



OFFICE OF INSPECTOR GENERAL
City of Chicago



REPORT OF THE INSPECTOR GENERAL'S OFFICE:

***DEPARTMENT OF FAMILY AND SUPPORT
SERVICES***

GRANT MONITORING AUDIT

APRIL 3, 2012



OFFICE OF INSPECTOR GENERAL
City of Chicago

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April 3, 2012

To the Mayor, Members of the City Council, City Clerk, City Treasurer, and residents of the City of Chicago:

The City of Chicago Office of Inspector General (IGO) has completed an audit of the City's Department of Family and Support Services (DFSS) grant monitoring function for the period January 1, 2010 through December 31, 2010. The purpose of the audit was to review, test, and evaluate the grant management function at DFSS to determine whether grants were properly monitored and related procedures were effective and in compliance with grant regulations.

Based upon the results of our audit, we determined that DFSS's grant monitoring processes were generally effective. However, we found deficiencies in some fiscal monitoring practices.

One of our more significant findings stemmed from DFSS management not fully understanding the internal control of segregation of duties. DFSS management did not believe that there was a segregation of duties issue when one employee at a delegate agency was simultaneously responsible for preparing bank deposits, reconciling bank accounts, making the deposits, and safeguarding the agency's checks. This delegate agency employee was later convicted of felony financial crimes, theft, and forgery charges for stealing more than \$60,000 by writing more than 150 checks to himself.

The other deficiencies noted during the audit related to insufficient management oversight, a misunderstanding of governmental auditing reporting standards, and ineffective grant close-out procedures.

I would like to thank the Commissioner and employees from DFSS as they fully cooperated with the IGO. I hope they, and other Commissioners, are able to use the audit results to improve their processes and in turn provide better monitoring procedures for the grants they receive.

Respectfully,

A handwritten signature in black ink, appearing to be "J. Ferguson".

Joseph M. Ferguson
Inspector General
City of Chicago

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AUDITOR'S REPORT

We have completed an audit of the grant management function at the Department of Family and Support Services (DFSS). We conducted the audit for the period of January 1, 2010 through December 31, 2010.

The authority to perform such an audit is established in the City of Chicago Municipal Code § 2-56-030 which states that the Inspector General's Office has the power and duty to review the programs of City government in order to identify any inefficiencies, waste, and potential for misconduct, and to promote economy, efficiency, effectiveness, and integrity in the administration of City programs and operations.

Our purpose was to review, test, and evaluate the grant management function at DFSS to determine whether grants were properly monitored and related procedures were effective and in compliance with grant regulations. DFSS management is responsible for establishing and monitoring effective internal controls for the administering and monitoring of all grants.

We conducted this audit in accordance with generally accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States, except standard 3.55 which requires an external quality control review.¹ Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Based upon the results of our audit, we determined that DFSS's grant monitoring processes were generally effective. However, we found deficiencies in some fiscal monitoring practices due to:

- a misunderstanding of segregation of duties;
- insufficient management oversight;
- a misunderstanding of governmental auditing reporting standards; and
- ineffective grant close-out procedures.

We thank the Department of Family and Support Services management and staff for their cooperation during the audit. Their assistance contributed significantly to the successful completion of the audit.

City of Chicago Office of Inspector General

¹ GAS 3.55 requires that organizations performing audits and attestation in accordance with GAGAS undergo a peer review of the organization at least once every three years. The IGO is scheduled for such an external review in 2012.

EXECUTIVE SUMMARY

The Inspector General’s Office (IGO) performed an audit of the grant monitoring procedures at the Department of Family and Support Services (DFSS) for the 2010 calendar year. For this period, DFSS received approximately \$468 million in grant funds. The purpose of the audit was to determine whether DFSS had effective grant monitoring policies and procedures and whether reimbursements to grantees were properly made and recorded.

Based upon the results of our audit, we determined that grant monitoring processes were generally effective. However, we found deficiencies arising from DFSS’s misunderstanding of segregation of duties and governmental auditing reporting standards, insufficient management oversight, and ineffective grant close-out procedures.

We found the following fiscal monitoring deficiencies:

- Insufficient segregation of financial duties coupled with a lack of bank reconciliation created an opportunity for funds to be misused at the American Indian Center. The DFSS Fiscal Monitoring Unit report did note seven months of no bank reconciliations but did not note the insufficient segregation of duties. A single staff member at the Center was responsible for preparing deposits, reconciling bank accounts, making deposits, and safeguarding the checks and signature plates. The staff member was later arrested and convicted on felony financial crimes, theft, and forgery charges.
- The DFSS Fiscal Monitoring Unit issued a report stating that there were no audit findings at Cares Chicago but there were six issues listed as management recommendations. Three of the six recommendations were significant and should have been considered findings that would have required agency response and a corrective action plan that would have triggered further follow-up by DFSS.
- The DFSS Fiscal Monitoring Unit failed to follow-up with the Safer Foundation regarding audit findings and corrective action requested from the agency in September 2010. Following IGO audit inquiries, the Safer Foundation responded to DFSS’s findings in January 2012.

We found the following expenditure-related deficiencies:

- Cara Program - Support documentation was not provided for expenses paid and charged to a grant program.
- Cara Program - Checks made payable to vendors were never cashed and were subsequently voided. The voids occurred after the program was closed out and the payments had already been charged to the program. Therefore, the grant money was never reimbursed to DFSS.

IGO recommendations for correcting these deficiencies as well as delegate agency and DFSS management responses are included in the “Audit Findings and Recommendations” section of this report. We found no deficiencies related to program monitoring. We make one additional recommendation at the end of the report regarding accurate presentation of information on invoice reimbursement forms.

BACKGROUND

The Chicago Department of Family and Support Services website describes the department as follows:

The Chicago Department of Family and Support Services (DFSS) is dedicated to supporting a continuum of coordinated services to enhance the lives of Chicago residents, particularly those most in need, from birth through the senior years. The department works to promote the independence and well-being of individuals, support families and strengthen neighborhoods by providing direct assistance and administering resources to a network of community-based organizations, social service providers and institutions.

DFSS offers direct services and referrals for specialized assistance to residents and families in need through its six Community Service Centers. DFSS's Division on Domestic Violence is dedicated to promoting a coordinated multi-system response to domestic violence in Chicago. The department's Senior Services Area Agency on Aging administers a variety of informational and recreational programs through our Regional and Satellite Senior Centers, designed to address the diverse needs and interests of older Chicagoans, from those who are healthy and active, to those who are frail and homebound.

Approximately 95%, or \$467,606,701, of the DFSS 2010 budget appropriation consisted of grant funds to support programs related to Children and Youth Services, Human Services, Workforce Development Services, and Senior Services.² The services provided in each category are listed below.³

- Children and Youth Services – Manages comprehensive Head Start and Child Care programs for children ages birth to five. Coordinates out-of-school activities, counseling and mentoring for youth ages six to 18. Provides employment and training for youth through KidStart and Youth Career Development Centers. Educates families about available nutrition and health programs that provide meals to low-income children during the summer months through a network of community providers. Intervenes to prevent delinquency.
- Human Services – Provides 24 hours a day, 7 days a week response to crises including services to homeless individuals requiring shelter, emergency medical services, emergency food, and assistance for victims of domestic violence, fire, and disasters. Coordinates relocation assistance for evictions and emergency building closures. Provides case management through the department's community service centers and delegate agencies. Links families to services with the goal of increasing sufficiency and stability.

² The total budgeted appropriation was \$492,782,740, of which \$25,076,039 were Corporate Fund, \$30,022,701 were Community Development Block Grant, and \$437,584,000 were Other Grant Funds resources.

³ These descriptions are from the *City of Chicago Budget 2011 Program and Budget Summary*, pp. 131-132.

- Workforce Development Services – Creates and manages programs to provide workforce development services including recruitment and assessment of job applicants. Provides job seekers with job preparation, training, placement and follow-up services. Provides oversight, technical assistance, and training to service providers.
- Senior Services – Responsible for congregate dining; health education, fitness and recreation; employment services; disease prevention and health promotion; life enrichment and other education programming; and volunteer programs.

In 2010, DFSS administered city, state, and federal funds to 293 organizations, known as “delegate agencies,” that provided programs for young people from infancy to age 18, unemployed adults, dislocated workers, and senior citizens in Chicago. A “delegate agency” is a public or private non-profit organization or agency to which the City has delegated all or part of the responsibility for operating various programs.

DFSS Grant Monitoring

In order to determine if delegate agencies are in compliance with grant requirements, DFSS’s Fiscal Monitoring Unit and Programmatic Monitoring Unit perform reviews. While a single fiscal review is performed for an entire agency, there may be several program reviews for an agency based on the number of programs offered by that agency.

Fiscal Monitoring⁴

A DFSS fiscal review focuses on general recordkeeping, disbursements, internal controls, and payroll. A fiscal review is to be performed for each agency at least once in a contract year. There may be an exception to this policy if DFSS determines that it is necessary to conduct a special review or investigation of an agency in lieu of a standard fiscal review. Another exception may be made if an agency has scored very well for at least two years—it may not be reviewed the following year. The likelihood of auditing every agency each year fluctuates with the Fiscal Monitoring Unit’s staff levels. In 2010, there were eight employees in fiscal monitoring. Reviews are prioritized based on a delegate agency’s total funding, funding source, previous fiscal review, performance, date of previous review, and input from various DFSS divisions.

During a fiscal review, a DFSS fiscal auditor uses a monitoring instrument with six sections to audit an agency. The questions on the instrument are designed using the regulations set by the grantor. The Director of Fiscal Monitoring reviews and revises the instrument annually using input from staff, management and delegate agencies. Points are assigned with a maximum possible score of 100. Based on the fiscal review score, an agency may be found in “compliance,” “conditional compliance” or “non-compliance.” If an agency scores below a 90, it is required to complete a Corrective Action Plan. The Fiscal Monitoring Unit conducts follow-up reviews of agencies found to be in conditional compliance or non-compliance within 3-6 months after the fiscal audit.

⁴ The following description is based on the Fiscal Monitoring Review Process in place for 2010. The process has been revised since then.

*Programmatic Monitoring*⁵

A program review evaluates program-specific performance. For example, a program review for a Head Start program may assess whether or not the agency is meeting its attendance goals for children enrolled in the program. Grant requirements differ across programs and each grant has specific rules and regulations set forth by the grantor.

Program divisions (e.g., homeless, youth, domestic violence, and senior services) perform a risk analysis, ranking the agencies that receive grant funding for their programs from high to low risk, and forward the information to the Program Monitoring Unit. In 2010, there were 17 employees in program monitoring. After the Program Monitoring Unit identifies an agency for a program review, a supervisor assigns it to a program auditor. The program auditor then gathers and reviews the program contract, work plan, scope of services and reporting documents. The program auditor uses a program review monitoring instrument that is developed based on the city, state or federal guidelines for a specific program to audit an agency. The program is then found to have “no concerns,” “concerns,” or “findings.” Only findings require a Corrective Action Plan. The program auditor leaves a Corrective Action Plan with the agency and the agency must complete it and fax it back to the program auditor within 14 business days. Once the Corrective Action Plan is received by DFSS, a follow-up visit is scheduled to confirm that the findings have been resolved.

⁵ The following description is based on the Programmatic Monitoring Review Process in place for 2010. The process has been revised since then.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The objectives of the audit were to determine if:

- grants were effectively monitored; and
- grants were subject to waste, mismanagement, or misuse.

Scope

The scope of the audit consisted of delegate agencies' expenditure reimbursements and DFSS programmatic and fiscal monitoring review policies and procedures for the period January 1, 2010 to December 31, 2010.

We randomly selected for testing five grants out of approximately 60 administered by DFSS during 2010:

- 1) Workforce Investment Act (WIA);
- 2) American Recovery and Reinvestment Act, Housing and Urban Development (ARRA HUD) – Homeless Prevention and Rapid Re-housing Program;
- 3) WIA ARRA Formula Adult Dislocated Worker;
- 4) Community Development Block Grant – HUD; and
- 5) Employment Related Childcare – Illinois Department of Human Services.

We sampled and tested \$2,219,366 of the total \$143,763,462 delegate agency expenditures relating to these five grants.

For the fiscal monitoring testing we sampled 29 out of 229 reports, and for the program monitoring testing we sampled 14 out of 155 reports related to the five grants.

Methodology

Audit steps included:

- interviewing DFSS management and various employees;
- understanding and identifying key requirements of city, state, and federal regulations;
- identifying and documenting internal controls in place to determine proper administering and monitoring of grants;
- testing the accuracy of expenditures reimbursed to delegate agencies (verifying that expenses are valid by confirming support documentation); and
- testing DFSS's fiscal and programmatic monitoring procedures of delegate agencies.

Fieldwork was completed in November 2011.

AUDIT FINDINGS AND RECOMMENDATIONS

Fiscal Monitoring Testing Findings

Finding 1: DFSS Fiscal Monitoring Failed to Identify an Agency’s Inadequate Segregation of Financial Duties

American Indian Center (Community Development Block Grant – HUD): The fiscal monitoring instrument used by DFSS auditors to determine if delegate agencies utilize proper internal controls for cash handling includes a section that requires the auditor to assess whether activities such as preparing bank deposits, reconciling bank accounts, and making bank deposits are adequately segregated among different individuals.

Our review of the DFSS fiscal monitoring report for the American Indian Center found that the same individual was identified as responsible for preparing the deposits, reconciling the bank accounts, making the deposits and safeguarding the agency’s checks. Although these functions were not properly segregated, the DFSS auditor gave the agency full point credit for having them segregated and the supervisor who signed the report did not correct the error. The number of points an agency accrues in the fiscal monitoring review determines if the agency is in compliance or out of compliance.

The American Indian Center required two signatures on all checks. DFSS management believes that having the mitigating control of a second signature was sufficient to prevent fraud even though the same employee had access to the checks and was responsible for the monthly reconciliations.

Per the Institute of Internal Auditors:

“A fundamental element of internal control is the segregation of certain key duties. The basic idea underlying SOD [segregation of duties] is that no employee or group of employees should be in a position both to perpetrate and to conceal errors or fraud in the normal course of their duties. In general, the principal incompatible duties to be segregated are:

- Custody of assets.
- Authorization or approval of related transactions affecting those assets.
- Recording or reporting of related transactions.”⁶

The DFSS auditor did report a finding that the American Indian Center’s bank reconciliations had not been completed for seven months. The lack of reconciliation in conjunction with the lack of segregation of duties should have alerted DFSS to a clear and serious weakness in the delegate agency’s financial controls.

⁶ Excerpt from the Internal Auditor, April 2009 - <http://www.theiia.org/intAuditor/itaudit/2009-articles/simplifying-segregation-of-duties/>.

The American Indian Center employee noted above as having the sole responsibility of preparing deposits, reconciling bank accounts, making deposits and safeguarding the checks was arrested in July 2011 and convicted in March 2012 on felony financial crimes, theft, and forgery charges for stealing more than \$60,000 by writing more than 150 checks to himself. Had the DFSS fiscal auditor accurately reported in the audit of the agency that it did not have proper segregation of duties in combination with the lack of bank reconciliations, a corrective action plan would have been developed and may have prevented this from happening or allowed the problem to be discovered earlier. The fiscal audit was performed in March 2009, and the accused was arrested in July 2011.

Recommendation:

We recommend that the delegate agency adequately segregate financial duties among employees and perform monthly bank reconciliations to ensure that sufficient checks and balances are in place. We also recommend that DFSS recognize that a second signature is not an adequate mitigating control for this segregation of duties issue. DFSS should also retrain its fiscal monitoring auditors on identifying adequate segregation of duties and proper cash handling procedures.

Delegate Agency Response:

This is in response to audit field work performed by the Department of Family and Support Services Grants Monitoring during 2009. Items noted above have all been addressed and the American Indian Center (AIC) has proper internal controls over cash handling that includes proper segregation of duties and timely reconciliation of bank statements. It should be noted that an unqualified opinion was rendered for the FY11 financial statements.

The target completion date for bank reconciliations is within three days of month-end. These reconciliations are reviewed by both the Executive Director and Board Treasurer in addition to being distributed to the other members on the Board of Directors. Stringent cash flow reporting is performed on a weekly basis that requires reconciliations within that same timeframe. All reconciliations are agreed to the General Ledger.

The AIC has also hired an individual with over 30 years experience in the field of accounting and finance and is in charge for these functions. He is a CPA/MBA with over 10 years at PricewaterhouseCoopers and Deloitte during his career. Periodically, he would serve as an instructor for various aspects of the audit process. In addition, he was responsible for reviewing and implementing proper internal controls (such as segregation of duties and cash handling) at a variety of companies in support of Sarbanes-Oxley.

The American Indian Center is a relatively small organization that incorporates members of the Board of Directors and management to assist in providing oversight of the accounting process. It also has a Finance Committee that meets on a regular basis and reports to the Board. Financial status reports are generated on a monthly basis.

Also, an accounting policy and procedures manual has been adopted and being followed.

Check requisition forms must be signed by a supervisor and receive final approval from the Executive Director. Safeguards are also enhanced by keeping checks in a locked segregated office. All checks require two signatures. Segregation of duties is further strengthened by other parties making bank deposits rather than the individual responsible for preparing the deposits and reconciling the accounts.

It should be noted that the American Indian Center just completed a review of a different grant by auditors of the City of Chicago where proper segregation of duties and timely bank reconciliations were confirmed.

DFSS Management Response:

DFSS agrees with the OIG Finding 1. DFSS recently conducted an audit of American Indian Center on February 10, 2012 for a contract in the amount of \$26,240 covering period January 1, 2011 to December 31, 2011. The Department confirmed that the agency has maintained the integrity of the funds as required by the City, resulting in no findings. It was also determined that the agency has since adequately segregated their financial duties among employees and are current with their bank reconciliations.

In an effort to continuously improve upon the financial oversight of its grant sub-recipients, DFSS has also revised the area concerning segregation of duties in its fiscal monitoring instrument. It now clearly denotes that the same individual cannot participate in similar functions of preparing bank deposits, reconciling bank accounts, and making bank deposits. If it is the same individual, the auditor will denote the area as a finding. As such, based on our existing policy and procedures, the sub-recipient must correct the finding within the agreed upon period and must clearly denote their efforts in a corrective action plan to be submitted to the auditor within 10 business days of the audit. Upon receipt of the action plan, the auditor reviews and schedules a follow-up review within three to six months.

DFSS disagrees with OIG's statement and believes that it is inaccurate to state, *“Had the DFSS fiscal auditor accurately reported in the audit of the agency that it did not have proper segregation of duties in combination with the lack of bank reconciliations, a corrective action plan would have been developed and may have prevented this from happening or allowed the problem to be discovered earlier.”*

It is important to clarify that DFSS's grant to American Indian Center for its youth development program was not part of any embezzled funds. Furthermore, during the March 2009 audit, the auditor's decision to give a compliance rating to the area of segregation of duties was based on the following factors:

1. The agency had procedures in place for check requisition, maintaining checks and balances for cash management.
2. The Executive Director was the primary signer of all checks.
3. The sample disbursements reviewed had all the supporting documentation related to FSS program expenses and no questioned costs were discovered.

4. Financial reports were provided to the Board of Directors at the last meeting held February 10, 2009.
5. Based on the small size of the agency (24 employees) it is not uncommon to have the duties of the bank account segregated to only 3- 4 employees.
6. Two signatures were required for checks issued for the DFSS funded program.
7. Supporting documentation and controls were in place for authorization and approval of transactions.

While the fiscal monitoring report did list a weakness associated with bank reconciliations, based on the supplemental financial materials that were reviewed, it is unreasonable to propose that the designation of a single finding would have averted the conviction of the organization's staff person. American Indian Center is not funded in 2012 for any DFSS programs.

Finding 2: DFSS Fiscal Monitoring Report Management Recommendations Should Have Been Elevated to Findings

Cares Chicago (Workforce Investment Act grant): The DFSS Fiscal Monitoring Unit conducted a review of Cares Chicago for a period beginning in July 2009 and ending in April 2011. The DFSS report stated that there were no findings and that Cares Chicago was in full compliance but listed six DFSS management recommendations. The report cover letter notes that management recommendations are actions that DFSS believes “can improve the fiscal outlook of the agency” but that their implementation is not mandatory.

The six recommendations were related to areas of fiscal monitoring that are part of the overall rating used to determine if the agency is in compliance. Three of the six management recommendations identified deficiencies that should have been considered findings and reflected in the points used to rate the agency’s level of compliance. Those three items were:

1. Invoices are not canceled to prevent duplicate payment.
2. Contracted services that are procured must have a documentation file.
3. Improper segregation of duties exist regarding the approval of check requests and signature of checks.

If at the time of the audit a control is not in place or is not effective, the deficiency must be reported as a finding regardless of whether or not the delegate agency immediately corrects the deficiency (GAS 6.78, 7.18-7.22). DFSS management stated that it is standard protocol as directed by their federal grantors that if a delegate agency corrects the deficiency during the audit it is only reported as a recommendation and not a finding.

The fiscal auditor should have reported the above recommendations as findings because they were significant deficiencies. Reporting Fiscal Monitoring Instrument deficiencies as management recommendations instead of findings distorts the audit report results since findings reduce the number of points the agency receives in their rating of compliant or non-compliant for the audit period. Additionally, not reporting the deficiencies as findings results in the agency not having to respond to and report what action is being taken to correct the noted problems. This may result in the continuation of practices that can lead to misappropriation or mismanagement of funds.

Recommendation:

We recommend that the delegate agency treat the DFSS recommendations as findings and take action to correct the deficiencies. We recommend that DFSS elevate these recommendations to the level of findings per GAS 6.78 and 7.18-7.22 and require the agency to respond with a plan to correct them. We also recommend that DFSS review reports issued in the past year to see if there are additional instances of findings being reported as recommendations, and if so, DFSS should issue adjusted reports requiring the agencies to provide Corrective Action Plans. We further recommend that DFSS review fiscal monitoring training procedures to ensure that deficiencies are correctly reported as findings and not as recommendations.

Delegate Agency Response:

1. Invoices are not canceled to prevent duplicate payment.

This was a very regrettable blind-spot. We had always cancelled our invoices, and looking back to prior years, we had made this practice unequivocal. This was the fault of the Finance Manager for not making sure this procedure was followed at all times with the hiring of a new Bookkeeper. We have since* reinstated “cancel invoice” a check-listed item for the completion of every invoice submitted.

2. Contracted services that are procured must have a documentation file.

We contract for very few services, and did not have a new file every year for two of our contractors. We did keep files for our recent office relocation. But this was not in the year auditors were looking. (We sent copies of CPA, and Moving Company files) Since* this Finding we have begun a new search for an OMB 133 Auditor and have been keeping a detailed procurement file. We will keep up to date procurement files on hand every year.

3. Improper segregation of duties exists regarding the approval of check requests and signature of checks.

This finding was based upon our mistaken belief that the separation of duties between Finance Manager and Executive Director was enough for the very few (4) checks issued to the E.D. for travel reimbursements over the year, ensuring proper oversight. Since* learning of this mistake, we have instituted corrective action. Any checks written to our E.D. MUST be signed by CARES Chicago’s Board President.

* Since = We were given the original recommendations by the fiscal monitors.

DFSS Management Response:

DFSS disagrees with the OIG Finding 2, specifically the statement, “*Three of the six management recommendations identified deficiencies that should have been considered findings and reflected in the points used to rate the agency’s level of compliance.*” DFSS stands by our report that listed all six items as recommendations and not findings. DFSS’s fiscal monitoring scope mirrors the scope used by our funding sources on the federal and state levels and by the City-Wide Single Auditors.

In monitoring a delegate agency for fiscal compliance, we determine whether an issue rises to the level of a finding based on several factors. We believe that the identified deficiencies did not rise to the level of a finding for the reasons noted below. However, it should be noted that deficiencies listed as recommendations are part of DFSS’s report and are reviewed by the auditors prior to the commencement of the next audit.

Regarding #1, “*Invoices are not canceled to prevent duplicate payment.*” As stated by the agency, they had consistently followed this process but an oversight occurred by the Fiscal

Manager not properly training the new bookkeeper. The DFSS auditor noted this item as a recommendation because it was not the norm of the agency but an exception and the sample test did not uncover any duplicate billings. The agency acknowledged the inconsistency and corrected the process before the audit was completed. Because it was not a repeat finding and the agency did respond appropriately, it prevented this issue to escalate to a finding.

Regarding #2, “*Contracted services that are procured must have a documentation file.*” The agency did have files for all contracted services but two of the five files reviewed by the DFSS auditor were not updated due to the agency relocation of office space. Therefore the DFSS auditor listed this as a recommendation and not a finding.

Regarding #3, “*Improper segregation of duties exists regarding the approval of check requests and signature of checks.*” This only occurred on a small number of checks written to the Executive Director for travel reimbursement. The costs were allowable. The agency followed the proper segregation of duties process for all other transactions. For that reason, the DFSS auditor listed this as a recommendation and not a finding.

During the review, the DFSS auditor met with the Board President to discuss the checks written to the Executive Director. Before the audit was completed, the agency instituted corrective action by revising their policy to state any checks written to the Executive Director must be signed by CARES Chicago’s Board President.

Finding 3: Lack of Timely Follow-Up on DFSS Fiscal Monitoring Report Findings

Safer Foundation (Workforce Investment Act grant): The DFSS Fiscal Monitoring Unit conducted a review of the Safer Foundation for a period beginning in September 2007 and ending in January 2010. The report included six findings and the Safer Foundation was found to be in conditional compliance. The report, dated September 1, 2010, instructed the agency to provide DFSS with a written Management Response to the unresolved findings by September 27, 2010.

The findings presented in the report are summarized as follows:

1. Bank reconciliations were not approved and signed.
2. Costs charged to the Workforce Investment Act (WIA) program for an employee's salary are in question.
3. Supportive service expenses to the WIA program for clients who were not registered as WIA participants are in question.
4. Documentation was not provided to support salaries charged 100% to the WIA program.
5. Procurement procedures were not being followed in retaining services.
6. Various costs could not be traced to the WIA general ledger.

Based on the above findings, Safer Foundation was instructed to provide a Corrective Action Plan to DFSS. However, neither party was able to supply a copy of the Corrective Action Plan from the Safer Foundation to the IGO auditors. A 2010 Fiscal Monitoring Review Process document provided to the IGO by DFSS states under "Record Keeping" that "Hard copies of reports are kept in the Audits Unit's central file system and scanned copies are stored on the Department's network drive."

The Safer Foundation subsequently developed and provided a Corrective Action Plan dated January 22, 2012 to DFSS in response to the September 1, 2010 DFSS review after the IGO's audit inquiry. Per discussions with DFSS management, a follow-up was not performed due to the fiscal auditor going on leave. Additionally, DFSS management agreed that there was a lack of managerial oversight to ensure that a follow-up was performed.

Recommendation:

We recommend that DFSS implement procedures to guarantee that follow-up is initiated with delegate agencies that do not provide timely responses to DFSS management findings. Furthermore, DFSS should implement controls to ensure follow-up audits are performed regardless of an auditor's absence.

Delegate Agency Response:

Safer strives to provide timely responses as a result of an agency audit. Unfortunately, Safer did not receive the original letter dated September 1, 2010 requesting a corrective action plan until a copy was emailed to Safer on December 13, 2011. Subsequent to conversations with DFSS, Safer acknowledges that Safer has no reason not to believe that the letter was sent; however,

Safer simply did not receive it. Safer submitted its response to the audit findings on January 19, 2012 to DFSS which was sent via Federal Express with overnight delivery.

DFSS Management Response:

DFSS agrees with the OIG Finding 3 and the recommendation to implement controls to ensure follow up audits. In October 2010, there was a change in the leadership and structure of the Fiscal Monitoring Unit. As such, there was a period of transition which occurred through the first quarter of 2011. Since then, DFSS has made many improvements to the fiscal monitoring tracking system. The new electronic system allows for up-to-date information related to fiscal monitoring which includes:

- Dates of fiscal monitoring reviews
- Submission of Reports
- Status of Corrective Action Plans
- Follow-up Visits

This new electronic system allows for the management team to review information in a usable report format and has also led to increased efficiency and productivity.

Expenditure Testing Findings

Finding 4: Failure to Require Invoice from Vendor

The Cara Program (Workforce Investment Act grant): While testing the reimbursed grant expenditures of the Cara Program, the IGO found that the agency was not able to produce a receipt or invoice for a \$69.95 check issued to America’s Best Contacts and Eyeglasses (“ABCE”). The State of Illinois’s Grant Agreement with the City of Chicago for the federal Workforce Investment Act program states that the City is accountable for the adequacy of supporting documentation of all grant funds expended, including those expended by sub-grantees.

Discussion with the Cara Program revealed that it was standard practice not to require invoices from ABCE because the cost of a routine eye exam and simple pair of glasses for a Cara client was known to be \$69.95. The agency would send a client to ABCE with a check for \$69.95 and would only require an invoice if additional services were needed, in which case the client would return with the original check and invoice and Cara would reissue a check for the new amount.

Recommendation:

We recommend that the delegate agency require an invoice of some kind before a check is cut to any vendor. We also recommend that DFSS fiscal monitors identify instances where there is a lack of sufficient supporting documentation for expenditures and make them audit findings.

Delegate Agency Response:

America’s Best has an advertised price of \$69.95 for exam and glasses. Clients would be sent for those basic services based in advertised price list. If the client required more than basic services, we would be issued a report of the condition as well as the additional cost. Going forward, if we are to use this vendor, we will secure a contract in advance of sending clients noting the cost for basic services and get an invoice related to services as a greater control process.

DFSS Management Response:

DFSS agrees with the OIG Finding 4, their recommendation and the agency’s response. In addition to the above response, the delegate agency will require receipt of an invoice from a vendor before a payment is issued.

The Fiscal Monitoring Unit process has DFSS auditors test a sample selection of disbursements to account for proper authorization and supporting documentation and to ensure transactions are recorded appropriately in the accounting ledgers. In the DFSS report, the auditor did not select America’s Best as a sample disbursement, but if it had, the disbursement would have been reported as a questioned cost. Note that the auditor did list other questioned costs within the report as related to the sample selection and proper follow up was done.

During the testing, if the auditor finds an unallowable expenditure it becomes a questioned cost. The agency is given time to provide the supporting documentation. Upon receipt of the documents, the auditor reviews documentation. If it is found to be acceptable the concern is resolved with no findings. If it is not acceptable, the questioned cost becomes a finding and a disallowed cost. The agency must pay the amount to the City of Chicago. The process is tracked until the refund is received.

Finding 5: Voided Expenses Charged to Grant Program

The Cara Program (Workforce Investment Act grant): While testing the reimbursed grant expenditures of the Cara Program, the IGO found that DFSS had reimbursed the agency for two payments that were later voided by the agency after the grant program was closed. This allowed the Cara Program to be reimbursed for grant expenditures it did not ultimately make.

Delegate agencies typically complete a monthly Invoice Reimbursement form requesting reimbursement from DFSS for grant expenditures made in the previous month. These expenditures can include checks that are written but have not yet been cashed. If a delegate agency writes a check for a grant-related expense and is reimbursed for the expense by DFSS but the check is later voided, the grant program must be credited for the voided amount. In this case, a \$500 check payable to Larry's Barber College and a \$69.95 check payable to America's Best Contacts and Eyeglasses were issued by the delegate agency and reimbursed by DFSS through the monthly reimbursement process but were never cashed by the vendors and were subsequently voided. The amount of the voided checks was not credited back to the Workforce Investment Act grant program at DFSS because the checks were voided after the grant ended.

Per discussions with DFSS management, these voided checks were not identified because only a sampling method is applied to ensure all costs have been fully liquidated.

Recommendation:

We recommend that before closing out a grant program, the delegate agency void any checks that have not been cashed and credit it back to the grant. We also recommend that DFSS auditors ensure that all voided checks are credited back to DFSS on the last Invoice Reimbursement Form, rather than testing a sample.

Delegate Agency Response:

We have put a monthly review of all voided checks in place. If a voided check is found to have been billed to a grant, an adjustment will be made on a subsequent invoice or if the grant is closed, funds will be returned to city to pass to federal or state funding agency.

DFSS Management Response:

DFSS agrees with the OIG Finding 5 that all obligations must be fully realized for costs where delegate agencies have received reimbursement. However, DFSS disagrees with the OIG recommendation for how the reconciliation should be completed.

DFSS believes that it would be more efficient for the final review of voided checks to take place after the closeout of program year. This would avoid making any premature credits on the Invoice Reimbursement Form. Additionally, DFSS would recommend that the Workforce Investment Act (WIA) agencies follow their approved policy and procedures as it relates to canceled checks when preparing the WIA close out. We would also recommend that if a check

is cancelled after the close out has been submitted, that the agency revise the close out report and return any program income, in accordance with the Department's current policy.

DFSS agrees with the delegate agency's corrective action response and will continue to monitor the agency to ensure compliance with its updated policy. To ensure delegate agencies are compliant with closing the grant appropriately, the Department has reissued its policy memorandum and has scheduled web-based trainings for April 2012 to remind its agencies of the requirement. As always, the Fiscal Monitoring Unit will continue to adhere to its policies and procedures by conducting a sampled disbursement analysis to ensure costs are appropriately charged and fully liquidated.

The monitoring of this agency for the period of 2010 and 2011 is currently in process. DFSS will follow-up with the delegate agency to ensure that the applicable funds related to voided checks that were reimbursed are credited back to the City.

ADDITIONAL ISSUE

The issue noted below is not considered a finding because it did not result in overcharging a grant program. However, it is a matter of clarification that will assist in accurate grant expenditure tracking.

Issue 1: Incorrect Information on Invoice Reimbursement Forms

The Invoice Reimbursement forms used by delegate agencies to request reimbursement from DFSS for grant-related expenditures include columns where delegate agencies are to enter the gross amount of an expenditure, the percent allocable to the grant, and the resulting net dollar amount to be reimbursed. The IGO found instances in which Invoice Reimbursement forms submitted by agencies to DFSS contained inaccurate information.

Educational Data Systems (WIA ARRA Formula Adult Dislocated Worker grant): The IGO found instances in which Educational Data Systems did not accurately state the gross amount of an expenditure and the percent to be charged to the grant project. Instead, the net amount was entered into the gross column and the percent allocable to the grant project was noted as 100% when it should have been a much smaller percentage.

For example, in one instance an employee’s “gross salary” on the Invoice Reimbursement form was \$790.77 and the “% to project” indicated was 100%, while the payroll register showed a salary of \$3,033.33. The gross salary should have been entered as \$3,033.33 on the Invoice Reimbursement form and the “% to project” as 26.06%. The lack of match between the payroll register and the Invoice Reimbursement form could lead an observer to conclude that this individual received a separate check outside of his/her gross salary.

In another instance, a vendor invoice marked “paid” by the agency showed a balance due of \$8,278.09. Yet the same expenditure was marked as a gross “amount of check” of only \$18.12 on the Invoice Reimbursement form, with 100% allocated to the grant program and a net of \$18.12 charged to the grant. The gross amount of \$8,278.09 and “% to project” of 0.22% should have been entered on the Invoice Reimbursement form if \$18.12 was charged to the grant.

Southeast Chicago Development Commission (Workforce Investment Act grant): The IGO found instances in which the gross “amount of check” entered by the Southeast Chicago Development Commission on the Invoice Reimbursement forms did not match the invoices. For example, a vendor invoice for \$459.66 was paid by check but the “amount of check” on the reimbursement form shows only \$68.95, with a “% to project” of 68% and resulting “charge to program” of \$46.89.

Recommendation:

Delegate agencies should input accurate gross check amounts, percentages allocable to grants, and net reimbursable amounts on the Invoice Reimbursement forms. Although the IGO did not find instances in which inaccurate information led to overcharging the grant funds, DFSS should be vigilant in verifying the information provided on the forms and instruct the agencies on how to accurately present gross, “% to program” and net amounts.

DFSS Management Response:

The Department agrees with the recommendation provided and will continue to provide training and updates to its subrecipients to ensure the forms are completed accurately.

CITY OF CHICAGO OFFICE OF THE INSPECTOR GENERAL

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MISSION

The Chicago Inspector General's Office (IGO) is an independent, nonpartisan oversight agency whose mission is to promote economy, efficiency, and integrity in the administration of programs and operations of City government. The IGO achieves this mission through:

- Administrative and Criminal Investigations
- Audits of City programs and operations
- Reviews of City programs, operations and policies

From these activities, the IGO issues reports of findings, and disciplinary and policy recommendations to assure that City officials, employees and vendors are held accountable for the provision of efficient, cost-effective government operations and further to prevent, detect, identify, expose and eliminate waste, inefficiency, misconduct, fraud, corruption, and abuse of public authority and resources.

AUTHORITY

The authority to produce reports and recommendations on ways to improve City operations is established in the City of Chicago Municipal Code § 2-56-030(c), which confers upon the Inspector General the following power and duty:

To promote economy, efficiency, effectiveness and integrity in the administration of the programs and operations of the city government by reviewing programs, identifying any inefficiencies, waste and potential for misconduct therein, and recommending to the mayor and the city council policies and methods for the elimination of inefficiencies and waste, and the prevention of misconduct.