5).
2. 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 6 through 8). The corrective action plan indicated the State has changed its documentation procedures (Attachment A, page 8).
3. Costs accumulated in the internal service funds were unallowable (Attachment A, pages 9 through 11). The corrective action plan indicated that only allowable expenditures are included in cost recovery rates (Attachment A, page 11).
4. 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 12 through 14). The corrective action plan indicated disagreement with the finding (Attachment A, page 14).

We recommended corrective action on these four findings to SSA in a prior report.² However, SSA could not provide us with documentation of its corrective action. Therefore, we repeat the prior year's recommendation that SSA continue to 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.

² SSA OIG, Management Advisory Report, *Single Audit of the State of Illinois for the Fiscal Year Ended June 30, 2007* (A-77-09-0000), March 2009.

Page 3 – Candace Skurnik

The single audit also disclosed the State of Illinois did not have an adequate process in place to permit the timely preparation of a complete and accurate Schedule of Expenditures of Federal Awards (Attachment B, pages 1 and 2). Although this finding was not specifically identified to SSA, it may have an impact on DDS operations. I am bringing this matter to your attention as it represents a potentially serious service delivery and financial control problem for the Agency.

Please send copies of the final Audit Clearance Document to Shannon Agee. If you have questions, contact Shannon Agee at (816) 221-0315, extension 1537.

A handwritten signature in black ink, appearing to read "Pat P. O'Carroll Jr.", with a stylized flourish at the end.

Patrick P. O'Carroll, Jr.

Attachments

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: US Department of Agriculture (USDA)
US Department of Education (USDE)
US Department of Health and Human Services (USDHHS)
US Social Security Administration (USSSA)

Program Name: Food Stamp Cluster
Special Supplemental Nutrition Program for Women, Infants, and Children
Rehabilitation Services – Vocational Rehabilitation Grants to States
Temporary Assistance for Needy Families
Child Care Development Fund Cluster
Social Services Block Grant
Block Grants for Prevention and Treatment of Substance Abuse
Social Security Disability Insurance

CFDA # and Program Expenditures: 10.551/10.561 (\$1,779,116,000)
10.557 (\$206,089,000)
84.126 (\$87,562,000)
93.558 (\$537,011,000)
93.575/93.596 (\$206,438,000)
93.667 (\$127,372,000)
93.959 (\$78,421,000)
96.001 (\$66,638,000)

Award Numbers: 2IL420120/2IL400098 (10.551/10.561)
(CFDA Number) 2007IW100642/2007IW100342/2008IW100642/2008IW100342 (10.557)
H126A070018/H126A080018 (84.126)
G-0702ILTANF/G0802ILTANF (93.558)
G0701ILCCDF/G0801ILCCDF (93.575)
G-0601ILSOSR2/G-0701ILSOSR/G-0801ILSOSR (93.667)
07B1ILSAPT/08B1ILSAPT (93.959)
0604ILD100/0704ILD100/0804ILD100 (96.001)

Questioned Costs: Cannot be determined

Finding 08-12 *Failure to Amend the Public Assistance Cost Allocation Plan*

IDHS has not amended the allocation methodology included in the most recently submitted Public Assistance Cost Allocation Plan (PACAP) to accurately include all cost centers assigned to its administrative offices.

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

methodologies for allocating costs to its programs, which IDHS believes best represent the actual costs associated with the program.

During our review of costs allocated to federal programs during the quarter ended September 30, 2007, we noted three cost centers were not included in the PACAP. Accordingly, the methods used to allocate these cost centers were not approved by USDHHS. These cost centers and the costs allocated during the year ended June 30, 2008 were as follows:

Cost Center	Cost Center Expenditures
Office of Legal Services (AE070)	\$3,973,386
Chief Operation Office (MT701)	14,885,776
Chief Financial Office (MS440)	6,073,143

As these cost centers are administrative in nature, they were allocated using the Departmental Indirect Cost Allocation Plan methodology which are allocated to all federal and state program administered by IDHS. Total costs allocated through the PACAP for the year ended June 30, 2008 were \$1,216,679,845.

According to 45 CFR 95.509(a)(4), a State shall promptly amend the cost allocation plan and submit the amended plan to the Division of Cost Allocation if other changes occur which make the allocation basis or procedures in the approved cost allocation plan invalid. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure all allocation methodologies used are appropriately defined in the PACAP.

In discussing these conditions with IDHS officials, they stated PACAP amendments and necessary changes to cost allocation methodologies were not timely prepared to accurately reflect programmatic activities.

Failure to amend PACAP cost allocation methodologies for changes in program administration may result in disallowances of costs. (Finding Code 08-12)

Recommendation:

We recommend IDHS review the process and procedures in place to prepare PACAP amendments and implement changes necessary to ensure cost allocation methodologies accurately reflect programmatic activities.

IDHS Response:

The Department accepts the recommendation. The Department of Human Services, Office of Fiscal Services has implemented necessary PACAP amendments to include cost centers AE070, MS440 and MT70 and to ensure cost allocation methodologies accurately reflect programmatic activities.

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
Career and Technical 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 (\$1,779,116,000)
10.553/10.555/10.556/10.559 (\$379,780,000)
10.557 (\$206,089,000)
10.558 (\$105,087,000)
14.228 (\$27,121,000)
17.207/17.801/17.804 (\$36,717,000)
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17.245 (\$10,399,000)
17.258/17.259/17.260 (\$144,845,000)
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84.048 (\$44,315,000)
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84.287 (\$39,613,000)
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84.367 (\$104,284,000)
 90.401 (\$8,785,000)
 93.044/93.045/93.053 (\$43,835,000)
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 93.959 (\$78,421,000)
 96.001 (\$66,638,000)
 97.004/97.008/97.053/97.067/97.073/97.074 (\$48,941,000)
 97.036 (\$26,739,000)

Questioned Costs: Cannot be determined

Finding 08-94 *Inadequate Process for Monitoring Internal Service Fund Balances*

DCMS did not establish adequate procedures to identify fund balances in excess of maximum amounts allowed under OMB Circular A-87.

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. Because these rates are estimates and may be charged to the State's federal programs, DCMS is required to evaluate the fund balances within the internal service funds to ensure they do not exceed 60 days of cash expenses for normal operations incurred for the period.

During our audit, we noted DCMS had accumulated fund balances in its Communications Revolving Fund (CRF) and Statistical Services Revolving Fund (SSRF) funds in excess of amounts allowed under OMB Circular A-87 during state fiscal years 2004, 2005, 2006, and 2007. Upon further review, the fiscal year 2008 fund balances of these funds were determined to be in excess of amounts allowed under A-87. The excess fund balances, including prior year carryforward balances were estimated to be \$3,533,000 and \$9,789,000 as of June 30, 2008 for the CRF and SSRF, respectively.

Additionally, we noted DCMS is not properly reconciling federal internal service fund reports to its GAAP based financial statements as evidenced by the following unidentified reconciling items:

- Commission income totaling \$1,410,000 earned in CRF was not reported as revenue in the 2007 GAAP basis financial statements, but was reported for federal purposes in 2007;
- Encumbrances in the CRF totaling \$1,667,000 were properly not reported in the 2007 GAAP basis financial statements, but were reported for federal purposes in 2007;
- Increases of \$270,000 and \$161,000 in the compensated absences liability balances in CRF and SSRF, respectively, were reported in the fiscal year 2007 GAAP basis financial statements, but were not reported for federal purposes in 2007;
- Equipment totaling \$2,869,000 purchased in the CRF during the fiscal year 2007 lapse period was reported in the fiscal year 2007 GAAP basis financial statements, but was expensed in fiscal year 2008 for federal purposes;
- Equipment totaling \$715,000 purchased in the SSRF during the fiscal year 2007 lapse period was reported in the fiscal year 2007 GAAP basis financial statements, but was expensed in fiscal year 2008 for federal purposes; and
- Accrued interest expense of \$1,041,000 in the Facilities Management Revolving Fund was reported in the fiscal year 2007 GAAP basis financial statements, but was not reported for federal purposes in 2007.

The majority of the differences identified above represent timing differences which may have significantly altered the annual calculation of excess fund balances. As the reconciling items identified above have not been associated with a specific billed service, we are unable to determine the impact of these items on the federal share of the excess fund balances.

According to the OMB Circular A-133 Compliance Supplement dated March 2008, working capital reserves (fund balances) are generally not allowed to exceed more than 60 days of cash expenses for normal operations. A working capital reserve exceeding 60 days may be approved by the cognizant federal agency. 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 control should include establishing procedures to evaluate and reconcile the fund balances of internal service funds on a periodic basis to identify whether amounts in excess of those allowed under federal regulations exist.

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

Failure to properly monitor fund balances of internal service funds may result in claiming of unallowable costs. (Finding Code 08-94, 07-84, 06-95)

Recommendation:

We recommend DCMS establish a process for evaluating internal service fund balances and implement the necessary procedures to ensure these fund balances do not exceed the 60 day threshold allowed under OMB Circular A-87. DCMS should also implement procedures to ensure only expenditures meeting allowable cost criteria are used in establishing rates for expenditures charged to federal programs.

DCMS Response:

The Department concurs with the recommendations.

Fund Balances: The Department believes that its adjustment methods are acceptable. The Department does agree that adjustments should be timely. DCMS continues to adjust rates annually (c) and adjust central service cost allocations annually (d) to reduce exposure to excess balances. However, these annual adjustments cannot guarantee that excess balances will be entirely eliminated, since rates and costs are projections and are usage-sensitive. Billing credits (b), like cash refunds, take multiple years to apply, so the adjustment occurs no faster than a negotiated payback and requires significantly more up-front cash which the state does not have. Therefore, direct negotiated paybacks (a) have always been, and will likely continue to be, a part of the remedy for excess balances. The timeliness of direct paybacks is dependent on the federal review cycle. USDHHS includes imputed interest in the payback calculations in recognition of, and as compensation for, any delay in remedying the excess balances.

Reconciling Items: We have developed a more clear presentation of the reconciliation process for fiscal year 2008, and we are adjusting our practices where feasible to reduce the total number of reconciling items.

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
Career and Technical 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
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93.959 (\$78,421,000)
96.001 (\$66,638,000)
97.004/97.008/97.053/97.067/97.073/97.074 (\$48,941,000)
97.036 (\$26,739,000)

Questioned Costs: Cannot be determined

Finding 08-95 *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 61 employees paid from SSRF to CRF and allocated 50% of the payroll costs for approximately 21 employees paid from CRF to SSRF. We noted the amounts allocated between the CRF and SSRF funds approximated \$1,791,000 and \$782,000, respectively. Total payroll and fringe benefit expenditures reported in CRF and SSRF during the year ended June 30, 2007 were \$20,717,000 and \$57,777,000, 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 08-95, 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:

The Department concurs with the recommendation, and has already changed this process for the fiscal year 2008 federal reporting period.

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
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Employment Services Cluster
Unemployment Insurance
Trade Adjustment Assistance – Workers
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Airport Improvement Program
Highway Planning and Construction Cluster
Title I Grants to Local Educational Agencies
Special Education Cluster
Federal Family Education Loans – Guaranty Program
Career and Technical 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)

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 93.959 (\$78,421,000)
 96.001 (\$66,638,000)
 97.004/97.008/97.053/97.067/97.073/97.074 (\$48,941,000)
 97.036 (\$26,739,000)

Questioned Costs: Cannot be determined

Finding 08-96 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 30 cash disbursements (totaling \$1,510,022) from DCMS' internal service funds and found five of the disbursements tested (totaling \$1,433) 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 \$686,450,000.

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 08-96, 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:

The Department concurs with the recommendation. For administrative purposes, certain small expenditures supporting multiple funds are targeted to individual appropriations, but only allowable expenditures pertaining to fund operations are included in cost recovery/rates.

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
Career and Technical 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 (\$1,779,116,000)
10.553/10.555/10.556/10.559 (\$379,780,000)
10.557 (\$206,089,000)
10.558 (\$105,087,000)
14.228 (\$27,121,000)
17.207/17.801/17.804 (\$36,717,000)
17.225 (\$2,183,718,000)
17.245 (\$10,399,000)
17.258/17.259/17.260 (\$144,845,000)
20.106 (\$90,481,000)
20.205 (\$1,229,855,000)
84.010 (\$547,751,000)
84.027/84.173 (\$488,402,000)
84.032 (\$222,123,000)
84.048 (\$44,315,000)
84.126 (\$87,562,000)
84.181 (\$17,755,000)
84.287 (\$39,613,000)
84.357 (\$31,809,000)
84.367 (\$104,284,000)
90.401 (\$8,785,000)
93.044/93.045/93.053 (\$43,835,000)
93.268 (\$61,525,000)
93.283 (\$13,387,000)
93.558 (\$537,011,000)
93.563 (\$124,506,000)
93.568 (\$137,933,000)
93.569 (\$31,719,000)
93.575/93.596 (\$206,438,000)
93.658 (\$172,144,000)
93.659 (\$87,313,000)
93.667 (\$127,372,000)
93.767 (\$348,437,000)
93.775/93.777/93.778 (\$6,607,985,000)
93.917 (\$33,924,000)
93.959 (\$78,421,000)
96.001 (\$66,638,000)
97.004/97.008/97.053/97.067/97.073/97.074 (\$48,941,000)
97.036 (\$26,739,000)

Questioned Costs: Cannot be determined

Finding 08-97 *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 \$8,817,000 for the year ended June 30, 2008.

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 July 23, 2008 (covering the year ending June 30, 2008) 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 guideline.

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 08-97, 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 partially concurs. The auditor's assertion is that any form of pass through charges is unallowable. We can find no language in A-87 prohibiting such billings. A direct billing is an individual rate for a dedicated service, and includes measured usage of that service. Further, the Department generally describes its billing methodology for pass through charges in its SWCAP submission.

The Department does agree that pass through charges should be minimized, and the charges referenced in the finding above were entirely eliminated in fiscal year 2009.

Auditors' Comment:

As stated in the finding above, Section II of the Cost Allocation Agreement dated July 23, 2008 (covering the year ending June 30, 2008) categorizes services from the Statistical Services Revolving Fund as billed services and Section III of this Agreement states that billed cost services are required to be billed in accordance with the rates established by the State. Billing agencies directly for all payroll and fringe benefit costs associated with certain SSRF employees is not consistent with the rate setting methodology used to establish standard SSRF billing rates for similar services to other State agencies.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

State Agency: Office of the Governor and Office of the State Comptroller

Federal Agency: All Federal Agencies

Finding 08-01 *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 Comprehensive Annual Financial Report (CAFR) or the Schedule of Expenditures of Federal Awards (SEFA) in a timely manner.

Accurate and timely 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 financial statements year after year. These findings have been directed primarily toward the Office of the State Comptroller (IOC) and major state agencies under the organizational structure of the Office of the Governor.

The State has not been able to solve these problems or make substantive changes to the system to effectively remediate these financial reporting weaknesses. The process is overly dependent on the post audit program being a part of the internal control for financial reporting even though the Illinois Office of the Auditor General continues to inform state agency officials that the post audit function **is not and should not** be an internal control mechanism for any operational activity related to financial reporting.

The State of Illinois has a highly decentralized financial reporting process. The system requires State agencies to prepare a series of complicated financial reporting forms (SCO forms) designed by the IOC to prepare the CAFR. These SCO forms are completed by accounting personnel within each State agency who have varying levels of knowledge, experience, and understanding of generally accepted accounting principles and of IOC accounting policies and procedures. Agency personnel involved with this process are not under the organizational control or jurisdiction of the IOC. Further, these agency personnel may lack the qualifications, time, support, and training necessary to timely and accurately report year end accounting information to assist the Comptroller in his preparation of statewide financial statements in accordance with generally accepted accounting principles (GAAP).

Although these SCO forms are subject to the review by the IOC financial reporting staff during the CAFR preparation process, the current process has resulted in several restatements relative to the financial statement reporting over the past several years.

Certain SCO forms are used by the IOC to collect financial information utilized in the SEFA compilation and reporting process. Internal control deficiencies have been identified and reported relative to the SEFA financial reporting process in each of the past six 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. Errors and delays identified in the SEFA reporting process over the past six years have included the following:

- Expenditures for the Public Assistance Grants program were not reported in the appropriate fiscal year by the Illinois Emergency Management Agency in 2006 and 2007.
- Expenditures for the Early Intervention program were not reported in the appropriate fiscal year by the Illinois Department of Human Services in 2003, 2004, and 2005.
- Expenditures for the Highway Planning and Construction Cluster program were not recorded in the appropriate fiscal year by the Illinois Department of Transportation in 2004 and 2005.
- Other correcting entries and/or restatements were required in order to accurately state the financial information of the following agencies: Illinois Department of Healthcare and Family Services, Illinois Department of Children and Family Services, Illinois Department of Public Health, Illinois State Board of

Education, Illinois Student Assistance Commission, Illinois Community College Board, Illinois Department of Commerce and Economic Opportunity, Illinois Department of Employment Security, Illinois Department of Natural Resources, Illinois Environmental Protection Agency, Illinois Department of Corrections, and Illinois Criminal Justice Information Authority.

- Major programs were not identified until six or more months subsequent to the end of the fiscal year by the following agencies: Illinois Department of Healthcare and Family Services, Illinois State Board of Education, Illinois Department of Public Health, Illinois Department of Commerce and Economic Opportunity, and Illinois Department of Employment Security.
- Preparation of the SEFA has not been completed by the State prior to March 31st in the past six years.

Although the deficiencies relative to the CAFR and SEFA financial reporting processes have been reported by the auditors for a number of years, **problems continue** with the State's ability to provide **accurate** and **timely** external financial reporting. Corrective action necessary to remediate these deficiencies **continues to be problematic**.

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 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 Office of the Governor, they stated that the weakness is due to (1) lack of a statewide accounting and grants management system and (2) lack of personnel adequately trained in governmental accounting and federal grants management. The lack of a statewide accounting system is due to the inability to obtain capital financing necessary to implement a statewide system. The lack of adequate financial and grants management personnel is due to the failure to update the qualifications in the respective job titles to ensure that applicants have the minimum required education and skill set to be properly trained. The lack of adequate financial and grants management systems requires a labor intensive, manual calculation of balance sheet and SEFA amounts in a short time frame which results in an increase of errors.

In discussing these conditions with IOC personnel, they indicated delays were caused by a separation in the responsibility for the State's internal control procedures among agencies and component units. The IOC has the statutory authority to request submission of financial information but does not currently have the ability to enforce those submissions on a timely basis from other state agencies.

Failure to establish effective internal controls at all agencies regarding financial reporting for the preparation of the CAFR and the SEFA **prevents** the State from completing an audit in accordance with timelines set forth OMB Circular A-133 and may result in the suspension of federal funding. (Finding Code 08-01, 07-01, 06-01, 05-01, 04-01, 03-01, 02-01)

Recommendation:

We recommend the Office of the Governor and the IOC work together with the state agencies to establish a corrective action plan to address the quality and timeliness of accounting information provided to and maintained by the IOC as it relates to year end preparation of the CAFR and the SEFA.

Office of the Governor's Response:

We agree. The Office of the Governor will continue efforts to work with the Office of the State Comptroller. The Governor's Office has established a corrective action plan to improve the quality and timeliness of accounting information provided by state agencies to the Comptroller for year-end preparation of the CAFR and the SEFA. In addition, the Governor's Office is in the process of working with the Illinois General Assembly to attempt to secure the capital funding needed to procure a statewide accounting and grants management system.

IOC's Response:

The IOC will continue to provide consultation and technical advice to State agencies in relation to financial reporting in order to increase the likelihood that State agencies will report financial information in a timely manner. The IOC will also seek legislation that provides it with enforcement tools to compel state agencies to comply with necessary reporting deadlines.

Overview of the Office of the Inspector General

The Office of the Inspector General (OIG) is comprised of an Office of Audit (OA), Office of Investigations (OI), Office of the Counsel to the Inspector General (OCIG), Office of External Relations (OER), and Office of Technology and Resource Management (OTRM). To ensure compliance with policies and procedures, internal controls, and professional standards, the OIG also has a comprehensive Professional Responsibility and Quality Assurance program.

Office of Audit

OA conducts financial and performance audits of the Social Security Administration's (SSA) programs and operations and makes recommendations to ensure program objectives are achieved effectively and efficiently. Financial audits assess whether SSA's financial statements fairly present SSA's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs and operations. OA also conducts short-term management reviews and program evaluations on issues of concern to SSA, Congress, and the general public.

Office of Investigations

OI conducts investigations related to fraud, waste, abuse, and mismanagement in SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, third parties, or SSA employees performing their official duties. This office serves as liaison to the Department of Justice on all matters relating to the investigation of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Office of the Counsel to the Inspector General

OCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCIG also advises the IG on investigative procedures and techniques, as well as on legal implications and conclusions to be drawn from audit and investigative material. Also, OCIG administers the Civil Monetary Penalty program.

Office of External Relations

OER manages OIG's external and public affairs programs, and serves as the principal advisor on news releases and in providing information to the various news reporting services. OER develops OIG's media and public information policies, directs OIG's external and public affairs programs, and serves as the primary contact for those seeking information about OIG. OER prepares OIG publications, speeches, and presentations to internal and external organizations, and responds to Congressional correspondence.

Office of Technology and Resource Management

OTRM supports OIG by providing information management and systems security. OTRM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, OTRM is the focal point for OIG's strategic planning function, and the development and monitoring of performance measures. In addition, OTRM receives and assigns for action allegations of criminal and administrative violations of Social Security laws, identifies fugitives receiving benefit payments from SSA, and provides technological assistance to investigations.