

---

**OFFICE OF  
THE INSPECTOR GENERAL**

---

**SOCIAL SECURITY ADMINISTRATION**

---

**SINGLE AUDIT OF THE  
STATE OF ILLINOIS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2009**

**December 2010                    A-77-11-00006**

---

**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:** December 14, 2010    **Refer To:**

**To:** Rebecca Tothero  
Acting 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, 2009 (A-77-11-00006)

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, 2009. 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 desk review conducted by the Department of Health and Human Services (HHS) concluded that the final determination on whether the audit met Federal audit requirements will be based on the results of a scheduled Quality Control Review (QCR). We have not received the results of the QCR conducted by HHS. If HHS determines the audit did not meet Federal requirements, we will notify you. 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 Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspections*.

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 (IDHS) is the DDS' parent agency.

The single audit reported IDHS did not amend the cost allocation plan (CAP) to include changes in program administration. Therefore, the methods used to allocate the costs of administrative offices to various Federal programs were not approved by HHS'

Division of Cost Allocation. The corrective action plan indicates that IDHS amended the CAP to accurately include all costs assigned to its administrative offices, and in January 2009, the plan was approved by HHS (Attachment A, Pages 1 and 2). We recommend that SSA work with IDHS to ensure that indirect costs charged to the Illinois DDS during State Fiscal Year 2009 were in accordance with the CAP's approved methodologies and, if not, recover any unallowable costs.

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

- 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 would be made annually to reduce exposure to excess balances (Attachment A, Page 6).
- Costs accumulated in the internal service funds were unallowable (Attachment A, Pages 7 through 9). The corrective action plan indicates that allowable costs supporting multiple funds will be allocated across the benefiting funds and non-allowable expenditures will be identified and eliminated from the Statewide CAP (Attachment A, Page 9).

We recommended corrective action to SSA on these two findings in prior reports.<sup>1</sup> SSA informed us that appropriate corrective actions were taken on our prior recommendations during FY 2008. However, these findings continue to be reported in FY 2009, indicating that the corrective actions taken in FY 2008 did not resolve the weaknesses in the State's allocation of internal service fund charges to Federal programs. Therefore, we recommend that SSA ensure all FY 2009 charges to the Illinois DDS from the internal service fund were allowable and, if not, recover any unallowable costs.

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 through 3). Although this finding was not specifically identified to SSA, it may impact DDS operations. I am bringing this matter to your attention as it represents potentially serious service delivery and financial control problems for the Agency.

---

<sup>1</sup> SSA OIG, Management Advisory Reports, *Single Audit of the State of Illinois for the Fiscal Year Ended June 30, 2007 (A-77-09-00009)*, March 2009; and *Single Audit of the State of Illinois for the Fiscal Year Ended June 30, 2008 (A-77-10-00005)*, March 2010.

Page 3 – Rebecca Tothero

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 "Patrick P. O'Carroll, Jr."

Patrick P. O'Carroll, Jr.

Attachments

**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)

**Questioned Costs:** Cannot be determined

**Finding 09-13    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, we noted one cost center for the Chief Financial Office (MS440) was not included in the cost allocation plan until an amendment was requested for the quarter ended March 31, 2009. Accordingly, the method used to allocate this cost center was not approved for use by USDHHS until January 1, 2009. The costs allocated for the Chief Financial Office during the six months ended December 31, 2009 were \$126,701.

As this cost center is administrative in nature, it was allocated using the Departmental Indirect Cost Allocation Plan methodology which allocates costs to all federal and state program administered by IDHS. Total costs allocated through the PACAP for the year ended June 30, 2009 were \$1,267,076,601.

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 09-13, 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. PACAP was amended to include the revision with an effective date of January 1, 2009.

**Finding Number:** 09-13

**Finding Name:** Failure to Amend the Public Assistance Cost Allocation Plan

**Finding Synopsis:** 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.

**Action steps:**

- Plan was amended effective 1/01/09.

**Contact Person(s):** Albert Okwuegbunam/Greg Primm

**Phone Number:** 217/785-7797

**Anticipated Completion Date:** January 1, 2009

**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)

**Questioned Costs:** Cannot be determined

**Finding 09-92    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 2006, 2007 and 2008. Upon further review, the fiscal year 2009 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 \$9,961,000 and \$5,098,000 as of June 30, 2009 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 \$1,400,000 earned in CRF was not reported as revenue in the 2008 GAAP basis financial statements, but was reported for federal purposes in 2008;
- Accounts payable in the SSRF and the Facilities Management Revolving Fund (FMRF) totaling \$2,566,000 and \$437,000, respectively, was reported for the 2008 GAAP basis financial statements but was not reported for federal purposes in 2008;
- Increases of \$76,000, \$196,000 and \$217,000 in the compensated absences liability balances in CRF, SSRF, and FMRF respectively, were reported in the fiscal year 2008 GAAP basis financial statements, but were not reported for federal purposes in 2008;
- Equipment totaling \$4,140,000 and \$1,453,000 purchased in the CRF and SSRF, respectively, during the fiscal year 2008 lapse period was reported in the fiscal year 2009 GAAP basis financial statements, but was expensed in fiscal year 2008 for federal purposes;

- Depreciation expense of \$519,000 and \$1,537,000 on items purchased in the SSRF and CRF, respectively, was reported for the 2008 GAAP basis financial statements but was not reported for federal purposes in 2008.

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 2009, 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 their practices are compliant with A-87 guidelines.

Failure to properly monitor fund balances of internal service funds may result in claiming of unallowable costs. (Finding Code 09-92, 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:**

Excess Balances

The Department asserts that its excess balance adjustment practices are compliant with OMB Circular A-87 guidelines.

The Department has long employed an ongoing process to evaluate allowable balances by service for its internal service funds. Our annual SWICAP Section II submission is the culmination of an ongoing annual process involving rate developments, revenue and expense projections, capturing and matching of costs and revenues by service center, and truing up revenues and expenses by service center and customer.

Further, the existence of excess balances is not a violation of A-87. The federal requirement is that excess balances be remedied. The Department asserts that its adjustment methods, Per A-87 Attachment C, G.4., which include negotiated settlements, are appropriate and allowable.

The Department does agree that adjustments should be made as timely as is feasible. DCMS continues to adjust rates annually to reduce exposure to excess balances. However, these annual adjustments cannot guarantee that excess balances will be entirely eliminated for all services in any given year, since rates and costs are projections. Billing credits, like cash refunds, require multiple years to apply, so the adjustment occurs no faster than a negotiated payback and requires significantly more up-front cash. Therefore, direct negotiated paybacks have always been, and will likely continue to be, a part of the federally provided and federally sanctioned remedy for excess balances.

The timeliness of direct paybacks is dependent on the federal review cycle. The paybacks are negotiated during the federal review of the annual SWICAP. The federal review cycle is not completed annually, and in some cases stretches out several years. The refunds, which are negotiated, are formally set through the federal letter of determination at the end of the review process.

In addition, the SWICAP Section I, as well as virtually all agency indirect cost rate proposals (ICRPs), are based on a two-year roll forward adjustment cycle, which recognizes the natural lag between year-end trued-up cost allocation and federal claiming. The over/under charges reported in Section II have similar FY timing limitations.

We also refer to the ASMB C-10 reference to making adjustments in the “next open fiscal period.” At the time our SWICAP Section II filing is completed, we are typically in the late third or early fourth quarter of the new FY. The State’s interpretation of the “next open fiscal period” is the next full fiscal year in which the State has the ability to adjust agency budgets to handle rate changes due to over/under billings.

Finally, the federal Dept of DHHS includes imputed interest in the payback calculations in recognition of, and as compensation for, any delay in remedying the excess balances.

All excess balances for all outstanding FYs except FY09 have been remedied and approved by DHHS.

**Reconciling Items:**

Two of the items were either recorded properly or have no federal impact:

**Compensated Absences:** Payroll costs are recorded in the fiscal year paid for federal reporting purposes. Per A-87, when a governmental unit uses the accrual basis of accounting, in accordance with GAAP, allowable leave costs are the lesser of the amount accrued or funded.

**Inmate Commission Income:** There is no federal impact as this cost center has no federal participation.

Regarding the other three items, the State concurs.

**Auditors' Comment:**

DCMS has acknowledged the existence of excess fund balances, but believes that it is not a violation of federal regulations. Specifically, they state that negotiated settlements are appropriate and allowable. However, we believe federal regulations require DCMS to adjust rates or remit excess fund balances back to the applicable federal programs on a timely basis. DCMS’ past practice of protracted negotiations and waiting for its cognizant agency to “agree to a settlement” is inconsistent with federal regulations.



ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
James P. Sledge, Director

Pat Quinn, Governor

**DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**  
Corrective Action Plan

**Finding Number:** 09-92

**Finding Name:** Inadequate Process for Monitoring Internal Service Fund Balances

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

**Action Steps:** The Department does not concur with the portion of the finding related to excess balances. As demonstrated in our audit response, our methods of adjusting excess balances are in compliance with A-87 guidelines.

The Department has taken action steps in recent years to minimize the overall impact of excess balances, and will continue to:

- ✓ Adjust rates at least annually to reduce exposure to excess balances
- ✓ Pursue other payback methods where feasible
- ✓ Work aggressively with HHS on timely reviews of our SWCAP

The Department partially concurs on the portion of the finding related to reconciling items, and will:

- ✓ Adjust accounting practices where feasible to reduce the total number of reconciling items
- ✓ Post and document the reconciling items more accurately

**Contact Person(s):** Paul Romiti (217) 524-5322

**Anticipated Completion Date:** The processes outlined above are ongoing throughout the FY and subsequent FYs during the SWCAP filing and negotiations.

**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)

**Questioned Costs:** Cannot be determined

**Finding 09-93    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 120 cash disbursements (totaling \$4,583,603) from DCMS' internal service funds and found four of the disbursements tested (totaling \$11,287) 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, as summarized in the table below. Total expenditures recorded in these funds approximated \$473,121,534.

Fund	Description	Amount
SSRF	Travel to attend legislative audit committee meeting	\$457
CRF	Lodging for public information officer to assist governor's office for preparation of state budget	\$470
FMRF	Decoration of public facility – 2009 Christmas holiday decorations	\$9,861
CRF	Printing of 2000 Illinois Century Network brochures for marketing	\$499

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 these costs were allowable under A-87 guidelines.

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 09-93, 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 asserts that all of the costs identified by the auditors which were subject to cost recovery were allowable under A-87 guidelines and were charged to proper funding sources. Specifically:

- The administrative travel item had been removed from the SWICAP as demonstrated to the auditors.
- The Public Information Office (PIO) is an established communications service billed through the CRF. Its activities are specifically allowable under A-87 item 1 page 15.
- Decoration of a state building falls under item 13 p. 25 in the opinion of the State.
- The Illinois Century Network (ICN) is a communications service billed through the CRF. The associated costs are allowable under A-87 item 1 page 15 and item 34 page 35.

**Auditors' Comment:**

As discussed above, we believe the costs identified in this finding are unallowable as they were not reasonable or pertain to the fund in which they were reordered. Regarding DCMS' response above:

- DCMS could not provide documentation the administrative travel item was removed from the SWICAP.
- Travel expenses incurred related to the preparation of the State budget by the PIO are administrative expenses which should be allocated to all appropriate funds.
- Holiday decorations are not a reasonable or necessary cost for the administration of federal programs. DCMS' response above suggests the cost is allowable under OMB Circular A-87, Attachment B, Item 13 (Employee morale, health, and welfare costs). This item states, "The costs of employee information publications, health, or first-aid clinics and/or infirmaries, recreational activities, employee counseling services, and any other expenses incurred in accordance with the governmental units established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance are allowable. Such costs will be equitably apportioned to all activities of the governmental unit. ..." We do not believe holiday decorations are allowable under this section.

- The printing of the 2000 Illinois Century Network brochures appears to be an advertising cost, which we believe is unallowable under OMB Circular A-87. Specifically, OMB Circular A-87, Attachment B, item 1c, states “The only allowable advertising costs are those which are solely for 1) the recruitments of personnel required for the performance by the governmental unit of obligations arising under a Federal award; 2) the procurement of goods and services for the performance of a Federal award; 3) the disposal of scrap or surplus materials ....; and 4) other specific purposes necessary to meet the requirements of the Federal award.”

**Finding Number:** 09-93

**Finding Name:** Unallowable Costs Recorded in Internal Service Funds

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

**Action Steps:** The Department does not concur with the specific exceptions noted in the finding. As documented in detail in our audit response, the questioned costs were allowable under A-87 guidelines.

The Department has taken action steps in recent years to minimize the inclusion of unallowable costs and will continue to:

- ✓ Allocate allowable costs supporting multiple funds across the benefiting funds
- ✓ Identify and eliminate non allowable expenditures from the SWCAP

**Contact Person(s):** Paul Romiti (217) 524-5322

**Anticipated Completion Date:** The processes outlined above are ongoing throughout the FY.

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

**Federal Agency:** All Federal Agencies

**Finding 09-01** *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 solved these problems or made 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 has repeatedly informed 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 Homeland Security Cluster were not appropriately clustered by the Illinois Emergency Management Agency and were overstated by the Illinois Department of Transportation in 2009.

- Expenditures for the Highway Planning and Construction Cluster were overstated by the Illinois Department of Transportation in 2009.
- Expenditures for the Airport Improvement Program were improperly identified as being funded by the American Recovery and Reinvestment Act by the Illinois Department of Transportation in 2009.
- Expenditures for the Foster Care and Adoption Assistance programs were not identified as being funded by the American Recovery and Reinvestment Act by the Illinois Department of Children and Family Services in 2009.
- 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 seven 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 State's current inability to obtain the capital funding required to acquire and implement such a system. Without adequate financial and grants management systems, agency staff are required to perform highly manual calculations of balance sheet and SEFA

amounts in a short time frame which results in increased errors. The lack of adequate financial and grants management personnel is due to a failure to update the qualifications in the respective job titles to ensure that applicants have the minimum required education and skill sets to be properly trained.

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 09-01, 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 increase communication and work closely with the Office of the State Comptroller. The Governor's Office is establishing and implementing a corrective action plan to improve the quality and timeliness of the accounting information provided to the Comptroller for year-end preparation of the CAFR and the SEFA. The plan includes conducting a risk assessment, implementing additional internal controls, providing training to staff, and creating new accounting positions with necessary education and experience requirements to properly perform duties.

As noted in the discussion, the State has a highly decentralized financial reporting process, reliant on over 100 separate agency financial accounting and reporting systems. The Office of the Governor will work with the Illinois General Assembly and the Office of the State Comptroller to establish the business case and plan for the capital cost of implementing 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 continue to support legislation, as was introduced in the past two legislative sessions 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.