STATE OF ILLINOIS
DEPARTMENT OF
CENTRAL MANAGEMENT SERVICES
FINANCIAL AUDIT AND
COMPLIANCE EXAMINATION

For the Year Ended June 30, 2007

Performed as Special Assistant Auditors for
The Auditor General, State of Illinois

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Year Ended June 30, 2007

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STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

AGENCY OFFICIALS

Director	Mr. Paul J. Campbell (Effective through March 9, 2007) Ms. Maureen O'Donnell (Acting, effective March 10, 2007)
Assistant Director	Ms. Maureen O'Donnell (Effective through March 9, 2007)
Assistant Director	Ms. Shonda Weathers-Morrow (Effective through January 10, 2007)
Chief Operating Officer	Ms. Marcia Armstrong
Chief Fiscal Officer	Mr. Paul Romiti
Chief Administrative Officer / General Counsel	Mr. H. Edward Wynn (Effective through July 31, 2005)
General Counsel	Ms. Debra Matlock
Chief Internal Auditor (Illinois Office of Internal Audit)	Ms. Carol Kraus (Acting, effective through March 8, 2007) (Effective March 9, 2007)

AGENCY OFFICE LOCATION

Stratton Office Building
401 South Spring Street
Springfield, IL 62706

CMS

ILLINOIS Rod R. Blagojevich, Governor

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Maureen T. O'Donnell, Acting Director

MANAGEMENT ASSERTION LETTER

May 9, 2008

Sikich, LLP
Certified Public Accountants & Advisors
1000 Churchill Road
Springfield, IL 62702

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Department. We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Department's compliance with the following assertions during the year ended June 30, 2007. Based on this evaluation, we assert that during the year ended June 30, 2007, the Department has materially complied with the assertions below.

A. The Department has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The Department has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

C. The Department has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. The State revenues and receipts collected by the Department are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

715 Stratton Office Building, 401 South Spring Street, Springfield, IL 62706

E. The money or negotiable securities or similar assets handled by the Department on behalf of the State or held in trust by the Department have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

Department of Central Management Services

Maureen O'Donnell, Acting Director

Paul Romiti, Chief Financial Officer

Debra Matlock, General Counsel

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

COMPLIANCE REPORT

SUMMARY

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

ACCOUNTANT'S REPORTS

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF FINDINGS

Number of	Compliance Report	Financial Report	Prior Compliance Report
Findings	16	12	18
Repeated findings	12	2	10
Prior recommendations implemented or not repeated	4	-	12

Details of findings are presented in a separately tabbed report section.

SCHEDULE OF FINDINGS

Item Number	Page	Description
		FINDINGS *(GOVERNMENT AUDITING STANDARDS)*
07-1	15	Excess fund balances representing noncompliance with federal regulations
07-2	18	Reporting of costs not in accordance with federal regulations
07-3	21	Documentation of payroll costs not in compliance with federal regulations

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on May 1, 2008. Attending were:

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Maureen O'Donnell, Acting Director
Paul Romiti, Chief Fiscal Officer
Marcia Armstrong, Chief Operating Officer
Helen Cashman, Deputy Chief Operating Officer
Carol A. Kraus, Chief Internal Auditor
David Boyd, Audit Liaison

OFFICE OF THE AUDITOR GENERAL

Kimberly Labonte, Audit Manager
Kathy Lovejoy, Audit Manager

SIKICH LLP

Gary Neubauer, Partner
Scott Tolsdorf, Senior Accountant
Lauren Mueller, Senior Accountant

Reponses to the recommendations were provided by Paul Romiti on May 9, 2008.

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INDEPENDENT ACCOUNTANTS' REPORT ON STATE COMPLIANCE, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois, Department of Central Management Services (the Department) compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2007. The management of the Department is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Department's compliance based on our examination.

A. The Department has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The Department has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

C. The Department has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. State revenues and receipts collected by the Department are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

E. Money or negotiable securities or similar assets handled by the Department on behalf of the State or held in trust by the Department have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the Department's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Department's compliance with specified requirements.

As described in findings 07-6 and 07-7 in the accompanying schedule of findings, the Department did not comply with requirements regarding:

A. The Department has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

As described in findings 07-5, 07-6 and 07-7 in the accompanying schedule of findings, the Department did not comply with requirements regarding:

B. The Department has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

As described in findings 07-4, 07-8, 07-9 and 07-24 in the accompanying schedule of findings, the Department did not comply with requirements regarding:

C. The Department has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

As described in finding 07-9 in the accompanying schedule of findings, the Department did not comply with requirements regarding:

D. State revenues and receipts collected by the Department are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements listed in the first paragraph of this report.

In our opinion, except for the noncompliance described in the preceding paragraph, the Department complied, in all material respects, with the requirements listed in the first paragraph of this report during the year ended June 30, 2007. However, the results of our procedures disclosed other instances of noncompliance, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as findings 07-1, 07-2, 07-3 and 07-10 through 07-23, and 07-25 through 07-28.

As required by the Audit Guide, immaterial findings relating to instances of noncompliance excluded from this report have been reported in a separate letter to your office.

Internal Control

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the Department's internal control over compliance with the requirements listed in the first paragraph of this report in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to comply with the requirements listed in the first paragraph of this report such that there is more than a remote likelihood that noncompliance with a requirement that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as findings 07-1 through 07-28 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a requirement listed in the first paragraph of this report will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings, we consider items 07-2, 07-3, 07-4, 07-5, 07-6, and 07-7 to be material weaknesses.

As required by the Audit Guide, immaterial findings relating to internal control deficiencies excluded from this report have been reported in a separate letter to your office.

The Department's response to the findings identified in our examination is described in the accompanying schedule of findings. We did not examine the Department's response and, accordingly, we express no opinion on it.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department as of and for the year ended June 30, 2007, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated May 9, 2008. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Department. The 2007 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2007 taken as a whole. We have also previously audited, in accordance with auditing standards generally accepted in the United States, the Department's basic financial statements for the year ended June 30, 2006. In our report dated November 17, 2006, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information. In our opinion, the 2006 Supplementary Information for State Compliance Purposes, except for the portion marked "unaudited" is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2006, taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor and agency management, and is not intended to be and should not be used by anyone other than these specified parties.

Sikich LLP

Springfield, Illinois
May 9, 2008

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Central Management Services as of and for the year ended June 30, 2007, which collectively comprise the State of Illinois, Department of Central Management Services' basic financial statements and have issued our report thereon dated May 9, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Illinois, Department of Central Management Services' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Department of Central Management Services' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Department of Central Management Services' internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings as items 07-1 through 07-12 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 07-2, 07-3, 07-4, 07-5, 07-6, and 07-7 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Department of Central Management Services' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 07-1 through 07-12.

We are currently conducting a State compliance examination of the Agency as required by the Illinois State Auditing Act. The results of that examination will be reported to management under separate cover.

The State of Illinois, Department of Central Management Services' response to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the State of Illinois, Department of Central Management Services' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor and agency management, and is not intended to be and should not be used by anyone other than these specified parties.

Sikich LLP

Springfield, Illinois
May 9, 2008

CURRENT FINDINGS –
GOVERNMENT AUDITING STANDARDS

FOR THE YEAR ENDED JUNE 30, 2007

07-1 **FINDING:** (Excess fund balances representing noncompliance with federal regulations)

The Department generated excess fund balances for certain internal service fund activities and failed to make adequate adjustments as required by OMB Circular A-87.

The Department's internal service funds receive revenue from charges for services provided to various federal grants of the State. OMB Circular A-87 (circular), *Cost Principles for State, Local and Indian Tribal Governments*, Attachment C, Section G establishes policies governing central service activities such as those provided by the Department's internal service funds. Section G.2 of the circular allows internal service funds to maintain reasonable working capital reserves, up to 60 days cash expenses, for normal operating purposes.

However, two internal service funds administered by the Department maintained fund balances in excess of the allowable working capital reserve. Consequently, a payback representing the federal share of excess fund balances for fiscal years 2004 and 2005 is required from the Statistical Services Revolving Fund (SSRF) and the Communications Revolving Fund (CRF) and the Department believes that it is probable that a payback will be required from these funds for fiscal years 2006 and 2007. The SSRF liability for fiscal years 2004 and 2005 is approximately $6.862 million and the CRF liability for fiscal years 2004 and 2005 is approximately $8.121 million. It is estimated that the SSRF liability for fiscal years 2006 and 2007 is approximately $7.552 million and the CRF liability for fiscal years 2006 and 2007 is approximately $1.576 million. Total liabilities recognized at June 30, 2007, representing the federal share of excess fund balances, are reported to be $14.414 million for the SSRF and $9.697 for the CRF.

Furthermore, the circular stipulates "A comparison of the revenue generated by each billed service (including total revenues whether or not billed or collected) to the actual allowable cost of the service will be made at least annually, and an adjustment will be made for the difference between the revenue and the allowable costs. These adjustments will be made through one of the following methods: (a) a cash refund to the Federal Government for the Federal share of the adjustment, (b) credits to the amounts charged to the individual programs, (c) adjustments to future billing rates, or (d) adjustment to allocated central service costs." The Department performs the annual comparisons; however, the adjustments required by the Circular are not made on a timely basis. As a result, the internal service funds continued to accumulate excess fund balances.

Department officials have stated that the large balances were the result of the IT consolidations which involved a restructuring of the entire BCCS service organization and development of new services and rates. Rate adjustments and credits were not feasible during such a volatile developmental period.

The prior year finding noted the Department incurred the liability for the federal share of excess fund balances but failed to recognize the liability in the financial statements on a timely basis. The total actual and estimated liability to the federal government for excess fund balances accumulated through June 30, 2007 have been properly reflected in the Department's financial statements.

Failure to adequately adjust excess fund balances in the Department's internal service funds has resulted in significant liabilities to the federal government and represents noncompliance with the provisions of OMB Circular A-87 Cost Principles. (Finding Code No. 07-1, 06-1)

RECOMMENDATION:

We recommend the Department comply with the provisions of OMB Circular A-87 by making adequate adjustments for excess fund balances in internal service funds for each billed service using an acceptable method.

DEPARTMENT RESPONSE:

The Department contends that the existence of excess balances is not a violation of A-87. The federal requirement is that excess balances be remedied. Direct payback to the Dept. of HHS is an appropriate and allowable adjustment mechanism to remedy excess balances. The paybacks are negotiated during the federal audit cycle which occurs approximately every 2 years. Some of the excess balances are reduced annually through rate adjustments or other means and are not part of a negotiated settlement.

The large balances accumulated in recent years were the cumulative result of the IT consolidations which involved a restructuring of our entire service organization and development of new rated services. More frequent rate adjustments and credits were not feasible during such a volatile developmental period. The Department will continue to adjust rates going forward to reduce exposure to excess balances. However, direct negotiated paybacks have always been, and will likely always be a part of the remedy for excess balances. The timeliness of these remedies is dependent on the federal audit cycle.

AUDITOR'S COMMENT:

OMB Circular A-87 states that adjustments, based on a comparison of revenues and allowable costs, are to be made on an annual basis. While the consolidation of services may result in more volatility making rate adjustments and the issuance of credits more difficult, the Department does annually calculate excess balances and determines estimated federal payback amounts. Waiting on the two year federal audit cycle is not consistent with the annual methods of settlement as set forth in the Circular. The Department has been generating these excess fund balances for the past four consecutive fiscal years. Failure to adequately adjust excess fund balances in the Department's internal service funds has resulted in significant liabilities to the federal government and represents noncompliance with the provisions of OMB Circular A-87 Cost Principles.

07-2 **<u>FINDING</u>:** (Reporting of costs not in accordance with federal regulations)

The Department recognized costs for federal reporting purposes different than reported in the Department's financial statements prepared in accordance with generally accepted accounting principles (GAAP), and unallowable costs were reported for federal purposes.

The Department's internal service funds receive revenue from charges for services provided to various federal grants of the State. OMB Circular A-87 (circular), *Cost Principles for State, Local and Indian Tribal Governments*, Attachment A, Section C provides guidelines for factors affecting the allowability of costs. Section C.1 stipulates that for costs to be allowable under federal awards, such costs must "Be necessary and reasonable for proper and efficient performance and administration of Federal awards" and "…be determined in accordance with generally accepted accounting principles."

The Department maintains accounting records for its internal service funds and annually makes adjustments to report the funds on a GAAP basis for preparation of the Department's financial statements. The Department prepares a reconciliation reflecting the differences between its internal accounting records and its GAAP basis financial statements. The Department also maintains records reflecting the allocation and determination of revenues and expenses being accounted for by individual billed service for federal reporting purposes. A reconciliation of the reporting differences between the Departments internal accounting records and the records maintained for federal purposes is also prepared by the Department. However, the Department does not reconcile the GAAP basis financial statements to the federal reporting and, as such, certain items have been reported differently in the GAAP basis financial statements than for federal reporting purposes. Specifically, we noted the following during our review of the fiscal year 2006 reconciliations that were completed by the Department during the audit period (in March 2007) for the Statistical Services Revolving Fund (SSRF) and the Communications Revolving Fund (CRF):

- Certain IT billings have been reported differently in SSRF for GAAP purposes than for federal purposes resulting in balances that are not entirely reconcilable.

- SSRF credits of $1.485 million applied against fiscal year 2005 GAAP basis revenue was not reported for federal purposes until fiscal year 2006.

- Equipment totaling $1.574 million purchased in the SSRF during the fiscal year 2006 lapse period was properly excluded from fiscal year 2006 expenses for the GAAP basis financial statements but was expensed in fiscal year 2006 for federal purposes.

- The Department has not been able to document the matching of revenues with related expenses for certain fiscal year 2006 pass-through billings totaling $2.406 million in the SSRF. These revenues are excluded for federal purposes but the Department could not document that the corresponding expenses were removed.

- Equipment totaling $3.588 million purchased in the CRF during the fiscal year 2005 lapse period was reported in the fiscal year 2005 GAAP basis financial statements but was expensed in fiscal year 2006 for federal purposes.

- Expenses of $1.965 million relating to equipment purchased in prior years for another State agency have been excluded from the fiscal year 2006 GAAP basis financial statements but were included in expenses reported in fiscal year 2006 for federal purposes.

A number of the differences cited above represent timing differences and, over a period of two fiscal years the over and under statements will offset one another. However, as the determination of excess fund balances is required to be performed annually, reporting such revenues and expenses in the wrong period could significantly alter the results of the calculation of excess balances. The reconciling items noted above have not been associated with specific individual billed services and, as such, we were unable to determine whether the items would impact the determination of the federal share of an excess fund balance.

During our testing of expenditures charged to the internal service funds, we also noted certain expenditures that were not reasonable and necessary for the administration of the fund. Included were travel expenses for the Director paid from the SSRF and purchases of bottled water from the CRF.

Department officials stated that they believe the expenditures from these funds are valid and have been historically approved by the federal agency as compliant with A-87.

Failure to recognize revenues and expenses for federal purposes in accordance with generally accepted accounting principles represents noncompliance with the provisions of OMB Circular A-87 Cost Principles and could result in increases or decreases in the amount determined to be the federal share of excess fund balances . (Finding Code No. 07-2)

RECOMMENDATION:

We recommend the Department comply with the provisions of OMB Circular A-87 by reporting revenues and expenses in accordance with generally accepted accounting principles for federal purposes.

DEPARTMENT RESPONSE:

The Department partially concurs. The finding states that data reported to the federal Dept. of HHS is not reconciled with GAAP. This is not entirely accurate. Internal financial statements are reconciled to GAAP, and federal cost recovery data is reconciled to internal financials. Some of the differences are associated with timing, but the Department asserts that the adjustments are reported accurately in the SWCAP [State-Wide Cost Allocation Plan]. Our current methods have been accepted by the Dept. of HHS. We do agree to pursue a more clear presentation of the reconciliation, and to adjust our practices where feasible to reduce the total number of reconciling items.

<u>AUDITOR'S COMMENT</u>:

The Department performs certain reconciliations between their internal financial statements and GAAP and between their internal financial statements and the federal cost recovery data. However, we continue to assert that certain items as identified in the reconciliation process are not reported the same for GAAP and federal cost recovery purposes. As stated in the finding above, the majority of the exceptions noted are timing differences; however, the determination of excess balances is calculated annually and reporting revenues or expenses in the wrong period could have a significant impact on the calculation of excess balances. The absence of a finding by representatives of the Department of Health and Human Services when performing biennial reviews does not constitute acceptance and approval of noncompliance with OMB Circular A-87.

07-3 FINDING: (Documentation of payroll costs not in compliance with federal regulations)

The Department did not document the distribution of salaries or wages for employees working on multiple activities as required by federal regulations.

Fiscal year 2006 revenues and expenses for the Department's internal service funds were reported to the federal government during March 2007. During our testing of the revenues and expenses reported during the audit period, we noted payroll costs for employees being paid from one internal service fund were allocated to another internal service fund. The allocated costs were not supported by adequate documentation as required by federal regulations.

The Department's internal service funds receive revenue from charges for services provided to various federal grants of the State. OMB Circular A-87 (circular), *Cost Principles for State, Local and Indian Tribal Governments*, Attachment B provides guidelines determining the allowability of costs, including compensation for personal services. Section 8.h(1) stipulates that "Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit." Section 8.h(4) and (5) further stipulate that "Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which…must meet the following standards: (a) They must reflect an after-the-fact distribution of the actual activity of each employee, (b) They must account for the total activity for which each employee is compensated, (c) They must be prepared at least monthly and must coincide with one or more pay periods, and (d) They must be signed by the employee. (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards…."

For fiscal year 2006, the Department allocated payroll costs for approximately 60 employees paid from the Statistical Services Revolving Fund (SSRF) to the Communications Revolving Fund (CRF) in the amount of $1.942 million for federal reporting purposes. For fiscal year 2006, the Department allocated payroll costs for approximately 25 employees paid from the CRF to the SSRF in the amount of $910,000 for federal reporting purposes.

Department officials have stated the employees were assigned to the specific fund based on budgetary and headcount considerations. The Department allocated 50% of the payroll costs to each fund for all employees except one and officials stated the allocation percentage was based on the fact that the employees provided services to both funds. No detailed timesheets were maintained to determine the amount of time spent on activities involving more than one service.

Failure to maintain adequate documentation to support the allocation of personal services costs represents noncompliance with federal cost principles and could result in such costs being disallowed for federal reporting purposes. During fiscal year 2006, the Department reported payroll and related costs of $53.482 million in the SSRF and $7.793 million in the CRF. (Finding Code No. 07-3)

RECOMMENDATION:

We recommend the Department comply with the provisions of OMB Circular A-87 by maintaining appropriate personnel activity reports or equivalent documentation to support costs of salaries and wages reported for federal purposes.

DEPARTMENT RESPONSE:

It is important to note that A-87 allows for a "substitute system approved by the federally cognizant agency". The negotiators responsible for reviewing and approving the SSRF & CRF have accepted the salary distributions currently in use for many years. Given the nature of these cost elements and the limited impact they have on specific federal programs, the existing distribution method has been deemed reasonable by HHS. The particular allocations questioned by the auditor were at the Fund level. Subsequently, costs are reallocated through various federally approved means to the service levels. The Department will pursue a more formal documentation during FY08 for the Fund level allocation for the particular staff cited by the auditors.

AUDITOR’S COMMENT:

The Department has not documented that a substitute system acceptable under the guidelines of OMB Circular A-87 has been approved by the federal cognizant agency. The absence of a finding by the federal representatives when performing biennial reviews does not constitute acceptance and approval of noncompliance with OMB Circular A-87. The extent of the impact of such noncompliance has not been established.

07-4 **<u>FINDING</u>:** (Weaknesses in internal control over financial reporting)

The Department's year-end financial reporting in accordance with generally accepted accounting principles (GAAP) to the Office of the State Comptroller contained significant errors in the determination of certain year-end liabilities.

The Office of the State Comptroller requires State agencies to prepare financial reports (GAAP Reporting Packages) for each of their funds to assist in the annual preparation of the statewide financial statements and the Department's financial statements. GAAP Reporting Package instructions are specified in the Statewide Accounting Management System (SAMS) Manual, Chapter 27. Management is responsible for adopting sound accounting policies and for establishing and maintaining internal controls that will, among other things, initiate, authorize, record, process, and report financial data reliably and consistent with management's assertions embodied in the financial statements. Deficiencies in the design or operation of internal control that result in more than a remote likelihood of a misstatement that is more than inconsequential are deemed significant deficiencies. Significant deficiencies that result in more than a remote likelihood of a material misstatement are deemed material weaknesses.

During our audit of the June 30, 2007 financial statements, we noted significant deficiencies resulting from the Department's failure to establish adequate internal control over the accumulation of information necessary for the proper determination of year-end liabilities as follows:

- The Department is responsible for reporting liabilities arising from accidents involving State employees. While testing large (>$25,000) Automobile Liability reserves at June 30, 2007, we noted the Department reported a liability in the amount of $250,000 for which no claim was ever filed against the State and whose case file was closed February 28, 2007. The Department has represented that the statute of limitations has expired, thereby removing the possibility for any future claims for that incident. As such, the liability reported for the Road Fund is overstated by $250,000 at June 30, 2007. Department officials have stated this error was the result of an oversight.

- The Automobile Liability reserve for the Road Fund was overstated by $220,500 for another large (>$25,000) Automobile Liability case. The overstatement was the result of an error in the calculation of the liability and the failure to adjust the liability based on results of the settlement process. The overall liability reserve, as calculated by the Department, consisted of two components for both large and routine claims: 1) an estimate of amounts to be paid in future years from future appropriations, plus 2) amounts actually paid during the current lapse period and charged to the fiscal year 2007 appropriation. Upon examination of the case file and other documentation, we noted the claim was partially settled with a payment during, and charged to, the fiscal year 2007 lapse period for $125,000, with full settlement made with a payment of an additional $29,500 charged to the fiscal year 2008 appropriation. The final settlement amount totaled $154,500. The Department reported an estimated liability of $250,000 to be paid from future years' appropriations plus the $125,000 paid during the fiscal year 2007 lapse, resulting in a total liability reported for this claim of $375,000. Department officials have stated this error was the result of an oversight.

- The Department is responsible for administering the State's workers compensation program and reporting estimated liabilities for amounts to be paid to injured employees in future years relating to injuries already suffered. This liability is calculated based on historical data projected out to payments expected to be made in the succeeding five fiscal years. During our review and testing, we noted two types of awards, pension and death benefit, that provide benefits for indefinite periods of time (Lifetime Awards). The methodology currently utilized by the Department does not adequately recognize a liability for payments on Lifetime Awards to be made beyond the succeeding five fiscal years. Department officials have stated various factors and uncertainties are associated with the length of time these Lifetime Awards will be paid out, making it difficult to estimate a total liability.

- We noted five payments made during the lapse period, totaling $1,195,702, that were improperly reported as accounts payable at June 30, 2007. SAMS Procedure 05.50.01 and generally accepted accounting principles define accounts payable as "…liabilities on open account owed to private persons, firms or corporations for goods and services received by the State." To be reported as a payable at June 30, 2007 the goods or services must be received by June 30, 2007 but paid for after that date. The five payments were for goods or services received and paid for during the lapse period. Department officials have stated this error was the result of an oversight.

As a result of these deficiencies, the Department's financial statements misreported liabilities at June 30, 2007. However, these deficiencies were immaterial, and therefore adjustments to the financial statements were not necessary. Nonetheless, establishment of appropriate internal controls over financial reporting is important due to the impact adjustments have on the statewide financial statements. (Finding Code No. 07-4)

RECOMMENDATION:

We recommend the Department implement procedures to ensure GAAP Reporting Packages are prepared in a complete and accurate manner. Further, the Department should establish a comprehensive, consistent methodology for determining liabilities and accumulating financial information necessary for accurate reporting of benefit costs.

DEPARTMENT RESPONSE:

The Department generally concurs with the findings which state, in part, that the effect of these financial statement classifications were immaterial. We will implement the recommendations and have already taken steps to identify and properly treat these transactions during lapse period.

07-5 **<u>FINDING</u>:** (Failure to comply with advance billing rules)

The Department failed to comply with Illinois Administrative Code rules governing advance billings for internal service fund services.

During testing we noted the Department collected payments from other State agencies in advance of billings and reported certain receipts as revenues in the wrong fiscal year.

In the fiscal year 2007 lapse period, the Department accepted payments from the Department of Revenue (IDOR), totaling $2,825,621, that were not associated with any billings for services rendered. The Department did apply $614,957 of these payments toward outstanding balances owed by IDOR. IDOR reported expenditure against its current fiscal year appropriations, while the Department was recognizing the receipt as an advance payment against fiscal year 2008 services. This is a violation of the Advance Billings Rules (74 Ill. Adm. Code Section 1000.20(d)) that stipulate "The Department shall not issue undocumented advance billings for the purpose of intentionally expending a user agency's remaining appropriations balances." Although the Department did not specifically issue a "billing", the Department did accept and process payments which allowed the IDOR to expend remaining appropriations.

In addition, we noted the Department received payments from the Department of Children and Family Services (DCFS) during the fiscal year 2007 lapse period totaling $925,522 representing advance or duplicate payments. Combined with overpayments from DCFS for fiscal years 2005 through 2007, DCFS has paid the Department $1,415,527 in excess of amounts billed. Overpayments to the Department remaining unapplied while DCFS continues to make payments on their accounts is the result of an inadequate billing/receivable reconciliation and reporting function.

During testing of other advance payments received by the Department, we also noted eight (8) instances in which the Department received payments in fiscal year 2007 that were for services to be provided to other State agencies in fiscal year 2008. The Advance Billings Rules (74 Ill. Adm. Code 1000.20(c) and (e)) stipulate "The Department may enter into agreements with user agencies for advance billings at other times during the fiscal year based on estimated charges for goods and services to be received by the user agency during the fiscal year" and "The Department shall not issue advance billings for the purpose of creating undocumented credit balances which intentionally transfer a user agency's unexpended appropriation balances to the following fiscal year". The provisions of the Rules establish a process that requires the Department, with limited exceptions not applicable to these situations, to issue billings to user agencies in the fiscal year for which the services are rendered. 74 Ill. Adm. Code Section 1000.30(c) stipulated "The Department shall not use the advance billing process in Section 1000.20 with this credit process to intentionally circumvent fiscal year budgetary controls". As a result, the Department overstated fiscal year 2007 revenues by $549,151 and user agencies created credit balances (or reductions of fiscal year 2007 receivable balances) for services not received until fiscal year 2008. Department officials have stated they were not aware that the billings were for services to be rendered in fiscal year 2008.

In the cases described above, the Department was in violation of the Advance Billing Rules for internal service funds. In the first two cases, the situations did not have an affect on the Department's financial statements, as the receipts were received and recorded in fiscal year 2008. However, in the last case, the Department's financial statements reflect revenues which are overstated by $549,151. This amount was not material to the financial statements, and therefore an adjustment to the statements was not necessary. (Finding Code No. 07-5)

RECOMMENDATION:

We recommend the Department establish adequate controls over internal service fund billings to ensure compliance with rules governing advance billings and fiscal year budgetary controls. We further recommend the Department improve the receivable reporting functions to more effectively communicate overpayments received from user agencies and to apply credits to future billings on a timely basis.

DEPARTMENT RESPONSE:

Unapplied payments occur for a variety of reasons, and many of these payments are received electronically by DCMS. The Department appropriately applies unapplied payments to invoices throughout the FY. We must work with the agencies to apply these amounts to open invoices. We cannot unilaterally apply them since they may cross billing accounts which are established and maintained by the agencies for internal and federal reporting purposes.

The Department institutes advance billings that are generally in conformance with its statutory and rule authority. The eight instances cited by the auditor were for projects begun during the reporting period but not completed until after the end of the FY. The Department is undertaking steps to formalize the review and approval of such advance billings to assure that they remain in compliance with statute and rule.

AUDITOR'S COMMENT:

The Advance Billings Rules (Rules) stipulate "The Department may enter into agreements with user agencies for advance billings at other times during the fiscal year based on estimated charges for goods and services to be received by the user agency during the fiscal year" and "The Department shall not issue advance billings for the purpose of creating undocumented credit balances which intentionally transfer a user agency's unexpended appropriation balances to the following fiscal year". In the cases described above, payments were received by the Department for services that had not yet been rendered or that were rendered after the end of the fiscal year. The subsequent acceptance and processing of these payments resulted in credit balances for the involved agencies. Together these actions resulted in noncompliance with the Rules.

07-6 FINDING: (Inappropriate use of appropriation authority)

The Department made payments of Workers' Compensation Act claims from funds appropriated to the Department of Healthcare and Family Services for health care coverage per the State Employees Group Insurance Act of 1971.

Public Act 94-0798 appropriated to the Department $108,200,000 from the Workers' Compensation Revolving Fund for "payment of Workers' Compensation Act claims and contractual services in connections with said claims payments."

The same Public Act appropriated $1,785,234,100 to the Department of Healthcare and Family Services (HFS) from the Health Insurance Reserve Fund for "provisions of health coverage <u>as elected by eligible members</u> per the State Employees Group Insurance Act of 1971." (Emphasis Added)

In April 2007 an interagency agreement was transacted between the Department and HFS which essentially authorized the Department to expend funds from HFS' appropriation from the Health Insurance Reserve Fund for the payment of medical expenses under the Workers' Compensation program. The agreement limited the amount to be paid not to exceed $20 million for the payment of invoices of medical care and all expenses associated with that care, and provided that Department employees would be granted signature authority to sign vouchers on behalf of the Director of HFS. During fiscal year 2007, the Department processed $19,998,199 from HFS' appropriation for State Employees Group Insurance to pay for claims and services related to the Workers' Compensation Act.

The agreement and related payments circumvents the appropriation process and distorts the cost of two separate programs. In addition, it causes the payment certification required by the State Finance Act to be inaccurate since the certification states, in part, "…the goods and services specified on this voucher were for the use of <u>this agency</u> …." (Emphasis Added)

The State Constitution states that the General Assembly by law shall make appropriations for all expenditures of public funds of the State. (Article VIII, Section 2(b)). The 2007 appropriation law clearly provided for separate appropriations for health care coverage as elected by eligible members and payment of Workers' Compensation Act claims. The State Finance Act (30 ILCS 105/9.04) requires the Chief Executive Officer of the department from whose appropriation payment will be made to make a specific certification that includes certification that the payment is for the use of that agency.

Additionally, the Intergovernmental Cooperation Act prohibits agencies from entering into an interagency agreement if the agreement's intent or effect is (i) to circumvent any limitation established by law on State appropriation or State expenditure authority with respect to health care and employee benefits contracts or (ii) to expend State moneys in a manner inconsistent with the purpose for which they were appropriated with respect to health care and employee benefits contracts (5 ILCS 220/4.5).

Department officials have stated that sufficient authority exists for the payment of medical costs associated with Workers Compensation claims filed against the State of Illinois from the Health Insurance Reserve Fund in accordance with the terms of the Group Insurance Act. (Finding Code No. 07-6)

RECOMMENDATION:

We recommend the Department make payments in accordance with its appropriation authority and ensure payment certifications are accurate. We further recommend the Department implement controls to ensure interagency agreements are in compliance with all provisions of the Intergovernmental Cooperation Act.

DEPARTMENT RESPONSE:

The Department asserts that the authority to utilize the funds and process the transactions in question does exist within the Group Insurance Act. The Department is seeking legislation to clarify the relevant section of the Act.

AUDITOR'S COMMENT:

The 2007 appropriation law clearly provided for separate appropriations for health care coverage as elected by eligible members and for payment of worker's compensation Act claims. This authority was circumvented when the Department paid Worker's Compensation Act claims from the appropriations made to HFS for health care coverage. Furthermore, since the actions of the interagency agreement between the Department and HFS resulted in the circumvention of limitations established by law on State appropriation, according to the Intergovernmental Cooperation Act, this interagency agreement is invalid.

07-7 FINDING: (Bond funds utilized for inappropriate purposes)

The Department's expenditure control system was inadequate to ensure that bond funds were utilized for appropriate purposes.

During fiscal year 2007, the Department paid vouchers totaling $1,353,546 from the Capital Development Fund that were subsequently rejected by the Illinois Office of the Comptroller (IOC) and reclassified to an appropriate fund. In a letter dated May 29, 2007, the IOC concluded the Department "…has prepared vouchers for operational expenditures out of the Capital Development Fund that would normally be made from contractual services appropriations. These expenses do not appear to meet the criteria for use of this bond financed fund." The expenses were transferred to the Statistical Services Revolving Fund.

Public Act 094-0798, Article 94, Section 5, establishes an appropriation from the Capital Development Fund to the Department "…for Information Technology infrastructure expenses including but not limited to related hardware and equipment." Section 10 further stipulates "No contract shall be entered into or obligation incurred for any expenditures from appropriations in Section 5 of this Article until after the purposes and amounts have been approved in writing by the Governor."

Department officials have stated they believe approvals were obtained when the Governor signed the bond release documentation and they have indicated the matter is still pending in discussions between the Department, the IOC and the Capital Development Board.

Failure to ensure bond funds are utilized for appropriate purposes represents noncompliance with the appropriation authority granted the Department and may result in the Department's inability to pay obligations from appropriate sources if funding is not available. (Finding Code No. 07-7)

RECOMMENDATION:

We recommend the Department establish adequate procedures to ensure bond funds are utilized for appropriate purposes and proper approvals of obligations incurred for any expenditure from the Capital Development Fund are obtained in advance of the expenditure.

DEPARTMENT RESPONSE:

The Department had the authority to process these payments through the Capital Development Fund. Our authority to process the transactions was inherent in the legislation establishing these appropriations from the CDF for the specific purposes cited. Prior to our sending the vouchers, the IOC had released the bond funds into the DCMS account, indicating that we had the authority to use these funds. The IOC initially processed these payments and later reversed some, but not all of them. The IOC determined that the appropriation language did not match the bond authorization, and it is within their purview to reject a transaction. But their rejection does not in any way mean that the Department violated a process when we sent payments in good faith according to appropriation authority.

AUDITOR'S COMMENT:

The general release of the bond funds into the Capital Development Fund does not, by itself, satisfy the requirement set forth in the appropriation ordinance stipulating expenditures from the fund are to be approved in writing by the Governor in advance. Such advance approval requirements establish a process to be followed by the Department to ensure expenditures from bond proceeds released to the fund are not for operational purposes.

07-8 FINDING: (Consolidated services billings not adequately supported)

The Department did not provide adequate documentation to support charges billed for information technology, facilities management and graphic designers (consolidated services).

Public Act 93-25 authorized the Department to consolidate Information Technology (IT) functions of State government. In addition, Public Act 93-839 authorized the Department to consolidate Professional Services (Press Information Officers and Graphic Designers) of State government. Executive Order 2003-10 authorized the Department to consolidate the management of facilities. As a result of the consolidations, the Department billed the Department of Human Services, the Department of Public Health, the Department of Healthcare and Family Services, the Department of Revenue and the Department of Transportation for services rendered.

During testing of the agencies, detail billing invoices from the Department totaling $14,856,843were tested. Based on the results of the testing it was noted there was no specific documentation supporting $11,705,251of the charges, including $5,674,490 of payroll charges. The support for the billed payroll charges consisted of listings of employees and their related payroll and fringe benefit costs for the period. There was no documentation provided by the Department to the other agencies to suggest that these employees worked on activities on behalf of the billed agencies. The support for the remaining billed charges, which included facility rent charges and graphic designer charges, also lacked specific documentation to explain the rationale for the expenses billed to the agencies by the Department.

The Service Level Agreements (SLA) between the Department and four of the other agencies dated January to April 2005 outlined the terms and conditions under which the Department would provide specified IT services. The objective was to provide a basis and framework for the delivery of high quality services that would meet the needs of the other agencies. The SLAs required the Department to "provide monthly detailed allocation billing statements to the Client (agencies) for purposes of Client (agencies) internal accounting and federal cost recovery. These billings will be based on actual costs incurred by Supplier (Department) on behalf of the Client (agencies)." An SLA was drafted but not formally executed with the Department of Healthcare and Family Services.

SAMS Procedure 17.10.30 states "Agency level pre-auditing is defined as an examination by the agency head or designated individual for the purpose of determining the legality and propriety of a proposed transaction or a transaction in process." By not providing properly detailed documentation, the billed agencies are unable to determine the propriety of the charges.

Department officials have stated that they had an alternate system which they believe provided adequate substantiation.

Failure to provide adequate supporting documentation could lead to the Department not being paid on a timely basis for goods and services provided to other agencies. (Finding Code No. 07-8)

RECOMMENDATION:

We recommend the Department prepare and provide adequately detailed documentation to other agencies to support the consolidated services it is providing.

DEPARTMENT RESPONSE:

As a temporary measure during the early years of the IT consolidation, the Department established a separate personnel activity reporting system (SCAS) in which transferred employees were required to account for and certify their time devoted to legacy agency tasks. Reports detailing the time spent on behalf of these agencies and all payroll and related costs were provided to the Agencies. The procedure is compliant with A-87. The Department asserts that the daily entry into SCAS, and the supervisor approval of these semi monthly records, constituted a proper level of verification. Agencies were also instructed to review billings. They can and did challenge billings based on services received, and in some cases credits were granted. The Department believes that adequate compensating controls existed to validate these charges during this transitional phase of the consolidation. The Department is transitioning away from these types of billings into usage based billings.

In terms of non-payroll IT direct charge backs, significant supporting detail was provided to agencies which included: contract numbers, service descriptions, object codes and vendor invoice numbers for contracts specifically dedicated to the billed agencies.

Facilities and Graphic Artist charges are rates-based charges where direct utilization drives the charge. Sufficient detail does exist to establish agency utilization of these services, and is provided to agencies either on the invoice or in supporting documentation. Such information includes job details, building locations and occupancy square footage.

AUDITOR'S COMMENT:

This issue was first identified in the 2007 BCCS Third Party Review, at which time the Department stated in their response, for the IT billings, "the IBiS charging methodology does exist and training was provided to staff, [however], the process was not fully optimized during the period under review." Furthermore, during FY07, the SCAS was not properly utilized; not all employees were required to use the System and therefore they did not all enter their time into the System. Documentation supporting the facility and graphic artist charges was not provided to the user agencies.

07-9 **FINDING:** (Department receipts not reconciled to Comptroller records)

The Department did not reconcile its cash receipt records to the Comptroller's Monthly Revenue Status Report as required by the Comptroller's Statewide Accounting Management System (SAMS).

During the engagement period, the Department processed receipts totaling $1,390,991,542. The Department did not reconcile its cash receipts records to the Comptroller's Monthly Revenue Status Report (SB04) each month as required. We noted the reconciliation for one fund was four months in arrears, and a reconciliation for another fund for the month of January 2007 was not performed properly and was not corrected until May 31, 2007. Furthermore, none of the reconciliations were dated by the preparer or reviewer and, as such, the timeliness of completion or review could not be ascertained.

SAMS requires the Department to perform monthly reconciliations to the SB04. Section 25.40.20 of SAMS states, "This reconciliation is required to be performed monthly and the Comptroller's Office notified of any unreconcilable differences so that the necessary corrective action can be taken to locate the differences and correct the accounting records."

Department personnel stated staffing shortages in the Accounting Division necessitated employees in the Financial Reporting Unit to assist with other job duties of higher importance and urgency.

Failure to reconcile to the Comptroller's Monthly Revenue Status Report on a monthly basis could result in discrepancies between Department records and the Comptroller's Office not being addressed and/or corrected in a timely manner. (Finding Code No. 07-9)

RECOMMENDATION:

We recommend the Department establish procedures to reconcile its cash receipts records to the Comptroller's Monthly Revenue Status Report on a monthly basis.

DEPARTMENT RESPONSE:

The Department concurs. This is primarily a resource issue, and the Department has prioritized hiring and training in this area.

07-10 FINDING: (Inadequate control over property and equipment)

The Department has not provided adequate control over property and equipment. We tested the physical inventory and location of equipment, equipment purchases, and equipment transfers and deletions, and noted deficiencies in each area as described below.

Physical Inventory and Location of Equipment

During our testing of the physical inventory and location of equipment we selected a sample of 60 items noting the following weaknesses in internal controls:

- Two laptop computers valued at $2,502 were found at locations other than the location listed in the property records.
- Two filing cabinets, a desk, two fax machines, a scanner, a chair, a heater, a copier and two printers were not recorded in the property control records.
- A table valued at $500 could not be located.
- An executive chair valued at $784 did not have a property tag and could not be verified as listed in the property records.

The State Property Control Act (30 ILCS 605/4) requires the Department be accountable for the supervision, control and inventory of all property under its jurisdiction and control. In addition, good internal control procedures require the proper tracking of property and equipment. The Department has procedures to track the movement of equipment throughout the Department, but these procedures were not followed in all cases.

Department management stated that the inventory coordinator position was filled in FY07 after being vacant for over six months. Errors noted were due to the vacant position.

Annual Certification of Inventory

During our testing we noted annual certification of inventory was performed inadequately. We noted discrepancies in 127 items totaling $152,606 that were not listed as discrepancies on the annual certification. We specifically noted the following:

- Property not found at the location identified in the property control records was not listed as a discrepancy.
- Property found at a location but not listed for that location was not certified.
- Certification and Discrepancy sheets were not filled out correctly.

As stated in 30 ILCS 605/6.04, annually, and upon at least 30 days notice, the administrator may require each responsible officer to make, or cause to be made, an actual physical inventory check of all items of property under his jurisdiction and control and said inventory shall be certified to the administrator with a full accounting of all errors or exceptions reported therein.

Department personnel have represented the deficiencies in the Annual Certification of Inventory are the result of a clerical error resulting from the manner in which information was summarized.

If the Annual Certification of Inventory is not performed correctly and accurately, then there is no way to verify the accuracy of the property control records. Inaccurate property control records can lead to a misstatement of assets on the financial statements as well as create the potential for theft.

Equipment Transfers

During our testing of transfers of property and equipment we noted 433 items of IT equipment with a cost of $3,811,682 (net book value of $21,094) were transferred from the Department of Revenue in June 2007, but were not reported by the Department until August 2007.

The Illinois Administrative Code (44 Ill. Adm. Code 5010.310) establishes the rules for proper recording of transfers, including information and documentation required to be maintained in agency files. Department representatives stated the errors occurred because the transfer of IT equipment is typically planned to occur after June 30. In this case there was a mutual agreement to transfer the equipment during June but the process was slowed down due to issues with the automated inventory loads.

Amortization of Assets Acquired by Installment Purchase

During our testing we noted equipment items acquired by installment purchases were not entered into the property records on a timely basis. The assets were reflected in the year-end GAAP reporting process as in-transit and, as such, the cost of the assets was properly included in the Departments financial statements. However, no depreciation expense for the acquired assets was reflected until after the assets were entered into the property records, resulting in an understatement of accumulated depreciation and depreciation expense of $442,527 in the GAAP packages prepared by the Department.

Failure to maintain accurate property control records increases the potential for theft or misappropriation of State assets. In addition, property improperly included on the Department's inventory may result in inaccurate fixed assets reports and misstated financial information. However, all of the errors noted above were immaterial to the financial statements, and therefore, no adjustments to the financial statements were necessary. (Finding Code No. 07-10, 06-10, 05-18, 04-18, 02-1)

RECOMMENDATION:

We recommend the Department:

- Implement adequate controls and procedures to ensure property and equipment is properly safeguarded and records are complete and accurate.
- Properly complete and maintain supporting documentation for transfers.
- Coordinate the Annual Certification of Inventory more effectively.

DEPARTMENT RESPONSE:

In general, the Department concurs with the findings, which note that they were immaterial to the financial statements (0.32% of cost). The department has been working on fully implementing the recommendations by increasing coordination with inventory liaisons, addressing software deficiencies, seeking necessary additional staffing, and correcting and rectifying procedures to eliminate clerical errors in the certifications. In terms of the Accounting aspects of this finding, the Department agrees with the auditor that the effects were immaterial. We agree with the recommendations and have already reduced the magnitude of these occurrences in the FY08 period.

07-11 FINDING: (Inadequate security and control over the midrange environment)

The Department did not institute or implement comprehensive standards to effectively secure and control the midrange environment.

20 ILCS 405/405-410 mandated the Department to consolidate Information Technology functions of State government. The following agencies participated in the consolidation project:

- Department of Agriculture;
- Department of Commerce and Economic Opportunity;
- Department of Employment Security;
- Department of Financial and Professional Regulation;
- Department of Healthcare and Family Services;
- Department of Human Services;
- Department of Natural Resources;
- Department of Public Health;
- Department of Revenue;
- Department of Transportation; and
- Environmental Protection Agency.

As a result of the consolidation, the Department had an increased responsibility to administer, secure, and monitor the midrange environment.

During our testing of the midrange environment to support required audit work for the Department and several consolidated agencies, we found the Department did not effectively secure and control the midrange environment.

We found multiple weaknesses in the current midrange environment. Specifically:

- Comprehensive standards to effectively secure and control the midrange environment had not been developed or implemented.
- An excessive number of users had powerful security administration authority.
- Password length and content requirements were lacking.
- Some administrative and user accounts did not require passwords.
- Accounts for terminated employees were still active after termination.
- An effective change control process did not exist to ensure all system changes were documented and approved.
- Servers were not updated with the current vendor recommended patch or service pack levels.
- An effective backup schedule or media tracking process had not been established

Although the Department shares responsibility with consolidated agencies, the Department has the ultimate responsibility to effectively secure and control its midrange environment which supports agency applications and data. As outlined in 20 ILCS 405/405-10 (4) - It shall be the duty of the Director and the policy of the State of Illinois to manage or delegate the management of the procurement, retention, installation, maintenance, and operation of all electronic data processing equipment used by State agencies in a manner that provides for adequate security protection. Since the Department has primary control over the midrange environment, it was incumbent upon them to ensure adequate controls existed to protect agency applications and data.

The Department has stated the causes to be as follows:

> Servers were consolidated "as-is" from the agency which resulted in multiple versions of the same operating system and multiple configurations of similar devices. Best practice is to make as few changes at a single time as possible so if an error is encountered, the number of potential causes is limited. Once the physical moves were successful and processing was normal, consolidation and merging of like resources would occur.
>
> Legacy access rights, password configurations, and procedures remained intact/in force until the consolidation was deemed complete and operating consistently. CMS lacked sufficient knowledge into detailed agency operation to arbitrarily remove access rights and reset password configuration in the cases where an application and/or device was using the password to access other resources (other software products or other devices or routine downloads/data transfers).
>
> Lack of statewide standards on password length and complexity forced CMS to accept non-CMS standards from consolidated agencies.

Without the implementation of adequate controls and procedures, there is a greater risk unauthorized access to the Department or agency resources may be gained and data destroyed. Prudent business practices dictate the Department identify all assets and strengthen its security to protect its assets and resources against unauthorized access and misuse. (Finding Code No. 07-11)

RECOMMENDATION:

The Department should institute and implement comprehensive standards to effectively secure and control the midrange environment for its self and consolidated agency systems

The Department should formally communicate with consolidated agencies to determine their specific security requirements, and establish and document guidelines that outline both the agencies' and the Department's responsibilities. In addition, the Department should provide a means for consolidated agencies to verify that security and integrity controls in the midrange environment are suitable and meet specific application requirements.

Specifically the Department should:

- Review and decrease the number of users with security administration authority.
- Standardize password length and content requirements and ensure all accounts require a password.
- Timely deactivate accounts for terminated employees.
- Institute and implement effective change control processes.
- Update servers to current vendor recommended patch or service pack levels.
- Develop and implement an effective backup schedule or tracking process.

DEPARTMENT RESPONSE:

The Department concurs and will continue to strive toward standardization and maturity in the midrange environment. In order to provide immediate benefit of physical environment control, DMCS relocated the non-standard server platforms into its data center which led to the need to support multiple, non-standard environments. Many of the underlying causes are a result of the decision to relocate servers prior to consolidation. The current Architectural Review Board, Service Engineering unit, and Governance process will continue its efforts to institute and implement standards, establish appropriate documentation and guidelines, and communicate with agencies. The recent purchase of a comprehensive compliance monitoring product will help control users with security administration authority; identify users that should be deactivated for non-use, and help DCMS track server patch and service pack levels. As staff resources and budgets permit, the Department plans to schedule an enterprise assessment of its security controls.

07-12 **<u>FINDING</u>:** (Incomplete and inaccurate records over computer systems and equipment)

The Department did not maintain complete, accurate, or detailed records to substantiate its current midrange computer systems and equipment.

20 ILCS 405/405-410 authorized the Department to consolidate Information Technology functions of State government. The following agencies were participating in the consolidation project:

- Department of Agriculture;
- Department of Commerce and Economic Opportunity;
- Department of Employment Security;
- Department of Financial and Professional Regulation;
- Department of Healthcare and Family Services;
- Department of Human Services;
- Department of Natural Resources;
- Department of Public Health;
- Department of Revenue;
- Department of Transportation; and
- Environmental Protection Agency.

As a result of the consolidation the Department had an increased responsibility to administer, secure, and monitor the midrange environment.

In order to conduct our audit work of the midrange environment for several consolidated agencies, we requested a listing of all servers utilized by the specific agency. Although the Department provided server listings, we specifically noted:

- The Department provided three separate listings for two consolidated agencies, with the number of servers on the listings ranging from 138 to 316 servers.
- The listing included servers which were missing basic information (business application, operating system, service pack).

In addition, during our audit work we discovered additional servers which were not included on any of the Department's server listings.

Department officials have stated that many of the issues described are related to legacy environments, and these environments did not have adequate asset controls in place prior to moving the servers to the Central Computer Facilities.

The lack of complete, accurate, and detailed information available from the Department inhibited our ability to identify and target high-risk servers for detailed audit testing to support audit work.

The lack of complete, accurate, and detailed records also inhibits the Department's ability to administer, secure, and monitor the midrange environment for consolidated agencies. With over 2,000 midrange servers under its control, it is imperative that detailed records be maintained to provide an accurate record of equipment inventory and a means to verify that security and integrity controls on individual servers are suitable and meet specific application requirements. (Finding Code No. 07-12)

RECOMMENDATION:

We recommend the Department ensure complete, accurate and detailed records are available to substantiate its midrange computer systems and equipment. The Department needs to work with consolidated agencies to update its records and identify significant and critical applications running in the midrange environment.

DEPARTMENT RESPONSE:

The Department concurs. Many of the issues described are related to legacy environments, and these environments did not have adequate controls in place prior to moving the servers to the data center. Based on reviews of legacy agency's prior audit reports, it is evident that these systems were not being effectively managed prior to their move and were at serious risk from an environmental and security perspective. In connection with data gathering for recovery service purposes, the Department has requested that agencies update the Business Reference Model database, which represents all applications residing on DCMS managed IT equipment. DCMS is currently reconciling this database against the Technical Validation database, which represents all DCMS managed IT processing equipment. DCMS is also reconciling its databases against the legacy Agency inventory systems to improve data integrity.

07-13 <u>FINDING</u>: (Inadequate disaster contingency planning)

The Department did not have an adequately developed and tested disaster contingency plan for the midrange environment.

20 ILCS 405/405-410 authorized the Department to consolidate Information Technology functions of State government. The following agencies were participating in the consolidation project:

- Department of Agriculture;
- Department of Commerce and Economic Opportunity;
- Department of Employment Security;
- Department of Financial and Professional Regulation;
- Department of Healthcare and Family Services;
- Department of Human Services;
- Department of Natural Resources;
- Department of Public Health;
- Department of Revenue;
- Department of Transportation; and
- Environmental Protection Agency.

As a result of the consolidation, the Department had an increased responsibility to administer, secure, monitor, and ensure availability of the midrange environment.

After the consolidation, there were 28 Category One applications included on the Statewide Critical Application Listing which run on the Department's midrange environment. Category One applications are those considered critical that impact the health and welfare of the Illinois citizens.

Although the Department had over 2,000 servers supporting state government, the Department failed to assure an adequately developed and tested disaster contingency plan existed for recovering the midrange environment. Additionally, the Department did not have an adequate satellite recovery location which met the recovery needs of the midrange environment.

Disaster contingency planning requires continuous, proactive efforts of assessing and reassessing the computer environment to ensure plan, equipment, and facilities are adequate. One of the purposes of disaster recovery planning is to minimize the overall impact of a disaster and ensure timely recovery of essential services.

Information technology guidance (including the National Institute of Standards and Technology and Governmental Accountability Office) endorses adequate development and formal testing of disaster contingency plans. An adequately developed and tested contingency plan would assist the Department in ensuring its plan, procedures and available resources (including personnel, hardware, and facilities) are adequate for recovering the critical systems within the required timeframes.

Department officials have stated that prior to the consolidation, it was the responsibility of the individual agencies to create their own midrange Disaster Recovery Plans and that many of the agencies failed to create them. The Department has further stated that there has been an inability/delay of agencies to adequately/correctly identify which applications were critical. Department officials have also stated that the loss of personnel with Disaster Recovery expertise has led to the current situation.

An adequately developed and thoroughly tested contingency plan would greatly assist in coping with unplanned service disruptions and ensure the availability of critical information resources within acceptable recovery timeframes. Failure to have a tested comprehensive plan could result in not being able to process critical transactions for an extended period of time in the event of a disaster. (Finding Code No. 07-13).

RECOMMENDATION:

The Department should ensure the necessary components (plans, equipment, and facilities) are available to provide for the continuation of the midrange environment in the event of a disaster.

The Department should formally communicate with consolidated agencies to gain an understanding of their individual recovery requirements, and establish and document guidelines that outline both the agencies and the Department's responsibilities. The Department should coordinate with the agencies and help ensure that recovery tests of critical applications are conducted at least annually.

DEPARTMENT RESPONSE:

The Department concurs. DCMS is in the process of evaluating vendor responses to an Alternate Data Center RFP which will be used to create a virtualized infrastructure that will significantly improve our ability to recover critical distributed applications without reliance on the current recovery master contract. Once the RFP has been awarded and the virtualization of the midrange environment has been established, DCMS will be able to begin development of an enterprise level recovery plan for the midrange environment that addresses equipment, facilities, and other vital resources. In the meantime, the Department is negotiating with the recovery service provider to allocate third party resources to help ensure that recovery tests of user-identified, Category One/Stage Zero midrange applications are conducted at least annually.

07-14 FINDING: (Inadequate software licensing monitoring)

The Department did not have an effective mechanism in place to track, control, and monitor end-user software use.

20 ILCS 405/405-410 mandated the Department to consolidate Information Technology functions of State government. Due to the consolidation, eleven agencies' IT functions were consolidated into the Department. As a result of the consolidation, the Department became responsible for tracking, controlling, and monitoring software use and licenses.

The Department did not have an effective mechanism in place to track the number of vendor software licenses purchased versus the number of software copies deployed. In addition, the Department did have an automated inventory scanning tool and had not conducted a self-audit of the number of software licenses being utilized.

The expenditures for end-user software, licenses, and maintenance for the Department and consolidated agencies exceeded $2.5 million. Beyond the costs associated with actual software use, extra costs can be incurred if you pay for more licenses than actually used. In addition, costs for using unlicensed software can include additional penalties and fees.

According to one vendor's contract, in the event the customer adds a license, they are to inform the vendor and provide a valid purchase order, no less than on a quarterly basis. In addition, it is the responsibility of the customer to conduct a self-audit annually and provide to the vendor a written report outlining the total number of licenses utilized by vendor product.

During the audit period, the software vendor conducted an audit of software utilized at two of the consolidated agencies; the Illinois Environmental Protection Agency and the Department of Public Health. The vendor's audit found hundreds to several thousand unlicensed versions of software products in use. Based on the overages and back maintenance, the vendor determined it was owed approximately $330,000; however, the Department and agencies negotiated a reduction and paid approximately $138,296.

In addition, the vendor's audit identified several other instances where the Department of Public Health paid (estimated at $55,680) maintenance costs for software that was no longer in use.

Department officials have stated that the issue described is due to the several hundred contracts and license agreements that the Department inherited with the consolidations.

Failure to effectively track, control, and monitor end-user software use leaves the Department exposed to the possibility of additional costs, including fees, penalties and litigation. Routine monitoring would help ensure that software use and licenses are reconciled. (Finding Code No. 07-14)

<u>RECOMMENDATION</u>:

The Department should develop and implement an effective mechanism to routinely track, control, and monitor end-user software use.

<u>DEPARTMENT RESPONSE</u>:

The Department concurs. Inadequate software license monitoring existed in the legacy agencies prior to consolidation. The software licenses reviewed were originally installed by the legacy agencies without proper safeguards to track their deployment and usage. Upon consolidation, accurate records did not exist and consequently did not allow the Department to effectively manage support of the environment. A number of changes have already been made to facilitate implementation of effective tracking, control, and monitoring of end-user software use and licensing. A reorganization of BCCS staff resulted in a centralized location for license control and a separation of purchase/ monitoring responsibility from installation. The Asset Inventory Management (AIM) unit was recently established to provide a check and balance to the End User Computing unit to improve coordination between authorized license and installation. AIM has contacted agencies as well as vendors in an attempt to reconcile procurement documentation against actual installations. AIM is in the process of establishing a central library to track software licenses and installation. Additionally, service request and inventory processes have been refined. Also, BCCS plans to run investigative tools against installed software and compare those findings to the central library being developed by AIM. The Department will still depend on agencies to provide accurate documentation of software they purchase directly. This is an ongoing effort.

07-15 FINDING: (Changes in award evaluation criteria not communicated to proposers)

The Department used evaluation criteria to evaluate vendor proposals that were not stated in the Request for Proposals (RFP). Specifics of the scoring methodology and weighting of pricing alternatives were not included in the original RFP, and in some cases, not communicated to proposing vendors or reflected in any addendums.

The Illinois Administrative Code states that proposals shall be evaluated only on the basis of evaluation factors set forth in the RFP (44 Ill. Adm. Code 1.2035 (h)(2) and 44 Ill. Adm. Code 1.2015 (f)(2)). For professional and artistic contracts, price will not be evaluated until ranking of all proposals and identification of the most qualified vendors.

During the current period, the procurement and award files for ten solicitations or contracts awarded in fiscal year 2007, totaling a maximum award amount of approximately $341 million, were selected for testing.

- In 1 of 10 procurements evaluated (10%), a $300 million contract for statewide electricity services, we noted the Department required bidders to submit margin pricing on fixed transmission costs then did not consider such information in the pricing evaluation for any bidders.

- In 1 of 10 procurements evaluated (10%), a $3 million master contract for computer security software and computer maintenance, the Department solicited proposals for four business units of a specific security software and weighed the pricing discount for each unit equally without regard to the projected amount of software anticipated to be purchased from each business unit category. The request for proposal did not specify the pricing formula used to evaluate the proposals

Department officials have represented the vendor's bids for fixing transmission costs were not considered, as transmission costs are variable depending on location, size of account demand and time of energy use. Department officials further represented that transmission costs can be fixed through the use of a separate financial transaction that can be acquired on a wholesale, over-the-counter basis. Such financial transactions currently carry a premium that was estimated to increase transmission costs. However, the full potential impact of the vendor's bids to fix transmission costs was not evaluated as this pricing component was not considered during the price evaluation process.

Department officials have represented that business units were not weighted because future useage and potential savings were unknown and undeterminable.

Failure to notify vendors of changes in evaluation criteria not only violates administrative rule, it increases the likelihood that vendors and the public will not view the contract award process as being conducted in a fair and open manner. Failure to consider all pricing components requested in procurement documents increases the likelihood that bids favorable to the State will not be properly evaluated. (Finding Code No. 07-15, 06-3, 05-4, 04-4)

RECOMMENDATION:

We recommend that the Department follow evaluation criteria stated in Requests for Proposals when evaluating and awarding State contracts. Additionally, the Department should implement procedures to more thoroughly establish evaluation criteria prior to issuance of the original procurement request to minimize the need to change the evaluation criteria through subsequent addendum so that all vendors are assured of a fair and open contracting process.

DEPARTMENT RESPONSE:

The auditor's examination identified two circumstances where management decisions were made based on the circumstances of the procurement, rather than a systemic weakness of allowing changes in evaluation criteria. In one case, four potential units of software were weighted evenly rather than weighted based on prior spending history. At the time the bid was released, it was determined that the historical spend was not a reliable indicator of future spend. The State's IT group was in the process of adopting an enterprise standard and therefore prior component spending was not relevant.

In another case, for the procurement of electricity, the Department asked vendors for visibility to transmission costs. Such costs are typically a very small percentage of the total cost of electricity and are usually a pass through cost to the end user. The intent in the solicitation was to reserve an option to purchase fixed transmission rights if market conditions were right during the term of the contract. When bids were received, one of the two responsive bidders was unable to submit a price or visibility to this small portion of the total cost of electricity. This responder took exception to our terms and we deemed it to be an immaterial exception. The responder did anticipate the ability to offer to fix transmission costs at a mutually agreeable price which would include a pass through. The Department decided, in the interests of greater competition, to evaluate the price proposals based on the overwhelming majority of the cost of electricity (excluding the transmission cost). This approach was in the best interest of the State. This finding would have had more significance if the bidder that received the award had taken exception to submitting the pricing component of transmission costs.

AUDITOR'S COMMENT:

The Illinois Administrative Code states that proposals shall be evaluated only on the basis of evaluation factors set forth in the RFP. The Department does have a responsibility to award contracts that are in the best interests of the State; however, the responsibilities as set forth in the Administrative Code are designed to ensure all prospective bidders are provided a fair opportunity. Making management decisions to circumvent the rules violates the integrity of the process.

07-16 FINDING: (Deficiencies in evaluation process for proposals)

The Department applied inconsistent criteria when determining the responsiveness of vendors resulting in the exclusion of a bidder. Furthermore, bid evaluations were not performed independently by reviewers.

During the current period, the procurement files for ten leases awarded in fiscal year 2007, totaling a maximum award amount of approximately $53 million, were selected for testing. In addition, the procurement and award files for ten solicitations or contracts awarded in fiscal year 2007, totaling a maximum award amount of approximately $341 million, were selected for testing.

- In one of the ten leases (10%) we noted the Department excluded a bidder from future lease negotiations without affording the bidder the opportunity to clarify or revise the proposal in a manner consistent with other leases awarded by the Department.

  The Department reviewed bid proposals submitted by three bidders for office space to be leased in the City of Harvey and extended an invitation to submit a "best and final proposal" to two of the bidders. The Department concluded the omitted vendor's proposal did not meet the square footage or improvement requirements and thus was eliminated from consideration. However, during our review of other lease procurements, we noted the Department extended multiple opportunities to at least one bidder to modify or clarify the bidder's original proposal that failed to meet the specifications. The Illinois Procurement Code (30 ILCS 500/40-20(d)) states "State purchasing officers may enter into discussions with respondents for the purpose of clarifying State needs and the information supplied by the respondents. On the basis of the information supplied and discussions, if any, a State purchasing officer shall make a written determination identifying the responses that meet the minimum criteria set forth in the request for information. Negotiations shall be entered into with all qualified respondents for the purpose of securing a lease that is in the best interest of the State."

  Based on information in the bid packages tested, the Department did not enter into discussions with bidders in a consistent manner or did not adequately document all factors that were considered when determining which bidders to contact for best and final proposals. Department officials stated that although there are standard rules and regulations that apply across the board, every lease negotiation is unique in its own way and there has to be some "give" for the Leasing Representative to effectively do his/her job in meeting the needs of the Using Agency and producing an end result that is in the best interest of the State.

- In one of the ten procurement and award files (10%) we noted three of the four individuals performing the evaluation of the technical component of the proposals collectively scored each vendor instead of performing independent scoring of each vendor. Good business practice would require independent review of proposals as opposed to a collective scoring evaluation. Department officials stated that the award had already been made when this oversight was identified, there was no indication the outcome would have changed and that it would not have been in the State's best interest to cancel the award and reissue the request for proposal.

Failure to consistently apply the requirements set forth in the Procurement Code relating to the lease of office space for State agencies could result in additional cost to the State. Failure to ensure technical proposals are scored independently by each evaluator is noncompliance with Department's written procedures. (Finding Code No. 07-16, 06-4, 05-5, 04-5)

RECOMMENDATION:

We recommend the Department consistently apply the requirements set forth in the Procurement Code in all matters relating to the lease of office space and ensure all individuals evaluating proposals perform independent reviews.

DEPARTMENT RESPONSE:

The Department concurs. We agree that scoring should be documented individually. In the one case cited by the auditor, three of four evaluators had such similar reactions to the bid response that they collectively prepared an evaluation sheet. This does not mean that they didn't review the bid response individually. Our process should have caught this prior to the award being made. After the award was made, there was no indication from the review of the file that a different outcome would have resulted. Thus it was determined to be in the best interest of the State to not overturn the award decision.

The Department also concurs that the lease acquisition process should have the requirements consistently applied. The consistency on lease acquisitions, however, occurs in two different stages. First, a proposal must meet the minimum requirements of the procurement to be considered. Then, opportunities to clarify or supplement should be available to all qualified bidders when best and final offers are being considered.

07-17 **FINDING:** (Inadequate controls regarding master contract development and usage)

The Department does not have an adequate process in place to assess the State's needs for master contracts and to develop and monitor the usage of master contracts.

We evaluated six master contracts awarded during FY07. In 1 of 6 master contracts awarded, the Department awarded a $3 million master contract (covering an initial two-year term with two one-year renewal periods) for computer security software and computer maintenance, but was unable to determine the anticipated spend against this contract.

The invitation for bids identified the software products to be purchased and required each bidder to bid the discount to be offered from the manufacturers suggested retail price for products associated with four separate business units. The invitation for bids stated there would be no minimum purchase obligation under the resulting contract. As such, no bidder was able to anticipate purchase levels that would warrant consideration for volume discounts.

The Department had a master contract for this specific manufacturer's security software in prior years and, as such, information regarding past use was available. Department officials represented, however, that it is the State's intent to move State agencies to a standard security software package that has not been determined as yet and, accordingly, they claimed historical spend was irrelevant to this procurement.

Good internal controls and contract management practices require procurements to be initiated based upon adequate research and documentation of established need and such procurements be adequately monitored.

Failure to adequately assess the State's needs in developing specifications for master contracts may impair the procurement process or result in less than the most advantageous pricing. (Finding Code No. 07-17, 06-5, 05-8)

RECOMMENDATION:

We recommend that the Department develop a process to more effectively assess the needs of State agencies when developing master contract procurement specifications.

DEPARTMENT RESPONSE:

The Department recognizes that because the State lacks a true statewide spend management system, it is very difficult to do a comprehensive assessment of the State's needs for a specific contract. Despite these difficulties, we assess the needs of State agencies when developing master contracts, on a case by case basis, since each master contract has unique criteria and circumstances. Until the State has a more comprehensive system to gather accurate projected usage of specific supplies and services by the State, as well as from local governments, the Department does not feel the methods used are inadequate.

Although research is conducted and projections are made, usage of master contracts, especially for new concepts, does not always meet the targeted spending and the vendor community understands this. Many such vendors have their own projections of spend based on their contracting in other states. Further complicating projections for master contract usage is the potential participation of local governments and intended use for unpredictable events (e.g. disaster preparedness, etc.) Projecting usage from entities for which DCMS has no control over budget decisions or spending is not possible. Due to this unpredictability, DCMS believes that devoting additional resources to estimating master contract usage is not always cost beneficial. The purpose of the master contract is to have the good or service available should user entities have the need and/or decide to use their budgeted dollars on that need.

The Department will continue to utilize the Illinois Government Purchasing System (IGPS), the Illinois Office of the Comptroller data warehouse, vendor usage reporting documents and agency surveys to capture spend against established master contracts and to project future needs of state agencies. We are also exploring ways through the Joint Purchasing Program Coordinator to continue to improve our ability to obtain vendor reports in regard to local government usage of state master contracts. We have actively expanded our communication with local governments in regard to state wide master contract availability.

07-18 FINDING: (Inadequate controls over the awarding of leases)

Numerous deficiencies were noted in the procurement, evaluation and award of leases.

During the current period, the procurement files for ten leases awarded in fiscal year 2007, totaling a maximum award amount of approximately $42 million, were selected for testing. We specifically noted the following:

- In one of the ten leases (10%) tested, we noted the Department accepted a "best and final offer" from a proposer that resulted in a higher cost per square foot than was originally bid. The Department of Human Services (DHS) signed a space request for 7,875 square feet of office space to relocate an existing office. The Department, based on the Agency Programmed Requirements, advertised for 7,600 square feet of office space, obtained five proposals, and selected a proposal for 7,600 square feet at an initial cost of $21.00 per square foot with proposed annual increases. During the best and final offer process, the proposer notified the Department that the square footage provided in their original proposal was incorrect and the space offered only had 7,087 square feet. The Department modified the specifications of the award to justify entering into a lease for 7,087 square feet, recalculated the cost per square foot and completed a revised Site Selection Form. The revised Site Selection Form utilizes the same annual base lease cost, however, the cost per square foot increased to $22.52, an increase of $1.52 (7.2%) over the original proposal. An internal memorandum prepared by the Department indicates the historical difficulty locating space for DHS would cause them to believe it would be wise to expedite this lease. While it appears this new office space would be an improvement over the existing space used by DHS, failure to effectively manage the solicitation process resulted in the award of a lease that may not meet the needs of the user agency over the life of the lease. Department officials have stated that the Agency staff were badly crowded into an existing lease facility temporarily until new space could be procured and that although the per square foot cost would increase to $22.52, the overall annual cost was reduced slightly and was still the lowest cost option.

- The Department circumvented the general acquisition procedures when performing a review of State-owned or controlled space. 44 Ill. Adm. Code Section 5000.230a stipulates "DCMS will review State-owned space and space leased by other agencies which may be suitable to fill the agency space request. Such space, because it involves no outside expenditure or because use would avoid unnecessary lease costs, will be used in preference to newly acquired leased space. Exceptions will only be granted upon strong justification submitted by the head of the agency requesting space." The Department has established a process to search for all properties that are within 25% (plus or minus) of the requested square foot area. During our testing we noted the Department performed a review of State-owned or controlled space utilizing a space need of 20,500 square feet but then issued a Request for Information for Leased Space soliciting only 17,500 square feet. The Department performed a search for State-owned or controlled space in excess of the user agency's specified need and, as a result, viable alternatives to newly leased space may have been excluded from consideration. A lease of a newly constructed building was entered into at a total lease cost of approximately $4,550,000. Department officials have stated that they must consider the potential for future program expansion and headcount growth as most leases are negotiated for up to a ten year term.

- The Department amended an existing lease to increase the amount of leased square footage instead of issuing a request for information. 44 Ill. Adm. Code Section 5000.232 establishes exceptions to the requirement to acquire leases by methods other than soliciting a request for information. The exceptions include leases of less than 10,000 square feet, leases whose base rent is estimated to be less than $10,000 per year, leases with a non-renewable term less than one year, specialized space available only at one location and leases with other governmental units. The Department amended a lease for the Department of Financial and Professional Regulation increasing the square footage from 39,300 to 59,300. The original lease was for a ten-year term from February 1, 2007 through January 31, 2017 and the amendment was awarded on August 27, 2007. The amendment increased the cost of the lease by $6,640,194 from $12,928,806 to $19,569,000. Department officials have stated that because the space in question had recently gone through the request for information process and had been selected as the best/lowest option, an administrative decision was made to amend the lease rather than expend time and resources on another request for information.

- The Department issued a request for information for office space in which the description of the configuration desired matched that of the space currently being utilized by the occupying agency. The Illinois Procurement Code (30 ILCS 500/40-20(b)) stipulates the request for information shall include a general description of the configuration desired. By describing the configuration to match the current occupied space, the Department has imposed limitations on other prospective offerors to be able to provide space meeting the description set forth. Department officials have stated that the using Agency wanted to remain in their existing space, the base rents were very reasonable and would likely have increased significantly through relocation with the potential added expense of tenant improvement and moving costs.

Deficiencies in the awarding of leases could result in increased cost to the State. (Finding Code No. 07-18)

RECOMMENDATION:

We recommend the Department establish adequate controls to ensure compliance with State statutes and administrative rules governing the solicitation and award of leases.

DEPARTMENT RESPONSE:

The Department concurs with the most of the findings and recommendations. However, we take some issue with the finding on review of state-owned or controlled space. Searching a broader range of available space, both above and below the required space, provides the best overview of potential usable space.

AUDITOR'S COMMENT:

In the instance cited, the Department conducted a search for available State-owned or controlled space using square footage in excess of the described needs of the user agency. As such, viable alternatives within the appropriate ranges may have been excluded from consideration.

07-19 **FINDING:** (Not timely in filing contracts and leases with the Comptroller)

The Department was not timely in filing contracts and leases in excess of $10,000 with the Comptroller.

During the current period, 10 contracts and 10 leases awarded in fiscal year 2007, totaling a maximum award amount of approximately $394 million, were selected for testing

Of the 20 contracts/leases tested, 6 (30%) totaling $13 million were filed 18 to 144 days after the execution of the contract. Of the 6 contracts/leases filed late, 4 of the agreements were filed more than 30 days late which requires submission of a late filing affidavit. The Department did not submit late filing affidavits for two of the four agreements that were filed more than 30 days late.

The Illinois Procurement Code (30 ILCS 500/20-80 (b)) dictates "Whenever…a contract liability…exceeding $10,000 is incurred by any State agency, a copy of the contract…shall be filed with the Comptroller within 15 days thereafter."

Department officials have stated that the cause is generally administrative delay and can be due to a number of factors including staffing shortages, delays in routing, etc.

Failure to file contracts and leases in excess of $10,000 in a timely fashion with the Office of the Comptroller is a violation of State statute. (Finding Code No. 07-19, 06-6)

RECOMMENDATION:

We recommend that the Department take the necessary steps to ensure contracts and leases are filed with the State Comptroller within 15 days after the execution of the agreement.

DEPARTMENT RESPONSE:

The Department concurs. We are in the process of retraining fiscal staff in the proper timelines, and are working to improve process efficiencies between contract execution and filing.

07-20 FINDING: (Ineffective property management)

The Department has not established a property management function to effectively manage occupancy costs and revenues.

Responsibility for managing the majority of State owned and leased buildings was transferred to the Department through Executive Order 2003-10, which consolidated the Facilities Management function. This Executive Order, which was effective May 31, 2003, stipulated the consolidation of the facilities management function to be implemented as of July 1, 2004. The Department is currently responsible for managing 771 State owned or leased properties.

The Department's Bureau of Property Management has primary responsibility for coordinating Department activities involving State property. Beginning in fiscal year 2005, most transactions, including charges to or transfers from user agencies for space occupancy and payment of property costs such as lease payments, building maintenance, utilities and security were accounted for in the Facilities Management Revolving Fund (FMRF)

Lack of Timely Funding or Billing

In fiscal year 2005, the Department initiated the development of a process to account for the costs of properties by agency. The process included development of a cost allocation methodology and Billing Allocation System (BAS) that was intended to establish a mechanism to capture costs by property, including allocable overhead costs, and generate billings to user agencies.

As part of the process development that began during fiscal year 2005, the Department contracted with a consultant to design a cost allocation methodology that would determine costs by agency and property for purposes of establishing billings to the agencies for the management of their buildings and properties. The cost allocation methodology uses prior fiscal year spending data to estimate upcoming fiscal year costs resulting in a rate model that established a cost per square foot plus a depreciation factor for each property. The BAS was developed and functional on December 8, 2004. However, the Department has historically not produced bills from the BAS in a timely manner. The Department did not complete the calculation of the new rates or send the first billings for fiscal year 2007 until November 2006. During our testing we noted December 2006 and June 2007 billings were not sent to agencies until March 2007 and August 2007, respectively. Delays in updating the cost allocation model and billing agencies have created difficulties in monitoring user agency occupancy costs which had a negative impact in the development of fiscal year 2007 budgets and forecasting for fiscal year 2008.

Department officials stated it is their practice to develop the new billing rates after all vouchers for the previous fiscal year have been processed to ensure rates are based on complete and accurate expenditure information. An estimated 25,000 vouchers are processed each year by the Facilities Management function of the Bureau of Property Management.

Renewal of Leases not Actively Managed

The Department is not actively managing its leased space or occupancy, nor bidding and renewing, or consolidating its existing leases resulting in a substantial number of leases that have not been timely renewed or terminated. Department records indicate that as of December 8, 2005, 293 of the 596 (49%) leases were in holdover status. As of October 2006 there were 230 leases in holdover status and as of October 2007 the number of leases in holdover status was 165. Leases in holdover status represent leases for which the contractual term of the lease has expired but the State continues to occupy the building and pay on a month-to-month basis under the previous terms of the lease. Many of these leases have been in this status for over 5 years. The Department has not assessed effective utilization of the space and has not negotiated terms that may be more favorable to the State. However, in May 2007 the Department contracted with multiple vendors to outsource professional services, including architects and contractors, to assist with duties performed by internal leasing representatives. The contracts awarded total a maximum award amount of approximately $912,000.

Furthermore, lack of a formal, written agreement has exposed the State to litigation in one situation involving a holdover lease and the State is involved in another suit involving termination of a lease as follows:

- The Department terminated holdover tenancy on behalf of the Department of Employment Security and the State is being sued for breach of contract. The claimant is seeking $616,599 restitution. (One Congress Center, an IL limited Partnership (aka Anvan) v State, 06-CC-1046)
- The Department terminated the lease of a warehouse on behalf of the Department of Public Aid (now the Department of Healthcare and Family Services) and the State is being sued for breach of contract. The claimant is seeking $2,698,114 restitution. (Frankenmuth Mutual Insurance Co v DCMS, 03-CC-3457)

Other Issues Noted With The Consolidation Of The Property Management Function

Payments to vendors for monthly lease obligations, utilities and other occupancy related costs were not made timely. Issues noted included:

- The Department received numerous calls of complaints from vendors regarding late payment of invoices. Department officials have represented these complaints were primarily the result of the untimely billing and transfer of funds and a lack of trained accounting personnel.
- The Department did not conduct a true up of fiscal year 2006 billings to amounts paid until fiscal year 2008. Thus current rates could not be adjusted to reflect the true costs of the facilities. There is a two year lag on the reconciliation of vendor payments and amounts billed to other agencies for facility management services.
- As of December 2007 a significant number of agencies had not paid their July and August 2007 bills due to the Facilities Management Revolving Fund for fiscal year 2007. At December 31, 2007 the Department reported receivables totaling $1,135,353 for services provided in fiscal year 2007.

- The Department lacks an effective accounting system to manage its property costs and leases by location. As such, they cannot properly manage, control, or analyze its facility costs on an ongoing basis, identify costs overruns, identify variances from expected amounts and other costs to actively manage its costs by location.
- The Department received disconnection notifications from utility companies. Department officials have represented some disconnection notices resulted from the utility companies not treating the service as governmental.
- A lawsuit has been filed against the Department by an electric utility provider seeking payment of unpaid or outstanding accumulated electric bills at various State of Illinois facilities. The claimant is seeking $296,042.

The prior examination reported numerous issues regarding the handling of three leases in a Chicago property. No similar problems were noted during our current testing of leases.

Failure to address the issues created by the consolidation of the facilities management function has resulted in the Department's inability to effectively manage occupancy costs and revenues by property and agency. Lack of an effective accounting and financial reporting system diminishes the Department's ability to control costs, assess the needs of State agencies, negotiate favorable lease terms and effectively budget. (Finding Code No. 07-20, 06-7, 05-11)

RECOMMENDATION:

We recommend that the Department implement a system to effectively carry out its facilities management responsibilities as follows:

- The Department should fully implement a cost allocation methodology and billing system to facilitate timely billing to user agencies and timely transfer or collection of charges.
- The Department should obtain necessary information to enable preparation of complete, accurate and timely billings to user agencies.
- The Department should establish an effective fiscal function to ensure vendor payments are made timely.
- The Department should complete a property utilization assessment to address space needs and enable the Department to eliminate the significant number of leases in holdover status.
- The Department should implement a financial reporting system to effectively account for and analyze occupancy costs by property and agency.

DEPARTMENT RESPONSE:

The Department concurs with the findings that all corrective actions from the prior audits have not been fully implemented, and we continue to actively pursue full implementation. However, we do contend some of the statements in the current findings:

We do not agree that holdover leases are not being managed. Holdover leases are being significantly reduced and actively managed, and our lease consolidation plan is implementing our property utilization assessment targets. We do not agree that there is a deficiency in our accounting system, ability to collect and manage costs, true ups and federal reconciliations. We do not agree that DCMS can exert any additional leverage to make agencies to pay their bills in a timely fashion.

07-21 <u>FINDING</u>: (Follow up to management audit of the Department's administration of the State's Space Utilization Program)

In February 2004, the Office of the Auditor General released a management audit of the Department of Central Management Services' Administration of the State's Space Utilization Program. The audit contained nine recommendations to improve the performance and operation of the Department to effectively manage the State's real property. At the conclusion of the Department's compliance examination for the year ended June 30, 2004, auditors had found that none of the nine recommendations had been fully implemented. At the conclusion of the Department's compliance examination for the year ended June 30, 2005, auditors had found that four of the nine recommendations had been fully implemented. At the conclusion of the Department's compliance examination for the year ended June 30, 2006, auditors determined that one of the five remaining recommendations was implemented and four were only partially implemented. At the conclusion of this compliance examination (for the year ended June 30, 2007), auditors determined there is no change in the status of this finding from the prior engagement and the four remaining recommendations are still only partially implemented.

The Department awarded a $24.9 million three-year contract for professional asset management services to Illinois Property Asset Management (IPAM) on December 29, 2003. In the Department response to the management audit it indicated that many of the activities to address the recommendations would be performed by IPAM. An IPAM representative stated at a Legislative Audit Commission meeting in March 2004 that IPAM would make substantial progress by the end of fiscal year 2004 on all nine recommendations in the management audit. In May 2005, the Department cancelled the IPAM contract. Below is a summary of the recommendations that have not been fully implemented.

- **Accuracy of the Master Record (Recommendation #2):** *The Department should conduct a statewide inventory of real property to develop an accurate accounting of land and buildings owned by the State. To accomplish this task, the Department should consider sending the agencies all the information contained in the master record for properties owned by the agencies so that applicable additions and deletions can be reported. Additionally, the Department should clarify whether wetland and flood mitigation land holdings should be reported per the provisions of the State Property Control Act and if so, provide sufficient guidance to applicable agencies holding those types of property.* The Department clarified reporting requirements for wetland and flood mitigation projects in an agency directive in August 2005. The Department has developed an accounting of land and buildings owned by the State. However, the master record needs additional verification through the Department's process of facility condition assessments for approximately 40 million square feet of State-owned space.

- **Automation of the Master Record (Recommendation #3):** *The Department should once again look into the possibility of automating the master record of State-owned real property with a system that is capable of producing management reports to allow the State to effectively manage land and building assets.* The Department has automated the master record and it is maintained in a database with the vendor. However, since termination of the contract, the Department does not have physical possession of the databases – they are still with the former vendor.

- **Use of Unoccupied Space in State-Owned Facilities (Recommendation #7):** *The Department should conduct a detailed examination of all real property owned or controlled by the State and determine what property is excess. For property identified as excess, the Department should ensure it is efficiently utilized or take the steps necessary to declare the space as surplus and follow laws and regulations established regarding the disposal of surplus property. Additionally, the Department should: study the unoccupied space at all State-owned facilities, including the Department of Human Services (DHS) facilities, and determine whether it is cost beneficial to move State agencies that lease office space in the same areas into this unoccupied space; and, ensure that the State should receive adequate revenue for the space rented at these DHS facilities.* The Department has not completed the facility condition assessments on State-owned facilities to be able to identify all excess space.

- **Monitoring of Leased Space (Recommendation #8):** *The Department should take proactive steps in monitoring leased space and seek to identify any efficiencies (i.e., combining leases to eliminate some costs) that would result in savings to the State.* The Department has not performed a complete analysis of leased space and the potential for excess space in leased facilities.

It is important that the Department continue to implement the recommendations from the management audit to further improve its operations and performance. (Finding Code No. 07-21, 06-8, 05-14, 04-12)

RECOMMENDATION:

We recommend the Department of Central Management Services continue to fully implement the remaining four management audit recommendations contained in the February 2004 Space Utilization Management Audit that were partially implemented.

DEPARTMENT RESPONSE:

The Department concurs but notes the following: (1) the facility condition assessment is currently being completed by the Capital Development Board; (2) although we have not obtained the master record from the prior vendor, our own internal database is being enhanced; (3) our space planning analysis tool is being utilized for analysis of both state-owned and leased space to better utilize or eliminate excess space.

07-22 **<u>FINDING</u>:** (Follow up to management audit of the Department's Administration of the Business Enterprise Program)

In June 2006, the Office of the Auditor General released a management audit of the Department of Central Management Services' Administration of the Business Enterprise Program. The audit contained fifteen recommendations to improve the performance and operation of the Department to effectively manage the State's policies in place over the program. As part of this compliance examination (for the year ended June 30, 2007), auditors determined that the Department has fully implemented eight of the fifteen recommendations, one was not implemented and six were partially implemented.

The following recommendation has not been implemented by the Department:

- **Ensure all certifications are completed within 60 days (Recommendation #7):** *The Department of Central Management Services should ensure that all applicants for certification or recertification are processed within the required 60 days.* While management has developed policies and procedures to ensure that applicants for certifications are processed within 60 days, they have been unable to process vendors within this timeframe.

The following six recommendations have been partially implemented by the Department:

- **Adequate Membership and regularly scheduled Council meetings (Recommendation #1):** *The Department of Central Management Services should ensure that the Business Enterprise Council has adequate membership and that meetings are held on a regular basis.* While the Council held meetings on a regular basis, they have been unable to fill all the seats on the Council.

- **Develop minimum training requirements and track training (Recommendation #3):** *CMS should establish minimum training requirements for certification staff and ensure that the required training is received. CMS should also track the training received by certification staff.* While management has identified training they would like their analysts and managers to attend, they have not set minimum training requirement for employees such as minimum number of hours or core classes for staff.

- **Reciprocal Agreements with Agencies (Recommendation #4):** *CMS should develop written agreements with those entities that it accepts certifications from to ensure that those entities' requirements and procedures equal or exceed those in the Act and to ensure that vendors are eligible. Agreements should include requirements, procedures, and notifications of certification or denial or changes in requirements. The Business Enterprise Council should also approve all agreements.* While management has developed a standard reciprocity agreement for the Agencies, they have only been able to finalize two of seven agreements. Management is currently drafting reciprocity agreements for the other agencies.

- **Consider conducting site visits (Recommendation #6):** *The Department of Central Management Services should consider conducting site visits of all applicants.* While management has conducted a few more site visits during the fiscal year, they should consider performing additional site visits.

- **Vendors to submit no change affidavit (Recommendation #9):** *The Department of Central Management Services should consider requiring vendors to submit a No Change Affidavit in years when they are not going through the certification process.* While management has taken the necessary steps to amend the Joint Committee on Administrative Rules for the no change affidavit, they have not implemented the process as of June 30, 2007.

- **Track vendors for recertification and monitor if they have been debarred from any other entities (Recommendation #13):** *The Department of Central Management Services should track vendors to determine whether recertification documents are submitted in a timely manner and use the enforcement actions that are available to them to decertify any vendors that do not submit for recertification in a timely manner.*

  CMS should also monitor vendors that have been debarred by other entities and determine whether these vendors are still eligible to participate in the State's Business Enterprise Program.

  While management has been able to track vendors for recertification, they have not been able to consistently monitor vendors that have been debarred by other entities after the vendor has been certified.

The following eight recommendations have been implemented by the Department:

- **Develop Policies and Procedures Manual (Recommendation #2):** *CMS should develop and adopt policies and procedures manual for the Business Enterprise Program including specific certification procedures.*

- **Make list of vendors available on website (Recommendation #5):** *CMS should make the list of BEP certified vendors available on its website.*

- **Procedures to ensure all documentation is received prior to certification (Recommendation #8):** *The Department of Central Management Services should ensure that they receive all required documentation prior to certifying or recertifying vendors*

- **All correspondence is reviewed and the review is documented (Recommendation #10):** *The Department of Central Management Services should ensure that all worksheets and checklists are adequately completed. Furthermore, CMS should ensure that the supervisory review is documented.*

- **Consider establishing a central location for certifications (Recommendation #11):** *The Department of Central Management Services should consider establishing a central and easily accessible location for all certification files and institute a file tracking system.*

- **Require applicants to disclose all companies in which they own an 5% interest and prepare written summary for information received for each certification (Recommendation #12):** *The Department of Central Management Services should:*

  Require all applicants to disclose all companies in which an eligible group member(s) owns more than 5% interest; and

  Prepare a written summary of information for each certification, including any concerns regarding ownership, control, or eligibility issues in order to show the basis for the certification decision.

- **Track and investigate complaints (Recommendation #14):** The Department of Central Management Services should track and investigate complaints file against BEP vendors.

- **Monitoring work of Prime vendors and subcontractors (Recommendation #15):** *The Department of Central Management Services should monitor contracts for compliance with required goals and to determine whether BEP firms are performing the work. CMS should also track dollars BEP vendors receive as subcontractors.*

It is important that the Department continue to implement the recommendations from the management audit to further improve its operations and performance. (Finding Code No. 07-22)

RECOMMENDATION:

We recommend the Department of Central Management Services continue to fully implement the remaining seven management audit recommendations contained in the June 2006 Business Enterprise Management Audit that were either not implemented or were partially implemented.

DEPARTMENT RESPONSE:

The Department concurs. The Department has taken the following steps to implement all of the recommendations: (1) since the audit was conducted, procedures have been put in place to allow for all certifications to be completed within the mandated 60 days; (2) All BEP Council meetings have been conducted and held regularly; (3) BEP is in the process of developing minimum training requirements for all BEP employees; (4) BEP is in the process of executing Recognition Agreements with the remaining five agencies; (5) All vendors are now required to submit No-Change-Affidavits; (6) BEP is in the process of developing a system to track that recertification applications are submitted in a timely manner. The system will also encompass monitoring of debarment from other government agencies.

07-23 **FINDING:** (Surplus property management process weaknesses)

The Department's Division of Property Management State Surplus Warehouse has not implemented an adequate inventory control system.

A paper listing of surplused property submitted by agencies with the delivery of items to the warehouse was the only record of surplused inventory. The lack of an adequate inventory control system impedes compliance with the Illinois Administrative Code (44 Ill. Adm. Code Part 5010), and reduces the ability of Surplus Warehouse personnel and agencies to locate equipment for potential transfer. This results in a risk that agencies would purchase new equipment when comparable equipment could have been obtained from Surplus.

One method of disposal under the Illinois Administrative Code (44 Ill. Adm. Code 5010.610) is to offer the equipment for the use of any State agency. The lack of an adequate inventory control system hindered the ability of Surplus to offer equipment to State agencies. A comprehensive list of available items was not maintained or disseminated to agencies. However, agencies were permitted to send "want lists" and be notified of requested transferable equipment as it became available (44 Ill. Adm. Code 5010.640).

The lack of effective controls regarding the receipt and inventory of equipment increases the potential for theft of the State's surplused property. Property would arrive at the Surplus Warehouse, often in large volumes, and Surplus personnel would do a spot check, comparing inventory listed on the delivery form with the inventory delivered, and then sign the form indicating property was received. This process potentially provides signed evidence that missing/stolen items were received at the Surplus Warehouse, even though the items may never have been received. However, we did not note any such activity.

Department personnel have represented the weaknesses in the inventory control system are the result of insufficient resources, utilization of practices that are not representative of the best practices used by other states and inventory control rules that may not meet the needs of the State. (Finding Code No. 07-23, 06-9, 05-16, 04-15)

RECOMMENDATION:

We recommend the State's Surplus Warehouse implement an effective inventory control system. An effective inventory control system would improve controls over the receipt and tracking of inventory, reduce the potential for theft, and enable Surplus to better serve the needs of State agencies.

DEPARTMENT RESPONSE:

The Department concurs, has approved the acquisition of centralized inventory system software to carry out the recommendations, and is drafting a software charter in preparation for an invitation to bid.

07-24 **<u>FINDING</u>:** (Late approval and payment of vouchers)

The Department did not process invoice vouchers in a timely manner as required by the Illinois Administrative Code.

During our testing of 60 vouchers, we noted 13 (22%) vouchers were not approved in a timely manner. Those not approved within 30 days of physical receipt were approved from 2 to 31 days late. We also noted that 7 (12%) of the 60 vouchers were not paid within 60 days of receipt. During fiscal year 2007 the Department made interest payments for late payment of vouchers totaling $45,268.

The Illinois Administrative Code (74 Ill. Adm. Code 900.70) requires an Agency to review a bill and either deny the bill in whole or in part, ask for more information necessary to review the bill or approve the bill in whole or in part, within 30 days of physical receipt of the bill. For those bills not approved timely, interest shall be due if the date of payment is not within 60 days after the receipt of the bill.

Department personnel stated the exceptions were due to delays in processing due to the reorganization and lack of fiscal staff.

This violation could lead to the assessment of late charges or penalties to the State. The Prompt Payment Act states that interest begins accruing on the 61st day after receipt of a proper bill, and interest is calculated at 1% per month. Agencies are required to pay interest amounting to $50 or more. Interest amounting to $5 but less than $50 must be requested by the vendor. The Department appears to have paid interest in accordance with the Act. (Finding Code No. 07-24, 06-13, 05-20, 04-21)

<u>RECOMMENDATION</u>:

We recommend the Department enforce procedures requiring the approval or disapproval of vouchers within 30 days of receipt and comply with the payment of vouchers within 60 days of physical receipt, as required by the Illinois Administrative Code.

<u>DEPARTMENT RESPONSE</u>:

The Department concurs. We are in the process of retraining fiscal staff in the proper approval timelines. In terms of payment, there remain cash flow issues which will contribute to late payments during certain portions of the FY.

07-25 FINDING: (Time sheets not maintained in compliance with the State Officials and Employees Ethics Act)

The Department is not maintaining time sheets for its employees in compliance with the State Officials and Employees Ethics Act (Act).

The Act requires the Department to adopt personnel policies consistent with the Act. The Act (5 ILCS 430/5-5(c)) states, "The policies shall require State employees to periodically submit time sheets documenting the time spent each day on official State business to the nearest quarter hour."

We noted that only 78 out of 1,661 average Department employees maintained time sheets in compliance with the Act. Most employees' time is generally tracked using the Central Management Services payroll system, which is a "negative" timekeeping system whereby the employee is assumed to be working unless noted otherwise. No time sheets documenting the time spent each day on official State business to the nearest quarter hour are maintained for the majority of Department employees. The employees documenting time to the nearest quarter hour were only upper management employees including the Director, General Counsel, and employees in other positions that involve either principal administrative responsibilities for the determination of policy or principal administrative responsibility for the way in which policies are carried out.

Department personnel stated the current system does not accommodate positive-entry timekeeping. Department personnel stated they are participating in the development of the pilot for the new statewide timekeeping system which will satisfy the requirements of the Act and, in the interim, they require a signed statement on each employee's monthly timekeeping report certifying that all time calculated as worked was spent on State business.

By not maintaining appropriate time sheets for its employees, the Department is not in compliance with the Act. (Finding Code No. 07-25, 06-14, 05-21, 04-23)

RECOMMENDATION:

We recommend the Department establish an appropriate mechanism that will enable all employees to maintain time sheets in compliance with the Act.

DEPARTMENT RESPONSE:

The Department concurs. The solution lies in a new automated timekeeping system which the Department is participating in developing through the Shared Services Program Initiative. In the interim, the Department has implemented compensating controls through the certification process.

07-26 FINDING: (Inadequate Documentation of Compliance with the Fiscal Control and Internal Auditing Act)

The Department's Illinois Office of Internal Audit (IOIA) was unable to adequately demonstrate compliance with the Fiscal Control and Internal Auditing Act that requires audits of major systems of internal accounting and administrative control.

The Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/2003) requires the internal auditing program include audits of major systems of internal accounting and administrative control be conducted on a periodic basis so that all major systems are reviewed at least once every two years. IOIA made substantial improvements in the number of audits performed during fiscal year 2007; however, IOIA did not maintain adequate documentation regarding the assessment of internal audit coverage and the documentation provided was found to be incomplete or inaccurate. Thus, IOIA was unable to demonstrate sufficient internal audit effort to satisfy the requirements of the Act.

Executive Order 2003-10 consolidated the internal audit functions of the agencies and boards under the jurisdiction of the Governor within the IOIA. To achieve cost savings and enhance the internal audit process, the IOIA adopted a risk-based audit model intended to focus audit effort on those processes and functions within the State that were deemed to have increased or higher risk. An internal audit plan was developed in response to the assessment of risk with the objective of complying with the requirements of the Act. This plan called for the IOIA to conduct audits of various functions in specific agencies and to conduct audits of certain processes across multiple agencies.

Department officials stated new management had limited time and resources, therefore concentration was placed on completion of audits, reorganization of the office and efficiency of the audit process, rather than on the sufficiency of the approved audit plan's coverage and recordkeeping for the assessment of audit coverage.

Inadequate documentation results in the inability to demonstrate coverage of all major internal control systems, increasing the risk that significant internal control weaknesses may exist and errors and irregularities may go undetected. (Finding Code No. 07-26, 06-16)

RECOMMENDATION:

We recommend the Department maintain adequate documentation to demonstrate compliance with the Fiscal Control and Internal Auditing Act. We further recommend the Department ensure that audits of all major systems of internal accounting and administrative control be conducted at least once every two years.

DEPARTMENT RESPONSE:

The Department concurs. Prior to new management, documentation of audit coverage by the major internal control systems was not adequately documented for fiscal year 2006 and half of fiscal year 2007. For fiscal year 2008, IOIA will allocate adequate resources to verify sufficiency of the audit plan's coverage, accuracy of the recordkeeping for the assessment of audit coverage and conduct audits of all major systems to ensure compliance with the Fiscal Control and Internal Auditing Act.

07-27 **FINDING:** (Inadequate monitoring of interagency agreements)

The Department's process to monitor interagency agreements was inadequate.

During our examination of four interagency agreements between the Department and other State agencies the following deficiencies were noted:

- 2 of 4 (50%) interagency agreements tested were not signed by all necessary parties before the effective date. One agreement was signed 37 days late while the other agreement's required signatures were not dated. Department officials have stated the cause was general administrative delay.

- 4 of 4 (100%) interagency agreements tested failed to include adequate supporting documentation detailing the methodology used for determining the percent allocation to be paid by the Department for the billing of shared services. Department officials have stated that there were general assumptions for the percentage of time devoted to Department related work and that there was no formal documented hourly basis.

SAMS 15.20.30 states contracts must be executed prior to commencement of services. Interagency agreements are binding contracts between State agencies. Further, prudent business practices require the approval of agreements prior to the effective date and proper documentation supporting the billing and payment of services.

The Department has entered into 120 agreements with other State agencies and other units of government. The purpose of the agreements is to assist the Department in fulfilling its mandated mission. In order to assess whether the agreement is reasonable, appropriate, and sufficiently documents the responsibilities of the appropriate parties, the agreement needs to be approved prior to the effective date, include proper documentation supporting the percent allocation used for billings, and include proper support for payments to vendors. (Finding Code No. 07-27, 06-17)

RECOMMENDATION:

We recommend that the Department ensure all interagency agreements are approved by an authorized signer prior to the effective date of the agreement. Further, the Department should require all interagency agreements include methodology supporting the percent allocations used for billing of shared services.

DEPARTMENT RESPONSE:

The Department generally concurs. It is important to note that the IGAs only reflected payment agreements - they did not legitimize the actual performance of the work. The underlying contracts were all properly executed and filed. The Department believes it was an acceptable practice to have the work performed while negotiating alternate payment responsibilities. As for the allocation of cost, there were general assumptions regarding percentage of time devoted to DCMS related work/issues. The Department agree to pursue more formal documentation.

07-28 FINDING: (Failure to develop rules or policies describing the State employees' group insurance program)

The Department has not developed rules or policies describing the State employees' group insurance program as requested by the Joint Committee on Administrative Rules (JCAR).

The Illinois Administrative Procedure Act (5 ILCS 100) requires that any State agency policy affecting anyone outside that agency be expressed through rules adopted under the Act. Further, the State Employees Group Insurance Act of 1971 (5 ILCS 375/15) states "The Director shall prescribe such rules and regulations as are necessary to give full effect to the purposes of this Act."

JCAR indicated in a letter dated May 11, 2006 to the Department that JCAR has had informal discussions with the Department over at least the last three years, and the Department acknowledged a lack of rules for the program. Furthermore, the Department has indicated to JCAR on more than one occasion, that rules for this program were being drafted and that a submission of them would be forthcoming. However, as of January 15, 2008, the Department has not completed or submitted rules to JCAR for their consideration. Department officials have represented that the rules have not been completed due to the ever-changing landscape of the program.

The Department is in noncompliance with the Acts. Failure to develop rules or policies describing the State employees' group insurance program increases the likelihood that other State agencies will be in noncompliance with the program. (Finding Code No. 07-28, 06-18)

RECOMMENDATION:

We recommend the Department develop the necessary rules affecting the State employees' group insurance program in accordance with the Illinois Administrative Procedure Act.

DEPARTMENT RESPONSE:

The Department concurs. The Department continues to work on the rules associated with the Group Insurance Act and has every intention of filing those rules with JCAR as soon as possible upon their completion.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

PRIOR FINDINGS NOT REPEATED
(STATE COMPLIANCE)

07-29 **FINDING** (Lack of documentation in contract files)

In the prior year, the Department's contract files lacked basic information to adequately document the evaluation and selection process.

In the current period, we noted that the Department has made improvements in their document retention. We believe the significance of this finding is reduced and as such, has been included in a letter of immaterial findings. (Finding Code No. 06-2)

07-30 **FINDING** (Accounts receivable deficiencies)

In the prior year, the Department was not timely in applying vendor payments to the Accounts Receivable Posting System (ARPS) for certain internal service funds. Additionally, the Department used an inappropriate method of calculating uncollectible accounts.

During the current period, we did not note any instances of delayed input of vendor payments into ARPS. We did note during the current period that the Department has improved their accounts receivable reporting policy and the financial statements reflect the entire amount owed to the Department at fiscal year end. (Finding Code No. 06-11)

07-31 **FINDING** (Improper transfer of personnel and certification of payroll)

In the prior year, the Department circumvented the appropriation process and violated the State Finance Act when it temporarily transferred personnel from the Facilities Management Revolving Fund (FMRF) to the Efficiency Initiatives Revolving Fund (EIRF) and the Professional Services Fund (PSF).

During the current period, the Department did not transfer personnel between funds for the purpose of transferring payroll costs. (Finding Code No. 06-12)

07-32 **FINDING** (Inadequate controls over access to SAMS)

In the prior year, the Department did not timely restrict access to the Comptroller's Statewide Accounting and Management System (SAMS) by employees who terminated their employment or whose job no longer required access to SAMS.

In the current period, we did not note any unauthorized access to SAMS for current or terminated employees. (Finding Code No. 06-15)

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

FINANCIAL STATEMENT REPORT SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Department of Central Management Services as of June 30, 2007 and for the year then ended, was performed by Sikich LLP as Special Assistant Auditors to the Auditor General, State of Illinois.

Based on their audit, the auditors expressed an unqualified opinion on the Department's basic financial statements.

Certified Public Accountants & Advisors

Sikich
Professional Services & Support

Members of American Institute of
Certified Public Accountants &
Illinois CPA Society

INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Central Management Services, as of and for the year ended June 30, 2007, which collectively comprise the Department of Central Management Services' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Illinois, Department of Central Management Services' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the financial statements of the State of Illinois, Department of Central Management Services are intended to present the financial position and changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the State of Illinois, Department of Central Management Services. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2007, and its changes in financial position including cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Central Management Services, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 9, 2008 on our consideration of the State of Illinois, Department of Central Management Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The State of Illinois, Department of Central Management Services has not presented a management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Illinois, Department of Central Management Services' basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, and agency management, and is not intended to be and should not be used by anyone other than these specified parties.

Sikich LLP

Springfield, Illinois
May 9, 2008

State of Illinois
Department of Central Management Services

Statement of Net Assets

June 30, 2007 (Expressed in Thousands)

		Governmental Activities
ASSETS		
Unexpended appropriations	$	13,948
Cash equity with State Treasurer		65,723
Cash and cash equivalents		4,107
Receivables, net:		
Intergovernmental		737
Other		9,150
Due from other Department fiduciary funds		75
Due from other State fiduciary funds		51
Due from other State funds		109,945
Due from State of Illinois component units		1,149
Inventories		1,725
Prepaid expenses		611
Capital assets not being depreciated		38,411
Capital assets being depreciated, net		256,982
Total assets		502,614
LIABILITIES		
Accounts payable and accrued liabilities		53,169
Intergovernmental payables		25,876
Due to other State fiduciary funds		233
Due to other State funds		196
Due to State of Illinois component units		2,993
Unearned revenue		183
Long term obligations:		
Due within one year		123,689
Due subsequent to one year		137,949
Total liabilities		344,288
NET ASSETS		
Invested in capital assets, net of related debt		249,652
Restricted for debt services		3,675
Unrestricted (deficit)		(95,001)
Total net assets	$	158,326

The accompanying notes to the financial statements are an integral part of this statement.

Statement of Activities

For the Year Ended June 30, 2007 (Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Net (Expense) Revenues and Changes in Net Assets: Governmental Activities
Primary government			
Governmental activities			
General government	$ 693,426	$ 576,496	$ (116,930)
Interest	96	-	(96)
Total governmental activities	693,522	576,496	(117,026)
General revenues			
Appropriations from State Resources			116,381
Lapsed appropriations			(10,505)
Receipts collected and transmitted to State Treasury			(1,085)
Interest and investment income			2,909
Other revenues			20,890
Capital transfers from other State agencies, net of related debt			368
Transfers-out			(7,613)
Total general revenues and transfers			121,345
Change in net assets			4,319
Net assets, July 1, 2006			154,007
Net assets, June 30, 2007			$ 158,326

The accompanying notes to the financial statements are an integral part of this statement.

Balance Sheet - Governmental Funds

June 30, 2007 (Expressed in Thousands)

	General Fund	Nonmajor funds	Total Governmental Funds
ASSETS			
Unexpended appropriations	$ 14,896	$ (948)	$ 13,948
Cash equity with State Treasurer	1	1,147	1,148
Cash and cash equivalents	-	432	432
Receivables, net:			
Intergovernmental receivables	-	48	48
Other receivables	538	1	539
Due from other Department fiduciary funds	-	11	11
Due from other Department funds	6,452	1,372	7,824
Due from other State funds	-	6	6
Due from State of Illinois component units	-	11	11
Total assets	$ 21,887	$ 2,080	$ 23,967
LIABILITIES			
Accounts payable and accrued liabilities	$ 1,303	$ 617	$ 1,920
Intergovernmental payables	111	1	112
Due to other State fiduciary funds	102	1	103
Due to other Department funds	202,181	73	202,254
Due to other State funds	85	11	96
Due to State of Illinois component units	202	1	203
Unavailable revenue	487	-	487
Matured portion of long-term obligations	394	-	394
Total liabilities	204,865	704	205,569
FUND BALANCES (DEFICITS)			
Reserved for encumbrances	833	28	861
Unreserved, undesignated:			
General fund	(183,811)	-	(183,811)
Special revenue funds	-	916	916
Debt services funds	-	432	432
Total fund balances (deficits)	(182,978)	1,376	(181,602)
Total liabilities and fund balances (deficits)	$ 21,887	$ 2,080	$ 23,967

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Central Management Services
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Assets
June 30, 2007
(Expressed in Thousands)

Total fund balances-governmental funds		$ (181,602)
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		268
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		487
Internal service funds are used to charge costs of certain activities to individual funds. The assets and liabilities of the internal service funds are reported as governmental activities in the Statement of Net Assets.		342,373
Some liabilities reported in the Statement of Net Assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. These liabilities consist of:		
Installment purchase obligations	(9)	
Compensated absences	(1,542)	
Auto liability claims	(1,649)	
		(3,200)
Net assets of governmental activities		$ 158,326

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois

Department of Central Management Services

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

For the Year Ended June 30, 2007 (Expressed in Thousands)

	General Fund	Nonmajor funds	Total Governmental Funds
REVENUES			
Interest and other investment income	$ -	$ 25	$ 25
Other	164	1,973	2,137
Other charges for services	-	957	957
Total revenues	164	2,955	3,119
EXPENDITURES			
General government	111,462	5,795	117,257
Debt service - principal	-	3,073	3,073
Debt service - interest	-	96	96
Capital outlays	17	39	56
Total expenditures	111,479	9,003	120,482
Excess (deficiency) of revenues over (under) expenditures	(111,315)	(6,048)	(117,363)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES			
Appropriations from State resources	106,381	10,000	116,381
Lapsed appropriations	(1,859)	(8,646)	(10,505)
Receipts collected and transmitted to State Treasury	(137)	(948)	(1,085)
Transfers-out	-	(395)	(395)
Net other sources (uses) of financial resources	104,385	11	104,396
Net change in fund balances	(6,930)	(6,037)	(12,967)
Fund balances (deficits), July 1, 2006, as restated	(176,048)	7,413	(168,635)
FUND BALANCES (DEFICITS), JUNE 30, 2007	$ (182,978)	$ 1,376	$ (181,602)

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Central Management Services
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities
For the Year Ended June 30, 2007
(Expressed in Thousands)

Net change in fund balances	$ (12,967)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which depreciation exceeded capital outlays in the current period.	(419)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	3,073
Some capital assets were transferred from other State agencies.	368
Internal service funds are used to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is reported as governmental activities in the Statement of Activities.	14,212
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the increase in unavailable revenue over the prior year.	43
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Below are such activities.	
Decrease in compensated absences obligation	313
Increase in auto liability claims	(304)
Change in net assets of governmental activities	$ 4,319

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Central Management Services

Statement of Net Assets - Proprietary Funds

June 30, 2007 (Expressed in Thousands)

		Governmental Activities - Internal Service Funds
ASSETS		
Cash equity with State Treasurer	$	64,575
Cash and cash equivalents		3,675
Receivables, net:		
Intergovernmental		689
Other		8,611
Due from other Department fiduciary funds		64
Due from other State fiduciary funds		51
Due from other Department funds		207,774
Due from other State funds		109,939
Due from State of Illinois component units		1,138
Inventories		1,725
Prepaid expenses		611
Total current assets		398,852
Capital assets not being depreciated		38,369
Capital assets being depreciated, net		256,756
Total assets		693,977
LIABILITIES		
Accounts payable and accrued liabilities		51,249
Intergovernmental payables		25,764
Due to other State fiduciary funds		130
Due to other Department funds		13,344
Due to other State funds		100
Due to State of Illinois component units		2,790
Deferred revenue		183
Current portion of long-term obligations		121,653
Total current liabilities		215,213
Noncurrent portion of long-term obligations		136,391
Total liabilities		351,604
NET ASSETS		
Invested in capital assets, net of related debt		249,393
Restricted for debt service		3,675
Unrestricted		89,305
Total net assets	$	342,373

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Central Management Services

Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds

For the Year Ended June 30, 2007 (Expressed in Thousands)

	Governmental Activities - Internal Service Funds
OPERATING REVENUES	
Charges for sales and services	$ 629,662
Other	169
Total operating revenues	629,831
OPERATING EXPENSES	
Cost of sales and services	429,641
Claims and judgments	131,207
General and administrative	29,016
Depreciation	23,824
Other	12,338
Total operating expenses	626,026
Operating income (loss)	3,805
NONOPERATING REVENUES (EXPENSES)	
Interest and investment income	2,884
Interest expense	(3,588)
Other revenues	18,541
Other expenses	(212)
Income (loss) before contributions and transfers	21,430
Transfers-out	(7,218)
Change in net assets	14,212
Net assets, July 1, 2006	328,161
NET ASSETS, JUNE 30, 2007	$ 342,373

The accompanying notes to the financial statements are an integral part of this statement.

Statement of Cash Flows - Proprietary Funds

For the Year Ended June 30, 2007 (Expressed in Thousands)

	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from sales and services	$ 14,111
Cash received from transactions with other funds	587,816
Cash payments to suppliers for goods and services	(371,845)
Cash payments to employees for services	(116,986)
Cash payments for workers compensation	(90,160)
Cash receipts from other operating activities	2,996
Net cash provided (used) by operating activities	25,932
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers-out to other funds	(7,218)
Net cash provided (used) by noncapital financing activities	(7,218)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(12,436)
Principal paid on capital debt	(6,451)
Interest paid on capital debt	(2,547)
Net cash (used) by capital and related financing activities	(21,434)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends on investments	2,807
Net cash provided (used) by investing activities	2,807
Net increase (decrease) in cash and cash equivalents	87
Cash and cash equivalents, July 1, 2006	68,163
CASH AND CASH EQUIVALENTS, JUNE 30, 2007	$ 68,250
Reconciliation of cash and cash equivalents to the statement of net assets:	
Total cash and cash equivalents per the statement of net assets	$ 3,675
Add: cash equity with State Treasurer	64,575
CASH AND CASH EQUIVALENTS, JUNE 30, 2007	$ 68,250
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
OPERATING INCOME (LOSS)	$ 3,805
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	23,824
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(8,217)
(Increase) decrease in intergovernmental receivables	(52)
(Increase) decrease in due from other funds	(48,521)
(Increase) decrease in due from State of Illinois component units	(542)
(Increase) decrease in inventory	(358)
(Increase) decrease in prepaid expenses	151
Increase (decrease) in accounts payable and accrued liabilities	15,444
Increase (decrease) in intergovernmental payables	11,418
Increase (decrease) in due to other State funds	6,971
Increase (decrease) in due to State of Illinois component units	2,110
Increase (decrease) in deferred revenues	183
Increase (decrease) in other liabilities	19,716
Total adjustments	22,127
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 25,932
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	
Cost of installment purchases	$ 4,315
Loss on sale of equipment	$ (212)
Transfer of capital assets, net of related debt, to/from other State funds	$ 18,541

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois

Department of Central Management Services

Statement of Fiduciary Net Assets

June 30, 2007 (Expressed in Thousands)

	Pension Trust Fund: State Employees' Deferred Compensation Plan 0755	Agency Funds
ASSETS		
Cash equity with State Treasurer	$ 4,423	$ 9,414
Cash and cash equivalents	4,637	3,118
Investments:		
Equities	2,468,372	-
Fixed income	588,723	-
Other receivables, net	1,341	-
Total assets	3,067,496	$ 12,532
LIABILITIES		
Accounts payable and accrued liabilities	895	$ 12,520
Due to other Department funds	75	-
Due to other State funds	30	-
Due to State of Illinois component units	-	12
Other liabilities	132	-
Total liabilities	1,132	$ 12,532
NET ASSETS		
Held in trust for:		
Deferred compensation benefits	3,066,364	
Total net assets	$ 3,066,364	

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Central Management Services

Statement of Changes in Fiduciary Net Assets

For the Year Ended June 30, 2007 (Expressed in Thousands)

	Pension Trust Fund
	State Employees' Deferred Compensation Plan 0755
Deposits/Contributions:	
Members/participants	$ 163,221
Other contributions	3,695
Total contributions	166,916
Investment income:	
Interest, dividends and other investment income	161,759
Net appreciation of investments	259,161
Reimbursement of investment expenses not separable from investment income	3,194
Less: investment expense	(484)
Net investment income	423,630
Total additions	590,546
Deductions:	
Benefit payments	154,291
Refunds	24
General and administration	3,136
Total deductions	157,451
Net additions (deductions)	433,095
Net assets, July 1, 2006	2,633,269
Net assets, JUNE 30, 2007	$ 3,066,364

The accompanying notes to the financial statements are an integral part of this statement.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Notes to Financial Statements

June 30, 2007

INDEX OF NOTES TO THE FINANCIAL STATEMENTS

(1) Organization

The Department of Central Management Services (the Department) is a part of the executive branch of government of the State of Illinois (State) and operates under the authority of and review by the Illinois General Assembly. The Department operates under a budget approved by the General Assembly in which resources are appropriated for the use of the Department. Activities of the Department are subject to the authority of the Office of the Governor, the State's chief executive officer, and other departments of the executive and legislative branches of government (such as the Governor's Office of Management and Budget, the State Treasurer's Office, and the State Comptroller's Office) as defined by the Illinois General Assembly. All funds appropriated to the Department and all other cash received are under the custody and control of the State Treasurer, with the exception of ESCO COP Debt Service Fund, the Facilities Management Fund, the State Employees' Deferred Compensation Plan, and the Flexible Spending Account.

The Department provides a variety of centralized services for the operation of State Government. The Department provides personnel services for State agencies; purchases goods and services for State agencies; supplies telecommunications, data processing, videoconferencing, and office automation; manages state property, and disseminates information about State Government to the news media and general public. It employs volume purchasing and economies of scale to reduce costs and improve government efficiency. The Department also promotes the economic development of minority and female businesses and rehabilitation facilities for persons with disabilities.

(2) Summary of Significant Accounting Policies

The financial statements of the Department have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

(a) Financial Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

2) Fiscal dependency on the primary government.

Based upon the required criteria, the Department has no component units and is not a component unit of any other entity. However, because the Department is not legally separate from the State of Illinois, the financial statements of the Department are included in the financial statements of the State of Illinois. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1871.

(b) Basis of Presentation

The financial statements of the State of Illinois, Department of Central Management Services, are intended to present the financial position, the changes in financial position, and the cash flows, when applicable, of only that portion of the governmental activities, by each major fund of the State of Illinois, and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2007, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Government-wide Statements. The government-wide statement of net assets and statement of activities report the overall financial activity of the Department, excluding fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities of the Department. The financial activities of the Department consist only of governmental activities, which are primarily supported by taxes, charges for services, and intergovernmental revenues.

The statement of net assets presents the assets and liabilities of the Department's governmental activities with the difference being reported as net assets. The assets and liabilities are presented in order of their relative liquidity by class of asset or liability with liabilities whose average maturities are greater than one year reported in two components - the amount due within one year and the amount due in more than one year.

The statement of activities presents a comparison between direct expenses and program revenues for the general government function of the Department's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges paid by the recipients of goods or services offered by the programs. Revenues that are not classified as program revenues, including sales of surplus State property, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the Department's funds, including fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis on fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The Department administers the following major governmental fund (or portions thereof in the case of shared funds - see note 2(d)) of the State:

General – This is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The services which are administered by the department and accounted for in the general fund include, among others, health and social services.

Additionally, the Department reports the following funds types:

Governmental Fund Types:

Special Revenue – These funds account for resources obtained from specific revenue sources that are legally restricted to expenditures for specified purposes. Special revenue funds account for, among other things, federal grant programs, taxes levied with statutorily defined distributions and other resources restricted as to purpose.

Debt Service – These funds account for governmental resources obtained and accumulated to pay interest and principal on general long-term debt (other than capital leases, workers' compensation and unfunded retirement costs).

Capital Projects – These funds account for resources obtained and used for the acquisition or construction of major capital facilities. Such resources are derived principally from proceeds of general and special obligation bond issues and certificates of participation.

Proprietary Fund Types:

Internal Service – These funds account for data processing, printing, fleet management, facilities management, professional services, workers compensation claims, life insurance payments for State employees, and telecommunications provided to agencies of the State on a reimbursement basis.

Fiduciary Fund Types:

Pension Trust – The State Employees' Deferred Compensation plan is reported as a pension (and other employee benefit) trust fund in order to account for resources required to be held in trust for the members in accordance with Illinois Compiled Statutes(40 ILCS 5/24-101) and Section 457 of the Internal Revenue Code.

Agency – These funds account for amounts in which the Department acts as in the capacity of an agent and collects and distributes employee payroll withholdings for purchase of life insurance, tax-free payments of eligible medical and dental expenses, and tax-free payments of eligible child and/or adult day care costs.

(c) Measurement Focus and Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus (except for agency funds which do not have a measurement focus) and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include donations. Revenue from donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on formal debt issues, claims and judgments, and compensated absences are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Significant revenue sources which are susceptible to accrual include interest and other charges for services. All other revenue sources including fines, penalties, licenses and other miscellaneous revenues are considered to be measurable and available only when cash is received.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

(d) Shared Fund Presentation

The financial statement presentation for the General Fund represents only the portion of shared funds that can be directly attributed to the operations of the Department. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' Comprehensive Annual Financial Report.

In presenting these financial statements, certain unique accounts are used for the presentation of shared funds. The following accounts are used in these financial statements to present the Department's portion of shared funds:

Unexpended Appropriations

This "asset" account represents lapse period warrants issued between July and August annually in accordance with the Statewide Accounting Management System (SAMS) records plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year.

Appropriations from State Resources

This "other financing source" account represents the final legally adopted appropriation according to SAMS records.

Lapsed Appropriations

Lapsed appropriations are the legally adopted appropriations less net warrants issued for the 14 month period from July to August of the following year and re-appropriations to subsequent years according to SAMS records.

Receipts Collected and Transmitted to State Treasury

This "other financing use" account represents all cash receipts received during the fiscal year from SAMS records.

(e) Eliminations

Eliminations have been made in the government-wide statement of net assets to minimize the "grossing-up" effect on assets and liabilities within the governmental activities column of the Department. As a result, amounts reported in the governmental funds balance sheet as interdepartmental interfund receivables and payables have been eliminated in the government-wide statement of net assets. Amounts reported in the governmental funds balance sheet and proprietary statement of net assets as receivable from or payable to fiduciary funds have been included in the government-wide statement of net assets as receivable from and payable to external parties, rather than as internal balances.

(f) Cash and Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with maturities of 90 days or less at time of purchase. Cash equivalents include cash on hand, petty cash funds, and cash in banks for locally held funds.

(g) Inventories

Inventories of the State Garage Revolving Fund, consisting primarily of automotive parts, accessories, and supplies, are valued at cost, principally on the weighted average method. Significant inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

(h) Prepaid items

Payments made to vendors for services that will benefit periods beyond the date of this report are recorded as prepaid items on the government-wide statement of net assets.

(i) Interfund Transactions

The Department has the following types of interfund transactions between Department funds and funds of other State agencies:

Services provided and used—sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the governmental funds balance sheet or the government-wide and proprietary fund statements of net assets.

Reimbursements—repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Transfers—flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after nonoperating revenues and expenses.

The Department also has activity with various component units of the State of Illinois for professional services rendered and on-behalf employee benefits paid.

(j) Capital Assets

Capital assets, which consist of equipment, automobiles, and real property, are reported at cost or estimated historical cost based on appraisals. Contributed assets are reported at estimated fair value at the time received. Capital assets are depreciated using the straight-line method.

Capitalization thresholds and the estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life
Land	$100,000	N/A
Land Improvements	25,000	N/A
Buildings	100,000	10-60
Building Improvements	25,000	10-45
Equipment	5,000	3-25

(k) Compensated Absences

The liability for compensated absences reported in the government-wide, proprietary and fiduciary fund financial statements consists of unpaid, accumulated vacation and sick leave balances for Department Employees. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., Social Security and Medicare taxes).

Legislation that became effective January 1, 1998 capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve sick days per year, but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997 (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997 will be converted to service time for purposes of calculating employee pension benefits.

(l) Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties as to use for specific purposes. Designations of fund balances represent tentative State plans that are subject to change.

(m) Net Assets

In the government-wide and proprietary fund financial statements, equity is displayed in three components as follows:

Invested in Capital Assets, Net of Related Debt – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

(n) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(o) State Employees' Deferred Compensation Plan Administration

By State statute the Department is responsible for administering the State Employees' Deferred Compensation Plan (Plan). The Department contracts with PRIMCO for investment management services and T. Rowe Price Retirement Plan Services, Inc. to provide recordkeeping services for the Plan. Additional investment management fees are paid to mutual fund managers before any dividends are declared in accordance with customary industry practices. Asset charges intended to cover the costs of administration, including investment management and recordkeeping fees, are computed monthly and withdrawn from participants' accounts on a monthly or quarterly basis. Effective January 1, 2001, the annual fee charged to participants was limited to a maximum of $45.

(p) Future Adoption of GASB Statements

Effective for the year ending June 30, 2008 the Department will adopt GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenue,* which established accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. The Department has not yet determined the impact on the Department's financial statements as a result of adopting this statement.

(3) Deposits and Investments

(a) Deposits

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. The Department independently manages cash and cash equivalents maintained outside the State Treasury.

Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Department does not own individual securities. Detail on the nature of these deposits and investments is available within the State of Illinois' Comprehensive Annual Financial Report.

(b) Investments

The Department's investments consist of amounts held by trustees in accordance with debt covenants; tax-free payments of eligible medical and dental expenses, tax-free payments of qualified transportation and/or commuting expenses, and tax-free payments of eligible child and/or adult day care costs; and amounts held as part of the State's employee retirement savings plan in accordance with Section 457 of the Internal Revenue Code. The investments held for the State's Section 457 plan are held in mutual funds which are selected by the Illinois State Board of Investments after satisfactory review of such factors as the investment experience of the underlying manager, the suitability of the investment approach used, and the investment record.

As of June 30, 2007, the Department had the following fixed income investments outside of the State Treasury:

	Book Value (Thousands)	Fair Value (Thousands)	Weighted Average Maturity (Years)
Governmental Activities			
Money market mutual funds	$ 4,107	$ 4,107	0.003
Total fixed income investments	$ 4,107	$ 4,107	
Fiduciary Funds			
Money market mutual funds	$ 67,200	$ 67,711	0.164
Debt mutual funds	121,590	121,590	7.160
Total fixed income investments	$ 188,790	$ 189,301	

Interest Rate Risk: The Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: The Department does not have a formal investment policy that limits investment choices. The Governmental Activities mutual funds were rated of Aaa by Moody's. $3,629 of the Fiduciary Funds money market mutual funds were rated AAAm by Standard and Poor's. The remaining fiduciary fund investments in fixed income securities of $64,082 of money market mutual funds and $121,590 of debt mutual funds were unrated.

(c) Reconciliation to Statement of Net Assets and Statement of Fiduciary Net Assets

The Statement of Net Assets and Statement of Fiduciary Net Assets cash and cash equivalents contain certain short-term investments (included as investments above) to reflect their liquidity. A reconciliation (amounts expressed in thousands) follows:

Governmental Activities	**Deposits**	**Investments**
Amounts Per Note	$ -	$ 4,107
Cash equivalents	4,107	(4,107)
Amounts per Statement of Net Assets	$ 4,107	$ -

Fiduciary Funds	**Deposits**	**Investments**
Amounts Per Note	$ -	$ 188,790
Cash equivalents	7,755	(7,755)
Equity mutual funds	-	1,896,895
Blended mututal funds	-	390,442
Annuities	-	1,731
Guaranteed investment contracts	-	586,992
Amounts per Statement of Fiduciary Net Assets	$ 7,755	$ 3,057,095

(4) Interfund Balances and Activity

(a) Balances Due to/from Other Funds

The following balances (amounts expressed in thousands) at June 30, 2007 represent amounts due from other Department and State of Illinois funds.

	Due from				
Fund	**Other Department Funds**	**Other State Funds**	**Other Department Fiduciary Funds**	**Other State Fiduciary Funds**	**Description/Purpose**
General	$ 6,452	$ -	$ -	$ -	Due from other Department funds for reimbursement of advances on expenditures incurred.
Non-major governmental funds	1,372	6	11	-	Due from other Department funds for expenditure reimbursements and from other Department funds and other State funds for sales of federal surplus property.
Internal service funds	207,774	109,939	64	51	Due from other Department funds, other State funds, other Department fiduciary funds, and other State fiduciary funds for services provided.
	$ 215,598	$ 109,945	$ 75	$ 51	

The following balances (amounts expressed in thousands) at June 30, 2007 represent amounts due to other Department and State of Illinois funds.

	Due to			
Fund	**Other Department Funds**	**Other State Funds**	**Other State Fiduciary Funds**	**Description/Purpose**
General	$ 202,181	$ 85	$ 102	Due to other Department funds for internal service fund services received, other State funds for services received, and other State fiduciary funds for retirement contributions.
Non-major governmental funds	73	11	1	Due to other Department funds for internal service fund services received, other State funds for services received, and other State fiduciary funds for retirement contributions.
Internal service funds	13,344	100	130	Due to other Department funds for internal service fund services received, other State funds for services received, and other State fiduciary funds for retirement contributions.
Fiduciary funds	75	30	-	Due to other Department funds for internal service fund services received and other State funds for audit expenses.
	$ 215,673	$ 226	$ 233	

(b) Transfers to Other Funds

Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2007, were as follows:

Fund	Transfers out to Other State Funds	Description/Purpose
Nonmajor governmental funds	$ 395	Transfer to other State funds due to budget shortfalls.
Internal service funds	7,218	Transfer to other State funds pursuant to statute and due to budget shortfalls.
	$ 7,613	

(5) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deletions	Net Transfers	Balance June 30, 2007
Governmental activities:					
Capital assets not being depreciated:					
Land and land improvements	$ 36,731	$ 5	$ -	$ 1,671	$ 38,407
Nondepreciable historical treasures and works of art	4	-	-	-	4
Total capital assets not being depreciated	36,735	5	-	1,671	38,411
Capital assets being depreciated:					
Site improvements	3,889	-	-	-	3,889
Buildings and building improvements	421,798	72	-	15,775	437,645
Equipment	152,369	16,730	4,480	20,613	185,232
Depreciable historical treasures and works of art	970	-	-	-	970
Total capital assets being depreciated	579,026	16,802	4,480	36,388	627,736
Less accumulated depreciation:					
Site improvements	1,997	200	-	-	2,197
Buildings and building improvements	204,208	12,322	-	-	216,530
Equipment	124,398	11,777	4,268	19,150	151,057
Depreciable historical treasures and works of art	970	-	-	-	970
Total accumulated depreciation	331,573	24,299	4,268	19,150	370,754
Total capital assets being depreciated, net	247,453	(7,497)	212	17,238	256,982
Governmental activity capital assets, net	$ 284,188	$ (7,492)	$ 212	$ 18,909	$ 295,393

(5) Capital Assets (continued)

Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2007 was charges to functions as follows:

General government	$ 24,299

(6) Long-Term Obligations

(a) Changes in Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2007 were a follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Amounts Due Within One Year
Governmental activities:					
Compensated Absences	$ 13,267	$ 7,360	$ 7,092	$ 13,535	$ 859
Capital lease obligations	471	-	55	416	58
Installment purchase obligations	9,224	4,315	3,634	9,905	3,955
Certificates of participation	41,255	-	5,835	35,420	2,395
Workers' compensation claim obligations	181,184	108,988	89,853	200,319	114,549
Auto liability claim obligations	1,636	1,977	1,570	2,043	1,873
Total governmental activities	$ 247,037	$ 122,640	$ 108,039	$ 261,638	$ 123,689

Compensated absences have been liquidated by the applicable fund that accounts for the salaries and wages of the related employees.

(b) Capital lease obligations

The Department leases office space with a historical cost and accumulated deprecation of $1.462 and $.498 million, respectively, under capital lease arrangements. Although lease terms vary, certain leases are renewable subject to appropriation by the General Assembly. If renewal is reasonably assured, leases requiring appropriation by the General Assembly are considered non-cancelable leases for financial reporting. Future minimum lease payments (amounts expressed in thousands) at June 30, 2007 are as follows:

Year Ending June 30	Principal	Interest	Total
2008	$ 58	$ 21	$ 79
2009	61	18	79
2010	64	15	79
2011	68	11	79
2012	71	6	77
2013-2017	94	5	99
	$ 416	$ 76	$ 492

(c) Installment purchase obligations

The Department has acquired certain vehicles, electronic data processing and data storage equipment, and communication and video equipment through installment purchase arrangements. Future debt service requirements under installment purchase contracts (amounts expressed in thousands) at June 30, 2007, are as follows:

Year Ending June 30	Principal	Interest	Total
2008	$ 3,955	$ 296	$ 4,251
2009	3,544	163	3,707
2010	2,238	43	2,281
2011	103	5	108
2012	65	2	67
	$ 9,905	$ 509	$ 10,414

(d) Certificates of participation

The Department has financed the purchase of office buildings and land. The office buildings have a historical cost and accumulated deprecation of $48.740 and $10.098 million, respectively and the land has a historic cost of $2.794. This non-state issued certificate is sold by a private concern and is repaid by Department appropriations pursuant to an installment purchase agreement. Future debt service requirements under certificates of participation (amounts expressed in thousands) at June 30, 2007, are as follows:

Year Ending June 30	Principal	Interest	Total
2008	$ 2,395	$ 2,017	$ 4,412
2009	2,525	1,881	4,406
2010	2,670	1,734	4,404
2011	2,820	1,576	4,396
2012	2,985	1,406	4,391
2013-2017	17,800	4,059	21,859
2018-2022	4,225	127	4,352
	$ 35,420	$ 12,800	$ 48,220

(7) Risk Management

The Department administers the State of Illinois' risk management except for minimal commercial insurance purchased on certain capital assets by other State agencies and auto liability for the Department of Transportation. The State is exposed to various risks of loss related to torts; theft of; damage to, and destruction of assets; errors and omissions; workers compensation; auto liability exposure; and natural disasters. The State retains the risk of loss (i.e. self insured) for these risks except minimal commercial insurance purchased on certain capital assets by other State agencies. There were no significant reductions in insurance coverage for the State from the prior fiscal year. The amount of settlements has not exceeded insurance coverage in the past three fiscal years for the State.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claims liabilities are based upon the estimated ultimate cost of settling the claims including specific, incremental claim adjustment expenses, salvage, and subrogation and considering the effects of inflation and recent claim settlement trends including frequency and amount of payouts and other economic and social factors.

Prior to fiscal year 2006, the Department used the Health Insurance Reserve Fund, an internal service fund, to account for employee and retiree health and dental insurance benefit programs of the State, which are partially self-funded. During fiscal year 2006 the administration of the employee and retiree health and dental insurance benefit programs was transferred to the Department of Healthcare and Family Services.

The Department's risk financing of auto liability for the State's non-Department of Transportation liability, \$2.043 million, has been determined using an estimate of claims outstanding. Claims that will be liquidated with expendable available financial resources have been recorded as a liability in the General Revenue Fund, a subaccount of the General Fund, in the amount of \$394 thousand. The remaining portion of the liability, \$1.649 million, as of June 30, 2007, is included in the Department-wide financial statements and is expected to be paid from future resources of the General Fund.

The Department's workers' compensation liability, \$200.319 million, has been determined using claims outstanding and a projection of claims to be submitted, based upon prior years experience, to the Department. The liability is recorded in the Workers' Compensation Revolving Fund, an internal service fund.

The following is a reconciliation of the Department's claims liabilities for the years June 30, 2006 and June 30, 2007.

Year Ended June 30	Beginning Balance	Claims Incurred	Decreases	Ending Balance
2006	$ 400,799	$ 106,194	$ 324,173	$ 182,820
2007	$ 182,820	$ 110,965	$ 91,423	$ 202,362

(8) Pension Plan

Substantially all of the Department's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2007 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2007. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

The Department pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. For fiscal year 2007, the employer contribution rate was 11.525%. Effective for pay periods beginning after December 31, 1991, the State opted to pay the employee portion of retirement for most State agencies (including the Department) with employees covered by the State Employees' and Teachers' Retirement Systems. However, effective with the fiscal year 2004 budget, the State opted to stop paying the portion or a part of the portion of retirement for many State agencies (including the Department) for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. The pickup, when applicable, is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

(9) Post-employment Benefits

The State provides health, dental, and life insurance benefits for certain retirees and their dependents. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to $5,000 per annuitant age 60 and older. The total cost of health, dental, and life insurance benefits of all members, including post-employment health, dental, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The total costs incurred for health, dental, and life insurance benefits are not separated by Department for annuitants and their dependents nor active employees and their dependents.

(10) Fund Deficits

The General Fund had deficit fund balances of $182.978 million at June 30, 2007. The General Fund deficit results from the liabilities of the workers compensation program recognized at June 30, 2007 which will be paid from future year appropriations.

(11) Commitments and Contingencies

(a) Operating leases

The Department leases a parking lot, warehouse, and several buildings in Springfield, under the terms of a noncancelable operating lease agreement that requires the Department to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was $114.093 million for the year ended June 30, 2007.

The following is a schedule of future minimum lease payments under the operating lease (amounts expressed in thousands):

Year ending June 30,	Amount
2008	$ 57,902
2009	47,877
2010	41,684
2011	36,604
2012	30,326
2013-2017	37,844
	$ 252,237

(b) Federal Service Charges

The Department's internal service funds receive revenue from charges for services provided to various federal grants of the State which are subject to review and audit by federal grantor agencies. The Department believes that it is probable that a payback representing the federal share of excess fund balances will be required from the Statistical Services Revolving Fund (SSRF) and the Communications Revolving Fund (CRF) for activities in fiscal year 2006 and 2007. The Department estimates the SSRF refund may result in a payment of up to $7.552 million and the CRF refund may result in payment of up to $1.576 million. The Department has recorded a liability in the respective fund.

(c) Litigation

The Department is routinely involved in a number of legal proceedings and claims that cover a wide range of matters. In the opinion of management, the outcome of these matters is not expected to have any material adverse effect on the financial position or results of operations of the Department.

(12) State Employees' Deferred Compensation Plan General Description

Under State Employees' Deferred Compensation Plan (Plan) provisions, all State employees are eligible to voluntarily elect to contribute a portion of their compensation to the Plan through payroll deduction. The Plan was created in accordance with the Illinois Compiled Statutes (40 ILCS 5/24-101) and Section 457 of the Internal Revenue Code. The financial position and results of operations of the Plan for fiscal year 2007 are included in the State's Comprehensive Annual Financial Report for the year ended June 30, 2007. The Plan issues separate financial statements on a calendar year basis that may be obtained by writing to the Deferred Compensation Plan, 201 E. Madison, Suite 1C, P.O. Box 19208, Springfield, Illinois 62794-9208.

The following description of the Plan is only general information. Participants and other interested parties should refer to the Plan agreement for a complete description of all Plan provisions.

Federal law requires the assets of the Plan and the income earned thereon to be held in trust for the exclusive benefit of the Plan participants and their beneficiaries. Participants' rights under the Plan are limited to an amount equal to the fair value of the deferral account for each individual participant.

In compliance with Section 457 of the Internal Revenue Code, the Plan limits the amount of an individual's annual contribution to 100 percent of their annual taxable compensation, not to exceed \$15,500 (\$20,500 for participants age 50 or older) and \$15,000 (\$20,000 for participants age 50 and older) for calendar years 2007 and 2006, respectively. The State does not make any contributions to the Plan. The Plan allows participants a limited make-up on deferrals in the three years prior to the year a participant reaches normal retirement age. For each of these three years, a participant can defer the regular limit plus an additional amount based on actual underutilized deferrals, which were made in prior years, up to a maximum of \$31,000 and \$30,000 for calendar years 2007 and 2006, respectively.

Participants may withdraw the current value of funds contributed upon termination of employment with the State of Illinois. Withdrawals can also be made due to financial hardship if approved by a committee established by the Plan. Upon retirement, participants may select various payment options, including lump sum or periodic payments. The participants may also elect to delay the distribution of their accounts to a specific future date. Death beneficiaries may select similar payment options as retired employees. All investments are assets of the Plan until such time as payments are made to participants.

(13) Restatement

During fiscal year 2007, the fund classification of the Workers' Compensation Revolving Fund was changed from a subaccount of the General Fund to an internal service fund. This change in fund type resulted in a liability previously unrecorded on the modified accrual basis of accounting used for the General Fund to being recorded on the accrual basis of accounting used by an internal service fund with a corresponding receivable from the General Fund recognized in accordance with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, paragraph 68.

	Governmental Funds
	General
Fund Balance, June 30, 2006, as previously reported	$ 3,431
Reclassification of Workers' Compensation Revolving Fund	(179,479)
Fund Balance, June 30, 2006, as restated	$ (176,048)

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2007 (Expressed in Thousands)

	Special Revenue				Capital Projects	Debt Service	
	CMS State Projects Fund 302	**Efficiency Initiatives Revolving 0315**	**Minority and Female Business Enterprise 0352**	**State Surplus Property Revolving 0903**	**Capital Development 0141**	**ESCO COP Debt Service 1255**	**Total**
ASSETS							
Unexpended appropriation	$ -	$ -	$ -	$ -	$ (948)	$ -	$ (948)
Cash equity with State Treasurer	-	708	6	433	-	-	1,147
Cash and cash equivalents	-	-	-	-	-	432	432
Receivables, net:							
Intergovernmental	-	-	-	48	-	-	48
Other	-	-	-	1	-	-	1
Due from other Department fiduciary funds	-	-	-	11	-	-	11
Due from other Department funds	-	-	-	18	1,354	-	1,372
Due from other State funds	-	-	-	6	-	-	6
Due from State of Illinois component units	-	-	-	11	-	-	11
Total assets	$ -	$ 708	$ 6	$ 528	$ 406	$ 432	$ 2,080
LIABILITIES							
Accounts payable and accrued liabilities	$ -	$ 408	$ -	$ 170	$ 39	$ -	$ 617
Intergovernmental payables	-	-	-	1	-	-	1
Due to other State fiduciary funds	-	-	-	1	-	-	1
Due to other Department funds	-	-	-	73	-	-	73
Due to other State funds	-	1	-	10	-	-	11
Due to State of Illinois component units	-	-	-	1	-	-	1
Total liabilities	-	409	-	256	39	-	704
FUND BALANCES							
Reserved for encumbrances	-	-	-	28	-	-	28
Unreserved, undesignated	-	299	6	244	367	432	1,348
Total fund balances	-	299	6	272	367	432	1,376
Total liabilities and fund balances	$ -	$ 708	$ 6	$ 528	$ 406	$ 432	$ 2,080

State of Illinois
Department of Central Management Services

Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds

For the Year Ended June 30, 2007 (Expressed in Thousands)

	Special Revenue				Capital Projects	Debt Service	
	CMS State Projects Fund 302	Efficiency Initiatives Revolving 0315	Minority and Female Business Enterprise 0352	State Surplus Property Revolving 0903	Capital Development 0141	ESCO COP Debt Service 1255	Total
REVENUES							
Interest and other investment income	$ -	$ -	$ -	$ -	$ -	$ 25	$ 25
Other revenues	-	21	-	1,952	-	-	1,973
Other charges for services	-	-	-	957	-	-	957
Total revenues	-	21	-	2,909	-	25	2,955
EXPENDITURES							
General government	-	2,678	2	2,592	-	523	5,795
Debt service - principal	-	-	-	16	-	3,057	3,073
Debt service - interest	-	-	-	1	-	95	96
Capital outlay	-	-	-	-	39	-	39
Total expenditures	-	2,678	2	2,609	39	3,675	9,003
Excess (deficiency) of revenues over (under) expenditures	-	(2,657)	(2)	300	(39)	(3,650)	(6,048)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	-	-	-	-	10,000	-	10,000
Reappropriation to future year(s)	-	-	-	-	(8,646)	-	(8,646)
Lapsed appropriations	-	-	-	-	(948)	-	(948)
Transfers-out	-	-	-	(395)	-	-	(395)
Net other sources (uses) of financial resources	-	-	-	(395)	406	-	11
Net change in fund balances	-	(2,657)	(2)	(95)	367	(3,650)	(6,037)
Fund balances, July 1, 2006	-	2,956	8	367	-	4,082	7,413
FUND BALANCES, JUNE 30, 2007	$ -	$ 299	$ 6	$ 272	$ 367	$ 432	$ 1,376

State of Illinois
Department of Central Management Services

Combining Statement of Net Assets
Internal Service Funds

June 30, 2007 (Expressed in Thousands)

	State Garage Revolving 0303	Statistical Services Revolving 0304	Paper and Printing Revolving 0308	Communications Revolving 0312	Facilities Management 0314	Professional Services 0317	Workers' Compensation Revolving 0332	Group Life Insurance Premium 1457	Total
ASSETS									
Cash equity with State Treasurer	$ 1,493	$ 23,287	$ 80	$ 14,326	$ 8,048	$ 9,708	$ 4,651	$ 2,982	$ 64,575
Cash and cash equivalents	-	-	-	-	3,675	-	-	-	3,675
Receivables, net:									
Intergovernmental	55	-	-	634	-	-	-	-	689
Other	14	-	-	240	64	41	21	8,231	8,611
Due from other Department fiduciary funds	7	36	-	-	21	-	-	-	64
Due from other State fiduciary funds	-	-	-	-	-	-	51	-	51
Due from other Department funds	128	3,195	-	674	8,054	-	195,718	5	207,774
Due from other State funds	11,055	32,175	1	23,663	43,026	-	-	19	109,939
Due from State of Illinois component units	4	15	-	715	183	-	-	221	1,138
Inventories	1,725	-	-	-	-	-	-	-	1,725
Prepaid expenses	-	611	-	-	-	-	-	-	611
Total current assets	14,481	59,319	81	40,252	63,071	9,749	200,441	11,458	398,852
Capital assets not being depreciated	-	-	-	-	38,369	-	-	-	38,369
Capital assets being depreciated, net	736	8,958	-	24,831	222,231	-	-	-	256,756
Total assets	15,217	68,277	81	65,083	323,671	9,749	200,441	11,458	693,977
LIABILITIES									
Accounts payable and accrued liabilities	6,821	8,674	-	11,608	18,213	865	69	4,999	51,249
Intergovernmental payables	1	14,523	-	9,698	1,541	1	-	-	25,764
Due to other State fiduciary funds	3	50	-	69	6	2	-	-	130
Due to other Department funds	847	3,065	9	2,435	406	77	53	6,452	13,344
Due to other State funds	17	26	-	40	8	2	-	7	100
Due to State of Illinois component units	-	-	-	5	2,785	-	-	-	2,790
Deferred revenue	-	160	11	7	5	-	-	-	183
Current portion of long-term obligations	270	2,141	-	2,126	2,528	39	114,549	-	121,653
Total current liabilities	7,959	28,639	20	25,988	25,492	986	114,671	11,458	215,213
Noncurrent portion of long-term obligations	2,054	7,290	-	4,870	35,846	561	85,770	-	136,391
Total liabilities	10,013	35,929	20	30,858	61,338	1,547	200,441	11,458	351,604
NET ASSETS									
Invested in capital assets, net of related debt	(39)	5,508	-	19,160	224,764	-	-	-	249,393
Restricted for debt services	-	-	-	-	3,675	-	-	-	3,675
Unrestricted	5,243	26,840	61	15,065	33,894	8,202	-	-	89,305
Total net assets	$ 5,204	$ 32,348	$ 61	$ 34,225	$ 262,333	$ 8,202	$ -	$ -	$ 342,373

State of Illinois

Department of Central Management Services

Combining Statement of Revenues, Expenses, and Changes in Net Assets - Internal Service Funds

For the Year Ended June 30, 2007 (Expressed in Thousands)

	State Garage Revolving 0303	Statistical Services Revolving 0304	Paper and Printing Revolving 0308	Communications Revolving 0312	Facilities Management 0314	Professional Services 0317	Workers' Compensation Revolving 0332	Group Life Insurance Premium 1457	Total
OPERATING REVENUES									
Charges for sales and services	$ 39,754	$ 119,494	$ 12	$ 116,890	$ 208,742	$ 14,640	$ 110,731	$ 19,399	$ 629,662
Other	169	-	-	-	-	-	-	-	169
Total operating revenues	39,923	119,494	12	116,890	208,742	14,640	110,731	19,399	629,831
OPERATING EXPENSES									
Cost of sales and services	31,477	120,389	7	89,423	181,022	7,323	-	-	429,641
Claims and judgments	-	-	-	-	-	-	111,563	19,644	131,207
General and administrative	6,046	5,159	111	10,116	5,650	1,635	-	299	29,016
Depreciation	121	3,290	-	8,306	12,107	-	-	-	23,824
Other	426	-	-	11,912	-	-	-	-	12,338
Total operating expenses	38,070	128,838	118	119,757	198,779	8,958	111,563	19,943	626,026
Operating income (loss)	1,853	(9,344)	(106)	(2,867)	9,963	5,682	(832)	(544)	3,805
NONOPERATING REVENUES (EXPENSES)									
Interest and investment income	-	-	-	-	491	486	1,363	544	2,884
Other revenues	-	1,463	-	-	17,078	-	-	-	18,541
Interest expense	-	(130)	-	(234)	(3,224)	-	-	-	(3,588)
Other expenses	-	(84)	-	(128)	-	-	-	-	(212)
Income before contributions and transfers	1,853	(8,095)	(106)	(3,229)	24,308	6,168	531	-	21,430
Transfers-out	(691)	(2,232)	(10)	(2,577)	(112)	(1,065)	(531)	-	(7,218)
Change in net assets	1,162	(10,327)	(116)	(5,806)	24,196	5,103	-	-	14,212
Net assets, July 1, 2006	4,042	42,675	177	40,031	238,137	3,099	-	-	328,161
NET ASSETS, JUNE 30, 2007	$ 5,204	$ 32,348	$ 61	$ 34,225	$ 262,333	$ 8,202	$ -	$ -	$ 342,373

State of Illinois

Department of Central Management Services

Combining Statement of Cash Flows
Internal Service Funds

For the Year Ended June 30, 2007 (Expressed in Thousands)

	State Garage Revolving 0303	Statistical Services Revolving 0304	Paper and Printing Revolving 0308	Communications Revolving 0312	Facilities Management 0314	Professional Services 0317	Workers' Compensation Revolving 0332	Group Life Insurance Premium 1457	Total
CASH FLOWS FROM OPERATING ACTIVITIES									
Cash received from sales and services	$ 783	$ -	$ -	$ 12,396	$ 932	$ -	$ -	$ -	$ 14,111
Cash received from transactions with other funds	34,133	127,197	137	103,708	183,968	14,714	93,566	30,393	587,816
Cash payments to suppliers for goods and services	(23,354)	(66,553)	(93)	(93,125)	(155,999)	(2,602)	(432)	(29,687)	(371,845)
Cash payments to employees for services	(11,275)	(56,933)	(44)	(14,888)	(25,774)	(6,094)	(1,978)	-	(116,986)
Cash payments for workers compensation	-	-	-	-	-	-	(90,160)	-	(90,160)
Cash receipts from other operating activities	169	-	-	-	-	-	1,053	1,774	2,996
Net cash provided (used) by operating activities	456	3,711	-	8,091	3,127	6,018	2,049	2,480	25,932
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES									
Transfers-out to other funds	(691)	(2,232)	(10)	(2,577)	(112)	(1,065)	(531)	-	(7,218)
Net cash provided (used) by noncapital financing activities	(691)	(2,232)	(10)	(2,577)	(112)	(1,065)	(531)	-	(7,218)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Acquisition and construction of capital assets	-	(2,163)	-	(10,222)	(51)	-	-	-	(12,436)
Principal paid on capital debt	(103)	(1,566)	-	(1,949)	(2,833)	-	-	-	(6,451)
Interest paid on capital debt	-	(130)	-	(234)	(2,183)	-	-	-	(2,547)
Net cash (used) by capital and related financing activities	(103)	(3,859)	-	(12,405)	(5,067)	-	-	-	(21,434)
CASH FLOWS FROM INVESTING ACTIVITIES									
Interest and dividends on investments	-	-	-	-	473	463	1,369	502	2,807
Net cash provided by investing activities	-	-	-	-	473	463	1,369	502	2,807
Net increase (decrease) in cash and cash equivalents	(338)	(2,380)	(10)	(6,891)	(1,579)	5,416	2,887	2,982	87
Cash and cash equivalents, July 1, 2006	1,831	25,667	90	21,217	13,302	4,292	1,764	-	68,163
CASH AND CASH EQUIVALENTS, JUNE 30, 2007	$ 1,493	$ 23,287	$ 80	$ 14,326	$ 11,723	$ 9,708	$ 4,651	$ 2,982	$ 68,250
Reconciliation of cash and cash equivalents to the statement of net assets:									
Total cash and cash equivalents per the statement of net assets	$ -	$ -	$ -	$ -	$ 3,675	$ -	$ -	$ -	$ 3,675
Add: cash equity with State Treasurer	1,493	23,287	80	14,326	8,048	9,708	4,651	2,982	64,575
CASH AND CASH EQUIVALENTS, JUNE 30, 2007	$ 1,493	$ 23,287	$ 80	$ 14,326	$ 11,723	$ 9,708	$ 4,651	$ 2,982	$ 68,250

State of Illinois

Department of Central Management Services

Combining Statement of Cash Flows
Internal Service Funds

For the Year Ended June 30, 2007 (Expressed in Thousands)

	State Garage Revolving 0303	Statistical Services Revolving 0304	Paper and Printing Revolving 0308	Communications Revolving 0312	Facilities Management 0314	Professional Services 0317	Workers' Compensation Revolving 0332	Group Life Insurance Premium 1457	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:									
OPERATING INCOME (LOSS)	$ 1,853	$ (9,344)	$ (106)	$ (2,867)	$ 9,963	$ 5,682	$ (832)	$ (544)	$ 3,805
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:									
Depreciation	121	3,290	-	8,306	12,107	-	-	-	23,824
Changes in assets and liabilities:									
(Increase) decrease in accounts receivable	(8)	-	-	(1)	(19)	-	-	(8,189)	(8,217)
(Increase) decrease in intergovernmental receivables	(32)	-	-	(20)	-	-	-	-	(52)
(Increase) decrease in due from other funds	(4,796)	(704)	125	(3,352)	(23,681)	74	(16,163)	(24)	(48,521)
(Increase) decrease in due from component units	(2)	2	-	(174)	(147)	-	-	(221)	(542)
(Increase) decrease in inventories	(392)	-	34	-	-	-	-	-	(358)
(Increase) decrease in prepaid expenses	-	151	-	-	-	-	-	-	151
Increase (decrease) in accounts payable and accrued liabilities	3,548	1,623	(33)	2,909	2,153	194	51	4,999	15,444
Increase (decrease) in intergovernmental payables	-	8,255	-	2,760	402	1	-	-	11,418
Increase (decrease) in due to other funds	117	117	(11)	249	126	56	(142)	6,459	6,971
Increase (decrease) in due to component units	-	-	-	4	2,106	-	-	-	2,110
Increase (decrease) in deferred revenues	-	160	11	7	5	-	-	-	183
Increase (decrease) in other liabilities	47	161	(20)	270	112	11	19,135	-	19,716
Total adjustments	(1,397)	13,055	106	10,958	(6,836)	336	2,881	3,024	22,127
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 456	$ 3,711	$ -	$ 8,091	$ 3,127	$ 6,018	$ 2,049	$ 2,480	$ 25,932
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES									
Cost of installment purchases	$ 592	$ 3,723	$ -	$ -	$ -	-	-	-	4,315
Gain (loss) on sale of property and equipment	-	(84)	-	(128)	-	-	-	-	(212)
Transfer of capital assets, net of related debt, to/from other Stat	-	1,463	-	-	17,078	-	-	-	18,541
Total noncash investing, capital and financing activitie	$ 592	$ 5,102	$ -	$ (128)	$ 17,078	$ -	$ -	$ -	$ 22,644

State of Illinois

Department of Central Management Services

Combining Statement of Fiduciary Net Assets

Agency Funds

June 30, 2007 (Expressed in Thousands)

	Flexible Spending Account 0202	Group Insurance Premium 0457	Total
ASSETS			
Cash equity with State Treasurer	$ 1,542	$ 7,872	$ 9,414
Cash and cash equivalents	3,118	-	3,118
Total assets	$ 4,660	$ 7,872	$ 12,532
LIABILITIES			
Accounts payable and accrued liabilities	$ 4,648	$ 7,872	$ 12,520
Due to State of Illinois component units	12	-	12
Total liabilities	$ 4,660	$ 7,872	$ 12,532

State of Illinois

Department of Central Management Services

Combining Statement of Changes in Assets and Liabilities
Agency Funds

For the Year Ended June 30, 2007 (Expressed in Thousands)

	Balance at June 30, 2006	Additions	Deletions	Balance at June 30, 2007
Flexible Spending Account Fund (0202):				
ASSETS				
Cash equity with State Treasurer	$ 2,054	$ 21,308	$ 21,820	$ 1,542
Cash and cash equivalents	2,040	1,078	-	3,118
Total assets	$ 4,094	$ 22,386	$ 21,820	$ 4,660
LIABILITIES				
Accounts payable and accrued liabilities	$ 4,075	$ 22,374	$ 21,801	$ 4,648
Due to component units	19	12	19	12
Total liabilities	$ 4,094	$ 22,386	$ 21,820	$ 4,660
Group Insurance Premium Fund (0457):				
ASSETS				
Cash equity with State Treasurer	$ 7,165	$ 46,952	$ 46,245	$ 7,872
Other receivables, net	28	-	28	-
Due from other Department funds	4,269	-	4,269	-
Due from State of Illinois component units	329	-	329	-
Total assets	$ 11,791	$ 46,952	$ 50,871	$ 7,872
LIABILITIES				
Accounts payable and accrued liabilities	$ 11,791	$ 46,952	$ 50,871	$ 7,872
Total liabilities	$ 11,791	$ 46,952	$ 50,871	$ 7,872
Total				
ASSETS				
Cash equity with State Treasurer	$ 9,219	$ 68,260	$ 68,065	$ 9,414
Cash and cash equivalents	2,040	1,078	-	3,118
Other receivables, net	28	-	28	-
Due from other Department funds	4,269	-	4,269	-
Due from State of Illinois component units	329	-	329	-
Total assets	$ 15,885	$ 69,338	$ 72,691	$ 12,532
LIABILITIES				
Accounts payable and accrued liabilities	$ 15,866	$ 69,326	$ 72,672	$ 12,520
Intergovernmental payables	-	-	-	-
Due to component units	19	12	19	12
Total liabilities	$ 15,885	$ 69,338	$ 72,691	$ 12,532

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

SUMMARY

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:

  Schedule of Appropriations, Expenditures and Lapsed Balances
  Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
  Schedule of Changes in State Property
  Comparative Schedule of Cash Receipts
  Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller
  Analysis of Significant Variations in Expenditures
  Analysis of Significant Variations in Receipts
  Analysis of Significant Lapse Period Spending
  Analysis of Accounts Receivable

- Analysis of Operations:

  Agency Functions and Planning Program
  Average Number of Employees
  Emergency Purchases
  Memorandum of Understanding (Unaudited)
  Hurricane Katrina Assistance (Unaudited)
  Debt Collection Board
  Service Efforts and Accomplishments (Unaudited)

The accountant's report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the accountant's opinion, except for that portion marked "unaudited," on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Insert Schedule of Appropriations, Expenditures and Lapsed Balances
Fiscal Year 2007 (Schedules 1)

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 1

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
APPROPRIATIONS FOR FISCAL YEAR 2007
FOURTEEN MONTHS ENDED AUGUST 31, 2007

	Appropriations (Net after Transfers and EO10 Transfers)	Expenditures Through June 30, 2007	Lapse Period Expenditures July 1 to August 31, 2007	Total Expenditures	Balances Lapsed
APPROPRIATED FUNDS					
Shared Funds:					
General Revenue - 001	$ 106,380,600	$ 89,626,210	$ 14,895,561	$ 104,521,771	$ 1,858,829
Nonshared Funds:					
Capital Development - 0141	10,000,000	1,353,546	(948,392)	405,154	9,594,846
State Project Fund - 0302	100,000	-	-	-	100,000
State Garage Revolving - 0303	41,914,900	30,606,550	7,685,273	38,291,823	3,623,077
Statistical Services Revolving - 0304	163,619,900	114,052,403	18,829,315	132,881,718	30,738,182
Paper and Printing Revolving - 0308	2,522,100	79,848	8,777	88,625	2,433,475
Communications Revolving - 0312	164,852,000	106,990,195	19,718,547	126,708,742	38,143,258
Facilities Management Revolving - 0314	258,082,400	169,756,151	21,915,855	191,672,006	66,410,394
Efficiency Initiatives Revolving - 0315	6,500,000	5,001,254	395,801	5,397,055	1,102,945
Professional Services - 0317	13,984,700	8,000,120	947,929	8,948,049	5,036,651
Workers' Compensation Revolving - 0332	122,968,700	90,781,265	2,737,459	93,518,724	29,449,976
Minority and Female Business Enterprise - 0352	50,000	-	-	-	50,000
Group Insurance Premium - 0457	86,207,400	63,628,199	12,829,095	76,457,294	9,750,106
State Employees' Deferred Compensation Plan - 0755	1,698,300	1,097,215	84,856	1,182,071	516,229
State Surplus Property Revolving - 0903	3,050,000	2,293,064	268,550	2,561,614	488,386
Health Insurance Reserve - 0907	15,195,900	7,887,036	1,273,615	9,160,651	6,035,249
Total appropriated funds	$ 997,126,900	691,153,056	100,642,241	791,795,297	$ 205,331,603
NON-APPROPRIATED FUNDS					
Flexible Spending Account - 0202		21,280,496	283,395	21,563,891	N/A
Teacher Health Insurance Security - 0203		487	-	487	N/A
State Employees' Deferred Compensation Plan - 0755		166,814,582	589,739	167,404,321	N/A
Total non-appropriated funds		188,095,565	873,134	188,968,699	
TOTAL		$ 879,248,621	$ 101,515,375	$ 980,763,996	

Note 1 - Appropriated amounts were authorized by Public Act 94-0798 and Public Act 95-0144

Note 2 - The expenditure amounts are taken directly from the records of the State Comptroller and were reconciled with Department records.

Note 3 - This schedule excludes salaries paid to the Department's Director and two Assistant Directors. Such salaries are paid from a separate appropriation with expenditures aggregating $252,800 recorded in the records of the State Comptroller.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES,
AND LAPSED BALANCES
APPROPRIATED FUNDS

	Fiscal Year		
	2007	2006	2005
	P.A. 94-0798 and P.A. 95-0144	P.A. 94-0015	P.A. 93-0681 and P.A. 93-0842
General Revenue - 001			
Appropriations (net after transfers)	$ 106,380,600	$ 96,964,400	$ 984,461,562
Expenditures:			
Personal services	7,893,884	10,350,967	12,307,321
Employee retirement paid by employer	-	15,540	9,800
Contribution to SERS	910,250	783,814	1,945,835
Contribution to social security	580,823	744,656	900,797
Group insurance	32,349,200	36,185,716	933,640,533
Contractual services	20,701,457	18,158,423	771,626
Travel	69,403	91,504	101,257
Commodities	40,409	37,389	44,147
Printing	27,715	25,916	41,947
Equipment	7,327	16,385	23,238
Electronic data processing	173,512	140,168	189,060
Telecommunications	162,893	180,996	208,107
Operation of automotive equipment	6,714	7,381	10,834
Worker's compensation claims	-	-	3,299,084
Deposit Worker's Comp	11,398,100	-	-
Automobile liability claims	1,570,925	1,518,224	1,600,200
Payment of employee wage claims	806,808	826,485	869,548
Civil law suits - claims	1,286,391	1,284,611	1,210,950
Surplus real property	-	189,365	-
Employee suggestion board program	1,953	1,393	3,541
Upward mobility program	4,156,891	3,871,846	4,965,304
Veterans job program	174,899	258,564	229,571
Vito Marzullo intern program	688,141	659,694	731,072
Nurses tuition	65,518	57,614	62,746
Procurement policy board	-	-	8,575
Governor's commission on status of women in Illinois	-	132,200	2,540
Compensation review board	-	24,995	-
For General/ Regulatory Shared	2,339,850	-	-
Education Technology - operating and admin costs	18,152,600	19,097,123	19,958,949
Pilot program to increase access to broadband services	956,108	-	-
Total expenditures	104,521,771	94,660,969	983,136,582
Lapsed balances	$ 1,858,829	$ 2,303,431	$ 1,324,980

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES,
AND LAPSED BALANCES
APPROPRIATED FUNDS

	Fiscal Year		
	2007	2006	2005
	P.A. 94-0798 and P.A. 95-0144	P.A. 94-0015	P.A. 93-0681 and P.A. 93-0842
Road - 011			
Appropriations (net after transfers)	$ -	$ -	$ 121,296,825
Expenditures:			
Group insurance	-	-	120,827,468
Worker's compensation claims	-	-	469,357
Total expenditures	-	-	121,296,825
Lapsed balances	$ -	$ -	$ -
Capital Development - 141			
Appropriations (net after transfers)	$ 10,000,000	$ -	$ -
Expenditures:			
Information Technology	405,154	-	-
Total expenditures	405,154	-	-
Lapsed balances	$ 9,594,846	$ -	$ -
Local Government Health Insurance Reserve - 193			
Appropriations (net after transfers)	$ -	$ -	$ 116,157,600
Expenditures:			
Ordinary and contingent expenditures			
Personal services	-	-	436,336
Employee retirement paid by employer	-	-	7,266
Contribution to SERS	-	-	70,283
Contribution to social security	-	-	31,823
Group insurance	-	-	127,129
Contractual services	-	-	72,178
Travel	-	-	6,474
Commodities	-	-	733
Printing	-	-	2,875
Electronic data processing	-	-	16,166
Telecommunications services	-	-	2,602
Operation of automotive equipment	-	-	4,310
Local government contributions	-	-	69,148,322
Total expenditures	-	-	69,926,497
Lapsed balances	$ -	$ -	$ 46,231,103

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES,
AND LAPSED BALANCES
APPROPRIATED FUNDS

	Fiscal Year		
	2007	2006	2005
	P.A. 94-0798 and P.A. 95-0144	P.A. 94-0015	P.A. 93-0681 and P.A. 93-0842
State Project Fund - 302			
Appropriations (net after transfers)	$ 100,000	$ 3,000,000	$ -
Expenditures:			
Ordinary and contingent expenditures			
Strategic Marketing Team Services	-	1,500	-
Total expenditures	-	1,500	-
Lapsed balances	$ 100,000	$ 2,998,500	$ -
State Garage Revolving - 303			
Appropriations (net after transfers)	$ 41,914,900	$ 36,992,000	$ 35,717,594
Expenditures:			
Ordinary and contingent expenditures			
Personal services	7,717,653	7,711,287	8,478,151
Employee retirement paid by employer	-	60,494	200,827
Contribution to SERS	897,270	605,734	1,368,314
Contribution to social security	570,957	570,128	627,347
Group insurance	2,117,314	2,389,435	2,443,795
Contractual services	970,427	830,360	271,173
Travel	11,026	7,106	6,007
Commodities	77,211	79,362	74,499
Printing	17,124	14,660	16,731
Equipment	265,467	242,926	315,170
Electronic data processing	764,332	756,273	905,934
Telecommunications services	48,690	53,747	62,802
Operation of automotive equipment	24,834,304	21,566,318	18,857,889
Refunds	48	49	1,380
Total expenditures	38,291,823	34,887,879	33,630,019
Lapsed balances	$ 3,623,077	$ 2,104,121	$ 2,087,575

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 2

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES,
AND LAPSED BALANCES
APPROPRIATED FUNDS

	Fiscal Year		
	2007	2006	2005
	P.A. 94-0798 and P.A. 95-0144	P.A. 94-0015	P.A. 93-0681 and P.A. 93-0842
Statistical Services Revolving - 304			
Appropriations (net after transfers)	$ 163,619,900	$ 177,373,900	$ 134,491,071
Expenditures:			
Ordinary and contingent expenditures			
Personal services	41,357,516	38,710,490	22,391,272
Employee retirement paid by employer	-	231,999	233,174
Contribution to SERS	4,773,216	3,020,602	3,424,860
Contribution to social security	3,055,920	2,899,612	1,691,497
Group insurance	8,054,555	8,357,694	3,667,849
Contractual services	2,166,994	3,382,923	1,478,158
Travel	209,869	236,813	137,101
Commodities	68,243	71,069	58,594
Printing	93,983	55,093	76,670
Equipment	287,605	260,329	16,116
Electronic data processing	60,284,131	66,095,219	48,864,263
Telecommunications services	2,452,860	1,761,107	2,888,970
Lump Sum	-	-	999,832
Operation of automotive equipment	44,726	34,411	6,096
For General/ Regulatory Shared	3,195,559	-	-
Refunds	6,836,541	-	1,360,571
Total expenditures	132,881,718	125,117,361	87,295,023
Lapsed balances	$ 30,738,182	$ 52,256,539	$ 47,196,048
Paper and Printing Revolving - 308			
Appropriations (net after transfers)	$ 2,522,100	$ 2,581,600	$ 2,588,400
Expenditures:			
Ordinary and contingent expenditures			
Personal services	29,122	118,476	159,423
Employee retirement paid by employer	-	745	2,322
Contribution to SERS	3,358	9,234	25,681
Contribution to social security	2,115	8,758	11,882
Group insurance	9,575	38,469	37,470
Contractual services	35,108	93,498	75,448
Travel	-	-	255
Commodities	-	674	1,342
Printing	-	-	47
Electronic data processing	9,347	26,546	12,083
Telecommunications services	-	1,557	1,912
Refunds	-	65	-
Printing and distribution of wall certificates	-	561,237	914,173
Total expenditures	88,625	859,259	1,242,038
Lapsed balances	$ 2,433,475	$ 1,722,341	$ 1,346,362

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES,
AND LAPSED BALANCES
APPROPRIATED FUNDS

	Fiscal Year		
	2007	2006	2005
	P.A. 94-0798 and P.A. 95-0144	P.A. 94-0015	P.A. 93-0681 and P.A. 93-0842
Communications Revolving - 312			
Appropriations (net after transfers)	$ 164,852,000	$ 171,345,900	$ 159,592,753
Expenditures:			
Ordinary and contingent expenditures			
Personal services	10,634,452	9,943,715	9,166,289
Employee retirement paid by employer	-	39,738	111,475
Contribution to SERS	1,222,131	775,281	1,461,305
Contribution to social security	797,847	746,398	701,331
Group insurance	2,237,044	2,214,507	1,655,461
Contractual services	3,918,220	3,361,013	2,239,945
Travel	138,042	209,727	159,548
Commodities	98,105	92,780	47,703
Printing	55,269	38,311	16,711
Equipment	100,988	52,707	260,125
Electronic data processing	3,177,998	2,268,219	2,468,153
Telecommunications services	80,991,016	80,066,689	98,792,966
Operation of automotive equipment	126,709	102,469	106,711
Executive Order 2004-02 PIO (1600)	51,141	35,630	3,882
Executive Order 2004-02 PIO (1900)	-	-	337,916
Executive Order 2004-02 PIO (1920)	-	-	23,773
For General/ Regulatory Shared	1,412,610	-	-
Education Technology	17,810,521	-	-
Refunds	3,936,649	1,073,360	3,676
Total expenditures	126,708,742	101,020,544	117,556,970
Lapsed balances	$ 38,143,258	$ 70,325,356	$ 42,035,783

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 2

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES,
AND LAPSED BALANCES
APPROPRIATED FUNDS

	Fiscal Year		
	2007	2006	2005
	P.A. 94-0798 and P.A. 95-0144	P.A. 94-0015	P.A. 93-0681 and P.A. 93-0842
Facilities Management Revolving - 314			
Appropriations (net after transfers)	$ 258,082,400	$ 335,996,700	$ 143,988,130
Expenditures:			
Personal services	18,250,294	13,174,840	11,167,999
Employee retirement paid by employer	-	127,003	19,498
Contribution to SERS	2,109,596	1,027,769	1,754,748
Contribution to social security	1,346,347	970,019	809,738
Group insurance	4,099,564	3,183,460	539,686
Contractual services	163,207,673	160,089,326	119,595,355
Travel	58,379	56,576	34,779
Commodities	408,316	434,593	195,368
Printing	2,904	8,497	11,915
Equipment	54,202	27,518	10,407
Electronic data processing	216,605	-	40,534
Telecommunications services	235,359	219,684	286,739
Operation of automotive equipment	99,748	78,715	30,700
FMRF-1900-000	1,380,301	1,211,053	5,087,730
Lump sum-operations (1910)	-	-	609,462
Fac. Mgmt. awards and grants	-	-	2,024,507
For General/ Regulatory Shared	202,718	-	-
Total expenditures	191,672,006	179,609,053	142,219,165
Lapsed balances	$ 66,410,394	$ 156,387,647	$ 1,768,965
Efficiency Initiatives Revolving - 315			
Appropriations (net after transfers)	$ 6,500,000	$ 8,482,100	$ 64,700,000
Expenditures:			
Efficiency initiatives	5,397,055	7,639,162	19,371,286
Total expenditures	5,397,055	7,639,162	19,371,286
Lapsed balances	$ 1,102,945	$ 842,938	$ 45,328,714
Senior Citizens & Disabled Persons Program - 316			
Appropriations (net after transfers)	$ -	$ -	$ 350,000
Expenditures:			
Expenses of admin. for prescription drug program	-	-	45,528
Total expenditures	-	-	45,528
Lapsed balances	$ -	$ -	$ 304,472

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 2

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES,
AND LAPSED BALANCES
APPROPRIATED FUNDS

	Fiscal Year		
	2007	2006	2005
	P.A. 94-0798 and P.A. 95-0144	P.A. 94-0015	P.A. 93-0681 and P.A. 93-0842
Professional Services - 317			
Appropriations (net after transfers)	$ 13,984,700	$ 15,531,200	$ 13,710,170
Expenditures:			
Personal services	4,355,455	5,485,718	5,214,262
Employee retirement paid by employer	-	10,043	6,993
Contribution to SERS	504,813	431,017	833,429
Contribution to social security	327,853	405,998	383,115
Group insurance	925,096	1,300,856	1,031,629
Contractual services	1,584,656	1,560,989	804,302
Travel	66,539	87,137	87,382
Commodities	3,523	4,173	8,228
Printing	3,810	6,942	9,350
Equipment	5,909	14,999	11,875
Electronic data processing	74,816	79,560	126,462
Telecommunications services	60,827	59,453	68,581
Info tech consolidation (1910)	-	-	10,862
For General/ Regulatory Shared	20,793	-	-
Internal audit consolidation	1,013,959	2,438,437	468,582
Total expenditures	8,948,049	11,885,322	9,065,052
Lapsed balances	$ 5,036,651	$ 3,645,878	$ 4,645,118
Workers' Compensation Revolving - 332			
Appropriations (net after transfers)	$ 122,968,700	$ 101,485,600	$ 76,789,576
Expenditures:			
Personal services	1,416,685	1,364,207	1,218,292
Employee Retirement Paid by Employer	-	3,715	-
Contribution to SERS	163,449	106,375	189,975
Contribution to social security	105,629	101,675	90,078
Group insurance	299,342	330,388	27,690
Contractual services	43,232	29,895	13,315
Travel	14,992	12,066	15,572
Commodities	8,507	6,237	9,351
Printing-	1,526	2,663	-
Electronic data processing	10,548	10,016	4,993
Telecommunications services	19,000	18,367	21,306
Group insurance - lump sum (1900)	-	-	182,890
Injured employees award etc. (4420)	91,238,750	93,571,734	66,254,367
Admin. expenses and payment of temporary disability	197,064	194,867	52,739
Total expenditures	93,518,724	95,752,205	68,080,568
Lapsed balances	$ 29,449,976	$ 5,733,395	$ 8,709,008

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES,
AND LAPSED BALANCES
APPROPRIATED FUNDS

	Fiscal Year		
	2007	2006	2005
	P.A. 94-0798 and P.A. 95-0144	P.A. 94-0015	P.A. 93-0681 and P.A. 93-0842
Minority and Female Business Enterprise - 352			
Appropriations (net after transfers)	$ 50,000	$ 50,000	$ 50,000
Expenditures:	-	4,850	-
Total expenditures	-	4,850	-
Lapsed balances	$ 50,000	$ 45,150	$ 50,000
Group Insurance Premium - 457			
Appropriations (net after transfers)	$ 86,207,400	$ 78,904,000	$ 77,721,000
Expenditures:			
Group insurance	76,175,094	78,597,856	69,042,942
Cost containment program	282,200	282,240	282,240
Total expenditures	76,457,294	78,880,096	69,325,182
Lapsed balances	$ 9,750,106	$ 23,904	$ 8,395,818
State Employees' Deferred Compensation Plan - 755			
Appropriations (net after transfers)	$ 1,698,300	$ 1,698,300	$ 1,662,471
Expenditures:			
Administration	1,182,071	1,201,955	1,088,604
Total expenditures	1,182,071	1,201,955	1,088,604
Lapsed balances	$ 516,229	$ 496,345	$ 573,867

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 2

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES,
AND LAPSED BALANCES
APPROPRIATED FUNDS

	Fiscal Year		
	2007	2006	2005
	P.A. 94-0798 and P.A. 95-0144	P.A. 94-0015	P.A. 93-0681 and P.A. 93-0842
State Surplus Property Revolving - 903			
Appropriations (net after transfers)	$ 3,050,000	$ 2,581,800	$ 2,537,763
Expenditures:			
Ordinary and contingent expenditures			
Personal services	983,869	984,739	908,196
Employee retirement paid by employer	-	4,320	11,998
Contribution to SERS	113,445	76,743	146,292
Contribution to social security	72,658	70,805	66,229
Group insurance	217,223	254,252	225,182
Contractual services	566,092	267,408	249,286
Travel	24,142	10,070	17,350
Commodities	10,099	6,962	9,974
Printing	673	1,489	3,247
Equipment	253,310	17,244	145,351
Electronic data processing	-	-	44,273
Telecommunications services	17,916	16,460	16,002
Record processing/I-Cycle program	114,907	142,808	107,147
Operation of automotive equipment	113,823	109,716	108,268
For General/ Regulatory Shared	71,134	-	-
Refunds	2,323	624	70
Total expenditures	2,561,614	1,963,640	2,058,865
Lapsed balances	$ 488,386	$ 618,160	$ 478,898

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 2

COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES,
AND LAPSED BALANCES
APPROPRIATED FUNDS

	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005
	P.A. 94-0798 and P.A. 95-0144	P.A. 94-0015	P.A. 93-0681 and P.A. 93-0842
Health Insurance Reserve - 907			
Appropriations (net after transfers)	$ 15,195,900	$ 18,875,200	$ 1,642,264,858
Expenditures:			
Personal services	155,218	83,461	208,160
Employee retirement paid by employer	-	379	93
Contribution to SERS	17,889	6,504	33,563
Contribution to social security	11,629	6,205	15,186
Group insurance	-	-	9,497
Contractual services	749	15,000	6,850
Travel	-	-	5,674
Commodities	-	-	142
Printing	-	-	45
Telecommunications services	771	227	3,953
Cost containment	155,700	155,722	158,900
For General/ Regulatory Shared	131,955	-	-
Health care coverage	8,686,740	10,208,644	1,522,537,701
Total expenditures	9,160,651	10,476,142	1,522,979,764
Lapsed balances	$ 6,035,249	$ 8,399,058	$ 119,285,094
Grand Total, All Appropriated funds			
Appropriations (net after transfers)	$ 997,126,900	$ 1,051,862,700	$ 3,578,079,773
Total expenditures	791,795,297	743,959,937	3,248,317,968
Total lapsed balances	$ 205,331,603	$ 307,902,763	$ 329,761,805
State Officers' Payroll			
Appropriations (through Comptroller's Office)	$ 348,900	$ 326,500	$ 326,500
Expenditures:			
For the Director	86,924	42,415	111,156
For two Assistance Directors	165,876	163,885	205,600
Total expenditures	252,800	206,300	316,756
Lapsed balances	$ 96,100	$ 120,200	$ 9,744

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
SCHEDULE OF CHANGES IN STATE PROPERTY
For Fiscal Year Ended June 30, 2007
(Expressed in Thousands)

Schedule 3

	Balance June 30, 2006	Additions	Deletions	Reclassifications	Balance June 30, 2007
General Fixed Asset Account Group					
Land and land improvements	$ 42	-	$ -	$ -	$ 42
Building and building improvements	4,640	370	-	-	5,010
Equipment	2,807	20	(265)	-	2,562
Total General Fixed Asset Account Group	7,489	390	(265)	-	7,614
State Garage Revolving Fund - 0303					
Equipment	4,484	-	(405)	-	4,079
Total State Garage Revolving Fund - 0303	4,484	-	(405)	-	4,079
Statistical Services Revolving Fund - 0304					
Equipment	45,517	24,623	(550)	-	69,590
Total Statistical Services Revolving Fund - 0304	45,517	24,623	(550)	-	69,590
Paper and Printing Revolving Fund - 0308					
Equipment	15	-	-	-	15
Total Paper and Printing Revolving Fund - 0308	15	-	-	-	15
Communications Revolving Fund - 0312					
Equipment	97,045	10,876	(3,097)	(696)	104,128
Leases: Buildings and Building Improvements	-	-	-	696	696
Total Communications Revolving Fund - 0312	97,045	10,876	(3,097)	-	104,824
Facilities Management Revolving Fund-0314					
Land and land improvements	36,689	1,675	-	-	38,364
Site Improvements	3,889	-	-	-	3,889
Buildings and building improvements	351,972	1,269	28,457	-	381,698
Leases: Buildings and building improvements	50,202	-	-	-	50,202
Equipment	561	118	-	-	679
Works of Art	974	-	-	-	974
Total Management Revolving Fund-0314	444,287	3,062	28,457	-	475,806
TOTAL PROPERTY AND EQUIPMENT, AT COST	$ 598,837	$ 38,951	$ 24,140	$ -	$ 661,928

(1) This schedule was prepared by the Department on the cash basis of accounting and, therefore, does not include lapse period purchases.

(2) This schedule has been reconciled to the financial statements.

(3) Additions include transfers from other agencies as a result of consolidations and are not purchases.

(4) Reclassifications presented to properly classify State property.

(5)The information in this schedule has been reconciled to the property reports submitted to the State Comptroller.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 4

COMPARATIVE SCHEDULE OF CASH RECEIPTS
For Fiscal Years Ended June 30, 2007, 2006, and 2005

	2007	2006	2005
SHARED FUNDS			
General Revenue - 001			
Rents from State of Illinois buildings in Chicago, farmland, and other property	$ -	$ -	$ 302,370
Miscellaneous	13,591	46,791	29,660
Repay State-upward mobility	108,273	67,615	62,495
Sale of land and structures	-	4,200,000	4,629,250
Prior year refunds	13,945	22,084	32,353
Private organizations or individuals	-	-	17,059
Other	770	-	1,860
Total - Fund 001	$ 136,579	$ 4,336,490	$ 5,075,047
Road - 011			
Prior year refunds	$ -	$ 503	$ 561
NONSHARED FUNDS			
Local Government Health Insurance Reserve - 193			
Contributions	$ 64,382,269	$ 67,071,747	$ 68,056,354
Interest	324,159	345,398	228,237
Total - Fund 193	$ 64,706,428	$ 67,417,145	$ 68,284,591
Flexible Spending Account - 202			
Payroll deductions	$ 21,308,424	$ 17,625,649	$ 16,982,362
State Police Vehicle - 246*			
State property sales	$ -	$ 24,950	$ 15,400
CMS State Projects - 302			
Sponsorship/Advert Revenue	$ -	$ 1,500	$ -
State Garage Revolving - 303			
Charges to user agencies	$ 35,083,617	$ 36,449,265	$ 32,676,553
Statistical Services Revolving - 304			
Charges to user agencies	$ 127,869,062	$ 123,308,544	$ 74,127,248
Paper and Printing Revolving - 308			
Charges to user agencies	$ 140,773	$ 1,059,628	$ 994,071
Communications Revolving - 312			
Charges to user agencies	$ 117,277,708	$ 104,446,113	$ 112,553,413
Facilities Management Revolving - 314			
Rental income	$ 184,971,527	$ 171,664,491	$ 459,543
Efficiency Initiatives Revolving - 315			
Other Illinois state agencies	$ 20,935	$ 18,559,713	$ 21,795,170

* The State Police Fund is the reporting responsibility of the Illinois State Police.
During FY07, the fund number changed from 246 to 328.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 4

COMPARATIVE SCHEDULE OF CASH RECEIPTS
For Fiscal Years Ended June 30, 2007, 2006, and 2005

	2007	2006	2005
Senior Citizen and Disabled Persons Program - 316			
Senior citizens / Prescription drug discount fees	$ 5,020	$ 16,805	$ 99,195
Professional Services - 317			
Other Illinois state agencies	$ 882	$ 118,027	$ -
Prior year refunds	1,703	7,273	-
Total - Fund 317	$ 2,585	$ 125,300	$ -
State Police Vehicle Maintenance - 328*			
State property sales	$ 124,906	$ -	$ -
Workers' Compensation Revolving - 332			
Receipts due to subrogation of workers' compensation claims	$ 1,174,028	$ 1,390,778	$ 861,726
Minority and Female Business Enterprise - 352			
License fees or registration	$ -	$ 75	$ 775
Group Insurance Premium - 457			
Direct payments of insurance premiums by employees	$ 922,946	$ 568,602	$ 461,462
Optional life deductions	46,037,178	45,273,828	39,587,293
Pharmacy recoveries	1,774,267	1,918,366	2,169,838
Employer reimbursement for basic life coverage	8,103,575	7,076,472	6,455,932
Transfers in from other funds	21,000,000	20,000,000	24,000,000
Interest	529,881	344,487	226,057
Prior year refund	70	216	35
Total - Fund 457	$ 78,367,917	$ 75,181,971	$ 72,900,617
Community College Health Insurance Security - 577			
Transfers in from other funds	$ 5,477,074	$ 3,630,017	$ 2,996,308
Member contributions	868,684	582,958	421,168
Total - Fund 577	$ 6,345,758	$ 4,212,975	$ 3,417,476
Wireless Service Emergency - 612			
Surcharges	$ -	$ -	$ 2,229,454
Wireless Carrier Reimbursement - 613			
Surcharges	$ -	$ -	$ 1,114,727
State Employees' Deferred Compensation Plan - 755			
Benefits receipts	$ 3,934,282	$ 4,460,330	$ 4,525,970
Annual asset charge and investment exchange	1,247,578	1,371,914	1,059,873
Investments and other income	-	160,759	82,284
Payroll deductions	163,461,225	152,043,593	142,359,077
Other	79	3,550	800
Total - Fund 755	$ 168,643,164	$ 158,040,146	$ 148,028,004
State Surplus Property Revolving - 903			
Sales of surplus property	$ 2,967,256	$ 1,954,289	$ 2,194,719

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

COMPARATIVE SCHEDULE OF CASH RECEIPTS
For Fiscal Years Ended June 30, 2007, 2006, and 2005

	2007	2006	2005
Health Insurance Reserve - 907			
Reimbursement of insurance premiums from federal trusts, other funds, and employers	$ 157,938,394	$ 132,368,714	$ 110,911,634
Direct payments of insurance premiums by employees	5,469,997	10,544,624	8,684,248
Refunds from insurance carriers	22,805,549	17,305,176	15,501,949
Optional health deductions	218,209,596	196,989,351	188,213,288
Health facilities	166,072,366	169,835,329	154,942,360
Interest	-	-	1,181,927
Transfers in from other funds	11,349,200	16,196,728	1,079,224,882
Prior year refund	753	509	164
Total - Fund 907	$ 581,845,855	$ 543,240,431	$ 1,558,660,452
Special Events Revolving - 989			
Rental income	$ -	$ 6,915	$ 38,750
GRAND TOTAL, ALL FUNDS	$ 1,390,991,542	$ 1,329,063,676	$ 2,122,509,854

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 5

RECONCILIATION SCHEDULE OF CASH RECEIPTS TO DEPOSITS
REMITTED TO THE STATE COMPTROLLER
For Fiscal Year Ended June 30, 2007

	Shared Funds		Nonshared Funds					
	General Revenue 001	Road 011	Local Government Health Insurance Reserve 193	Flexible Spending Account 202	State Police Vehicle 246 (1)	CMS State Projects 302	State Garage Revolving 303	Statistical Services Revolving 304
2007								
Cash receipts per Department records	$ 136,579	$ -	$ 64,706,428	$ 21,308,424	$ -	$ -	$ 35,083,617	$ 127,869,062
Add:								
Deposits in transit at beginning of period	835	-	597,541	26,708	-	-	59,745	1,090,167
Miscellaneous	-	-	-	-	-	-	3,475	10,812
IOC holds from GRF (current year)	-	-	-	-	-	-	1,789	4,969
Refunds	-	-	-	-	-	-	-	-
Deduct:								
Interest income	-	-	-	-	-	-	-	-
Deposits in transit at end of period	896	-	461,436	5,595	-	-	32,143	10,071
Miscellaneous/Adjustments	-	-	-	-	-	-	-	15,325
IOC holds from GRF (prior year)	-	-	-	-	-	-	87,154	8,301
Deposits into the State Treasury	$ 136,518	$ -	$ 64,842,533	$ 21,329,537	$ -	$ -	$ 35,029,329	$ 128,941,313

(1) The State Police Vehicle Maintenance Fund is the reporting responsibility of the Illinois State Police. The Fund number was changed during FY07 to Fund number 328.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 5

RECONCILIATION SCHEDULE OF CASH RECEIPTS TO DEPOSITS
REMITTED TO THE STATE COMPTROLLER
For Fiscal Year Ended June 30, 2007

	Nonshared Funds								
	Paper and Printing Revolving 308	Communications Revolving 312	Facilities Management Revolving 314	Efficiency Initiatives Revolving 315	Senior Citizen and Disabled Persons Program 316	Professional Services 317	State Police Vehicle Maintenance 328(1)	Workers' Compensation Revolving 332	Minority and Female Business Enterprise 352
2007									
Cash receipts per Department records	$ 140,773	$ 117,277,708	$ 184,971,527	$ 20,935	$ 5,020	$ 2,585	$ 124,906	$ 1,174,028	$ -
Add:									
Deposits in transit at beginning of period	11,012	870,846	2,240,380	-	-	-	-	-	-
Miscellaneous	-	(70,067)	18	-	-	-	-	-	-
IOC holds from GRF (current year)	-	784	-	-	-	-	-	-	-
Refunds	-	-	-	-	-	-	-	-	-
Deduct:									
Interest income	-	-	-	-	-	-	-	-	-
Deposits in transit at end of period	-	249,617	-	-	-	-	-	127,379	-
Miscellaneous/Adjustments	-	(16,354)	-	-	-	-	-	-	-
IOC holds from GRF (prior year)	1,636	98,849	20,690	-	-	-	-	-	-
Deposits into the State Treasury	$ 150,149	$ 117,747,159	$ 187,191,235	$ 20,935	$ 5,020	$ 2,585	$ 124,906	$ 1,046,649	$ -

(1) The State Police Vehicle Maintenance Fund is the reporting responsibility of the Illinois State Police. The Fund number was changed during FY07 to Fund number 328.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

RECONCILIATION SCHEDULE OF CASH RECEIPTS TO DEPOSITS
REMITTED TO THE STATE COMPTROLLER
For Fiscal Year Ended June 30, 2007

	Nonshared Funds						
	Group Insurance Premium 457	Community College Health Insurance Security 577	State Employees' Deferred Compensation Plan 755	State Surplus Property Revolving 903	Health Insurance Reserve 907	Special Events Revolving 989	TOTAL
2007							
Cash receipts per Department records	$ 78,367,917	$ 6,345,758	$ 168,643,164	$ 2,967,256	$ 581,845,855	$ -	$ 1,390,991,542
Add:							
Deposits in transit at beginning of period	134,386	-	40,986	2,010	1,383,649	-	6,458,265
Miscellaneous	-	-	-	-	-	-	(55,762)
IOC holds from GRF (current year)	-	-	-	-	-	-	7,542
Refunds	-	-	-	-	-	-	-
Deduct:							
Interest income	-	-	215,571	-	-	-	215,571
Deposits in transit at end of period	102,403	-	2,635	36,157	1,078,902	-	2,107,234
Miscellaneous/Adjustments	-	-	-	-	-	-	(1,029)
IOC holds from GRF (prior year)	-	-	-	-	-	-	216,630
Deposits into the State Treasury	$ 78,399,900	$ 6,345,758	$ 168,465,944	$ 2,933,109	$ 582,150,602	$ -	$ 1,394,863,181

(1) The State Police Vehicle Maintenance Fund is the reporting responsibility of the Illinois State Police. The Fund number was changed during FY07 to Fund number 328.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES

For the Year Ended June 30, 2007

The State of Illinois, Department of Central Management Services' (Department) explanations for significant fluctuations in expenditures greater than $100,000 and 15.0% between fiscal years 2006 and 2007 as presented in the "Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances – Appropriated Funds" (Schedule 2) are detailed below:

General Revenue – 001

A decrease of $2,457,083 (23.7%) in Personal services was due to expenditures shifted to a new lump sum appropriation in FY07. This resulted in a decrease in the Social Security/Medicare Contributions of $163,833 (22.0%).

Public Act 095-0144, a supplemental appropriation schedule, provided for "The deposit into the Worker's Compensation Revolving Fund for payment of Worker's Compensation Act claims and contractual services in connection with said payments." This was not appropriated in FY06 resulting in an increase of $11,398,100 (100.0%).

During fiscal year 2006, restacking costs (capital improvement related) at the James R Thompson Center were incurred. There was no such appropriation for fiscal year 2007 resulting in a decrease in Surplus real property of $189,365 (100.0%).

Due to the Governor's Commission on Status of Women program being disbanded, there were no expenditures during fiscal year 2007. This led to a decrease of $132,200 (100.0%).

Pilot program to increase access to broadband services increased by $956,108 (100.0%). Executive Order 2005-9 established a program to increase access to broadband services for rural and low-income areas. Fiscal year 2007 was the first year receiving appropriations for this project.

An increase of $2,339,850 (100.0%) for General/ Regulatory Shared is for expenditures associated with the Administrative and Regulatory Shared Services Center as created by Executive Order 2006-06.

Capital Development – 141

Public Act 94-798 appropriated for the first time monies from the Capital Development Fund to the Department for IT infrastructure expenses including but not limited to related hardware and equipment. This led to an increase in Information Technology of $405,154 (100.0%).

State Garage Revolving – 303

Contribution to SERS increased 291,536 (48.1%). This increase was due to a difference in rate calculations between FY06 and FY07. In FY06 the rate calculation was 7.8% and it was 11.5% in FY07.

Statistical Service Revolving – 304

Employee retirement paid by employer decreased $231,999 (100.0%). This decrease is due to pension pickup for state employees that were previously paid by the State via this object code. Employees now pay direct from withholdings.

Contribution to SERS increased $1,752,614 (58.0%). This increase was due to a difference in rate calculations between FY06 and FY07 and an overall increase in personal services expenditures. In FY06 the rate calculation was 7.8% and it was 11.5% in FY07.

A decrease of $1,215,929 (35.9%) in Contractual services was due primarily to fiscal negotiation of larger contracts resulting in reduced spending.

A $691,753 (39.3%) increase in Telecommunication services is due to increased rental of Data Communication Services.

An increase of $3,195,559 (100.0%) for General/ Regulatory Shared is for expenditures associated with the Administrative and Regulatory Shared Services Center as created by Executive Order 2006-06.

An increase of $6,836,541 (100.0%) for Refunds is due to the Federal overpayments calculated for fiscal years 2004 and 2005.

Paper and Printing Revolving – 308

The Paper and Printing Revolving Fund experienced a decrease in expenditures of $770,634 (89.7%). This Fund was phased out of operations in FY07.

Communications Revolving – 312

Contribution to SERS increased $446,850 (57.6%). This increase was due to a difference in rate calculations between FY06 and FY07 and an overall increase in personal services expenditures. In FY06 the rate calculation was 7.8% and it was 11.5% in FY07.

A $557,207 (16.6%) increase in Contractual services is attributable to an increase to the Executive Project Management Office Technical Services Provider expenditures, in support of major consolidation projects.

Electronic data processing expenditures increased $909,779 (40.1%) due to variable increases related to the cost of conversion for a new CRF billing system referred to as EMS 11.

An increase of $1,412,610 (100.0%) for General/ Regulatory Shared is for expenditures associated with the Administrative and Regulatory Shared Services Center as created by Executive Order 2006-06.

A $17,810,521 (100.0%) increase in Education Technology reflects the ICN Education Technology appropriation which was in the General Revenue Fund in FY06 and the Communications Revolving Fund in FY07.

An increase of $2,863,289 (266.8%) for Refunds is due to the Federal overpayments calculated for fiscal years 2004 and 2005.

Facilities Management Revolving – 314

Increases in Personal services $5,075,454 (38.5%), Contribution to social security $376,328 (38.8%), and Group Insurance $916,104 (28.8%) are due to 6 payrolls covered by alternative funding sources in FY06. These alternative funding sources were the Professional Services Fund and Efficiency Initiative Revolving Fund.

Employee retirement paid by employer decreased $127,003 (100.0%). This decrease is due to pension pickup for state employees that were previously paid by the State via this object code. Employees now pay direct from withholdings.

Contribution to SERS increased $1,081,827 (105.3%) due to the payroll situation mentioned above as well as the difference in rate calculations between FY06 and FY07. In FY06 the rate calculation was 7.8% and it was 11.5% in FY07.

Electronic data processing expenditures increased $216,605 (100.0%) due to the 1240 detail object code being applied to the 1600 (EDP) line in fiscal year 2007 versus the 1200 (Contractual Services) line in fiscal year 2006.

An increase of $202,718 (100.0%) for General/ Regulatory Shared is for expenditures associated with the Administrative and Regulatory Shared Services Center as created by Executive Order 2006-06.

Efficiency Initiatives Revolving – 315

Efficiency initiatives decreased $2,242,107 (29.4%) due to 3 Facilities Management Revolving Fund payrolls were covered by EIRF in FY06. No payrolls existed in this fund in FY07.

Professional Services – 317

Personal services decreased $1,130,263 (20.6%) and Group insurance decreased $375,760 (28.9%). These decreases are attributable to 3 Facilities Management Revolving Fund payrolls covered by the Professional Services Fund in FY06.

A decrease in Internal audit consolidation of $1,424,478 (58.4%) was due to the completion of consolidation under Executive Order 2003-10.

State Surplus Property Revolving – 903

Contractual services increased $298,684 (111.7%). The additional expenditures were the result of a new contract to satisfy mandate for Data wiping/recycling of electronics (PA 93-0306).

An increase of $236,066 (1,369.0%) in Equipment is due to the purchases of GSA automobiles for resale to government entities in FY07. There were no GSA vehicles purchased in FY06.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS

For the Year Ended June 30, 2007

The State of Illinois, Department of Central Management Services' (Department) explanations for significant fluctuations in receipts greater than $100,000 and 15.0% between fiscal years 2006 and 2007 as presented in the "Comparative Schedule of Cash Receipts" are detailed below:

General Revenue – 001

Sale of land and structures decreased from $4,200,000 (100.0%). This decrease is from the sale of Zeller Mental Health Facility in fiscal year 2006. No sales of land and structures occurred in fiscal year 2007.

Flexible Spending Account – 202

Payroll deductions increased by $3,682,775 (20.9%). These increases are the result of increased enrollment: increases of 1,626 enrollments for MCAP and 191 for DCAP total 1,817 in total increase.

Paper and Printing Revolving – 308

A decrease of $918,855 (86.7%) in the Charges to user agencies was because this fund was phased out of operations in FY07.

Efficiency Initiatives Revolving – 315

Other Illinois State agencies revenue account decreased $18,538,778 (99.9%). This decrease is due to this fund not issuing any billings for revenue savings in FY07.

Professional Services – 317

A decrease of $117,145 (99.2%) in Other Illinois State agencies was due to a one time special project billed in fiscal year 2005 and collected in fiscal year 2006.

State Police Vehicle Maintenance – 328

During fiscal year 2007, the fund number for the State Police Vehicle fund changed from 246 to 328. The receipt fluctuation between fiscal years 2006 and 2007 is below the reporting threshold as described above.

Workers' Compensation Revolving – 332

A decrease in Receipts due to subrogation of workers' compensation claims of $216,750 (15.6%) is due to a timing issue of when the receipts are deposited by the Comptroller.

Group Insurance Premium – 457

Direct payments of insurance premiums by employees increased $354,344 (62.3%) because there were more leave of absence and ex-employees who opted to continue their life insurance coverage, paying for it themselves.

Interest increased $185,394 (53.8%) due to higher interest paid by the Comptroller based on the Comptroller's average interest rate.

Community College Health Insurance Security – 577

Medicare Part D is the prescription drug benefit made available to Medicare Part A and/or Part B beneficiaries. Under this legislation, one of the options available to employers who provide prescription benefits to Medicare beneficiaries is to retain their current prescription drug plan and receive a Retire Drug Subsidy (RDS). Accordingly, the State retained their prescription benefit plan and receives quarterly payments from the Federal Government. The first payments were received in FY07. Accordingly, Transfers in from other funds increased $1,847,057 (50.9%).

Member contributions increased $285,726 (49.0%). The increase is due to the increasing cost of providing health, dental, and vision benefits to participants in the program, which then cause the revenue generated by member contributions to increase. The increase in revenue is also due to increased enrollment in the program.

State Surplus Property Revolving – 903

Sales of surplus property increased $1,012,967 (51.8%) due to an infusion of revenue from the auctioning of prison materials, a general increase in I-BID usage, local governments being able to sell surplus equipment via I-BID and the auctioning of FEMA travel trailers and surplus equipment in FY07.

Health Insurance Reserve – 907

Reimbursements of insurance premiums from federal trusts, other funds, and employers increased $25,569,680 (19.3%) during fiscal year 2007. This increase is a result of the weighted average reimbursement rates charged to non-exempt funds increased by approximately 3.7% from fiscal year 2006 to fiscal year 2007.

An increase of $5,500,373 (31.8%) in Refunds from insurance carriers is due primarily to the increase in pharmaceutical formulary rebates and related true-up.

Transfers in from other funds decreased $4,847,528 (29.9%) during fiscal year 2007. The decrease is a result of the appropriation to the Group Insurance program from the General Revenue Fund being transferred to the Department of Healthcare and Family Services (DHFS).

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING

For the Year Ended June 30, 2007

The State of Illinois, Department of Central Management Services' (Department) explanations for significant lapse period spending greater than $100,000 and 15% as presented in the "Schedule of Appropriations, Expenditures and Lapsed Balances By Fund" (Schedule 1) for fiscal year 2007 are detailed below.

Capital Development – 141

During fiscal year 2007, the Department processed expenditures through the Capital Development Fund which were subsequently rejected by the Comptroller's Office and processed through the Statistical Services Revolving Fund. These transactions have created a large receivable balance at June 30, 2007 for Capital Development Fund from the Statistical Services Revolving Fund. As a result, the Capital Development Fund had negative expenditures of $948,392 during the lapse period.

State Garage Revolving – 303

Approximately 20% of total expenditures in the State Garage Revolving Fund were paid during the lapse period during fiscal year 2007. This increase is the result of cash flow issues occurring within the fund.

Communications Revolving – 312

During the lapse period in fiscal year 2007, the Communications Revolving Fund made a refund payment of $3,936,649 to the federal government for overcharges calculated for fiscal years 2004 and 2005. With the exception of this one time payment, the lapse period expenditures for the Communications Revolving Fund are consistent with prior fiscal years.

Group Insurance Premium – 457

The Group Insurance Premium Fund makes 12 monthly premium payments to its life insurance carrier. However, these payments are made two months behind due to cash flow issues and therefore 2 of the 12 payments (16.7%) were paid during the lapse period during fiscal year 2007.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Schedule 6

ANALYSIS OF ACCOUNTS RECEIVABLE
For Fiscal Year Ended June 30, 2007
(Expressed in Thousands)

	General Revenue 001	State Garage Revolving 303	Communications Revolving 312	Facilities Management Revolving 314	Professional Services Revolving 317	Workers' Compensation Revolving 332	Group Insurance Premium 457	State Employees' Deferred Compensation Plan 755	State Surplus Property Revolving 903
Accounts receivable - Intergovernmental and other	$ -	$ 55	$ 634	$ -	$ -	$ -	$ -	$ -	$ 48
Accounts receivable - other	557	14	240	64	41	21	8,231	1,341	85
Total accounts receivable	557	69	874	64	41	21	8,231	1,341	133
Allowance for doubtful accounts	19	-	-	-	-	-	-	-	84
Net accounts receivable	$ 538	$ 69	$ 874	$ 64	$ 41	$ 21	$ 8,231	$ 1,341	$ 49

The information in this schedule has been reconciled to the receivable reports submitted to the State Comptroller.

The Department assesses collectibility through comparison of the receivable balance outstanding to the total billings. The Department utilizes the Comptroller's offset system for non-State agency receivables.

AGENCY FUNCTIONS AND PLANNING PROGRAM

For the Year Ended June 30, 2007

Introduction

The Department of Central Management Services (Department) provides a wide variety of centralized services to other State and local government agencies. As an agency that provides services to other units of government, the Department is in a unique position to ensure that tax resources are expended in a responsible and effective manner.

Paul J. Campbell served as Director of Central Management Services through March 9, 2007 and Maureen O'Donnell is currently serving as Acting Director effective March 10, 2007.

The Department is organized into eight major bureaus:

- Benefits
- Communication and Computer Services
- Information Services
- Business Enterprise Program
- Personnel
- Property Management
- Strategic Sourcing and Procurement
- Administrative Operations

The current organizational structure of the Department was developed to provide streamlined management, improved accountability and improved efficiency in the delivery of service to other agencies. The Department is responsible for the coordination of data processing and data communications; providing personnel, procurement, vehicles, and property management services; management of State employee benefit plans; centralized accounting for revolving and trust funds under its control; and administration of the State's Business Enterprises program for Minorities, Females and Persons with Disabilities.

Agency Planning Program

The Department integrates strategic planning with the measurement of plan implementation to better focus and evaluate its programs. For the year ended June 30, 2007, the Department's Director authorized the Department's Office of Finance and Management to be the liaison to the Governor's Office of Management and Budget to facilitate the strategic planning process. The performance management process requires the quarterly reporting of agency performance information. This process results in an agency-wide strategic plan that outlines the proprieties, initiatives and objectives of each of the eight Bureaus.

The Department submits this strategic plan annually to the Governor's Office of Management and Budget (GOMB). In addition to the strategic priorities and the initiatives and objectives included to support these priorities, the Department also provides its key performance metrics related to its strategic priorities. On a quarterly basis, the Department submits a quarterly performance measure report to the Governor's Office of Management and Budget providing progress toward goals, performance metric data and budget information.

Reports are submitted through GOMB's on-line system.

The Department's bureaus are responsible for developing metrics that measure inputs, outputs, customer services and efficiency in conjunction with benchmark data. At the completion of each fiscal year, the Department submits Service Efforts and Accomplishments (SEA) information on six programs to the Comptroller's Public Accountability Project. These programs are Employee Benefits, Business Enterprise Program, Communications and Computer Services, Property Management, Personnel and Procurement. The information includes a narrative, program mission, goals and input, output and performance data.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

AVERAGE NUMBER OF EMPL0YEES

For the Fiscal Years Ended June 30, 2007, 2006, and 2005

The following information was prepared from the State of Illinois Department of Central Management Services records and represents the average full-time equivalent number of employees by bureau during the fiscal years ended June 30:

	2007	2006	2005
Administrative Operations	150	223	169
Communications and Computer Services	752	760	552
Personnel	105	121	129
Benefits	82	93	103
Strategic Sourcing & Procurement	204	210	226
Property Management	313	243	252
Information Services	71	73	67
Business Enterprise Programs for Minorities, Females and Persons with Disabilities	5	6	6
Total	1,682	1,729	1,504

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

EMERGENCY PURCHASES

For Fiscal Year Ended June 30, 2007

Description	Amount
Repairs to the emergency exit stairwell towers on both the north and south sides of the DCFS Office at 1026 S. Damen, Chicago.	$ 100,000 *
Repairs to the JRTC HVAC system due to component failure.	691,605
The contractor will provide hardware/software and services for IDOR Information Services. This procurement is critical to meet the application vendor's storage requirements so that the target integrated tax system implementation date of early December 2007 is met.	751,657 *
The contractor will provide software for the State's ICN network. Secure Computing Smartfilter Bess-DA/N2H2 software is a required application to provide filtering to traditional ICN constituents and CMS agencies.	33,273
The contractor will provide interpretive services to various agencies that require language interpretation services.	229,248
The existing contract for cellular services will be extended. In particular, this contract extension will allow the State's Nextel users uninterrupted service allowing time for implementation of the new Statewide Cellular contract.	244,000 *
The existing contract for cellular services will be extended. In particular, this contract extension will allow the State's Cellular Regions 5 and 7 uninterrupted service until implementation of the new Statewide Cellular contract.	136,806 *
Replacement of the damaged fire pump control panel which controls the fire suppression throughout the James R. Thompson Center.	152,904
Replacement of the FM-200 suppression agent for the fire suppression system at the Willard Ice Building.	81,950
	$ 2,421,443

*Includes affidavits with estimate amounts

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

MEMORANDUM OF UNDERSTANDING

For the Fiscal Year Ended June 30, 2007
(Unaudited)

During fiscal year 2007, the Department entered into the following memorandum of understanding.

Parties	Description
Illinois Department of Transportation	Pursuant to Public Act 89-001 and 89-0022, and subsequent acts related thereto, payment of auto liability and indemnification claims which involve drivers who are employed by the Department of Transportation, the Illinois State Police, and the Office of the Secretary of State.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

HURRICANE KATRINA ASSISTANCE

For the Year Ended June 30, 2007
(Unaudited)

The Department of Central Management Services (Department) provided assistance for Hurricane Katrina. The assistance included personnel and technology. Fifty CMS employees and sixty-two employees from other agencies traveled to Louisiana on September 10, 2006 and assisted for a period of approximately eleven days. These employees were assigned to three separate command centers in Louisiana. Five other Department employees coordinated efforts locally.

The Department requested a reimbursement for payroll costs from the Illinois Emergency Management Agency totaling $118,240. This reimbursement encompassed only the time worked during normal State hours excluding overtime. Overtime hours and fringe benefits totaled $74,595 and were based on hours worked over normal State hours excluding travel unless an employee's contract specifically had a provision for travel.

Other non-payroll related costs incurred totaled $253,491. This includes $136,593 paid directly by the Department and $116,897 incurred by the Department but paid directly by IEMA.

Costs for worker's compensation and health costs have been incurred and are still on-going.

The Department has received $121,343 reimbursements from IEMA as of June 30, 2007.

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STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

DEBT COLLECTION BOARD

For the Fiscal Year Ended June 30, 2007

The Debt Collection Board (Board) was established by P.A. 89-511 with the purpose of creating a “centralized collections service to undertake further collection efforts on delinquent accounts or claims of the State which have not been collected through the reasonable efforts of the respective State agencies.” Public Act 93-570 created a Debt Collection Bureau within the Department of Revenue, and mandated that this bureau serve as the “primary debt collecting entity for the State.” This resulted in the Debt Collection Bureau assuming a majority of the Debt Collection Board’s responsibilities relating to establishment of centralized services for debt collection on delinquent accounts for various state agencies.

The Board consists of the Director of the Department of Central Management Services as chairman, the State Comptroller, and the Attorney General, or their respective designees.

The Board has worked with the Department of Revenue to transition debt collection responsibilities. During fiscal year 2007, the Board promulgated rule changes in the Illinois Administrative Code (74 Ill. Adm. Code Part 910) to clarify its redefined jurisdiction. The Board has also drafted legislation to abolish its existence due to the fact that so few accounts have been placed with the Board within the two fiscal years during the transition period.

As of June 30, 2007, the Debt Collection Board has only three agencies reporting accounts receivable.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

SERVICE EFFORTS AND ACCOMPLISHMENTS

For the Fiscal Year Ended June 30, 2007
(Unaudited)

(Dollars in Thousands)

	FY2006		FY2007	
Program	**Expenditures**	**Headcount**	**Expenditures**	**Headcount**
Communications and Computer Services	$ 232,432.3	758.0	$ 261,465.6	754.0
Employee Benefits and Risk Management	225,187.2	93.0	226,605.1	83.0
Property Management	207,725.3	315.0	219,031.3	313.0
Procurement	40,402.5	209.0	41,738.6	204.0
Other/Non Programs	17,502.3	143.0	22,859.5	140.0
Personnel	13,298.9	131.0	12,473.9	117.0
Media Services	6,989.6	55.0	7,241.0	71.0
Business Enterprise Program	420.3	6.0	380.3	4.0
Agency Totals	**$ 743,958.4**	**1,710.0**	**$ 791,795.3**	**1,686.0**

The mission of the Illinois Department of Central Management Services (Department) is to free Illinois State agencies and governmental entities from certain administrative responsibilities so they can focus their energies and resources on accomplishing their core missions. CMS works with state agencies and members of the Illinois General Assembly to deliver essential services including procurement, property management, information technology, telecommunications, internal audit, legal services, personnel, employee and retiree benefits, and supplier diversity programs. This report details six of the department's key programs.

The Business Enterprise Program certifies businesses that are owned and operated by minorities, women, and persons with disabilities, and assists in certifying businesses in order to bid for state contracts. The department continues to advance efforts to expand opportunities for businesses owned by women, minorities, and persons with disabilities. In FY07, CMS launched Sell2lllinois, an initiative to help small and diverse firms do business with the State. The department also requires large State contracts to include subcontracting opportunities for BEP-certified firms.

Communications and Computer Services manage the planning and delivery of statewide information technology and telecommunications services. It operates central computing facilities, maintains common computer applications and manages the Illinois Century Network (ICN), which provides broadband network connectivity to educational institutions and state government. CMS continues to pursue IT consolidation efforts to drive down operating costs and improve service delivery.

Employee Benefits administers group insurance programs, a deferred compensation program, and flexible spending programs for state employees. The division of Risk Management administers the motor vehicle liability, insurance procurement and representation, indemnification, and workers compensation programs. Workers compensation operations for the Departments of Human Services, Corrections, Transportation, and Illinois State Police have all been consolidated into CMS.

Personnel administers the state personnel code, manages the state personnel program, and recruits and qualifies prospective employees. In addition, CMS administers the Upward Mobility Program, Veterans' Outreach Program and Diversity Enrichment Program, Back Wage Claims, Governor's Internship Program, and oversees agency day-care services. Labor Relations represents the State of Illinois at arbitration hearings, at collective bargaining negotiations and before the Illinois Labor Relations Board. In FY07, the department launched the development of an electronic Web-based hiring application to simplify and increase access to state employment opportunities, and enhance objectivity throughout the selection process.

Property Management manages and maintains state owned properties, oversees the lease or purchase of needed space, coordinates the disposition of surplus real and personal property, administers state and federal surplus property programs, coordinates recycling programs and administers special events. As the State's coordinator for the Law Enforcement Support Office (LESO), CMS secures military equipment for use by Illinois law enforcement agencies. In FY07, CMS upgraded its online surplus property system, iBid, to provide local governments with access to the system, and improve service to buyers of property sold over the Internet. Since it's inception in 2003, iBid has sold more than 5,603 items and generated $1.3 million in on-line sales for the state of Illinois.

Strategic Sourcing and Procurement is focused on reducing the cost of state government while alleviating the burdens Illinois businesses have faced in doing business with the state. Through a center-led approach to procurement and standardizing the procurement process for commodities and services across state agencies, this program has reduced the total cost of the provision of these services. This program is also responsible for managing the state's fleet operations. In FY07, CMS received recognition from a national publication as one of the top 20 government vehicle fleets in the country. CMS has also added the first hybrid cars to the State's fleet.

Business Enterprise Program

Mission Statement: To promote the economic development of businesses owned by members of minority groups, females, or persons with disabilities by providing access and assistance in the procurement process for contracts from state agencies and universities.

Program Goals:
Objectives:

1. Increase number of and enforce contracts subject to BEP subcontracting goals.
   - [a] Require diverse business subcontracting goals for RFPs over $500,000.
   - [b] Enhance contract management to enforce BEP participation goals.
2. Increase outreach efforts to expand the vendor pool of diverse businesses.
   - [a] Provide training to vendors on bidding and performing State contracts.

Funds: General Revenue Fund, Minority and Female Business Enterprise Fund	**Statutory Authority: 30 ILCS 575**

	Fiscal Year 2005 Actual	Fiscal Year 2006 Actual	Fiscal Year 2007 Target /Projected	Fiscal Year 2007 Actual	Fiscal Year 2008 Target /Projected
Input Indicators					
• Total expenditures – all sources (in thousands)	$ 456.4	$ 420.3	$ 506.7	$ 380.3	$ 950.7
• Total expenditures – state appropriated funds (in thousands)	$ 456.4	$ 420.3	$ 506.7	$ 380.3	$ 950.7
• Average monthly full-time equivalents	6.0	6.0	6.0	4.0	13.0
Output Indicators					
• Number of outreach events attended	N/A	69.0	92.8	72.0	90.0
• Number of BEP applications received	N/A	1,248	1,497	809.0	1,500
• Number of BEP certifications approved	N/A	984.0	1,180	648.0	N/A
• Number of BEP certifications denied	N/A	233.0	46.6	161.0	N/A
• Number of BEP (Minority, Women, Disabled Business Enterprise) subcontracting firms	N/A	N/A	N/A	62.0	68.0
Outcome Indicators					
• BEP participation contract value (in thousands)	0	0	N/A	$ 69,003.7	$ 75,904.1

Communications and Computer Services

Mission Statement: The Communications and Computer Services Program is mandated by State statute and is committed to procuring and providing state-of-the-art, reliable, cost-effective, high quality telecommunications and computer services to state agencies, boards, commissions, constitutional offices, educational entities and participating units of local and county government. To that end, the program maintains optimum accountability, professionalism, and efficiency in the management and delivery of those services.

Program Goals:

Objectives:

1. Provide appropriate technological infrastructure, tools, services, and resources to meet user needs.
   - a Maintain data processing and communications infrastructure availability of 99.0% or greater.
   - b Develop and achieve timeliness and performance standards in each major service area.
   - c Support state agencies' and enterprise-wide IT initiatives.
2. Collaborate with agencies to implement technology standards.
   - a Identify functional areas where the adoption of program standards would be beneficial.
3. Promote opportunities for state employees to become aware of how technology may improve their jobs.
   - a Develop classes, seminars and presentations to promote technology awareness among employees in non-technical positions.
4. Prepare technology assessments for each CMS program.
   - a Aid and support CMS Bureaus in their program assessments.
5. Establish benchmarks, measures and service expectations.
   - a Meet with internal and external stakeholders about targets/expectations, and will report on service targets/expectations.
   - b Attend conferences to better understand benchmark options; request benchmarks from professional associations or secure benchmarks from professional association journal articles or web sites.
6. Manage resources and services efficiently to minimize costs
   - a Ensure that the state only pays reasonable prices for goods and services that it needs and for which it is responsible.
   - b Ensure that the rates state government pays and the prices CMS charges for services are appropriate.
7. Improve the communication level and quality of information on programs and services provided and accomplishments achieved by CMS.
   - a Hold periodic meetings with agency stakeholders regarding available program service offerings.
8. Fortify training options in state government.
   - a Provide quality technical training opportunities for state employees.

Funds: General Revenue Fund, Statistical Services Revolving Fund, Communications Revolving Fund	**Statutory Authority: 20 ILCS 405/405-20, 405/405-270**

	Fiscal Year 2005 Actual	**Fiscal Year 2006 Actual**	**Fiscal Year 2007 Target /Projected**	**Fiscal Year 2007 Actual**	**Fiscal Year 2008 Target /Projected**
Input Indicators					
● Total expenditures – all sources (in thousands)	$225,874.4	$232.432.3	$337,261.6	$261,465.6	$337,834.7
● Total expenditures – state appropriated funds (in thousands)	$225,874.4	$232,432.3	$337,261.6	$261,465.6	$337,834.7
● Average monthly full-time equivalents	756.0	758.0	880.0	754.0	859.0

	Fiscal Year 2005 Actual	Fiscal Year 2006 Actual	Fiscal Year 2007 Target /Projected	Fiscal Year 2007 Actual	Fiscal Year 2008 Target /Projected
Output Indicators					
• Number of network data circuits managed	N/A	7,900	8,700	8,048	8,100
• Telecommunications Voice Orders (TSRs)	7,741	6,200	6,500	1,206	1,200
• Megabytes of Direct Access Storage Device (DASD) billed/month (a)	12,232,515	11,766,000	12,942,000	22,160,222	25,484,300
Outcome Indicators					
• Percent mainframe transactions completed within 1 second	NA/	97.78%	98%	98%	98%
• Percent mainframe system availability	N/A	99.9%	99%	99.99%	99%
External Benchmarks					
• Mainframe transactions completed within 2 seconds (per Gartner Group Research)	96.3%	99.8%	99.8%	98%	98%
Efficiency/Cost-Effectiveness					
• Cost per megabyte of mainframe storage (in dollars)	$ 0.03	$ 0.04	$ 0.04	N/A	N/A

Footnotes

a Server Consolidation Project resulted in more accurate accounting of DASD utilization. Previous results may be less accurate.

Employee Benefits & Risk Management

Mission Statement: To administer high-quality benefit programs that contribute positively to the health, well-being and prosperity of statutorily-specified groups of Illinois government employees, retirees and their families; and to minimize the State of Illinois exposure to risk.

Program Goals:
Objectives:

1. Administer and provide member facing functions to support employee benefit programs that promote and maintain individual well-being.
   - [a] Offer health, dental and vision benefits for all enrollees each year.
   - [b] Increase enrollment in the Flexible Spending Accounts.
2. Promote and maintain a safe and secure work environment.
   - [a] Provide prompt and equitable services to state employees who have work-related injuries and facilitate their return to work as safely and quickly as possible.
   - [b] Coordinate Workers' Compensation Programs administered by the Departments of Human Services, Corrections, Transportation, Illinois State Police, and Central Management Services.
3. Establish benchmarks, measures and service expectations.
   - [a] Resolve disputes between members and carriers within 30 days of notification.
   - [b] Conduct audits of all agencies to determine that correct reimbursement payments have been made by agencies, boards, commissions, offices and universities.
   - [c] Increase total dollars deferred each year.
   - [d] Effectively and efficiently process payments for bills related to medical treatment, rehabilitation services, temporary disability income payments, and settlements for permanent impairments within ninety days of service.
4. Manage resources and services efficiently to minimize costs and maximize value.
5. Improve the communication level and quality of information on programs and services provided and accomplishments achieved by CMS.
   - [a] Educate eligible enrollees regarding all benefit programs available through issuing educational materials prior to the annual benefits choice period.
6. Provide appropriate technological infrastructure, tools, services, and resources to meet user needs.

Funds: General Revenue Fund, Workers' Compensation Revolving Fund, Group Insurance Premium Fund, State Employees Deferred Compensation Plan Fund, Health Insurance Reserve Fund	**Statutory Authority: 5 ILCS 375 et seq. 20 ILCS 405**

	Fiscal Year 2005 Actual	Fiscal Year 2006 Actual	Fiscal Year 2007 Target /Projected	Fiscal Year 2007 Actual	Fiscal Year 2008 Target /Projected
Input Indicators					
• Total expenditures – all sources (in thousands) [(d)]	$2,792,435.3	$ 225,187.2	$ 249,156.2	$ 226,605.1	$ 268,343.3
• Total expenditures – state appropriated funds (in thousands)	$2,792,435.3	$ 225,187.2	$ 249,156.2	$ 226,605.1	$ 268,343.3
• Average monthly full-time equivalents	102.0	93.0	96.0	83.0	92.0
Output Indicators					
• Number of disputes resolved	2,086	2,116	2,200	1,695	2,000
• Number flexible spending account participants (MCAP & DCAP)	8,286	7,705	8,475	10,602	12,000

	Fiscal Year 2005 Actual	Fiscal Year 2006 Actual	Fiscal Year 2007 Target /Projected	Fiscal Year 2007 Actual	Fiscal Year 2008 Target /Projected
Output Indicators – Continued					
• Number of payroll deduction discrepancies received	N/A	11,695	12,000	8,127	9,000
• Number of premium refund requests received	N/A	2,336	2,500	2,470	2,500
• Number of SERS Financial Incentive Program Participants	N/A	78.0	103.0	119.0	130.0
• Number of new SERS Financial Incentive Program Participants	N/A	78.0	25.0	51.0	50.0
• Number of COBRA notifications mailed	N/A	16,438	16,500	15,818	16,000
• Number of Medicare Coordination of Benefits cases received	N/A	3,392	4,000	10,255	12,000
• Deferred compensation – total dollars deferred (in millions)	$ 142.1	$ 152.2	$ 160.0	$ 163.7	$ 175.0
• Number of deferred compensation participants	51,868	52,157	53,200	53,001	54,000
• Number of new deferred compensation participants	2,325	2,678	3,000	2,470	3,000
• Number of Workers' Compensation injuries	6,823	6,823	7,000	6,782	7,000
• Number of independent medical evaluations performed	217.0	199.0	225.0	241.0	240.0
• Number of injured employees returned to work at modified duty	2,752	2,755	2,750	2,782	2,800
• Number of motor vehicle liability claims	1,739	1,611	1,650	1,687	1,700
• Number of non-litigated vehicle liability claims closed	1,735	1,699	1,650	1,734	1,750
Outcome Indicators					
• Percent of disputes resolved within 30 days of notification	97%	93.3%	90%	97%	95%
• Percent of payroll deduction discrepancies resolved within 60 days of Benefits notification	N/A	87%	90%	89%	90%
• Percent of premium refunds processed within 30 days of receipt [(a)]	N/A	92.25%	90%	75%	85%
• Percent of COBRA eligible participants notified within 30 days	N/A	84%	87%	83%	87%
• Percent of Medicare COB cases completed within 30 days	N/A	90%	90%	97.3%	95%
• Annual change in Workers' Compensation spending[(b)]	116.73%	28.08%	50%	19%	15%
• Savings resulted from Workers' Compensation Physicians PPO Network (in millions)[(c)]	$ 4.1	$ 3.7	$ 4.0	$ 2.1	$ 2.0

	Fiscal Year 2005 Actual	Fiscal Year 2006 Actual	Fiscal Year 2007 Target /Projected	Fiscal Year 2007 Actual	Fiscal Year 2008 Target /Projected
Outcome Indicators – Continued					
• Percent of medical cost containment savings to total medical program cost	24.81%	22.94%	20%	33.53%	30%
• Percent of workers compensation claims paid within 90 days	89.6%	31.28%	80%	78.64%	80%
• Percent of workers compensation claimants with a satisfied/very satisfied rating of the early intervention program	92%	93%	93%	94%	94%
• Percent of vehicle liability claimants contacted within 5 calendar days	99.94%	95.28%	90%	98.48%	97%
• Average number of days to close a vehicle liability case (bodily injury and property damage)	61.2	76.8	90.0	48.9	65.0
• Percent of indemnity expenses and awards within a 20 business day period	N/A	96.7%	90%	92.42%	90%
External Benchmarks					
• Number of deferred compensation investments exceeding benchmark – 1 year rolling return (Prior to fiscal year 2006, there were a total of 12 investments. Since fiscal year 2006, there are 14 total investments)	9.0	7.0	10.0	10.0	14.0
Efficiency/Cost-Effectiveness					
• Average annual administrative cost per deferred compensation participant (state program) (in dollars)	$ 20.85	$ 23.24	$ 24.25	$ 22.87	$ 23.00

Footnotes

a Constrained resources resulted in decreased service levels.

b Payments deferred to FY08 due to lack of cash availability in Workers Compensation Revolving Fund. Cash management issues continue to be a concern into FY08.

c The passage of the State of Illinois' first fee schedule for Workers' compensation claims significantly impacted the savings shown by the use of the PPO Network as costs were first reduced in accordance with that schedule prior to any showing of savings under the PPO Network.

d. FY2007 does not include the $19,998,219.2 from DHFS for Workers Comp.

Personnel

Mission Statement: To develop and administer the State's Personnel Code, Personnel Rules, Pay Plan, Position Classification Plan, current collective bargaining agreements and other applicable laws.

Program Goals:

Objectives:

1. Provide adequate levels of personnel services to other agencies to assist them in carrying out their core missions.
   - [a] Improve timeframes for hiring and recruitment efforts.
   - [b] Improve turnaround time to all agencies regarding classification issues and Rutan compliance.
   - [c] Improve development and administration of testing and selection instruments.
2. Increase diversity of Illinois workforce and access to job opportunities.
   - [a] Develop plans to recruit and monitor hiring of minorities.
   - [b] Conduct job fairs across Illinois to help increase diversity of state workforce.
3. Improve Personnel-related technology and form automation.

Funds: General Revenue Fund	**Statutory Authority: 20 ILCS 415**

	Fiscal Year 2005 Actual	Fiscal Year 2006 Actual	Fiscal Year 2007 Target /Projected	Fiscal Year 2007 Actual	Fiscal Year 2008 Target /Projected
Input Indicators					
• Total expenditures – all sources (in thousands)	$ 13,249.0	$ 13,298.9	$ 13,553.7	$ 12,473.9	$ 13,397.6
• Total expenditures – state appropriated funds (in thousands)	$ 13,249.0	$ 13,298.9	$ 13,553.7	$ 12,473.9	$ 13,397.6
• Average monthly full-time equivalents	122.0	131.0	131.0	117.0	127.0
Output Indicators					
• Number of job descriptions (104s) processed	N/A	8,792	8,700	6,879	8,700
• Number of Rutan reviews processed (a)	N/A	3,436	3,400	1,282	3,400
• Number of people trained	N/A	1,743	1,700	2,431	1,700
• Number of participants at Diversity Enrichment job fairs	N/A	22,478	22,000	29,053	22,000
• Number of veterans counseled	N/A	491.0	490.0	580.0	490.0
• Number of automated exams given	N/A	63,342	63,000	68,430	63,000
• Number of job applications received	N/A	68,774	65,000	70,934	65,000
• Number of Upward Mobility Program participants certified and credentialed	N/A	874.0	870.0	865.0	870.0
• Number of TRAEX exams graded (b)	N/A	50,413	50,000	45,648	50,000

	Fiscal Year 2005 Actual	Fiscal Year 2006 Actual	Fiscal Year 2007 Target /Projected	Fiscal Year 2007 Actual	Fiscal Year 2008 Target /Projected
• Number of Upward Mobility Program participants appointed to UMP positions	N/A	283.0	280.0	266.0	280.0
• Number of people enrolled in Upward Mobility Program	N/A	4,100	4,100	4,234	4,100
• Number of transactions processed[(c)]	N/A	149,403	149,000	137,732	149,000

Explanatory Information

Explanation of Changes to Prior Year Data

1) The 2006 value for "total expenditures – state appropriated funds" was changed from () because
2) The 2006 value for "total expenditures – all sources" was changed from () because

Footnotes

a Number of Rutan applications reviewed decreased due to decrease in positions posted. Many vacancies outstanding.

b. Reduction in exams graded due to reduction in applicants.

Property Management

Mission Statement: The Property Management Program is authorized by statute to provide, coordinate, operate, and oversee State of Illinois facilities, and real and personal property for state agencies. To that end, the program secures property by lease or purchase and manages the daily operations of and public access to facilities by maintaining grounds, structure, utilities, and environmental systems. The program acquires and disposes of real and personal property through the surplus property programs in an efficient and cost effective manner.

Program Goals:
Objectives:

1. Establish benchmarks, measures and service expectations.
   - [a] Implement a fully integrated facility and real estate management enterprise solution.
   - [b] Implement the leasing strategy's holdover lease component aimed at reduction of holdover leases to industry standards.
   - [c] Reduce the State's cost of occupancy in both state owned and leased properties.
   - [d] Improve the Bureau's timeliness, responsiveness, and customer satisfaction by streamlining internal procedures.
   - [e] Reduce the State's energy cost utilizing energy consumption and contract consolidation strategies.
2. Manage resources and services efficiently to minimize costs.
   - [a] Drive down occupancy cost through the application of newly developed space standards, the due diligence process, facilities assessments and operational consolidation.
   - [b] Ensure the state only pays for goods and services that it needs and for which it is responsible.
   - [c] Ensure the rates State Government pays and the prices that CMS charges for services are appropriate.
3. Expand marketing efforts of I-Cycle program to educate state government employees about the benefits of recycling.
   - [a] Initiate marketing strategies in coordination with the Governor's Green Council Committee, Department of Natural Resources, and Department of Commerce and Economic Opportunity.
   - [b] Implement programs and policies for recycling of plastics and fluorescent and high intensity discharge lamps.
   - [c] Continue to review, recommend and implement recycling programs for various types of batteries and small electronics.
   - [d] Continue to participate in toner cartridges and book recycling.

Funds: General Revenue Fund, Statistical Services Revolving Fund, Facilities Management Revolving Fund, Efficiency Initiatives Revolving Fund, State Surplus Property Revolving Fund	**Statutory Authority: 20 ILCS 405/405-300**

	Fiscal Year 2005 Actual	**Fiscal Year 2006 Actual**	**Fiscal Year 2007 Target /Projected**	**Fiscal Year 2007 Actual**	**Fiscal Year 2008 Target /Projected**
Input Indicators					
• Total expenditures – all sources (in thousands)	$ 148,769.5	$ 207,725.3	$ 287,803.9	$ 219,031.3	$ 257,141.0
• Total expenditures – state appropriated funds (in thousands)	$ 148,769.5	$ 207,725.3	$ 287,803.9	$ 219,031.3	$ 257,141.0
• Average monthly full-time equivalents	307.0	315.0	335.0	313.0	353.0

	Fiscal Year 2005 Actual	Fiscal Year 2006 Actual	Fiscal Year 2007 Target /Projected	Fiscal Year 2007 Actual	Fiscal Year 2008 Target /Projected
Output Indicators					
• Number of facilities participating in I-Cycle Program	251.0	251.0	300.0	252.0	265.0
• Number of equipment items transferred out of State Surplus Warehouse[a]	5,093	2,616	3,000	1,826	2,050
• Number of items sold via I-bid[b,c]	2,464	3,700	4,500	1,509	N/A
• Number of Registered bidders for I-Bid Program[b,c]	7,431	10,469	15,000	1,153	N/A
Outcome Indicators					
• Percent of leases in holdover status	N/A	38%	5%	31%	23%
• Percent of work orders completed within 20 working days	79%	85.23%	100%	70.3%	90%
Efficiency/Cost-Effectiveness					
• JRTC building operating expenses ($/sq. ft.) (in dollars)	$ 7.39	$ 9.43	N/A	$ 6.88	N/A
• MABB building operating expenses ($/sq. ft.) (in dollars)	$ 7.26	$ 8.95	N/A	$ 7.30	N/A

Footnotes

a Implementation of data wipe and recycling policy effective July 2, 2007 has resulted in a reduction in transfers as agencies, boards, commissions, and universities adjust to the new policies and address funding for processing under this contract.

b iBid Version 2.0 was launched in June 2007. Internet auction bidders were required to re-register under new system. Drop in bidder registration is attributed to vendor's contractual copyright protection reserving the right to retain and not disclose bidders registered with their company.

c Unable to determine appropriate projections at time of report due to system change. Previous bidders need to re-register with new site to establish appropriate baseline for projection.

Strategic Sourcing and Procurement

Mission Statement: To reduce the cost of state government through a center-led procurement approach, while alleviating the burdens Illinois businesses have faced in doing business with the state. The Procurement program is also responsible for state fleet operations and maintenance, fuel management, and vehicle leasing for all state agencies, as well as providing timely mail services for state government.

Program Goals:
Objectives:

1. Provide seamless, high quality procurement services to other state agencies while reducing the cost of government.
   a Provide adequate levels of services to other agencies to allow them to focus on their core missions.
   b Improve the transparency, quality and consistency of procurement processes and documents.
   c Drive down costs through strategic sourcing best practices.
   d Build knowledge and spend management functions to assist user agencies with making better sourcing decisions.
2. Significantly improve the ease and accessibility of doing business with the State with particular emphasis on small and diverse businesses.
   a Increase access and expand contracting opportunities for small and diverse businesses.
3. Manage fleet resources and services efficiently to minimize costs.
   a Increase mechanic staff and enhance vendor network to ensure agency fleet needs are met and fleet cost reductions maintained.
   b Stabilize fleet management costs and enhance fleet asset.
   c Capture fleet data for enhanced fleet management.

Funds: General Revenue Fund, State Garage Revolving Fund, Statistical Services Revolving Fund, Paper and Printing Revolving Fund, Communications Revolving Fund, Health Insurance Reserve Fund	**Statutory Authority: 30 ILCS 500, 20 ILCS 405**

	Fiscal Year 2005 Actual	Fiscal Year 2006 Actual	Fiscal Year 2007 Target /Projected	Fiscal Year 2007 Actual	Fiscal Year 2008 Target /Projected
Input Indicators					
• Total expenditures – all sources (in thousands)	$ 39,271.3	$ 40,402.5	$ 49,980.8	$ 41,738.6	$ 52,062.2
• Total expenditures – state appropriated funds (in thousands)	$ 39,271.3	$ 40,402.5	$ 49,980.8	$ 41,738.6	$ 52,062.2
• Average monthly full-time equivalents	218.0	209.0	217.0	204.0	228.0
Output Indicators					
• Gallons of gasohol sold	1,079,373	1,030,376	N/A	957,389	950,000
• Total state garage billings (in millions)	$ 24.8	$ 26.2	N/A	$ 27.70	$ 28.20

	Fiscal Year 2005 Actual	Fiscal Year 2006 Actual	Fiscal Year 2007 Target /Projected	Fiscal Year 2007 Actual	Fiscal Year 2008 Target /Projected
Outcome Indicators					
• Total contract dollars awarded to small businesses through Small Business Set-Aside Program (in dollars) [(a)]	$ 14,014,965	$ 38,129,478	$ 46,000,000	N/A	N/A
• Mechanic productivity rate	104.4%	104.3%	N/A	103.9%	104%
• Percent savings to state agencies (DOV mechanical labor rate per hour vs. industry average for passenger vehicles)	9.7%	19%	N/A	22%	21.4%
• Percent of vehicles purchased meeting federal requirements when FFV vehicles are available (EPACT)[(b)]	N/A	N/A	N/A	291%	150%
• Total contract dollars generated from diverse business subcontracting goals (in thousands)	0	$ 31,952.4	N/A	$ 5,316.8	$ 40,000.0
• Average score of Supplier Relationship Management survey results	N/A	N/A	N/A	7.4	7.5
Efficiency/Cost-Effectiveness					
• DOV mechanical labor rate per hour (in dollars)	$ 72.00	$ 80.00	N/A	$ 65.00	$ 70.00
External Benchmarks					
• Industry average mechanical labor rate perhour (in dollars)	N/A	N/A	N/A	$ 83.00	$ 85.00

Explanatory Information

Explanation of Changes in Prior year Data

1) The 2006 value for "Total expenditures – all sources" was changed from () because
2) The 2006 value for "Total expenditures – state appropriated funds" was changed from () because

Footnotes

a Data not yet available at time of report. Projections will be determined once final FY07 data is available.

b EPACT only impacts vehicle purchasing guidelines in Cook and Carroll counties. For every 10 vehicles purchased in these counties 75% have to be alternative fuel. All vehicles purchased statewide are included in totals, thus leading to high percentages.