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*Inspector General*

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

In April 2012, the City of Chicago Office of Inspector General (IGO) published an audit of processes related to the Department of Family and Support Services (DFSS) grant monitoring function.<sup>1</sup> For the audit period of calendar year 2010, 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. At that time, DFSS responded with corrective actions it planned to take.

In March 2013, we inquired with DFSS regarding the current status of those corrective actions. DFSS responded on April 8, 2013. We have summarized the five original audit findings, recommendations, and status of corrective actions below.

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<sup>1</sup> The 2012 audit report is available on the IGO web site: <http://chicagoinspectorgeneral.org/publications-and-press/press-releases/igo-releases-audit-of-citys-department-of-family-support-services-grant-monitoring/>

<b>Finding 1 Summary</b>	<b>IGO Recommendation</b>
<p>DFSS Fiscal Monitoring Unit failed to identify an agency’s inadequate segregation of financial duties.</p> <ul style="list-style-type: none"> <li>• Inadequate segregation of certain financial duties can expose an organization to significant risk of fraud or undetected financial errors. IGO review of the DFSS fiscal monitoring report for a delegate agency 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.</li> <li>• DFSS management stated that the delegate agency’s practice of requiring two signatures on checks was sufficient to mitigate the risk of fraud.</li> </ul>	<p>We recommended 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.</p> <p>We also recommended 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.</p>

**Status of DFSS Corrective Action Taken**

Complete. In response to the audit recommendation, DFSS had revised its fiscal monitoring instrument in March 2012 to specifically address the segregation of duties issue. In April 2013 DFSS stated that it reviews the instrument annually to incorporate new requirements from funding sources or the City, and provided the IGO with a copy of the instrument currently in use. The instrument now specifies which duties must be performed by different people, making it easier for DFSS fiscal monitoring staff to identify inadequate segregation of duties.

<b>Finding 2 Summary</b>	<b>IGO Recommendation</b>
<p>DFSS Fiscal Monitoring Report Management Recommendations should have been elevated to findings.</p> <ul style="list-style-type: none"> <li>• A DFSS fiscal auditor reviewing a delegate agency found that the agency was in full compliance (“no findings”), yet made six recommendations for improvement. The IGO determined that three of the six DFSS management recommendations identified deficiencies that should have been considered findings requiring response and corrective action by the delegate agency.</li> </ul>	<p>We recommended that DFSS elevate these recommendations to the level of findings per Government Auditing Standards 6.78 and 7.18-7.22 and require the agency to respond with a plan to correct them.</p>

**Status of DFSS Corrective Action Taken**

Complete. Although DFSS disagreed with this IGO finding and recommendation, it subsequently revised its fiscal monitoring instrument to eliminate the “recommendation” section. The instrument currently in use has specific instructions on how to assign ratings of “finding,” “needs improvement,” “no finding,” or “not applicable” to each review element. It specifies that a “finding” rating requires a corrective action plan response from the delegate agency within ten days of the report and a subsequent follow up by DFSS, while a “needs

improvement” finding requires only a follow-up by DFSS during its next review of the agency. This improvement to the instrument should prevent reoccurrence of the situation identified in the IGO audit where significant deficiencies were not identified as requiring corrective action.

<b>Finding 3 Summary</b>	<b>IGO Recommendation</b>
<p>Lack of timely follow-up on DFSS Fiscal Monitoring Report Findings of a delegate agency.</p> <ul style="list-style-type: none"> <li>DFSS management stated that a follow-up was not performed due to the fiscal auditor going on leave.</li> </ul>	<p>We recommended that DFSS implement procedures to guarantee that follow-up is initiated with delegate agencies that do not provide timely responses to DFSS management findings.</p> <p>Furthermore, DFSS should implement controls to ensure follow-up audits are performed regardless of an auditor’s absence.</p>

**Status of DFSS Corrective Action Taken**

Complete. DFSS agreed with the IGO recommendation and implemented an electronic tracking system using Microsoft Access. It provided the IGO with a sample output from the system. The system will generate an alert report for DFSS staff and supervisors when the due date is past due for four key items: outstanding audit, outstanding corrective action plan, follow-up not scheduled, and outstanding follow-up. DFSS stated that “Since converting to this system, the fiscal monitoring process is much more efficient and effective. Key timelines are met. Monthly performance measures reports are created for management that also include each auditor’s schedule.”

<b>Finding 4 Summary</b>	<b>IGO Recommendation</b>
<p>Failure to require invoice from vendor.</p> <ul style="list-style-type: none"> <li>A delegate agency revealed that it was standard practice not to require invoices from a specific vendor because the cost of the specified service was known to be a set price. The agency would send a client to that vendor with a check for the set amount and would only require an invoice if additional services were needed.</li> </ul>	<p>We recommended that the delegate agency require an invoice of some kind before any check is cut to any vendor.</p> <p>We also recommended that DFSS fiscal monitors identify instances where there is a lack of sufficient supporting documentation for expenditures and make them audit findings.</p>

**Status of DFSS Corrective Action Taken**

Complete. In response to the audit recommendation, the delegate agency stated that, going forward, it would obtain invoices for all expenditures. DFSS agreed with the IGO recommendation and stated that when DFSS staff examine samples of delegate agency expenditures, they will question any disbursement for which an agency did not have supporting documentation. In its April 2013 response, DFSS stated that it continues to require delegate agencies to, in accordance with their contracts, retain supporting documentation (including invoices) for all costs incurred in the performance of contracted services, and that it monitors delegate agencies to ensure their compliance with contract requirements.

<b>Finding 5 Summary</b>	<b>IGO Recommendation</b>
<p>Voided expenses charged to grant program.</p> <ul style="list-style-type: none"> <li>A delegate agency issued checks to vendors and was reimbursed by DFSS through the monthly reimbursement process. However, the checks were never cashed by the vendors and were subsequently voided. The amounts of the voided checks were not credited back to the grant program at DFSS because the checks were voided after the grant ended.</li> </ul>	<p>We recommended that before closing out a grant program, the delegate agency void any checks that have not been cashed and credit the amount back to the grant.</p> <p>We also recommended that DFSS ensure that <u>all</u> voided checks are credited back to DFSS on the last Invoice Reimbursement Form, rather than testing only a sample of checks.</p>
<b>Status of DFSS Corrective Action Taken</b>	
<p><u>Some Progress.</u> DFSS stated that it recovered from the delegate agency the specific voided expenses identified in the IGO audit. The Department also stated that it will continue to select samples for disbursement testing because 100% testing would not be efficient given the number of DFSS staff available to monitor delegate agencies.</p> <p>In response to the original audit recommendation, DFSS had stated that it had scheduled delegate agency web-based trainings for April 2012 to remind agencies of the requirement to return any unused program income at the close of a program. In April 2013, DFSS reported that those web-based trainings did not occur. However, DFSS said that it plans to provide a delegate agency training in August 2013, which will include having effective internal controls cost principles, cost allocation and audit preparation.</p>	

Based on the follow-up response, the IGO concludes that DFSS is adequately addressing the findings of the original audit with respect to ongoing monitoring. The corrective actions reported by DFSS may reasonably be expected to resolve the core issues noted in the original audit (misunderstanding of segregation of duties, insufficient management oversight, and ineffective grant close-out procedures). We urge the Department to conduct the planned delegate agency training in August 2013 and ensure that delegate agencies do not improperly retain program income after the close of a program.

It is important to note that the IGO did not observe or test implementation of new policies and procedures and thus makes no determination as to their effectiveness. Such a determination would require a new audit with full testing of the procedures.

We thank the staff and leadership of DFSS for their cooperation during the original audit and responsiveness to our follow-up inquiries.

Respectfully,



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 City of Chicago