
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
STATE OF ILLINOIS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2005**

March 2007 A-77-07-00009

**MANAGEMENT
ADVISORY REPORT**



Mission

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

Authority

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

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

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

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

Vision

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



SOCIAL SECURITY

MEMORANDUM

Date: March 23, 2007

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, 2005 (A-77-07-00009)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of Illinois for the Fiscal Year ended June 30, 2005. 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 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 Department of Human Services (DHS) is the Illinois DDS' parent agency.

The single audit reported that DHS did not follow the Illinois Procurement Code for certain purchases made for SSA's disability programs. Specifically, purchases made from one vendor were separated into multiple purchases to avoid the State's bidding and contract requirements for procurements in excess of \$25,000 (Attachment A, pages 1 and 2). The corrective action plan indicated that monitoring tools have been developed to track compliance with the Illinois Procurement Codes (Attachment A, page 2).

We recommend SSA ensure DHS implemented procedures to ensure that procurements are performed in accordance with the State's rules and regulations.

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 submitted to the Office of the Comptroller was accurate and timely (Attachment B, pages 1 and 2).
- Expenditures claimed were unreasonable and an unapproved cost allocation methodology was used (Attachment B, pages 3, 4, and 5).
- The cost allocation methodology was not amended to accurately allocate costs to all applicable programs (Attachment B, pages 6 and 7).

Please send copies of the final Audit Clearance Document to Shannon Agee and Rona Lawson. If you have any 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, 2005

State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: US Social Security Administration

Program Name: Social Security Disability Insurance

CFDA # and Program Expenditures: 96.001 / 96.006 (\$66,301,000)

Award Numbers: 0404ILD100/0504ILD100

Questioned Costs: Cannot be determined

Finding 05-26 Failure to Follow Illinois Procurement Code

IDHS did not follow the Illinois Procurement Code for certain procurements made under the Social Security Disability Insurance (SSDI) cluster.

During our testwork over 30 procurements made from the SSDI cluster, we noted IDHS purchased approximately \$37,800 in envelopes from a vendor with whom a contract had not been executed. The procurement was subdivided into 10 separate purchases ranging from \$238 to \$8,919 to avoid the State's bidding and contract requirements for purchases in excess of \$25,000. Procurement expenditures totaling \$7,177,498 were charged to the SSDI cluster during the year ended June 30, 2005.

In accordance with 20 CFR 437.36(a), a State must follow the same policies and procedures it uses for procurements for its non-Federal funds. Section 20-80(b) of the Illinois Procurement Code (30 ILCS 500) requires a copy of the written determination (i.e. contract, purchase order, grant, or lease agreement) for obligations exceeding \$10,000 to be filed with the Comptroller within 15 days of its execution. Section 20-5 of the Illinois Procurement Code (30 ILCS 500) and applicable administrative rules (44 IL Adm Code 7.2020) require all State contracts greater than \$25,000 to be awarded by competitive sealed bidding unless otherwise authorized by law. Additionally, section 20-20(a) of the Illinois Procurement Code (30 ILCS 500) prohibits artificially dividing purchases to constitute a small purchase (defined as less than \$25,000).

In discussing these conditions with IDHS officials, they stated they were not aware that purchases of consumable supplies, made as needed, are subject to the Illinois Procurement Code. IDHS has made adjustments to ensure Illinois Procurement Code is complied with henceforth.

Failure to follow the Illinois Procurement Code may result in violations of federal procurement regulations and the loss of federal funding. (Finding Code 05-26, 04-27)

Recommendation:

We recommend IDHS implement procedures to ensure that all procurements are performed in accordance with the applicable rules and regulations.

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IDHS Response:

Agree. IDHS has developed procedures to address the audit recommendation. Monitoring tools have been developed to track compliance with the new policy.

Finding Number	Topic Statement	Status	Contact Person	% Compl	CAP Update	
Previous Statewide Single Audit						
05-26	Failure to Follow Illinois Procurement Code	Agree Completed	Curtis Thompson	100%	3/4/2006	Corrective Action Plan a. Develop a policy to address the audit recommendation. b. Develop procedures to implement the policy. c. Develop monitoring tools to implement the policy. d. Ensure the policy has received administrative approval. CAP Completed [100%] Items a, b, c and d have been completed. CAP to be Completed [0%] Not Applicable

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For the Year Ended June 30, 2005

State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: All Federal Agencies

Finding 05-02 Inadequate Process for Accurate and Timely Financial Reporting

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

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

During our review of the financial reporting process, we noted that the IDHS information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. Additionally, several correcting journal entries were required to accurately state amounts reported by IDHS. Further, IDHS had to restate their fiscal year 2004 financial statements due to the failure to record federal grant revenues of \$24,020,000 for the Special Education – Grants for Infants and Families with Disabilities program. As a result, the expenditures in the 2004 schedule of expenditures of federal awards were understated by this amount.

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 Early Intervention Program does not have any federal expenditure reporting requirements. The Office of Fiscal Services did not have the information available to determine the proper federal grant revenue and expenditure amounts related to the Early Intervention program.

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 05-02, 04-02, 03-02, 02-02)

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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.

IDHS Response:

The Office of Fiscal Services will work with the DHS program areas to ensure the proper reporting of all federal Early Intervention program activity. A reconciliation of the expenditure amounts claimed to the amounts reported in the GAAP reporting package is completed for all major federal programs. All GAAP reporting packages for State fiscal year 2005 were submitted timely to the Office of the Comptroller.

Auditors' Comment:

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

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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 (\$585,595,000)

Award Numbers: G-0401 IL TANF/G-0501 IL TANF

Questioned Costs: \$9,600,000

Finding 05-16 *Unallowable Costs Charged to the TANF Program*

IDHS claimed expenditures under the Temporary Assistance for Needy Families (TANF) program which were unreasonable and determined using an unapproved cost allocation methodology.

During the year ended June 30, 2005, IDHS claimed approximately \$9.6 million in expenditures under the TANF program from an adult education program operated by the Illinois Department of Corrections (IDOC). This program was designed to provide educational courses to inmates in correctional facilities throughout the State to improve their self-sufficiency and ability to attain employment when released from prison. IDHS and IDOC executed an interagency agreement dated October 1, 2002, in which both agencies agreed IDOC would report expenditure information pertaining to its inmates for claiming under TANF. The interagency agreement does not identify the inmate eligibility criteria to be used, the applicable allowable cost provisions, or any of the applicable TANF laws and regulations.

Subsequent to the execution of this interagency agreement, IDHS and IDOC have informally identified criteria to be used in identifying inmates for claiming under TANF. As a result, IDOC limits the inmates included in its quarterly claim to those that: (1) have children and (2) have not been convicted of certain classes of felonies. However, neither IDHS nor IDOC have implemented procedures to ensure that the inmates served under this program will be released within a reasonable period of time (within a three year period) to enable them to benefit from the skills attained from the education courses. Consequently, these expenditures are not reasonable costs as defined in OMB Circular A-87.

Additionally, as the costs for this program can not be directly assigned to each individual inmate participating in the program, IDOC calculates an "amount per inmate" each quarter by dividing the total cost of operating the adult education program by all participating inmates. The amount per inmate is then multiplied by the number of inmates who meet the criteria noted above and is then reported to IDHS for claiming under TANF. These calculations represent a cost allocation methodology which has not been approved by the federal cognizant agency.

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 expenditures must be reasonable.

According to OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, all departments or agencies of a governmental unit desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal and related documentation to support those costs.

Indirect costs are defined as those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) no readily assignable to the cost objectives specifically benefited, with effort disproportionate to the results achieved.

In discussing these conditions with IDHS officials, they stated these expenditures could be reasonably calculated to accomplish the purposes of TANF, as specified at 45 CFR 260.2(b), which is to end the dependence of needy parents on government benefits by promoting job preparation, work and marriage.

Failure to properly identify and determine the allowability of costs in accordance with the applicable cost principles and program regulations may result in costs inconsistent with program objectives being claimed to federal programs. (Finding Code 05-16)

Recommendation:

We recommend IDHS work with IDOC to establish formal eligibility criteria for inmates to be claimed under the TANF program. Such eligibility criteria should include provisions to limit TANF funding to those inmates who will have the ability to benefit from the services provided. In addition, we recommend IDHS and IDOC obtain federal approval of the cost allocation methodology used to assign adult education costs to the TANF program.

IDHS Response:

Disagree. In accordance with 45 CFR 260.2(b), these expenditures were reasonably calculated to accomplish the purposes of TANF, which is to end the dependence of needy parents on government benefits by promoting job preparation, work and marriage.

IDHS disagrees with the conditions as stated in the finding. Reasonable costs, as defined in OMB Circular A-87 (Revised May 10, 2004) Attachment A, Part C are defined as costs that do not exceed, in nature and amount, what would be incurred by a prudent person. While it is difficult to quantify the value of a high school, college or vocational education, the Department believes the skills the inmates attain from this program will benefit them and their families for the rest of their lives. Some of the educational programs, by their nature, take longer than two years to complete. The assessment of a three-year period is an arbitrary judgment, and it is not reasonable and prudent to suppose that, for example, persons released after five year period would not benefit from the skills attained in an educational course completed three years prior. Therefore, IDHS considers the costs of this adult education program reasonable as defined in OMB Circular A-87.

The Department also disagrees with the auditor's belief that the adult education program costs are calculated using a cost allocation methodology requiring federal cognizant agency approval. IDOC calculates a "per hour" cost for the program. Total program expenditures are divided by total instructional hours to achieve a per hour rate. The claim amount is then calculated by multiplying the hourly rate times the number of

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instructional hours for each eligible TANF inmate enrolled in the program. Because individual hourly records are kept, these costs can be tied to individual participants.

Accordingly, these costs fall under the definition of direct costs as defined in OMB Circular A-87, and are readily assignable to a specific program, which negates the need for this program's inclusion in DHS' Cost Allocation Plan. Furthermore, in 45 CFR 95.505, the definition of state agency costs that require cost allocation plans excludes "payments for services and goods provided directly to program recipients...as provided for under the approved State program plan." These payments are for direct services to program recipients and were covered in the State TANF Plan under additional program provisions, Section 8, F, #3. A State Plan amendment (Section 8, F, #21) further clarifies our intent.

Auditors' Comment:

We do not believe the purpose of TANF was to provide funding for educational programs from which individuals will not benefit for extended periods of time. As previously stated, neither IDHS nor IDOC have implemented procedures to ensure that the inmates served under this program will be released within a reasonable period of time to enable them to benefit from the skills attained from the education courses. Based upon consultation with federal TANF program personnel, we have interpreted a reasonable period of time to be three years.

In addition, we also believe that the "per hour" calculation represents an indirect cost allocation methodology as the "per hour" amount calculated each quarter varies as a result of the course costs and the number of inmates served. These variances inhibit IDHS' ability to directly link an eligible individual with the amount claimed for reimbursement. Consequently, we continue to recommend that IDHS obtain federal cognizant approval for the allocation methodology.

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For the Year Ended June 30, 2005

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: Special Education – Grants for Infants and Families with Disabilities
Temporary Assistance for Needy Families
Social Services Block Grant
Maternal and Child Health Services Block Grant to States

CFDA # and Program Expenditures: 84.181 (\$36,428,000)
93.558 (\$585,595,000)
93.667 (\$87,826,000)
93.994 (\$21,901,000)

Award Numbers: H181A030001/H181A040003/H181A050007 (84.181)
(CFDA number) G-0401LTANF/G-0501LTANF/CANG996115 (93.558)
G-0401LSOSR/G-0501LSOSR (93.667)
B04MC04271-01-03 (93.994)

Questioned Costs: Cannot be determined

Finding 05-23 *Improper Cost Allocation Methodology*

IDHS has not amended the allocation methodology included in the most recently submitted Public Assistance Cost Allocation Plan (PACAP) to accurately allocate the costs of its Early Intervention Program (State EI) to all applicable federal programs.

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 December 31, 2004, we noted the allocation methodology included in the PACAP for the State EI program does not reflect the actual activities of the program. The cost allocation methodology currently included in the PACAP requires State EI costs to be allocated to the Medicaid Cluster based upon beneficiary eligibility statistics (i.e. number of Medicaid eligible cases in relation to total cases) with the remainder of these expenditures to be funded by the State. Based upon this methodology, IDHS used the non-Medicaid PACAP expenditures to meet its Special Education – Grants for Infants and Families with Disabilities program (Part C) maintenance of effort

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(MOE) requirement. However, since the non-Medicaid State EI beneficiary payments are federally reimbursed under Part C and the Social Services Block Grant programs and are also used to meet the MOE requirements for Part C and the Maternal and Child Health Services Block Grant to States, the remaining state funded expenditures should be further allocated to each of the benefiting federal and state programs. Consequently, a portion of the non-Medicaid PACAP expenditures used to meet the Part C MOE requirements are not attributable to the Part C program and should not have been used to meet the MOE requirements.

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.

In discussing these conditions with IDHS officials, they stated that the cost allocation methodology as defined in the Public Assistance Cost Allocation Plan (PACAP) was sufficient under their interpretation of the Part C MOE requirement. IDHS followed PACAP methodology that is on file with the United States Department of Health and Human Services (U.S. DHHS), Division of Cost Allocation.

Failure to amend PACAP cost allocation methodologies for changes in program administration may result in disallowances of costs. (Finding Code 05-23)

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:

Agree. IDHS will submit an amendment to USDHHS to change the allocation methodology for distributing administrative costs of the Early Intervention program. The USDHHS Division of Cost Allocation must also approve the amended language. No net change in federal funding is expected as a result of this amendment.

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 Resource Management (ORM). 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 Resource Management

ORM supports OIG by providing information resource management and systems security. ORM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, ORM 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.