

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN
AND FAMILY SERVICES

Financial Audit

For the Year Ended June 30, 2008

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

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES

FINANCIAL AUDIT
For the Year Ended June 30, 2008

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**STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

**Agency Officials
Year Ended June 30, 2008**

Director	Mr. Erwin McEwen, Acting (July 1, 2007 through December 5, 2007) Mr. Erwin McEwen (December 5, 2007 through current)
Chief of Staff	Mr. Roman Moore III (July 1, 2007 through October 17, 2007) Ms. Robbin Staggers (October 17, 2007 through current)
Deputy Director and Chief Financial Officer	Ms. Barbara Piwowski (July 1, 2007 through January 8, 2008) Mr. Andy Brown, Acting (January 29, 2008 through April 21, 2008) Mr. Matthew A. Grady III (April 21, 2008 through current)
Chief Legal Counsel	Ms. Dixie Peterson, Acting (July 1, 2007 through February 29, 2008) Ms. Dixie Peterson (February 29, 2008 through current)

Department administrative offices are located at:

406 East Monroe
Springfield, IL 62701

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Department of Children and Family Services was performed by Sleeper, Disbrow, Morrison, Tarro & Lively, LLC.

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

SUMMARY OF FINDINGS

The auditors identified a matter involving the Agency's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the accompanying Schedule of Findings on pages 36-37 of this report, as finding 08-1, financial reporting weaknesses.

EXIT CONFERENCE

The finding and recommendation appearing in this report were discussed with Department personnel at an exit conference on May 11, 2009. The response to the recommendation was provided by Matthew Grady, III, Deputy Director and Chief Financial Officer in correspondence dated May 18, 2009.

Attending the exit conference were:

Department of Children and Family Services

Matthew Grady III, Deputy Director – Budget and Finance
Ray Piiparinen, Audit Liaison
Carol Radwine, P.S.A. – Acting Manager, Financial Management
Paul Larson – Supervisor, Audit Unit
Diane Cottrel – Acting Associate Deputy Director, Cook County ACR
Gary Baker – Acting Deputy Director, Planning & Performance Management
Dave Nika – Information Systems Analyst

Sleeper, Disbrow, Morrison, Tarro & Lively, LLC

Thomas Leach, Partner
Stephen Payton, Partner
Sara Moody, Staff Accountant
Meredith Angel, Staff Accountant

Office of the Auditor General

Karen Appelbaum, Manager
Joseph Gudgel, Information Systems Manager

SLEEPER, DISBROW, MORRISON, TARRO & LIVELY, LLC

ROBERT A. DISBROW, C.P.A.
THOMAS K. LEACH, C.P.A.
WAYNE K. LIVELY, C.P.A.
STEPHEN M. PAYTON, C.P.A.
RICHARD B. TARRO, C.P.A.

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' 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, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Children and Family Services, as of and for the year ended June 30, 2008, which collectively comprise the Department of Children and Family Services' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Illinois, Department of Children and Family 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 Children and Family Services are intended to present the financial position and changes in financial position 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 Children and Family Services. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2008, and the changes in its financial position 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, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Children and Family Services, as of June 30, 2008, and the respective changes in financial position 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 22, 2009, on our consideration of the State of Illinois, Department of Children and Family 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 Children and Family Services has not presented a management's discussion and analysis and budgetary comparison information for the General Fund 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 Children and Family Services' basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements 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 department management, and is not intended to be and should not be used by anyone other than these specified parties.

Sleeper, Disbrow, Morrison, Tarro & Lindy, LLC

May 22, 2009

State of Illinois
Department of Children and Family Services
Statement of Net Assets and Governmental Funds Balance Sheet

June 30, 2008 (Expressed in Thousands)

	General Fund 0001	Other Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Net Assets
ASSETS					
Unexpended appropriations	\$ 45,563	-	\$ 45,563	-	\$ 45,563
Cash equity with State Treasurer	-	4,323	4,323	-	4,323
Cash and cash equivalents	1,083	417	1,500	-	1,500
Due from other government - federal	-	73,758	73,758	-	73,758
Other receivables, net	603	2	605	-	605
Due from other Department funds	-	52	52	(52)	-
Due from other State funds	311	5	316	-	316
Prepaid expenses	-	-	-	199	199
Capital assets being depreciated, net	-	-	-	1,064	1,064
Total assets	\$ 47,560	\$ 78,557	\$ 126,117	1,211	127,328
LIABILITIES					
Accounts payable and accrued liabilities	\$ 28,819	\$ 68,313	\$ 97,132	-	\$ 97,132
Intergovernmental payables	628	1,468	2,096	-	2,096
Due to other State fiduciary funds	-	3	3	-	3
Due to other Department funds	2	50	52	(52)	-
Due to other State funds	14,235	32	14,267	-	14,267
Due to State of Illinois component units	1,879	9,819	11,698	-	11,698
Unavailable revenue	-	19,974	19,974	(19,974)	-
Deferred revenue	-	359	359	-	359
Long-term obligations:					
Due within one year	-	-	-	1,158	1,158
Due subsequent to one year	-	-	-	21,989	21,989
Total liabilities	45,563	100,018	145,581	3,121	148,702
FUND BALANCES/NET ASSETS					
Reserved for encumbrances	-	51	51	(51)	-
Unreserved:					
General fund	1,997	-	1,997	(1,997)	-
Special revenue funds	-	(21,512)	(21,512)	21,512	-
Invested in capital assets, net of related debt	-	-	-	1,064	1,064
Restricted net assets	-	-	-	1,068	1,068
Unrestricted net assets	-	-	-	(23,506)	(23,506)
Total fund balances (deficits)/net assets	1,997	(21,461)	(19,464)	(1,910)	(21,374)
Total liabilities and fund balances	\$ 47,560	\$ 78,557	\$ 126,117	\$	\$

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

State of Illinois
Department of Children and Family Services
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Assets
June 30, 2008
(Expressed in Thousands)

Total fund balances-governmental funds	\$	(19,464)
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>		
Prepaid expenses for governmental activities are current uses of financial resources for funds		199
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		1,064
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		19,974
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:		
Compensated absences		(23,147)
Net assets of governmental activities	\$	(21,374)

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

State of Illinois
Department of Children and Family Services
Statement of Activities and Governmental Revenues,
Expenditures, and Changes in Fund Balances

For the Year Ended June 30, 2008 (Expressed in Thousands)

	General Fund 0001	Other Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Activities
Expenditures/expenses:					
Health and social services	\$ 883,017	\$ 383,399	\$ 1,266,416	\$ 1,183	\$ 1,267,599
Capital outlays	34	502	536	(536)	-
Total expenditures/expenses	883,051	383,901	1,266,952	647	1,267,599
Program revenues:					
Charges for services:					
Licenses and fees	126	57	183	-	183
Other	12,933	2,389	15,322	-	15,322
Total charges for services	13,059	2,446	15,505	-	15,505
Operating grant revenue:					
Federal	-	362,260	362,260	6,828	369,088
Other	-	6	6	-	6
Total operating grant revenue	-	362,266	362,266	6,828	369,094
Net program revenues (expense)	(869,992)	(19,189)	(889,181)	6,181	(883,000)
General revenues:					
Interest and investment income	-	45	45	-	45
Other	64	15	79	-	79
Total general revenues	64	60	124	-	124
Other sources (uses):					
Appropriations from State resources	896,823	-	896,823	-	896,823
Lapsed appropriations	(9,801)	-	(9,801)	-	(9,801)
Receipts collected and transmitted to State Treasury	(13,539)	-	(13,539)	-	(13,539)
Transfers-in	-	2,436	2,436	-	2,436
Transfers-out	(2,953)	(50)	(3,003)	-	(3,003)
Total other sources (uses)	870,530	2,386	872,916	-	872,916
Change in fund balance/net assets	602	(16,743)	(16,141)	\$ 6,181	(9,960)
Fund balance (deficit)/net assets, July 1, 2007	1,395	(4,718)	(3,323)		(11,414)
Fund balance (deficit)/net assets, June 30, 2008	\$ 1,997	\$ (21,461)	\$ (19,464)	\$	\$ (21,374)

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

State of Illinois
Department of Children and Family 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, 2008
(Expressed in Thousands)

Net change in fund balances	\$	(16,141)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures while the statement of activities reports depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		134
<p>Prepaid expenses in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		(197)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in governmental funds. This amount represents the increase in unavailable revenue over the prior year.</p>		6,828
<p>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. Also some expenditures reported in governmental funds decrease the amount of certain long-term liabilities reported on the Statement of Net Assets and are therefore not reported as expenses in the Statement of Activities.</p>		
Increase in compensated absences obligation		(584)
Change in net assets of governmental activities	\$	<u>(9,960)</u>

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

State of Illinois
Department of Children and Family Services

Statement of Fiduciary Net Assets

June 30, 2008 (Expressed in Thousands)

	Private Purpose Trust Funds	Agency Fund Children's Trust Fund 1122
ASSETS		
Cash equity with State Treasurer	\$ -	\$ 301
Cash and cash equivalents	50	2,927
Investments	356	-
Due from other government - federal	-	363
Total assets	406	\$ 3,591
LIABILITIES		
Due to other government - federal	-	89
Other liabilities	-	3,502
Total liabilities	-	\$ 3,591
NET ASSETS		
Held in trust for:		
Individuals, organizations, and other governments	406	
Total net assets	\$ 406	

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

State of Illinois

Department of Children and Family Services

Statement of Changes in Fiduciary Net Assets

For the Year Ended June 30, 2008 (Expressed in Thousands)

	<u>Private Purpose Trust Funds</u>
Additions:	
Investment earnings:	
Interest, dividends and other investment income (loss)	<u>\$ (12)</u>
Change in net assets	(12)
Net assets, July 1, 2007	<u>418</u>
Net assets, June 30, 2008	<u><u>\$ 406</u></u>

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

**STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

Notes to Financial Statements

June 30, 2008

(1) Organization

The Department of Children and Family 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 primarily from the State's General Revenue Fund 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 Department of Central Management Services, 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 the Bail Bonds Fund, the Children and Family Benefit Fund, the General Purpose Fund, the Children's Trust Fund, the Katherine Schaffner Bequest Fund, and the Herrick House Children's Center Bequest Fund.

The Department is organized to provide for social services to children and their families in the State through grants and purchase-of-service arrangements with local service agencies. The mission of the Department is to:

- Protect children who are reported to be abused or neglected and to increase their families' capability to safely care for them;
- Provide for the well-being of children in our care;
- Provide appropriate, permanent families as quickly as possible for those children who cannot safely return home;
- Support early intervention and child abuse prevention activities; and
- Work in partnerships with communities to fulfill this mission.

(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:

**STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

Notes to Financial Statements

June 30, 2008

- 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, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871.

(b) Basis of Presentation

The financial statements of the State of Illinois, Department of Children and Family Services, are intended to present the financial position and the changes in financial position of only the portion of the governmental activities, 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, 2008 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial activities of the Department, which consist only of governmental activities, are reported under the health and social services function in the State of Illinois' Comprehensive Annual Financial Report. For reporting purposes, the Department has combined the fund and government-wide financial statements using a columnar format that reconciles individual line items of fund financial data to government wide data in a separate column. A brief description of the Department's government-wide and fund financial statements is as follows:

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 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 health and social services function of the Department's governmental activities. Direct expenses are those that are clearly identifiable with the health and social services function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital

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DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

Notes to Financial Statements

June 30, 2008

requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, 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 and fiduciary - are presented. The emphasis of fund financial statements is on the major governmental fund, which is displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

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 health and social services. Certain resources obtained from federal grants and used to support general governmental activities are accounted for in the General Fund consistent with applicable legal requirements.

The Department also administers the following fund types:

Governmental Funds:

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, fees for service, and other resources restricted as to purpose.

Fiduciary Funds:

Private Purpose Trust - These funds account for resources legally held in trust for use by the Herrick House and the Katherine Schaffner Bequest. All resources of these funds, including any earnings on invested resources, may be used to support the Herrick House and the Katherine Schaffner Bequest. There is no requirement that any portion of these resources be preserved as capital.

Agency - These funds account for transactions related to assets collected by the Department, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

(c) Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources 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 intergovernmental grants and donations. Revenue from grants, entitlements, and similar items are

**STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

Notes to Financial Statements

June 30, 2008

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 federal grants and interest. All other revenue sources including licenses and fees 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 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 Revenue Fund represents only the portion of the shared fund 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.

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Notes to Financial Statements

June 30, 2008

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 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 less than 90 days at the time of purchase. Cash equivalents also include cash on hand and petty cash funds.

(g) Investments

Investments are reported at fair value. The Department holds investments pursuant to statutory authority for locally-held funds.

(h) Interfund Transactions and Transactions with State of Illinois Component Units

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 sheets or the government-wide 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.

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Notes to Financial Statements

June 30, 2008

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.

The Department also has activity with various component units of the State of Illinois for professional services received and payments of State and Federal programs.

(i) Capital Assets

Capital assets, which include buildings and equipment, 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 (in Years)
Buildings	\$100,000	10-60
Building Improvements	\$25,000	10-45
Equipment	\$5,000	3-25

(j) Compensated Absences

The liability for compensated absences reported in the government-wide statement of net assets 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.

**STATE OF ILLINOIS
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Notes to Financial Statements

June 30, 2008

(k) 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.

(l) Net Assets

In the government-wide statement of net assets, 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."

(m) 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.

(n) Future Adoption of GASB Statements

Effective for the year ending June 30, 2009 the Department will adopt GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which establishes standards for accounting and financial reporting for pollution remediation obligations which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The Department has not yet determined the impact on the Department's financial statements as a result of adopting this statement.

**STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

Notes to Financial Statements

June 30, 2008

(3) Deposits and Investments

(a) Deposits

The State Treasurer is the custodian of the Department's deposits and investments for funds maintained in the State Treasury. The Department independently manages deposits and investments 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

As of June 30, 2008, the Department had the following investments outside of the State Treasury:

	<u>Fair Value (Thousands)</u>	<u>Weighted Average Maturity (Years)</u>
<i>Fiduciary Funds</i>		
Money Market Mutual Funds	36	0.101
Financial Institution Investment Pool	4,336	0.041
Open-ended Equity Mutual Funds	245	N/A
Open-ended Debt Mutual Funds	111	6.08

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 Money Market Mutual Fund was rated AAAM by Standard & Poor's. The Financial Institution Investment Pool and the Open-ended Debt Mutual Funds were not rated.

**STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

Notes to Financial Statements

June 30, 2008

(4) Interfund Balances and Activity

(a) Balances Due to/from Other Funds

The following balances (amounts expressed in thousands) at June 30, 2008 represent amounts due from other State of Illinois funds.

<u>Fund</u>	<u>Due from</u>		<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	
General	\$ -	\$ 311	Due from other State funds for excess advances for reimbursement of grant expenditures to be incurred.
Nonmajor governmental funds	52	5	Due from Department funds for reimbursement of expenditures incurred and from other State funds for tax check-offs collected by other State funds.
	<u>\$ 52</u>	<u>\$ 316</u>	

**STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

Notes to Financial Statements

June 30, 2008

The following balances (amounts expressed in thousands) at June 30, 2008 represent amounts due to other State of Illinois funds.

<u>Fund</u>	<u>Due to</u>			<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	<u>Other State Fiduciary</u>	
General	\$ 2	\$ 14,235	\$ -	Due to State internal service funds for purchases of services and to other State funds for reimbursement of expenditures incurred and transfers to fund mental health programs for children.
Nonmajor governmental funds	50	32	3	Due to State internal service funds for purchases of services and to other State funds for reimbursement of expenditures incurred and for excess advances received for grant expenditures to be incurred and to State fiduciary funds for pension contributions.
	<u>\$ 52</u>	<u>\$ 14,267</u>	<u>\$ 3</u>	

**STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

Notes to Financial Statements

June 30, 2008

(b) Transfers to/from Other Funds

Interfund transfers in (amounts expressed in thousands) for the year ended June 30, 2008, were as follows:

<u>Fund</u>	<u>Transfers in from</u>		<u>Description/Purpose</u>
	<u>Other State Funds</u>		
Nonmajor governmental funds	\$ 2,436		Transfers from other State funds pursuant to statute and for tax check-offs.
	<u>\$ 2,436</u>		

Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2008, were as follows:

<u>Fund</u>	<u>Transfers out to</u>		<u>Description/Purpose</u>
	<u>Other State Funds</u>		
General	\$ 2,953		Transfers to other State funds to fund mental health programs for children.
Nonmajor governmental funds	50		Transfer to other State funds for excess balances.
	<u>\$ 3,003</u>		

**STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

Notes to Financial Statements

June 30, 2008

(c) Balances due to State of Illinois Component Units

The following balances (amounts expressed in thousands) at June 30, 2008 represent amounts due to State of Illinois Component Units for reimbursement of expenses incurred.

<u>Component Unit</u>	<u>Due from</u>	
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>
Chicago State University	\$ 537	\$ 166
Governors State University	221	2,367
Northeastern Illinois University	-	2
Western Illinois University	-	272
Illinois State University	18	32
Northern Illinois University	19	1,462
Southern Illinois University	406	2,533
University of Illinois	678	2,985
	<u>\$ 1,879</u>	<u>\$ 9,819</u>

**STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

Notes to Financial Statements

June 30, 2008

(5) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2008 was as follows:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
Governmental activities:				
Capital assets being depreciated:				
Equipment	\$ 6,694	\$ 536	\$ 1,796	\$ 5,434
Less accumulated depreciation:				
Equipment	<u>5,764</u>	<u>402</u>	<u>1,796</u>	<u>4,370</u>
Governmental activity capital assets, net	<u>\$ 930</u>	<u>\$ 134</u>	<u>\$ -</u>	<u>\$ 1,064</u>

Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2008 was charged as follows:

Health and social services	\$ <u>402</u>
----------------------------	---------------

(6) Other Receivables

Other receivables at June 30, 2008, (expressed in thousands) consisted of the following:

<u>Revenue Source</u>	<u>Governmental Funds</u>	
	<u>General Fund</u>	<u>Nonmajor Funds</u>
Parental assessments	\$ 367	\$ -
Overpayments	2,275	-
Investment and other income	<u>-</u>	<u>2</u>
Total other receivables	2,642	2
Allowance for uncollectible amounts	<u>(2,039)</u>	<u>-</u>
Other receivables, net	<u>\$ 603</u>	<u>\$ 2</u>

**STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

Notes to Financial Statements

June 30, 2008

(7) Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2008 were a follows:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
Compensated absences	\$ 22,563	\$ 24,769	\$ 24,185	\$23,147	\$ 1,158

Compensated absences will be liquidated in subsequent years by the applicable governmental funds that account for the salaries and wages of the related employees.

(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 2008 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2008. 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 2008, the employer contribution rate was 16.561%. 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.

**STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

Notes to Financial Statements

June 30, 2008

(9) Post-employment Benefits

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment 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 financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

(10) Fund Deficits

The Children's Services Fund and the Federal Projects Fund had deficit fund balances of \$22.297 million and \$325 thousand, respectively, at June 30, 2008. The Children's Services Fund deficit will be eliminated by future recognition of earned but unavailable revenues and federal grant reimbursements for expenditures incurred by other funds. The Federal Projects Fund deficit will be eliminated by future recognition of earned but unavailable revenues.

(11) Risk Management

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; aviation liability; auto liability; workers compensation; and natural disasters. The State retains the risk of loss (i.e. self insured) for these risks.

**STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

Notes to Financial Statements

June 30, 2008

(12) Commitments and Contingencies

(a) Operating leases

The Department leases copiers and other office equipment, under the terms of noncancelable operating lease agreements that require the Department to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was \$9.380 thousand for the year ended June 30, 2008.

(b) Federal Funding

The Department receives federal grants which are subject to review and audit by federal grantor agencies. Certain costs could be questioned as not being an eligible expenditure under the terms of the grants. At June 30, 2008, there were no material questioned costs that have not been resolved with the federal awarding agencies. However, questioned costs could still be identified during audits to be conducted in the future. Management of the Department believes there will be no material adjustments to the federal grants and, accordingly, has not recorded a provision for possible repayment.

(c) Litigation

The Department was a defendant in a federal class action suit that was settled. A provision of the settlement stipulation provided that the plaintiffs' counsel could file a petition for fees and costs with the United States District Court. Plaintiffs' counsel filed a petition for fees and costs with the Court and are seeking approximately \$6.187 million in attorneys' fees and costs. The Department is vigorously contesting this petition for attorney's fees and costs. The plaintiffs' petition for attorneys' fees has been fully briefed and a Court decision is expected some time during fiscal year 2009. It is uncertain whether further litigation will be necessary after the court issues its decision, and it is not possible at this time to provide a reasonable estimate of the amount of fees and costs the Department might be required to pay if an outcome is unfavorable or the timing of any such payment.

The Department is routinely involved in a number of other 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.

**State of Illinois
Department of Children and Family Services**

**Combining Balance Sheet -
Non-major Governmental Funds**

June 30, 2008 (Expressed in Thousands)

	Special Revenue			
	Children's Services Fund 0220	Federal Projects Fund 0566	Special Purpose Fund 0582	Child Abuse Prevention Fund 0934
ASSETS				
Cash equity with State Treasurer	\$ 2,787	\$ 391	\$ 193	\$ 952
Cash and cash equivalents	326	-	-	-
Due from other government - federal	73,433	325	-	-
Other receivables, net	-	-	-	2
Due from other Department funds	50	-	-	-
Due from other State funds	-	-	-	5
Total assets	\$ 76,596	\$ 716	\$ 193	\$ 959
LIABILITIES				
Accounts payable and accrued liabilities	\$ 68,165	\$ 122	\$ 26	-
Intergovernmental payables	1,456	12	-	-
Due to other State fiduciary funds	-	3	-	-
Due to other Department funds	-	50	-	-
Due to other State funds	2	10	20	-
Due to State of Illinois component units	9,621	198	-	-
Unavailable revenue	19,649	325	-	-
Deferred revenue	-	321	38	-
Total liabilities	98,893	1,041	84	-
FUND BALANCES				
Reserved for encumbrances	-	1	-	50
Unreserved, undesignated	(22,297)	(326)	109	909
Total fund balances (deficits)	(22,297)	(325)	109	959
Total liabilities and fund balances	\$ 76,596	\$ 716	\$ 193	\$ 959

State of Illinois
Department of Children and Family Services

Combining Balance Sheet -
Non-major Governmental Funds

June 30, 2008 (Expressed in Thousands)

	Special Revenue				
	Bail Bond Fund 1119	Children and Family Benefit Fund 1121	General Purpose Fund 1123	Total	
ASSETS					
Cash equity with State Treasurer	-	-	-	-	4,323
Cash and cash equivalents	1	79	11	11	417
Due from other government - federal	-	-	-	-	73,758
Other receivables, net	-	-	-	-	2
Due from other Department funds	-	2	-	-	52
Due from other State funds	-	-	-	-	5
Total assets	1	81	11	11	78,557
LIABILITIES					
Accounts payable and accrued liabilities	-	-	-	-	68,313
Intergovernmental payables	-	-	-	-	1,468
Due to other State fiduciary funds	-	-	-	-	3
Due to other Department funds	-	-	-	-	50
Due to other State funds	-	-	-	-	32
Due to State of Illinois component units	-	-	-	-	9,819
Unavailable revenue	-	-	-	-	19,974
Deferred revenue	-	-	-	-	359
Total liabilities	-	-	-	-	100,018
FUND BALANCES					
Reserved for encumbrances	-	-	-	-	51
Unreserved, undesignated	1	81	11	11	(21,512)
Total fund balances (deficits)	1	81	11	11	(21,461)
Total liabilities and fund balances	1	81	11	11	78,557

State of Illinois
Department of Children and Family Services
Combining Statement of Revenues,
Expenditures and Changes in Fund Balance -
Non-major Governmental Funds
For the Year Ended June 30, 2008 (Expressed in Thousands)

	Special Revenue			
	Children's Services Fund 0220	Federal Projects Fund 0566	Special Purpose Fund 0582	Child Abuse Prevention Fund 0934
REVENUES				
Federal government	\$ 358,438	\$ 3,822	\$ -	\$ -
Licenses and Fees	-	-	57	-
Interest and other investment income	-	-	-	45
Other charges for services	2,389	-	-	-
Other operating grants	-	-	6	-
Other	8	-	-	-
Total revenues	360,835	3,822	63	45
EXPENDITURES				
Health and social services	378,721	4,356	41	269
Capital outlays	502	-	-	-
Total expenditures	379,223	4,356	41	269
Excess (deficiency) of revenues over (under) expenditures	(18,388)	(534)	22	(224)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Transfers-in	2,250	-	-	186
Transfers-out	-	(50)	-	-
Net other sources (uses) of financial resources	2,250	(50)	-	186
Net change in fund balances	(16,138)	(584)	22	(38)
Fund balances (deficits), July 1, 2007	(6,159)	259	87	997
FUND BALANCES (DEFICITS), JUNE 30, 2008	\$ (22,297)	\$ (325)	\$ 109	\$ 959

State of Illinois
Department of Children and Family Services
Combining Statement of Revenues,
Expenditures and Changes in Fund Balance -
Non-major Governmental Funds

For the Year Ended June 30, 2008 (Expressed in Thousands)

	Special Revenue				Total
	Bail Bond Fund 1119	Children and Family Benefit Fund 1121	General Purpose Fund 1123	Total	
REVENUES					
Federal government	-	-	-	-	362,260
Licenses and Fees	-	-	-	-	57
Interest and other investment income	-	-	-	-	45
Other charges for services	-	-	-	-	2,389
Other operating grants	-	-	-	-	6
Other	-	7	-	-	15
Total revenues	-	7	-	-	364,772
EXPENDITURES					
Health and social services	-	12	-	-	383,399
Capital outlays	-	-	-	-	502
Total expenditures	-	12	-	-	383,901
Excess (deficiency) of revenues over (under) expenditures	-	(5)	-	-	(19,129)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Transfers-in	-	-	-	-	2,436
Transfers-out	-	-	-	-	(50)
Net other sources (uses) of financial resources	-	-	-	-	2,386
Net change in fund balances	-	(5)	-	-	(16,743)
Fund balances (deficits), July 1, 2007	1	86	11	11	(4,718)
FUND BALANCES (DEFICITS), JUNE 30, 2008	\$ 1	\$ 81	\$ 11	\$ 11	(21,461)

State of Illinois

Department of Children and Family Services

**Combining Statement of Fiduciary Net Assets -
Private Purpose Trust Funds**

June 30, 2008 (Expressed in Thousands)

	Katherine Schaffner Bequest Fund 1117	Herrick House Children's Center Bequest Fund 1207	Total
ASSETS			
Cash and cash equivalents	\$ 37	\$ 13	\$ 50
Investments	356	-	356
Total assets	393	13	406
NET ASSETS			
Held in trust for:			
Individuals, organizations, and other governments	393	13	406
Total net assets	\$ 393	\$ 13	\$ 406

State of Illinois

Department of Children and Family Services

**Combining Statement of Changes in Fiduciary Net Assets -
Private Purpose Trust Funds**

For the Year Ended June 30, 2008 (Expressed in Thousands)

	Katherine Schaffner Bequest Fund 1117	Herrick House Children's Center Bequest Fund 1207	Total
Additions:			
Investment earnings:			
Interest, dividends and other investment income (loss)	\$ (12)	\$ -	\$ (12)
Change in net assets	(12)	-	(12)
Net assets, July 1, 2007	405	13	418
Net assets, June 30, 2008	\$ 393	\$ 13	\$ 406

State of Illinois

Department of Children and Family Services

Statement of Changes in Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2008 (Expressed in Thousands)

	Children's Trust Fund (1122)			
	Balance			Balance
	July 1, 2007	Additions	Deductions	June 30, 2008
ASSETS				
Cash equity with State Treasurer	\$ 146	\$ 2,311	\$ 2,156	\$ 301
Cash and cash equivalents	2,885	17,142	17,100	2,927
Due from other government - federal	228	15,121	14,986	363
Total assets	\$ 3,259	\$ 34,574	\$ 34,242	\$ 3,591
LIABILITIES				
Due to other government - federal	\$ 75	\$ 2,905	\$ 2,891	\$ 89
Amounts held on behalf of State Wards	3,184	14,527	14,209	3,502
Total liabilities	\$ 3,259	\$ 17,432	\$ 17,100	\$ 3,591

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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, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Children and Family Services, as of and for the year ended June 30, 2008, which collectively comprise the State of Illinois, Department of Children and Family Services' basic financial statements and have issued our report thereon dated May 22, 2009. 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 Children and Family Services' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Department of Children and Family Services' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Department of Children and Family 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 a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting (08-1).

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 over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency referenced above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Department of Children and Family 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The State of Illinois, Department of Children and Family Services' response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the State of Illinois, Department of Children and Family 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.

Sleeper, Disbrow, Morrison, Tarro & Lively, LLC

May 22, 2009

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES

Schedule of Findings – Government Auditing Standards
For the Year Ended June 30, 2008

08-1. **FINDING** (Financial Reporting Weaknesses)

The Department of Children and Family Services (Department) did not have adequate controls in place to ensure the Department's financial statements for the year ended June 30, 2008 were prepared in accordance with generally accepted accounting principles (GAAP). Our audit identified the following problems in the Department's initial financial statements, and adjustments to the financial statements were made to correct for these matters:

Interfund Classifications

- General Revenue Fund interfund receivables of \$311,000 due from other State funds were misclassified as due from other Department funds.
- General Revenue Fund interfund payables of \$14,235,000 due to other State funds were misclassified as due to other Department funds.
- DCFS Federal Projects Fund interfund payables of \$53,000 were misclassified.
- GAAP eliminations of inter-departmental receivables and payables were not made.

Restricted Net Assets

- Child Abuse Prevention Fund net assets of \$959,000 were reported as unrestricted net assets. The Child Abuse Prevention Fund receives contributions from taxpayer contributions made on their individual income tax returns and are therefore considered restricted under GAAP.

Note Disclosures

- Note disclosures concerning interfund balances did not agree with the information in the financial statements.
- Disclosure of a litigation matter required by GAAP was not updated for the current status of the matter.

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, states that net assets should be reported as restricted when constraints on use of the net assets are imposed by contributors (GASB 34, ¶ 34). In addition, eliminations of interfund receivables and payables should be made in the statement of net assets to minimize the "grossing-up" effect on assets and liabilities within the Department (GASB34, ¶ 58).

The Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3001) requires State agencies to establish and maintain a system of internal fiscal and administrative controls, which shall provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources. Good internal control procedures require adequate management oversight and review of accounting policies and procedures as well as an

overall review of financial reporting for accuracy and compliance with generally accepted accounting principles.

Department personnel stated that a change in fiscal office personnel responsible for preparation of the Department's GAAP package (SCO Forms) for submission to the State Comptroller's Office resulted in the misclassification and delays identified.

Failure to implement appropriate internal control procedures over financial reporting could lead to a material misstatement of the Department's financial statements. Because the information reported in the Department's financial statements is also reported in the comprehensive annual financial report (CAFR) of the State of Illinois, errors in the Department's financial information could also lead to a misstatement of the State's CAFR. (Finding Code No. 08-1)

RECOMMENDATION

We recommend the Department implement additional internal control procedures to assess the risk of material misstatements of the Department's financial statements and to identify such misstatements during the financial statement preparation process.

AGENCY RESPONSE

The Department agrees and has discussed these issues with and requested assistance and training from the State Comptroller's Office for preparation of future SCO Forms. The Department's financial statements are compiled by the Comptroller's Office from the SCO forms submitted by the Department after review for any discrepancies or errors. DCFS will continue to strive to provide the information to the Comptroller's office within the stringent timeframes established for it and DCFS agrees to support all efforts by the Office of the Comptroller to modernize the financial reporting infrastructure.