

STATE OF ILLINOIS
DEPARTMENT OF HUMAN 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 HUMAN SERVICES

FINANCIAL AUDIT

For the Year Ended June 30, 2008

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DEPARTMENT OF HUMAN SERVICES

FINANCIAL AUDIT

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STATE OF ILLINOIS
DEPARTMENT OF HUMAN SERVICES

AGENCY OFFICIALS

Secretary	Carol L. Adams, Ph.D.
Assistant Secretary (Operations)	Catalina Soto (Effective 3/16/07 through 7/9/08) Jerome Butler (Effective 11/12/08)
Assistant Secretary (Programs)	Grace Hou
Budget Director	Robert Brock
Business Services Director	Steven Richie (Through 8/8/07) Hero Tameling (Acting, Effective 8/8/07 to 8/19/08) Ron Brian (Acting, Effective 8/20/08)
Chief of Staff	Teyonda Wertz
Chief Financial Officer	Robert Stanek
Chief Operational Officer	Jerome Butler (Through 10/5/08) Andrew Fox (Effective 10/14/08)
Contract Administration Manager	Sally Hardwick Adams
State Purchasing Officer	Curtis Thompson
Fiscal Services Director	Solomon Oriakhi
Human Resources Director	Elizabeth Sarmiento
Management Information Services Chief	Robert Daniel (Through 11/20/08) Jeremy Margaron (Acting, Effective 11/20/08)
Office of Community Relations Director	Tracey Scruggs Yearwood (Through 10/26/07) Aurelio Huertas Fabrizio (Acting, Effective 10/29/07)
Chief Legislative Liaison	Randy Wells
Compliance Workforce Safety	Audrey McCrimon (Through 12/31/07) Martha Younger-White (Effective 7/16/08)

STATE OF ILLINOIS
DEPARTMENT OF HUMAN SERVICES

AGENCY OFFICIALS - Continued

Hispanic/Latino Affairs Director	Mireya Hurtado (Through 7/16/07) Agueda Corona (Effective 7/16/07)
General Counsel	Mary-Lisa Sullivan (Acting)
Inspector General	Bill Davis
Office of Strategic Planning and Performance Management Director	Ronald Carter (Through 1/30/07) Gregory Diephouse (Effective 9/1/07)
Office of Alcoholism and Substance Abuse Director	Theodora Binion-Taylor
Office of Rehabilitation Services Associate Director	Rob Kilbury
Office of Community Health and Prevention Director	Steven Guerra (Through 5/31/06) Ivonne Sambolin-Jones (Effective 7/30/07)
Office of Developmental Disabilities Director	Lilia Teninty
Office of Mental Health Director	Lorrie Rickman-Jones, Ph.D.
Office of Clinical, Administrative and Program Support Manager	Jim Hobbs
Office of Human Capital Development Director	Marva Arnold
Grant Administration Director	Sharon Zahorodnyj
Office of Security and Emergency Preparedness Director	Hero Tameling (Effective 8/20/08)

Agency main offices are located at:

100 South Grand Avenue, East
Springfield, Illinois 62762

501 South Clinton Street
Chicago, Illinois 60607

STATE OF ILLINOIS
DEPARTMENT OF HUMAN SERVICES

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying basic financial statements of the State of Illinois, Department of Human Services (Department) was performed by Sikich LLP as special assistants for the Auditor General.

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

SUMMARY OF FINDINGS

The auditors identified matters involving the Department's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings on pages 51-63 of this report, as findings 08-1 through 08-6, summarized as follows:

- 08-1 Consolidated services payments made without sufficient supporting documentation
- 08-2 Liabilities payable from future appropriations are misstated
- 08-3 Inadequate controls over commodities
- 08-4 Commodity inventory system outdated and insufficient for user needs
- 08-5 Inadequate controls over capital asset financial reporting
- 08-6 Failure to comply with Medicare and Medicaid certification requirements

PRIOR FINDING NOT REPEATED

- A. Unrecorded and unreported locally held bank accounts

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on March 12, 2009. Attending were:

Department of Human Services

Robert Stanek	Chief Financial Officer
Albert Okwuegbunam	Chief, Bureau of Audit Liaison
Jame Nardulli	DHS Audit Liaison
Brian Crofton	Acting Bureau Chief, Bureau of General Accounting
Solomon Oriakhi	Fiscal Services, Director
Dan Blair	Bureau Chief, Fiscal Support Services
Tim Milbrandt	Manager, Budget and Contracts Section, Division of Management Information Services
Greg Primm	Bureau Chief, Bureau of Federal Reporting
Ivonne Sambolin-Jones	Office of Community Health and Prevention, Director (via Chicago – TV)
Derrick Crane	Business Administrator, Office of Clinical, Administrative and Program Support

Office of the Auditor General

Paul Usherwood	Audit Manager
Joe Gudgel	IS Audit Manager

Sikich LLP – Special Assistant Auditors

Nick Appelbaum	Partner
Andy Lascody	Partner

The responses to the recommendations were provided by Solomon Oriakhi in a letter dated March 12, 2009.

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 Human Services (the Department), as of and for the year ended June 30, 2008, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's 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 Department are intended to present the financial position and changes in financial position of only that portion of the governmental activities, the major fund, and the aggregate remaining fund information of the State 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 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 Department, 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 March 16, 2009 on our consideration of the Department's 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 Department has not presented a management's discussion and analysis and budgetary comparison information for any of its funds 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 Department's basic financial statements. The combining General Fund, nonmajor governmental fund and Agency fund financial statements and schedules listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining General Fund, nonmajor governmental fund and Agency 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 Department management, and is not intended to be and should not be used by anyone other than these specified parties.

Sehik LLP

Springfield, Illinois
March 16, 2009

**State of Illinois
Department of Human Services**

Statement of Net Assets and Governmental Funds Balance Sheet

June 30, 2008 (Expressed in Thousands)

	General Fund	Other Non-major Funds	Total Governmental Funds	Adjustments	Statement of Net Assets
ASSETS					
Unexpended appropriations	\$ 231,862	\$ 3,812	\$ 235,674	\$ -	\$ 235,674
Cash equity with State Treasurer	87,112	96,270	183,382	-	183,382
Cash and cash equivalents	217	3,334	3,551	-	3,551
Investments	-	2,611	2,611	-	2,611
Due from other government - federal	134,035	52,511	186,546	-	186,546
Due from other government - local	3,300	334	3,634	-	3,634
Taxes receivable, net	-	179	179	-	179
Other receivables, net	23,983	15,980	39,963	-	39,963
Loans and notes receivable, net	-	473	473	-	473
Due from other Department funds	33	2,550	2,583	(2,583)	-
Due from other State funds	2,371	2,068	4,439	-	4,439
Due from State of Illinois component units	-	71	71	-	71
Inventories	9,129	-	9,129	-	9,129
Prepaid expenses	-	-	-	1,442	1,442
Other assets	-	86	86	-	86
Capital assets not being depreciated	-	-	-	3,248	3,248
Capital assets being depreciated, net	-	-	-	257,486	257,486
Total assets	\$ 492,042	\$ 180,279	\$ 672,321	\$ 259,593	\$ 931,914
LIABILITIES					
Accounts payable and accrued liabilities	\$ 281,429	\$ 75,165	\$ 356,594	-	\$ 356,594
Due to other government - federal	3,728	411	4,139	-	4,139
Due to other government - local	22,221	6,659	28,880	-	28,880
Due to other Department fiduciary funds	5	-	5	-	5
Due to other State fiduciary funds	5,201	805	6,006	-	6,006
Due to other Department funds	1,676	907	2,583	(2,583)	-
Due to other State funds	18,656	5,782	24,438	-	24,438
Due to State of Illinois component units	5,197	6,362	11,559	-	11,559
Unavailable revenue	46,617	9,853	56,470	(56,470)	-
Deferred revenue	28,295	35,921	64,216	-	64,216
Long-term obligations:					
Due within one year	-	-	-	3,234	3,234
Due subsequent to one year	-	-	-	72,502	72,502
Total liabilities	413,025	141,865	554,890	16,683	571,573
FUND BALANCES/NET ASSETS					
Reserved for:					
Encumbrances	2,641	258	2,899	(2,899)	-
Long-term portion of loans and notes receivable	-	442	442	(442)	-
Inventories	9,129	-	9,129	(9,129)	-
Other	-	1,091	1,091	(1,091)	-
Unreserved:					
General funds	67,247	-	67,247	(67,247)	-
Special revenue funds	-	36,509	36,509	(36,509)	-
Permanent funds	-	114	114	(114)	-
Invested in capital assets, net of related debt	-	-	-	260,145	260,145
Restricted net assets:					
Restricted for health and social service programs	-	-	-	367	367
Funds held as permanent investments:					
Nonexpendable purposes	-	-	-	1,091	1,091
Expendable purposes	-	-	-	114	114
Unrestricted net assets	79,017	38,414	117,431	98,624	98,624
Total fund balances/net assets	\$ 492,042	\$ 180,279	\$ 672,321	\$ 242,910	\$ 360,341
Total liabilities and fund balances					

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

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

Total fund balances-governmental funds	\$	117,431
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		260,734
Prepaid expenses for governmental activities are current uses of financial resources for funds.		1,442
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		56,470
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:		
Capital lease obligations	(77)	
Installment purchase obligations	(512)	
Compensated absences	(75,147)	
	(75,147)	(75,736)
Net assets of governmental activities	\$	360,341

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

State of Illinois

Department of Human 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	Other Non-major Funds	Total Governmental Funds	Adjustments	Statement of Activities
Expenditures/expenses:					
Health and social services	\$ 4,172,286	\$ 2,590,049	\$ 6,762,335	\$ 30,706	\$ 6,793,041
Debt service - principal	398	19	417	(417)	-
Debt service - interest	58	2	60	-	60
Capital outlays	691	548	1,239	(1,239)	-
Total expenditures/expenses	<u>4,173,433</u>	<u>2,590,618</u>	<u>6,764,051</u>	<u>29,050</u>	<u>6,793,101</u>
Program revenues:					
Charges for services:					
Licenses and fees	44	5,195	5,239	-	5,239
Other	87	53,243	53,330	(269)	53,061
Total charges for services	131	58,438	58,569	(269)	58,300
Operating grant revenue:					
Federal	849,306	2,443,136	3,292,442	(12,145)	3,280,297
Other	7,860	-	7,860	(4,900)	2,960
Total operating grant revenue	857,166	2,443,136	3,300,302	(17,045)	3,283,257
Net program revenues	<u>(3,316,136)</u>	<u>(89,044)</u>	<u>(3,405,180)</u>	<u>(46,364)</u>	<u>(3,451,544)</u>
General revenues:					
Other taxes	-	1,391	1,391	(3)	1,388
Interest and investment income	3,215	731	3,946	-	3,946
Other	715	3,546	4,261	637	4,898
Total general revenues	<u>3,930</u>	<u>5,668</u>	<u>9,598</u>	<u>634</u>	<u>10,232</u>
Other sources (uses):					
Appropriations from State resources	4,178,137	32,163	4,210,300	-	4,210,300
Reappropriation to future year(s)	(3,117)	-	(3,117)	-	(3,117)
Lapsed appropriations	(45,663)	(8,880)	(54,543)	-	(54,543)
Receipts collected and transmitted to State Treasury	(625,732)	(20,188)	(645,920)	-	(645,920)
Capital transfers from other State agencies	-	-	-	6,706	6,706
Amount of SAMS transfers-in	(126,155)	-	(126,155)	-	(126,155)
Amount of SAMS transfers-out	4,640	-	4,640	-	4,640
Transfers-in	40,042	78,396	118,438	(76,981)	41,457
Transfers-out	(86,782)	(700)	(87,482)	76,981	(10,501)
Transfer of program administration from another State agency	38,122	-	38,122	-	38,122
Capital lease and installment purchase financing	322	-	322	(322)	-
Total other sources (uses)	<u>3,373,814</u>	<u>80,791</u>	<u>3,454,605</u>	<u>6,384</u>	<u>3,460,989</u>
Change in fund balance/net assets	61,608	(2,585)	59,023	(39,346)	19,677
Fund balance/net assets, July 1, 2007	18,224	41,125	59,349	281,315	340,664
Decrease for changes in inventories	(815)	(126)	(941)	941	-
Fund balance/net assets, June 30, 2008	<u>\$ 79,017</u>	<u>\$ 38,414</u>	<u>\$ 117,431</u>	<u>\$ 242,910</u>	<u>\$ 360,341</u>

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

State of Illinois
Department of Human 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	\$ 59,023
Change in inventories	(941)
	58,082
 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 in the current period exceeded capital outlays.	
	(25,591)
 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.	
	417
 Some capital additions were financed through installment purchases. In governmental funds, installment purchases are considered a source of financing, but in the Statement of Net Assets the installment purchase obligation is reported as a liability.	
	(322)
 Some capital assets were transferred in from other State agencies and therefore, were received at no cost.	
	6,706
 Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	
	(16,680)
 Prepaid expenses in the Statement of Activities are reported as expenses in governmental funds.	
	(893)
 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.	
Increase in compensated absences obligation	(2,042)
	(2,042)
Change in net assets of governmental activities	\$ 19,677

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

State of Illinois
Department of Human Services

Statement of Fiduciary Net Assets

June 30, 2008 (Expressed in Thousands)

	<u>Private-Purpose Trust</u>	
	Hansen- Therkelsen Memorial Deaf Student College 0123	<u>Agency Funds</u>
ASSETS		
Cash equity with State Treasurer	\$ 933	\$ -
Cash and cash equivalents	-	1,222
Investments	-	1,079
Due from other government - federal	-	60
Other receivables, net	2	10
Due from other Department funds	-	5
Loans and notes receivable	84	-
Total assets	<u>1,019</u>	<u>\$ 2,376</u>
LIABILITIES		
Accounts payable and accrued liabilities	-	\$ 38
Other liabilities	-	2,338
Total liabilities	<u>-</u>	<u>\$ 2,376</u>
NET ASSETS		
Held in trust and other purposes	<u>\$ 1,019</u>	

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

State of Illinois
Department of Human Services

Statement of Changes in Fiduciary Net Assets

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

	Private-Purpose Trust
	Hansen-Therkelsen Memorial Deaf Student College 0123
	<hr/>
Additions:	
Investment earnings:	
Interest, dividends and other investment income	\$ 43
Allowance adjustment for uncollectibles	15
Total investment earnings	<hr/> 58
Total additions	<hr/> 58
Change in net assets	58
Net assets, July 1, 2007	<hr/> 961
Net assets, JUNE 30, 2008	<hr/> \$ 1,019 <hr/>

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

**STATE OF ILLINOIS
DEPARTMENT OF HUMAN SERVICES**

Notes to Financial Statements

June 30, 2008

(1) Organization

The Department of Human 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 General 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, excluding all locally-held funds authorized by State law.

The Department is organized to assist Illinois residents to achieve self-sufficiency, independence and health to the maximum extent possible by providing integrated family-oriented services, promoting prevention and establishing measurable outcomes in partnership with communities.

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

**STATE OF ILLINOIS
DEPARTMENT OF HUMAN SERVICES**

Notes to Financial Statements

June 30, 2008

(b) Basis of Presentation

The financial statements of the State of Illinois, Department of Human Services, are intended to present the financial position and the changes in financial position of only that 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 a specific 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 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 on 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

**STATE OF ILLINOIS
DEPARTMENT OF HUMAN SERVICES**

Notes to Financial Statements

June 30, 2008

include, among others, 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's portion of the General Fund is composed of a primary sub-account (General Revenue) and five secondary sub-accounts (Community Developmental Disabilities Services Medicaid Trust, Care Provider Fund for Persons with a Developmental Disability, Health and Human Services Medicaid Trust, Community Mental Health Medicaid Trust, and DHS Recoveries Trust).

Additionally, the Department reports the following fund 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.

Permanent – These funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizens.

Fiduciary Fund Types:

Private Purpose – These funds account for resources legally held in trust for use by individuals the Department serves. All resources of these funds, including any earnings on invested resources, may be used to support these individuals. There is no requirement that any portion of these resources be preserved as capital.

Agency – These funds account for receipts from individuals or groups of individuals at the Department's mental health and developmental centers, and schools, as well as electronic benefit transfers, and receipts from the Federal Government for transfer to other funds for social service programs. These funds are 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. Revenue from grants, entitlements, and similar items 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

**STATE OF ILLINOIS
DEPARTMENT OF HUMAN SERVICES**

Notes to Financial Statements

June 30, 2008

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 intergovernmental grants, charges for services, and interest and other investment income. All other revenue sources including fines 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 and Care Provider Fund for Persons with a Developmental Disability subaccounts of the General Fund and the Tobacco Settlement Recovery Fund, Maternal and Child Health Services Block Grant Fund, and Preventive Health and Health Services Block Grant Fund, nonmajor governmental funds, 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.

Reappropriation to Future Year(s)

This contra revenue account reduces current year's appropriations by the amount of the reappropriation to reflect the State's realignment of the budgetary needs to the subsequent year and avoid double counting of a portion of the appropriation in more than one fiscal year.

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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.

Amount of SAMS Transfers-In

This “other financing use” account represents cash transfers made by the Office of the Comptroller in accordance with statutory provisions to the corresponding fund during the fiscal year per SAMS records in which the Department did not make a deposit into the State Treasury.

Amount of SAMS Transfers-Out

This “other financing source” account represents cash transfers made by the Office of the Comptroller in accordance with statutory provision from the corresponding fund during the fiscal year per SAMS records in which a legally adopted appropriation was not charged.

(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 and cash equivalents include cash on hand, cash in banks, certificates of deposit, and money market accounts for locally held funds.

(g) *Investments*

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

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(h) Inventories

For governmental funds, the Department recognizes the costs of inventories as expenditures when purchased. At year-end, physical counts are taken of significant inventories, consisting primarily of food and drugs maintained at the mental health and developmental centers, in governmental funds and are reported at weighted average cost. The remaining inventories are valued at replacement cost. Inventories reported in governmental funds do not reflect current appropriable resources, and therefore, the Department reserves an equivalent portion of fund balance.

(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 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.

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 for State and Federal programs.

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(j) Capital Assets

Capital assets, which include property, plant, 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)
Land	\$100,000	N/A
Land Improvements	25,000	N/A
Site Improvements	25,000	3-50
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 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.

(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.

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(m) 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. The Department’s restricted net assets are all restricted by 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) 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.

(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

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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.

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Department is required by the State Officers and Employees Money Disposition Act (30 ILCS 230/2c) to obtain a bond, pledged securities, or other eligible collateral equal to or greater than the uninsured portion of the deposit. Deposits for locally-held funds of governmental activities had a carrying amount and a bank balance of \$4.990 and \$5.010 million at June 30, 2008, respectively. Deposits of locally-held funds of fiduciary funds had a carrying amount and a bank balance of \$2.281 million at June 30, 2008. Of the total bank balances, \$2.905 million was exposed to custodial credit risk (amounts expressed in thousands) as follows:

Uninsured and collateral held by the pledging financial institution (but not in its trust department or agent) in the Department's name	\$ 1,322
Uninsured and uncollateralized	1,583
	\$ 2,905

(b) Investments

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

	Fair Value (Thousands)	Weighted Average Maturity (Years)
<i>Governmental Funds</i>		
U.S. Treasury Notes	\$ 38	2.000
U.S. Agency Obligations	20	3.000
Illinois Public Treasurers' Investment Pool	1,081	0.068
	\$ 1,139	

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 U.S. Agency Obligations were rated Aaa by Moody's and AAA by Standard & Poor's. The Illinois Public Treasurers' Investment Pool was rated AAAM by Standard & Poor's.

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

The amounts reported as investments in the Statement of Net Assets and the Statement of Fiduciary Net Assets contain certain long-term deposits to reflect their lack of liquidity. A reconciliation (amounts expressed in thousands) follows:

<i>Governmental Activities</i>	Cash and Cash Equivalents/ Deposits	Investments
Amounts Per Note	\$ 4,990	\$ 1,139
Deposits held for investment purposes	(1,606)	1,606
Cash equivalents	134	(134)
Petty cash	33	-
Amounts per Statement of Net Assets	\$ 3,551	\$ 2,611

<i>Fiduciary Funds</i>	Cash and Cash Equivalents/ Deposits	Investments
Amounts Per Note	\$ 2,281	\$ -
Deposits held for investment purposes	(1,079)	1,079
Petty cash	20	-
Amounts per Statement of Fiduciary Net Assets	\$ 1,222	\$ 1,079

(4) Other Receivables

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

Revenue Source	Governmental Funds		Fiduciary Funds
	General Fund	Nonmajor Funds	
Fines and fees	\$ -	\$ 124	\$ -
Public assistance recoveries	465,676	129	-
Rebates	-	12,933	-
Recipient services	-	14,576	-
Investment and other income	158	21	12
Total other receivables	465,834	27,783	12
Allowance for uncollectible amounts	(441,851)	(11,803)	-
Other receivables, net	\$ 23,983	\$ 15,980	\$ 12

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(5) 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 Department and 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	\$ 33	\$ 2,371	Due from other Department funds for required transfers and expenditure reimbursements and other State funds for expenditure reimbursements.
Nonmajor governmental funds	2,550	2,068	Due from other Department funds for required transfers and expenditure reimbursements and other State funds for expenditure reimbursements.
Fiduciary	5	-	Due from other Department funds for expenditure reimbursements.
	<u>\$ 2,588</u>	<u>\$ 4,439</u>	

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

Fund	Due to				Description/Purpose
	Other Department Funds	Other State Funds	Other Department Fiduciary Funds	Other State Fiduciary Funds	
General	\$ 1,676	\$ 18,656	\$ 5	\$ 5,201	Due to other Department funds and other Department fiduciary funds for expenditure reimbursements, other State funds for expenditure reimbursements, and other State fiduciary funds for postemployment benefits.
Nonmajor governmental funds	907	5,782	-	805	Due to other Department funds for required transfers and expenditure reimbursements, other State funds for expenditure reimbursements, and other State fiduciary funds for postemployment benefits.
	<u>\$ 2,583</u>	<u>\$ 24,438</u>	<u>\$ 5</u>	<u>\$ 6,006</u>	

(b) Transfers to/from Other Funds

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

Fund	Transfers-in from		Description/Purpose
	Other Department Funds	Other State Funds	
General	\$ 42	\$ 40,000	Transfer from other Department funds and other State funds pursuant to statute.
Nonmajor governmental funds	76,939	1,457	Transfers from other Department funds and other State funds pursuant to statute and annual appropriations bill.
	<u>\$ 76,981</u>	<u>\$ 41,457</u>	

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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 Department Funds</u>	<u>Other State Funds</u>	
General	\$ 76,281	\$ 10,501	Transfers to other Department funds pursuant to statute and to other State funds for State budget shortfalls and debt service requirements.
Nonmajor governmental funds	700	-	Transfers to other Department funds pursuant to statute.
	<u>\$ 76,981</u>	<u>\$ 10,501</u>	

(c) Balances due from/to State of Illinois Component Units

The University of Illinois owes the Department \$71 thousand for reimbursement of advances on grant expenditures at June 30, 2008.

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

<u>Component Unit</u>	<u>Due to</u>	
	<u>General Fund</u>	<u>Nonmajor Governmental Fund</u>
Toll Highway Authority	\$ 1	\$ -
Chicago State University	-	93
Eastern Illinois University	4	44
Governors State University	-	9
Northeastern Illinois University	-	11
Western Illinois University	-	124
Illinois State University	-	5
Northern Illinois University	-	7
Southern Illinois University	129	85
University of Illinois	5,063	5,984
	<u>\$ 5,197</u>	<u>\$ 6,362</u>

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(6) 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>Net Transfers</u>	<u>Balance June 30, 2008</u>
Capital assets not being depreciated:					
Land and land improvements	\$ 3,248	\$ -	\$ -	\$ -	\$ 3,248
Total capital assets not being depreciated	<u>3,248</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,248</u>
Capital assets being depreciated:					
Site improvements	103,682	25	-	186	103,893
Buildings and building improvements	641,363	15	-	6,520	647,898
Equipment	48,518	1,199	-	(1,186)	48,531
Capital leases - equipment	619	-	472	-	147
Total capital assets being depreciated	<u>794,182</u>	<u>1,239</u>	<u>472</u>	<u>5,520</u>	<u>800,469</u>
Less accumulated depreciation:					
Site improvements	67,483	3,739	-	-	71,222
Buildings and building improvements	410,860	22,516	-	-	433,376
Equipment	39,120	369	-	(1,186)	38,303
Capital leases - equipment	348	206	472	-	82
Total accumulated depreciation	<u>517,811</u>	<u>26,830</u>	<u>472</u>	<u>(1,186)</u>	<u>542,983</u>
Total capital assets being depreciated, net	<u>276,371</u>	<u>(25,591)</u>	<u>-</u>	<u>6,706</u>	<u>257,486</u>
Total capital assets, net	<u>\$ 279,619</u>	<u>\$ (25,591)</u>	<u>\$ -</u>	<u>\$ 6,706</u>	<u>\$ 260,734</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 \$ 26,830

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During fiscal year 2002, the Department closed the Lincoln Developmental Center which has a book value of \$12.663 million, net of \$32.631 million in accumulated depreciation. It is unknown whether the Center will be placed back into service in the future.

(7) Long-Term Obligations

(a) Changes in Long-Term Obligations

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

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Amounts Due Within One Year
Other long-term obligations:					
Compensated Absences	\$ 73,105	\$ 92,856	\$ 90,814	\$75,147	\$ 3,005
Capital lease obligations	307	-	230	77	60
Installment purchase obligations	377	322	187	512	169
Total	\$ 73,789	\$ 93,178	\$ 91,231	\$75,736	\$ 3,234

Compensated absences have been liquidated by the applicable governmental funds that account for the salaries and wages of the related employees.

(b) Capital lease obligations

The Department leases office and computer equipment with a historical cost and accumulated depreciation (amounts expressed in thousands) of \$147 and \$82, 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 noncancelable leases for financial reporting. Future minimum lease payments (amounts expressed in thousands) at June 30, 2008 are as follows:

Year Ending June 30	Principal	Interest	Total
2009	\$ 60	\$ 13	\$ 73
2010	17	-	17
	\$ 77	\$ 13	\$ 90

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(c) *Installment purchase obligations*

The Department has acquired certain office equipment, computer equipment, and other assets through installment purchase arrangements. Future debt service requirements under installment purchase contracts (amounts expressed in thousands) at June 30, 2008, are as follows:

Year Ending			
June 30	Principal	Interest	Total
2009	\$ 169	\$ 22	\$ 191
2010	176	15	191
2011	113	7	120
2012	54	2	56
	<u>\$ 512</u>	<u>\$ 46</u>	<u>\$ 558</u>

(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%.

(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

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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 Vocational Rehabilitation, Federal National Community Services, Employment and Training, DHS Special Purposes Trust, Early Intervention Services Revolving, and Alcoholism and Substance Abuse, nonmajor governmental funds, had fund deficits (amounts expressed in thousands) of \$1,517, \$201, \$2, \$3,534, \$1,616, and \$7 respectively, at June 30, 2008. These deficits will be eliminated by future recognition of earned but unavailable revenues and from future 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.

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(12) Commitments and Contingencies

(a) Operating leases

The Department leases office facilities, office equipment, and computer 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 \$15.567 million for the year ended June 30, 2008.

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

<u>Year ending June 30,</u>	<u>Amount</u>
2009	\$ 979
2010	922
2011	230
	<u>\$ 2,131</u>

(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 and subject to repayment by the Department. Generally, no provision for repayment is recorded until the federal grantor agency has determined a repayment is necessary. Identified questioned costs are reported in the State of Illinois Single Audit Report. A copy of the report may be obtained by contacting the State of Illinois Office of the Auditor General, Iles Park Plaza, 740 East Ash Street, Springfield, IL 62703-3154.

For federal grant programs in which questioned costs could be determined, the State of Illinois Single Audit Reports for the years ended June 30, 2007 and June 30, 2006 include questioned costs totaling \$.1 and \$1.0 million, respectively, for the Department that have not been resolved. Management of the Department disagrees with the determination of questioned costs and has provided documentation supporting their position to the federal grantor agency conducting the review. The Department expects questioned costs to be reported in the State of Illinois Single Audit Report for the year ended June 30, 2008.

(c) Litigation

The Department has been named as a defendant in the cases disclosed in the following paragraphs. The Department's opinion based on the current status is that the likelihood of a negative outcome in each case is not probable but could be reasonably possible or it is probable but a loss cannot be reasonably estimated. The Department intends to vigorously defend all of these actions and in the event a material action is settled against the Department, such amounts, would be paid from future appropriations or by another State agency. Accordingly, no amounts have been recorded in the accompanying financial statements related to outstanding litigation.

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Ligas v. Maram is a complaint for declaratory and injunctive relief filed against the Department and the Department of Healthcare and Family Services by individuals with developmental disabilities who claim violation of various federal statutes in connection with defendant's alleged failure to provide them with appropriate services sufficient to permit them to live in more integrated settings. This case has been tentatively settled which would result in changes to Medicaid service delivery.

Colbert v. Blagojevich is a class-action lawsuit that alleges the Department violated federal law by allowing residents of nursing facilities to remain in institutionalized settings, segregated from mainstream society.

Mahneke v. Jerome-Kon is a medical malpractice action involving the suicide of a patient at Tinley Park Mental Health Center. Plaintiff alleges that various staff members acted negligently in their care and treatment of the decedent, which resulted in the patient's elopement and suicide. The case is currently in the discovery phase.

Maitland v. Waitley is a medical malpractice case involving an alleged failure to diagnose plaintiff's chronic fungal meningitis while plaintiff was a patient at Elgin Mental Health Center in 2002. The Department is represented by outside Legal Counsel. The parties are almost finished with fact discovery and will begin expert discovery soon.

Parfait v. Baetiong is a medical malpractice/wrongful death case. Plaintiff's survivor alleges the decedent committed suicide by jumping in front of a train while on a field trip.

Romic v. Tobias is a medical malpractice action involving the suicide of a patient. Plaintiff alleges that various staff members acted negligently in their care and treatment of the decedent, resulting in his suicide.

Williams v. Blagojevich is a complaint for declaratory and injunctive relief filed against the Office of the Governor, the Department, and the Department of Healthcare and Family Services. The plaintiffs are four individuals with mental illness who claim violation of various federal statutes in connection with defendants' alleged failure to provide them with services in the most integrated setting appropriate to their needs. The complaint seeks injunctive relief in the form of relocating individuals from institutional to community settings.

The Department has also been named as a defendant in several other lawsuits relating to the operation of its facilities. While the Department has denied these allegations, the Department's attorneys have determined that possible losses, in presently indeterminable amounts, may arise from these actions. In the event a material action is settled against the Department, such amounts would be paid from future appropriations of the Department or by future appropriations to another State agency.

In addition, 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.

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June 30, 2008

(d) Tax claim

The IRS alleges that the Department faces potential tax liability for an alleged “misclassification” of certain individuals as independent contractors as opposed to employees. The IRS settlement proposal requires the Department to reclassify the independent contractors as employees for Federal employment tax purposes and to pay approximately \$452 thousand to discharge liability for tax years 2000 and 2001. The Department has retained outside legal counsel. If a settlement is not reached, IRS Tax Examination Reports issued in March 2005 estimated the total tax and penalties for tax years 2000 and 2001 to be \$3.9 million. This assessment is not final and could vary depending on the course of action taken by the Department. Subsequent years have not yet been subject to audit.

SUPPLEMENTARY INFORMATION

**State of Illinois
Department of Human Services**

**Combining Schedule of Accounts -
General Fund**

June 30, 2008 (Expressed in Thousands)

	Care Provider Fund for							Eliminations	Total
	General Revenue 0001	Community Services Medicaid Trust 0142	DD Persons with a Disability 0344	Health and Human Services Medicaid Trust 0365	Community Mental Health Medicaid Trust 0718	DHS Recoveries Trust 0921			
ASSETS									
Unexpended appropriations	\$ 231,862	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 231,862
Cash equity with State Treasurer	149	1,439	-	70,019	11,028	4,477	-	-	87,112
Cash and cash equivalents	217	-	-	-	-	-	-	-	217
Due from other government - federal	92,915	25,809	-	-	15,311	-	-	-	134,035
Due from other government - local	3,300	-	-	-	-	-	-	-	3,300
Other receivables, net	873	3	-	139	16	22,952	-	-	23,983
Due from other Department funds	17,929	-	-	-	-	-	(17,896)	-	33
Due from other State funds	2,371	-	-	-	-	-	-	-	2,371
Inventories	9,129	-	-	-	-	-	-	-	9,129
Total assets	\$ 358,745	\$ 27,251	\$ -	\$ 70,158	\$ 26,355	\$ 27,429	\$ (17,896)	\$	\$ 492,042
LIABILITIES									
Accounts payable and accrued liabilities	\$ 268,915	\$ -	\$ 10,599	\$ 448	\$ 372	\$ 1,095	\$ -	\$ -	\$ 281,429
Due to other government - federal	2,288	-	-	-	1	1,439	-	-	3,728
Due to other government - local	22,218	-	-	3	-	-	-	-	22,221
Due to other Department fiduciary funds	5	-	-	-	-	-	-	-	5
Due to other State fiduciary funds	5,180	-	-	-	4	17	-	-	5,201
Due to other Department funds	1,676	14,323	-	-	-	3,573	(17,896)	-	1,676
Due to other State funds	18,526	-	-	-	56	74	-	-	18,656
Due to State of Illinois component units	5,197	-	-	-	-	-	-	-	5,197
Unavailable revenue	24,098	-	-	-	827	21,692	-	-	46,617
Deferred revenue	28,295	-	-	-	-	-	-	-	28,295
Total liabilities	\$ 376,398	\$ 14,323	\$ 10,599	\$ 451	\$ 1,260	\$ 27,890	\$ (17,896)	\$	\$ 413,025
FUND BALANCES (DEFICITS)									
Reserved for:									
Encumbrances	2,641	-	-	-	-	-	-	-	2,641
Inventories	9,129	-	-	-	-	-	-	-	9,129
Unreserved	(29,423)	12,928	(10,599)	69,707	25,095	(461)	-	-	67,247
Total fund balances (deficits)	(17,653)	12,928	(10,599)	69,707	25,095	(461)	-	-	79,017
Total liabilities and fund balances (deficits)	\$ 358,745	\$ 27,251	\$ -	\$ 70,158	\$ 26,355	\$ 27,429	\$ (17,896)	\$	\$ 492,042

**State of Illinois
Department of Human Services**

**Combining Schedule of Revenues,
Expenditures and Changes in Fund Balance -
General Fund**

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

	General Revenue 0001	Community DD Services Medicaid Trust 0142	Care Provider Fund for Persons with a Developmental Disability 0344	Health and Human Services Medicaid Trust 0365	Community Mental Health Medicaid Trust 0718	DHS Recoveries Trust 0921	Eliminations	Total
REVENUES								
Federal operating grants	\$ 737,320	\$ 25,822	\$ -	\$ -	\$ 86,164	\$ -	\$ -	\$ 849,306
Licenses and fees	44	-	-	-	-	-	-	44
Interest and investment income	5	325	-	2,362	523	-	-	3,215
Other revenues	715	-	-	-	-	-	-	715
Other charges for services	87	-	-	-	-	10,473	(10,473)	87
Other operating grants	7,860	-	-	-	-	-	-	7,860
Total revenues	746,031	26,147	-	2,362	86,687	10,473	(10,473)	861,227
EXPENDITURES								
Health and social services	4,033,057	7,955	45,249	7,277	81,266	7,955	(10,473)	4,172,286
Debt service - principal	398	-	-	-	-	-	-	398
Debt service - interest	58	-	-	-	-	-	-	58
Capital outlays	691	-	-	-	-	-	-	691
Total expenditures	4,034,204	7,955	45,249	7,277	81,266	7,955	(10,473)	4,173,433
Excess (deficiency) of revenues over (under) expenditures	(3,288,173)	18,192	(45,249)	(4,915)	5,421	2,518	-	(3,312,206)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES								
Appropriations from State resources	4,135,137	-	43,000	-	-	-	-	4,178,137
Reappropriation to future year(s)	(2,988)	-	(129)	-	-	-	-	(3,117)
Lapsed appropriations	(45,663)	-	-	-	-	-	-	(45,663)
Receipts collected and transmitted to State Treasury	(625,732)	-	-	-	-	-	-	(625,732)
Amount of SAMS transfers-in	(126,155)	-	-	-	-	-	-	(126,155)
Amount of SAMS transfers-out	4,640	-	-	-	-	-	-	4,640
Transfers-in	17,344	-	-	40,000	-	-	(17,302)	40,042
Transfers-out	(83,282)	(14,323)	-	(3,500)	-	(2,979)	17,302	(86,782)
Transfer of administration of fund from another State agency	-	-	-	38,122	-	-	-	38,122
Capital lease and installment purchase financing	322	-	-	-	-	-	-	322
Net other sources (uses) of financial resources	3,273,623	(14,323)	42,871	74,622	-	(2,979)	-	3,373,814
Net change in fund balances	(14,550)	3,869	(2,378)	69,707	5,421	(461)	-	61,608
Fund balances (deficits), July 1, 2007	(2,288)	9,059	(8,221)	-	19,674	-	-	18,224
Decrease for changes in inventories	(815)	-	-	-	-	-	-	(815)
FUND BALANCES (DEFICITS), JUNE 30, 2008	\$ (17,653)	\$ 12,928	\$ (10,599)	\$ 69,707	\$ 25,095	\$ (461)	\$ -	\$ 79,017

**State of Illinois
Department of Human Services**

**Combining Balance Sheet -
Non-major Governmental Funds**
June 30, 2008 (Expressed in Thousands)

	Special Revenue							
	Prevention and Treatment of Alcoholism and Substance Abuse Block Grant 0013	Group Home Loan Revolving 0025	Illinois Veterans' Rehabilitation 0036	Mental Health 0050	Vocational Rehabilitation 0081	Assistance to the Homeless 0100	Youth Alcoholism and Substance Abuse Prevention 0128	
ASSETS								
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Cash equity with State Treasurer	356	4	2,373	26,879	14,390	154	195	
Cash and cash equivalents	-	-	-	-	-	-	-	
Investments	-	-	-	-	-	-	-	
Due from other government - federal	10,968	-	-	10,382	923	-	-	
Due from other government - local	-	-	-	179	-	-	-	
Taxes receivable, net	-	-	-	2,667	100	-	-	
Other receivables, net	-	31	-	-	-	-	-	
Loans and notes receivable, net	-	-	-	-	-	-	-	
Due from other Department funds	-	-	-	1,665	-	-	-	
Due from other State funds	-	-	-	1,879	6	5	-	
Due from State of Illinois component units	-	-	-	-	-	-	-	
Other assets	-	-	-	-	-	-	-	
Total assets	\$ 11,324	\$ 35	\$ 2,373	\$ 41,986	\$ 17,084	\$ 159	\$ 195	
LIABILITIES								
Accounts payable and accrued liabilities	\$ 10,589	\$ -	\$ 1,050	\$ 502	\$ 8,732	\$ -	\$ 66	
Due to other government - federal	7	-	4	6	123	-	-	
Due to other government - local	323	-	83	-	12	-	125	
Due to other State fiduciary funds	16	-	9	31	276	-	-	
Due to other Department funds	-	-	-	-	-	-	-	
Due to other State funds	262	-	78	1,280	1,999	-	3	
Due to State of Illinois component units	127	-	44	-	33	-	-	
Unavailable revenue	-	-	-	6,302	402	-	-	
Deferred revenue	-	-	-	-	7,024	-	-	
Total liabilities	11,324	-	1,268	8,121	18,601	-	194	
FUND BALANCES (DEFICITS)								
Reserved for:								
Encumbrances	-	-	-	-	-	-	-	
Long-term portion of loans and notes receivable	-	31	-	-	-	-	-	
Other	-	-	-	-	-	-	-	
Unreserved, undesignated	-	4	1,105	33,865	(1,517)	159	1	
Total fund balances (deficits)	-	35	1,105	33,865	(1,517)	159	1	
Total liabilities and fund balances (deficits)	\$ 11,324	\$ 35	\$ 2,373	\$ 41,986	\$ 17,084	\$ 159	\$ 195	

**State of Illinois
Department of Human Services**

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

June 30, 2008 (Expressed in Thousands)

		Special Revenue						
		Mental Health Transportation 0134	Diabetes Research Check-off 0198	Autism Research Check-off 0228	Drunk and Drugged Driving Prevention 0276	Federal National Community Services 0343	Employment and Training 0347	Drug Treatment 0368
ASSETS								
Unexpended appropriations	\$	-	-	-	-	-	-	-
Cash equity with State Treasurer	1	134	62	346	597	376	585	
Cash and cash equivalents	-	-	-	-	-	-	-	
Investments	-	-	-	-	-	-	-	
Due from other government - federal	-	-	-	-	534	471	217	
Due from other government - local	-	-	-	-	-	-	-	
Taxes receivable, net	-	-	-	-	-	-	-	
Other receivables, net	-	-	-	-	-	-	-	
Loans and notes receivable, net	-	-	-	-	-	-	-	
Due from other Department funds	-	-	-	-	-	-	-	
Due from other State funds	-	5	-	-	-	-	-	
Due from State of Illinois component units	-	-	-	-	-	-	-	
Other assets	-	-	-	-	-	-	-	
Total assets	1	\$ 139	\$ 62	\$ 346	\$ 1,131	\$ 847	\$ 802	
LIABILITIES								
Accounts payable and accrued liabilities	\$	-	-	211	760	164	3	
Due to other government - federal	-	-	-	1	1	-	-	
Due to other government - local	-	-	-	11	286	-	-	
Due to other State fiduciary funds	-	-	-	2	1	-	-	
Due to other Department funds	-	-	-	-	-	-	-	
Due to other State funds	-	-	-	27	1	-	14	
Due to State of Illinois component units	-	-	-	3	98	183	-	
Unavailable revenue	-	-	-	-	185	-	-	
Deferred revenue	-	-	-	-	-	502	-	
Total liabilities	-	-	-	255	1,332	849	17	
FUND BALANCES (DEFICITS)								
Reserved for:								
Encumbrances	-	-	-	8	-	-	-	
Long-term portion of loans and notes receivable	-	-	-	-	-	-	-	
Other	-	-	-	-	-	-	-	
Unreserved, undesignated	1	139	62	83	(201)	(2)	785	
Total fund balances (deficits)	1	\$ 139	\$ 62	\$ 91	\$ (201)	\$ (2)	\$ 785	
Total liabilities and fund balances (deficits)	1	\$ 139	\$ 62	\$ 346	\$ 1,131	\$ 847	\$ 802	

**State of Illinois
Department of Human Services**

**Combining Balance Sheet -
Non-major Governmental Funds**
June 30, 2008 (Expressed in Thousands)

	Special Revenue											
	Sexual Assault Services 0389	Gaining Early Awareness and Readiness for Undergraduate Programs 0394	DHS Special Purposes Trust 0408	Old Age Survivors Insurance 0495	Early Intervention Services Revolving 0502	Domestic Violence Abuser Services 0528	DHS Federal Projects 0592					
ASSETS												
Unexpended appropriations	-	-	-	-	-	-	-	-	-	-	-	-
Cash equity with State Treasurer	12	5,515	18,095	846	6,196	18	2,172					
Cash and cash equivalents	-	-	-	-	-	-	-					
Investments	-	-	-	-	-	-	-					
Due from other government - federal	-	260	10,993	2,386	6,748	-	1,002					
Due from other government - local	2	-	-	-	-	1	-					
Taxes receivable, net	-	-	-	-	-	-	-					
Other receivables, net	-	11	1	-	143	-	-					
Loans and notes receivable, net	-	-	-	-	-	-	-					
Due from other Department funds	-	-	23	-	263	-	299					
Due from other State funds	-	-	-	-	15	-	30					
Due from State of Illinois component units	-	-	-	-	-	-	71					
Other assets	-	-	-	-	-	-	-					
Total assets	14	5,786	29,112	3,232	13,365	19	3,574					
LIABILITIES												
Accounts payable and accrued liabilities												
Due to other government - federal	8	215	18,011	2,273	12,010	15	829					
Due to other government - local	-	-	20	86	3	-	135					
Due to other State fiduciary funds	-	19	876	3	52	-	579					
Due to other Department funds	-	-	196	192	7	-	6					
Due to other State funds	-	-	-	-	-	-	319					
Due to State of Illinois component units	-	1	429	678	81	-	33					
Unavailable revenue	-	25	3,700	-	64	-	31					
Deferred revenue	-	5,225	1,439	-	3	-	130					
Total liabilities	8	5,485	32,646	3,232	14,981	15	3,193					
FUND BALANCES (DEFICITS)												
Reserved for:												
Encumbrances	-	-	-	-	-	-	-					
Long-term portion of loans and notes receivable	-	-	-	-	-	-	-					
Other	-	-	-	-	-	-	-					
Unreserved, undesignated	6	301	(3,534)	-	(1,616)	4	381					
Total fund balances (deficits)	6	301	(3,534)	-	(1,616)	4	381					
Total liabilities and fund balances (deficits)	14	5,786	29,112	3,232	13,365	19	3,574					

**State of Illinois
Department of Human Services**

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

June 30, 2008 (Expressed in Thousands)

	Special Revenue																			
	Multiple Sclerosis Assistance 0604	State Projects 0642	Alcoholism and Substance Abuse 0646	DHS Private Resources 0690	U.S.D.A. Women Infants and Children 0700	Tobacco Settlement Recovery 0733	Local Initiative Education Act 0762	Rehabilitation Services Elementary and Secondary Education Act 0798												
ASSETS																				
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash equity with State Treasurer	85	796	472	4,792	6,835	-	2,117	558	-	-	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	1,671	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Due from other government - federal	-	-	1,885	-	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Due from other government - local	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes receivable, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other receivables, net	-	-	-	-	12,969	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans and notes receivable, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Due from other Department funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2
Due from other State funds	3	24	-	-	50	-	-	8	-	-	-	-	-	-	-	-	-	-	-	-
Due from State of Illinois component units	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	\$ 88	\$ 820	\$ 2,357	\$ 4,792	\$ 21,527	\$ 117	\$ 2,117	\$ 568												
LIABILITIES																				
Accounts payable and accrued liabilities	\$ 85	\$ 347	\$ 1,742	\$ 78	\$ 13,764	\$ 36	\$ 1,587	\$ 68												
Due to other government - federal	-	1	3	-	8	-	2	-												
Due to other government - local	-	56	70	-	3,003	18	208	-												
Due to other State fiduciary funds	-	2	1	-	19	-	3	-												
Due to other Department funds	-	-	-	-	-	-	-	-												
Due to other State funds	-	414	2	-	152	-	49	208												
Due to State of Illinois component units	-	-	124	-	11	63	56	-												
Unavailable revenue	-	-	7	-	-	-	-	-												
Deferred revenue	-	-	415	4,714	4,570	-	212	-												
Total liabilities	\$ 85	\$ 820	\$ 2,364	\$ 4,792	\$ 21,527	\$ 117	\$ 2,117	\$ 277												
FUND BALANCES (DEFICITS)																				
Reserved for:																				
Encumbrances	-	221	-	5	-	-	-	23												
Long-term portion of loans and notes receivable	-	-	-	-	-	-	-	-												
Other	-	-	-	-	-	-	-	-												
Unreserved, undesignated	3	(221)	(7)	(5)	-	-	-	268												
Total fund balances (deficits)	\$ 3	\$ -	\$ (7)	\$ -	\$ -	\$ -	\$ -	\$ 291												
Total liabilities and fund balances (deficits)	\$ 88	\$ 820	\$ 2,357	\$ 4,792	\$ 21,527	\$ 117	\$ 2,117	\$ 568												

**State of Illinois
Department of Human Services**

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

June 30, 2008 (Expressed in Thousands)

	Special Revenue									
	Domestic Violence Shelter and Service 0865	Maternal and Child Health Services Block Grant 0872	Preventive Health and Health Services Block Grant 0873	Community Mental Health Services Block Grant 0876	Youth Drug Abuse Prevention 0910	Juvenile Justice Trust 0911	DHS Other Special Trusts 1139	DHS Commissary Funds 1140		
ASSETS										
Unexpended appropriations	\$ -	\$ 3,437	\$ 258	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash equity with State Treasurer	343	-	-	115	149	702	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-	672	10	-	-
Investments	-	-	-	-	-	-	1,285	-	-	-
Due from other government - federal	-	4,064	1,518	-	-	354	21	-	-	-
Due from other government - local	41	-	-	-	-	-	-	-	-	-
Taxes receivable, net	-	-	-	-	-	-	-	-	-	-
Other receivables, net	-	-	-	-	-	-	2	-	-	-
Loans and notes receivable, net	-	-	-	-	-	-	-	-	-	-
Due from other Department funds	-	-	-	-	-	-	-	-	-	-
Due from other State funds	-	-	-	-	-	43	-	-	-	-
Due from State of Illinois component units	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-
Total assets	\$ 384	\$ 7,501	\$ 1,776	\$ 115	\$ 149	\$ 1,099	\$ 1,980	\$ 10	\$ -	\$ -
LIABILITIES										
Accounts payable and accrued liabilities	\$ 208	\$ 859	\$ 258	\$ 50	\$ -	\$ 551	\$ -	\$ -	\$ -	\$ -
Due to other government - federal	-	8	-	2	-	1	-	-	-	-
Due to other government - local	50	823	-	-	-	62	-	-	-	-
Due to other State fiduciary funds	-	36	-	4	-	3	-	-	-	-
Due to other Department funds	-	-	-	-	-	-	-	-	-	2
Due to other State funds	2	8	-	10	1	50	-	-	-	-
Due to State of Illinois component units	-	1,790	-	-	-	10	-	-	-	-
Unavailable revenue	-	125	1,260	-	-	-	-	-	-	-
Deferred revenue	-	832	-	49	-	422	-	-	-	3
Total liabilities	\$ 260	\$ 4,481	\$ 1,518	\$ 115	\$ 149	\$ 1,099	\$ -	\$ -	\$ -	\$ 5
FUND BALANCES (DEFICITS)										
Reserved for:										
Encumbrances	-	1	-	-	-	-	-	-	-	-
Long-term portion of loans and notes receivable	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Unreserved, undesignated	124	3,019	258	-	148	-	1,980	-	-	5
Total fund balances (deficits)	\$ 124	\$ 3,020	\$ 258	\$ -	\$ 148	\$ -	\$ 1,980	\$ -	\$ -	\$ 5
Total liabilities and fund balances (deficits)	\$ 384	\$ 7,501	\$ 1,776	\$ 115	\$ 149	\$ 1,099	\$ 1,980	\$ -	\$ 1,980	\$ 10

**State of Illinois
Department of Human Services**

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

June 30, 2008 (Expressed in Thousands)

	Special Revenue					Permanent		Total
	DHS Rehabilitation 1144	DHS/DORS Special Revenue 1149	Food Stamp and Commodity 1245	Vending Facility Program for the Blind 1385	Assets for Independence 1391	DHS/DORS Permanent Trust 1150	Burr Bequest 1272	
ASSETS								
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,812
Cash equity with State Treasurer	-	-	-	-	-	-	-	96,270
Cash and cash equivalents	65	155	-	119	440	90	112	3,334
Investments	-	36	-	-	-	343	947	2,611
Due from other government - federal	-	-	-	-	-	-	-	52,511
Due from other government - local	-	73	-	-	-	-	-	334
Taxes receivable, net	-	-	-	-	-	-	-	179
Other receivables, net	13	-	-	74	-	-	-	15,980
Loans and notes receivable, net	-	-	-	442	-	-	-	473
Due from other Department funds	8	290	-	-	-	-	-	2,550
Due from other State funds	-	-	-	-	-	-	-	2,068
Due from State of Illinois component units	-	-	-	-	-	-	-	71
Other assets	-	-	86	-	-	-	-	86
Total assets	\$ 86	\$ 554	\$ 86	\$ 635	\$ 440	\$ 433	\$ 1,059	\$ 180,279
LIABILITIES								
Accounts payable and accrued liabilities	\$ 9	\$ -	\$ -	\$ 85	\$ -	\$ -	\$ -	\$ 75,165
Due to other government - federal	-	-	-	-	-	-	-	411
Due to other government - local	-	-	-	-	-	-	-	6,659
Due to other State fiduciary funds	-	-	-	-	-	-	-	805
Due to other Department funds	-	-	-	-	299	287	-	907
Due to other State funds	-	-	-	-	-	-	-	5,782
Due to State of Illinois component units	-	-	-	-	-	-	-	6,362
Unavailable revenue	-	-	-	-	-	-	-	9,853
Deferred revenue	-	-	86	-	-	-	-	35,921
Total liabilities	9	-	86	85	299	287	-	141,865
FUND BALANCES (DEFICITS)								
Reserved for:								
Encumbrances	-	-	-	-	-	-	-	258
Long-term portion of loans and notes receivable	-	-	-	411	-	-	-	442
Other	-	-	-	-	-	146	945	1,091
Unreserved, undesignated	77	554	-	139	141	-	114	36,623
Total fund balances (deficits)	77	554	-	550	141	146	1,059	38,414
Total liabilities and fund balances (deficits)	\$ 86	\$ 554	\$ 86	\$ 635	\$ 440	\$ 433	\$ 1,059	\$ 180,279

**State of Illinois
Department of Human 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						
	Prevention and Treatment of Alcoholism and Substance Abuse Block Grant 0013	Group Home Loan Revolving 0025	Illinois Veterans' Rehabilitation 0036	Mental Health 0050	Vocational Rehabilitation 0081	Assistance to the Homeless 0100	Youth Alcoholism and Substance Abuse Prevention 0128
REVENUES							
Federal operating grants	\$ 68,958	\$ -	\$ -	\$ -	\$ 95,110	\$ -	\$ -
Licenses and fees	-	-	-	-	-	-	-
Interest and investment income	-	-	-	-	-	-	-
Other charges for services	-	-	-	46,477	1,622	-	-
Other taxes	-	-	-	1,391	-	-	-
Other	-	-	-	32	307	-	-
Total revenues	68,958	-	-	47,900	97,039	-	-
EXPENDITURES							
Health and social services	68,898	-	4,321	28,068	105,296	185	1,175
Debt service - principal	-	-	-	-	19	-	-
Debt service - interest	-	-	-	-	2	-	-
Capital outlays	-	-	16	-	427	-	-
Total expenditures	68,898	-	4,337	28,068	105,744	185	1,175
Excess (deficiency) of revenues over (under) expenditures	60	-	(4,337)	19,832	(8,705)	(185)	(1,175)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-
Transfers-in	-	35	4,640	-	185	163	1,063
Transfers-out	(35)	-	-	-	-	-	-
Net other sources (uses) of financial resources	(35)	35	4,640	-	185	163	1,063
Net change in fund balances	25	35	303	19,832	(8,520)	(22)	(112)
Fund balances (deficits), July 1, 2007	(25)	-	802	14,033	7,003	181	113
Decrease for changes in inventories	-	-	-	-	-	-	-
FUND BALANCES (DEFICITS), JUNE 30, 2008	\$ -	\$ 35	\$ 1,105	\$ 33,865	\$ (1,517)	\$ 159	\$ 1

**State of Illinois
Department of Human 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						
	Mental Health Transportation 0134	Diabetes Research Check-off 0198	Autism Research Check-off 0228	Drunk and Drugged Driving Prevention 0276	Federal National Community Services 0343	Employment and Training 0347	Drug Treatment 0368
REVENUES							
Federal operating grants	-	-	-	-	6,369	2,970	-
Licenses and fees	-	-	-	1,908	-	-	-
Interest and investment income	-	2	3	-	-	-	-
Other charges for services	-	-	-	-	-	-	4,166
Other taxes	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Total revenues	-	2	3	1,908	6,369	2,970	4,166
EXPENDITURES							
Health and social services	373	100	-	1,895	6,479	2,972	4,454
Debt service - principal	-	-	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-	-
Total expenditures	373	100	-	1,895	6,479	2,972	4,454
Excess (deficiency) of revenues over (under) expenditures	(373)	(98)	3	13	(110)	(2)	(288)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-
Transfers-in	-	116	-	-	-	-	-
Transfers-out	-	-	-	-	-	-	-
Net other sources (uses) of financial resources	-	116	-	-	-	-	-
Net change in fund balances	(373)	18	3	13	(110)	(2)	(288)
Fund balances (deficits), July 1, 2007	374	121	59	78	(91)	-	1,073
Decrease for changes in inventories	-	-	-	-	-	-	-
FUND BALANCES (DEFICITS), JUNE 30, 2008	\$ 1	\$ 139	\$ 62	\$ 91	\$ (201)	\$ (2)	\$ 785

**State of Illinois
Department of Human 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										
	Sexual Assault Services 0389	Gaining Early Awareness and Readiness for Undergraduate Programs 0394	DHS Special Purposes Trust 0408	Old Age Survivors Insurance 0495	Early Intervention Services Revolving 0502	Domestic Violence Abuser Services 0528	DHS Federal Projects 0592				
REVENUES											
Federal operating grants	\$ -	\$ 1,637	\$ 169,885	\$ 63,690	\$ 53,352	\$ -	\$ 20,514				
Licenses and fees	-	-	-	-	3,278	-	-				
Interest and investment income	-	191	-	-	281	-	-				
Other charges for services	55	-	-	-	-	24	-				
Other taxes	-	-	-	-	-	-	-				
Other	-	-	17	1	-	-	-				
Total revenues	55	1,828	169,902	63,691	56,911	24	20,514				
EXPENDITURES											
Health and social services	94	1,637	176,020	63,691	136,648	38	20,273				
Debt service - principal	-	-	-	-	-	-	-				
Debt service - interest	-	-	-	-	-	-	-				
Capital outlays	-	-	58	-	-	-	-				
Total expenditures	94	1,637	176,078	63,691	136,648	38	20,273				
Excess (deficiency) of revenues over (under) expenditures	(39)	191	(6,176)	-	(79,737)	(14)	241				
OTHER SOURCES (USES) OF FINANCIAL RESOURCES											
Appropriations from State resources	-	-	-	-	-	-	-				
Lapsed appropriations	-	-	-	-	-	-	-				
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-				
Transfers-in	-	-	23	-	71,904	-	-				
Transfers-out	-	-	-	-	-	-	(317)				
Net other sources (uses) of financial resources	-	-	23	-	71,904	-	(317)				
Net change in fund balances	(39)	191	(6,153)	-	(7,833)	(14)	(76)				
Fund balances (deficits), July 1, 2007	45	110	2,619	126	6,217	18	457				
Decrease for changes in inventories	-	-	-	(126)	-	-	-				
FUND BALANCES (DEFICITS), JUNE 30, 2008	\$ 6	\$ 301	\$ (3,534)	\$ -	\$ (1,616)	\$ 4	\$ 381				

**State of Illinois
Department of Human 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																				
	Multiple Sclerosis Assistance 0604	State Projects 0642	Alcoholism and Substance Abuse 0646	DHS Private Resources 0690	U.S.D.A. Women Infants and Children 0700	Tobacco Settlement Recovery 0733	Local Initiative 0762	Rehabilitation Services Elementary and Secondary Education Act 0798													
REVENUES																					
Federal operating grants	\$ -	\$ 33	\$ 11,445	\$ -	\$ 207,457	\$ -	\$ 20,157	\$ 466													
Licenses and fees	-	-	-	-	-	-	-	-													
Interest and investment income	-	-	-	-	4	-	-	-													
Other charges for services	-	-	94	-	-	-	-	-													
Other taxes	-	-	-	-	-	-	-	-													
Other	-	-	-	657	-	-	-	-													
Total revenues	-	33	11,539	657	207,461	-	20,157	466													
EXPENDITURES																					
Health and social services	97	33	11,491	657	207,461	2,375	20,157	512													
Debt service - principal	-	-	-	-	-	-	-	-													
Debt service - interest	-	-	-	-	-	-	-	-													
Capital outlays	-	-	-	-	-	-	-	13													
Total expenditures	97	33	11,491	657	207,461	2,375	20,157	525													
Excess (deficiency) of revenues over (under) expenditures	(97)	-	48	-	-	(2,375)	-	(59)													
OTHER SOURCES (USES) OF FINANCIAL RESOURCES																					
Appropriations from State resources	-	-	-	-	-	2,369	-	-													
Lapsed appropriations	-	-	-	-	-	-	-	-													
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	-													
Transfers-in	95	-	20	-	-	-	-	-													
Transfers-out	-	-	-	-	-	-	-	-													
Net other sources (uses) of financial resources	95	-	20	-	-	2,369	-	-													
Net change in fund balances	(2)	-	68	-	-	(6)	-	(59)													
Fund balances (deficits), July 1, 2007	5	-	(75)	-	-	6	-	350													
Decrease for changes in inventories	-	-	-	-	-	-	-	-													
FUND BALANCES (DEFICITS), JUNE 30, 2008	\$ 3	\$ -	\$ (7)	\$ -	\$ -	\$ -	\$ -	\$ 291													

**State of Illinois
Department of Human 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	
	DHS Rehabilitation 1144	DHS/DORS Special Revenue 1149	Food Stamp and Commodity 1245	Vending Facility Program for the Blind 1385	Assets for Independence 1391	DHS/DORS Permanent Trust 1150		Burr Bequest 1272
REVENUES								
Federal operating grants	\$ -	\$ -	\$ 1,682,494	\$ -	\$ 1	\$ -	\$ -	\$ 2,443,136
Licenses and fees	-	9	-	-	-	-	-	5,195
Interest and investment income	-	-	-	-	-	-	37	731
Other charges for services	-	-	-	52	-	-	-	53,243
Other taxes	-	-	-	-	-	-	-	1,391
Other	358	287	-	356	140	2	-	3,546
Total revenues	358	296	1,682,494	408	141	144	37	2,507,242
EXPENDITURES								
Health and social services	347	318	1,682,494	242	3	22	21	2,590,049
Debt service - principal	-	-	-	-	-	-	-	19
Debt service - interest	-	-	-	-	-	-	-	2
Capital outlays	-	-	-	-	-	-	-	548
Total expenditures	347	318	1,682,494	242	3	22	21	2,590,618
Excess (deficiency) of revenues over (under) expenditures	11	(22)	-	166	138	122	16	(83,376)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES								
Appropriations from State resources	-	-	-	-	-	-	-	32,163
Lapsed appropriations	-	-	-	-	-	-	-	(8,880)
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	(20,188)
Transfers-in	-	146	-	-	-	-	-	78,396
Transfers-out	(6)	-	-	(185)	-	(146)	-	(700)
Net other sources (uses) of financial resources	(6)	146	-	(185)	-	(146)	-	80,791
Net change in fund balances	5	124	-	(19)	138	(24)	16	(2,585)
Fund balances (deficits), July 1, 2007	72	430	-	569	3	170	1,043	41,125
Decrease for changes in inventories	-	-	-	-	-	-	-	(126)
FUND BALANCES (DEFICITS), JUNE 30, 2008	\$ 77	\$ 554	\$ -	\$ 550	\$ 141	\$ 146	\$ 1,059	\$ 38,414

State of Illinois
Department of Human Services
Combining Statement of Fiduciary Net Assets -
Agency Funds

June 30, 2008 (Expressed in Thousands)

	Agency				
	Electronic Benefits Transfers 0540	DHS Resident's Trust 1143	DHS/DORS Agency 1147	Total	
ASSETS					
Cash and cash equivalents	-	1,190	32	1,222	
Investments	-	1,079	-	1,079	
Due from other government - federal	-	60	-	60	
Other receivables, net	-	9	1	10	
Due from other Department funds	-	-	5	5	
Total assets	-	2,338	38	2,376	
LIABILITIES					
Accounts payable and accrued liabilities	-	-	38	38	
Other liabilities	-	2,338	-	2,338	
Total liabilities	-	2,338	38	2,376	

State of Illinois
Department of Human Services

**Combining Statement of Changes in Assets and Liabilities -
Agency Funds**

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

	Balance at June 30, 2007	Additions	Deletions	Balance at June 30, 2008
Electronic Benefits Transfers (0540)				
ASSETS				
Cash equity with State Treasurer	\$ -	\$ 121,946	\$ 121,946	\$ -
Total assets	\$ -	\$ 121,946	\$ 121,946	\$ -
LIABILITIES				
Other liabilities	\$ -	\$ 121,946	\$ 121,946	\$ -
Total liabilities	\$ -	\$ 121,946	\$ 121,946	\$ -
DHS Resident's Trust (1143)				
ASSETS				
Cash and cash equivalents	\$ 1,037	\$ 17,913	\$ 17,760	\$ 1,190
Investments	1,179	-	100	1,079
Due from other government - federal	60	-	-	60
Other receivables, net	6	3	-	9
Total assets	\$ 2,282	\$ 17,916	\$ 17,860	\$ 2,338
LIABILITIES				
Other liabilities	\$ 2,282	\$ 17,916	\$ 17,860	\$ 2,338
Total liabilities	\$ 2,282	\$ 17,916	\$ 17,860	\$ 2,338
DHS/DORS Agency (1147)				
ASSETS				
Cash and cash equivalents	\$ 34	\$ 330	\$ 332	\$ 32
Other receivables, net	-	1	-	1
Due from other Department funds	3	5	3	5
Total assets	\$ 37	\$ 336	\$ 335	\$ 38
LIABILITIES				
Accounts payable and accrued liabilities	\$ 37	\$ 336	\$ 335	\$ 38
Total liabilities	\$ 37	\$ 336	\$ 335	\$ 38
Total - All Agency Funds				
ASSETS				
Cash equity with State Treasurer	\$ -	\$ 121,946	\$ 121,946	\$ -
Cash and cash equivalents	1,071	18,243	18,092	1,222
Investments	1,179	-	100	1,079
Due from other government - federal	60	-	-	60
Other receivables, net	6	4	-	10
Due from other Department funds	3	5	3	5
Total assets	\$ 2,319	\$ 140,198	\$ 140,141	\$ 2,376
LIABILITIES				
Accounts payable and accrued liabilities	\$ 37	\$ 336	\$ 335	\$ 38
Other liabilities	2,282	139,862	139,806	2,338
Total liabilities	\$ 2,319	\$ 140,198	\$ 140,141	\$ 2,376



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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 Human Services (the Department), as of and for the year ended June 30, 2008, which collectively comprise the Department's basic financial statements and have issued our report thereon dated March 16, 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 Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's 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 08-1 through 08-6 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, we believe that none of the significant deficiencies described is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's 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*.

We also noted certain matters which we have reported to management of the Department in a separate letter dated March 16, 2009.

The Department's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the Department's responses and, accordingly, we express no opinion on them.

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

Schick LLP
Springfield, Illinois
March 16, 2009

**STATE OF ILLINOIS
DEPARTMENT OF HUMAN SERVICES**

SCHEDULE OF FINDINGS

June 30, 2008

FINDINGS (GOVERNMENT AUDITING STANDARDS)

08-1 FINDING: (Consolidated services payments made without sufficient supporting documentation)

The Department of Human Services (Department) made payments for information technology and press information officers (consolidated services) to the Department of Central Management Services (DCMS), without sufficient supporting documentation.

Public Act 93-25 authorized DCMS to consolidate Information Technology (IT) functions of State government. In addition, Public Act 93-839 authorized DCMS to consolidate Professional Services (Press Information Officers) of State government. As a result of the consolidations, DCMS billed the Department for those services rendered on its behalf.

During the engagement period, we reviewed a total of nineteen vouchers that contained billings for Information Technology and Press Information Officer's Management services and noted the following:

- We reviewed ten vouchers totaling \$3,769,663 for information technology services of which \$3,354,553 (89%) did not have sufficient supporting documentation. Each month the Department received a statement indicating the total charged to the Department. The Department did not receive sufficient supporting documentation to ensure the charges were for services incurred on its behalf. The Department received a spreadsheet listing payroll charges; however, there was no detail to determine if the employee worked on behalf of the Department.
- We reviewed nine vouchers totaling \$108,652 for services relating to Press Information Officer's Management that did not contain adequate supporting documentation. The support for the vouchers included only the electronic invoice generated from the Internet Billing System (IBiS) used by DCMS. The Department was unable to provide detailed documentation for the vouchers regarding actual time spent by Press Information Officers.

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." Without proper detailed documentation being provided, the Department is approving billings while being unable to determine the propriety of the charges.

Department management stated they were not receiving detailed information for some of the billings from DCMS; however, the Department asserts it maintains a good working relationship with DCMS and communicates any issues regarding rates, charges, and pass-through billings.

In response to this previous finding, the Department stated it is receiving the percentage of time allocated to the Department for information technology services in fiscal year 2008. However, the Department was unable to provide support for the specific work performed on behalf of the Department. The Department stated they would continue to work with DCMS to determine what information could be provided to support Press Information Officer charges.

Because of the significance of the exceptions noted, we are considering this to be a significant deficiency in the Department's internal control. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles.

Failure to obtain adequate supporting documentation could lead to the Department paying for goods and services not incurred on their behalf. (Finding Code No. 08-1, 07-2)

RECOMMENDATION:

We recommend the Department obtain and review detailed documentation prior to paying for the consolidated services to ensure it is only paying for services incurred on its behalf by DCMS.

DEPARTMENT RESPONSE:

The Department accepts the recommendation. The Department began receiving supporting documentation for the Press Information Officer billings in October 2008. The supporting documentation is reviewed to verify the information is sufficient and accurate prior to paying the Department of Central Management Services (DCMS) for the services. The Internet Billing System used by DCMS has been discontinued as of July 1, 2008. DCMS has established fair, equitable rates for production operation services, thus eliminating the need to charge back staff costs to the Department of Human Services.

08-2 FINDING: (Liabilities payable from future appropriations are misstated)

The Department of Human Services (Department) records liabilities payable from future appropriations in its financial statements based on estimates supported by methodologies and historical analyses provided by program personnel. After reviewing subsequent payments related to these liabilities, we noted discrepancies resulting in over and understated liabilities at June 30, 2008 as follows:

- In the DHS Special Purposes Trust Fund (Fund 0408), a \$4.5 million Child Care liability was estimated by increasing the prior year amount by 3% for a cost of living increase. This entire liability was erroneously recorded in Fund 0408. In prior years, this liability was split between the General Revenue Fund (Fund 0001) and Fund 0408. The allocation used in fiscal year 2008 was not consistent with prior years. Actual payments made from Fund 0408 relating to the liability through December of 2008 totaled \$.4 million. The remaining payments of \$3.2 million were made from Fund 0001. As a result, the future year liability recorded in Fund 0408 was overstated by approximately \$4.1 million and the future year liability recorded in Fund 0001 was understated by approximately \$3.2 million. The net effect was an overstatement of approximately \$900,000 for the Child Care program.
- The General Revenue Fund also recorded an estimate for the future year liability for prior year Medicaid bills from the Division of Alcohol and Substance Abuse (DASA) of \$4.0 million. Actual payments made through December 2008 were \$5.2 million, resulting in an understated liability of \$1.2 million

Although none of these errors necessitated a current fiscal year auditor adjustment to the Department's financial records as they were deemed not material, this indicates an internal control weakness in the Department's method for estimating and allocating liabilities.

The Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3001) notes State agencies shall 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.

Department personnel stated the liability that was erroneously recorded in Fund 0408 instead of being split between the funds was due to oversight. Subsequent to the submission of the fund financial information (GAAP package) to the Comptroller, additional information to evaluate the liabilities became available, it was then determined the amount originally reported for the liabilities should have been different.

Because of the significance of these misstatements and the Department's failure in the operation of its internal control to timely identify the errors, we are considering this to be a significant deficiency in the Department's internal control. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles.

When estimation is used to record financial statement amounts, a subsequent analysis should be performed to determine if the estimate should be updated or corrected.
(Finding Code No. 08-2, 07-1)

RECOMMENDATION:

We recommend the Department's GAAP coordinator continue to work with program personnel to assist them in evaluating and revising, if necessary, the methodologies used to estimate the Department's liabilities. In cases where the GAAP package preparer is relying on information submitted by program personnel, the Department should develop a historical analysis to determine the reasonableness of estimated liabilities and the methodology used.

DEPARTMENT RESPONSE:

The Department accepts the recommendation. The net affect of the two estimation differences is that Agency liabilities were understated by \$300,000. The estimated liabilities recorded did not necessitate a current fiscal year auditor adjustment to the Department's financial records as the amount was deemed immaterial. The Department's GAAP coordinator will continue to work with program personnel to assist them in evaluating and revising those methodologies as necessary.

08-3 FINDING: (Inadequate controls over commodities)

The Department does not maintain an adequate centralized oversight function over commodities, resulting in inadequate controls. Inventory control includes responsibilities at individual facilities, multiple warehouses, and Central Office locations.

We noted several exceptions and weaknesses over commodities inventories. We performed tests of various locations including warehouses, facilities, schools, and centers, noting the following inventory problems during our testing:

- Weaknesses for periodic inventory counting performed during the year were noted at seven of twenty-three (30%) locations. For example, the Jacksonville Mental Health Center did not complete any periodic inventory counts for the year.
- Weaknesses in segregation of duties for annual inventory counting were noted at three of twenty-three (13%) locations. For example, Mabley Developmental Center had a commodities storekeeper who counted inventory in the same area that they were responsible for in their day to day job responsibilities.
- The Bureau of Pharmacy and Clinical Support Services failed to provide any documentation for who counted the inventory during the year end count and when the count was completed.
- In its Inventory Procedures Memo, the Department required each facility that had over a 2% net adjustment to explain why the discrepancy was so high and develop a corrective action plan. We noted the Bureau of Pharmacy and Clinical Support failed to provide any explanations. Additionally, the remainder of the stores determined their net adjustments by combining the facilities' general store and mechanical store. We feel each store should report its own net adjustment and provide explanations by store. Also, the Department should report the total adjustment for each store because that is the total error rate by store. The Department originally gave 5 explanations and corrective action plans for 43 stores. When changes were made there were 32 out of 43 stores that would have had explanations and corrective action plans.
- We noted the Department had several errors on the Summary of Commodity Control System and Other Inventories, which was used to reconcile to the inventory balance reported for year end GAAP purposes:
 1. The Department reported immaterial amounts for two facilities that were no longer operated by the Department.
 2. The Department counted the inventory held at ICRE Roosevelt twice on the form.
 3. The Department double counted \$16,277 at the Treatment and Detention Facility and \$19,604 at the Howe Developmental Center.

The Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3001) notes State agencies shall 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. In addition, generally accepted accounting principles require the proper valuation and control over annual physical inventory processes to ensure complete and accurate inventories for financial reporting purposes. An improved oversight function would allow the Department to increase the accuracy of reported inventory balances and reduce deficiencies in internal control over maintaining inventory.

The Department stated they have established a centralized oversight for commodities; however, the Department still has more than one person responsible for commodities. To illustrate, they have designated more than one coordinator over the inventory systems. However, we feel that having one central coordinator is important to the process. As an example, as noted in the 3rd and 4th bullet points on the previous page, one coordinator failed to follow procedures stated in the Inventory Procedures Memo, which is what the Department used for guidelines for the year end inventory process.

Because of the significance of the exceptions noted, specifically the overall weaknesses in the inventory and oversight function over commodities, we are considering this to be a significant deficiency in the Department's internal control. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles.

Strong internal controls would require an improved centralized oversight function related to commodities. This is important considering the Department made commodities expenditures of \$36.97 million during fiscal year 2008. In addition, the Department recorded ending commodities inventories of \$9.13 million at June 30, 2008. (Finding Code No. 08-3, 07-4, 06-2, 05-2, 03-15, 03-17, 01-9 and 99-14)

RECOMMENDATION:

We recommend the Department continue establishing a centralized oversight position related to commodities to allow for strengthened controls. Additionally, we recommend that the Department establish a standardized way to perform periodic counts. Finally, we recommend that the Department explain fluctuations for each store and for the total adjustments for each store.

DEPARTMENT RESPONSE:

The Department accepts the recommendation. The Department will continue to strengthen controls over the centralized oversight of commodities. A procedure will be established requiring periodic counts. The Department will require each store to explain fluctuations and develop a corrective action plan for adjustments as necessary.

08-4 FINDING: (Commodity inventory system outdated and insufficient for user needs)

The Department of Human Services (Department) Commodity Control System (CCS) is a batch entry system developed over 30 years ago that does not allow users real time inventory controls regarding inventory management and purchasing.

The CCS is utilized for inventory at all mental health and developmental centers and for the Bureau of Pharmacy and Clinical Support Services pharmaceutical warehouse. The CCS had an inventory balance of approximately \$7.9 million at June 30, 2008.

We noted the CCS does not allow the system user to readily review the purchase history of items to ensure the commodities are accurately priced under the average cost method. Under the average cost method, inventory is valued based on the average purchase price (cost) of the items in stock. We noted 5 of 30 (17%) items tested had recorded values that varied from supporting documentation by more than 5%.

We performed inventory test counts on Thursday, June 26, 2008. Since the CCS only provides for a weekly report, which is run on Sunday nights, actual quantities of stock are not readily available at any given time. For our inventory count on June 26, 2008, we had to reconcile to the quantities on the previous Sunday night's report. Actual inventory counts are not taken on a regular basis at all locations; therefore, any errors throughout the year would not be detected for some time.

In addition, the Department failed to count inventory on June 30th. The Department counted their annual inventory for all stores from June 2nd to June 26th. This meant that the majority of the stores counted their inventory in early June. However, the Department did count the top twenty-five most expensive items in each storeroom on June 30th. Since the Department had so many adjustments in early June, we feel the Department should have counted all of its inventory in its stores on June 30th in order to ensure that inventory was properly stated at the year end.

The Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3001) notes State agencies shall 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.

In addition, generally accepted accounting principles require the proper valuation of inventory for financial reporting purposes. This would require verifying each purchase transaction and updating specific item information as purchases are made throughout the year. This includes utilizing an appropriate cost accounting system to recognize the average cost for all items. By not maintaining appropriate records, the Department's overall inventory could be misstated.

Department personnel stated they sent a proposed Request for Proposal (RFP) to the State's IT Governance Board, however the charter was denied due to the proposed implementation of the Illinois Statewide Information System (ISIS) shared service initiative of the Governor's Office of Management and Budget (GOMB).

Department personnel also stated a weekly hard copy of prior reports was available should we want to attempt to use these for price testing. However, this is not a practical audit or management tool to provide useful, current information.

Because of the significance of the weaknesses in the Department's current Commodity Control System, we are considering this to be a significant deficiency in the Department's internal control. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles.

An outdated computer inventory system may result in over-purchasing, waste, obsolescence, theft, loss, or unauthorized use of State assets, and contributed to the inadequate controls over commodities noted in finding 3. Recording of inventory quantity information is crucial to maintain control over and to properly manage inventory quantities, such as determining reorder and overstocking points. This is especially important due to the size of the Department and the number of users throughout the State. By not maintaining appropriate records, the Department's overall inventory could be materially misstated and the inability to correctly monitor the CCS system may result in inefficiencies. (Finding Code No. 08-4, 07-13, 05-17)

RECOMMENDATION:

We recommend the Department ensure CCS users have access to all necessary information required to manage inventories. The Department should continue to pursue a new system that would include a real-time inventory system with capabilities to access current inventory levels so all inventory unit costs are properly recorded. Periodic testing of the CCS or an upgraded system should also be performed to determine the system is properly calculating inventory values.

DEPARTMENT RESPONSE:

The Department accepts the recommendation. The Department will continue to pursue a new real-time inventory system to allow better management of inventories.

08-5 FINDING: (Inadequate controls over capital asset financial reporting)

The Department of Human Services' (Department) capital asset GAAP Package Forms contain several accounts that are not supported by the Department's capital asset accounting records.

During our testing, we noted the following weakness with the capital asset reporting system. Several accounts on GAAP Package Form *Capital Asset Summary* (SCO-538) could not be traced to supporting records. The Department knew the beginning and ending balance because they had reports that generated the year end balances. As a result, in several instances activity for the year was "netted" and recorded as an equipment addition, when in fact there may have been deletions. For example, the Department has reports that calculate depreciation expense monthly or quarterly. Since it would be cumbersome to accumulate all the reports for the year, the Department records the entire difference between beginning of year and end of year accumulated depreciation as an addition to accumulated depreciation, when in fact there are probably deletions and transfers. Although the difference between "netted" and "gross" totals are not significant, additions, deletions and transfers during the year should be supported.

The Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3001) notes State agencies shall 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.

Department officials stated if additions, deletions, or net transfers are unknown, then the overall net change is used to get to an ending balance that agrees to the Department's property and equipment records. Department records do not always readily reflect the components of addition, deletions, and net transfers.

Because of the significance of the exceptions noted, specifically the weaknesses in the capital asset financial reporting, we are considering this to be a significant deficiency in the Department's internal control. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles.

An important element of internal control is the accurate review, reconciliation and reporting of accounting data. In addition, the Comptroller's SAMS (Procedure 27.20.38) requires a State agency to report capital assets and related accumulated depreciation. (Finding Code No. 08-5, 07-5)

RECOMMENDATION:

We recommend the Department review and revise, as necessary, its current system of gathering property control information to improve the accuracy of its property system records and devote necessary personnel to these tasks.

DEPARTMENT RESPONSE:

The Department accepts the recommendation. A request will be submitted to the Department of Human Services, Management Information Services to develop a reporting mechanism for those assets above and below the capital asset reporting thresholds including their respective depreciation values.

08-6 FINDING: (Failure to comply with Medicare and Medicaid certification requirements)

One of the Department of Human Services (Department) facilities, Howe Developmental Center, continued to remain decertified during fiscal year 2008 due to failure to comply with requirements to be certified as an eligible Medicare or Medicaid service provider. As a result, this center could not bill or be reimbursed for certain services. Department management estimated there is a continuing loss of revenue for this center of approximately \$30 million annually. Failure to maintain eligible Medicare and Medicaid status not only results in lost revenue to the State, but is indicative of a diminished level of care for residents of this facility.

The certification of State operated Centers is administered by different organizations depending on their type. Mental health centers must comply with requirements reviewed by the Centers for Medicare and Medicaid Services (CMMS) and the developmental disability centers must comply with requirements reviewed by the Illinois Department of Public Health, (IDPH). The certification requirements are numerous and complex.

On September 5, 2008, the Department of Human Services announced a proposed closure of the Center. In compliance with the State Facilities Closure Act, the Department submitted its formal recommendation to the Commission on Government Forecasting and Accountability (CGFA). The State Facilities Closure Act requires the CGFA, within specified time frames, host a public comment period and public hearing prior to voting on an advisory opinion about a proposed closure. After compliance with the public comment period and the public hearing, the CGFA convened on January 12, 2009 to vote on the advisory opinion for the closure of Howe, but decided to delay the vote.

The Tinley Park Mental Health Center (Tinley), which was decertified on February 23, 2007, has applied for its recertification with the CMMS. It has moved from a decertified status to conditional accreditation but as of January 15, 2009, still awaits a final site visit or survey and approval by the CMMS.

Tinley patients who were Medicare and Medicaid eligible were immediately 'deflected' to other facilities (Madden and Chicago-Read) that were able to bill for these services. Department management stated no revenue was lost on these residents during fiscal year 2008.

Because of the Department's failure to comply with Medicare and Medicaid certification requirements, we are considering this to be a significant deficiency in the Department's internal control. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles.

The Department was not aware of any other facilities with certification issues as of January 15, 2009. (Finding Code No. 08-6, 07-6)

RECOMMENDATION:

We recommend the Department continue its efforts to recertify Tinley Park Mental Health Center. The Department should also seek final resolution of issues related to Howe Developmental Center so as to limit the amount of revenue being lost to the State.

DEPARTMENT RESPONSE:

The Department accepts the recommendation.

Tinley Park Mental Health Center:

Tinley Park Mental Health Center submitted an application for re-survey to the Centers for Medicare and Medicaid Services (CMMS) in December 2007. Since then, additional follow-up documentation has been requested and submitted to CMMS. Site surveys, to review Federal and State regulations by CMMS, are currently pending.

Howe Developmental Center:

Once the Division of Developmental Disabilities receives the advisory opinion from the Commission on Government Forecasting and Accountability, the Department will be able to seek final resolution regarding issues related to the Howe Developmental Center. In an effort to reduce the amount of revenue lost, the Center will continue to work with guardians to facilitate transfers to community settings and other State Operated Developmental Centers.

PRIOR FINDING NOT REPEATED
(GOVERNMENT AUDITING STANDARDS)

A. Unrecorded and unreported locally held bank accounts

The previous engagement noted the Department opened and operated five locally held bank accounts without notifying the Office of the State Comptroller of the establishment of the accounts, and then did not file the required quarterly reports with the Comptroller. In addition, the Department did not record the activity or related assets of the accounts on the Department's financial accounting records, and did not report the accounts to the Office of the Auditor General, as required by State law. During the current engagement, we noted the Department is filing the required quarterly reports with the Comptroller and including the activity and related assets of the accounts in the Department's financial statements. (Finding Code No. 07-3)