
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
STATE OF ILLINOIS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2003**

February 2004

A-77-05-00008

**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: February 9, 2005

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, 2003 (A-77-05-00008)

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, 2003. 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 Department of Health and Human Services (HHS) desk review 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 the 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.

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' parent agency.

The single audit reported that DHS improperly included non-Federal disbursements in the Cash Management Improvement Act (CMIA) clearance pattern calculations for Social Security disability programs. The corrective action plan indicated that DHS will ensure that only costs allocated to a Federal program are included in the clearance pattern calculations (Attachment A, pages 1 and 2).

We recommend that SSA verify that DHS implemented procedures to accurately calculate clearance patterns based on costs related only to its 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.

- Procedures were not adequate to ensure that financial information was accurate and timely (Attachment B, pages 1 and 2).
- Expenditures for a State operated program were inappropriately charged to a Federal program (Attachment B, pages 3 and 4).
- Costs were not accurately allocated to Federal programs in accordance with the cost allocation plan (Attachment B, pages 5 and 6).

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



Patrick P. O'Carroll, Jr.

Attachments

STATE OF ILLINOIS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2003

State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: US Department of Agriculture (USDA)
US Department of Education (ED)
Social 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 (\$86,389,000)
84.126 (\$94,287,000)
96.001 (\$58,370,000)

Questioned Costs: None

Finding 03-27 *Improper Recertification of Clearance Patterns*

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

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 and to calculate the interest owed on advances of federal funds.

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

According to The Money and Finance Treasury Code Regulations (31 CFR 205.20(b)), a clearance pattern must accurately represent the flow of Federal funds under the Federal assistance programs to which it is applied.

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

Failure to properly re-certify a program's clearance pattern violates the requirement of 31 CFR 205.20 and could result in the inaccurate calculation of IDHS' interest obligation to the Treasury. (Finding Code 03-27)

STATE OF ILLINOIS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2003

Recommendation:

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

IDHS Response:

Agree. IDHS will determine if any specific general fund appropriations/paycodes could be added to or eliminated from the calculations in order to better limit the calculation of the clearance pattern to payroll cost that is actually allocated to the federal program.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: All Federal Agencies

Finding 03-02 *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 forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During our review of the financial reporting process, we noted that the information available for the preparation of the State's financial statements and SEFA was not finalized for IDHS until January 12, 2004. 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 the decision for maximizing federal claiming for TANF was not determined on a timely basis. In addition, IDHS must rely on other state agencies for TANF claiming and this information is not received on a timely basis.

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

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.

STATE OF ILLINOIS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2003

IDHS Response:

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

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

STATE OF ILLINOIS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2003

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
CFDA # and Program Expenditures: 93.558 (\$613,480,000)
Questioned Costs: \$17,300,000

Finding 03-16 Unallowable Costs Charged to the TANF Program

IDHS claimed expenditures under the Temporary Assistance for Needy Families (TANF) program for a state operated program that did not meet one of the four purposes of the TANF program.

The TANF program is comprised of a series of programs designed and operated by each state to address the welfare needs of its residents. In order to be allowable under the TANF program, expenditures must meet one of the following TANF purposes: (1) provide time-limited assistance to needy families with children so that the children can be cared for in their own homes or in the homes of relatives; (2) end dependence of needy parents on government benefits by promoting job preparation, work, and marriage; (3) prevent and reduce out-of-wedlock pregnancies, including establishing prevention and reduction goals; and (4) encourage the formation and maintenance of two-parent families. A State Plan is required to be submitted and approved by USDHHS on a periodic basis to identify the programs the State offers under its TANF program.

During the State fiscal year ended June 30, 2003, IDHS claimed approximately \$17.3 million in expenditures under its TANF program from the Regional Safe Schools program operated by the Illinois State Board of Education. The purpose of the Regional Safe Schools program is to provide an alternative education to Illinois residents who have been expelled from local school districts for behavioral problems.

In accordance with 45 CFR 263.11, TANF program funds are required to be used to meet one of the purposes of TANF as outlined above. Additionally, according to 45 CFR 263.4(b), expenditures on the behalf of eligible families for educational services or activities provided through the public education system do not count unless they are (1) provided to increase self-sufficiency, job training, and work and (2) they are not generally available to other residents of the State without cost and without regard to their income.

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

Failure to properly determine the allowability of costs in accordance with program regulations may result in costs inconsistent with program objectives being claimed to federal programs. (Finding Code 03-16)

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

Recommendation:

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

IDHS Response:

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

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

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

Auditors' Comment:

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

IDHS stated in its response above that it amended the State Plan subsequent to our audit to include this program. However, the amendment does not clearly describe the program. To say that it has been approved by the USDHHS, in our view, is misleading. The State Plan is highly summarized and does not provide the details behind each State program that is included. Specifically, the descriptions included for the Regional Safe School program in the amended State Plan is as follows: "Alternative Education - Programs to help break the cycle of disruptive behavior, reduce the incidence of teen pregnancy and provide positive career opportunities."

STATE OF ILLINOIS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2003

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
State Children's Insurance Program
Medicaid Cluster
Block Grants for Prevention and Treatment of Substance Abuse

CFDA # and Program Expenditures: 93.558 (\$613,480,000)
93.767 (\$42,420,000)
93.775 / 93.777 / 93.778 (\$5,160,453,000)
93.959 (\$67,415,000)

Questioned Costs: Cannot be determined

Finding 03-22 *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 costs allocated to federal programs during the quarter ended March 31, 2003, we noted the following errors in the application of allocation methodologies:

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

STATE OF ILLINOIS
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For the Year Ended June 30, 2003

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

Failure to accurately allocate costs in accordance with the PACAP may result in disallowances of costs. (Finding Code 03-22, 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:

Agree. Allocation statistics have been provided by IDPA and are now used on an ongoing quarterly basis. A prior period adjustment was submitted during the quarter ended March 31, 2004 to correct the quarter ended March 31, 2003 allocation. This adjustment shifted total costs of \$243.49 (\$121.74 FFP) from Medicaid Title XIX to Family Care, and shifted total costs of \$1,947.97 (\$1,266.18 FFP) from state non-match to Medicaid Title XXI. Prior period adjustments for DMHDDS are being calculated and are expected to be submitted for quarter ended June 30, 2004.

Overview of the Office of the Inspector General

The Office of the Inspector General (OIG) is comprised of our Office of Investigations (OI), Office of Audit (OA), Office of the Chief Counsel to the Inspector General (OCCIG), and Office of Executive Operations (OEO). To ensure compliance with policies and procedures, internal controls, and professional standards, we also have a comprehensive Professional Responsibility and Quality Assurance program.

Office of Audit

OA conducts and/or supervises 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 and program evaluations and projects on issues of concern to SSA, Congress, and the general public.

Office of Investigations

OI conducts and coordinates investigative activity 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 OIG liaison to the Department of Justice on all matters relating to the investigations of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Office of the Chief Counsel to the Inspector General

OCCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCCIG 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. Finally, OCCIG administers the Civil Monetary Penalty program.

Office of Executive Operations

OEO supports OIG by providing information resource management and systems security. OEO also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, OEO is the focal point for OIG's strategic planning function and the development and implementation of performance measures required by the Government Performance and Results Act of 1993.