

State of Illinois
Department of Human Services

Financial Audit
For the Year Ended June 30, 2014

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



Assurance ■ Tax ■ Consulting

**State of Illinois
Department of Human Services
Financial Audit**

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State of Illinois
Department of Human Services

Agency Officials

Secretary	Michelle R. B. Saddler (through 1/19/15) Melissa A. Wright (Acting 1/20/15 – present)
Assistant Secretary (Operations)	Matthew Hammoudeh
Assistant Secretary (Programs)	Nelida Smyser-DeLeon
Budget Director	Robert Brock
Business Services Director	Melissa Wright (through 1/19/15) Paul Hartman (Acting 1/20/15 – present)
Chief of Staff	Grace Hong-Duffin
Chief Financial Officer	Carol Kraus (through 11/15/14) Dan Melliore (Acting 11/16/14 – present)
Chief Operating Officer	Matthew Grady (through 2/28/14) Kacy Bassett (4/7/14 – present)
Office of Contract Administration Manager	Bradley Howard (through 1/19/15) Fintan Fassero (Acting 1/28/15 - present)
Chief Internal Auditor	Suzie Lewis (Acting through 12/31/13) Jane Hewitt (1/1/14 – present)
Agency Procurement Officer	William Strahle
Fiscal Services Director	Michael Layden (through 1/19/15) Greg Primm (Acting 1/28/15 - present)
Human Resources Director	Joan Bortolon (Acting through 5/18/14) Lynn Oda (5/19/14 – present)
Management Information Services Chief	Doug Kasamis (through 7/25/14) John Rigg (9/16/14 – present)
Office of Community Relations Director	Tom Green (through 1/19/15) Jessica Michael (1/15/15 – present)
Chief Legislative Liaison	Randy Wells (through 1/16/15)
Hispanic/Latino Affairs Director	Silvia Villa

(Continued)

State of Illinois
Department of Human Services

Agency Officials (Continued)

General Counsel	Brian Dunn (through 1/19/15) Daniel Dyslin (Acting 1/20/15 – present)
Inspector General	Michael McCotter
Office of Strategic Planning and Performance Director	Joan Small (through 1/19/15)
Division of Alcohol and Substance Abuse Director	Theodora Binion
Division of Rehabilitation Services Director	David Hanson
Division of Developmental Disabilities Director	Kevin Casey
Division of Mental Health Director	Theodora Binion (Acting)
Division of Clinical, Administrative and Program Support Manager	Jim Hobbs (through 1/31/15) Matthew Hammoudeh (Acting 1/28/15 - present)
Office of Family Community Services Director (Formally: HCD)	Linda Saterfield (Acting through 12/31/13) Dyahanne Ware (1/1/14 – 1/19/15) Nelida Smyser-DeLeon (Acting 1/28/15 – present)
Grant Administration Director	Sharon Zahorodnyj (through 4/30/14) Alfredo Calixto (7/1/14 - 1/19/15)
Office of Security and Emergency Preparedness Director	John Mack (through 1/19/15)

Agency main offices are located at:

100 South Grand Avenue, East
Springfield, Illinois 62726

401 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 McGladrey LLP.

Based on their audit, the auditors expressed unmodified opinions 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 material weaknesses and significant deficiencies. The material weaknesses are described in the accompanying Schedule of Findings on pages 55-64 of this report as items 2014-001, (Grant Related Account Balances Not Reported in Accordance With GAAP), 2014-002 (The Allowance for Doubtful Accounts was Overstated), 2014-003 (Weaknesses in preparation of GAAP reporting forms submitted to the Illinois Office of the Comptroller and preparation of year-end Department financial statements) and 2014-004 (Weaknesses over Quarterly Reporting of Accounts Receivable). The significant deficiencies are described in the accompanying Schedule of Findings on pages 65-70 of this report as items 2014-005, (Child Care Program Issues), 2014-006, (Commodity Inventory System Outdated and Insufficient for User Needs) and 2014-007, (Inadequate controls over capital asset financial reporting).

Exit Conference

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on December 30, 2014. Attending were:

Department of Human Services:

Michelle Saddler	Secretary
Matthew Hammoudeh	Assistant Secretary - Operations
Daniel Melliere	Acting Chief Financial Officer
Jane Hewitt	Chief Internal Auditor
Albert Okwuegbunam	Internal Auditor
Sunday Odelle	Audit Liaison
Anna Moore	Internal Auditor
Greg Primm	Bureau Chief, Federal Reporting
Rebecca Wilson	Bureau Chief, General Accounting
Linda Saterfield	Associate Director of Early Childhood
Robert Brock	Director, Budget
Dyahanne Ware	Director, Division of Family and Community Services

Office of the Auditor General:

Elvin Lay	Audit Manager
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McGladrey LLP:

Linda Abernethy	Partner
Ryan Caldwell	Senior

The responses to the recommendations were provided by Jane Hewitt, Chief Internal Auditor, in a letter dated January 22, 2015.



Independent Auditor's Report

Honorable William G. Holland
Auditor General
State of Illinois

Report on the Financial Statements

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, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State of Illinois, Department of Human Services' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Human Services, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, 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, the major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the State of Illinois, Department of Human Services. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2014, 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. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis and budgetary comparison information for the General Fund that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Illinois, Department of Human Services' basic financial statements. The accompanying supplementary information which consists of combining statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements and schedules are the responsibility of management and are derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2015 on our consideration of the State of Illinois, Department of Human Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Department of Human Service's internal control over financial reporting and compliance.

Restricted Use of this Auditor's Report

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

McGladrey LLP

Schaumburg, Illinois
January 28, 2015

State of Illinois
Department of Human Services

Statement of Net Position and Governmental Funds Balance Sheet

June 30, 2014 (Expressed in Thousands)

	General Fund	Other Non-major Funds	Total Governmental Funds	Adjustments	Statement of Net Position
ASSETS					
Unexpended appropriations	\$ 401,680	\$ 1,079	\$ 402,759	\$ -	\$ 402,759
Cash deposited with State Treasurer	73,129	141,801	214,930	-	214,930
Cash and cash equivalents	194	5,950	6,144	-	6,144
Securities lending collateral equity with State Treasurer	35,560	13,124	48,684	-	48,684
Investments	-	2,098	2,098	-	2,098
Due from other government - federal	64,091	125,778	189,869	-	189,869
Due from other government - local	-	351	351	-	351
Taxes receivable, net	-	198	198	-	198
Loans and notes receivable, net	-	360	360	-	360
Due from other Department funds	7,721	10,325	18,046	(18,046)	-
Due from other State funds	983	4,381	5,364	-	5,364
Due from State of Illinois component units	-	298	298	-	298
Inventories	7,037	-	7,037	-	7,037
Prepaid expenses	-	-	-	470	470
Recipient services and other receivables, net	1,455	160,124	161,579	-	161,579
Capital assets not being depreciated	-	-	-	17,540	17,540
Capital assets being depreciated, net	-	-	-	226,764	226,764
Total assets	\$ 591,850	\$ 465,867	\$ 1,057,717	226,728	1,284,445
LIABILITIES					
Accounts payable and accrued liabilities	\$ 399,906	\$ 151,119	\$ 551,025	-	551,025
Due to other government - federal	4,481	1,717	6,198	-	6,198
Due to other government - local	15,437	9,686	25,123	-	25,123
Due to other Department fiduciary funds	19	-	19	-	19
Due to other State fiduciary funds	163	1,542	1,705	-	1,705
Due to other Department funds	10,325	7,721	18,046	(18,046)	-
Due to other State funds	55,902	6,984	62,886	-	62,886
Due to State of Illinois component units	1,686	4,709	6,395	-	6,395
Unearned revenue	-	21,576	21,576	-	21,576
Obligations under securities lending of State Treasurer	35,560	13,124	48,684	-	48,684
Long-term obligations:					
Due within one year	-	-	-	3,070	3,070
Due subsequent to one year	-	-	-	66,831	66,831
Total liabilities	523,479	218,178	741,657	51,855	793,512
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	46,887	147,051	193,938	(193,938)	-
Total Deferred Inflows of Resources	46,887	147,051	193,938	(193,938)	-
FUND BALANCES/NET POSITION					
Fund Balances:					
Nonspendable	7,037	1,162	8,199	(8,199)	-
Restricted	39,091	87,443	126,534	(126,534)	-
Committed	27,842	31,253	59,095	(59,095)	-
Unassigned	(52,486)	(19,220)	(71,706)	71,706	-
Net Position:					
Net investment in capital assets	-	-	-	243,875	243,875
Restricted for health and social service programs	-	-	-	287,450	287,450
Restricted-funds held as permanent investments:					
Nonexpendable purposes	-	-	-	1,162	1,162
Expendable purposes	-	-	-	103	103
Unrestricted net position (deficit)	-	-	-	(41,657)	(41,657)
Total fund balances/net position	21,484	100,638	122,122	\$ 368,811	\$ 490,933
Total liabilities, deferred inflows and fund balances	\$ 591,850	\$ 465,867	\$ 1,057,717		

The accompanying notes are an integral part of the basic financial statements.

State of Illinois
Department of Human Services
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Position
June 30, 2014
(Expressed in Thousands)

Total fund balances-governmental funds	\$	122,122
<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.		244,304
Prepaid expenses for governmental activities are current uses of financial resources for funds.		470
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		193,938
Some liabilities reported in the Statement of Net Position 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	(429)	
Compensated absences	(69,472)	
	(69,901)	(69,901)
Net position of governmental activities	\$	490,933

The accompanying notes are an integral part of the basic financial statements.

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, 2014 (Expressed in Thousands)

	General Fund	Other Non-major Funds	Total Governmental Funds	Adjustments	Statement of Activities
Expenditures/expenses:					
Health and social services	\$ 3,555,599	\$ 4,777,166	\$ 8,332,765	\$ 29,121	\$ 8,361,886
Debt service - principal	629	20	649	(649)	-
Debt service - interest	76	1	77	-	77
Capital outlays	1,739	4,695	6,434	(6,434)	-
Total expenditures/expenses	3,558,043	4,781,882	8,339,925	22,038	8,361,963
Program revenues:					
Charges for services:					
Licenses and fees	52	8,082	8,134	-	8,134
Other charges for services	91	42,446	42,537	112,871	155,408
Total charges for services	143	50,528	50,671	112,871	163,542
Operating grant revenue:					
Federal operating grants	497,224	4,711,783	5,209,007	(85,548)	5,123,459
Other operating grants	4	4,606	4,610	-	4,610
Total operating grant revenue	497,228	4,716,389	5,213,617	(85,548)	5,128,069
Total program revenues	497,371	4,766,917	5,264,288	27,323	5,291,611
Net program expense					(3,070,352)
General revenues and transfers:					
General revenues:					
Interest and investment income	400	151	551	-	551
Other taxes	-	608	608	-	608
Other revenues	1,563	9,527	11,090	285	11,375
Appropriations from State resources	3,318,682	11,123	3,329,805	-	3,329,805
Lapsed appropriations	(67,507)	(3,948)	(71,455)	-	(71,455)
Receipts collected and transmitted to State Treasury	(151,128)	(9,025)	(160,153)	-	(160,153)
Capital lease and installment purchase financing	920	-	920	(920)	-
Transfers:					
Capital transfers from other State agencies	-	-	-	75,917	75,917
Amount of SAMS transfers-in	(36,556)	-	(36,556)	-	(36,556)
Amount of SAMS transfers-out	4,763	-	4,763	-	4,763
Transfers-in	27,706	81,959	109,665	(80,715)	28,950
Transfers-out	(79,550)	(7,706)	(87,256)	80,715	(6,541)
Transfer of administration of funds to other state agencies	-	(111)	(111)	-	(111)
Total general revenues and transfers	3,019,293	82,578	3,101,871	75,282	3,177,153
Excess of revenues and transfers in over expenditures and transfers out	(41,379)	67,613	26,234	(26,234)	
Change in net position				106,801	106,801
Fund balance/net position, July 1, 2013	63,171	33,025	96,196	287,936	384,132
Increase (decrease) for changes in inventories	(308)	-	(308)	308	-
Fund balance/net position, June 30, 2014	\$ 21,484	\$ 100,638	\$ 122,122	\$ 368,811	\$ 490,933

The accompanying notes are an integral part of the basic financial statements.

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, 2014
(Expressed in Thousands)

Net change in fund balances	\$ 26,234
Change in inventories	(308)
	25,926

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.

Capital expenditures	7,354
Depreciation and disposals	(24,948)
Sub-total	(17,594)

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 Position.	649
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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 Position the installment purchase obligation is reported as a liability.	(521)
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Transfer of capital assets from other State agencies do not provide current financial resources and therefore, are not reported in governmental funds.	75,917
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	27,608
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Prepaid expenses in the Statement of Activities are reported as expenditures in governmental funds.	(478)
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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	(4,706)
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Change in net position of governmental activities	\$ 106,801
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The accompanying notes are an integral part of the basic financial statements.

State of Illinois
Department of Human Services

Statement of Fiduciary Net Position

June 30, 2014 (Expressed in Thousands)

	Private-Purpose Trust	
	Hansen- Therkelsen Memorial Deaf Student College 0123	Agency Funds
ASSETS		
Cash deposited with State Treasurer	\$ 1,002	\$ -
Cash and cash equivalents	-	1,529
Securities lending collateral equity with State Treasurer	508	-
Investments	-	815
Due from other government - federal	-	54
Other receivables, net	-	1
Loans and notes receivable	30	-
Due from other Department funds	-	19
Total assets	1,540	\$ 2,418
LIABILITIES		
Accounts payable and accrued liabilities	-	\$ 20
Obligations under securities lending of State Treasurer	508	-
Other liabilities	-	2,398
Total liabilities	508	\$ 2,418
NET POSITION		
Held in trust and other purposes	\$ 1,032	

The accompanying notes are an integral part of the basic financial statements.

State of Illinois
Department of Human Services

Statement of Changes in Fiduciary Net Position

For the Year Ended June 30, 2014 (Expressed in Thousands)

	<u>Private-Purpose Trust</u> <u>Hansen-Therkelsen Memorial Deaf Student College 0123</u>
Additions:	
Investment income	\$ 7
Total additions	<u>7</u>
Deductions:	
Health and Social Services	35
Total deductions	<u>35</u>
Net additions (deductions)	(28)
Net position, July 1, 2013	<u>1,060</u>
Net position, June 30, 2014	<u><u>\$ 1,032</u></u>

The accompanying notes are an integral part of the basic financial statements.

**STATE OF ILLINOIS
DEPARTMENT OF HUMAN SERVICES**

Notes to Financial Statements

June 30, 2014

NOTE (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 State's 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, providing preventive care programs and establishing measurable outcomes in partnership with communities.

NOTE (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

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.

The Department is not legally separate from the State of Illinois. The financial statements of the Department are included in the financial statements of the State of Illinois. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting; 325 West Adams Street; Springfield, Illinois, 62704-1871.

(b) Basis of Presentation

The financial statements of the State of Illinois, Department of 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, 2014 and the changes in financial position for the year then ended in conformity with GAAP.

**STATE OF ILLINOIS
DEPARTMENT OF HUMAN SERVICES**

Notes to Financial Statements

June 30, 2014

The financial activities of the Department, which consist primarily 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 position 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 government-wide statement of net position and statement of activities of the Department consist only of governmental activities, which are primarily supported by appropriations from the State and intergovernmental revenues.

The statement of net position presents the assets, liabilities and deferred inflows of resources of the Department's governmental activities with the difference being reported as net position. 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 taxes and all amounts related to appropriations, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Department's funds, including fiduciary funds. Separate statements for each fund category - governmental and fiduciary - are presented. The emphasis of fund financial statements is on the major governmental fund, which is displayed in a separate column. Major funds are determined by the State Comptroller. All remaining governmental funds are aggregated and reported as non-major funds.

The Department administers the following major governmental fund (or portions thereof in the case of shared funds) of the State of Illinois' Comprehensive Annual Financial Report:

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

**STATE OF ILLINOIS
DEPARTMENT OF HUMAN SERVICES**

Notes to Financial Statements

June 30, 2014

accounts (Illinois Veterans' Rehabilitation, Home Services Medicaid Trust, Community Developmental Disabilities Services Medicaid Trust, CMS vs AFSCME Wages Trust, Care Provider Fund for Persons with a Developmental Disability, Health and Human Services Medicaid Trust, and Community Mental Health Medicaid Trust). Additionally, the Department reports the following fund types:

Governmental Fund Types:

Special Revenue – These funds are used to account for and report the proceeds of specific revenue sources that are *restricted or committed to expenditure for specified purposes* other than debt service or capital projects. The Department does not have any major special revenue funds to disclose.

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.

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. 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. Non-exchange 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 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

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incurred, as under accrual accounting. However, principal and interest on debt, claims and judgments, pension expenditures and compensated absences are recorded only when payment is due. Capital asset acquisitions and principal retirements 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. All other revenue sources including fines, licenses and fees and other revenues are considered to be measurable and available only when cash is received.

(d) Shared Fund Presentation

The financial statement presentation for the General Revenue, CMS vs AFSCME Wages Trust and Care Provider Fund for Persons with a Developmental Disability subaccounts of the General Fund, and the Tobacco Settlement Recovery and Maternal and Child Health Services Block Grant, non-major 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 expenditure transactions processed by the State Comptroller's Office after June 30 annually in accordance with Statewide Accounting Management System (SAMS) records plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year and voucher, interfund payment, and mandatory SAMS transfer transactions held by the State Comptroller's Office at June 30.

Appropriations from State resources – This “other financing source” account represents the final legally adopted appropriation according to SAMS records.

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

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.

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Amount of SAMS transfers-out – This “other financing source” account represents cash transfers made by the Office of the Comptroller in accordance with statutory provisions 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 position and statement of activities to minimize the “grossing-up” effect on assets and liabilities within the governmental activities column of the Department, and to eliminate transfers between funds 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 position. Similarly, amounts reported in the governmental funds statement of revenues, expenditures and changes in fund balance as transfers in and transfers out, have been eliminated in the government wide statement of activities. 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 position 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 3 months or less at the time of purchase. Cash and cash equivalents include cash on hand, cash in banks, certificates of deposit, cash invested in the Illinois Funds and money market accounts for locally held funds.

(g) Investments

Most investments are reported at fair value. The Illinois Funds, a 2a7-like pool is reported at amortized cost. The Department holds investments pursuant to statutory authority for locally held funds.

(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. Inventories reported in governmental funds do not reflect current appropriable resources, and therefore, the Department reports an equivalent portion of fund balance as nonspendable.

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(i) Prepaid Items

Payments made to vendors for services that will benefit periods beyond the date of this report are recorded as expenditures in the governmental funds and as prepaid expenses in the government wide statement of net position.

(j) Interfund Transactions

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

Interfund Borrowings – Interfund loans made in accordance with State statute that are to be repaid with interest to the lender fund. Interfund borrowings are reported as “due to other funds” in lender funds and “due from other funds” in borrower funds.

Services Provided and Used – Sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the governmental funds balance sheet or the government-wide statement of net position.

Designated Revenues – Revenues specifically restricted or committed by State statute initially received by another fund and subsequently distributed to a special revenue fund. Designated revenues are reported as revenues in the receiving special revenue fund and a reduction of revenues in the fund of initial deposit.

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.

(k) Capital Assets

Capital assets, which include property, plant, equipment, and intangibles are reported at cost or estimated historical cost. Contributed assets are reported at estimated fair value at the time received. Capital assets are depreciated/amortized using the straight-line method.

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Capitalization thresholds (amounts expressed in whole dollars) 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	3 - 50
Site Improvements	25,000	3 - 50
Buildings	100,000	10 - 60
Building Improvements	25,000	10 - 45
Equipment	5,000	3 - 25
Purchased Computer Software	25,000	3 - 5
Internally Generated Computer Software	1,000,000	5 - 20

(l) *Compensated Absences*

The liability for compensated absences reported in the government-wide statement of net position 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 is calculated based on the employees' salary at June 30 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.

(m) *Fund Balances*

For the year ended June 30, 2014, components of fund balance include the following captions:

Nonspendable – Fund balance component resulting from portions of net resources that cannot be spent because of their form or because they must be legally or contractually maintained intact.

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Restricted – Fund balance component resulting from enforceable external limitations on use, such as limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments as well as limitations imposed by law through constitutional provision or enabling legislation.

Committed – Fund balance component resulting from self-imposed limitations set in place prior to the end of the reporting period. The limitations are imposed at the highest level of decision-making authority that requires formal action at the same level to remove. For the Department, the State Legislature is the highest level of decision-making. In order to commit fund balance for a specific purpose, the State Legislature must enact a law specifying the commitment.

Assigned – Fund balance component resulting from limitations on intended use established by the Department itself. The intended use is established by an official designated for that purpose. The Secretary of the Department has been designated by the Office of the Governor for this purpose.

Unassigned – Total fund balance in the General Fund in excess of nonspendable, restricted, committed, and assigned fund balance, and deficit residual fund balances in other governmental funds.

If there is an expenditure incurred for purposes for which both restricted and unrestricted (committed, assigned and unassigned) fund balance is available, the Department considers restricted fund balance to be spent before unrestricted fund balance. In addition, if there is an expenditure incurred for which committed, assigned or unassigned fund balance may be used, the Department considers committed fund balance to be spent before assigned fund balance and assigned fund balance to be spent before unassigned fund balance.

(n) Net Position

Net position represents the difference between assets and liabilities plus deferred inflows of resources. In the government-wide statement of net position, equity is displayed in three components as follows:

Net Investment in Capital Assets – This consists of capital assets, net of accumulated depreciation/amortization, 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 position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. The Department's restricted net position is restricted by outside parties or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed.

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Unrestricted – This consists of net position that does not meet the definition of “restricted” or “net investment in capital assets”.

(o) 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, liabilities and deferred inflows of resources 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.

(p) Recent and Future Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued Statement No. 65, *Items previously Recorded as Assets and Liabilities* (GASB 65), which was adopted by the Department for the year ended June 30, 2014. GASB 65 now establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. In accordance with GASB 65 the Department now reports deferred inflows of resources in its financial statements. As of June 30, 2014, the Department reported deferred inflows of resources totaling \$194 million in the governmental fund financial statements for unavailable revenues.

Effective for the year ending June 30, 2015, the Department will adopt GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of Statement No. 27*, which requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). Upon implementation, the Department will be required to recognize a liability in its financial statements for its proportionate share of the net pension liability of all employers for pension benefits provided to its employees through the State Employees' Retirement System. Although the amount is unknown as of the date of this report, it may be material to the Department's financial statements.

Effective for the year ending June 30, 2015, the Department will adopt GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB statement No. 68*. This Statement was issued to address an issue in Statement No. 68, *Accounting and Financial Reporting for Pensions*,

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concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and non-employer contributing entities. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

The Department has not yet determined the impact on the Department's financial statements as a result of adopting GASB Statements 69 and 71.

NOTE (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 manages deposits and investments maintained outside the State Treasury.

Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Department does not own individual securities. Details on the nature of these deposits and investments are 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 Department's deposits may not be returned. 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 \$7.106 million at June 30, 2014. Deposits of locally-held funds of fiduciary funds had a carrying amount and a bank balance of \$2.330 million at June 30, 2014.

Of the total bank balances, \$5.4 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) in the Department's name	\$ 900
Uninsured and uncollateralized	4,535
Total	<u><u>\$ 5,435</u></u>

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(b) Investments

As of June 30, 2014, the Department had the following investments outside of the State Treasury:

<i>Governmental Activities</i>	Fair Value (Thousands)	Weighted Average Maturity (Years)
PIMCO Mutual Funds	\$ 28	N/A
U.S. Agency Obligations	10	1.750
Total Governmental Activities	\$ 38	

The Department also has \$1,072 invested with The Illinois Funds. The Illinois Funds is an investment pool managed by the State of Illinois, Office of the Treasurer, which allows governments within the State to pool their funds for investment purposes. Illinois Funds is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940.

The Department is authorized by Illinois State Statute to invest in the following:

1. Obligations of the U.S. Treasury, its agencies, and instrumentalities
2. Savings accounts, certificates of deposit, or time deposits that are direct obligations of any bank that is insured by the Federal Deposit Insurance Corporation
3. Commercial paper noted within the three highest classifications by at least two standard rating services
4. Obligations of states and their political subdivisions
5. Shares or other securities issued by savings and loan associations that are insured by the Federal Savings and Loan Insurance Corporation
6. Insured accounts of a credit union whose principal office is located in the State of Illinois
7. Illinois Funds Money Market Fund
8. Money market mutual funds where the portfolio is limited to U.S. government securities
9. Repurchase agreements where the Department or its authorized third-party agent takes possession of the securities

Interest Rate Risk – The Department’s investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – The Department’s investment policy does not address credit risk. The U.S. Agency Obligations were rated AA by Moody’s Investors Services, AAA by Fitch Ratings, or AAA by Standard & Poor’s ratings. PIMCO Mutual Funds are currently not rated. The Illinois Funds was rated AAA by Standard & Poor’s.

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Reconciliation to Statement of Net Position and Statement of Fiduciary Net Position

The amounts reported as investments in the statement of net position and the statement of fiduciary net position contain certain long-term deposits to reflect their lack of liquidity. A reconciliation (amounts expressed in thousands) follows:

	Cash & Cash Equivalents/ Deposits	Investments
<i>Governmental Activities</i>		
Amounts per note	\$ 7,106	\$ 1,110
Deposits held for investment purposes	(1,115)	1,115
Cash equivalents	127	(127)
Petty cash	26	-
Amounts per Statement of Net Position	\$ 6,144	\$ 2,098
 <i>Fiduciary Funds</i>		
Amounts per note	\$ 2,330	\$ -
Deposits held for investment purposes	(815)	815
Petty cash	14	-
Amounts per Statement of Fiduciary Net Position	\$ 1,529	\$ 815

NOTE (4) - Other Receivables

Other receivables at June 30, 2014 (amounts expressed in thousands) consisted of the following:

Revenue Source	Governmental Funds		Fiduciary Funds
	General Fund	Non-major Funds	
Fines and fees	\$ -	\$ 2,196	\$ -
Public assistance recoveries	10,351	2,738	-
Rebates	-	12,659	-
Recipient services	10,065	478,488	1
Investment and other income	26	10	-
Total other receivables	20,442	496,091	1
Allowance for uncollectible amounts	(18,987)	(335,967)	-
Other receivables, net	\$ 1,455	\$ 160,124	\$ 1

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NOTE (5) - Securities Lending Transactions

The State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank AG to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During fiscal year 2014, Deutsche Bank AG lent U.S. Treasury securities and U.S. agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The State Treasurer did not impose any restrictions during fiscal year 2014 on the amount of the loans available or the eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. Moreover, there were no losses during fiscal year 2014 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal year 2014 the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. For the Department, securities lending collateral (invested in repurchase agreements) and the corresponding securities lending collateral obligation as of June 30, 2014 were \$48.7 million.

NOTE (6) - Interfund Balances and Activity

(a) Balances Due from/to Other Funds

The following balances (amounts expressed in thousands) at June 30, 2014 represent amounts due from other Department and State of Illinois funds:

Fund Type	Due from Other		Description/Purpose
	Department Funds	State Funds	
General	\$ 7,721	\$ 983	See comment that follows.
Non-major governmental	10,325	4,381	See comment that follows.
Fiduciary	19	-	See comment that follows.
Totals	\$ 18,065	\$ 5,364	

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General - Due from other Department funds for required transfers and expenditure reimbursements and other State funds for expenditure reimbursements.

Non-major governmental - Due from other Department funds for required transfers and expenditure reimbursements and other State funds for expenditure reimbursements.

Fiduciary - Due from other Department Funds for post employment benefits.

The following balances (amounts expressed in thousands) at June 30, 2014 represent amounts due to other Department and State of Illinois funds:

<u>Fund Type</u>	<u>Due to Other</u>				<u>Description/Purpose</u>
	<u>Department Funds</u>	<u>State Funds</u>	<u>Department Fiduciary Funds</u>	<u>State Fiduciary Funds</u>	
General	\$ 10,325	\$ 55,902	\$ 19	\$ 163	See comment below.
Non-major governmental	7,721	6,984	-	1,542	See comment below.
Totals	<u>\$ 18,046</u>	<u>\$ 62,886</u>	<u>\$ 19</u>	<u>\$ 1,705</u>	

General - Due to other Department funds and other Department fiduciary funds for expenditure reimbursements, other State funds for expenditure reimbursements, and other Department fiduciary funds for postemployment benefits.

Non-major governmental - Due to other Department funds for required transfers and expenditure reimbursements, other State funds for expenditure reimbursements.

(b) Transfers from/to Other Funds

Interfund transfers-in (amounts expressed in thousands) for the year ended June 30, 2014, were as follows:

<u>Fund Type</u>	<u>Transfers-in from Other</u>		<u>Description/Purpose</u>
	<u>Department Funds</u>	<u>State Funds</u>	
General	\$ 7,706	\$ 20,000	Transfer from other Department funds and other State funds pursuant to statute.
Non-major governmental	73,009	8,950	Transfers from other Department funds and other State funds pursuant to statute and annual appropriations bill.
Totals	<u>\$ 80,715</u>	<u>\$ 28,950</u>	

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Interfund transfers-out (amounts expressed in thousands) for the year ended June 30, 2014, were as follows:

Fund Type	Transfers-out to Other		Description/Purpose
	Department Funds	State Funds	
General	\$ 73,009	\$ 6,541	Transfers to other Department funds pursuant to statute and to other State funds for State budget shortfalls.
Non-major governmental	7,706	-	Transfers to other Department funds pursuant to statute.
Totals	<u>\$ 80,715</u>	<u>\$ 6,541</u>	

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

The following balances (amounts expressed in thousands) at June 30, 2014 represent amounts due from/to State of Illinois component units for reimbursement for expenses incurred:

Component Unit	"Due from" amounts		"Due to" amounts	
	Non-major Governmental Funds	General Fund	General Fund	Non-major Governmental Funds
Toll Highway Authority	\$ -	\$ 5	\$ 5	\$ -
Chicago State University	-	9	9	52
Eastern Illinois University	-	4	4	130
Governors State University	-	23	23	82
Northeastern Illinois University	-	2	2	39
Western Illinois University	-	-	-	129
Illinois State University	-	15	15	2
Northern Illinois University	-	14	14	15
Southern Illinois University	-	222	222	330
University of Illinois	298	1,392	1,392	3,930
Totals	<u>\$ 298</u>	<u>\$ 1,686</u>	<u>\$ 1,686</u>	<u>\$ 4,709</u>

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NOTE (7) - Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2014 was as follows:

	Balance July 1, 2013	Additions	Deletions	Net Transfers	Balance June 30, 2014
Capital assets not being depreciated/amortized:					
Land and land improvements	\$ 2,993	\$ -	\$ -	\$ -	\$ 2,993
Internally generated intangible assets in development	<u>13,603</u>	<u>1,909</u>	<u>-</u>	<u>(965)</u>	<u>14,547</u>
Total capital assets not being depreciated/amortized	<u>16,596</u>	<u>1,909</u>	<u>-</u>	<u>(965)</u>	<u>17,540</u>
Capital assets being depreciated/amortized:					
Site improvements	86,044	-	4,553	-	81,491
Buildings and building improvements	549,588	3,397	34,170	15,548	534,363
Equipment	33,314	1,128	2,307	(336)	31,799
Capital leases - equipment	1,180	920	294	-	1,806
Non-internally generated software	204	-	-	-	204
Internally generated software	<u>5,628</u>	<u>-</u>	<u>-</u>	<u>61,443</u>	<u>67,071</u>
Total capital assets being depreciated/amortized	<u>675,958</u>	<u>5,445</u>	<u>41,324</u>	<u>76,655</u>	<u>716,734</u>
Less accumulated depreciation/amortization:					
Site improvements	73,061	1,273	3,414	-	70,920
Buildings and building improvements	408,177	10,407	25,627	-	392,957
Equipment	23,135	1,259	1,730	(227)	22,437
Capital leases - equipment	685	1,017	293	-	1,409
Non-internally generated software	108	41	-	-	149
Internally generated software	<u>1,407</u>	<u>691</u>	<u>-</u>	<u>-</u>	<u>2,098</u>
Total accumulated depreciation/amortization	<u>506,573</u>	<u>14,688</u>	<u>31,064</u>	<u>(227)</u>	<u>489,970</u>
Total capital assets being depreciated/amortized, net	<u>169,385</u>	<u>(9,243)</u>	<u>10,260</u>	<u>76,882</u>	<u>226,764</u>
Total capital assets, net	<u>\$ 185,981</u>	<u>\$ (7,334)</u>	<u>\$ 10,260</u>	<u>\$ 75,917</u>	<u>\$ 244,304</u>

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Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2014 was charged as follows:

Health and social services \$ 14,688

NOTE (8) - Long-term Obligations

(a) Changes in Long-term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2014, were as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Amounts Due Within One Year
Other long-term obligations:					
Compensated absences	\$64,766	\$ 97,219	\$ 92,513	\$69,472	\$ 2,779
Capital lease obligations	539	521	631	429	291
Installment					
purchase obligations	18	-	18	-	-
Totals	\$65,323	\$ 97,740	\$ 93,162	\$69,901	\$ 3,070

Compensated absences will be 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 \$1,806 and \$1,409, respectively, under capital lease arrangements. Although lease terms vary, certain leases are renewable subject to appropriation by the General Assembly. If renewal is reasonably assured, leases requiring appropriation by the General Assembly are considered non-cancelable leases for financial reporting. Future minimum lease payments (amounts expressed in thousands) at June 30, 2014 are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 292	\$ 36	\$ 328
2015	106	13	119
2016	31	3	34
Totals	\$ 429	\$ 52	\$ 481

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Installment Purchase Obligations

The Department had acquired certain office equipment, computer equipment, and other assets through installment purchase arrangements. Installment Purchase obligation debt was paid off in fiscal year 2014.

NOTE (9) - 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 2014 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2014. 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 years 2012, 2013 and 2014, the employer contribution rates were 34.190%, 37.987% and 40.312%, respectively. Effective for pay periods beginning after December 31, 1991, the State opted to pay the employee portion of retirement for most State agencies (including the Department) for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. However, effective with the fiscal year 2004 budget, the State opted to stop paying the portion or a part of the portion of retirement for many State agencies (including the Department) for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. The pickup, when applicable, is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies. Liabilities related to the SERS pension plan are recorded by the State of Illinois; however, these amounts are not separated by department, fund or component unit.

Public Act 98-0599, signed into law by the Governor on December 5, 2013, provides for significant pension reform, and was scheduled to become effective on June 1, 2014. Several lawsuits were subsequently filed to challenge the constitutionality of Public Act 98-0599 and in May 2014, the court issued a temporary injunction that delays the implementation of the new law until the court rules on the consolidated lawsuit.

**STATE OF ILLINOIS
DEPARTMENT OF HUMAN SERVICES**

Notes to Financial Statements

June 30, 2014

NOTE (10) - Post-employment Benefits

The State, under the State Employees Group Insurance Act of 1971 (Act) provides health, dental, vision and life insurance benefits for retirees and their dependents in a program administered by the Department of Central Management Services. Substantially all State employees become eligible for these other post-employment benefits (OPEB) if they eventually become annuitants of one of the State sponsored pension plans. Historically, the health, dental, and vision benefits provided to and contribution amounts required from annuitants have been the result of collective bargaining between the State and the various unions representing the State's and the university component units' employees in accordance with the limitations established in the Act. Therefore, the benefits provided and contribution amounts are subject to periodic change. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. The State also provides life insurance benefits for annuitants equal to their annual salary as of the last day of employment until age 60, at which time the benefit amount becomes \$5,000.

Public Act 97-0695, effective July 1, 2012, alters the contributions to be paid by the State, annuitants, survivors, and retired employees under the Act. Public Act 97-0695 requires the Director of the Department of Central Management Services to, on an annual basis, determine the amount that the State should contribute. The remainder of the cost of coverage shall be the responsibility of the annuitant, survivor, or retired employee. The costs were assessed beginning July 1, 2013. On August 28, 2014, the Sangamon County Circuit Court directed the State Employee Retirement System to discontinue withholding, as soon as possible, the retiree and survivor health insurance premiums that were in effect since July 2013. The refunding of premiums paid since July 2013 is unresolved pending court decision.

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 benefits 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 Central Management Services. A copy of the financial statements of the Department of Central Management Services may be obtained by writing to the Department of Central Management Services, 715 Stratton Building, 401 South Spring Street, Springfield, Illinois, 62606-4100.

**STATE OF ILLINOIS
DEPARTMENT OF HUMAN SERVICES**

Notes to Financial Statements

June 30, 2014

NOTE (11) - Fund Balances

(a) Categories

At June 30, 2014, the Department's fund balances were classified as follows:

	<u>General Fund</u>	<u>Non-major Governmental Funds</u>	<u>Total</u>
Nonspendable:			
Inventory	\$ 7,037	\$ -	\$ 7,037
Permanent endowments	-	1,162	1,162
Total nonspendable	<u>7,037</u>	<u>1,162</u>	<u>8,199</u>
Restricted purposes:			
Health and social services	39,091	87,443	126,534
Committed purposes:			
Health and social services	27,842	31,253	59,095
Unassigned	<u>(52,486)</u>	<u>(19,220)</u>	<u>(71,706)</u>
Total fund balances	<u>\$ 21,484</u>	<u>\$ 100,638</u>	<u>\$ 122,122</u>

(b) Fund Deficits

The General Revenue, Home Services Medicaid Trust subaccounts and CMS vs AFSCME Wages Trust subaccounts of the General Fund had fund deficits (amounts expressed in thousands) of \$32,059, \$13,250 and \$140, respectively, at June 30, 2014. The Prevention of Treatment of Alcoholism and Substance Abuse Block Grant, Federal National Community Services, Employment and Training, Early Intervention Services Revolving, DHS Federal Projects, Alcoholism and Substance Abuse, and Juvenile Justice Trust non-major governmental funds had fund deficits (amounts expressed in thousands) of \$80, \$198, \$6,462, \$12,336, \$14, \$93, and \$37, respectively, at June 30, 2014.

NOTE (12) - Risk Management

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

**STATE OF ILLINOIS
DEPARTMENT OF HUMAN SERVICES**

Notes to Financial Statements

June 30, 2014

NOTE (13) - Commitments and Contingencies

(a) Operating Leases

The Department leases office facilities, office equipment, and computer equipment under the terms of non-cancelable 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 \$.347 million for the year ended June 30, 2014.

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

Year Ending June 30,	Amount
2015	257
2016	13
2017	<u>3</u>
Total	<u><u>\$ 273</u></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. The Department is not aware of any material unrecorded liabilities pertaining to questioned costs. Identified questioned costs are frequently 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.

(c) Litigation

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

**STATE OF ILLINOIS
DEPARTMENT OF HUMAN SERVICES**

Notes to Financial Statements

June 30, 2014

NOTE (14) – Subsequent Events

The Department has taken preliminary steps towards the closing of the Murray Developmental Center facility. The facility is closed to new patients; however, the facility is still fully operational and staffed. Public hearings have been held regarding the expected closure; however, the closure date has not been determined at this time due to the availability of appropriations, the movement of residents to other facilities and other factors impacting the decision making process.

NOTE (15) – Transfer of Administration of funds from other state agencies

Effective July 1, 2013, one special revenue governmental fund was transferred to another State agency from DHS. The Diabetes Research Check-off Fund (No. 0198) was part of the Department’s reporting entity in fiscal year 2013 and was transferred to another State agency at the start of fiscal year 2014. Net assets transferred totaled \$111 thousand. These amounts were reported as “transfer of administration of funds from other state agencies” on the Statement of Activities and Governmental Statement of Revenues, Expenditures, and Changes in Fund Balances.

NOTE (16) – Adjustments to Accrued Grant Revenue

In compiling the financial statements for FY 2014, the Department determined that balances relating to federal grants were reported incorrectly in the FY 2013 financial statements. Management believes that these errors are immaterial to the users of the Department’s financial statements and corrected the errors by adjusting FY 2014 federal grant revenues. Adjustments made were as follows (amounts expressed in thousands):

<u>Reporting Unit</u>	<u>Revenue Increase (Decrease)</u>
General Fund	\$56,052
Non-major governmental funds	51,279
Governmental Activities	10,651

State of Illinois
Department of Human Services

Combining Schedule of
Accounts - General Fund

June 30, 2014 (Expressed in Thousands)

	General Revenue 0001	Illinois Veterans' Rehabilitation 0036	Home Services Medicaid Trust 0120	Community Developmental Disabilities Services Medicaid Trust 0142	CMS vs AFSCME Wages Trust 0168	Care Provider Fund for Persons with a Developmental Disability 0344	Health and Human Services Medicaid Trust 0365	Community Mental Health Medicaid Trust 0718	Eliminations	Total
ASSETS										
Unexpended appropriations	\$ 400,970	\$ -	\$ -	\$ -	\$ -	\$ 710	\$ -	\$ -	\$ -	\$ 401,680
Cash deposited with State Treasurer	867	107	9,999	37,065	-	-	9,485	15,606	-	73,129
Cash and cash equivalents	194	-	-	-	-	-	-	-	-	194
Securities lending collateral equity with State Treasurer	-	-	6,063	18,741	-	-	4,075	6,681	-	35,560
Due from other government - federal	7,242	-	5,084	20,304	-	-	7,604	23,857	-	64,091
Recipient services and other receivables, net	1,429	-	4	14	-	-	3	5	-	1,455
Due from other Department funds	7,758	397	-	-	-	-	-	6	(440)	7,721
Due from other State funds	983	-	-	-	-	-	-	-	-	983
Inventories	7,037	-	-	-	-	-	-	-	-	7,037
Total assets	\$ 426,480	\$ 504	\$ 21,150	\$ 76,124	\$ -	\$ 710	\$ 21,167	\$ 46,155	\$ (440)	\$ 591,850
LIABILITIES										
Accounts payable and accrued liabilities	\$ 367,480	\$ 87	\$ 21,837	\$ 1,614	\$ -	\$ 710	\$ 1,645	\$ 6,533	\$ -	\$ 399,906
Due to other government - federal	3,196	5	1,278	-	-	-	-	2	-	4,481
Due to other government - local	15,327	-	37	1	-	-	72	-	-	15,437
Due to other Department fiduciary funds	19	-	-	-	-	-	-	-	-	19
Due to other State fiduciary funds	126	27	-	-	-	-	-	10	-	163
Due to other Department funds	10,611	-	14	-	140	-	-	-	(440)	10,325
Due to other State funds	55,769	16	87	-	-	-	25	5	-	55,902
Due to State of Illinois component units	1,686	-	-	-	-	-	-	-	-	1,686
Obligations under securities lending of State Treasurer	-	-	6,063	18,741	-	-	4,075	6,681	-	35,560
Total liabilities	454,214	135	29,316	20,356	140	710	5,817	13,231	(440)	523,479
DEFERRED INFLOWS OF RESOURCES										
Unavailable revenue	4,325	-	5,084	16,677	-	-	7,600	13,201	-	46,887
Total Deferred Inflows of Resources	4,325	-	5,084	16,677	-	-	7,600	13,201	-	46,887
FUND BALANCES (DEFICITS)										
Nonspendable	7,037	-	-	-	-	-	-	-	-	7,037
Restricted	-	-	-	39,091	-	-	-	-	-	39,091
Committed	-	369	-	-	-	-	7,750	19,723	-	27,842
Unassigned	(39,096)	-	(13,250)	-	(140)	-	-	-	-	(52,486)
Total fund balances (deficits)	(32,059)	369	(13,250)	39,091	(140)	-	7,750	19,723	-	21,484
Total liabilities, deferred inflows and fund balances (deficits)	\$ 426,480	\$ 504	\$ 21,150	\$ 76,124	\$ -	\$ 710	\$ 21,167	\$ 46,155	\$ (440)	\$ 591,850

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, 2014 (Expressed in Thousands)

	General Revenue 0001	Illinois Veterans' Rehabilitation 0036	Home Services Medicaid Trust 0120	Community Developmental Disabilities Services Medicaid Trust 0142	CMS vs AFSCME Wages Trust 0168	Care Provider Fund for Persons with a Developmental Disability 0344	Health and Human Services Medicaid Trust 0365	Community Mental Health Medicaid Trust 0718	Eliminations	Total
REVENUES										
Federal operating grants	\$ 193,571	\$ -	\$ 199,339	\$ 19,500	\$ -	\$ -	\$ 3,328	\$ 81,486	\$ -	\$ 497,224
Licenses and fees	52	-	-	-	-	-	-	-	-	52
Interest and investment income	-	-	231	50	-	-	31	88	-	400
Other charges for services	91	-	-	-	-	-	-	-	-	91
Other operating grants	4	-	-	-	-	-	-	-	-	4
Other revenues, net of refunds	1,563	-	-	-	-	-	-	-	-	1,563
Total revenues	195,281	-	199,570	19,550	-	-	3,359	81,574	-	499,334
EXPENDITURES										
Health and social services	3,129,022	5,230	222,149	22,317	-	33,847	33,270	109,764	-	3,555,599
Debt service - principal	626	-	3	-	-	-	-	-	-	629
Debt service - interest	76	-	-	-	-	-	-	-	-	76
Capital outlays	1,694	-	45	-	-	-	-	-	-	1,739
Total expenditures	3,131,418	5,230	222,197	22,317	-	33,847	33,270	109,764	-	3,558,043
Excess (deficiency) of revenues over (under) expenditures	(2,936,137)	(5,230)	(22,627)	(2,767)	-	(33,847)	(29,911)	(28,190)	-	(3,058,709)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES										
Appropriations from State resources	3,266,682	-	-	-	-	52,000	-	-	-	3,318,682
Lapsed appropriations	(49,362)	-	-	-	-	(18,145)	-	-	-	(67,507)
Receipts collected and transmitted to State Treasury	(151,128)	-	-	-	-	-	-	-	-	(151,128)
Amount of SAMS transfers-in	(36,556)	-	-	-	-	-	-	-	-	(36,556)
Amount of SAMS transfers-out	4,763	-	-	-	-	-	-	-	-	4,763
Transfers-in	7,706	4,763	-	-	-	-	20,000	-	(4,763)	27,706
Transfers-out	(84,313)	-	-	-	-	-	-	-	4,763	(79,550)
Capital lease and installment purchase financing	920	-	-	-	-	-	-	-	-	920
Net other sources (uses) of financial resources	2,958,712	4,763	-	-	-	33,855	20,000	-	-	3,017,330
Net change in fund balances	22,575	(467)	(22,627)	(2,767)	-	8	(9,911)	(28,190)	-	(41,379)
Fund balances (deficits), July 1, 2013	(54,326)	836	9,377	41,858	(140)	(8)	17,661	47,913	-	63,171
Decrease for change in inventories	(308)	-	-	-	-	-	-	-	-	(308)
FUND BALANCES (DEFICITS), JUNE 30, 2014	\$ (32,059)	\$ 369	\$ (13,250)	\$ 39,091	\$ (140)	\$ -	\$ 7,750	\$ 19,723	\$ -	\$ 21,484

State of Illinois
Department of Human Services

Combining Balance Sheet -
Non-major Governmental Funds

June 30, 2014 (Expressed in Thousands)

	Special Revenue							
	Prevention and Treatment of Alcoholism and Substance Abuse Block Grant 0013	Group Home Loan Revolving 0025	Mental Health 0050	Vocational Rehabilitation 0081	Assistance to the Homeless 0100	Youth Alcoholism and Substance Abuse Prevention 0128	Mental Health Reporting 0148	Sexual Assault Services and Prevention 0158
ASSETS								
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash deposited with State Treasurer	639	44	14,356	9,554	279	507	1,097	401
Cash and cash equivalents	-	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	22	-	-	-	-	315	200
Investments	-	-	-	-	-	-	-	-
Due from other government - federal	8,351	-	3,935	11,899	-	-	-	-
Due from other government - local	-	-	-	-	-	-	-	-
Taxes receivable, net	-	-	198	-	-	-	-	-
Other receivables, net	-	-	957	1,896	-	-	-	-
Loans and notes receivable, net	-	55	-	-	-	-	-	-
Due from other Department funds	-	-	11	75	-	-	-	-
Due from other State funds	-	-	1,154	-	1	1,110	-	-
Due from State of Illinois component units	15	-	-	236	-	-	-	-
Total assets	\$ 9,005	\$ 121	\$ 20,611	\$ 23,660	\$ 280	\$ 1,617	\$ 1,412	\$ 601
LIABILITIES								
Accounts payable and accrued liabilities	\$ 7,667	\$ -	\$ 568	\$ 10,729	\$ -	\$ 327	\$ 14	\$ -
Due to other government - federal	7	-	11	117	-	-	1	-
Due to other government - local	354	-	-	997	-	42	-	-
Due to other State fiduciary funds	37	-	62	628	-	-	1	-
Due to other Department funds	-	-	26	-	-	-	-	-
Due to other State funds	424	-	202	1,068	-	-	2	-
Due to State of Illinois component units	596	-	36	506	-	35	-	-
Unearned revenue	-	-	-	1,716	-	-	-	-
Obligations under securities lending of State Treasurer	-	22	-	-	-	-	315	200
Total liabilities	9,085	22	905	15,761	-	404	333	200
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenue	-	-	1,265	98	-	-	-	-
Total Deferred Inflows of Resources	-	-	1,265	98	-	-	-	-
FUND BALANCES (DEFICITS)								
Nonspendable	-	-	-	-	-	-	-	-
Restricted	-	99	-	7,801	-	-	-	401
Committed	-	-	18,441	-	280	1,213	1,079	-
Unassigned	(80)	-	-	-	-	-	-	-
Total fund balances (deficits)	(80)	99	18,441	7,801	280	1,213	1,079	401
Total liabilities, deferred inflows and fund balances (deficits)	\$ 9,005	\$ 121	\$ 20,611	\$ 23,660	\$ 280	\$ 1,617	\$ 1,412	\$ 601

(Continued)

State of Illinois
Department of Human Services

Combining Balance Sheet -
Non-major Governmental Funds

June 30, 2014 (Expressed in Thousands)

	Special Revenue							
	Children's Wellness Charities 0178	Housing for Families 0181	Diabetes Research Check- off 0198	DHS Technology Initiative 0211	Autism Research Check-off 0228	Drunk and Drugged Driving Prevention 0276	Federal National Community Services 0343	Employment and Training 0347
ASSETS								
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash deposited with State Treasurer	36	45	-	1,356	16	320	508	2,689
Cash and cash equivalents	-	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	-	737	8	-	-	-
Investments	-	-	-	-	-	-	-	-
Due from other government - federal	-	-	-	276	-	-	307	39,420
Due from other government - local	-	-	-	-	-	-	-	-
Taxes receivable, net	-	-	-	-	-	-	-	-
Other receivables, net	-	-	-	1	-	-	-	-
Loans and notes receivable, net	-	-	-	-	-	-	-	-
Due from other Department funds	-	-	-	-	-	5	-	-
Due from other State funds	-	-	-	381	-	-	-	-
Due from State of Illinois component units	-	-	-	-	-	-	-	-
Total assets	\$ 36	\$ 45	\$ -	\$ 2,751	\$ 24	\$ 325	\$ 815	\$ 42,109
LIABILITIES								
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	1,699	\$ -	202	576	47,835
Due to other government - federal	-	-	-	1	-	1	158	-
Due to other government - local	-	-	-	-	-	11	-	476
Due to other State fiduciary funds	-	-	-	-	-	7	1	-
Due to other Department funds	-	-	-	3	-	61	-	-
Due to other State funds	-	-	-	10	-	43	4	12
Due to State of Illinois component units	-	-	-	-	16	-	76	240
Unearned revenue	-	-	-	296	-	-	-	8
Obligations under securities lending of State Treasurer	-	-	-	737	8	-	-	-
Total liabilities	-	-	-	2,746	24	325	815	48,571
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenue	-	-	-	-	-	-	198	-
Total Deferred Inflows of Resources	-	-	-	-	-	-	198	-
FUND BALANCES (DEFICITS)								
Nonspendable	-	-	-	-	-	-	-	-
Restricted	36	45	-	5	-	-	-	-
Committed	-	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	(198)	(6,462)
Total fund balances (deficits)	36	45	-	5	-	-	(198)	(6,462)
Total liabilities, deferred inflows and fund balances (deficits)	\$ 36	\$ 45	\$ -	\$ 2,751	\$ 24	\$ 325	\$ 815	\$ 42,109

(Continued)

State of Illinois
Department of Human Services

Combining Balance Sheet -
Non-major Governmental Funds

June 30, 2014 (Expressed in Thousands)

	Special Revenue							
	Drug Treatment 0368	Sexual Assault Services 0389	Gaining Early Awareness and Readiness for Undergraduate Programs 0394	DHS Special Purposes Trust 0408	Autism Awareness 0458	Old Age Survivors Insurance 0495	Early Intervention Services Revolving 0502	DHS Community Services 0509
ASSETS								
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash deposited with State Treasurer	1,973	44	6,410	52,947	44	514	7,478	7,155
Cash and cash equivalents	-	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	3,249	-	-	-	3,244	3,720
Investments	-	-	-	-	-	-	-	-
Due from other government - federal	-	-	-	23,952	-	2,921	10,604	-
Due from other government - local	240	5	-	-	-	-	-	-
Taxes receivable, net	-	-	-	-	-	-	-	-
Other receivables, net	-	-	2	27	-	-	155	3
Loans and notes receivable, net	-	-	-	-	-	-	-	-
Due from other Department funds	7	-	-	-	-	-	10,215	-
Due from other State funds	-	-	-	1,493	-	-	54	68
Due from State of Illinois component units	-	-	-	-	-	-	-	-
Total assets	\$ 2,220	\$ 49	\$ 9,661	\$ 78,419	\$ 44	\$ 3,435	\$ 31,750	\$ 10,946
LIABILITIES								
Accounts payable and accrued liabilities	\$ 168	\$ -	\$ 31	\$ 18,025	\$ -	\$ 2,088	\$ 34,372	\$ 951
Due to other government - federal	1	-	-	18	-	101	2	-
Due to other government - local	-	-	-	925	-	1	1,014	-
Due to other State fiduciary funds	4	-	1	108	-	499	10	-
Due to other Department funds	-	-	-	-	-	-	10	-
Due to other State funds	6	5	3	1,190	-	746	68	-
Due to State of Illinois component units	-	-	6	2,420	-	-	350	-
Unearned revenue	-	-	6,371	991	-	-	3,914	-
Obligations under securities lending of State Treasurer	-	-	3,249	-	-	-	3,244	3,720
Total liabilities	179	5	9,661	23,677	-	3,435	42,984	4,671
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenue	-	-	-	852	-	-	1,102	-
Total Deferred Inflows of Resources	-	-	-	852	-	-	1,102	-
FUND BALANCES (DEFICITS)								
Nonspendable	-	-	-	-	-	-	-	-
Restricted	-	-	-	53,890	44	-	-	-
Committed	2,041	44	-	-	-	-	-	6,275
Unassigned	-	-	-	-	-	-	(12,336)	-
Total fund balances (deficits)	2,041	44	-	53,890	44	-	(12,336)	6,275
Total liabilities, deferred inflows and fund balances (deficits)	\$ 2,220	\$ 49	\$ 9,661	\$ 78,419	\$ 44	\$ 3,435	\$ 31,750	\$ 10,946

(Continued)

State of Illinois
Department of Human Services

Combining Balance Sheet -
Non-major Governmental Funds

June 30, 2014 (Expressed in Thousands)

	Special Revenue							
	Domestic Violence Abuser Services 0528	Juvenile Accountability Incentive Block Grant 0581	DHS Federal Projects 0592	Special Olympics Illinois 0623	DHS State Projects 0642	Alcoholism and Substance Abuse 0646	DHS Private Resources 0690	U.S.D.A. Women Infants and Children 0700
ASSETS								
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash deposited with State Treasurer	89	3,191	2,266	6	2,555	586	2,869	1,001
Cash and cash equivalents	-	-	-	-	-	-	-	4,635
Securities lending collateral equity with State Treasurer	-	1,629	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-
Due from other government - federal	-	-	459	-	-	813	-	18,398
Due from other government - local	2	-	-	-	-	-	-	-
Taxes receivable, net	-	-	-	-	-	-	-	-
Other receivables, net	-	1	-	-	-	-	-	12,707
Loans and notes receivable, net	-	-	-	-	-	-	-	-
Due from other Department funds	-	-	26	-	3	-	-	-
Due from other State funds	-	-	42	-	-	-	-	-
Due from State of Illinois component units	-	-	47	-	-	-	-	-
Total assets	\$ 91	\$ 4,821	\$ 2,840	\$ 6	\$ 2,558	\$ 1,399	\$ 2,869	\$ 36,741
LIABILITIES								
Accounts payable and accrued liabilities	\$ -	\$ 4	\$ 1,063	\$ -	\$ 323	\$ 864	\$ 8	\$ 18,476
Due to other government - federal	-	-	1	-	-	1	1	7
Due to other government - local	-	95	392	-	-	-	-	4,845
Due to other State fiduciary funds	-	2	7	-	-	1	3	39
Due to other Department funds	-	-	-	-	-	-	-	-
Due to other State funds	-	23	131	-	2,235	29	2	525
Due to State of Illinois component units	-	-	192	-	-	35	-	46
Unearned revenue	-	3,068	1,000	1	-	469	2,855	214
Obligations under securities lending of State Treasurer	-	1,629	-	-	-	-	-	-
Total liabilities	-	4,821	2,786	1	2,558	1,399	2,869	24,152
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenue	-	-	68	-	-	93	-	34
Total Deferred Inflows of Resources	-	-	68	-	-	93	-	34
FUND BALANCES (DEFICITS)								
Nonspendable	-	-	-	-	-	-	-	-
Restricted	-	-	-	5	-	-	-	12,555
Committed	91	-	-	-	-	-	-	-
Unassigned	-	-	(14)	-	-	(93)	-	-
Total fund balances (deficits)	91	-	(14)	5	-	(93)	-	12,555
Total liabilities, deferred inflows and fund balances (deficits)	\$ 91	\$ 4,821	\$ 2,840	\$ 6	\$ 2,558	\$ 1,399	\$ 2,869	\$ 36,741

(Continued)

State of Illinois
Department of Human Services

Combining Balance Sheet -
Non-major Governmental Funds

June 30, 2014 (Expressed in Thousands)

	Special Revenue							
	Hunger Relief 0706	Tobacco Settlement Recovery 0733	Local Initiative 0762	Rehabilitation Services Elementary and Secondary Education Act 0798	Farmer's Market Technology Improvement 0864	Domestic Violence Shelter and Service 0865	Maternal and Child Health Services Block Grant 0872	Community Mental Health Services Block Grant 0876
ASSETS								
Unexpended appropriations	\$ -	\$ 704	\$ -	\$ -	\$ -	\$ -	\$ 375	\$ -
Cash deposited with State Treasurer	-	-	5,620	601	15	1,190	-	419
Cash and cash equivalents	-	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-
Due from other government - federal	-	-	3,134	-	-	-	1,007	-
Due from other government - local	-	-	-	-	-	42	-	-
Taxes receivable, net	-	-	-	-	-	-	-	-
Other receivables, net	-	-	-	-	-	-	-	-
Loans and notes receivable, net	-	-	-	-	-	-	-	-
Due from other Department funds	-	-	-	-	-	-	-	-
Due from other State funds	-	-	-	78	-	-	-	-
Due from State of Illinois component units	-	-	-	-	-	-	-	-
Total assets	\$ -	\$ 704	\$ 8,754	\$ 679	\$ 15	\$ 1,232	\$ 1,382	\$ 419
LIABILITIES								
Accounts payable and accrued liabilities	\$ -	\$ 704	\$ 2,579	\$ 68	\$ -	\$ 114	\$ 288	\$ 22
Due to other government - federal	-	-	2	-	-	-	5	2
Due to other government - local	-	-	382	1	-	38	28	-
Due to other State fiduciary funds	-	-	10	1	-	-	26	9
Due to other Department funds	-	-	-	-	-	-	-	-
Due to other State funds	-	-	70	2	-	12	23	4
Due to State of Illinois component units	-	-	134	-	-	-	-	-
Unearned revenue	-	-	-	-	15	-	-	382
Obligations under securities lending of State Treasurer	-	-	-	-	-	-	-	-
Total liabilities	-	704	3,177	72	15	164	370	419
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenue	-	-	-	-	-	-	429	-
Total Deferred Inflows of Resources	-	-	-	-	-	-	429	-
FUND BALANCES (DEFICITS)								
Nonspendable	-	-	-	-	-	-	-	-
Restricted	-	-	5,577	607	-	-	583	-
Committed	-	-	-	-	-	1,068	-	-
Unassigned	-	-	-	-	-	-	-	-
Total fund balances (deficits)	-	-	5,577	607	-	1,068	583	-
Total liabilities, deferred inflows and fund balances (deficits)	\$ -	\$ 704	\$ 8,754	\$ 679	\$ 15	\$ 1,232	\$ 1,382	\$ 419

(Continued)

State of Illinois
Department of Human Services

Combining Balance Sheet -
Non-major Governmental Funds

June 30, 2014 (Expressed in Thousands)

	Special Revenue							
	Youth Drug Abuse Prevention 0910	Juvenile Justice Trust 0911	DHS Recoveries Trust 0921	DHS Other Special Trusts 1139	DHS Commissary 1140	DHS Rehabilitation 1144	DHS/DORS Special Revenue 1149	Food Stamp and Commodity 1245
ASSETS								
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash deposited with State Treasurer	726	571	11,684	-	-	-	-	-
Cash and cash equivalents	-	-	-	633	9	35	188	-
Securities lending collateral equity with State Treasurer	-	-	-	-	-	-	-	-
Investments	-	-	-	856	-	-	27	-
Due from other government - federal	-	283	-	19	-	-	-	-
Due from other government - local	-	-	-	-	-	-	62	-
Taxes receivable, net	-	-	-	-	-	-	-	-
Other receivables, net	-	-	144,344	1	-	-	-	-
Loans and notes receivable, net	-	-	-	-	-	-	-	-
Due from other Department funds	-	12	-	-	-	-	163	-
Due from other State funds	-	-	-	-	-	-	-	-
Due from State of Illinois component units	-	-	-	-	-	-	-	-
Total assets	\$ 726	\$ 866	\$ 156,028	\$ 1,509	\$ 9	\$ 35	\$ 440	\$ -
LIABILITIES								
Accounts payable and accrued liabilities	\$ 5	\$ 413	\$ 894	\$ -	\$ -	\$ 2	\$ -	\$ -
Due to other government - federal	-	-	1,279	-	-	1	-	-
Due to other government - local	-	72	13	-	-	-	-	-
Due to other State fiduciary funds	-	-	86	-	-	-	-	-
Due to other Department funds	-	-	7,644	-	2	-	4	-
Due to other State funds	-	85	60	-	-	-	-	-
Due to State of Illinois component units	-	21	-	-	-	-	-	-
Unearned revenue	-	275	-	-	1	-	-	-
Obligations under securities lending of State Treasurer	-	-	-	-	-	-	-	-
Total liabilities	5	866	9,976	-	3	3	4	-
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenue	-	37	142,875	-	-	-	-	-
Total Deferred Inflows of Resources	-	37	142,875	-	-	-	-	-
FUND BALANCES (DEFICITS)								
Nonspendable	-	-	-	-	-	-	-	-
Restricted	-	-	3,177	1,509	6	32	436	-
Committed	721	-	-	-	-	-	-	-
Unassigned	-	(37)	-	-	-	-	-	-
Total fund balances (deficits)	721	(37)	3,177	1,509	6	32	436	-
Total liabilities, deferred inflows and fund balances (deficits)	\$ 726	\$ 866	\$ 156,028	\$ 1,509	\$ 9	\$ 35	\$ 440	\$ -

(Continued)

State of Illinois
Department of Human Services

Combining Balance Sheet -
Non-major Governmental Funds

June 30, 2014 (Expressed in Thousands)

	<u>Special Revenue</u>	<u>Permanent</u>			
	Vending Facility Program for the Blind 1385	DHS/DORS Permanent Trust 1150	Burr Bequest 1272	Eliminations	Total
ASSETS					
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ 1,079
Cash deposited with State Treasurer	-	-	-	-	141,801
Cash and cash equivalents	237	144	69	-	5,950
Securities lending collateral equity with State Treasurer	-	-	-	-	13,124
Investments	-	270	945	-	2,098
Due from other government - federal	-	-	-	-	125,778
Due from other government - local	-	-	-	-	351
Taxes receivable, net	-	-	-	-	198
Other receivables, net	30	-	-	-	160,124
Loans and notes receivable, net	305	-	-	-	360
Due from other Department funds	-	-	-	(192)	10,325
Due from other State funds	-	-	-	-	4,381
Due from State of Illinois component units	-	-	-	-	298
Total assets	\$ 572	\$ 414	\$ 1,014	\$ (192)	\$ 465,867
LIABILITIES					
Accounts payable and accrued liabilities	\$ 40	\$ -	\$ -	\$ -	\$ 151,119
Due to other government - federal	-	-	-	-	1,717
Due to other government - local	-	-	-	-	9,686
Due to other State fiduciary funds	-	-	-	-	1,542
Due to other Department funds	-	163	-	(192)	7,721
Due to other State funds	-	-	-	-	6,984
Due to State of Illinois component units	-	-	-	-	4,709
Unearned revenue	-	-	-	-	21,576
Obligations under securities lending of State Treasurer	-	-	-	-	13,124
Total liabilities	40	163	-	(192)	218,178
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	-	-	-	-	147,051
Total Deferred Inflows of Resources	-	-	-	-	147,051
FUND BALANCES (DEFICITS)					
Nonspendable	-	217	945	-	1,162
Restricted	532	34	69	-	87,443
Committed	-	-	-	-	31,253
Unassigned	-	-	-	-	(19,220)
Total fund balances (deficits)	532	251	1,014	-	100,638
Total liabilities, deferred inflows and fund balances (deficits)	\$ 572	\$ 414	\$ 1,014	\$ (192)	\$ 465,867

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, 2014 (Expressed in Thousands)

	Special Revenue							
	Prevention and Treatment of Alcoholism and Substance Abuse Block Grant 0013	Group Home Loan Revolving 0025	Mental Health 0050	Vocational Rehabilitation 0081	Assistance to the Homeless 0100	Youth Alcoholism and Substance Abuse Prevention 0128	Mental Health Reporting 0148	Sexual Assault Services and Prevention 0158
REVENUES								
Federal operating grants, net of refunds	\$ 67,279	\$ -	\$ -	\$ 137,603	\$ -	\$ -	\$ -	\$ -
Licenses and fees, net of refunds	-	-	-	-	-	1,110	1,574	-
Interest and investment income	-	-	-	-	-	-	1	1
Other charges for services, net of refunds	-	-	27,754	272	-	-	-	400
Other operating grants	-	-	-	-	-	-	-	-
Other taxes	-	-	608	-	-	-	-	-
Other revenues	-	-	-	6,280	159	-	-	-
Total revenues	67,279	-	28,362	144,155	159	1,110	1,575	401
EXPENDITURES								
Health and social services	67,320	40	19,238	126,446	259	749	496	-
Debt service - principal	1	-	-	12	-	-	-	-
Debt service - interest	-	-	-	1	-	-	-	-
Capital outlays	-	-	3,337	548	-	-	-	-
Total expenditures	67,321	40	22,575	127,007	259	749	496	-
Excess (deficiency) of revenues over (under) expenditures	(42)	(40)	5,787	17,148	(100)	361	1,079	401
OTHER SOURCES (USES) OF FINANCIAL RESOURCES								
Appropriations from State resources	-	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	-
Transfers-in	-	38	-	1,577	-	-	-	-
Transfers-out	(38)	-	-	-	-	-	-	-
Transfer of administration of funds to other State agencies	-	-	-	-	-	-	-	-
Net other sources (uses) of financial resources	(38)	38	-	1,577	-	-	-	-
Net change in fund balances	(80)	(2)	5,787	18,725	(100)	361	1,079	401
Fund balances (deficits), July 1, 2013	-	101	12,654	(10,924)	380	852	-	-
FUND BALANCES (DEFICITS), JUNE 30, 2014	\$ (80)	\$ 99	\$ 18,441	\$ 7,801	\$ 280	\$ 1,213	\$ 1,079	\$ 401

(Continued)

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, 2014 (Expressed in Thousands)

	Special Revenue							
	Children's Wellness Charities 0178	Housing for Families 0181	Diabetes Research Check- off 0198	DHS Technology Initiative 0211	Autism Research Check-off 0228	Drunk and Drugged Driving Prevention 0276	Federal National Community Services 0343	Employment and Training 0347
REVENUES								
Federal operating grants, net of refunds	\$	-	-	-	1,950	-	-	523,582
Licenses and fees, net of refunds	-	-	-	-	-	1,998	-	-
Interest and investment income	-	-	-	5	-	-	-	-
Other charges for services, net of refunds	-	-	-	-	-	-	-	-
Other operating grants	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-
Other revenues	2	4	-	-	-	-	-	-
Total revenues	2	4	-	1,955	-	1,998	7,081	523,582
EXPENDITURES								
Health and social services	-	-	-	3,124	64	1,942	7,119	530,044
Debt service - principal	-	-	-	1	-	-	-	-
Debt service - interest	-	-	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-	-	-
Total expenditures	-	-	-	3,125	64	1,942	7,119	530,044
Excess (deficiency) of revenues over (under) expenditures	2	4	-	(1,170)	(64)	56	(38)	(6,462)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES								
Appropriations from State resources	-	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	-
Transfers-in	-	-	-	1,175	-	-	-	-
Transfers-out	-	-	-	-	-	(56)	-	-
Transfer of administration of funds to other State agencies	-	-	(111)	-	-	-	-	-
Net other sources (uses) of financial resources	-	-	(111)	1,175	-	(56)	-	-
Net change in fund balances	2	4	(111)	5	(64)	-	(38)	(6,462)
Fund balances (deficits), July 1, 2013	34	41	111	-	64	-	(160)	-
FUND BALANCES (DEFICITS), JUNE 30, 2014	\$ 36	\$ 45	\$ -	\$ 5	\$ -	\$ -	\$ (198)	\$ (6,462)

(Continued)

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, 2014 (Expressed in Thousands)

	Special Revenue							
	Drug Treatment 0368	Sexual Assault Services 0389	Gaining Early Awareness and Readiness for Undergraduate Programs 0394	DHS Special Purposes Trust 0408	Autism Awareness 0458	Old Age Survivors Insurance 0495	Early Intervention Services Revolving 0502	DHS Community Services 0509
REVENUES								
Federal operating grants, net of refunds	\$ -	\$ -	\$ 1,803	\$ 292,977	\$ -	\$ 73,752	\$ 70,245	\$ -
Licenses and fees, net of refunds	-	-	-	-	17	-	3,368	-
Interest and investment income	-	-	25	-	-	-	20	44
Other charges for services, net of refunds	3,740	71	-	-	-	-	-	-
Other operating grants	-	-	-	4,400	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-
Other revenues	-	-	-	-	-	-	502	-
Total revenues	3,740	71	1,828	297,377	17	73,752	74,135	44
EXPENDITURES								
Health and social services	3,412	105	1,780	246,118	-	73,752	157,523	14,149
Debt service - principal	-	-	-	5	-	-	-	-
Debt service - interest	-	-	-	-	-	-	-	-
Capital outlays	-	-	-	591	-	-	-	-
Total expenditures	3,412	105	1,780	246,714	-	73,752	157,523	14,149
Excess (deficiency) of revenues over (under) expenditures	328	(34)	48	50,663	17	-	(83,388)	(14,105)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES								
Appropriations from State resources	-	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	-
Transfers-in	-	-	-	-	-	-	71,692	8,950
Transfers-out	-	-	-	-	-	-	-	-
Transfer of administration of funds to other State agencies	-	-	-	-	-	-	-	-
Net other sources (uses) of financial resources	-	-	-	-	-	-	71,692	8,950
Net change in fund balances	328	(34)	48	50,663	17	-	(11,696)	(5,155)
Fund balances (deficits), July 1, 2013	1,713	78	(48)	3,227	27	-	(640)	11,430
FUND BALANCES (DEFICITS), JUNE 30, 2014	\$ 2,041	\$ 44	\$ -	\$ 53,890	\$ 44	\$ -	\$ (12,336)	\$ 6,275

(Continued)

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, 2014 (Expressed in Thousands)

	Special Revenue							
	Domestic Violence Abuser Services 0528	Juvenile Accountability Incentive Block Grant 0581	DHS Federal Projects 0592	Special Olympics Illinois 0623	DHS State Projects 0642	Alcoholism and Substance Abuse 0646	DHS Private Resources 0690	U.S.D.A. Women Infants and Children 0700
REVENUES								
Federal operating grants, net of refunds	\$ -	\$ 928	\$ 14,553	\$ -	\$ -	\$ 6,669	\$ -	\$ 228,698
Licenses and fees, net of refunds	-	-	-	15	-	-	-	-
Interest and investment income	-	8	-	-	-	-	-	1
Other charges for services, net of refunds	26	-	-	-	-	-	-	-
Other operating grants	-	-	-	-	-	206	-	-
Other taxes	-	-	-	-	-	-	-	-
Other revenues	-	-	62	-	-	-	338	-
Total revenues	26	936	14,615	15	-	6,875	338	228,699
EXPENDITURES								
Health and social services	-	936	14,608	16	-	6,870	338	215,990
Debt service - principal	-	-	-	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-	-	-
Capital outlays	-	-	21	-	-	-	-	154
Total expenditures	-	936	14,629	16	-	6,870	338	216,144
Excess (deficiency) of revenues over (under) expenditures	26	-	(14)	(1)	-	5	-	12,555
OTHER SOURCES (USES) OF FINANCIAL RESOURCES								
Appropriations from State resources	-	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	-
Transfers-in	-	-	-	-	-	-	-	-
Transfers-out	-	-	-	-	-	-	-	-
Transfer of administration of funds to other State agencies	-	-	-	-	-	-	-	-
Net other sources (uses) of financial resources	-	-	-	-	-	-	-	-
Net change in fund balances	26	-	(14)	(1)	-	5	-	12,555
Fund balances (deficits), July 1, 2013	65	-	-	6	-	(98)	-	-
FUND BALANCES (DEFICITS), JUNE 30, 2014	\$ 91	\$ -	\$ (14)	\$ 5	\$ -	\$ (93)	\$ -	\$ 12,555

(Continued)

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, 2014 (Expressed in Thousands)

	Special Revenue							
	Hunger Relief 0706	Tobacco Settlement Recovery 0733	Local Initiative 0762	Rehabilitation Services Elementary and Secondary Education Act 0798	Farmer's Market Technology Improvement 0864	Domestic Violence Shelter and Service 0865	Maternal and Child Health Services Block Grant 0872	
REVENUES								
Federal operating grants, net of refunds	\$ -	\$ -	\$ 25,179	\$ 427	\$ 10	\$ -	\$ 5,952	\$ 14,231
Licenses and fees, net of refunds	-	-	-	-	-	-	-	-
Interest and investment income	-	-	-	-	-	-	-	-
Other charges for services, net of refunds	-	-	-	-	-	22	-	-
Other operating grants	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-
Other revenues	3	-	-	218	-	615	-	-
Total revenues	3	-	25,179	645	10	637	5,952	14,231
EXPENDITURES								
Health and social services	68	1,390	19,601	561	10	597	5,363	14,231
Debt service - principal	-	-	1	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-	-	-
Capital outlays	-	-	-	44	-	-	-	-
Total expenditures	68	1,390	19,602	605	10	597	5,363	14,231
Excess (deficiency) of revenues over (under) expenditures	(65)	(1,390)	5,577	40	-	40	589	-
OTHER SOURCES (USES) OF FINANCIAL RESOURCES								
Appropriations from State resources	-	1,390	-	-	-	-	9,733	-
Lapsed appropriations	-	-	-	-	-	-	(3,948)	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	(9,025)	-
Transfers-in	-	-	-	-	-	-	-	-
Transfers-out	-	-	-	-	-	-	-	-
Transfer of administration of funds to other State agencies	-	-	-	-	-	-	-	-
Net other sources (uses) of financial resources	-	1,390	-	-	-	-	(3,240)	-
Net change in fund balances	(65)	-	5,577	40	-	40	(2,651)	-
Fund balances (deficits), July 1, 2013	65	-	-	567	-	1,028	3,234	-
FUND BALANCES (DEFICITS), JUNE 30, 2014	\$ -	\$ -	\$ 5,577	\$ 607	\$ -	\$ 1,068	\$ 583	\$ -

(Continued)

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, 2014 (Expressed in Thousands)

	Special Revenue							
	Youth Drug Abuse Prevention 0910	Juvenile Justice Trust 0911	DHS Recoveries Trust 0921	DHS Other Special Trusts 1139	DHS Commissary 1140	DHS Rehabilitation 1144	DHS/DORS Special Revenue 1149	Food Stamp and Commodity 1245
REVENUES								
Federal operating grants, net of refunds	\$ -	\$ 2,022	\$ -	\$ 258	\$ -	\$ -	\$ -	\$ 3,236,584
Licenses and fees, net of refunds	-	-	-	-	-	-	-	-
Interest and investment income	-	-	-	13	-	-	-	-
Other charges for services, net of refunds	404	-	9,606	-	43	-	-	-
Other operating grants	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-
Other revenues	-	-	-	318	-	241	282	-
Total revenues	404	2,022	9,606	589	43	241	282	3,236,584
EXPENDITURES								
Health and social services	240	2,071	2,304	734	38	248	343	3,236,584
Debt service - principal	-	-	-	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-	-	-
Total expenditures	240	2,071	2,304	734	38	248	343	3,236,584
Excess (deficiency) of revenues over (under) expenditures	164	(49)	7,302	(145)	5	(7)	(61)	-
OTHER SOURCES (USES) OF FINANCIAL RESOURCES								
Appropriations from State resources	-	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	-
Transfers-in	-	12	-	-	-	-	2	-
Transfers-out	-	-	(8,819)	(3)	(6)	-	-	-
Transfer of administration of funds to other State agencies	-	-	-	-	-	-	-	-
Net other sources (uses) of financial resources	-	12	(8,819)	(3)	(6)	-	2	-
Net change in fund balances	164	(37)	(1,517)	(148)	(1)	(7)	(59)	-
Fund balances (deficits), July 1, 2013	557	-	4,694	1,657	7	39	495	-
FUND BALANCES (DEFICITS), JUNE 30, 2014	\$ 721	\$ (37)	\$ 3,177	\$ 1,509	\$ 6	\$ 32	\$ 436	\$ -

(Continued)

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, 2014 (Expressed in Thousands)

	Special Revenue	Permanent			Total
	Vending Facility Program for the Blind 1385	DHS/DORS Permanent Trust 1150	Burr Bequest 1272	Eliminations	
REVENUES					
Federal operating grants, net of refunds	\$ -	\$ -	\$ -	\$ -	\$ 4,711,783
Licenses and fees, net of refunds	-	-	-	-	8,082
Interest and investment income	-	33	-	-	151
Other charges for services, net of refunds	108	-	-	-	42,446
Other operating grants	-	-	-	-	4,606
Other taxes	-	-	-	-	608
Other revenues	503	-	-	-	9,527
Total revenues	<u>611</u>	<u>33</u>	<u>-</u>	<u>-</u>	<u>4,777,203</u>
EXPENDITURES					
Health and social services	305	34	6	-	4,777,166
Debt service - principal	-	-	-	-	20
Debt service - interest	-	-	-	-	1
Capital outlays	-	-	-	-	4,695
Total expenditures	<u>305</u>	<u>34</u>	<u>6</u>	<u>-</u>	<u>4,781,882</u>
Excess (deficiency) of revenues over (under) expenditures	<u>306</u>	<u>(1)</u>	<u>(6)</u>	<u>-</u>	<u>(4,679)</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Appropriations from State resources	-	-	-	-	11,123
Lapsed appropriations	-	-	-	-	(3,948)
Receipts collected and transmitted to State Treasury	-	-	-	-	(9,025)
Transfers-in	-	3	-	(1,490)	81,959
Transfers-out	(272)	(2)	-	1,490	(7,706)
Transfer of administration of funds to other State agencies	-	-	-	-	(111)
Net other sources (uses) of financial resources	<u>(272)</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>72,292</u>
Net change in fund balances	<u>34</u>	<u>-</u>	<u>(6)</u>	<u>-</u>	<u>67,613</u>
Fund balances (deficits), July 1, 2013	498	251	1,020	-	33,025
FUND BALANCES (DEFICITS), JUNE 30, 2014	<u>\$ 532</u>	<u>\$ 251</u>	<u>\$ 1,014</u>	<u>\$ -</u>	<u>\$ 100,638</u>

State of Illinois
Department of Human Services

**Combining Statement of Fiduciary Net Position -
Agency Funds**

June 30, 2014 (Expressed in Thousands)

	<u>Agency</u>			<u>Total</u>
	<u>Electronic Benefits Transfers 0540</u>	<u>DHS Resident's Trust 1143</u>	<u>DHS/DORS Agency 1147</u>	
ASSETS				
Cash and cash equivalents	\$ -	\$ 1,529	\$ -	\$ 1,529
Investments	-	815	-	815
Due from other government - federal	-	54	-	54
Other receivables, net	-	-	1	1
Due from other Department funds	-	-	19	19
Total assets	<u>\$ -</u>	<u>\$ 2,398</u>	<u>\$ 20</u>	<u>\$ 2,418</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ -	-	\$ 20	\$ 20
Other liabilities	-	2,398	-	2,398
Total liabilities	<u>\$ -</u>	<u>\$ 2,398</u>	<u>\$ 20</u>	<u>\$ 2,418</u>

State of Illinois
Department of Human Services

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

For the Year Ended June 30, 2014 (Expressed in Thousands)

	Balance at July 1, 2013		Additions		Deletions		Balance at June 30, 2014	
Electronic Benefits Transfers (0540)								
ASSETS								
Cash equity with State Treasurer	\$	-	\$	206,364	\$	206,364	\$	-
Total assets	\$	-	\$	206,364	\$	206,364	\$	-
LIABILITIES								
Accounts payable and accrued liabilities	\$	-	\$	206,364	\$	206,364	\$	-
Total liabilities	\$	-	\$	206,364	\$	206,364	\$	-
DHS Resident's Trust (1143)								
ASSETS								
Cash and cash equivalents	\$	1,440	\$	15,607	\$	15,518	\$	1,529
Investments		830		-		15		815
Due from other government - federal		54		13,624		13,624		54
Other receivables, net		1		-		1		-
Total assets	\$	2,325	\$	29,231	\$	29,158	\$	2,398
LIABILITIES								
Due to other funds	\$	-	\$	1,118	\$	1,118	\$	-
Other liabilities		2,325		28,487		28,414		2,398
Total liabilities	\$	2,325	\$	29,605	\$	29,532	\$	2,398
DHS/DORS Agency (1147)								
ASSETS								
Cash and cash equivalents	\$	8	\$	221	\$	229	\$	-
Other receivables, net		1		1		1		1
Due from other Department funds		15		19		15		19
Total assets	\$	24	\$	241	\$	245	\$	20
LIABILITIES								
Accounts payable and accrued liabilities	\$	24	\$	225	\$	229	\$	20
Total liabilities	\$	24	\$	225	\$	229	\$	20
Total - All Agency Funds								
ASSETS								
Cash equity with State Treasurer	\$	-	\$	206,364	\$	206,364	\$	-
Cash and cash equivalents		1,448		15,828		15,747		1,529
Investments		830		-		15		815
Due from other government - federal		54		13,624		13,624		54
Other receivables, net		2		1		2		1
Due from other Department funds		15		19		15		19
Total assets	\$	2,349	\$	235,836	\$	235,767	\$	2,418
LIABILITIES								
Accounts payable and accrued liabilities	\$	24	\$	206,589	\$	206,593	\$	20
Due to Other Funds		-		1,118		1,118		-
Other liabilities		2,325		28,487		28,414		2,398
Total liabilities	\$	2,349	\$	236,194	\$	236,125	\$	2,418



**Independent Auditor's 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, 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, 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, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State of Illinois, Department of Human Services' basic financial statements, and have issued our report thereon dated January 28, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Illinois, Department of Human Services' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Department of Human Services' internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Department of Human Services' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control 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 and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as items 2014-001 through 2014-004 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings as items 2014-005 through 2014-007 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Department of Human Services' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2014-003 and 2014-004.

The State of Illinois, Department of Human Services' Response to Findings

The State of Illinois, Department of Human Services' responses to the findings identified in our audit are described in the accompanying schedule of findings. The State of Illinois, Department of Human Services' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Illinois, Department of Human Services' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Department of Human Services' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Schaumburg, Illinois
January 28, 2015

**State of Illinois
Department of Human Services**

Schedule of Findings

Current Findings – Government Auditing Standards

2014-001 FINDING (Grant Related Account Balances Not Reported in Accordance With GAAP)

The Department of Human Services (Department) does not have adequate controls over the reporting of year-end balances related to its various federal grant programs resulting in material audit adjustments to the draft financial statements.

In testing amounts reported in the GAAP Packages and Comptroller accounting Forms (SCO 563 Forms) for federal grant receivables, payables and unearned revenue, we found that the process for reporting grants and related accruals for financial reporting was inadequate. During our testing of the year-end accruals reported on the SCO 563 Forms, we noted the accruals appeared unreasonable when analyzed at the overall Department level. As a result of additional testing, we found that the Department utilized a flawed methodology for the allocation of expenditures and calculating grant accruals. This was noted in 23 grants tested, resulting in gross adjustments totaling \$296 million, with fund balance in the General Fund increasing by \$97.3 million and fund balance in the nonmajor governmental funds increasing by \$84.1 million, as a result of net adjustments made.

The Department may report receipts and disbursements for a single grant program in 2 or more funds. This occurred for 29 different grants reported by the Department. Grant receipts are also not always deposited in the funds from which the corresponding claimed expenditures are spent. As a result, in order to report activity by fund for financial reporting purposes, the Department's Fiscal Services Division utilized a methodology for allocation of expenditures and computing year-end accruals. The methodology was found to be flawed and was not provided to the federal reporting unit for review for reasonableness and substantiation. The major contributing factor to the flawed methodology was that it included grant related expenditures that were not actually utilized for federal claiming. This resulted in a key element of the calculation being misstated. Some of these expenditures included refunds, court of claims payments, payroll variances, etc. This over/under reporting of federal cash basis expenditures in the calculation caused the ending accounts receivable (unearned revenue) to be materially misstated.

We also noted the following additional grant related errors and omissions:

- The November 2013 Consolidated Accounting and Reporting System (CARS) reconciliation of federal grant receipts was missing. The auditors were informed that the employee that completed the reconciliation is no longer employed at the Department so it is unlikely the reconciliation will be located.
- The Department did not draw the monthly maximum allowed under the Cash Management Improvement Act Agreement with the U.S. Department of the Treasury (TSA agreement) for the Supplemental Nutrition Assistance Program (SNAP). The Department's draws amounted to \$2 million bimonthly for a total of \$48 million for the year. When the Department reconciled expenditures to draw amounts at the end of the fiscal year, a final draw of approximately \$59 million was effectuated for the expenditures that were incurred throughout the year. According to the TSA agreement "The State shall request funds that they are deposited in a State account on the average clearance date of payroll. The request shall be made in accordance with the appropriate Federal agency cut-off time specified in Exhibit I. The amount of the request shall be a pro-rated share of the lesser of (1) the annual grant divided by 24, or (2) the total amount of Federal funds expected to be paid out for program purposes during the year divided by 24. This funding technique is interest neutral." According to the Department, they do not know until after

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the fact how much time and expense have been incurred towards SNAP, and therefore cannot receive reimbursement for the items until the end of the year.

- The Department received \$17.2 million every third month for the Department of Children and Family Services (DCFS), totaling \$68.8 million for the year. The agreement provided to the auditors did not contain any information on the amount of the payments under the agreement, or the frequency of the payments. The Department stated that the amount paid was based on 305 ILCS 5/12-5 which states “Eighty percent of the federal financial participation funds received by the Illinois Department under the Title IV-A Emergency Assistance program as reimbursement for expenditures made from the Illinois Department of Children and Family Services appropriations for the costs of providing services on behalf of Department of Children and Family Services clients shall be deposited into the DCFS Children's Services Fund.” However the Department was not able to provide an analysis or reconciliation to indicate the amount paid complied with the language in the statute.

GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, requires that recipients in government mandated and voluntary nonexchange transactions record receivables and revenues when all eligibility requirements have been met (revenue recognition is subject to availability in governmental funds). The Department’s federal grants are predominantly reimbursement type grants wherein eligibility requirements are fulfilled upon incurring qualified expenditures.

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, 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.

The grant errors were caused by lack of communication between the Bureau of Federal Reporting of the Department, which maintains records of the allowable and claimed expenditures, and the Bureau of General Accounting of the Department, which is responsible for preparing the financial statements.

The current process for year-end grant accounting resulted in misstatements to the financial statements. (Finding Code No. 2014-001)

RECOMMENDATION:

We recommend the Department implement a process for ensuring amounts reported for all grants are accurate and that controls are in place to ensure knowledgeable individuals in the Bureau of Federal Reporting validate the amounts calculated by the Bureau of General Accounting and reported for receipts, expenditures and accruals for these grants. Additionally, the Department should implement a filing system so that all monthly federal grant receipt reconciliations that are performed and reviewed are kept in a secure location. Also, the Department should draw the maximum amount allowed for its SNAP program on a bi-monthly basis. Further, the Department should enter into a new updated agreement with DCFS which contains all the key elements pertaining to the agreement between the two State agencies and which complies with the statute.

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DEPARTMENT RESPONSE:

The Department agrees with the recommendation. The Department has implemented a new GAAP process for the SCO-563 grant reporting. The Department will continue to analyze and improve the process and will work with the Bureau of Federal Reporting to ensure accurate reporting of the grants in the GAAP packages.

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2014-002 FINDING (The Allowance for Doubtful Accounts was Overstated)

The Department of Human Services (Department) overstated the allowance for doubtful accounts and did not utilize all information available when establishing the allowance in FY 2014.

The DHS Recoveries Trust Fund accounts for approximately \$462 million in receivables (gross) for overpayments to program recipients for things such as food stamps and grants. The Department initially recorded an allowance for doubtful accounts for these receivables of approximately \$430 million, resulting in a net receivable of \$32 million. The Department calculated the allowance amount by dividing the FY 2014 collections amount by the receivable balance at June 30, resulting in a collection rate of 7%. The remaining 93% was considered uncollectable, which was applied to the gross receivable balance at June 30, 2014 to estimate the \$430 million allowance amount. Information obtained by the auditors of collections information dating back to 1986 indicated an average collection rate of 32.37%. The Department did not have a control in place to annually assess all information available when determining the allowance.

In discussing the actual collection rate with the Department, they determined a revision to their estimate of the collection methodology was necessary. The revised calculation prepared by the Department considered a ten-year-average collection period and the allowance was recorded at 68.75% or \$317.5 million. The analysis and resulting revised uncollectable amount was deemed reasonable by the auditors.

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, “after a nonexchange transaction has been recognized in the financial statements, it may become apparent that (a) the eligibility requirements are no longer met (the transaction was recognized as a government-mandated or voluntary nonexchange transaction) or (b) the recipient will not comply with the purpose restrictions within the specified time limit. In these circumstances, if it is probable that the provider will not provide the resources or will require the recipient to return all or part of the resources already received, the recipient should recognize a decrease in assets (or an increase in liabilities) and an expense, and the provider should recognize a decrease in liabilities (or an increase in assets) and a revenue, for the amount that the provider is expected to cancel or reclaim.” The Department is the provider of resources for these transactions and thus should record an increase in assets (receivable) for the amount that the Department is expected to reclaim.

According to generally accepted accounting principles (GAAP), the allowance for uncollectable accounts should represent management’s best estimate of the amount of receivables that will not be collected. The allowance for doubtful accounts is a significant estimate that requires proper analysis and evaluation of past and current events as well as the assumptions used. Typically, organizations will perform a retrospective review to determine if the methodology used in developing the estimate compares to the actual results achieved in a subsequent period.

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, 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.

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The Department stated that the prior method of estimating the allowance had not been updated for the past four years and was based on one year of collection activity. The Department did not consider the entire collection activity in error.

The collection efforts from prior years were not accounted for by the Department due to utilizing only the current year's collection activity. As a result, the initial allowance for doubtful accounts was overstated by approximately \$112 million. The Department recorded an adjustment for this amount in the final financial statements. (Finding Code No. 2014-002)

RECOMMENDATION:

We recommend the Department analyze all available collection data annually and adjust the methodology for calculating the allowance for doubtful accounts as necessary.

DEPARTMENT RESPONSE :

The Department has developed a new methodology for calculating the allowance for doubtful accounts. The Department will analyze all collection data annually and recalculate the allowance for doubtful accounts.

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Department of Human Services

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2014-003 FINDING (Weaknesses in preparation of GAAP reporting forms submitted to the Illinois Office of the Comptroller and preparation of year-end Department financial statements)

The Department of Human Services' (Department's) year-end financial reporting in accordance with generally accepted accounting principles (GAAP) to the Illinois Office of the Comptroller (Comptroller) contained inaccuracies and errors which resulted in changes being made to originally submitted information.

The Department does not have an adequate general ledger or adequate controls over year-end financial reporting which resulted in significant errors in the GAAP basis draft financial statements, GAAP schedules prepared for the State Comptroller's Office, and additional supporting schedules and analysis.

The Department did not timely record all expenditures and receipts into CARS.

- This included payroll transactions totaling \$204 million through June 30 and \$55 million for the lapse period (July and August 2014). The Department generally relied on inquiries from the Comptroller's Statewide Accounting Management System (SAMS) for payroll expenditure data. The Department determined they could not efficiently rely on their own internal accounting records for payroll information.
- When reviewing the expenditure reconciliations from the Department's accounting system, CARS (Consolidated Accounting and Reporting System), to the Comptroller's accounting system at June 30, 2014, the auditors noted the General Revenue Fund (Fund 001) had significant reconciling items. For Fund 001, expenditures processed by another State agency through the Medicaid Management Information System (MMIS) totaling \$16.517 million were not posted in CARS.

We also noted the following issues with the year-end financial reporting process:

- The Department does not have a robust documented process for estimating liabilities payable from future year's appropriations (future liabilities) for certain transaction types. Some of these amounts are estimated by the Budget Office for purposes of funding, not for financial reporting. The future liability for certain transactions such as case services to individuals in the Vocational Rehab Fund (Fund 081) and the Division of Alcoholism and Substance Abuse (DASA) medical services in the General Revenue Fund (Fund 001) are based only on payments made during the year for prior year post-lapse period amounts. In other words, the future liability recorded at June 30, 2014 represents actual payments for FY 2013 services that were paid between September 2013 and June 2014. In auditing the amount recorded in Fund 001 for DASA, \$220 thousand was accrued; however, through the date of our procedure (10/22/14) \$600 thousand had already been paid indicating the estimated liability was understated. Also, the future liability for child care services is estimated by the Budget Office as the unused appropriation for the year multiplied by a 1.66 multiplier. This methodology could not be supported by the Agency.
- The Department does not have a process to ensure that indirect costs and the related reimbursements are captured and recorded in the proper period. An example is the Vocational Rehabilitation reimbursements for indirect costs recorded as revenue in FY 2014 (\$7 million) included reimbursement for indirect costs incurred during State fiscal years 2013 and 2014.

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- In FY 2013 the Department overstated operating transfers out from the General Revenue Fund (Fund 001) to the DHS Public Assistance Recoveries Trust Fund (Fund 921) by \$11.655 million. The Illinois Public Aid Code (Code) (305 ILCS 5/12-9.1) required the Department to calculate and certify excess monies in Fund 921 on the first day of each calendar quarter and transfer those monies to Fund 001 within 30 days. The Department recorded liabilities for these transfers as far back as fiscal year 2007 but never transferred the funds. A statutory change to the Code was effective June 19, 2013 and no longer requires the transfer. However, the statutory change should have been implemented on a prospective basis beginning with the effective date. The physical transfer of the funds has still not been made.
- The Department does not perform a supervisory review of all amounts recorded in its GAAP Packages and financial statements.
 - During the testing of federal grant expenditures, the auditors determined that the Department is not reviewing the payments submitted by the Department of Healthcare and Family Services (HFS). When HFS submits a request for payment to the Comptroller, a summary file is also sent to the Department which goes through an interface and is recorded into CARS (the Department's accounting system). An employee in Fiscal Services reconciles the payments between CARS and the Comptroller's office before accepting them into CARS. However, nobody within the Department is reviewing the detailed reports that the providers submit to HFS requesting payment, which are the support for the transactions recorded in CARS. The auditors went to HFS in order to review multiple expenditures that were selected for testing. Although HFS is a separate State agency, certain activities and balances are recorded within the Department's financial statements. Currently, the Department receives summarized information from HFS and records the transactions into CARS and the GAAP packages without reviewing the information. In addition, those charged with financial reporting at the Department do not have a full understanding of the information provided by HFS sufficient to identify amounts that might be inaccurate.
 - The Department recorded a balance for compensated absences payable in its financial statements (\$69 million as of June 30, 2014) based on a summarized report obtained from the payroll system ("timekeeping system"). In order to obtain the detail necessary to perform testing over the balance of accrued sick and vacation, the IT department had to be notified to run a special report. The detail was never obtained and reviewed by those responsible for financial reporting.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system of internal fiscal controls to 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 reliable financial reports.

A key contributor to the number of errors, system inefficiencies and lack of adequate system reports is the Department's accounting system CARS. CARS is not a complete general ledger and only accounts for cash basis items, generally cash receipts, cash disbursements (other than payroll) and cash balances. Receivables, payables and capital assets are not reported in CARS. Payroll expenditures are added to CARS using manual entries. Additionally, there is not a comprehensive chart of accounts for all programs

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that is consistently utilized by all programs and departments. This makes extracting data from the system complex and time consuming.

The Comptroller's office requires the State agencies to prepare GAAP Reporting Packages for each of their funds to assist in the annual preparation of the Statewide financial statements. GAAP Reporting Package instructions are specified in the Comptroller's Statewide Accounting Management System (SAMS) Manual, Chapter 27. The Comptroller's office sets due dates for the financial information to be submitted in order for the Statewide financial statements to be prepared and audited within a specified timeline to provide users of these statements information in a timely manner. Six GAAP packages were submitted to the IOC from 1 to 4 days late, including some of the Department's largest funds.

Under the current process, if not detected and corrected by the auditors, errors could occur which would materially misstate the Department's financial statements and negatively impact the Statewide financial statements. Accurate and timely statements of the Department's financial information for GAAP reporting purposes is important due to the complexity of the Department and the impact adjustments have on the Statewide financial statements. (Finding Code Nos. 2014-003, 2013-001, 12-1, 11-1, 10-1 and 09-1)

RECOMMENDATION:

We recommend management perform a thorough assessment of the year-end financial reporting process and determine the significant estimates that need to be re-evaluated. Also, the Department should work with management of HFS to gain a better understanding of the amounts reported in the Department's financial statements. Further, the Department should establish a process whereby all financial information included in the Department's financial statements is reviewed by supervisory level employees with a good understanding of governmental GAAP, including amounts pertaining to activities and balances at HFS. In addition, the Department should maintain support for all transactions and balances reported in its financial statements.

DEPARTMENT RESPONSE:

The Department agrees with the recommendation. The Department will perform a thorough assessment of the year-end financial reporting process and continue to make improvements to ensure accurate and timely preparation of GAAP reporting forms and year-end financial statements.

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2014-004 FINDING (Weaknesses over Quarterly Reporting of Accounts Receivable)

The Department of Human Services' (Department's) accounts receivable reporting system is cumbersome, relies on numerous subsystems, and requires manual entries.

The Office of the State Comptroller's (Comptroller) Statewide Accounting Management System (SAMS) (Procedure 26.30.10) and the Illinois State Collection Act of 1986 (30 ILCS 210 et seq.) requires agencies to file quarterly accounts receivable information with the Comptroller. This is accomplished by completing a Quarterly Summary of Accounts Receivable – Accounts Receivable Activity report (Form C-97) and Aging of Total Gross Receivables (Form C-98), which are prepared and submitted to the Comptroller each quarter.

During testing of the quarterly receivable forms, the auditors noted the reports were manually compiled from multiple accounts receivable systems in order to issue a single report. The compilation is complex and cumbersome and, as a result, there is a potential for errors in reporting. The current process takes several hours to complete over a period of several weeks. The Department's current primary accounts receivable system is the Accounts Receivable System (ARS) and the secondary systems are the Consolidated Accounting and Reporting System (CARS) and the Reimbursement System II (RE2). The systems need to be updated to handle the quantity of transactions processed by the Department.

The Department submitted C-98 forms to the Comptroller that contained differences that could not be reconciled for the first two quarters of FY 2014. For example, for the Mental Health Fund (Fund 0050), receivable balances for each quarter consist of balances from CARS, RE2, plus entries for Medicare Part D. The Department does not maintain a detailed accounts receivable subsidiary ledger to support the ending Fund 0050 quarterly balances. Rather, the Department generally takes the beginning quarterly receivable balance, adds new receivables and deletes payments to derive an ending quarterly balance. Auditors reviewed the supporting documentation for these receivables but were unable to reconcile the amounts to the totals reported for the quarter end. For fiscal year 2014, differences ranged from \$5 million to \$10 million at the end of quarters one and two. Auditors also noted there were C-98 forms generated for funds that do not report receivables. Department personnel indicated that CARS will populate receivable amounts for funds that actually do not have receivables. According to Department personnel, these amounts are populated in error and must be zeroed out manually.

In response to this prior finding, the Department has developed formal written policies and procedures to document its existing system and cross-trained other workers on preparing the required reports. It appears there is a methodology for accumulating quarterly accounts receivable information, but limitations in current systems make it cumbersome and difficult to support.

Due to the size of the Department and the balance of accounts receivable (approximately \$516.5 million), the current process for compiling the data does not efficiently or effectively integrate automation of its accounts receivable activity into the Department's financial accounting system, CARS, and makes it difficult to prepare an accurate aging of the Department's accounts receivable. Other inefficiencies are caused by disparate systems that do not communicate with each other.

Failure to maintain a centralized and automated accounts receivable system could hinder the Department's ability to timely and accurately report accounts receivable balances. The current process also increases the possibility there are unrecorded accounts receivable, interest or double counted amounts. (Finding Code Nos. 2014-004, 2013-002, 12-4, 11-5, 09-24 and 07-16)

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RECOMMENDATION:

We recommend the Department implement a Department-wide accounts receivable system, working with the appropriate parties regarding any possible State-wide consolidated accounting system initiatives.

DEPARTMENT RESPONSE:

The Department agrees with the recommendation. The State of Illinois has received competitive proposals related to the acquisition of Entity Resource Planning (ERP) System. The system will replace several major legacy systems. The systems replaced would include a General Ledger, Accounts Payable, Accounts Receivable, Grants Managements, Payroll and Fixed Assets.

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2014-005 FINDING (Child Care Program Issues)

The Department of Human Services (Department) implemented the new Child Care Management System (CCMS) in January 2014, despite known glitches and system issues and without executive management team approval, resulting in several implementation issues including service disruptions.

On January 14, 2014, the Department began using a new electronic CCMS to support the Child Care Assistance Program (CCAP). The system was implemented to streamline several processes and move towards a paperless system. Some of the features include online submission of applications and other forms. The new CCMS system is currently used by Child Care Resources and Referral (CCR&R) agencies throughout the State for eligibility determinations, notification of approvals, denials, and other related information. The Department has faced significant delays in eligibility determinations and payment processing as a result of the new web-based system.

The rollout of the program resulted in casework processing delays which also delayed payment to the childcare providers in the program. To increase the speed of payments to providers, the Department instituted auto renewals for program participants in order to alleviate the backlog of eligibility determinations and the resulting payment backlog. In effect, case information from the previous eligibility period carried over into the new eligibility period. Cases that were re-determined through this processing shortcut were not reviewed. This process has continued at some level through December 2014. Management stated that the federal government was aware of this process change.

As a result of the known system issues, the auditors requested a reconciliation from the Department's Child Care Tracking System (CCTS) which uses eligibility and other information from CCMS to authorize payments to providers, to the Department's CARS system, which is the accounting record (general ledger) for provider and other payments. The Department was able to reconcile the two systems within a reasonable amount; however, the following additional issue was discovered:

- Certain payments in CARS differed from the authorized payment in the CCMS pertaining to union adjustments. The amounts paid (CARS) were the proper amounts. As of June 30, 2014, there were 6,010 affected adjustments totaling approximately \$110 thousand. The Department stated this was due to the following human error: "During the CCMS nightly cycle on November 12, 2013, an error occurred requiring support staff to back out and re-run a subset of the cycle. The cycle was backed out but not restarted at the proper step."

Additionally, during our audit of payments to a sample of child care providers, we discovered that payments were made to providers based on eligible days of care provided, not actual days of care provided. A total of 7,824 payments were incorrect resulting in total overpayments of \$226 thousand with an average overpayment of \$28.87 per disbursement.

Generally accepted information technology (IT) guidance endorses the implementation of system development standards that require new systems be properly approved, thoroughly tested and consistently documented. The standards require that systems have adequate written policies and procedures, adequate system written documentation, and adequate input, processing, and output controls. IT general and application controls are necessary to preserve the integrity of the system, to provide reliance on the results produced by the system, and to ensure the processing of transactions and information is performed in accordance with laws and regulations, including those pertaining to confidential information, and with management's design and intent.

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The Department does not have a formal process for vetting information systems prior to their implementation to determine if the risks of implementation were mitigated to a level acceptable by the Department. The Department is in the process of developing a formal executive management team review and approval process prior to implementing any new systems.

Placing the CCMS online before it was properly vetted resulted in delayed payments to providers and circumvention of the existing eligibility determination process. Furthermore, little assurance could be obtained that other system controls are operating as designed, including security controls. (Finding Code No. 2014-005)

RECOMMENDATION:

We recommend that testing on the CCAP/CCMS continue with documentation maintained of the testing performed, the results of the testing and any enhancements made to the system as a result. Known errors, such as the payments to providers based on eligible days and issues with union adjustments, should be fixed immediately. We further recommend that the Department perform regular reconciliations between the approved payments per the CCMS and actual payments per CARS, and investigate any differences.

DEPARTMENT RESPONSE:

The Department agrees with the recommendation. MIS is developing a formalized process through a documented governance process to ensure such implementation do not occur in the future. This system will be presented for Executive-level approval during the first quarter of calendar year 2015 and implemented based on that approval.

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2014-006 FINDING (Commodity Inventory System Outdated and Insufficient for User Needs)

The Department of Human Services' (Department's) 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 \$5.538 million at June 30, 2014.

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.

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. Depending on the last business day of the fiscal year in relation to last weekly report, auditors may have to reconcile test counts to a report that is up to one week old.

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

The CCS is an outdated batch system and does not allow the Department the ability to print current inventory reports on demand and does not adhere to generally accepted accounting principles.

An outdated computer inventory system may result in over-purchasing, waste, obsolescence, theft, loss, or unauthorized use of State assets. 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. (Finding Code Nos. 2014-006, 2013-003, 12-6, 11-3, 10-3, 09-3, 08-4, 07-13 and 05-17)

RECOMMENDATION:

We recommend the Department upgrade the CCS or implement a new system that includes real-time capabilities. This would allow the Department to access current inventory levels so all inventory unit costs are properly recorded.

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DEPARTMENT RESPONSE:

The Department agrees with the recommendation. The State of Illinois has received competitive proposals related to the acquisition of Entity Resource Planning (ERP) System. The system will replace several major legacy systems. The systems replaced would include a General Ledger, Accounts Payable, Accounts Receivable, Grants Managements, Payroll and Fixed Assets.

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2014-007 FINDING (Inadequate controls over capital asset financial reporting)

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

During testing of the capital asset reporting system, several accounts on the GAAP Package Form *Capital Asset Summary* (SCO-538) could not be traced to the detailed inventory records. The Department knew the beginning and ending balance because they had reports that generated the year-end balances. However, in several instances activity for the year was "netted" and recorded as a deletion, when there may have been transfers. The Department has reports that calculate depreciation expense monthly or quarterly.

The Department currently uses three systems, the Equipment Inventory System (EIS), Warehouse Control System (WCS), and Real Property System (RPS) for capital assets. The compilation is complex and cumbersome and, as a result, there is a potential for errors in reporting. The current process takes several hours to complete. Since the differences between "netted" and "gross" totals are significant, additions, deletions, and transfers during the year should be supported and reported separately.

Auditors noted the Department's detailed capital asset inventory did not match various amounts reported on the SCO-538 Form. The differences were mainly due to fourth quarter transactions reported to the Department by the Capital Development Board (CBD) which were not entered into the detailed capital asset inventory provided to the auditors. These items were maintained only as reconciling items between the detailed inventory and the SCO 538 forms which support amounts reported in the financial statements.

The following inconsistencies were noted:

- Building and building improvements – additions of \$3.397 million, deletions of \$34.170 million, net transfers of \$15.548 million, accumulated depreciation additions of \$10.407 million, accumulated depreciation deletions of \$25.627 million, and ending balance of \$534.363 million did not agree to the detailed capital asset inventory. The differences ranged from \$60 thousand to \$1.819 million.
- Equipment – deletions of \$2.307 million and ending balance of \$31.816 million did not agree to the detailed capital asset inventory. The differences ranged from \$333 thousand to \$660 thousand. Also, accumulated depreciation additions of \$1.259 million, accumulated depreciation deletions of \$1.730 million, and accumulated depreciation net transfers of \$227 thousand were not supported.
- Capital Leases – Equipment – additions of \$920 thousand, deletions of \$294 thousand, accumulated depreciation additions of \$1.017 million, and accumulated depreciation deletions of \$293 thousand were not supported. Additionally, the addition amount did not agree to amounts reported in the draft notes to the financial statements (capital lease additions).
- Internally generated intangible assets in development – There was no support for the ending balance of \$14.547 million.

In the response to the finding in FY 2013, the Department stated it would review and enhance, as necessary, its current system of gathering capital asset information to improve the accuracy and timeliness of its capital asset records and devote necessary personnel to those tasks. Department personnel initially indicated they purchased a software package to streamline the reporting process; with an estimated

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implementation date set for the end of fiscal year 2014. However, as of December 2014, the new software has not yet been implemented. This new system will not replace the current systems but will run concurrently and be utilized for reporting purposes.

The Fiscal Control and Internal Auditing 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.

The Department's reporting systems generate quarterly and monthly amounts but not annual amounts. As a result, it is cumbersome to accumulate all reports for the yearly amounts. Additionally, summary reports are not supported by detailed reports to assist in reconciling capital asset transactions.

An important element of internal control is the accurate review, reconciliation, and reporting of accounting data. In addition, the Comptroller's SAMS Manual (Procedure 27.20.38) requires a State agency to report capital assets and related accumulated depreciation. (Finding Code Nos. 2014-007, 2013-004, 12-7, 11-4, 10-4, 09-4, 08-5 and 07-5)

RECOMMENDATION:

We recommend the Department review and revise, as necessary, its current system of gathering capital asset information to improve the accuracy and timeliness of its capital asset records and devote necessary personnel to these tasks. Additionally, the Department should implement the new software it obtained.

DEPARTMENT RESPONSE:

The Department agrees with the recommendation. The Department will review the current system of gathering capital asset information to improve the accuracy and timeliness of its capital asset records and devote necessary personnel to these tasks. The Department will work on implementing the new software to assist with the capital asset reporting.