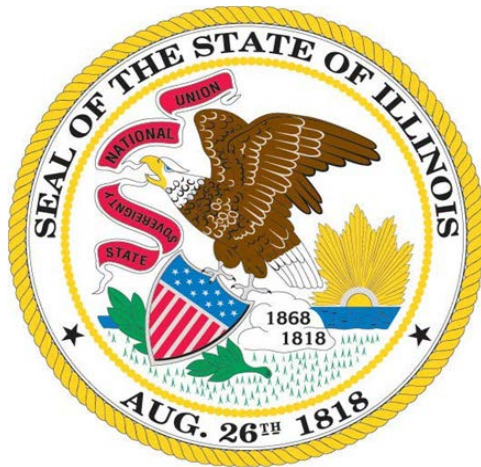


STATE OF ILLINOIS

GRANT ACCOUNTABILITY AND TRANSPARENCY ACT



5th ANNUAL REPORT TO THE
GOVERNOR AND GENERAL ASSEMBLY

January 1, 2020

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Subcommittee and Workgroup Volunteers

It is with great pride that GATU recognizes the invaluable contributions of state agency and grantee community volunteers who serve on various Grant Accountability and Transparency Act (GATA) subcommittees and workgroups. Representation from these internal and external stakeholders enables Illinois' grant management frameworks to be designed, tested and implemented with direct input from state agency and grantee users. More than 200 volunteers of which approximately 60% represented state agencies and 40% the grantee community, have provided a critical role in establishing Illinois' statewide grant management compliance frameworks.

A significant number of GATA state agency volunteers represent the Chief Accountability Officers (CAOs) and the GATA Advisory Group. The collaboration between GATU and the state agency CAOs has enabled Illinois to realize notable enhancements within GATA implementation. A complete list of current CAOs can be found in Appendix III to this report. CAOs are statutorily responsible for state agency engagement in GATA implementation. GATU facilitates CAO meetings twice a month to share current status updates and statistics, collaborate on administrative best practices, and answer questions and examine barriers to GATA implementation.

The GATA Agency Advisory Group is made up of the eight (8) largest grantmaking agencies: Department on Aging, Community College Board, Department of Children and Family Services, Department of Commerce and Economic Opportunity, Department of Human Services, Department of Public Health, Department of Transportation, and the State Board of Education. Approximately 90%

of all grant funds expended are administered by one of the agencies in the Agency Advisory Group. Throughout 2019, the Advisory Group focused on matters related to a lack of state agency capacity to adequately administer grants. Staffing limitations, inadequate skill sets of grant personnel and a Personnel Code that does not sufficiently enable state agencies to target hiring of grant professionals continue to create significant barriers to state agency oversight of public grant funds. GATU is grateful for the time CAOs, Advisory Agency personnel and representatives from the grantee community devote to GATA-related initiatives.

Executive Summary

The Grant Accountability and Transparency Act (GATA) became law as Public Act 98-0706 effective July 16, 2014. The purpose of GATA is to establish uniform administrative requirements, cost principles, and audit requirements for state and federal pass-through awards to non-federal entities through a focus on improving performance and outcomes, while ensuring transparency and the financial integrity of taxpayer dollars. Grants comprise two-thirds of the General Revenue Fund (\$20.2 billion) within the Illinois State Budget (total budget \$86 billion) which places a high visibility on grant compliance and the GATA statewide initiative.

GATA encompasses all compliance aspects of grant administration and provides uniformity and guidance for all grant-making agencies in state government. GATA does not set grant management rules, but adopts federal Uniform Guidance for all grants. Illinois is the first state in the nation to require uniform rules for the full life cycle of grants management. The Act supports capacity building within the state agencies and the grantee community by establishing grant-related training, and providing guidance and support to correct occurrences of non-compliance with fiscal, administrative and programmatic requirements.

PIONEERS IN GRANT ACCOUNTABILITY AND TRANSPARENCY

Illinois is the first state in the nation to legislate requirements that establish statewide grant accountability and transparency frameworks throughout the entire grant life cycle. The state has been recognized as an innovator in grant administration and a leader in applying federal Uniform Guidance (2 CFR 200) to statewide grant management.

Some highlights are listed below:

- The National Council of Nonprofits recommends GATA as a national model for grant management.
- Illinois' innovation in grants management has garnered federal government interest. Federal agencies frequently request Illinois' technical input with regard to grant compliance payments. GATU has also provided feedback on new federal initiatives including data standardization and performance outcome management for federal grant programs.
- The federal Office of Management and Budget has encouraged other states to follow Illinois' lead with grants management. To date, thirty-nine (39) states, Los Angeles County and New York City and three (3) federal agencies are implementing GATA in whole or in part.
- GATA was recently showcased in the Grant Innovation Exchange hosted by the federal Office of Management and Budget (OMB): "Reducing Administrative Burden – A State's Perspective".

- GATA continues to be showcased in grant compliance webinars hosted by OMB and the State Grant Leads Group. GATA training has been recognized as one of the most comprehensive sets of educational materials on federal Uniform Guidance and other states and federal agencies are currently utilizing GATA training materials and templates as best practices.
- GATA staff continues to be recognized as national experts and innovators on life cycle grants management. Staff currently serves on the Board of Directors for the National Grant Management Association (NGMA) and periodically provides national training towards the industry accredited Grant Management Book of Knowledge (GMBok) and Certified Grant Management Specialist (CGMS) designation.

CHALLENGES AND OPPORTUNITIES

After four years of incremental GATA implementation, there are many noteworthy achievements in grants management. State agencies and the grantee community have accepted the federal requirements and the GATA frameworks allowing the state to realize efficiencies and effectiveness in grants management. As documented in the cost avoidance / savings narrative of this report, the standardization of uniform templates, systems and rules has allowed the State of Illinois to be more effective in grant compliance. Specific challenges and opportunities have also become more apparent as state agencies and grantees experience the learning curves of a new phase of GATA implementation. The following sections highlight key challenges and opportunities as Illinois continues to become compliant with federal Uniform Guidance and GATA legislation.

Realities in Grant Management

States across the nation have been struggling with the implementation of Uniform Guidance. Illinois has decreased the burden of implementing Uniform Guidance by adopting the Grant Accountability and Transparency Act, standardizing compliant frameworks and establishing life cycle administrative rules for grant management. The state has benefitted from extensive technical expertise in life cycle grant management and federal compliance within the Grant Accountability and Transparency Unit (GATU).

Even with the implementation of GATA's centralized frameworks, many agencies continue to struggle with grant compliance because of inadequate staffing levels and insufficiently qualified staff. Grant management requirements have evolved over time, but the job descriptions remain stagnant and reflect more general responsibilities. The lack of staff within grant management roles with adequate education, skill sets and experience prevents effective, efficient and compliant grant management in accordance with federal regulations and GATA.

Collaborative planning and implementation efforts with state agencies and the grantee community have raised awareness of current deficiencies in grant management and oversight across state agencies.

As intended, GATA legislation adds transparency to life cycle grant administration. Through the use of statewide systems and the application of codified grant rules, occurrences of grant non-compliance are visible and inherent root causes are addressed.

Building Statewide Best Practices and Systems

During four years of GATA implementation, great strides have been made establishing uniform, standard frameworks including templates, systems and rules for key components of pre- and post-

award grant management. However, state agencies continue to operate on disparate systems with limited integrations resulting in inconsistent application of GATA frameworks. GATA establishes the statutory authority to mandate analysis of grant management processes from a statewide perspective and consequently identify and promote best practices across state agencies.

GATU conducted extensive research and solicited input from grantees, the Illinois Department of Innovation and Technology (DoIT), the Chief Procurement Office – General Services and other state agencies. As a result, the State of Illinois chose a single statewide information technology solution for life cycle grant management for all state agencies and grantees in late 2018. At the time of this report, the state is engaged in the first stage implementation of AmpliFund software as a key component of the overall statewide grant management system. The standardized business processes and data diagram for phase one have been completed. The established functionality of this specialized grant management product will integrate with existing DoIT and GATA infrastructure and systems to provide more comprehensive and unified grant management.

Internal Controls

Through implementation of the GATA frameworks, GATU has been able to analyze grant administration practices from a statewide perspective. As a result, strengths and weaknesses in grant management and oversight within state agencies and their divisions were identified. The GATA frameworks establish strong internal controls at both the state agency and grantee levels. Even for small grantees, internal controls help reduce the risk of improper payments and help to identify and minimize fraud, waste, abuse and mismanagement.

GATA Frameworks and Payment Integrity

The GATA frameworks centralize and standardize common grant requirements; reducing redundancy for both grantees and administering state agencies and improves compliance with federal Uniform Guidance. The elimination of potential duplicative or conflicting administrative requirements reduces both cost and effort at the grantee and agency levels and increases overall payment and program integrity. The frameworks streamline the processes necessary for compliance with grant requirements for the grantee and grantor side.

Nationally and in Illinois, staffing inadequacies can add to the risk of payment integrity issues. Improper payments can lead to underfunding grantees.

A more comprehensive report on Improper Payments can be found in Appendix VI: Improper Payments.

Projected Cost Avoidance / Savings through GATA Implementation

The continued implementation and enhancement of GATA is a significant undertaking for the State of Illinois, the grantee community, and external stakeholders involved in public funding. The Cost Avoidance Table below illustrates that the GATA framework's standardization and automation works: Streamlined, automated processes significantly reduce the amount of time spent on fiscal and administrative grant management processes. The fiscal year 2019 GATA annual cost avoidance / savings estimates are based upon a continuation of assumptions made in the FY17 annual report.

Accomplishment	Savings / Cost Avoidance	Labor Hours
Centralized indirect cost rate negotiations	\$37,276,300	432,800
Centralized audit report review	\$44,208,900	563,200
Centralized framework for fiscal and administrative risk assessments	\$8,936,200	106,000
Centralized grantee pre-qualification	\$4,653,000	53,000
Automated Notice of State Award	\$2,777,000	35,000
Market value of grant management training	\$2,058,400	n/a
Automated Notice of Funding Opportunity	\$324,500	2,500
Controls against fraud, waste, abuse and mismanagement (assuming saving of 1%)	\$201,580,500	n/a
Estimated savings / cost avoidance	\$301,814,800	1,192,500

GATU recognizes the significant contributions and accomplishments achieved with state agency and grantee community engagement. The challenges and opportunities presented in this report reflect the realities in Illinois, but more important, they encompass the nation-wide hurdles being experienced by grant making professional through the United States.

Illinois' GATA legislation continues to be showcased as a promising practice in life cycle grant management. It is through awareness of our opportunities for improvement and a willingness to evolve statewide grant management practices that Illinois will continue to stand out as an innovator in this industry. We appreciate the opportunity to highlight Illinois' progress through this GATA Annual Report.

GATA Fiscal Year 2019 Report

STATEWIDE BEST PRACTICES AND SYSTEMS

State agencies and the grantee community continue to work collaboratively with GATU to enhance and advance GATA implementation. The engagement of GATA volunteers continues to foster ownership and support for improving grant management. During 2019, GATA pre- and post-award frameworks underwent continuous improvement. Additional automation was incorporated based on user feedback and statewide grant management policy was codified into GATA administrative rules, Title 44 Part 7000.

Automation enhancements and template updates ensure that GATA frameworks are responsive to federal compliance requirements while minimizing duplication of effort for state agencies and grantees. Through engagement with the Chief Accountability Officers (CAOs), the Agency Advisory Group, technical subject matter experts within state agencies and the grantee community, best practices and systems in life cycle grants management are shared and replicated statewide. GATU appreciates that the collaborations fostered through GATA implementation have led to grant administration best practices and Illinois' prominence as a grant innovator.

As noted in last year's GATA Annual Report, the lack of cohesive statewide or even agency-wide grant portfolio management systems creates a significant gap in Illinois' overall financial management. Applications for federal funding should be based on economically sound justifications that support the state's overall stewardship objectives for the use of public funds. Data is not currently available to determine the degree to which state agencies are applying for federal funding that aligns to the overall state mission. In addition, the data is needed to prevent disproportionate administrative expenses being spent on awards that may not align with the administration's priorities or the specific state agency mission.

At times, federal grants are underutilized and the State lapses scarce funding because of ineffective management of subrecipients, lack of federal indirect cost rate selection and subsequent recapture of federal dollars. GATU will engage closely with the GATA Agency Advisory Group to conduct comprehensive analysis of grant underspending during the upcoming year.

Statewide Grant Management Systems

Illinois began Stage 1 of a multi-stage implementation of the statewide grants management system during 2019. The scope of deliverables for Stage 1 includes the uniform grant application and budget template, merit-based grant application review including programmatic risk assessment, uniform grant agreement, and planning activities for state agency portfolio management. A statewide grant management system operating, in conjunction with the Catalog of State Financial Assistance, will provide a list of all grant opportunities available and connect potential applicants to a uniform, statewide grant application protocol. State agencies will utilize the system to accept and review applications including the required budget, document funding determinations and generate grant agreements with all federally required terms and conditions. The system will support state agency efforts to obtain federal funds through automated federal funder solicitations. State agency analysis of funding opportunities and authorization will be captured to better document agency and statewide management of the grant portfolio.

Centralized Audit Report Reviews

Centralized audit report reviews remain a key driver of GATA cost avoidance / savings as over 80% of grantees receive funds from more than one agency and/or agency division. Before this GATA framework became available, each agency was responsible for audit report review and approval of corrective action plans for its grantees. This resulted in eliminating over 8,500 reviews of the same audit report. Many times, the independent assessment led to differing opinions on the effectiveness of the corrective action plan which in turn resulted in numerous re-writes of the corrective action plan by the grantee. The requirement for state agencies to collectively agree on the grantee's corrective action plan significantly reduces the burden on the grantees.

Prior to GATA, audit requirements, including thresholds and auditing standards, differed for grantees not subject to the Single Audit. In state fiscal year 2016, the state adopted uniform audit requirements to improve accountability of this function.

2019 was the first full year of implementation of the Audit Report Review Management System (ARRMS). The following ARRMS components have been implemented with significant input from the Audit workgroup representing grantmaking agencies and the grantee community:

- Cognizant agency protocol for audit report reviews;
- Roles and responsibilities of the grantee, Cognizant Agency, grantmaking agencies and GATU;
- Audit submission deadlines and grace periods;
- Automated process to upload Single Audits directly from the Federal Audit Clearinghouse;
- Contractor procurement to perform audit report reviews;
- Use of the Stop Pay List for grantees who failed to submit audit reports;
- Automated procedures to manage audit report review results including audits that do not meet auditing and reporting standards;
- Formation of an Audit Committee responsible for determining actions necessary for audits that do not meet auditing and reporting standards;
- Implementation of an audit work paper review process for audit report review results indicating the audit report was substandard;
- Systems and coding of audit findings to track the most frequently issued finding for targeted technical assistance and root cause analysis;
- Implementation of a Cooperative Audit Resolution Team to assist grantees with corrective action on complex findings and resolution of repeat findings;
- Design and implementation of Audit Report Review Management System (ARRMS);
- User acceptance testing and pilot phase for ARRMS in preparation for statewide implementation;
- Implementation of systematic and procedural changes based on issues identified in the user acceptance testing and pilot; and
- Development of the audit report review procedures manual and conduct training.

Full roll-out of ARRMS has been implemented, including the addition of the requirement for an 'In Relation To' opinion on the Consolidated Year-end Financial Report (CYEFR). GATU provides additional training on the uniform audit requirements, the audit report review protocol, the CYEFR, and the audit report review management systems.

Full Implementation of Consolidated Year-End Financial Reporting (CYEFR)

The CYEFR requires each grantee to report all state and federal pass-through grants received from Illinois within one reporting template. Federal requirements dictate that reported expenditures must be reconciled to audited financial statements. During 2019, ongoing training and technical assistance was provided to ensure CYEFR reviews are fully and correctly undertaken.

CYEFR implementation has raised awareness of the federal requirement that state agencies must reconcile grant-level expenditures to audited financial statements. Most state agencies do not have sufficient staff with the technical knowledge and skill set to perform these mandated reconciliations. As a result, reconciliations are significantly delayed which causes the state to miss the mandated timeframe for completing the audit report review. GATU will continue to address this capacity building issue through weekly technical assistance sessions with state agency audit liaisons and audit report review subject matter experts.

Full statewide implementation of the CYEFR, including the requirement for an ‘In Relation To’ opinion, necessitated a focus on more basic elements of CYEFR technical assistance to state agencies and grantees during 2019. During 2020, GATU will begin to address the requirements for state agency use of the CYEFR for rate setting.

GATA Online

Website

The GATA website, www.grants.illinois.gov, has received more than 446,000 visits since its inception in mid-calendar year 2016. The website allows users to link directly to GATA systems including the CSFA, the Grantee Portal, and the centralized indirect cost rate system.

In addition to state agency staff and Illinois grantees, the website is frequently visited by other states, financial service professionals and private firms that work in grant management, and federal grant management training firms. The public can access overview information about GATA and the implementation support provided by GATU. A majority of visitors to the website access the extensive Resource Library with links to diverse grant-related reference and instructional materials and templates and training presentations on federal Uniform Guidance and GATA. Materials from the GATA website have been referenced in various grant industry settings due to the nation-wide recognition Illinois is receiving.

Indirect cost rate training materials have been heavily featured on the website because of the complexities of indirect cost rates and federal Uniform Guidance’s emphasis on promoting grantee claiming of indirect costs. Indirect cost rate technical assistance materials include webinars, supporting documents and instructional guides.

Grantee Portal

The Grantee Portal centralizes grantee-specific information regarding grant requirements. Access is controlled by login and authentication parameters established and maintained by the grantee organization. Entities initiate registration and federally required pre-qualification through the portal, accessible from the Grantee Links tab of the GATA website.

The self-directed portal enables grantees to manage compliance with grant requirements and access statewide frameworks including registration maintenance, fiscal and administrative risk assessments,

acceptance of Notices of State Award (NOSAs), and audit report requirements. Illinois will continue to expand application of the Grantee Portal as new frameworks are designed and implemented to support life cycle grant management. In calendar year 2019, indirect cost rate election functionality was designed and tested for addition to the portal. Grantees will begin recording indirect cost rate elections through the portal in 2020.

Indirect Cost Rates

Indirect Cost Rates among State Agencies

State agencies are allowed to apply for indirect cost rates and charge “overhead” to the federal grants. By doing so, the state agency frees up resources for direct cost or to apply toward match and maintenance of effort requirements. For those state agencies that reported an indirect cost rate in the fiscal year 2018 audit, the median rate was 31% for agencies under the Governor.

Illinois Grantee Indirect Cost Rate System

Federal Uniform Guidance allows grantees to be compensated for indirect costs through the use of an indirect cost rate. Utilizing an indirect cost rate allows administrative or overhead costs that cannot be attributed directly to the grant to be charged to the grant as indirect expenses. The biggest barrier to indirect cost claiming is the technical nature of establishing and maintaining sufficient documentation for an indirect cost rate.

Illinois obtained permission from the federal government to establish a centralized indirect cost rate system. The Illinois Grantee Indirect Cost Rate System accessed from the Grantee Portal will be fully implemented in the spring of 2020. The new indirect cost rate system will streamline the election process for all Illinois grantees. The system functionality will include initial elections, election changes, the recording of indirect rates based on the grantee’s fiscal year, and the generation of written indirect cost rate agreements.

Centralized Indirect Cost Rate Negotiation

Federal requirements mandate that states negotiate and pay their fair share of grant administrative and/or overhead costs. All state agencies are required to accept the negotiated indirect cost rate or election unless a program-specific limitation or restriction applies. GATU recognizes that some funding sources impose statutory limitations on indirect costs or salary caps. The framework for Illinois’ indirect cost rate system is built to accommodate these requirements.

The federal government has provided clarification and guidance regarding indirect cost rate development and submission for local governments and their departments. Local governments that receive less than \$35 million in direct federal funding, must develop a central services cost allocation plan and a corresponding indirect cost rate proposal and maintain internally for single audit purposes. The majority of local governments are not subject to the single audit. Illinois as the pass-through entity is required to review and monitor the federal rate maintained internally required for charging indirect cost. Illinois made an arrangement with the federal government allowing us to centralize the review of these federal rate maintained internally indirect cost rate proposals. This meets the monitoring requirements and eliminates the need for each state agency passing through federal funds to individually monitor the rates.

Training and Technical Assistance on Indirect Cost Rates

GATU recognizes the complexities of indirect cost rates and continues to provide training and technical assistance on the topic. During 2019, GATU targeted indirect cost rate technical assistance to stakeholder groups. There has been a significant increase in capacity and expertise among state agencies and their subject matter experts (SMEs). In addition to targeted outreach, GATA has provided FAQs and over twenty general trainings specifically on this topic. These training are available from the GATA website.

The complexities of negotiating indirect cost rates are a challenge even at the national level. GATU has been recognized by federal OMB, other states and non-profits for its comprehensive technical assistance on this topic. GATU continues to team with advocacy groups to provide hands-on training for the local government and nonprofit communities. This has led to an increase in the number of negotiated indirect cost rates in 2019.

GATU annual trainings cover basic cost principles and indirect cost rate concepts while the SME weekly calls concentrate primarily on complex components of indirect cost rate negotiations. SMEs continue to meet with GATU every other week to address rate negotiations, the Centralized Indirect Cost Rate System and applications of indirect cost rates. These sessions and face-to-face trainings have greatly enhanced the understanding of this highly technical area; therefore, agencies' ability to support grantees on this subject has improved. More indirect cost rate SMEs are needed.

GATA Training and Communications

Continuous Improvement Focus

The implementation phase of GATA mandates a review of grant frameworks to ensure they are operating as designed and intended. At least once a year, GATU incorporates grantee and state agency suggestions and makes appropriate enhancements to improve the functionality of templates, forms and systems. The following sub-sections highlight the evolution of pre- and post-award GATA frameworks.

Training and Technical Assistance

GATU recognizes the critical importance of effective, timely training and communication to all stakeholders. The GATU training focus has naturally evolved from higher level overviews of requirements and frameworks to more targeted communication and technical direction in response to specific issues and challenges faced by state agencies and grantees. During this report period, GATU provided significant technical assistance on more complex elements of federal grant compliance. GATU partnered with:

- State agencies to present six hands-on trainings showcasing best practices among state agencies for a state agency staff target audience;
- The Grant Innovation Exchange hosted by the federal Office of Management and Budget (OMB);
- The National Council of Non-profits for three (3) full-day training sessions with breakout exercises on indirect cost methodology targeting the grantee community;
- The National Grants Management Association targeting grant professionals;
- The National Association of State Auditors, Comptrollers and Treasurers;
- The National Association of State Budget Officers targeting grant compliance for state agency budget officers;

- The Illinois CPA Society targeting the audit community;
- The Illinois Government Finance Officers Association;
- The Illinois Public Health Administrators;
- The Association of Government Accountants;
- The Illinois Municipal Treasurers Association targeting local government finance officers; and
- The Illinois Community College Chief Financial Officers targeting grant requirements for community college grantees.

GATA training has been available for new employees as well as grantees on the website. In fiscal year 2019, GATA webinars and trainings were accessed over 3,600 times.

GATU's training focus will continue to respond to requests for a targeted format with a current emphasis on non-profits, local governments and state agency grant staff in grantmaking agencies. GATU continues to engage with stakeholders and serve as guest speaker to various state agency groups, nonprofit organizations, community-based associations and other facets of the grantee community. We welcome the opportunity to provide targeted technical assistance to support our state agency and grantee community partners. Resource constraints continue to be a factor for all parties. Working together with top down support we can maximize training and communication efforts to further the State's GATA initiative for grant management compliance.

Nationally, implementation of Uniform Guidance has highlighted the need for more targeted training. GATA's incremental implementation remains challenging for state agencies and the grantee community due to the various factors described in this and previous reports. Through GATA, the shortcoming of Illinois' grants management operating structures become apparent. GATU continues to work with all stakeholders in open communication to address concerns and provide for best outcomes.

PAYMENT INTEGRITY AND INTERNAL CONTROLS

Barriers to Payment and Program Integrity

Communicating Internal Control Related Matters Identified in an Audit

As required by federal regulations a review of significant control deficiencies or material weakness in internal controls must be reported in the grantee's audit. These control deficiencies are required to be communicated from the auditor to those charged with governance of an organization. Therefore, these types of communications are required documents of the GATA audit report package. Currently, the Federal Audit Clearinghouse (FAC) does not require these control deficiency communications within the Single Audit Package. Effective with audits ending in 2019, the FAC will be requiring these communications as part of the federal Single Audit package. This is another example of Illinois' grant innovation influencing the national direction of grant management.

Segregation of Duties in Grant Management

Nationally, states have been slow to fill vacant positions and, as a result, there has been a loss of significant technical knowledge. The knowledge and experience base for compliant fiscal and administrative grant management has eroded as baby-boomers have retired. Often, programmatic staff cover vacant fiscal and administrative positions but this creates a lack of segregation of duties. Many Illinois state agencies lack headcount necessary to perform the grant fiscal and administrative

functions envisioned under federal Uniform Guidance. Current state agency staffing limitations require the same individual to perform many, if not all, of these functions.

While intentional checks and balances may appear redundant, failure to have adequately segregated responsibilities puts grants at high risk for fraud, waste, abuse and mismanagement of grant funds. The streamlining and centralization of grant management functions under GATA significantly reduces the number of qualified staff necessary for federal compliance. However, adequate separation of duties is still required for effective grant management.

Centralized Grant Compliance Unit within State Agencies

In the 2016 GATA Annual Report, it was noted that many state grantmaking agencies lack a centralized grant management and monitoring unit. The centralization of these units within the state agency will significantly reduce the number of staff required for grant compliance. Several larger grantmaking agencies have begun to establish these centralized units.

Statewide implementation allows for collaboration with large grantmaking agencies currently implementing centralized grant compliance units. Best practices from these state agencies and agencies crafting position descriptions that require the necessary skill sets will provide a foundation for the working group on centralized grant management unit. GATU is committed to collaborating with state agency leadership towards this initiative.

Grantee Compliance Enforcement System - Illinois Stop Payment List

Illinois continues to incentivize grantee compliance with grant requirements through the Grantee Compliance Enforcement System (GCES) authorized in 30 ILCS 708/60 and the Illinois Stop Payment List which is modeled after the federal Do Not Pay List authorized in 2 CFR 200.338. The GCES enhances state agency awareness of non-compliant grantees to mitigate financial risk of public funds and promote transparency to ensure grant funds are utilized for intended purposes.

GATA requires GOMB to maintain an internal list of the names of individuals and entities that are temporarily or permanently ineligible to receive an award of grant funds from the state. As of December 2019, the Temporary Stop Payment List includes 889 unique grantees. There are no grantees on the Permanent Stop Payment List. Additional detail regarding the GCES is available in the Resource Library of the GATA website.

Under Public Act 100-0997, legislation was enacted to automate Stop Payment List verification prior to the Office of the Comptroller voucher processing. This automation will match state agency submitted vouchers to the Stop Payment List. If the entity is in Stop Payment Status, the transaction will be flagged for payment verification by the state agency.

Payment Integrity – Improper Payments

Public Act 100-0997 requires GATU to research and examine possible adaptations of rules and practices from the federal Improper Payment Act. On the federal level, entities (i.e. federal agencies) are subject to the Improper Payments Information Act (IPIA) of 2002, the Improper Payments Elimination and Recovery Act (IPERA) of 2010 and the Improper Payments Elimination and Recovery Improvement (IPERIA) of 2012. The implementation on the federal level are coordinated through the federal Office of Management and Budget (OMB).

Improper payments are defined as payments that should not have been made or that were made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. This includes any payments made to an ineligible recipient and payments for ineligible goods or services.

Curtailling improper payments requires leadership commitment, robust systems to collect data, qualified staff and strong internal controls. Improper payment elimination occurs when agencies embrace a strong culture of continuous improvement and accountability. To resolve improper payments requires action to improve data collection, build a qualified work force and strengthen managerial commitment to good management practices or stewardship of public funds.

The full GATU analysis of the potential of the federal Improper Payment Act for the state is provided as Appendix VI to this report.

Cash Management Regulations

GATA Administrative Rules include supplemental rules for grant payment methods to promote state agency compliance with federal cash management regulations. More comprehensive spending pattern analysis is needed. Under 2 CFR 200.305, cash advances or working capital advances *are made on a case-by-case basis*. Program-level grant fund advances continue to be common among grantmaking state agencies. Due to GATA Administrative Rules and training, more state agencies are becoming aware and compliant with this requirement and have reduced cash advances. Excessive grant fund advances can negatively impact the State's cash flow and payment backlog. In addition, non-compliant cash management will create interest liabilities to the federal government.

The Cash Management Improvement Act (CMIA), codified at 31 CFR 205, and 2 CFR 200.305 provides general rules and procedures for the efficient transfer of funds for federal financial assistance programs between the federal government and states. CMIA requires states to follow default procedures such as the ones entered into in the Treasury State Agreement (TSA) for major Federal Assistance programs over the threshold (\$69,347,000 for the FY2019 TSA with Illinois) and as specified in the agreement. These procedures aim to minimize the time between the transfer of funds from the federal Treasury to state agencies for the payment of grants.

GATA Administrative Rules address the four (4) acceptable grant payment methods:

- Payments in accordance with the Treasury State Agreement for applicable programs;
- Advance payments for grantees that meet the financial management requirements and maintain written procedures that minimize the time between receipt and disbursement (general rule is 3-5 days for programs not covered by the TSA);
- Reimbursement for grantees that do not meet the financial management requirements for advancement;
- Working Capital Advances applicable if the grantee cannot meet the criteria for advance payments and the grantee lacks sufficient working capital. Under a Working Capital Advance, the state awarding agency must advance cash payments to the awardee to cover estimated disbursement needs for an initial period, generally geared to the awardee's disbursement cycle.

Section 120 of GATA Administrative Rules requires state agencies to document the payment method the grantee is eligible to receive. This will necessitate coordination between state agency staff responsible for drawing down federal funds and programmatic staff to ensure compliance with federal cash management rules.

Grant Portfolio Management

In the absence of systems, state agency program areas commonly submit federal grant applications based on past practice. Grant application decisions are thus often based on prior year applications rather than the state agency's mission, the Governor's policy priorities or legislative initiatives. There are no statewide procedures for soliciting federal funds.

Analysis on the benefits and costs of the specific grants applied for (efficiency), the continued appropriateness for the agency or agency division where it has historically been administered (applicability or "programmatic fit") and the overall benefit to the state's residents (effectiveness) is not systematically or routinely performed. Any analysis into the three dimensions listed above currently occurs post-factum on the overall program, and rarely impacts upcoming applications in the Budgeting for Results initiative. Grants should be examined at both the agency level and statewide as part of the overall grant portfolio to maximize federal grant receipts.

Grant portfolio management requires a strong foundation of readily available information (data) and streamlined grant processes. The implementation of the Statewide Grants Management System will further the state's progress towards comprehensive grant portfolio management.

The Statewide Grants Management System includes functionality to automate grant portfolio management responsive to statewide and agency-specific initiatives. The grant management system centralizes federal grant application notices to increase awareness and access to available grant opportunities. This will minimize time required of state agency research staff to identify, analyze and summarize a voluminous number of grant opportunities. System capabilities will enable the state to focus on grant funding aligned with current initiatives. System data will support state agency decisions not to pursue select funding when the cost to administer the grant is greater than the grant award. Enhanced grant portfolio data will emphasize where state general revenue used for state initiatives can be supplemented with federal, public / private and foundation funding sources for greater utilization of public funds and expanded service and program delivery.

The chart below illustrates how Illinois' federal grant funding and state population compares to other states.

Federal Funding for Selected States

Fiscal Year 2018

State	Population	Federal Awards	Per Capita Federal Awards	Per Capita (Non-Medicaid Only)
New York	19.5 million	\$ 63.2 billion	\$ 3,235	\$ 988
Pennsylvania	12.8 million	\$ 28.8 billion	\$ 2,249	\$ 784
California	39.6 million	\$ 97.5 billion	\$ 2,465	\$ 820
Michigan	10 million	\$ 20.4 billion	\$ 2,036	\$ 730
Ohio	11.7 million	\$ 24.9 billion	\$ 2,133	\$ 736
Minnesota	5.6 million	\$ 11.5 billion	\$ 2,046	\$ 669
Illinois	12.7 million	\$ 22.0 billion	\$ 1,729	\$ 783

Data Source: FFIS Per Capita Federal Grant Analysis FY 2018

In nationwide comparison, an analysis published by *Federal Funds Information for States* in 2019, ranks Illinois 36th out of the 50 states in Federal Grants per Capita for Fiscal Year 2018. Please see Appendix V: Per Capita Federal Grant Analysis FY 2018 (FFIS) for the fact sheet.

As one of the top six (6) states in the nation in federal expenditures, Illinois should put more emphasis on grant portfolio management. Prioritized analysis is needed to take full advantage of additional federal funding opportunities, while minimizing the need for additional matching State funds. As discussed in the Indirect Cost Rates among State Agencies section of this report, state agencies without a negotiated indirect cost rate should establish this rate so the agency is allowed to recover indirect costs under federal awards, where applicable.

More analysis is needed to understand the root causes that lead to state agencies lapsing federal funds. State agency portfolio management will continue to be a key focus for GATU and state agencies under the statewide grant management system. A goal of the statewide and agency-specific analysis is to

articulate feasible solutions that maximize federal funding and strengthen overall grant portfolio management within the State of Illinois.

Audit Challenges

Prevalence of Substandard Audits

The centralized audit report review process includes review of the grantee's audit report for compliance with applicable auditing standards. Under GATA, Illinois is uniformly applying generally accepted auditing standards and utilizing a Certified Public Accounting (CPA) firm with the technical expertise necessary to review grantee audit reports to ensure compliance. Substandard audits cannot be relied upon; therefore, state agencies are required to perform additional monitoring activities.

The implementation of the centralized audit report review process has added transparency to current audit practices. Notable instances of substandard audits, audits not performed in accordance with generally accepted auditing standards, and audits performed by individuals who are not licensed CPAs have been documented. In addition, many audit submissions lack the required peer reviews conducted in accordance with Auditing Standards.

When appropriate, GATU is engaging with the Illinois Department of Financial and Professional Regulation and the Illinois CPA Society Peer Review Board to report irregularities in compliance with the Illinois Public Accounting Act.

Most Federal Funded Programs Not Tested in the Single Audit

The threshold for a federally funded program to be tested in the Single Audit was \$43.5 million for state fiscal year 2018, the most recently completed single audit. In Illinois, over 90% of federally funded programs are not tested. In fact, many of these programs have not had federal compliance testing conducted since 2000. Because of the lack of testing, state agency staff do not receive an opinion on the adequacy of the internal controls. Therefore, many state agency personnel assume the internal controls for these programs are compliant and question federal Uniform Guidance and GATA requirements.

Only 22% of grantees in the audit report review management system (ARRMS) meet the threshold (\$750,000) for a Single Audit. The remaining 78% of grantees are subject to less stringent audit types which place a greater monitoring responsibility on the awarding agencies.

MANAGING GRANTS COMPETENTLY, EFFICIENTLY AND COMPLIANTLY

Awareness of Basic Fiscal and Administrative Requirements

GATA training is targeting both fiscal and administrative, and program staff within state agencies to increase awareness of the requirements of 2 CFR 200 and GATA. However, program staff appear less likely to engage. The GATA exception process requires verification of a program's federal or state authoritative sources. It is critical that program managers know and understand the requirements of the programs they operate and the hierarchy of federal and state regulations.

Program staff must be familiar with the basic terms and requirements to ensure the program is being executed within specified financial and administrative limitations or restrictions. Grant managers cannot run a program or provide program oversight without understanding the life cycle requirements of their grant programs.

Complexities of Compliant Grant Management

The foundation for effective and efficient grant management is the capacity to understand and apply basic, fundamental concepts of accounting and internal controls. State agencies and grantees need at least an intermediate level of fiscal and accounting knowledge to understand and apply the more complex concepts of cost principles and indirect cost rate negotiation. Nationally, states and the grantee community are struggling to meet the indirect cost rate compliance requirements dictated in federal Uniform Guidance.

Some of the most challenging grant management areas for state agencies and grantees alike are:

- Intermediate to advanced level of fiscal and accounting experience,
- Intermediate to advanced level of knowledge on fiscal, administrative and programmatic internal controls,
- Basic spreadsheet functionality,
- Analyzing the impact of the results of risk assessments,
- Applying correct specific conditions to mitigate high risk,
- Cost principles,
- Indirect cost rate negotiation,
- Application of indirect cost rates,
- Audit standards and requirements,
- Audit report review requirements,
- Recognizing red flags of substandard audits,
- Recognizing adequate corrective action plans for both programmatic and fiscal findings, and
- Understanding the requirements of the complete life cycle of a grant (2 CFR 200) and their interrelationships with program-specific requirements.

2 CFR 200 is more explicit regarding pre- and post-award grant requirements as compared to prior OMB circulars and federal guidance. In particular, local governments are now subject to more extensive requirements comparable to nonprofit entities. This results in additional responsibilities placed on local government grantees and their state awarding agencies. GATU continues to devote a significant amount of time to technical assistance and demand-driven training specifically for local governments.

The automated GATA frameworks Illinois implemented to centralize grant management require grantees to utilize the internet and self-directed online supports. A mandated use of technology is challenging for many state agency staff and smaller grantees. The full year operating budget and a multibillion dollar capital budget in 2019 (fiscal year 2020) has resulted in an influx of first time grantees new to federal Uniform Guidance and GATA requirements.

Grant management will continue to evolve. Incremental GATA implementation has elongated the learning curve. GATU is committed to ongoing grant training for state agency staff and the grantee community. Stakeholder partnerships will emphasize targeted outreach to key groups including nonprofits and local governments. All parties must recognize that the complexities of administering grants – pre- and post-award – necessitate the reliance on qualified, trained, dedicated personnel to enable Illinois to be compliant with federal Uniform Guidance.

Multi-tier Subrecipients

There are many instances where grant funds are passed through multiple levels of subrecipients. The state awarding agency will award a grant to a subrecipient, referred to as a first tier subrecipient. The first tier subrecipient then awards a grant to a second tier subrecipient. The second tier subrecipient may then award a grant to a third tier subrecipient, and so on. Some multi-tier arrangements are warranted based on the grant program. For example, a grant program may require regional services. The first tier subrecipient will pass the funds through a network of grantees to meet the statewide service requirements.

However, there are instances in which multiple tiers of subrecipients are used without adding value to the grant. In many instances, the subrecipient does not meet the requirements of a pass-through entity. This results in the following issues:

- Each tier is allowed to charge indirect costs. A grant with multiple tiers of funding results in less program funding available to carry out the objectives of the grant.
- State and federal grant requirements are not applied to multi-tier subrecipients. Some state agencies and grantees perceive that these requirements only apply to the first tier subrecipient.
- The first and second tier are acting as a cash conduit and are not consistently following federal requirements or lack qualified staff or framework to carry out requirements including:
 - Adherence to pre-qualification requirements;
 - Compliance with grant budget, budget narrative, and budget to expenditure financial management;
 - Compliance with performance reporting including scope of services management for each subrecipient tier;
 - Compliance with Cost Principles and indirect cost rates; and
 - Compliance with monitoring procedures;
- Lack of grantmaking agency justification for using a multi-tier approach.

Inability to meet the requirements will result in questioned costs requiring the funding to be returned to the state and federal government. During 2020, GATU will establish a program-specific framework to document the feasibility of multi-tier subrecipients and to allow GATA systems to identify the subrecipients within our populations. The overall goal is to maximize funding for *program execution* without incurring unnecessary administrative costs.

Personnel Code and Skill Set Requirements

Grant management functions have evolved over time; however, the Personnel Code has not. Current job titles do not reflect the education and skill set necessary to properly perform current grant management requirements. For example, in the State of Illinois, the Accountant title does not require any post-secondary education.

This issue is prevalent among states nationally and at the federal level as well. The lack of adequate titles is especially problematic with more technical aspects of grant management including fiscal and administrative risk assessment interpretation, cost principles, indirect cost rates and the application of those rates, audit report reviews and corrective action plans and onsite monitoring functions. These technical areas require advanced skills, education and experience in the application of fiscal controls, accounting, auditing standards, the intricacies of indirect cost rate negotiation, and comprehensive

monitoring of grantees. A lack of understanding regarding these key areas leads to the state's inability to provide required technical assistance to its grantees.

GATA has provided grant management training to state agency staff responsible for these functions for over four (4) years. Many state staff lack the education and skill set foundation to understand or apply the training. GATA training cannot build the rudimentary knowledge for the more complex, technical areas of grant management. There was over \$30.8 million in questioned cost across 34 findings and an additional 58 findings for which the amount of questioned cost could not be determined. Looking further at the cause statements in this single audit, it is clear that staffing is a major factor.

This places the state in a high risk situation which leads to additional specific conditions imposed by the federal awarding agencies, such as increased oversight and monitoring which adds to the overall administrative cost of grant programs. It also can result in audit findings, questioned cost and potential repayment (refunds) of grant funds to the federal government.

Changes in the Personnel Code, including a progressive grant management title series, are necessary to align job descriptions with the requirements of federal Uniform Guidance. These would include specialized titles with an emphasis on fiscal and administrative, indirect costs and single audit functions.

Certification

In order to properly manage the entire life cycle of a grant, GATU strongly recommends that state agency grant supervisors and managers be required to obtain the Certified Grants Management Specialist (CGMS) designation, administered by the National Grant Management Association. CGMS provides an industry credential to demonstrate the knowledge essential to the practice of grants management. Having the CGMS designation confers formal recognition of professional competency in the full life cycle of grants management.

The federal government is currently reviewing its grant specialist and management titles to ensure the inclusion of proper education, skill set and experience requirements. The U.S. Department of Health and Human Services "Re-Invent Grants" initiative is requiring the CGMS designation for supervisory and management roles.

DEMONSTRATING GATA PERFORMANCE

Per 30 ILCS 708/95, the annual report includes information on the following five measures:

- (1) Number of entities placed on the Illinois Debarred and Suspended List;
- (2) Savings realized as a result of the implementation of this Act;
- (3) Reduction in the number of duplicative audits;
- (4) Number of persons trained to assist grantees and subrecipients; and
- (5) Number of grantees and subrecipients to whom a fiscal agent was assigned.

As of the report date, the following values are recorded by GATU:

- (1) There are 889 entities on the temporary Illinois Stop Payment List. Additionally, GATA confirms entities against the federal Exclusion list of 7,144 entities through the automated grantee registration and pre-qualification process.
- (2) Based on the assumptions outlined below, the cost avoidance / savings is estimated at \$311,357,900;

- (3) 97% of grantees with active awards in state fiscal year 2019 received more than one grant. 2018 analysis identified nearly 8,575 duplications in common requirements performed by state agencies. By centralizing seven (7) standard grant functions, the state will optimize resources, and significantly remove redundancies and duplication. By centralizing compliance functions, performing them once, and utilizing automation to promote cross-agency data sharing, the State will realize more effective and efficient grant management operations. Additional benefits will be realized by Illinois grantees as requirements are performed once. Future GATA reports will quantify the estimated cost savings / avoidance to the grantee community.
- (4) GATU provides ongoing training and technical assistance both directly and through the efforts of agency CAOs. There are over thirteen thousand users registered in the Grantee Portal.

The continued implementation and enhancement of GATA is a significant undertaking for the State of Illinois, the grantee community, and external stakeholders involved in public funding. The Cost Avoidance Table below illustrates that the GATA framework's standardization and automation works: Stream streamlined, automated processes significantly reduce the amount of time spent on fiscal and administrative grant management processes. The fiscal year 2019 GATA annual cost avoidance / savings estimates can be found in the Executive Summary

The progress of the comprehensive grant management system will make more quantitative grant performance data readily available and greatly improve the quantification of the GATA implementation impact. In addition, qualitative analysis will be able to better target areas of concerns identified in applying data analytics.

GATU continues to inform, educate and train grant stakeholders and the public about compliance in grant management. Additional guidance and clarification from federal OMB are one impetus for continued enhancements. The ongoing practical implementation by state agencies and grantees provides critical impulses for improvements. Additional critical data will be available through the statewide grant management system.

Schedule of Expenditures of Federal Awards (SEFA)

Currently there is no statewide system as a single source of data for the Schedule of Expenditures of Federal Awards (SEFA). The fully implemented grant management system will become the source of SEFA data. State agency federal expenditures are currently compiled by the Illinois Office of the Comptroller GAAP reporting system due to disparate state agency grant and accounting systems. The compilation of data for the SEFA was previously compiled by the Office of the Auditor General (OAG), however, this created an independence issue. The OAG has requested that GOMB and GATU undertake this responsibility going forward.

Preparation of the SEFA is a significant, highly technical responsibility for GATU. GATU performance measurements will be expanded to include the compilation and analysis of SEFA data. Incrementally transitioning this responsibility to GATU allows GATU staff to learn the current statewide SEFA process in collaboration with state agencies while working toward automation using the statewide grant management system. It is anticipated that automating SEFA preparation will promote timely and accurate reporting.

At the time of this report, GATU staff is heavily engaged in SEFA preparation and review for state fiscal year ended June 30, 2019. GATU will be coordinating with state agencies to discuss improvements to the SEFA process.

2019 GATA ANNUAL REPORT CONCLUSION

Through several years of collaborative implementation Illinois has made great strides in centralized, uniform, automated frameworks that position the State to comply with federal Uniform Guidance. GATU remains focused on building and maintaining strong relationships with our state agency, grantee and external stakeholder partners to promote grant compliance within the State.

Grant professionals in the nonprofit, governmental and financial services sectors value GATA's transferable, compliance-focused framework for life cycle grant management. Illinois is recognized as a grant innovator and other states and jurisdictions are looking to us to determine how to drive statewide grant compliance. GATA legislation will continue to be showcased as it remains cutting edge regulation for statewide lifecycle grant management.

Illinois is fortunate to have engaged leadership from the Governor's Office, committed active and retired legislative sponsors and state agency leadership who embrace a holistic approach to grants management. The bipartisan passage of Public Act 100-0676 to remove the GATA Sunset provision emphasizes the significance Illinois places on safeguarding scarce public grant funds.

The complexities of the grant life cycle pose many challenges on state agencies and the grantee community. Funding and staffing resources remain crucial for GATU to implement technology solutions and qualified personnel required for efficiencies and maximum cost avoidance / savings. Stakeholder engagement will continue to be a priority as Illinois continues working towards full compliance with all federal and state grant requirements.

This report communicated a number of GATA priorities for the upcoming year. GATU recognizes that our state is successful when our grantees are successful. With collaborative efforts, great strides in grant innovations will continue to be made towards full implementation of GATA.

Appendices

- I. Vision of GATA
- II. Chief Accountability Officers
- III. The Grant Lifecycle
- IV. Improper Payments Act
- V. Internet Links
- VI. Per Capita Federal Grant Analysis FY 2018 (FFIS)

APPENDIX I: VISION OF GATA

“Successful grantees = Successful Illinois”

GATA provides standardization that eliminates duplication of effort for federally required grantee background checks, pre-award risk assessments, indirect cost rate negotiation and elections, audit report reviews, and on-site financial and administrative reviews and grant training.

Goals and Objectives

- Assist state agencies and grantees in implementing the new federal guidance at 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Requirements);
- Increase accountability and transparency while reducing redundant administrative burdens;
- Promote cross-sector cooperative efforts including both state agency and grantee input for rulemaking and implementation recommendations;
- Strive to maintain a uniform process throughout the entire grant life cycle by leveraging the Uniform Requirements;
- Optimize resources including coordination of grant-monitoring activities to promote efficient use of scarce resources;
- Focus on program outcomes;
- Provide training and technical assistance for state agency staff and grantees; and
- Assist grantees in using Uniform Requirements to build capacity and improve Illinois resources.

Guiding Principles

- Identify core requirements while recognizing the need for flexibility for unique program requirements - uniformity is key; do not manage by outliers;
- Create efficient and effective policies and procedures using a zero-based approach;
- Stay mindful of cost benefit relationships for small grants and the grant management requirements of state grantmaking agencies; and
- Identify interrelationships between workgroups and subcommittees and communicate to avoid duplication of effort and overlapping processes.

Strategic Plan for GATA Implementation

In consultation with GATA workgroups, the GATA Steering Committee and the Illinois Single Audit Commission, the strategic plan for GATA Implementation was refined. The Plan includes areas of focus, defined deliverables, and a prioritized target date. The Plan serves as a framework for managing efforts required to execute GATA and guide resource management.

GATA’s implementation plan is structured around three categories of initiatives:

- Rulemaking Initiatives that require JCAR coordination to codify State of Illinois rules and the finalization of state agency rules;
- Workgroup Initiatives associated with the scope of responsibility assigned to the GATA Workgroups and Subcommittees; and
- GATU Initiatives executed internally by GATU for state-wide implementation.

The ongoing strategic focus of GATA includes:

- Implementation of Phase I of the statewide grant management system;
- Full implementation of the Audit Report Review Management System;
- Full implementation of grantee consolidated year-end financial reporting;
- Streamlining the indirect cost rate election process;
- Continued design and coordination for on-site financial reviews;
- Transitioning the SEFA for the Statewide Single Audit from OAG to GATU;
- Establishing frameworks for statewide and agency-wide grant portfolio management;
- Improving job titles and centralizing grant functions within state agencies; and
- Continuous assessment of pre- and post-award frameworks to identify improvements.

The execution of GATA strategy must remain adaptable to support administration's priorities and resource constraints.

APPENDIX II: CHIEF ACCOUNTABILITY OFFICERS

Yazoo Hall	Illinois Arts Council Agency	Lisa Cotner	Illinois Department of Natural Resources
Andy Munemoto	Illinois Department of Juvenile Justice	Stephen Koniak	Illinois Department of Public Health
Jane Fields	Illinois Commerce Commission	Cory Staley	Illinois Department of Revenue
Jennifer Franklin	Illinois Community College Board	Melanie Turner	Illinois Department of Transportation
Adriana Perez	Illinois Criminal Justice Information Authority	Connie Watson	Illinois Department of Veterans Affairs
Erin Cleary	Illinois Department of Agriculture	Theresa McKeon	Illinois Department on Aging
Derek Hobson	Illinois Department of Children & Family Services	Phillip Anello	Illinois Emergency Management Agency
Kimberly Hill	Illinois Department of Commerce and Economic Opportunity	Max Paller	Illinois Environmental Protection Agency
Debra Miller	Illinois Department of Corrections	Marc Gibbs	Illinois State Board of Education
Dominic Citarelli	Illinois Department of Employment Security	Tim Cray	Illinois State Police
Thanh Melick	Illinois Department of Financial and Professional Regulation	Scott Taylor	Illinois Student Assistance Commission
Ron McKechan	Illinois Department of Healthcare and Family Services	Denise Matthew	Law Enforcement Training and Standards Board
Bruce Bennett	Illinois Board of Higher Education	Larita Reed-Clark	Metropolitan Pier and Exposition Authority
Gary Kramer	Illinois Department of Human Services	Ronny Wickenhauser	Office of the State Fire Marshal
Elena Goutsalenko	Illinois Department of Military Affairs		

APPENDIX III: THE GRANT LIFECYCLE

Catalog of State Financial Assistance

GATA requires a state catalog of grants similar to the Federal Assistance Listing (formerly the Catalog of Federal Domestic Assistance - CFDA). The Catalog of State Financial Assistance (CSFA) is Illinois' single, authoritative, statewide, comprehensive source document of state financial assistance program information. There are currently 1,901 programs included in the CSFA and there were more than 32,000 active awards in state fiscal year 2019. Illinois receives approximately \$27.5 billion in federal funding. Of that amount, roughly \$4.2 billion was passed through to grantees. An additional \$8.5 billion was awarded to grantees in state grant funding. The majority of state grant funding is used to meet maintenance of effort and cost sharing requirements as a condition of federal funding received.

GATA provides two (2) versions of the CSFA: the public site accessible from the GATA website and an internal CSFA available to authorized state personnel. Included in the public CSFA are the seventeen (17) data elements mandated by GATA. The internal CSFA data includes all information from the public CSFA and additional grant-related data required for GATA life cycle grant management.

CSFA automation supports state agency generation of federally required NOFOs and NOSAs.

Notice of Funding Opportunity (NOFO) for Competitive Awards

Federal Uniform Guidance mandates a public notice for all competitive or discretionary grants. The funding source dictates whether the award must be competitive. Public notices are not required for formula-based funding. Unless an exception has been given by GATU, all grants that can be competitively awarded are required to utilize a public notice compliant with federal Uniform Guidance. The NOFO, accessible from the public CSFA, makes the public aware of the available grant funds. The awarding agency customizes the NOFO template by including program-specific requirements to inform the public about the opportunity. State agencies are required to provide a link to the grant application from the NOFO. The link connects the applicant directly to the awarding state agency.

To improve transparency and accountability, competitively awarded grants must be evaluated based on the merits of the application. Programs that once restricted competition are now seeking qualified applicants. Prior grant recipients are reaffirming their qualifications and receiving subsequent awards.

Grantees have expressed their appreciation that Illinois established a transparent, competitive grant process. This allows grantees to search and seek funding available in the state of Illinois. This competitive process has led to savings and higher quality service delivery. GATU will continue to analyze statewide use of competitive grant awards and the benefits the state receives from compliance with this federal requirement.

Grantee Registration and Pre-qualification

As federally mandated, all entities must be registered and pre-qualified to be eligible to apply for grant funds from the State of Illinois. GATA has automated this process through the Grantee Portal. All entities must provide six (6) pieces of information to complete registration: organization name and address, contact information for the organization's representative, organization type, Dun and Bradstreet (DUNS) number, federal employer identification number (FEIN) and fiscal year end date.

Corporations and LLCs, both for-profit and not-for-profit, are also required to provide their Illinois Secretary of State File ID. The pre-qualification process is automated through the SAM.gov federal clearing house and eliminates the need for state agencies to separately perform background checks.

The Grantee Portal returns a qualification status confirming that the entity is either: 1) qualified, 2) not qualified but can remediate the specific issue, or 3) not qualified because the entity is on the Federal Excluded Parties List or on permanent Stop Payment Status. At the time of this report, 7,009 grantees have completed registration and are in “qualified” status.

Uniform Budget and Reporting Templates

Grantmaking agencies are to utilize the uniform budget and reporting templates. Unless exceptions have been approved, all grants are subject to periodic financial and programmatic reporting.

In response to federal requirements, GATA established uniform templates for periodic reporting of financial data (Periodic Financial Report or PFR) and program performance (Periodic Performance Report or PPR). The templates are written to comply with the Uniform Guidance requirement that financial and performance reporting must be conjugated.

The uniform budget template was developed with extensive feedback from agencies and the grantee community. This tool is updated annually and incorporates the most frequently used detailed line items. Grantmaking agencies may add additional lines as required by the grant in question in a designated area and are encouraged to seek assistance from GATU or the respective CAO to determine whether additional categories are indeed needed.

Recommendations for enhancements and improvements are reflected in regular updates to the periodic reporting template as well as the budget template. The newest versions of these are easily accessible on the GATA Website. The new Statewide Grant Management System will have the benefit of the practice-tested templates for incorporation into the system.

Notice of State Award (NOSA) and the Uniform Grant Agreement (UGA)

The NOSA adds a layer of transparency to grant awards by specifying applicable funding terms, specific conditions and statutes for the award. NOSAs are a federally mandated pre-award requirement under Uniform Guidance. The NOSA allows the applicant to review and accept the award parameters before a UGA is executed.

The UGA is Illinois’ template for grant agreements issued by a state grantmaking agency. The UGA template applies regardless of the source of funding. There are three (3) parts to the agreement. Part 1 is uniform for all state agencies. Part 2 is unique to the state awarding agency. Part 3 is grant-specific. The text of the grant agreement must take into account statutory-driven requirements. Through the IGA, the state awarding agency communicates the grant agreement requirements for each program it administers.

Funding terms are a key component of the NOSA and the UGA. In the past, there has been confusion among state agency staff and grantees regarding the source of grant funds. Because the majority of federal grant payment methods are reimbursement, approximately 70% of initial payments use GRF and are reimbursed with federal funding. As a result, state agency staff, grantees and their audit firms have difficulty determining state funds versus federal pass-through funds. To promote transparency, the NOSA and UGA explicitly communicate the source of all funds, cost sharing requirements and

restrictions on the use of funds. The explicit funding terms within the NOSA and UGA promote grant fund accountability and assist in determining the type of audit required to be conducted.

Grantee Risk Assessments

An assessment of risk posed by the applicant is required by federal Uniform Guidance. GATA provides this through two (2) separate processes. The fiscal and administrative risk assessment is a centralized process and completed once annually and relied upon by all state awarding agencies. The fiscal and administrative requirements are the same regardless of the type of award. Grantees initiate the Internal Control Questionnaire (ICQ) or financial and administrative risk assessment through the Grantee Portal. The completed ICQ calculates a financial and administrative risk profile for the grantee. In contrast, the programmatic risk assessment is issued by the awarding agency, grant specific and required for each grant application. The programmatic risk profile of the grantee is computed based on a weighted scale by the awarding agency. The risk assessments identify the level of risk posed by the applicant.

Specific conditions are imposed if the grantee's risk profile indicates a weakness in internal controls – either financial and administrative or programmatic. The Notice of State Award informs the applicant if specific conditions are assigned under the terms of the grant award. GATU recognizes that additional training is needed to aid state agencies in applying specific conditions. GATU continues to highlight the importance of internal controls in training and technical assistance calls.

Consolidated Year-end Financial Report (CYEFR)

The CYEFR template was designed and implemented in state fiscal year 2018. The CYEFR provides a single report for grantees to quantify expenditures for each individual award received from a State of Illinois grantmaking agency. Effective for grantees with a fiscal year end of 12/31/18 and later, an “In Relation To” opinion to the audited financial statements will be required to be provided with the audited financial statements. For transparency, the report includes the corresponding CSFA numbers.

The objective of the CYEFR is to assist the grantee in making reconciliation from periodic and year end reporting (including adjustments made during the audit process) and tying out reported expenditures to the audited financial statements. Prior to GATA, many state agencies did not perform this reconciliation of program expenditures, which is a federal requirement.

State grantmaking agencies are utilizing the CYEFR to reconcile grant expenditures to state agency accounting records to ensure all grant expenditures are properly accounted for and included in the Financial Statement and Single Audit of the grantee. CYEFR standardization eliminates multiple reconciliations and establishes a single form for grantee completion at year end. Grantees not subject to audit are required to submit the CYEFR but are not required to have an “In Relation To” opinion.

Framework for Grantee Monitoring and On-site Reviews

The fiscal and administrative on-site review process was analyzed to remove redundancies and duplication of effort for the on-site review requirement. Under federal Uniform Guidance, a pass-through entity is required to monitor their subrecipients to ensure compliance with the grant requirements and the terms and conditions of the grant agreement. Since the fiscal and administrative requirements are generally the same regardless of the grant program, it was determined that the fiscal and administrative on-site reviews could be conducted once and shared by all state grantmaking agencies.

Fiscal and administrative on-site reviews are required when a grantee is deemed to be high risk based on the overall grantee risk profile. To standardize policies and procedures for conducting the fiscal and administrative on-site reviews, a uniform grantee risk profile was developed. This included the uniform fiscal and administrative risk assessment internal control questionnaire, an assessment of previous performance, and a review of prior audit findings or other regulatory reviews.

The On-site Review Subcommittee has established on-site review procedures (including the overall grantee risk profile) and developed review programs for each compliance area. The fiscal and administrative on-site review protocol was developed to follow-up on audit findings and rely on the audit results without repeat testing of compliance areas performed in the audit. Based on the risk factors, the on-site review will be tailored for each grantee and limited to compliance areas identified as high risk. This approach will consider areas included in the audit tests performed to ensure state agencies are not duplicating testing in the on-site review. However, the fiscal and administrative on-site review requires follow up on the status of prior year audit findings and their corrective action plans.

Each cognizant agency is responsible for conducting the fiscal and administrative on-site reviews for their assigned grantees. The uniform on-site protocol and report template will be used and the results will be shared with all state grantmaking agencies that provide grant awards to the grantee or subrecipient. This will eliminate the need for other agencies to conduct reviews.

Cognizant agencies have submitted concern that very few on-site review staff possess the necessary skills, education and experience to conduct the compliant reviews. Further analysis revealed that the position titles are not adequate to ensure a skill set match to the required functions. Work continues to review current position titles and create uniform sets of basic education, training and experience sets for new titles. In the meantime, it the Subcommittee recommended to augment staffing with external auditing staff. The work to finalize and implement the coordinated fiscal and administrative on-site reviews will be a priority focus for GATU in the coming year.

Grant versus Contract Misconceptions

GATU continues to address state agency misconceptions about grant versus contract classifications. Proper classification should be determined by using the Association of Government Accountants Contractor vs. Subrecipient Checklist to affirm the characteristics per Section 330 of Uniform Guidance. Neither the funding mechanism nor the convenience of the state agency can determine the classification. Misclassification of a grant as a contract will result in an audit finding requiring the amount paid to be returned to the state and/or federal government. In addition, contracts need to be procured in accordance with state procurement rules which may at times create even larger administrative hurdles.

The exception process will require the state agency to submit a completed Contractor vs. Subrecipient Checklist as support for reclassifications. GATU has delivered training on the contractor / subrecipient determination and will continue to emphasize this.

Exceptions to Federal Uniform Guidance and GATA

GATU continues to follow an exception process modeled after the federal exception approval requirements. All programs - federal, federal pass-through and state funded - are assumed fully subject to federal Uniform Guidance and GATA unless an exception has been requested and approved by GATU. If the federal awarding agency has approved an exception, GATU will accept that

exception. If Illinois funds an equivalent program, the state award will be subject to the same federal exceptions.

State agencies are developing a better understanding of exceptions to specific requirements vs. an “exemption” to all requirements. All programs are subject to audit. On a case-by-case basis, GATU reviews exception requests to ensure federal compliance.

To support best practices in grant management, federal awarding agencies continue to mandate Uniform Guidance requirements even though broad categorical exceptions are cited in 2 CFR 200.101. If a program has an exception in 2 CFR 200.101, Illinois’ exception process requires state agencies to verify program-specific requirements based on federal funding agreements to ensure awareness and understanding of grant terms, restrictions and limitations. GATU has found that in many instances, the federal funder mandates specific components of Uniform Guidance even though the program has an exemption under Section 101. Although state agencies have been instructed to review program-specific requirements, many state agencies are not complying. In addition, payments to a beneficiary also cause confusion in terms of the application of Section 101. It is prevalent for payments to be made through an intermediary who has grant responsibilities. In these cases, the intermediary is subject to Uniform Guidance.

Uniform Guidance allows pass-through entities to apply more stringent rules than those dictated by 2 CFR 200. However, the exception process must be utilized for all deviations to the GATA frameworks. This promotes the sharing of best practices and ensures that additional requirements truly add value to meeting the requirements in 2 CFR 200 and promotes statewide uniformity.

Procedurally, state agencies complete and submit a “GATA Request for Exception Form” which must include the statutory federal or state reference authorizing the exception. All exceptions must be based on statutory authority. GATU reviews all requests and consults with GOMB General Council and the Governor’s legal office as necessary for final determination. GATU provides written notice through email to the requesting state agency.

In the past year, GATU has established a dedicated mailbox for exceptions (omb.gata.exceptions@illinois.gov), formalized the procedure and updated the request form. All of these updates have been communicated clearly and timely to agencies.

To date, there have been over 200 program exceptions authorized, over 600 requests have been reviewed. GATU has continued to review prior exceptions to ensure compliance with current requirements since updates to Uniform Guidance took some program exceptions out of compliance. Agencies are required to enter all approved exceptions into the CSFA, the NOSA and the UGA.

APPENDIX VI: IMPROPER PAYMENTS ACT

Under Public Act 100-0997, GOMB is mandated to research and provide recommendations to the General Assembly regarding the adoption of legislation in accordance with the federal Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERA). As GOMB's subject matter experts in grant administration, the Grant Accountability and Transparency Unit is fulfilling this mandate requirement.

Illinois law was passed partially in response to “*process issues, contract issues, monitoring issues, fund recovery issues, and questioned cost issues*”ⁱ in the administration of a set of 3 grants in fiscal years 2013 and 2014. As documented in the House Resolution 888 audit, grant funds were not recovered timely or at all, and over \$1 million in costs were found to be questioned.

Focus of the Report

This report focuses on the requirements of federal legislation and guidelines regarding improper payments. The report relates these federal directives to the current structures in the State of Illinois. The federal legislation requires a comprehensive examination of all fund disbursements including payroll, direct benefit payments and pension payments be examined within the context of improper payments. Illinois utilizes well-established controls to prevent erroneous payments around payroll functions. Traditional segregation of duties and checks and balances between the agencies and the warrant-issuing, i.e. the Office of the Comptroller, prevent or discover improper contractual payments. Therefore, this report concentrates nearly exclusively on awards and grants including federal pass-through funds.

In Illinois, grants are a major object of expenditures and the state maintains a vast network of grantees fulfilling legislatively established mandates and authorizations. As a steward of public funds, the State is obligated to apply oversight to ensure payment integrity in accordance with specified terms and conditions of the award including public policy requirements. In compliance with 2 CFR 200.302, the state must adequately safeguard all assets and assure that they are used solely for authorized purposes.

1. Federal Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERA)

Since 2003—when certain agencies were required by statute to begin reporting improper payments—cumulative improper payment estimates have totaled about \$1.4 trillion. For fiscal year 2017, federal entities estimated about \$141 billion in improper payments—composed of estimates for 90 programs across 21 agencies. This total was down from about \$144 billion for fiscal year 2016, but up from about \$137 billion for fiscal year 2015. (U.S. Government Accountability Office)ⁱⁱ

The Improper Payments Information Act (IPIA) of 2002, as amended by the Improper Payments Elimination and Recovery Act (IPERA) of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012, requires agencies to periodically review all programs and activities and identify those that may be susceptible to significant improper payments, take multiple actions when programs and activities are identified as susceptible to significant improper payments, and annually report information on their improper payments monitoring and minimization efforts. The Office of Management and Budget's (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, Appendix C, *Requirements for Effective*

Measurement and Remediation of Improper Payments, defines an improper payment (1) and provides guidance to agencies to comply with IPFA, as amended, and for agency improper payments efforts.ⁱⁱⁱ

1.1 Definition of Improper Payment^{iv}

- any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements;
- includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts.
- The term “payment” includes federal awards subject to the Single Audit Act and the Uniform Guidance for federal assistance (2 CFR 200 Subpart F) (Single Audits) that are expended by both recipients and sub-recipients.

1.2 Types of Improper Payments

- I. Over- and underpayments to eligible recipients (erroneously or fraudulently)
- II. Payment to ineligible recipient (erroneously or fraudulently)
- III. Payments without sufficient documentation

1.3 Addressing Improper Payments

Programs are considered susceptible to significant improper payments if the gross annual improper payments exceed (1) 1.5% of program outlays and \$10M OR (2) \$100M regardless of percentage of improper payments.

Agencies are required to perform the following:

1.3.1. Risk Assessments

- Perform risk assessments at least once every three years for programs that are not susceptible and annually for programs that are susceptible.
- Assessments are to be conducted systematically (systematic method), taking into account risk factors such as volume of payments, complexity of the program, recent changes to the program or its administration, training and experience of responsible personnel and deficiencies as reported in audits and other reports.
- Beginning in FFY20, quantitative methods (statistical assessment) for risk assessment should be used for programs with annual outlays over \$5 billion.
- Qualitative methods such as risk-assessment questionnaire may be used and may be integrated with existing tools such as internal control questionnaire.

1.3.2. Sampling and Estimation

It is the agency’s responsibility to produce a statistically valid methodology.^v

Programs that are susceptible to significant improper payments per the risk assessment, must then obtain a statistically valid estimate of the annual amount of improper payments. Any non-statistically valid methodology must be approved by federal OMB to be acceptable under IPERA. OMB does not formally approve specific sampling plans.

This estimate is required annually. Federal OMB furthermore reserves the right to identify programs as susceptible to significant improper payments regardless of agency risk assessment or magnitude of improper payments reported previously.

1.4 High Priority Programs

The government can achieve the greatest return on investment for the taxpayer by ensuring that improper payments are eliminated in the highest-risk programs.^{vi}

The threshold for High-Priority Programs for FFY18 and subsequent years, is **\$2 billion** in estimated improper payments as reported in the AFR or PAR, **regardless of the improper payment rate estimate^{vii}**.

1.4.1 Requirements for High-Priority Programs^{viii}

- I. Develop and implement corrective actions tailored to the high-priority programs
 - a. Identify reasons (see matrix below)
 - b. Develop and implement corrective action responsive to the root causes
 - c. Measure effectiveness and progress of each individual corrective action on an annual basis.
- II. Develop a plan and publically report actions to prevent and recover improper payments (see <https://paymentaccuracy.gov/>)
 - a. Consider internal controls, human capital, information systems and other infrastructure needed
 - b. Consider statutory or regulatory barriers

Reason for Improper Payment		Type of improper payment		
		Over payments	Underpayments	
Program Design or Structural Issue				1
Inability to Authenticate Eligibility	Inability to Access Data			2
	Data Needed Does Not Exist			3
Failure to Verify	Death Data			4
	Financial Data			5
	Excluded Party Data			6
	Prisoner Data			7
	Other Eligibility Data (explain)			8
Administrative of or Process Errors Made by	Federal Agency			9
	State or Local Agency			10
	Other Party			11
Medical Necessity				12
Insufficient Documentation to Determine				13
Other Reasons (explain)				14
		A	B	

Figure 1: Matrix of Improper Payment Categories

1.5 Uniform Guidance

On the federal level, addressing improper payments are key in the efforts to increase payment integrity as a foundation for program integrity. This theme is implicit in the Uniform Guidance in 2 CFR 200:

The federal awarding agency must manage and administer the federal award in a manner so as to ensure that federal funding is expended and associated programs are implemented in full accordance with U.S. statutory and public policy requirements (§200.300 UR)

Effective control over, and accountability for, all funds, property, and other assets. The non-federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes. (§200.302 UR)

2. Opportunities at the State Level

2.1 Identification

2.1.1 Susceptibility Assessment

The state expends approximately \$29 billion^{ix} in federal dollars a year. Only major federal programs and program clusters are included in the Statewide Single Audit. The current testing threshold is \$43,494,869. Based on this threshold, 91% of federal programs are not tested in Illinois. Smaller federal programs and all non-federally sourced grants, including those with federal reimbursements and some of the Medicaid Waivers, are not tested. In many instances, programs that are not tested are assumed to be compliant even though payment reviews have not occurred. Many programs therefore don't have their payments reviewed even post-factum.

In total, there are currently 1,899 programs listed in the Catalog of State Financial Assistance^x. In addition, there were 596 federal awards listed in the Schedule of Federal Awards for state fiscal year 2018^{xi}. Overall, Awards and Grants accounted for \$45 billion dollars in the State of Illinois operating budget in fiscal year 2019 and another \$1 billion in the State of Illinois capital budget. This excludes funding for capital investment, repair and permanent improvement.

Illinois does not currently conduct a systematic, methodical assessment of state programs' susceptibility to improper payments. The initial step would be to compile a statewide inventory of all grants, state and federal, at GATU's direction. The internal audit offices should be positioned to review agency management's initial risk assessments as an extension of the overall risk assessment. The overall risk assessment is, of course, a core requirement of internal audit as part of the two-year Internal Audit Plan Development^{xii}. Grants are a major budget item for most grant-making agencies and are inherently high risk areas in the state and thus the internal processes by which they are administered would in most cases naturally be a part of the internal audit universe.

2.1.2 Risk assessment

Under GATA^{xiii}, a risk assessment is conducted from the grantee perspective. However, state agencies do not routinely and systematically evaluate their own program administration, policies and procedures assessing the risk of improper payments.

2.1.3 High Priority Programs

Currently, the Budgeting for Results Unit is in the process of conducting comprehensive program assessments to discern program effectiveness within established policy domains. Many of the same data points used to conduct this analysis could, with appropriate support and additional staffing, be used to conduct a risk or priority assessment of state programs for Improper Payments analysis.

The technical expertise and analytical skill set at GOMB suggests the initial identification of high priority programs be conducted jointly between GATU, OMB and BFR with input from the applicable state agency.

2.2 Prevention

2.2.1 Root Cause Analysis

Illinois does not currently conduct comprehensive analysis on root causes of improper payments nor is there an inventory or summation of improper payments at the state level.

It is recommended that Illinois adopt the federal Matrix of Improper Payment Categories as depicted in Figure 1 above to identify root causes for improper payments. The initial step must be to identify the magnitude of improper payments in each of the categories. This will require a joint effort between the

agencies, including the fiscal and programmatic staff, fraud units and Internal Audit, Comptroller's Office as the official book of records including payment reversals, stop pays, offsets etc. and GOMB.

2.2.2 Internal Controls and Internal Audit

...internal control deficiencies have been identified and reported relative to the SEFA financial reporting process in each of the past sixteen years as a result of errors identified during the external audits performed on State agencies^{xiv}.

There is a mechanism to annually review agencies' internal controls under the Fiscal Control and Internal Auditing Act. The Chief Internal Auditor serves in the capacity of advising management regarding the appropriateness and effectiveness of the agency's internal controls.^{xv}

All State agencies shall establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that:

- (1) resources are utilized efficiently, effectively, and in compliance with applicable law;
- (2) obligations and costs are in compliance with applicable law;
- (3) funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation;
- (4) revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources; and
- (5) funds held outside the State Treasury are managed, used, and obtained in strict accordance with the terms of their enabling authorities and that no unauthorized funds exist.

The deficiencies in internal controls are therefore a question of operationally meeting that mandate. The roots of this can be found in the lack of resources. This includes technology, i.e. appropriate and efficient systems that would allow for data analysis to identify red flags of waste, fraud, abuse and mismanagement. In addition, existing staff may not be adequately trained in their specialized area, general training and expertise of basic internal control, financial and audit review and approval in program and management staff is lacking and there is an overall lack of staff.

2.2.3 Internal Control Objectives for Processing of Payments

The following internal control objectives for Grant Administration are identified in the SAMS Manual^{xvi}:

- (1) Factors used in distribution formulas for entitlement grants are accurately maintained.
- (2) Grantees' program eligibility requirements are sufficiently detailed to ensure that the program beneficiaries and other interested parties understand the qualifications to receive prescribed benefits.
- (3) Grantees maintain sound organizational, budgetary and accounting systems that are periodically reviewed and evaluated.
- (4) Grantees' procurement procedures comply with regulations.

- (5) Grantees properly maintain, safeguard and account for government financed property and equipment.
- (6) Grantees maintain current cost allocation plans and overhead rates.
- (7) Grantees are paid only for allowable costs and amounts.
- (8) Financial compliance audits of grantee activity are performed at least once every two years.
- (9) Prompt and appropriate grant close-out actions are taken.
- (10) Potential irregularities which could create a significant liability to the grantor is minimized.

2.3 Resolution

2.3.1 Payment Recapture Audits

Illinois currently recaptures improper payments on a very limited basis.

The Office of Inspector General at the Department of Healthcare and Family Services (HFS) examines fraud, waste and abuse allegations^{xvii} for state Medicaid Programs. This function is federally mandated and operates independent from the Improper Payment legislation^{xviii}. Illinois should explore the efficacy of this OIG function to determine if it or a sub-set could be adopted for other program areas.

Functionally, the Comptroller Offset (15 ILCS 405/10.05) can be used to recapture payments *when it is determined to be in the best economic interest of the State*.^{xix} This reactive approach serves to recapture known occurrences of improper payments.

There is no proactive, data-based effort to recapture payments at this time. Both avenues described above are reactive and follow either allegation of fraud or incidental discovery of overpayments.

2.3.2 Reconciliations

Part of the GATA efforts are aimed at establishing routine and comprehensive reconciliations of payment data through the ARRMS system.

In addition, verification of accounts occurs through the GAAP/SEFA process in the WEDGE system. However, this does not verify that the recorded expenditures were proper to begin with and is not preventing payments from being made improperly.

A major barrier is creating appropriate position titles, training and hiring to have the skill sets necessary available at the state agency level. Agencies are missing the skills to reconcile expenditures and the ability to analyze data.

Missing or inadequate data is a main culprit in improper payments. Insufficient support for eligibility determination is one of the leading factors in improper payments. Illinois has limited data verification for core causes of improper payments such as eligibility. Better technologies and the establishment of the statewide grants management system will provide additional data sets for further analysis on potential improper payments.

2.3.3 Compliance Review

Following federal OMB guidance, an inventory of state programs could follow the sample schedule below, building on existing performance reporting structures through Budgeting for Results and financial reporting under the auspices of GOMB.

Program Name	Published Agency Financial Report (AFR) or Performance Accountability Report (PAR)	Conducted a Risk Assessment	Published Improper Payment Estimate	Published Corrective Action Plan	Published and is Meeting Reduction Targets	Reported an Improper Payment Rate of Less than 10 Percent
Program A						
Program B						
Program C						

Figure 2: Risk Assessment Inventory

2.3.4 Do Not Pay (Stop Pay)

Statutory authority on the state level exists to withhold moneys from grantees: Grantor agencies may withhold or suspend the distribution of grant funds for failure to file required reports (Illinois Grant Funds Recovery Act 30 ILCS 705/4.1).

The Comptroller's office allows for a stop-payment to be requested as a result of a replacement request from the payee, or agency, (RPS); an agency request for a stop-payment (no replacement) (RAS), or an unsuccessful last-minute hold^{xx}.

Under GATA legislation, Illinois established a statewide Grantee Compliance Enforcement System to drive compliance with grant requirements. GATA requires the maintenance of an Illinois Stop Payment List which is based on the federal Do Not Pay System and 2 CFR 180 – OMB Guidelines to Agencies on Government-wide Debarment and Suspension (Non-procurement) and 2 CFR 200.338 (a).

It is recommended to further inventory the different rationales and avenues of stopping payments available to the state. This can serve as a starting point to the development of a uniform set of practical guidelines regarding the criteria to stop payments, the refinement of methods or mechanisms to stop payments, and the roadmap to broad implementation.

A more formal, uniform codification of stop payments may be needed. However, the intermediate steps outlined above should be taken first.

Conclusion

Addressing payment integrity at the state level has significant promise. On the federal level, the statistically estimated rates of improper payments for various programs go into the 90% range for some programs (e.g. VA Community Care^{xxi}).

One example of a program that is conducted at the state level, the Retired and Senior Volunteer Program, has an improper payment rate of 37% for federal fiscal year 2019. The state appropriation for this program was \$551,800 in state fiscal year 2019. This is a very small program, however, at that rate it would mean that over \$200,000 in expenditures could be inadequately supported.

The improper payment rates for Medicaid and CHIP are just about 15%. The Medicaid budget in Illinois in FY19 is over \$22 billion which would project that up to \$3.3 billion in payments may not be adequately supported. This does not mean these payments should not be made, just that the current systems and processes fall short of providing sufficient supports, documentation or verification one out of every six or seven times. The recent efforts in the state to implement state-wide, multi-agency systems such as IES and IMPACT are steps in the right direction to get to complete verification of eligibility of recipients and the admissibility of vendors or providers.

Payment integrity efforts do not materialize overnight. The implementation of the Improper Payments Act for the federal government formally began in 2002. Since then the Act has been amended several times and has been enhanced by formal guidance from the federal OMB.

The following actions are recommended as a starting point:

- State Agencies should be required to report annually the amount of funds lapsed from federal awards including subrecipient grant awards.
- State agencies should be required to perform risk assessments on all federally identified High Priority programs; state programs complementing these federal programs should be examined as well.
- All state appropriations for grants and awards must be traced to the Catalog of State Financial Assistance to ensure all state and federal grant programs are included. The respective Chief Financial Officer and Agency Director must certify that the Catalog is complete for their agency.

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- ⁱ http://www.auditor.illinois.gov/Audit-Reports/Performance-Special-Multi/Performance-Audits/2016_Releases/16-ICJIA-Perf-Digest.pdf
- ⁱⁱ https://www.gao.gov/key_issues/reducing_government-wide_improper_payments/issue_summary
- ⁱⁱⁱ http://osec.doc.gov/ofm/Improper_Payments.html
- ^{iv} Public Law No: 107-300 Improper Payments Information Act of 2002
- ^v M-18-20 OMB Memorandum re: Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement I.D.1
- ^{vi} <https://paymentaccuracy.gov/high-priority-programs/>
- ^{vii} M-18-20 OMB Memorandum re: Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement II.B
- ^{viii} M-18-20 OMB Memorandum re: Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement
- ^{ix} <http://auditor.illinois.gov/Audit-Reports/Performance-Special-Multi/Statewide-Single-Audit/FY18-Single-Audit-Digest.pdf>
- ^x Per GATA system.
- ^{xi} Office of the Auditor General, Single Audit State Summary Report Digest, released 08/29/19
- ^{xii} SIAAB Guidance 08
- ^{xiii} 30 ILCS 708/25 and Administrative Rules 44 Part 7000 Section 340
- ^{xiv} Office of the Auditor General, Single Audit State Summary Report Digest, released 08/29/19
- ^{xv} Per State Internal Audit Advisory Board guidance <https://siaab.audits.uillinois.edu/>
- ^{xvi} Section on Internal Controls, SAMS Manual <https://illinoiscomptroller.gov/agencies/sams/sams-manual/>
- ^{xvii} <https://www.illinois.gov/hfs/oig/Pages/Welcome.aspx>
- ^{xviii} <https://www.cms.gov/newsroom/fact-sheets/fact-sheet-2019-medicare-fiscal-accountability-regulation-mfar>
- ^{xix} Procedure 26.40.20, IOC SAMS Manual <https://illinoiscomptroller.gov/agencies/sams/sams-manual/>
- ^{xx} Procedure 21.10.40
- ^{xxi} From Paymentaccuracy.gov

APPENDIX V: INTERNET LINKS

- a. Statute 30 ILCS 708 Grant Accountability and Transparency Act
www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=3559&ChapterID=7
- b. GATA Website
www.grants.illinois.gov
- c. GATA Administrative Rules
ilga.gov/commission/JCAR/admincode/044/04407000sections.html
- d. National Grant Management Association
www.NGMA.org
- e. National Council of Nonprofits
www.councilofnonprofits.org
- f. Federal Funds Information for States
www.ffis.org

APPENDIX VI: PER CAPITA FEDERAL GRANT ANALYSIS FY 2018 (FFIS)

Per Capita Federal Grant Analysis FY 2018

ILLINOIS

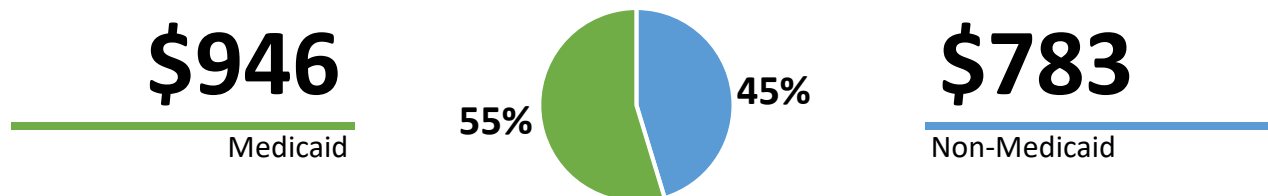


\$22 billion
Total Grants

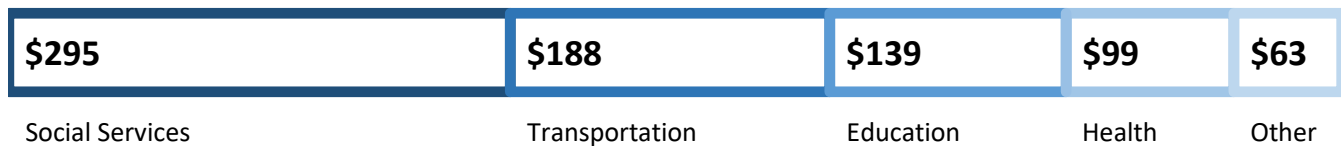
\$1,729
Total Grants Per Capita

12.7 million
Total Population

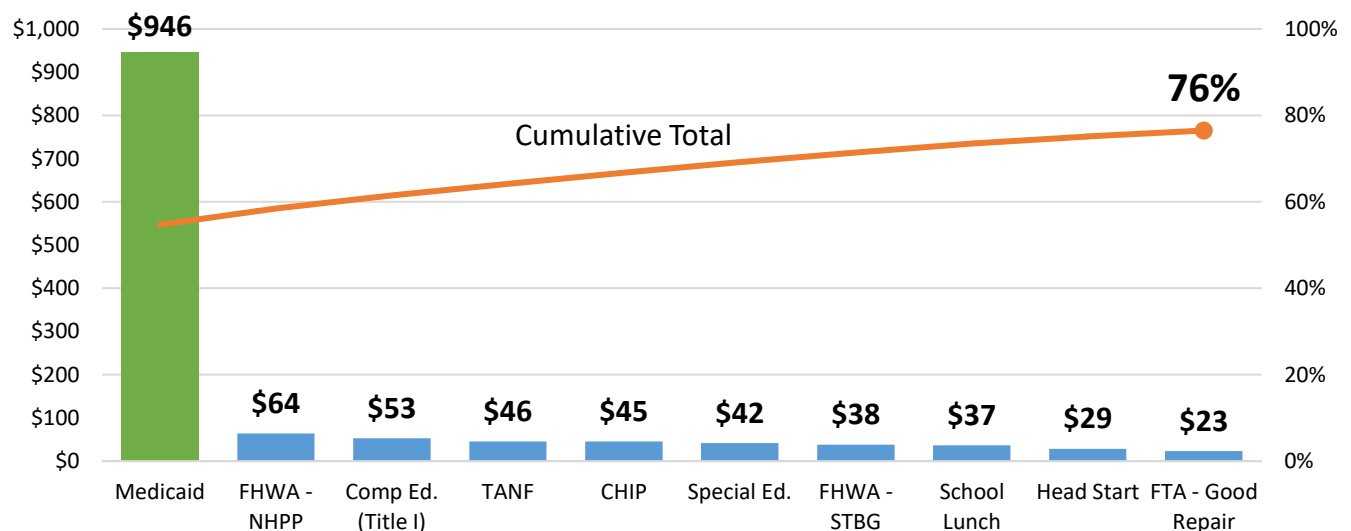
How much goes to Medicaid in Illinois?



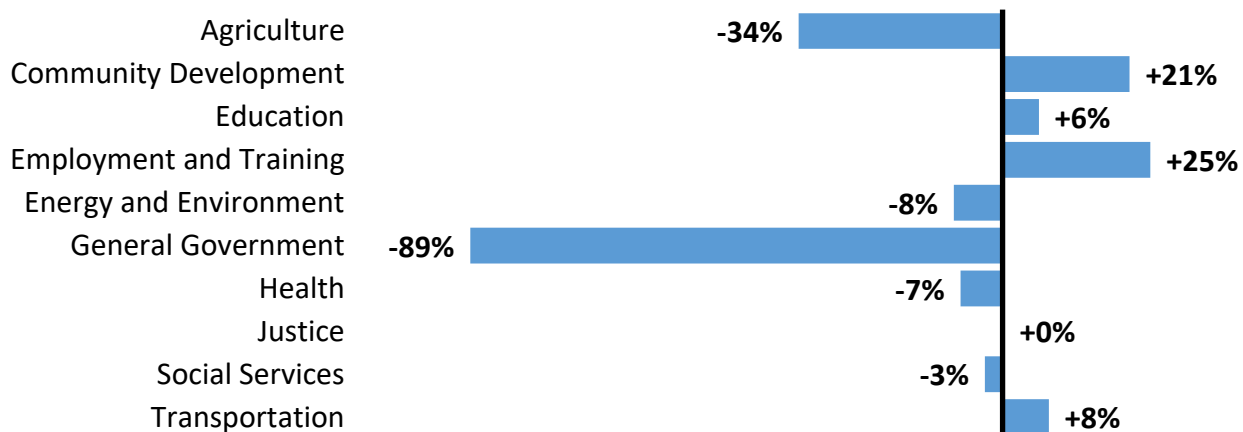
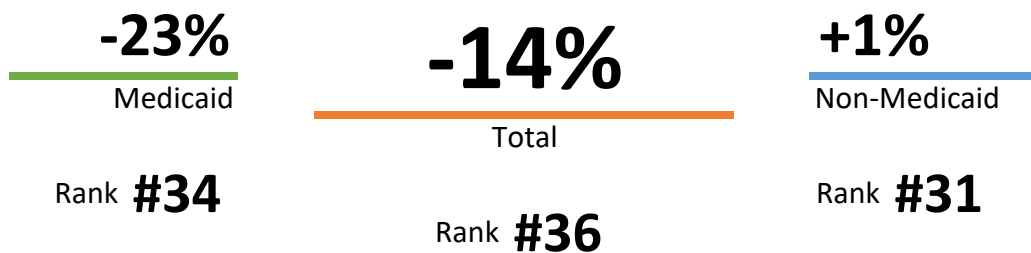
How much goes to other budget categories in Illinois?



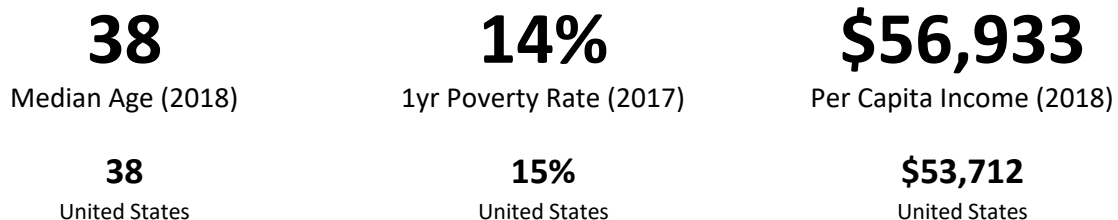
How much goes to the top 10 programs in Illinois?



How does Illinois compare to the United States as a whole?



What major factors affect federal grants to Illinois?



50.7%
Federal Medicaid Matching Rate
(FMAP) for FY 2018

Adopted
Medicaid Expansion Status
(as of FY 2018)