

**STATE OF ILLINOIS
DEPARTMENT OF
CENTRAL MANAGEMENT SERVICES**

FINANCIAL AUDIT

For the Year Ended June 30, 2009

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

**STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

FINANCIAL AUDIT

For the Year Ended June 30, 2009

TABLE OF CONTENTS

	<u>PAGE</u>
AGENCY OFFICIALS	1
FINANCIAL STATEMENT REPORT	
Summary	2
Independent Auditor's Report.....	4
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	6
Statement of Activities	7
Governmental Funds Financial Statements	
Balance Sheet.....	8
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets.....	9
Statement of Revenues, Expenditures and Changes in Fund Balances	10
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities.....	11
Proprietary Fund Financial Statements	
Statement of Net Assets.....	12
Statement of Revenues, Expenses and Changes in Fund Net Assets	13
Statement of Cash Flows	14

**STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

FINANCIAL AUDIT

For the Year Ended June 30, 2009

TABLE OF CONTENTS (continued)

	<u>PAGE</u>
Fiduciary Funds Financial Statements	
Statement of Fiduciary Net Assets.....	15
Statement of Changes in Fiduciary Net Assets.....	16
Notes to Financial Statements.....	17
Combining and Individual Fund Financial Statements	
Non-major Governmental Funds	
Combining Balance Sheet.....	37
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	38
Internal Service Funds	
Combining Statement of Net Assets	39
Combining Statement of Revenues, Expenses, and Changes in Net Assets	40
Combining Statement of Cash Flows	41
Agency Funds	
Combining Statement of Fiduciary Net Assets.....	43
Combining Statement of Changes in Assets and Liabilities.....	44
Independent Accountant’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.....	45
Schedule of Findings.....	47
Prior Findings Not Repeated.....	58

**STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

AGENCY OFFICIALS

Director	Mr. James Sledge (Effective August 25, 2008)
	Ms. Maureen O'Donnell (Acting, effective through August 24, 2008)
Assistant Director	Ms. Christine Cegelis (Effective June 23, 2009)
	Mr. Steve McCurdy (Effective June 24, 2009)
	Mr. Mathew Beaudet (Effective through June 22, 2009)
Chief Operating Officer	Ms. Elizabeth Nicholson (Effective August 25, 2008)
	Ms. Marcia Armstrong (Effective through August 25, 2008)
Chief Fiscal Officer	Mr. Paul Romiti
General Counsel	Ms. Debra Matlock
Chief Internal Auditor (Illinois Office of Internal Audit)	Ms. Carol Kraus

AGENCY OFFICE LOCATION

Stratton Office Building
401 South Spring Street
Springfield, IL 62706

**STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

FINANCIAL STATEMENT REPORT SUMMARY

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Department of Central Management Services as of June 30, 2009 and for the year then ended, was performed by Sikich LLP as Special Assistant Auditors to the Auditor General, State of Illinois.

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

SUMMARY OF FINDINGS

The auditors identified matters involving the Department's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings on pages 47-57 of this report, as findings 09-1 through 09-5, summarized as follows:

- 09-1 Weaknesses in internal control over financial reporting
- 09-2 Excess retained earnings balances representing noncompliance with federal regulations
- 09-3 Reporting of costs not in accordance with federal regulations
- 09-4 Inadequate security and control over the midrange environment
- 09-5 Incomplete and inaccurate records over computer systems and equipment

The auditors also consider findings 09-1 and 09-3 to be material weaknesses.

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on March 16, 2010. Attending were:

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

James P. Sledge, Director
Paul Romiti, Chief Fiscal Officer
Nadine Lacombe, Legal
Debbie Abbott, Acting Chief Internal Auditor
Tammy Compton, Fiscal
Phillina King, BEP
John Donato, BOSSAP
Rich Fetter, BCCS
Nick Kanellopoulos, BOPM
David Boyd, Audit Liaison

OFFICE OF THE AUDITOR GENERAL

Terri Davis, Audit Manager
Kathy Lovejoy, Audit Manager

SIKICH LLP

Gary Neubauer, Partner
Justin Miller, Supervisor

The responses to the recommendations were provided by Paul Romiti on March 25, 2010.



INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Central Management Services, as of and for the year ended June 30, 2009, which collectively comprise the Department of Central Management Services' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Illinois, Department of Central Management Services' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 2, the financial statements of the State of Illinois, Department of Central Management Services are intended to present the financial position and changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the State of Illinois, Department of Central Management Services. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2009, and its changes in financial position including cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Central Management Services, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable,

thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 25, 2010 on our consideration of the State of Illinois, Department of Central Management Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

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

Sikich LLP

Springfield, Illinois
March 25, 2010

State of Illinois
Department of Central Management Services

Statement of Net Assets

June 30, 2009 (Expressed in Thousands)

	Governmental Activities
ASSETS	
Unexpended appropriations	\$ 2,647
Cash equity with State Treasurer	38,137
Cash and cash equivalents	3,670
Receivables, net:	
Intergovernmental	1,092
Other	7,182
Due from Department fiduciary funds	10
Due from other State funds	220,224
Due from State of Illinois component units	1,554
Inventories	1,570
Capital assets not being depreciated	38,411
Capital assets being depreciated, net	245,806
Total assets	560,303
LIABILITIES	
Accounts payable and accrued liabilities	95,393
Intergovernmental payables	17,622
Due to other State fiduciary funds	1,311
Due to other State funds	918
Due to State of Illinois component units	1,547
Unearned revenue	380
Long term obligations:	
Due within one year	118,805
Due subsequent to one year	340,329
Total liabilities	576,305
NET ASSETS	
Invested in capital assets, net of related debt	239,166
Restricted for debt services	3,670
Unrestricted (deficit)	(258,838)
Total net assets	\$ (16,002)

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

State of Illinois
Department of Central Management Services
Statement of Activities

For the Year Ended June 30, 2009 (Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expense) Revenues and Changes in Net Assets Governmental Activities
Primary government			
Governmental activities			
General government	\$ 854,475	\$ 764,124	\$ (90,351)
Education	1,739	-	(1,739)
Employment and economic development	216	-	(216)
Health and social services	1,789	-	(1,789)
Transportation	1,187	-	(1,187)
Public protection and justice	1,980	-	(1,980)
Environment and business regulation	381	-	(381)
Total governmental activities	<u>861,767</u>	<u>764,124</u>	<u>(97,643)</u>

General revenues

Appropriations from State Resources	84,638
Lapsed appropriations	(9,633)
Receipts collected and transmitted to State Treasury	(93)
Interest and investment income	1,357
Other revenues	1,718
Capital transfers to other State agencies	(582)
Capital contributions	7,211
Transfers-out	(8,105)
Total general revenues and transfers	<u>76,511</u>
Change in net assets	(21,132)
Net assets, July 1, 2008, as restated	5,130
Net assets, June 30, 2009	<u>\$ (16,002)</u>

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

State of Illinois
Department of Central Management Services

Balance Sheet -
Governmental Funds

June 30, 2009 (Expressed in Thousands)

	<u>General Fund</u>	<u>Road Fund</u>	<u>Nonmajor funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Unexpended appropriations	\$ 2,647	\$ -	\$ -	\$ 2,647
Cash equity with State Treasurer	-	-	230	230
Receivables, net:				
Intergovernmental receivables	-	-	30	30
Other receivables	587	-	108	695
Due from other Department funds	7,014	-	2	7,016
Due from other State funds	-	-	34	34
Total assets	<u>\$ 10,248</u>	<u>\$ -</u>	<u>\$ 404</u>	<u>\$ 10,652</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 1,810	\$ -	\$ 141	\$ 1,951
Intergovernmental payables	115	-	4	119
Due to other State fiduciary funds	334	-	11	345
Due to other Department funds	298,217	65,291	443	363,951
Due to other State funds	-	-	15	15
Due to State of Illinois component units	63	-	-	63
Unavailable revenue	572	-	-	572
Matured portion of long-term obligations	103	-	-	103
Total liabilities	<u>301,214</u>	<u>65,291</u>	<u>614</u>	<u>367,119</u>
FUND BALANCES (DEFICITS)				
Unreserved, undesignated:				
General fund	(290,966)	-	-	(290,966)
Special revenue funds	-	(65,291)	(210)	(65,501)
Total fund balances (deficits)	<u>(290,966)</u>	<u>(65,291)</u>	<u>(210)</u>	<u>(356,467)</u>
Total liabilities and fund balances (deficits)	<u>\$ 10,248</u>	<u>\$ -</u>	<u>\$ 404</u>	<u>\$ 10,652</u>

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

State of Illinois
Department of Central Management Services
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Assets
June 30, 2009
(Expressed in Thousands)

Total fund balances-governmental funds		\$ (356,467)
<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.		122
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		572
Internal service funds are used to charge costs of certain activities to individual funds. The assets and liabilities of the internal service funds are reported as governmental activities in the Statement of Net Assets.		342,802
Some liabilities reported in the Statement of Net Assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. These liabilities consist of:		
Compensated absences	(1,265)	
Auto liability claims	(1,766)	
	(3,031)	(3,031)
Net assets of governmental activities		\$ (16,002)

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

State of Illinois

Department of Central Management Services

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

For the Year Ended June 30, 2009 (Expressed in Thousands)

	<u>General Fund</u>	<u>Road Fund</u>	<u>Nonmajor funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Interest and other investment income	\$ -	\$ -	\$ 3	\$ 3
Other	56	-	1,629	1,685
Other charges for services	-	-	980	980
Total revenues	<u>56</u>	<u>-</u>	<u>2,612</u>	<u>2,668</u>
EXPENDITURES				
General government	84,294	259	3,225	87,778
Education	1,739	-	-	1,739
Employment and economic development	216	-	-	216
Health and social services	1,789	-	-	1,789
Transportation	159	1,028	-	1,187
Public protection and justice	1,693	287	-	1,980
Environment and business regulation	381	-	-	381
Capital outlays	72	-	578	650
Total expenditures	<u>90,343</u>	<u>1,574</u>	<u>3,803</u>	<u>95,720</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(90,287)</u>	<u>(1,574)</u>	<u>(1,191)</u>	<u>(93,052)</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Appropriations from State resources	75,966	-	8,672	84,638
Lapsed appropriations	(1,539)	-	(8,094)	(9,633)
Receipts collected and transmitted to State Treasury	(93)	-	-	(93)
Transfers-out	-	-	(449)	(449)
Net other sources (uses) of financial resources	<u>74,334</u>	<u>-</u>	<u>129</u>	<u>74,463</u>
Net change in fund balances	<u>(15,953)</u>	<u>(1,574)</u>	<u>(1,062)</u>	<u>(18,589)</u>
Fund balances (deficits), July 1, 2008, as restated	<u>(275,013)</u>	<u>(63,717)</u>	<u>852</u>	<u>(337,878)</u>
FUND BALANCES (DEFICITS), JUNE 30, 2009	<u>\$ (290,966)</u>	<u>\$ (65,291)</u>	<u>\$ (210)</u>	<u>\$ (356,467)</u>

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

State of Illinois
Department of Central Management Services
Reconciliation of Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to Statement of Activities
For the Year Ended June 30, 2009
(Expressed in Thousands)

Net change in fund balances	\$ (18,589)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which capital outlays exceeded depreciation in the current period.</p>	524
<p>Some capital assets were transferred to other State agencies.</p>	(582)
<p>Internal service funds are used to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is reported as governmental activities in the Statement of Activities.</p>	(2,326)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the increase in unavailable revenue over the prior year.</p>	40
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Below are such activities.</p>	
<p>Increase in compensated absences obligation</p>	(154)
<p>Increase in auto liability claims</p>	(45)
Change in net assets of governmental activities	\$ (21,132)

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

State of Illinois
Department of Central Management Services

Statement of Net Assets -
Proprietary Funds

June 30, 2009 (Expressed in Thousands)

	Governmental Activities - Internal Service Funds
	<hr/>
ASSETS	
Cash equity with State Treasurer	\$ 37,907
Cash and cash equivalents	3,670
Receivables, net:	
Intergovernmental	1,062
Other	6,487
Due from Department fiduciary funds	10
Due from other Department funds	382,470
Due from other State funds	220,190
Due from State of Illinois component units	1,554
Inventories	1,570
Total current assets	<hr/> 654,920
Capital assets not being depreciated	38,369
Capital assets being depreciated, net	245,726
Total current assets	<hr/> 284,095
Total assets	<hr/> <hr/> 939,015
LIABILITIES	
Accounts payable and accrued liabilities	93,442
Intergovernmental payables	17,503
Due to other State fiduciary funds	966
Due to other Department funds	25,535
Due to other State funds	903
Due to State of Illinois component units	1,484
Deferred revenue	380
Current portion of long-term obligations	116,817
Total current liabilities	<hr/> 257,030
Noncurrent portion of long-term obligations	339,183
Total liabilities	<hr/> <hr/> 596,213
NET ASSETS	
Invested in capital assets, net of related debt	239,044
Restricted for debt service	3,670
Unrestricted	100,088
Total net assets	<hr/> <hr/> \$ 342,802

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

State of Illinois

Department of Central Management Services

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

For the Year Ended June 30, 2009 (Expressed in Thousands)

	Governmental Activities - Internal Service Funds
	<hr/>
OPERATING REVENUES	
Charges for sales and services	\$ 812,280
Other	33
Total operating revenues	<hr/> 812,313 <hr/>
OPERATING EXPENSES	
Cost of sales and services	474,679
Claims and judgments	268,143
General and administrative	27,631
Depreciation	30,678
Other	12,137
Total operating expenses	<hr/> 813,268 <hr/>
Operating income (loss)	(955)
NONOPERATING REVENUES (EXPENSES)	
Interest and investment income	1,354
Interest expense	(2,203)
Other expenses	(77)
	<hr/>
Income (loss) before contributions and transfers	(1,881)
Contributions of capital assets	7,211
Transfers-in	449
Transfers-out	(8,105)
	<hr/>
Change in net assets	(2,326)
Net assets, July 1, 2008	<hr/> 345,128 <hr/>
NET ASSETS, JUNE 30, 2009	<hr/> \$ 342,802 <hr/> <hr/>

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

State of Illinois
Department of Central Management Services

Statement of Cash Flows -
Proprietary Funds

For the Year Ended June 30, 2009 (Expressed in Thousands)

	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from sales and services	\$ 12,010
Cash received from transactions with other funds	544,847
Cash payments to suppliers for goods and services	(340,320)
Cash payments to employees for services	(126,828)
Cash payments for workers compensation	(97,939)
Cash receipts from other operating activities	33
Net cash provided (used) by operating activities	<u>(8,197)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers-in from other funds	449
Transfers-out to other funds	(8,000)
Net cash provided (used) by noncapital financing activities	<u>(7,551)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(8,058)
Principal paid on capital debt	(7,761)
Interest paid on capital debt	(2,274)
Net cash (used) by capital and related financing activities	<u>(18,093)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends on investments	1,438
Net cash provided (used) by investing activities	<u>1,438</u>
Net increase (decrease) in cash and cash equivalents	(32,403)
Cash and cash equivalents, July 1, 2008	<u>73,980</u>
CASH AND CASH EQUIVALENTS, JUNE 30, 2009	<u>\$ 41,577</u>
Reconciliation of cash and cash equivalents to the statement of net assets:	
Total cash and cash equivalents per the statement of net assets	\$ 3,670
Add: cash equity with State Treasurer	37,907
CASH AND CASH EQUIVALENTS, JUNE 30, 2009	<u>\$ 41,577</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
OPERATING INCOME (LOSS)	<u>\$ (955)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	30,678
Provision for uncollectible accounts	3
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(403)
(Increase) decrease in intergovernmental receivables	(24)
(Increase) decrease in due from other funds	(260,054)
(Increase) decrease in due from State of Illinois component units	281
(Increase) decrease in inventory	591
(Increase) decrease in prepaid expenses	494
Increase (decrease) in accounts payable and accrued liabilities	42,392
Increase (decrease) in intergovernmental payables	2,634
Increase (decrease) in due to other State funds	10,074
Increase (decrease) in due to State of Illinois component units	(980)
Increase (decrease) in deferred revenues	(1,377)
Increase (decrease) in other liabilities	168,449
Total adjustments	<u>(7,242)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (8,197)</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	
Cost of installment purchases	\$ 12,862
Loss on sale of equipment	\$ (77)
Transfer of capital assets, net of related debt, to/from other State funds	\$ 7,106

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

State of Illinois
Department of Central Management Services

Statement of Fiduciary Net Assets

June 30, 2009 (Expressed in Thousands)

	<u>Pension Trust Fund</u>	
	State Employees' Deferred Compensation Plan 0755	<u>Agency Funds</u>
ASSETS		
Cash equity with State Treasurer	\$ 4,338	\$ 10,806
Cash and cash equivalents	4,898	3,257
Investments:		
Equities	1,701,438	-
Fixed income	683,569	-
Other receivables, net	740	-
Total assets	<u>2,394,983</u>	<u>\$ 14,063</u>
LIABILITIES		
Accounts payable and accrued liabilities	1,413	\$ 14,038
Intergovernmental payables	1	-
Due to other Department funds	10	-
Due to other State fiduciary funds	4	-
Due to other State funds	43	-
Due to State of Illinois component units	-	25
Long-term liabilities	98	-
Total liabilities	<u>1,569</u>	<u>\$ 14,063</u>
NET ASSETS		
Held in trust for:		
Deferred compensation benefits	<u>2,393,414</u>	
Total net assets	<u>\$ 2,393,414</u>	

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

State of Illinois

Department of Central Management Services

Statement of Changes in Fiduciary Net Assets

For the Year Ended June 30, 2009 (Expressed in Thousands)

	Pension Trust Fund
	State Employees' Deferred Compensation Plan 0755
Deposits/Contributions:	
Members/participants	\$ 167,148
Other contributions	2,755
Total contributions	<u>169,903</u>
Investment income:	
Interest, dividends and other investment income	61,915
Net appreciation of investments	(498,975)
Reimbursement of investment expenses not separable from investment income	1,923
Less: investment expense	(433)
Net investment income	<u>(435,570)</u>
Total additions	<u>(265,667)</u>
Deductions:	
Benefit payments	130,510
Refunds	97
General and administration	3,356
Total deductions	<u>133,963</u>
Net additions (deductions)	(399,630)
Net assets, July 1, 2008	<u>2,793,044</u>
Net assets, JUNE 30, 2009	<u><u>\$ 2,393,414</u></u>

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

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Notes to Financial Statements

June 30, 2009

(1) Organization

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

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

(2) Summary of Significant Accounting Policies

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

(a) Financial Reporting Entity

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

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

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

**STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

Notes to Financial Statements

June 30, 2009

(b) Basis of Presentation

The financial statements of the State of Illinois, Department of Central Management Services, are intended to present the financial position, the changes in financial position, and the cash flows, when applicable, of only that portion of the governmental activities, by each major fund of the State of Illinois, and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2009, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

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

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

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

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

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

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Notes to Financial Statements

June 30, 2009

Road – This fund accounts for the activities of the Department for payment to the Workers' Compensation Revolving Fund, an internal service fund, for allocated costs associated with providing workers' compensation benefits for State employees paid from the Road Fund.

Additionally, the Department reports the following funds types:

Governmental Fund Types:

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

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

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

Proprietary Fund Types:

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

Fiduciary Fund Types:

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

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

(c) Measurement Focus and Basis of Accounting

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

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Notes to Financial Statements

June 30, 2009

donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

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

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

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

(d) *Shared Fund Presentation*

The financial statement presentation for the General Fund, the Road Fund, and the Capital Development Fund, a nonmajor governmental fund, represent only the portion of shared fund that can be directly attributed to the operations of the Department. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' Comprehensive Annual Financial Report.

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

Unexpended Appropriations

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

Appropriations from State Resources

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

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Notes to Financial Statements

June 30, 2009

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.

Reappropriation to Future Year(s)

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

Receipts Collected and Transmitted to State Treasury

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

(e) *Eliminations*

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

(f) *Cash and Cash Equivalents*

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

(g) *Inventories*

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

(h) *Prepaid items*

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

**STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

Notes to Financial Statements

June 30, 2009

(i) Interfund Transactions

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

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

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

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

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

(j) Capital Assets

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

Capitalization thresholds and the estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life
Land	\$100,000	N/A
Land Improvements	25,000	N/A
Buildings	100,000	10-60
Building Improvements	25,000	10-45
Site Improvements	25,000	20
Equipment	5,000	3-25

**STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

Notes to Financial Statements

June 30, 2009

(k) *Compensated Absences*

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

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

(l) *Fund Balances*

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

(m) *Net Assets*

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

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

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

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

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Notes to Financial Statements

June 30, 2009

(n) Use of Estimates

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

(o) State Employees' Deferred Compensation Plan Administration

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

(p) Future Adoption of GASB Statements

Effective for the year ending June 30, 2010 the Department will adopt GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which establishes guidance for recognition and amortization of intangible assets in the financial statements of governments. The Department has not yet determined the impact of the Department's financial statements as a result of adopting this statement.

(3) Deposits and Investments

(a) Deposits

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

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

**STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

Notes to Financial Statements

June 30, 2009

(b) Investments

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

As of June 30, 2009, the Department had the following fixed income investments outside of the State Treasury:

	Book Value (Thousands)	Fair Value (Thousands)	Weighted Average Maturity (Years)
<i>Governmental Activities</i>			
Money market mutual funds	\$ 3,670	\$ 3,670	0.003
Total fixed income investments	<u>\$ 3,670</u>	<u>\$ 3,670</u>	
<i>Fiduciary Funds</i>			
Money market mutual funds	\$ 98,485	\$ 98,907	0.198
Debt mutual funds	<u>166,753</u>	<u>166,753</u>	6.550
Total fixed income investments	<u>\$ 265,238</u>	<u>\$ 265,660</u>	

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

Credit Risk: The Department does not have a formal investment policy that limits investment choices. The Governmental Activities and Fiduciary Funds money market mutual funds were rated Aaa by Moody's. The Fiduciary Fund investments in debt mutual funds were unrated.

**STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

Notes to Financial Statements

June 30, 2009

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

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

<i>Governmental Activities</i>	<u>Deposits</u>	<u>Investments</u>
Amounts Per Note	\$ -	\$ 3,670
Cash equivalents	3,670	(3,670)
Amounts per Statement of Net Assets	<u>\$ 3,670</u>	<u>\$ -</u>
<i>Fiduciary Funds</i>	<u>Deposits</u>	<u>Investments</u>
Amounts Per Note	\$ -	\$ 265,238
Cash equivalents	8,155	(8,155)
Equity mutual funds	-	1,162,704
Blended mutual funds	-	189,579
Annuities	-	1,433
Equity trust funds	-	92,072
Guaranteed investment contracts	-	682,136
Amounts per Statement of Fiduciary Net Assets	<u>\$ 8,155</u>	<u>\$ 2,385,007</u>

**STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

Notes to Financial Statements

June 30, 2009

(4) Interfund Balances and Activity

(a) Balances Due to/from Other Funds

The following balances (amounts expressed in thousands) at June 30, 2009 represent amounts due from other Department and State of Illinois funds.

<u>Fund</u>	<u>Due from</u>			<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	<u>Other Department Fiduciary Funds</u>	
General	\$ 7,014	\$ -	\$ -	Due from other Department funds for reimbursement of advances on expenditures incurred.
Non-major governmental funds	2	34	-	Due from other Department funds and other State funds for sales of federal surplus property.
Internal service funds	382,470	220,190	10	Due from other Department funds, other State funds, other Department fiduciary funds, and other State fiduciary funds for services provided.
	<u>\$ 389,486</u>	<u>\$ 220,224</u>	<u>\$ 10</u>	

**STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

Notes to Financial Statements

June 30, 2009

The following balances (amounts expressed in thousands) at June 30, 2009 represent amounts due to other Department and State of Illinois funds.

Fund	Due to			Description/Purpose
	Other Department Funds	Other State Funds	Other State Fiduciary Funds	
General	\$ 298,217	\$ -	\$ 334	Due to other Department funds for internal service fund services received including workers compensation claims and other State fiduciary funds for retirement contributions.
Road	65,291	-	-	Due to other Department internal service funds for payment of workers' compensation claims.
Non-major governmental funds	443	15	11	Due to other Department funds for internal service fund services received and other State funds for services received.
Internal service funds	25,535	903	966	Due to other Department funds for internal service fund services received, other State funds for services received, and other State fiduciary funds for retirement contributions.
Fiduciary funds	10	43	4	Due to other Department funds for internal service fund services received and other State funds for audit and other expenses.
	<u>\$ 389,496</u>	<u>\$ 961</u>	<u>\$ 1,315</u>	

(b) Transfers to/from Other Funds

During the current fiscal year, \$449 was transferred from the ESCO COP Debt Service Fund, a nonmajor governmental fund, to the Facilities Management Fund, an internal service fund.

Interfund transfers out (amounts expressed in thousands) to other State funds for the year ended June 30, 2009, were as follows:

**STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

Notes to Financial Statements

June 30, 2009

<u>Fund</u>	<u>Transfers out to</u>	
	<u>Other State Funds</u>	<u>Description/Purpose</u>
Internal service funds	\$ 8,105	Transfer to other State funds pursuant to statute and due to budget shortfalls.

(5) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2009 was as follows:

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Net Transfers</u>	<u>Balance June 30, 2009</u>
Governmental activities:					
Capital assets not being depreciated:					
Land and land improvements	\$ 38,407	\$ -	\$ -	\$ -	\$ 38,407
Nondepreciable historical treasures and works of art	4	-	-	-	4
Total capital assets not being depreciated	<u>38,411</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,411</u>
Capital assets being depreciated:					
Site improvements	3,889	-	-	-	3,889
Buildings and building improvements	442,979	578	-	6,530	450,087
Equipment	205,453	20,992	5,657	(14,978)	205,810
Depreciable historical treasures and works of art	970	-	-	-	970
Total capital assets being depreciated	<u>653,291</u>	<u>21,570</u>	<u>5,657</u>	<u>(8,448)</u>	<u>660,756</u>
Less accumulated depreciation:					
Site improvements	2,394	197	-	-	2,591
Buildings and building improvements	228,951	12,782	-	-	241,733
Equipment	172,383	17,825	5,580	(14,972)	169,656
Depreciable historical treasures and works of art	970	-	-	-	970
Total accumulated depreciation	<u>404,698</u>	<u>30,804</u>	<u>5,580</u>	<u>(14,972)</u>	<u>414,950</u>
Total capital assets being depreciated, net	<u>248,593</u>	<u>(9,234)</u>	<u>77</u>	<u>6,524</u>	<u>245,806</u>
Governmental activity capital assets, net	<u>\$ 287,004</u>	<u>\$ (9,234)</u>	<u>\$ 77</u>	<u>\$ 6,524</u>	<u>\$ 284,217</u>

**STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

Notes to Financial Statements

June 30, 2009

Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2009 was charged to functions as follows:

General government \$ 30,804

(6) Long-Term Obligations

(a) Changes in Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2009 were a follows:

	Balance July 1, 2008*	Additions	Deletions	Balance June 30, 2009	Amounts Due Within One Year
Governmental activities:					
Compensated Absences	\$ 13,928	\$ 7,998	\$ 7,647	\$ 14,279	\$ 688
Capital lease obligations	358	-	61	297	64
Installment purchase obligations	6,567	12,862	5,175	14,254	5,270
Certificates of participation	33,025	-	2,525	30,500	2,670
Workers' compensation claim obligations	354,496	141,413	97,974	397,935	108,244
Auto liability claim obligations	<u>2,249</u>	<u>1,542</u>	<u>1,922</u>	<u>1,869</u>	<u>1,869</u>
Total governmental activities	<u>\$ 410,623</u>	<u>\$ 163,815</u>	<u>\$ 115,304</u>	<u>\$ 459,134</u>	<u>\$ 118,805</u>

* as restated

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

**STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

Notes to Financial Statements

June 30, 2009

(b) Capital lease obligations

The Department leases office space with a historical cost and accumulated depreciation of \$1.462 and \$.572 million, respectively, under capital lease arrangements. Although lease terms vary, certain leases are renewable subject to appropriation by the General Assembly. If renewal is reasonably assured, leases requiring appropriation by the General Assembly are considered non-cancelable leases for financial reporting. Future minimum lease payments (amounts expressed in thousands) at June 30, 2009 are as follows:

Year Ending June 30	Principal	Interest	Total
2010	\$ 64	\$ 15	\$ 79
2011	68	11	79
2012	71	6	77
2013	94	5	99
	\$ 297	\$ 37	\$ 334

(c) Installment purchase obligations

The Department has acquired certain vehicles, electronic data processing and data storage equipment, and communication and video equipment through installment purchase arrangements. Future debt service requirements under installment purchase contracts (amounts expressed in thousands) at June 30, 2009, are as follows:

Year Ending June 30	Principal	Interest	Total
2010	\$ 5,270	\$ 353	\$ 5,623
2011	3,240	220	3,460
2012	4,352	110	4,462
2013	1,392	18	1,410
	\$ 14,254	\$ 701	\$ 14,955

**STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

Notes to Financial Statements

June 30, 2009

(d) Certificates of participation

The Department has financed the purchase of office buildings and land. The office buildings have a historical cost and accumulated depreciation of \$48.740 and \$13.756 million, respectively and the land has a historic cost of \$2.794 million. This non-state issued certificate is sold by a private concern and is repaid by Department appropriations pursuant to an installment purchase agreement. Future debt service requirements under certificates of participation (amounts expressed in thousands) at June 30, 2009, are as follows:

Year Ending	Principal	Interest	Total
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 2,670	\$ 1,734	\$ 4,404
2011	2,820	1,577	4,397
2012	2,985	1,406	4,391
2013	3,160	1,224	4,384
2014	3,350	1,031	4,381
2015-2019	15,515	1,930	17,445
	<u>\$ 30,500</u>	<u>\$ 8,902</u>	<u>\$ 39,402</u>

(7) Risk Management

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

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

The Department's risk financing of auto liability for the State's non-Department of Transportation liability, \$1.869 million, has been determined using an estimate of claims outstanding. Claims that will be liquidated with expendable available financial resources have been recorded as a liability in the General Revenue Fund, a subaccount of the General Fund, in the amount of \$103 thousand. The remaining portion of the liability, \$1.766 million, as of June 30, 2009, is included in the Department-wide financial statements and is expected to be paid from future resources of the General Fund.

**STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

Notes to Financial Statements

June 30, 2009

The Department's workers' compensation liability, \$397.935 million, has been determined using claims outstanding and a projection of claims to be submitted, based upon prior years experience, to the Department. The liability is recorded in the Workers' Compensation Revolving Fund, an internal service fund.

The following is a reconciliation of the Department's claims liabilities for the years June 30, 2008 and June 30, 2009.

Year Ended June 30	<u>Changes in Claims Liability Balances</u>			
	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
Primary Government-Governmental Activities:				
2008				
Auto Liability	\$ 2,043	\$ 1,512	\$ 1,306	\$ 2,249
Workers' Compensation	307,133	159,282	111,919	354,496
Total	<u>\$ 309,176</u>	<u>\$ 160,794</u>	<u>\$ 113,225</u>	<u>\$ 356,745</u>
2009				
Auto Liability	\$ 2,249	\$ 1,542	\$ 1,922	\$ 1,869
Workers' Compensation	354,496	141,413	97,974	397,935
Total	<u>\$ 356,745</u>	<u>\$ 142,955</u>	<u>\$ 99,896</u>	<u>\$ 399,804</u>

(8) Pension Plan

Substantially all of the Department's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2009 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2009. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

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

The Department pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. For fiscal year 2009, the employer contribution rate was 21.049%.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Notes to Financial Statements

June 30, 2009

Effective for pay periods beginning after December 31, 1991, the State opted to pay the employee portion of retirement for most State agencies (including the Department) with employees covered by the State Employees' and Teachers' Retirement Systems. However, effective with the fiscal year 2004 budget, the State opted to stop paying the portion or a part of the portion of retirement for many State agencies (including the Department) for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. The pickup, when applicable, is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

(9) Post-employment Benefits

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

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

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

(10) Fund Deficits

The General Fund and the Road Fund, major funds, had deficit fund balances of \$290.966 and \$65.291 million, respectively, at June 30, 2009. The General Fund and Road Fund deficits result from charges from internal service funds for the liabilities of the workers compensation program recognized at June 30, 2009 which will be paid from future year appropriations. In addition the Efficiency Initiatives

**STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

Notes to Financial Statements

June 30, 2009

Revolving Fund and the State Surplus Property Revolving Fund, nonmajor governmental funds, had deficit fund balances of \$3 and \$213 thousand, respectively at June 30, 2009 which will be eliminated by future revenues.

(11) Commitments and Contingencies

(a) Operating leases

The Department leases parking lots, warehouses, and buildings, under the terms of noncancelable operating lease agreements that require the Department to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was \$71.163 million for the year ended June 30, 2009.

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

<u>Year ending June 30,</u>	<u>Amount</u>
2010	\$ 64,158
2011	58,110
2012	47,466
2013	33,029
2014	19,869
2015-2019	48,734
	<u>\$ 271,366</u>

(b) Federal Service Charges

The Department's internal service funds receive revenue from charges for services provided to various federal grants of the State which are subject to review and audit by federal grantor agencies. The Department believes that it is probable that a payback representing the federal share of excess fund balances will be required from the Statistical Services Revolving Fund (SSRF) and the Communications Revolving Fund (CRF) for activities in fiscal year 2007, 2008, and 2009. The Department estimates the SSRF refund may result in a payment of up to \$9.962 million and the CRF refund may result in payment of up to \$5.098 million. The Department has recorded a liability in the respective fund.

(c) Litigation

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

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Notes to Financial Statements

June 30, 2009

(12) State Employees' Deferred Compensation Plan General Description

Under State Employees' Deferred Compensation Plan (Plan) provisions, all State employees are eligible to voluntarily elect to contribute a portion of their compensation to the Plan through payroll deduction. The Plan was created in accordance with the Illinois Compiled Statutes (40 ILCS 5/24-101) and Section 457 of the Internal Revenue Code. The financial position and results of operations of the Plan for fiscal year 2009 are included in the State's Comprehensive Annual Financial Report for the year ended June 30, 2009. The Plan issues separate financial statements on a calendar year basis that may be obtained by writing to the Deferred Compensation Plan, 201 E. Madison, Suite 1C, P.O. Box 19208, Springfield, Illinois 62794-9208.

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

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

In compliance with Section 457 of the Internal Revenue Code, the Plan limits the amount of an individual's annual contribution to 100 percent of their annual taxable compensation, not to exceed \$15,500 (\$20,500 for participants age 50 or older) for calendar years 2009 and 2008. The State does not make any contributions to the Plan. The Plan allows participants a limited make-up on deferrals in the three years prior to the year a participant reaches normal retirement age. For each of these three years, a participant can defer the regular limit plus an additional amount based on actual underutilized deferrals, which were made in prior years, up to a maximum of \$31,000 for calendar years 2009 and 2008.

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

(13) Restatement

During fiscal year 2009, the net assets of the General Fund and the Road Fund were restated from deficit fund balances of \$173.914 and \$40.003 million, respectively to deficit fund balances of \$275.013 and \$63.717 million, respectively, for amounts due to the Workers' Compensation Revolving Fund as a result of underreported estimated long-term workers' compensation claims payable in the Workers' Compensation Revolving Fund.

State of Illinois
Department of Central Management Services

**Combining Balance Sheet -
Nonmajor Governmental Funds**

June 30, 2009 (Expressed in Thousands)

	Special Revenue		State Surplus		Capital Projects		Debt Service	
	Efficiency Initiatives Revolving 0315	Minority and Female Business Enterprise 0352	Property Revolving 0903	Development 0141	ESCO COP Debt Service 1255	Total		
ASSETS								
Cash equity with State Treasurer	\$ -	\$ 6	\$ 224	\$ -	\$ -	\$ -	\$ 230	
Receivables, net:								
Intergovernmental	-	-	30	-	-	-	30	
Other	-	-	108	-	-	-	108	
Due from other Department funds	-	-	2	-	-	-	2	
Due from other State funds	-	-	34	-	-	-	34	
Total assets	\$ -	\$ 6	\$ 398	\$ -	\$ -	\$ -	\$ 404	
LIABILITIES								
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 141	\$ -	\$ -	\$ -	\$ 141	
Intergovernmental payables	-	-	4	-	-	-	4	
Due to other State fiduciary funds	-	-	11	-	-	-	11	
Due to other Department funds	-	-	443	-	-	-	443	
Due to other State funds	3	-	12	-	-	-	15	
Total liabilities	3	-	611	-	-	-	614	
FUND BALANCES								
Unreserved, undesignated	(3)	6	(213)	-	-	-	(210)	
Total fund balances	(3)	6	(213)	-	-	-	(210)	
Total liabilities and fund balances	\$ -	\$ 6	\$ 398	\$ -	\$ -	\$ -	\$ 404	

State of Illinois
Department of Central Management Services

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

For the Year Ended June 30, 2009 (Expressed in Thousands)

	Special Revenue			Capital Projects		Debt Service	Total
	Efficiency Initiatives Revolving 0315	Minority and Female Business Enterprise 0352	State Surplus Property Revolving 0903	Capital Development 0141	ESCO COP Debt Service 1255		
REVENUES							
Interest and other investment income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3	3
Other revenues	-	-	1,629	-	-	-	1,629
Other charges for services	-	-	980	-	-	-	980
Total revenues	-	-	2,609	-	-	3	2,612
EXPENDITURES							
General government	20	-	3,205	-	-	-	3,225
Capital outlay	-	-	-	578	-	-	578
Total expenditures	20	-	3,205	578	-	-	3,803
Excess (deficiency) of revenues over (under) expenditures	(20)	-	(596)	(578)	-	3	(1,191)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	-	-	-	8,672	-	-	8,672
Lapsed appropriations	-	-	-	(8,094)	-	-	(8,094)
Transfers-out	-	-	-	-	(449)	-	(449)
Net other sources (uses) of financial resources	-	-	-	578	(449)	-	129
Net change in fund balances	(20)	-	(596)	-	(446)	-	(1,062)
Fund balances, July 1, 2008	17	6	383	-	-	446	852
FUND BALANCES, JUNE 30, 2009	\$ (3)	\$ 6	\$ (213)	\$ -	\$ -	\$ -	\$ (210)

State of Illinois
Department of Central Management Services

Combining Statement of Net Assets

Internal Service Funds

June 30, 2009 (Expressed in Thousands)

	State Garage Revolving 0303	Statistical Services Revolving 0304	Paper and Printing Revolving 0308	Communications Revolving 0312	Facilities Management 0314	Professional Services 0317	Workers' Compensation Revolving 0332	Group Life Insurance Premium 1457	Total
ASSETS									
Cash equity with State Treasurer	\$ 1,922	\$ 6,821	\$ 72	\$ 5,101	\$ 10,329	\$ 2,493	\$ 4,097	\$ 7,072	\$ 37,907
Cash and cash equivalents	-	-	-	-	3,670	-	-	-	3,670
Receivables, net:									
Intergovernmental	34	-	-	1,028	-	-	-	-	1,062
Other	11	-	-	1,900	6	2	3	4,565	6,487
Due from other Department fiduciary funds	-	-	-	2	8	-	-	-	10
Due from other Department funds	148	796	-	7,440	24,874	-	349,211	1	382,470
Due from other State funds	10,332	66,531	-	34,474	58,804	5,036	44,996	17	220,190
Due from State of Illinois component units	5	15	-	1,047	6	-	-	481	1,554
Inventories	1,570	-	-	-	-	-	-	-	1,570
Total current assets	14,022	74,163	72	50,992	97,697	7,531	398,307	12,136	654,920
Capital assets not being depreciated	-	-	-	-	38,369	-	-	-	38,369
Capital assets being depreciated, net	614	15,555	-	20,324	209,233	-	-	-	245,726
Total noncurrent current assets	614	15,555	-	20,324	247,602	-	-	-	284,095
Total assets	14,636	89,718	72	71,316	345,299	7,531	398,307	12,136	939,015
LIABILITIES									
Accounts payable and accrued liabilities	7,317	23,981	-	12,259	43,483	1,216	64	5,122	93,442
Intergovernmental payables	36	10,113	-	5,146	2,182	22	4	-	17,503
Due to other State fiduciary funds	104	429	-	126	233	63	11	-	966
Due to other Department funds	2,035	15,776	-	271	307	55	77	7,014	25,535
Due to other State funds	112	21	1	173	510	76	10	-	903
Due to State of Illinois component units	1	-	-	72	1,411	-	-	-	1,484
Deferred revenue	2	175	-	-	203	-	-	-	380
Current portion of long-term obligations	366	3,059	-	2,256	2,831	43	108,262	-	116,817
Total current liabilities	9,973	53,554	1	20,303	51,160	1,475	108,428	12,136	257,030
Noncurrent portion of long-term obligations	1,924	12,703	-	3,053	30,741	883	289,879	-	339,183
Total liabilities	11,897	66,257	1	23,356	81,901	2,358	398,307	12,136	596,213
NET ASSETS									
Invested in capital assets, net of related debt	(92)	5,822	-	16,509	216,805	-	-	-	239,044
Restricted for debt services	-	-	-	-	3,670	-	-	-	3,670
Unrestricted	2,831	17,639	71	31,451	42,923	5,173	-	-	100,088
Total net assets	\$ 2,739	\$ 23,461	\$ 71	\$ 47,960	\$ 263,398	\$ 5,173	\$ -	\$ -	\$ 342,802

State of Illinois
Department of Central Management Services
Combining Statement of Revenues, Expenses, and
Changes in Net Assets - Internal Service Funds

For the Year Ended June 30, 2009 (Expressed in Thousands)

	State Garage Revolving 0303	Statistical Services Revolving 0304	Paper and Printing Revolving 0308	Communications Revolving 0312	Facilities Management 0314	Professional Services 0317	Workers' Compensation Revolving 0332	Group Life Insurance Premium 1457	Total
OPERATING REVENUES									
Charges for sales and services	\$ 39,006	\$ 133,417	\$ -	\$ 121,337	\$ 213,463	\$ 11,831	\$ 268,623	\$ 24,603	\$ 812,280
Other	33	-	-	-	-	-	-	-	33
Total operating revenues	39,039	133,417	-	121,337	213,463	11,831	268,623	24,603	812,313
OPERATING EXPENSES									
Cost of sales and services	33,032	127,741	-	80,068	196,661	12,214	-	24,963	474,679
Claims and judgments	-	-	-	-	-	-	268,143	-	268,143
General and administrative	6,884	2,308	-	10,022	6,850	1,508	-	59	27,631
Depreciation	276	7,470	-	9,985	12,947	-	-	-	30,678
Other	298	-	-	11,839	-	-	-	-	12,137
Total operating expenses	40,490	137,519	-	111,914	216,458	13,722	268,143	25,022	813,268
Operating income (loss)	(1,451)	(4,102)	-	9,423	(2,995)	(1,891)	480	(419)	(955)
NONOPERATING REVENUES (EXPENSES)									
Interest and investment income	-	-	-	-	272	143	520	419	1,354
Interest expense	-	(237)	-	(138)	(1,828)	-	-	-	(2,203)
Other expenses	-	(60)	-	(17)	-	-	-	-	(77)
Income (loss) before contributions and transfers	(1,451)	(4,399)	-	9,268	(4,551)	(1,748)	1,000	-	(1,881)
Contributions of capital assets	10	88	-	5	7,108	-	-	-	7,211
Transfers-in	-	-	-	-	449	-	-	-	449
Transfers-out	(1,000)	(2,088)	-	(1,017)	(1,000)	(2,000)	(1,000)	-	(8,105)
Change in net assets	(2,441)	(6,399)	-	8,256	2,006	(3,748)	-	-	(2,326)
Net assets, July 1, 2008	5,180	29,860	71	39,704	261,392	8,921	-	-	345,128
NET ASSETS, JUNE 30, 2009	\$ 2,739	\$ 23,461	\$ 71	\$ 47,960	\$ 263,398	\$ 5,173	\$ -	\$ -	\$ 342,802

**State of Illinois
Department of Central Management Services**

**Combining Statement of Cash Flows
Internal Service Funds**

For the Year Ended June 30, 2009 (Expressed in Thousands)

	State Garage Revolving 0303	Statistical Services Revolving 0304	Paper and Printing Revolving 0308	Communications Revolving 0312	Facilities Management 0314	Professional Services 0317	Workers' Compensation Revolving 0332	Group Life Insurance Premium 1457	Total
CASH FLOWS FROM OPERATING ACTIVITIES									
Cash received from sales and services	\$ 572	\$ -	\$ -	10,047	\$ 1,391	\$ -	\$ -	\$ -	\$ 12,010
Cash received from transactions with other funds	37,788	107,411	-	101,212	172,704	8,369	88,631	28,732	544,847
Cash payments to suppliers for goods and services	(25,872)	(41,980)	-	(89,838)	(146,111)	(3,833)	(1,851)	(30,835)	(340,320)
Cash payments to employees for services	(12,504)	(60,708)	-	(14,850)	(29,156)	(9,598)	(12)	-	(126,828)
Cash payments for workers compensation	-	-	-	-	-	-	(97,939)	-	(97,939)
Cash receipts from other operating activities	33	-	-	-	-	-	-	-	33
Net cash provided (used) by operating activities	17	4,723	-	6,571	(1,172)	(5,062)	(11,171)	(2,103)	(8,197)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES									
Transfers-in to other funds	-	-	-	-	449	-	-	-	449
Transfers-out to other funds	(1,000)	(2,000)	-	(1,000)	(1,000)	(2,000)	(1,000)	-	(8,000)
Net cash provided (used) by noncapital financing activities	(1,000)	(2,000)	-	(1,000)	(551)	(2,000)	(1,000)	-	(7,551)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Acquisition and construction of capital assets	(20)	(2,218)	-	(5,799)	(21)	-	-	-	(8,058)
Principal paid on capital debt	(263)	(2,650)	-	(2,262)	(2,586)	-	-	-	(7,761)
Interest paid on capital debt	-	(237)	-	(138)	(1,899)	-	-	-	(2,274)
Net cash (used) by capital and related financing activities	(283)	(5,105)	-	(8,199)	(4,506)	-	-	-	(18,093)
CASH FLOWS FROM INVESTING ACTIVITIES									
Interest and dividends on investments	-	-	-	-	296	157	545	440	1,438
Net cash provided by investing activities	-	-	-	-	296	157	545	440	1,438
Net increase (decrease) in cash and cash equivalents	(1,266)	(2,382)	-	(2,628)	(5,933)	(6,905)	(11,626)	(1,663)	(32,403)
Cash and cash equivalents, July 1, 2008	3,188	9,203	72	7,729	19,932	9,398	15,723	8,735	73,980
CASH AND CASH EQUIVALENTS, JUNE 30, 2009	\$ 1,922	\$ 6,821	\$ 72	\$ 5,101	\$ 13,999	\$ 2,493	\$ 4,097	\$ 7,072	\$ 41,577

Reconciliation of cash and cash equivalents to the statement of net assets:									
Total cash and cash equivalents per the statement of net assets	\$ -	\$ -	\$ -	\$ -	\$ 3,670	\$ -	\$ -	\$ -	\$ 3,670
Add: cash equity with State Treasurer	1,922	6,821	72	5,101	10,329	2,493	4,097	7,072	37,907
CASH AND CASH EQUIVALENTS, JUNE 30, 2009	\$ 1,922	\$ 6,821	\$ 72	\$ 5,101	\$ 13,999	\$ 2,493	\$ 4,097	\$ 7,072	\$ 41,577

**State of Illinois
Department of Central Management Services**

**Combining Statement of Cash Flows
Internal Service Funds**

For the Year Ended June 30, 2009 (Expressed in Thousands)

	State Garage Revolving 0303	Statistical Services Revolving 0304	Paper and Printing Revolving 0308	Communications Revolving 0312	Facilities Management 0314	Professional Services 0317	Workers' Compensation Revolving 0332	Group Life Insurance Premium 1457	Total
\$ (1,451) \$	(4,102) \$	- \$	9,423 \$	(2,995) \$	(1,891) \$	480 \$	(419) \$	(955)	
276	7,470	-	9,985	12,947	-	-	-	30,678	
-	-	-	3	-	-	-	-	3	
5	-	-	(303)	18	-	-	(123)	(403)	
39	-	-	(63)	-	-	-	-	(24)	
(715)	(26,330)	-	(11,683)	(37,865)	(3,462)	(179,992)	(7)	(260,054)	
25	8	-	403	(1)	-	-	(154)	281	
591	-	-	-	-	-	-	-	591	
-	494	-	-	-	-	-	-	494	
417	16,980	-	(2,815)	27,919	(45)	19	(83)	42,392	
31	298	-	1,601	690	18	(4)	-	2,634	
780	9,910	-	(57)	579	117	62	(1,317)	10,074	
1	-	-	(16)	(964)	-	(1)	-	(980)	
-	143	-	-	(1,520)	-	-	-	(1,377)	
18	(148)	-	93	20	201	168,265	-	168,449	
1,468	8,825	-	(2,852)	1,823	(3,171)	(11,651)	(1,684)	(7,242)	
17	4,723	-	6,571	(1,172)	(5,062)	(11,171)	(2,103)	(8,197)	

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:
OPERATING INCOME (LOSS)

- Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:
- Depreciation
- Provision for uncollectible accounts
- Changes in assets and liabilities:
 - (Increase) decrease in accounts receivable
 - (Increase) decrease in intergovernmental receivables
 - (Increase) decrease in due from other funds
 - (Increase) decrease in due from component units
 - (Increase) decrease in inventories
 - (Increase) decrease in prepaid expenses
 - Increase (decrease) in accounts payable and accrued liabilities
 - Increase (decrease) in intergovernmental payables
 - Increase (decrease) in due to other funds
 - Increase (decrease) in due to component units
 - Increase (decrease) in deferred revenues
 - Increase (decrease) in other liabilities
- Total adjustments

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

- Cost of installment purchases
- Gain (loss) on sale of property and equipment
- Transfer of capital assets, net of related debt, to/from other Stat

\$ 151	\$ 10,284	\$ -	\$ 2,427	\$ -	\$ -	\$ -	\$ -	\$ 12,862
-	(60)	-	(17)	-	-	-	-	(77)
10	-	-	(12)	7,108	-	-	-	7,106

State of Illinois

Department of Central Management Services

Combining Statement of Fiduciary Net Assets

Agency Funds

June 30, 2009 (Expressed in Thousands)

	Flexible Spending Account 0202	Group Insurance Premium 0457	Total
ASSETS			
Cash equity with State Treasurer	\$ 2,295	\$ 8,511	\$ 10,806
Cash and cash equivalents	3,257	-	3,257
Total assets	\$ 5,552	\$ 8,511	\$ 14,063
LIABILITIES			
Accounts payable and accrued liabilities	\$ 5,527	\$ 8,511	\$ 14,038
Due to State of Illinois component units	25	-	25
Total liabilities	\$ 5,552	\$ 8,511	\$ 14,063

State of Illinois

Department of Central Management Services

Combining Statement of Changes in Assets and Liabilities

Agency Funds

For the Year Ended June 30, 2009 (Expressed in Thousands)

	Balance at June 30, 2008	Additions	Deletions	Balance at June 30, 2009
Flexible Spending Account Fund (0202):				
ASSETS				
Cash equity with State Treasurer	\$ 1,042	\$ 27,533	\$ 26,280	\$ 2,295
Cash and cash equivalents	3,576	25,854	26,173	3,257
Total assets	\$ 4,618	\$ 53,387	\$ 52,453	\$ 5,552
LIABILITIES				
Accounts payable and accrued liabilities	\$ 4,594	\$ 27,216	\$ 26,283	\$ 5,527
Due to component units	24	317	316	25
Total liabilities	\$ 4,618	\$ 27,533	\$ 26,599	\$ 5,552
Group Insurance Premium Fund (0457):				
ASSETS				
Cash equity with State Treasurer	\$ 8,118	\$ 51,769	\$ 51,376	\$ 8,511
Total assets	\$ 8,118	\$ 51,769	\$ 51,376	\$ 8,511
LIABILITIES				
Accounts payable and accrued liabilities	\$ 8,118	\$ 51,769	\$ 51,376	\$ 8,511
Total liabilities	\$ 8,118	\$ 51,769	\$ 51,376	\$ 8,511
Total				
ASSETS				
Cash equity with State Treasurer	\$ 9,160	\$ 79,302	\$ 77,656	\$ 10,806
Cash and cash equivalents	3,576	25,854	26,173	3,257
Total assets	\$ 12,736	\$ 105,156	\$ 103,829	\$ 14,063
LIABILITIES				
Accounts payable and accrued liabilities	\$ 12,712	\$ 78,985	\$ 77,659	\$ 14,038
Due to component units	24	317	316	25
Total liabilities	\$ 12,736	\$ 79,302	\$ 77,975	\$ 14,063



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

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Central Management Services as of and for the year ended June 30, 2009, which collectively comprise the State of Illinois, Department of Central Management Services' basic financial statements and have issued our report thereon dated March 25, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be 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 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 findings 09-1 and 09-3 in the accompanying schedule of findings to be material weaknesses.

A *significant deficiency* is a deficiency or 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 findings 09-2, 09-4 and 09-5 in the accompanying schedule of findings to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Department of Central Management Services' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 09-1 through 09-3.

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

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

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

Sikich LLP

Springfield, Illinois
March 25, 2010

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

CURRENT FINDINGS –
GOVERNMENT AUDITING STANDARDS

FOR THE YEAR ENDED JUNE 30, 2009

09-1 FINDING: (Weaknesses in internal control over financial reporting)

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

The Office of the State Comptroller requires State agencies to prepare financial reports (GAAP Reporting Packages) for each of their funds to assist in the annual preparation of the statewide financial statements and the Department's financial statements. In addition, the Department provides certain financial information to the Office of the State Comptroller regarding liabilities arising from automobile accidents involving State employees that is reported by another agency and in the State's Comprehensive Annual Financial Report. GAAP Reporting Package instructions are specified in the Statewide Accounting Management System (SAMS) Manual, Chapter 27. Management is responsible for adopting sound accounting policies and for establishing and maintaining internal controls that will, among other things, initiate, authorize, record, process, and report financial data reliably and consistent with management's assertions embodied in the financial statements. A material weakness is a deficiency, or combination of deficiencies in the design or operation of internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. 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.

During our audit of the June 30, 2009 financial statements and testing of workers' compensation liability and automobile liability information, we noted material weaknesses and significant deficiencies resulting from the Department's failure to establish adequate internal control over the accumulation of information necessary for the proper determination of year-end liabilities as follows:

- The Department is responsible for administering the State's workers compensation program and reporting estimated liabilities for amounts to be paid to injured employees or beneficiaries in future years relating to injuries already suffered. This liability was previously calculated based on historical data projected out to payments expected to be made in the succeeding five fiscal years. This calculation did not adequately recognize a liability for payments on two types of awards, pension and death benefit, that provide benefits for indefinite periods of time (Lifetime Awards) to be made beyond the succeeding five fiscal

years. During fiscal year 2009, the Department corrected the calculation and utilized life expectancies on a benefit specific basis and determined the liability at June 30, 2008 was understated by \$101 million in the General Revenue Fund and \$24 million in the Road Fund. The beginning fund balances of these major funds have been restated to correct the \$125 million understatement.

- During our testing of the workers compensation liability, we noted an error in the calculation resulting in an overstatement of \$3.916 million in the General Revenue Fund and \$918 thousand in the Road Fund. The fiscal year 2009 financial statements have been adjusted to correct the \$4.834 million overstatement. Department officials have stated this error was the result of an oversight.
- The Department is responsible for reporting liabilities arising from accidents involving State employees. While testing large (>\$25,000) Automobile Liability reserves at June 30, 2009, we noted a portion of a claim had been settled during the fiscal year leaving an estimated liability of approximately \$50,000. This outstanding claim was improperly excluded from the calculation of large Automobile Liability reserve for the Road Fund. Department officials have stated this error was the result of an oversight.
- During our testing, we noted several other errors in the preparation of the Department's internal service fund financial statements. The errors included improperly calculating the amount reported as "invested in capital assets, net of related debt," overstating installment purchase liabilities due to a data entry error, and other misstatements of receivables, payables and capital assets. The errors noted were not individually significant to the financial statements taken as a whole; however, the Department did not have effective controls over the reconciliation and review functions to ensure amounts were properly reported at June 30, 2009. Department officials have stated these errors are the result of estimation processes utilized to compile information for GAAP reporting purposes within established time frames, that most errors were subsequently noted by the Department and that the errors did not warrant correction of the financial statements.

As a result of these deficiencies, the Department's financial statements required material adjustments at June 30, 2009 and restatement of beginning fund balances. In addition, other financial information pertaining to the internal service funds was inaccurate. (Finding Code No. 09-1, 08-4, 07-4)

RECOMMENDATION:

We recommend the Department implement procedures to ensure GAAP Reporting Packages are prepared in a complete and accurate manner and information provided to other agencies and the Office of the State Comptroller for financial reporting purposes is complete and accurate.

DEPARTMENT RESPONSE:

The Department concurs.

- The Workers Compensation liability calculation was revised in the current year to include full liability for lifetime awards. The new calculation contained a duplicate line creating an overstatement of the liability. The Department provided a revised liability calculation and required adjustments to the Office of the Comptroller. A revised liability calculation template is in place for next fiscal year.
- The Department is implementing an end-of-year review process for auto liability claims which will reduce the chance for error in estimating claim liabilities.
- All financial reports will be more closely reviewed before transmission to the Office of the Comptroller so that adjustments are correct and amounts are recognized in the appropriate fiscal year for financial reporting.

09-2 FINDING: (Excess retained earnings balances representing noncompliance with federal regulations)

The Department generated excess retained earnings balances for the Communications Revolving Fund and failed to make adequate adjustments as required by OMB Circular A-87.

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

However, the Communications Revolving Fund (CRF) administered by the Department maintained retained earnings balances in excess of the allowable working capital reserve for certain services provided. Consequently, a payback representing the federal share of excess retained earnings balances for fiscal years 2006 and 2007 is required from the CRF and the Department believes that it is probable that a payback will be required from this fund for fiscal years 2008 and 2009. The CRF liability for fiscal years 2006 and 2007 is approximately \$2.445 million. It is estimated that the CRF liability for fiscal years 2008 and 2009 is approximately \$2.653 million. Total liabilities recognized at June 30, 2009, representing the federal share of excess retained earnings balances, are reported to be \$5.098 million for the CRF.

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

During the prior audit, we noted the Statistical Services Revolving Fund (SSRF) had also accumulated excess retained earnings balances for certain billed services. While settlement with the Federal Government is still being negotiated for prior years, we noted the Department made significant progress in reducing the excess retained earnings balances accumulated during fiscal year 2009. The excess liability for fiscal year 2009 was reduced through billing adjustments that went into effect for the fiscal year and, as a result, the fiscal year 2009 excess retained earnings balance for SSRF decreased to \$770 thousand. Total liabilities recognized at June 30, 2009, representing the federal share of excess retained earnings balances, are reported to be \$9.961 million for the SSRF.

Department officials stated that the existence of excess balances is a result of the Department not perfectly predicting rates, costs and usage of services. Department officials believe that the accumulation of excess balances is primarily due to the delay in federal review and negotiation of settlements. Further, officials stated that the majority of the accumulated balances referenced were for prior years (fiscal year 2006 to fiscal year 2008) which were the subject of prior year findings. Department officials stated that the elimination of these balances is still under negotiation with the U.S. Department of Health and Human Services.

Failure to adequately adjust excess retained earnings balances in the Department's internal service funds has resulted in significant liabilities to the federal government and represents noncompliance with the provisions of OMB Circular A-87 Cost Principles. (Finding Code No. 09-2, 08-1, 07-1, 06-1)

RECOMMENDATION:

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

DEPARTMENT RESPONSE:

The Department believes that its excess balance adjustment practices are compliant with OMB Circular A-87 guidelines. Negotiated settlements are an acceptable method of adjustment. The large accumulated outstanding balances for FY06-FY08 will be settled with the federal dept of HHS in April 2010. In addition, the Department has significantly reduced its exposure to new excess balances through aggressive rates realignments.

09-3 FINDING: (Reporting of costs not in accordance with federal regulations)

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

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

The Department maintains accounting records for its internal service funds and annually makes adjustments to report the funds on a GAAP basis for preparation of the Department's financial statements. The Department prepares a reconciliation reflecting the differences between its internal accounting records and its GAAP basis financial statements. The Department also maintains records reflecting the allocation and determination of revenues and expenses being accounted for by individual billed service for federal reporting purposes. A reconciliation of the reporting differences between the Department's internal accounting records and the records maintained for federal purposes is also prepared by the Department. However, the Department does not reconcile the GAAP basis financial statements to the federal reporting and, as such, certain items have been reported differently in the GAAP basis financial statements than for federal reporting purposes. Specifically, we noted the following during our review of the fiscal year 2008 reconciliations that were completed by the Department during the audit period (in March 2009) for the Statistical Services Revolving Fund (SSRF), Communications Revolving Fund (CRF), and the Facilities Management Revolving Fund (FMRF):

- Expenses in the SSRF totaling \$2,566,000 were properly accrued and reported in the fiscal year 2008 GAAP basis financial statements but were not accrued for federal purposes in fiscal year 2008.
- Expenses in the FMRF totaling \$437,000 were properly accrued and reported in the fiscal year 2008 GAAP basis financial statements but were not accrued for federal purposes in fiscal year 2008.
- Equipment totaling \$4,140,000 purchased in the CRF during the fiscal year 2008 lapse period was reported as 2008 expenses for federal purposes but was capitalized in the fiscal year 2009 GAAP basis financial statements.
- Equipment totaling \$1,453,000 purchased in the SSRF during the fiscal year 2008 lapse period was reported as 2008 expenses for federal purposes but was capitalized in the fiscal year 2009 GAAP basis financial statements.

- Depreciation expense in the SSRF reported in 2008 for federal purposes was \$519,000 less than reported in the 2008 GAAP basis financial statements.
- Depreciation expense in the CRF reported in 2008 for federal purposes was \$1,537,000 less than reported in the 2008 GAAP basis financial statements.
- An increase in compensated absence liability in the SSRF totaling \$196,000 was reported as 2008 expenses for the GAAP basis financial statements but was not accrued for federal purposes in fiscal year 2008.
- An increase in compensated absence liability in the CRF totaling \$76,000 was reported as 2008 expenses for the GAAP basis financial statements but was not accrued for federal purposes in fiscal year 2008.
- An increase in compensated absence liability in the FMRF totaling \$217,000 was reported as 2008 expenses for the GAAP basis financial statements but was not accrued for federal purposes in fiscal year 2008.

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

Department officials stated that timing differences exist between the GAAP basis and federal reporting due to required filing deadlines and as a result of past practices and related acceptance by federal Department of Health and Human Services.

Failure to recognize revenues and expenses for federal purposes in accordance with generally accepted accounting principles represents noncompliance with the provisions of OMB Circular A-87 Cost Principles and could result in increases or decreases in the amount determined to be the federal share of excess retained earnings balances. (Finding Code No. 09-3, 08-2, 07-2)

RECOMMENDATION:

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

DEPARTMENT RESPONSE:

The Department concurs, and continues to adjust its accounting practices to reduce reconciling items.

09-4 FINDING: (Inadequate security and control over the midrange environment)

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

20 ILCS 405/405-410, effective January 15, 2005, authorized the Department to consolidate Information Technology functions of State government. The following agencies were participating in the consolidation project:

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

Although the consolidation was authorized in January 2005, the Department still did not maintain adequate security over the midrange environment. Specifically, during our review, we noted:

- Comprehensive standards to effectively secure and control the midrange environment had not been implemented across the midrange environment.
- Password length and content requirements were lacking.
- Some administrative and user accounts did not require passwords.
- Servers were not updated with the current vendor recommended patch or service pack levels.
- An effective backup media tracking process had not been established.

Department officials stated in order to provide immediate benefit of physical environment control, the Department relocated the non-standard server platforms into its data center which led to the need to support multiple, non-standard environments. Many of the underlying causes are a result of the decision to immediately relocate servers prior to standardization of the server configuration.

Generally accepted information technology guidance endorses the development of well-designed and well-managed controls to protect computer systems and data. Effective computer security controls provide for safeguarding, securing, and controlling access to hardware, software, and the information stored in the computer system.

Although the Department shares responsibility with consolidated agencies, the Department has the ultimate responsibility to effectively secure and control its midrange environment which supports agency applications and data. As outlined in 20 ILCS 405/405-10 (4) - It shall be the duty of the Director and the policy of the State of Illinois to manage or delegate the management of the procurement, retention, installation,

maintenance, and operation of all electronic data processing equipment used by State agencies in a manner that provides for adequate security protection. Since the Department has primary control over the midrange environment, it was incumbent upon them to ensure adequate controls existed to protect agency applications and data.

Without the implementation of adequate controls and procedures, there is a greater risk unauthorized access to the Department or agency resources may be gained and data destroyed or misused. Prudent business practices dictate the Department identify all assets and strengthen its security to protect its assets and resources against unauthorized access and misuse. (Finding Code No. 09-4, 08-07, 07-11)

RECOMMENDATION:

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

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

Specifically the Department should:

- Standardize password length and content requirements and ensure all accounts require a password.
- Update servers to current vendor recommended patch or service pack levels.
- Develop and implement an effective backup tracking process.

DEPARTMENT RESPONSE:

The Department concurs and will continue to strive toward standardization and maturity in the midrange environment.

In order to provide immediate benefit of physical environment control, DCMS relocated the non-standard server platforms into its data center which led to the need to support multiple, non-standard environments. Many of the underlying causes are a result of the decision to relocate servers prior to consolidation.

The current Architectural Review Board, Service Engineering Unit, and I.T. Governance process will continue efforts to implement standards, establish appropriate documentation and guidelines, and communicate with agencies. The recent purchase and installation of a comprehensive compliance monitoring product will help control users with security administration authority; identify users that should be deactivated for non-use, and help DCMS track server patch and service pack levels. As staff resources and budgets permit, the Department plans to schedule an enterprise assessment of its security controls.

09-5 FINDING: (Incomplete and inaccurate records over computer systems and equipment)

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

20 ILCS 405/405-410, effective January 15, 2005, authorized the Department to consolidate Information Technology functions of State government. The following agencies were participating in the consolidation project:

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

Although the consolidation was authorized in January 2005, the Department still did not maintain adequate records over the midrange environment. Specifically, during our review of approximately 1,300 servers, we noted 160 (12.3%) were not included in the Department listing. Due to the lack of complete and accurate information, we are unable to conduct detailed testing.

Department officials stated the deficiency is a result of incomplete and inaccurate records inherited from the legacy agencies.

20 ILCS 405/405-10 (4) states it shall be the duty of the Director and the policy of the State of Illinois to “manage or delegate the management of the procurement, retention, installation, maintenance and operation of all electronic data processing equipment used by State agencies...”

Additionally, 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 controls to provide assurance funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation.

The lack of complete, accurate, and detailed records also inhibits the Department’s ability to administer, secure, and monitor the midrange environment for consolidated agencies. With over 2,900 midrange servers under its control, it is imperative that detailed records be maintained to provide an accurate record of equipment inventory and a means to verify that security and integrity controls on individual servers are suitable and meet specific application requirements. (Finding Code No. 09-5, 08-8, 07-12)

RECOMMENDATION:

We recommend the Department ensure complete, accurate and detailed records are available to substantiate its midrange computer systems and equipment.

DEPARTMENT RESPONSE:

The Department concurs.

Many of the issues described are related to legacy environments, and these environments did not have adequate controls in place prior to moving the servers to the DCMS data center. Based on reviews of legacy agency prior audit reports, it is evident that these systems were not being effectively managed prior to their move and were at serious risk from an environmental and security perspective.

DCMS is currently pursuing the initiation of a project for a Configuration Management database. This database will replace the Technical Validation database, which represents all DCMS managed IT processing equipment. DCMS is also reconciling its databases against the legacy agency inventory systems to improve data integrity.

**STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

PRIOR FINDINGS NOT REPEATED

- A** **FINDING:** (Documentation of payroll costs not in compliance with federal regulations)

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

During the current period, we noted that the Department has taken steps to allocate salaries or wages for employees working on multiple activities on a basis that is allowed under federal regulations. The Department's initial change in methodology is acceptable and it is working to further refine the process to improve the accuracy of information reported in the federal cost allocation model. (Finding Code No. 08-3, 07-3)

- B** **FINDING:** (Inappropriate use of appropriation authority)

In the prior year, the Department used an interagency agreement to expend funds from another agency's appropriation for the payment of medical expenses under the Workers' Compensation program.

Effective July 18, 2008, Public Act 95-0744 amended the State Employees Group Insurance Act of 1971 (5 ILCS 375/13.1(d)(3.5)) to add that the payment of medical expenses incurred for the treatment of employees who suffer accidental injury or death within the scope of their employment may be paid from the Health Insurance Reserve Fund. This law change clarified the statute and supports the Department's current process. During the current period, we did not note any other instances where the Department made inappropriate use of appropriation authority. (Finding Code No. 08-5, 07-6)

- C** **FINDING:** (Inadequate control over property and equipment)

In the prior year, the Department had inadequate controls over property and equipment.

During the current period, the Department improved its controls over property and equipment. While we still noted exceptions in the current period, they were fewer in frequency and less in dollar amount. In addition, the Department adequately reported its annual inventory certifications in the current period. Because of the improvements noted in the current period, we have concluded that this issue should not be repeated as an internal control or compliance finding in regard to the financial statements. (Finding Code No. 08-6)