
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
STATE OF ILLINOIS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2002**

October 2003

A-77-04-00002

**MANAGEMENT
ADVISORY REPORT**



Mission

We improve SSA programs and operations and protect them against fraud, waste, and abuse by conducting independent and objective audits, evaluations, and investigations. We provide timely, useful, and reliable information and advice to Administration officials, the 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

By conducting independent and objective audits, investigations, and evaluations, we are agents of positive change striving for continuous improvement in the Social Security Administration's programs, operations, and management and in our own office.



SOCIAL SECURITY

MEMORANDUM

Date: October 23, 2003

Refer To:

To: Candace Skurnik
Director
Management Analysis and Audit Program Support Staff

From: Assistant Inspector General
for Audit

Subject: Management Advisory Report: Single Audit of the State of Illinois for the Fiscal Year Ended June 30, 2002 (A-77-04-00002)

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, 2002. 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. Results of the desk review conducted by the Department of Health and Human Services (HHS) have not been received. We will notify you when the results are received 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 the KPMG LLP and the reviews performed by HHS.

For single audit purposes, the Office of Management and Budget 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 Illinois Department of Human Services (DHS) is the Illinois DDS's parent agency.

The single audit reported the following findings:

1. DHS did not submit accurate and timely expenditure information for Federal programs to the Illinois Office of the Comptroller (IOC). DHS's corrective action indicates that its procedures for reporting Federal expenditures will be reviewed and improved (Attachment A, pages 1 through 3).
2. DHS did not review or re-certify the accuracy of clearance patterns identified in the Cash Management Improvement Act agreement for SSA's disability programs. The corrective action plan indicates that clearance patterns will be re-certified based on accurate payroll warrant documentation (Attachment A, pages 4 and 5).

We recommend that SSA ensures that DHS implemented procedures to:

1. Report DDS expenditures accurately and timely to the IOC.
2. Periodically review and certify the accuracy of clearance patterns used to draw funds for expenditures incurred under SSA's disability programs.

The single audit also disclosed the following findings that may impact DDS operations although they were 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.

- Payroll costs were directly charged to a Federal program instead of allocated through the public assistance cost allocation plan (Attachment B, pages 1 and 2).
- Costs were not allocated to Federal programs in accordance with the public assistance cost allocation plan (Attachment B, pages 3 and 4).

Please send copies of the final Audit Clearance Document to Shannon Agee in Kansas City and Rona Rustigian in Baltimore. If you have questions contact Shannon Agee at (816) 936-5590.



Steven L. Schaeffer

Attachments

cc:

Trudy Williams, MAAPSS

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2002

State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: All federal agencies

Finding 02-02 Inadequate Review of Federal Expenditures Reported by IDHS

IDHS did not accurately report its federal expenditures to the Illinois Office of the Comptroller (IOC) in a timely manner.

The State's process for compiling the schedule of expenditures of federal awards (SEFA) requires each state agency to complete a series of manual financial reporting forms (SCO forms) which detail by fund the CFDA number, total program expenditures, funds passed through to subrecipients, and transfers of program funds between state agencies for each federal program. The SCO forms are collected by the IOC and are reviewed for any discrepancies or errors. Once all errors discrepancies have been resolved with the responsible state agency, the finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA. The process for compiling the SEFA consists of OAG personnel manually entering information reported on the SCO forms into a database. Additionally, the OAG performs a series of analytical and verification procedures (including agreeing CFDA numbers, program expenditures, and 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.

During our review of the SEFA preparation process, we noted the following timeline for completing and submitting the SCO forms by IDHS for its major programs:

Fund Name	Federal Program CFDA #	A Agency Scheduled Completion Date	B Initial Agency Submission Date	C Agency/ Comptroller Completion Date	D Date Available for SEFA Preparation	D-A Total Days
General Revenue Fund	10.557	8/30/02	12/16/02	12/18/02	2/27/03	181
	10.561					
	93.558					
	93.575					
	93.596					
	93.667					
Vocational Rehabilitation Fund	84.126	8/30/02	9/24/02	11/15/02	2/27/03	181
	96.001					
DHS Special Purposes Trust Fund	10.561	8/30/02	9/24/02	12/18/02	2/27/03	181
	93.575					
	93.596					
	93.667					

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Early Intervention Services Revolving Fund	93.778	8/30/02	10/2/02	10/16/02	2/27/03	181
Alcoholism and Substance Abuse Fund	84.126	8/30/02	9/19/02	11/17/02	2/27/03	181
USDA Women, Infants, and Children Fund	10.557	8/30/02	9/26/02	10/29/02	2/27/03	181
Community Mental Health Medical Fund	93.778	8/30/02	9/9/02	9/30/02	2/27/03	181
Local Initiative Fund	93.667	8/30/02	8/30/02	10/16/02	2/27/03	181
Social Services Block Grant Fund	93.558 93.667	8/30/02	8/30/02	10/16/02	2/27/03	181
Food Stamp and Commodity Fund	10.551	8/30/02	9/19/02	10/8/02	2/27/03	181
WIC Redemption Fund	10.557	8/30/02	8/16/02	10/26/02	2/27/03	181

Additionally, we noted the following deficiencies were documented by the IOC relative to the reporting packages submitted by IDHS:

- Amounts reported on the SCO forms submitted to the IOC did not agree to agency records.
- 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 state the noted changes relate mostly to the complexity of the TANF, Child Care and Title XX Grants and the problems getting information from other State agencies and the desire to maximize federal funding.

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

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2002

Recommendation:

We recommend IDHS review the current process for reporting federal expenditures to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms.

IDHS Response:

Accepted. IDHS requested and was granted extensions by the IOC Director of Financial Reporting, for filing several GAAP packages, including all of those mentioned in this finding. These extended due dates were met by IDHS. There were only four of the eleven funds mentioned that had revisions to the SCO forms that actually changed reimbursable costs for any of the major programs. These changes relate mostly to the complexity of the TANF, Child Care and Title XX Grants and the desire to maximize federal funding. In order to ensure that the Department claims all expenditures incurred by the Department and other state agencies which are eligible for reimbursement against those federal grant programs administered by DHS, there will continue to be changes to the amounts provided to the Comptroller prior to completing the federal grant year reports. We will review processes to enhance procedures and endeavor to minimize the number of changes which need to be made late in the process.

It should be noted that Department records, which were confirmed the Comptroller, show the Initial Agency Submission Dates for GRF and EI were 10/8/02 and 9/9/02 respectively.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2002

State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: US Department of Agriculture (USDA)
US Department of Education (ED)
Security Administration (SSA)

Program Name: State Administrative Matching Grants for Food Stamp Program
Rehabilitation Services - Vocational Rehabilitation Grants to States
Social Security Disability Insurance

CFDA # and Program Expenditures: 10.561 (\$103,949,000)
84.126 (\$99,090,000)
96.001 (\$59,426,000)

Questioned Costs: None

Finding 02-28 *Failure to Re-certify to the Accuracy of Administrative Clearance Patterns*

IDHS has not reviewed or re-certified the accuracy of the clearance patterns specified in the Treasury-State Agreement related to administrative cash draws for the Food Stamps, Vocational Rehabilitation, and Social Security Disability Insurance (SSDI) programs.

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

In accordance with the TSA in effect for the year ended June 30, 2002, the State is required to maintain a clearance pattern of 2.5 banking days for payroll warrants, adjusted to two days for direct deposit of employee payments, for all three programs. Additionally, both Vocational Rehabilitation and SSDI maintain a clearance pattern of 6.47 banking days for administrative, indirect, and program costs. These clearance patterns were initially approved for the programs based on a review performed by the Federal Management Service (FMS) branch of the Treasury when the TSA was established in 1993. These clearance patterns have continued to be used in calculating any interest obligation for the year ended June 30, 2002. During our testwork, we noted IDHS did not perform a review of the accuracy of the "outdated" clearance patterns. We also noted an IDHS authorized official has not re-certified the accuracy of the clearance patterns within the last eight years.

According to The Money and Finance Treasury Code Regulations (31 CFR 205.8), a State shall ensure that a clearance pattern accurately represents the flow of Federal funds and that a clearance pattern reflects seasonal or other periodic variations in clearance activity. A State shall also ensure that a clearance pattern is auditable. Additionally, an authorized State official shall certify that a clearance pattern corresponds to a program's clearance activity and shall re-certify the accuracy of the clearance pattern at least every five years.

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In discussing these conditions with IDHS personnel, they state the Department has not been able to obtain the necessary information to verify clearance patterns for payroll warrants, as would be necessary prior to re-certification.

Failure to evaluate and re- certify a program's clearance pattern violates the requirement of 31 CFR 205.8 and could result in the inaccurate calculation of IDHS' interest obligation to the Treasury. (Finding Code 02-28, 01-16)

Recommendation:

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

IDHS Response:

Accepted. The Department has been working to obtain the necessary information to verify the clearance patterns for payroll warrants and will re-certify all clearance patterns when the process is complete. It should be noted that the Department did review the accuracy of clearance patterns for all costs other than payroll and those newly developed clearance patterns were used when calculating the interest due for the Vocational Rehabilitation and SSDI grants for the year ended June 30, 2002. Clearance patterns are not required to be calculated for non-payroll costs under the Food Stamp Program.

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State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: US Department of Education (USDE)
US Department of Health and Human Services (USDHHS)

Program Name: Rehabilitation Services - Vocational Rehabilitation Grants to States

CFDA # and Program Expenditures: 84.126 (\$99,090,000)

Questioned Costs: \$2,785,719

Finding 02-20 Failure to Allocate Payroll Costs as Defined in PACAP

IDHS directly charged payroll expenditures to its Vocational Rehabilitation program that are required to be; allocated through the Public Assistance Cost Allocation Plan (PACAP).

IDHS administers several federal and state programs to assist Illinois families in achieving self-sufficiency, independence, and improved 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 payroll and fringe benefit costs charged to federal programs, we noted cost centers related to the Office of Rehabilitation Services were directly charged 100% to the Vocational Rehabilitation program. Per the PACAP, however, cost centers associated with the Office of Rehabilitation Services are required to be allocated based upon random moment time studies. Additionally, time and effort certifications do not exist to support directly charging 100% of these payroll expenditures to the Vocational Rehabilitation program. Payroll and fringe benefit expenditures directly charged to the Vocational Rehabilitation program totaled \$39,068,951 for the year ended June 30, 2002; whereas, payroll and fringe benefit expenditures as calculated per random moment time studies totaled \$36,283,232.

According to 45 CFR part 95.507, a cost allocation plan shall describe the procedures used to identify, measure, and allocate all costs to each of the programs operated by the State agency and contain sufficient information and detail to permit the Division of Cost Allocation (DCA) to make an informed judgment on the correctness and fairness of the procedures for identifying, measuring, and allocating all costs to each of the programs operated by the State agency. Additionally, 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 solely on one federal program and 100% of their salary or wages are charged to the program, IDHS must obtain a certification from the employee or their direct supervisor that 100% of their time is spent on the single federal program. This

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STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

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certification must be kept on file and is required to be obtained at least every six months.

In discussing this occurrence with IDHS officials, they state the cause is due to the Department not utilizing the RMS methodology in the PACAP amendment and not reconciling to the actual expenditures claimed to determine the correct amount charged to the Vocational Rehabilitation grant.

Failure to ensure that methods used to allocate costs are consistent with the PACAP could result in federal programs not receiving their proportional share of expenditures resulting in unallowable costs. (Finding Code 02-20)

Recommendation:

We recommend IDHS allocate costs to its Vocational Rehabilitation program using the allocation methods defined in the approved PCAP or amend the PACAP to reflect the direct allocation method currently being used. Additionally, we recommend IDHS obtain effort certifications for all payroll charges directly charged to its federal programs.

IDHS Response:

Accepted. The Department anticipates retroactive approval of its RMS methodology and will reconcile RMS results to dollars previously reported to determine the final amount to be charged to the Vocational Rehabilitation program for FY'02.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2002

State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: US Department of Health and Human Services (USDHHS)

Program Name: Temporary Assistance for Needy Families
Medicaid Cluster
Block Grants for Prevention and Treatment of Substance Abuse

CFDA # and Program Expenditures: 93.558 (\$474,348,000)
93.775 / 93.777 / 93.778 (\$4,686,508,000)
93.959 (\$67,417,000)

Questioned Costs: Cannot be determined

Finding 02-25 *Inaccurate Allocation of Costs*

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

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

During our review of cost allocated to federal programs during the quarter ended March 31, 2002, we noted the following errors in the application of allocation methodologies:

- The allocation method used for the Office of Alcohol and Substance Abuse (OASA) did not include all the service program units for State programs administered by OASA, which resulted in the federal programs being allocated more than their proportionate share of costs.
- Costs allocated for the Community Services Division were understated by \$243,000 resulting in an under allocation of costs to the state and federal programs.

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

In discussing this occurrence with IDHS officials, they state the one error noted was due to an oversight in submitting information by a program area and the other error was due to not updating formulas correctly in the calculation worksheet.

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Schedule of Findings and Questioned Costs

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Failure to accurately allocate costs in accordance with the PACAP may result in disallowances of costs.
(Finding Code 02-25)

Recommendation:

We recommend IDHS review the process and procedures in place to prepare cost allocation calculations and supporting schedules and implement changes necessary to ensure accurate application of the allocation methodologies.

IDHS Response:

Accepted. The Department will review current procedures for preparing the cost allocation calculations to determine if any changes are necessary. Prior period adjustments will be made to adjust for the incorrect allocations identified in the audit.

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Overview of the Office of the Inspector General

Office of Audit

The Office of Audit (OA) conducts comprehensive financial and performance audits of the Social Security Administration's (SSA) programs and makes recommendations to ensure that program objectives are achieved effectively and efficiently. Financial audits, required by the Chief Financial Officers' Act of 1990, assess whether SSA's financial statements fairly present the Agency's financial position, results of operations and cash flow. Performance audits review the economy, efficiency and effectiveness of SSA's programs. OA also conducts short-term management and program evaluations focused on issues of concern to SSA, Congress and the general public. Evaluations often focus on identifying and recommending ways to prevent and minimize program fraud and inefficiency, rather than detecting problems after they occur.

Office of Executive Operations

The Office of Executive Operations (OEO) supports the Office of the Inspector General (OIG) by providing information resource management; systems security; and the coordination of budget, procurement, telecommunications, facilities and equipment, and human resources. In addition, this office is the focal point for the OIG's strategic planning function and the development and implementation of performance measures required by the *Government Performance and Results Act*. OEO is also responsible for performing internal reviews to ensure that OIG offices nationwide hold themselves to the same rigorous standards that we expect from SSA, as well as conducting investigations of OIG employees, when necessary. Finally, OEO administers OIG's public affairs, media, and interagency activities, coordinates responses to Congressional requests for information, and also communicates OIG's planned and current activities and their results to the Commissioner and Congress.

Office of Investigations

The Office of Investigations (OI) conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement of SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, physicians, interpreters, representative payees, third parties, and by SSA employees in the performance of their duties. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Counsel to the Inspector General

The Counsel to the Inspector General provides legal advice and counsel to the Inspector General on various matters, including: 1) statutes, regulations, legislation, and policy directives governing the administration of SSA's programs; 2) investigative procedures and techniques; and 3) legal implications and conclusions to be drawn from audit and investigative material produced by the OIG. The Counsel's office also administers the civil monetary penalty program.