

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

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

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION  
For the Year Ended June 30, 2007

**TABLE OF CONTENTS**

<b>Agency Officials</b> .....	1
<b>Management Assertion Letter</b> .....	2
<b>Compliance Report</b>	
Summary .....	3
Independent Accountants' Reports	
Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes.....	6
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing</i> Standards.....	10
Schedule of Findings	
Current Findings ( <i>Government Auditing Standards</i> ) .....	12
Current Findings (State Compliance) .....	18
Prior Findings Not Repeated (State Compliance) .....	42
Status of Management Audit – KidCare Program.....	44
Status of Management Audit – Special Advocate for Prescription Drugs.....	45
<b>Financial Statement Report</b>	
Summary .....	55
Independent Auditors' Report.....	56
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets .....	58
Statement of Activities.....	59
Governmental Funds Financial Statements	
Balance Sheet.....	60
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets .....	61
Statement of Revenues, Expenditures and Changes in Fund Balance .....	62
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities .....	63
Proprietary Funds Financial Statements	
Statement of Net Assets .....	64
Statement of Revenues, Expenses and Changes in Fund Net Assets .....	65
Statement of Cash Flows .....	66
Fiduciary Funds Financial Statements	
Statement of Fiduciary Net Assets.....	67
Statement of Changes in Fiduciary Net Assets.....	68
Notes to the Financial Statements.....	69

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION  
For the Year Ended June 30, 2007

**TABLE OF CONTENTS (Continued)**

Combining and Individual Fund Financial Statements	
General Fund	
Combining Schedule of Accounts – General Fund.....	94
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance – General Fund.....	97
Non-major Governmental Funds	
Combining Balance Sheet – Non-major Governmental Funds.....	100
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-major Governmental Funds.....	102
Fiduciary Funds	
Combining Statement of Fiduciary Net Assets – Pension (and Other Employee Benefit) Trust Funds .....	104
Combining Statement of Changes in Fiduciary Net Assets – Pension (and Other Employee Benefit) Trust Funds.....	105
Combining Statement of Fiduciary Net Assets – Agency Funds .....	106
Combining Statement of Changes in Assets and Liabilities – Agency Funds.....	107
<b>Supplementary Information for State Compliance Purposes</b>	
Summary .....	108
Fiscal Schedules and Analysis	
Schedule of Expenditures of Federal Awards .....	109
Notes to the Schedule of Expenditures of Federal Awards.....	110
Schedule of Appropriations, Expenditures and Lapsed Balances.....	113
Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances.....	120
Locally Held Funds – Cash Basis Schedule.....	132
Schedule of Changes in State Property .....	133
Comparative Schedule of Cash Receipts and Transfers.....	134
Reconciliation of Cash Receipts and Transfers to Deposits Remitted to the Comptroller .....	140
Analysis of Significant Variations in Expenditures .....	144
Analysis of Significant Variations in Receipts.....	149
Analysis of Significant Lapse Period Spending .....	154
Analysis of Significant Balance Sheet Accounts .....	156
Analysis of Accounts Receivable.....	162
Indirect Cost Reimbursements (Unaudited).....	163
Schedule of Adjudication Pattern, Payment Patterns and Claims Paid (Unaudited).....	164

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION  
For the Year Ended June 30, 2007

**TABLE OF CONTENTS (Continued)**

Analysis of Operations	
Department Functions and Planning Program.....	165
Average Number of Employees .....	169
Fiscal Year Statistics – Medicaid Enrollment (Unaudited).....	170
Emergency Purchases.....	171
Service Efforts and Accomplishments (Unaudited).....	173

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION  
For the Year Ended June 30, 2007

**AGENCY OFFICIALS**

Director	Barry S. Maram
Assistant Director	Vacant
Deputy Directors	
Community Outreach	Peter F. Viña
Administrative Operations	Charles A. Jackson
Human Resources	Kevin Connor
Policy	Krista Donahue (3/12/07 – Current)
General Counsel	Nancy Shalowitz (7/01/06 to 12/28/07)
General Counsel	Kyong Lee (Acting) (12/31/07 – Current)
Inspector General	John C. Allen
State Purchasing Officer	Thomas Meirink
Chief Operating Officer	Tamara Hoffman (1/01/07 – 06/30/07)
Administrators	
Division of Child Support Enforcement	Pamela Lowry
Division of Finance	Michael Moss
Division of Medical Programs	Anne Marie Murphy (7/01/06 – 1/15/07)
Division of Medical Programs	Theresa Eagleson (4/01/07 – Current)
Chiefs	
Office of Legislative Affairs	Bresha Brewer
Office of Fiscal Management	Jack Dodds
Office of Planning	Laura Zaremba (10/02/06 – Current)
Office of Healthcare Purchasing	Alan Biggerstaff (Acting)
Office of Information Services	Ivan Handler

Department of Healthcare and Family Services offices are located at:

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June 12, 2008

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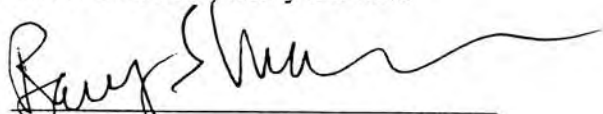
Ladies and Gentlemen:

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

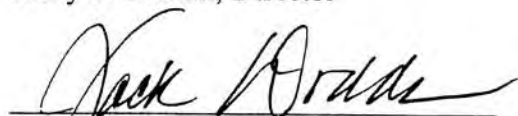
- A. The agency has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The agency has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The agency has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the agency are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
- E. The money or negotiable securities or similar assets handled by the agency on behalf of the State or held in trust by the agency have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Yours very truly,

Healthcare and Family Services



Barry S. Maram, Director



Jack Dodds, Chief Fiscal Officer



Kyong Lee, Acting General Counsel

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION  
For the Year Ended June 30, 2007

**COMPLIANCE REPORT**

**SUMMARY**

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

**ACCOUNTANTS' REPORT**

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

**SUMMARY OF FINDINGS**

<u>Number of</u>	<u>This Report</u>	<u>Prior Report</u>
Findings	15	10
Repeated findings	5	4
Prior recommendations implemented or not repeated	5	4

Details of *Government Auditing Standards* findings are issues related to significant deficiencies and material weaknesses in internal control over financial reporting. Details of *Government Auditing Standards* and State Compliance findings are presented in a separately tabbed report section.

**SCHEDULE OF FINDINGS**

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
FINDINGS ( <i>GOVERNMENT AUDITING STANDARDS</i> )		
07-1	12	Financial statement preparation
07-2	16	Inappropriate use of appropriation authority

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION  
For the Year Ended June 30, 2007

FINDINGS (STATE COMPLIANCE)

07-3	18	Hospital improvement access payments not paid timely
07-4	20	Terms of Cook County intergovernmental agreement not complied with
07-5	21	Payments for Information Technology services without supporting documentation
07-6	23	Voucher processing weaknesses
07-7	25	Interest not paid on intercepted State income tax refunds
07-8	27	Lack of adequate written internal policies and procedures
07-9	29	Grants not approved or closed out timely
07-10	31	Failure to receive or review external A-133 grantee audits in a timely manner
07-11	33	Inadequate controls over personal services
07-12	35	Failure to comply with interagency agreements
07-13	36	Inadequate supporting documentation
07-14	38	Inadequate controls over travel expenditures
07-15	41	Failure to comply with the provisions of the Alternative Healthcare Delivery Act

PRIOR FINDINGS NOT REPEATED (STATE COMPLIANCE)

07-16	42	Department did not follow procedures for disposal of confidential information
07-17	42	Time sheets not maintained in compliance with the State Officials and Employees Ethics Act
07-18	42	Premiums not billed for all required children
07-19	43	Computer disaster recovery plans not tested
07-20	43	Reports of reorganization not filed as required



STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION  
For the Year Ended June 30, 2007

**EXIT CONFERENCE**

The Department declined an exit conference in regard to the State Compliance findings. Responses to the recommendations were provided by Peggy Edwards, Audit Liaison for the Department, on April 10, 2008.

The financial audit findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on May 22, 2008. Attending were:

Department of Healthcare and Family Services

Elvin Lay, Fiscal Chief  
Gary Casper, Fiscal Manager  
Michael Moss, Administrator, Division of Finance  
Chris Butkauskas, Administrative Assistant  
Laura Zaremba, Deputy Director, Office of Planning  
Peggy Edwards, External Audit Liaison  
Connie Christen, Administrative Assistant II

Carol Kraus, Chief Internal Auditor, Illinois Office of Internal Audit  
Patrick Hagan, Partner, Deloitte & Touche, LLP

Office of the Auditor General

Georgine Stephens, Assistance Director  
Teresa Davis, Audit Manager  
Paula Sorensen, Audit Supervisor

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OFFICE OF THE AUDITOR GENERAL  
WILLIAM G. HOLLAND

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

Honorable William G. Holland  
Auditor General  
State of Illinois

**Compliance**

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

- A. The State of Illinois, Department of Healthcare and Family Services has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The State of Illinois, Department of Healthcare and Family Services has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The State of Illinois, Department of Healthcare and Family Services has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the State of Illinois, Department of Healthcare and Family Services are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the State of Illinois, Department of Healthcare and Family Services on behalf of the State or held in trust by the State of Illinois, Department of Healthcare and Family Services have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

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

As described in finding 07-2 in the accompanying schedule of findings, the State of Illinois, Department of Healthcare and Family Services did not comply with requirements regarding:

- A. The State of Illinois, Department of Healthcare and Family Services has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The State of Illinois, Department of Healthcare and Family Services has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The State of Illinois, Department of Healthcare and Family Services has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

As described in finding 07-3 in the accompanying schedule of findings, the State of Illinois, Department of Healthcare and Family Services did not comply with requirements regarding:

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

Compliance with such requirements is necessary, in our opinion, for the State of Illinois, Department of Healthcare and Family Services to comply with the requirements listed in the first paragraph of this report.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Illinois, Department of Healthcare and Family Services complied, in all material respects, with the requirements listed in the first paragraph of this report during the year ended June 30, 2007. However, the results of our procedures disclosed other instances of noncompliance, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as findings 07-4, 07-5, 07-6, 07-7, 07-8, 07-9, 07-10, 07-11, 07-12, 07-13, 07-14, and 07-15. As required by the Audit Guide, immaterial findings relating to instances of noncompliance excluded from this report have been reported in a separate letter.

## Internal Control

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

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to comply with the requirements listed in the first paragraph of this report such that there is more than a remote likelihood that noncompliance with a requirement that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance as described in the accompanying schedule of findings as findings 07-1, 07-2, 07-4, 07-5, 07-6, 07-7, 07-8, 07-9, 07-10, 07-11, 07-12, 07-13, and 07-14 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings, we consider items 07-1 and 07-2 to be material weaknesses.


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

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

### Supplementary Information for State Compliance Purposes

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Healthcare and Family Services as of and for the year ended June 30, 2007, which collectively comprise the State of Illinois, Department of Healthcare and Family Services' basic financial statements, and have issued our report thereon dated June 12, 2008. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the State of Illinois, Department of Healthcare and Family Services. The 2007 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2007 taken as a whole. We have also previously audited, in accordance with auditing standards generally accepted in the United States, the State of Illinois, Department of Healthcare and Family Services' basic financial statements for the year ended June 30, 2006. In our report dated January 8, 2007, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information. In our opinion, the 2006 Supplementary Information for State Compliance Purposes, except for the portion marked "unaudited" is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2006, taken as a whole.

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



Bruce L. Bullard, CPA

Director of Financial and Compliance Audits

June 12, 2008



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OFFICE OF THE AUDITOR GENERAL  
WILLIAM G. HOLLAND

INDEPENDENT ACCOUNTANTS' 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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Healthcare and Family Services, as of and for the year ended June 30, 2007, which collectively comprise the State of Illinois, Department of Healthcare and Family Services' basic financial statements, and have issued our report thereon dated June 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Illinois, Department of Healthcare and Family Services' internal control over financial reporting in order to determine 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 Healthcare and Family Services' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Department of Healthcare and Family Services' internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process,

or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting as items 07-1 and 07-2.

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

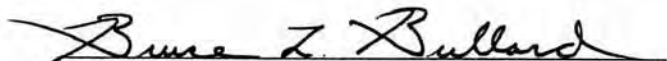
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 07-1 and 07-2 to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Department of Healthcare and Family Services' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 item 07-2.

The State of Illinois, Department of Healthcare and Family 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 Healthcare and Family Services' response and, accordingly, we express no opinion on it.

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

  
Bruce L. Bullard, CPA  
Director of Financial and Compliance Audits

June 12, 2008

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (GOVERNMENT AUDITING STANDARDS)**  
For the Year Ended June 30, 2007

07-1. **FINDING** (Financial statement preparation)

The Illinois Department of Healthcare and Family Services (Department) did not provide the auditors with timely and accurate financial statements.

The Department did not provide complete Departmental financial statements for the year ended June 30, 2007 to the auditors until March 4, 2008. In addition, the Department did not provide the Hospital Provider Fund's (Fund 346) GAAP Package to the auditors for testing until March 18, 2008. Departmental financial statements were received nine months after the year end and the Hospital Provider Fund's GAAP Package was received nine and a half months after year end. Concepts Statement of Governmental Accounting Standards Board (GASBCS 1, paragraph 66) states "if financial reports are to be useful, they must be issued soon enough after the reported events to affect decisions. Timeliness alone does not make information useful, but the passage of time usually diminishes the usefulness that the information otherwise would have had."

The Statement of Activities provided to the auditors required a material correction to the governmental activities section of the financial statements. Operating grants and contributions (program revenues) for the health and social services function was overstated and other taxes (general revenues) was understated by approximately \$599 million. The financial statements should reflect the actual results of operations in accordance with generally accepted accounting principles.

The Department's management has the ultimate responsibility for the Department's internal control system and the accuracy and completeness of the Department's financial statements to ensure that the financial statements and GAAP Packages are timely and accurate.

Department management stated that the financial statement delay was caused by the considerable research that was required to ensure transactions associated with the Hospital Assessment Tax program were properly recorded. Department management further stated in relation to the \$599 million revenue misclassification issue that it was correctly classified in the GAAP packages but was erroneously transcribed while preparing one set of the financial statements, however the revenue was correctly classified within the final statements.

The late submission of Departmental financial statements and the Hospital Provider Fund's GAAP package causes delays in the audit process and impacts departmental and State-wide reporting. In addition, lack of a thorough review process could result in misstatements or omissions in the financial statements. (Finding Code No. 07-1)



STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (GOVERNMENT AUDITING STANDARDS)**  
For the Year Ended June 30, 2007

**RECOMMENDATION**

We recommend the Department review its current process for the preparation and review of Departmental financial statements and allocate the resources necessary to ensure Departmental financial statements and Fund GAAP Packages are completed on a timely basis and are accurate.

**DEPARTMENT RESPONSE**

The Department partially agrees with the finding. Extenuating circumstances led to the Department requiring more time to provide financial statement information relative to the Hospital Provider Fund. The Department was unable to fully execute requirements set forth in 305 ILCS 5/5A of the Public Aid Code, in regards to a payment schedule originally anticipated as \$2.4 billion in payments be made to eligible hospitals in FY'07, to be used to improve access to services for Medicaid clients. However, for FY'07 the Department originally only received \$1.2 billion in appropriation authority from the General Assembly to the Hospital Provider Fund (HPF) for execution of the statutory requirement. Supplemental appropriation language requesting an additional \$1.2 billion was submitted, but was not passed by the legislature until June 13, 2007 and was subsequently passed into law August 13, 2007. The payments were not rendered due to the minimal time available to utilize the supplemental appropriation and the lack of the required funding. The payments were made in September 2007.

As a result of the Department's inability to execute the payments as stated in 305 ILCS 5/5A-12.1, significant research was conducted to ensure the transactions associated with the Hospital Assessment Tax (HAT) were properly accounted for in the Department's financial statements. At the forefront of the research were whether or not a liability existed as of June 30, 2007 and the fair presentation of the true financial position of the Department and State for FY'07. Consideration was given to: defining the nature of the Access Improvement Payments (AIP's) and the resulting federal reimbursement and assessment tax revenues, the legal existence of a liability, the statutory interpretation, revenue recognition criteria, and the overall presentation of the financial statement to the reader. The Department solicited in-house counsel, the Chief Internal Auditor, contracted external counsel, an international accounting firm, as well as the Governmental Accounting Standards Board to assist in assessing the proper reporting of the transactions associated with the HAT for the reporting period ending June 30, 2007.

The principal reporting concern of the Department was the potential for misleading a reader of the financial statements by recording payments occurring in FY'08 as a liability in FY'07, without recording the corresponding revenue. At the fund reporting level, since the revenue is received beyond 60 days of the year-end, the State's revenue recognition criteria requires the revenue associated with the \$1.2 billion to essentially not be recognized. The process of the HAT is to pay AIP's in the amount of \$1.2 billion to eligible hospitals through the use of short-term borrowing (STB). Once paid, HFS is able

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (GOVERNMENT AUDITING STANDARDS)**  
For the Year Ended June 30, 2007

to claim the AIP's to the federal government to generate \$600 million in new federal revenue and the recipient hospitals are able to pay \$734 million in assessment tax to the Department. All transactions occur within approximately a one-month period, allowing the State to repay the STB and net \$134 million in additional revenues. Recording the liability in FY'07 in essence doubles the expenditures in FY'07 and the revenues in FY'08, without achieving the effect of offsetting each other, as was intended by the HAT program. The overall impact is \$1.34 billion in revenues over the \$1.2 billion in expenditures, creating a net income of \$134 million. The entirety of the transaction is administered within the HPF.

The following illustrates the history of the program since the November 2006 federal approval (amounts expressed in thousands):

FY	AIP payment	New Federal Revenue	HAT Tax Receipt	Rev Gain to State
2006	-0-	-0-	-0-	-0-
2007	\$1,198	\$599	\$733	\$134
2008	\$2,398	\$1,199	\$1,467	\$268

As shown in the table above, if the revenue was recorded to match the fiscal year 2007 liability, the net effect for each of the AIP payments is \$134 million of discretionary new federal revenue to be used by the State.

Following multiple conversations with the OAG, it was determined to work closely to further disclose the impact of the revenue associated with the HAT. As a result, further language was added to both the Fund Deficit and Subsequent Event footnotes to explain the associated transactions and to ensure full disclosure within the financial statements. The further explanation of the increased revenue to the State through expanded footnote disclosure enabled the Department to concur with recording the payment to the hospitals. The Department will continue to work closely with the OAG to ensure all material transactions are properly and accurately disclosed and reported.

As to the \$599 million misclassification issue, the revenue was correctly classified in the GAAP package as submitted to the Office of the Comptroller. Within statements submitted to the OAG, the revenue amount was erroneously transcribed on the Comptroller's form SCO 555 by Department staff as program revenue instead of general revenue. Per the SAMS manual, the IOC is responsible for the completion of the SCO 555. However this form was not completed by the IOC for the FY'07 financial statements, which resulted in Department staff having to complete and submit. The Department will more closely review transactions posted on the SCO 555 whenever necessary.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (GOVERNMENT AUDITING STANDARDS)**  
For the Year Ended June 30, 2007

**AUDITORS' COMMENT**

The Department refers to “extenuating circumstances” as justification for its untimely and inaccurate submission of Departmental financial statements. While the issues surrounding the Hospital Provider Fund were complicated, these matters were first brought to the Department’s attention on June 19, 2007 and should have been and could have been dealt with by the Department in a timely manner. Instead, financial statements due November 15, 2007, were not submitted by the Department to the auditors until March 4, 2008 – nearly four months late – and only then in response to notice from the Auditor General that all audit activity was suspended and would not be resumed until delinquent information was provided by the Department.

Ultimately, the Department agreed with the financial statement presentation for the Hospital Provider Fund recommended by the Comptroller in a December 2007 position paper. The Department was also informed in December 2007 that the auditors agreed with the Comptroller’s position. This financial statement presentation, however, was not adopted by the Department until May 27, 2008, and only after the Department had expended considerable human and fiscal resources on this issue. In addition to in-house legal counsel, the Chief Internal Auditor, and staff and a consultant from the Governor’s Office, the Department used contractual assistance from both a law firm and an accounting firm on this issue. Unfortunately, the Department’s attention to this matter was not timely. For instance, the Department contracted with the accounting firm on the due date of the Auditor General’s final demand for the outstanding documents.

To have value, the auditors believe financial statements must not only be accurate but must also be timely. The Department’s actions resulted in significant delays in the financial reporting process, were dilatory and were a disservice to the users of the State’s financial reports.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (GOVERNMENT AUDITING STANDARDS)**  
For the Year Ended June 30, 2007

07-2. **FINDING** (Inappropriate use of appropriation authority)

The Illinois Department of Healthcare and Family Services (Department) made inappropriate payments of Workers' Compensation Act claims from its appropriation for health care coverage per the State Employees Group Insurance Act of 1971.

Public Act 94-0798 appropriated to the Department \$1,785,234,100 from the Health Insurance Reserve Fund for "provisions of health care coverage as elected by eligible members per the State Employees Group Insurance Act of 1971."

The same Public Act appropriated to the Department of Central Management Services (DCMS) \$108,200,000 from the Workers' Compensation Revolving Fund for "payment of Workers' Compensation Act claims and contractual services in connection with said claims payments."

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

Department management stated that the State Employee Group Insurance Act allows for payment of medical expenses from the Health Insurance Reserve Fund. The Department further stated that they would not be seeking any reimbursement to the Health Insurance Reserve Fund for any Workers' Compensation medical payments made in fiscal year 2007.

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

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

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (GOVERNMENT AUDITING STANDARDS)**  
For the Year Ended June 30, 2007

The interagency agreement, established between the Department and DCMS, and the related payments circumvents the appropriation process and distorts the cost of the two separate programs. In addition, it causes the payment certification required by the State Finance Act to be inaccurate since the certification states, in part, “. . . the goods or services specified on this voucher were for the use of this agency.. (Finding Code No. 07-2)

**RECOMMENDATION**

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

**DEPARTMENT RESPONSE**

The Department respectfully disagrees with this finding. As reviewed by the CMS legal counsel, the State Employees Group Insurance Act allows for payment of medical expenses from the HIRF (5 ILCS 375/13.1), and the Department paid for such medical expenses, through an Interagency Agreement (IA) with Central Management Services. The HFS Office of the General Counsel has reviewed the Intergovernmental Cooperation Act (5 ILCS 220/4.5) and determined that the State Finance Act precludes an agency from doing something via an interagency agreement that it could not do directly. However, the State Employee Group Insurance Act allows for payment of medical expenses from HIRF (5 ILCS 375/13.1). HFS, via the IA with CMS, paid medical expenses from HIRF associated with the Worker’s Compensation Program, for which the liability for those expenses sits with the Workers' Compensation Act. An appropriation to another agency to pay other expenditures incurred under the Workers' Compensation Act does not preclude payment via this IA.

**AUDITORS’ COMMENT**

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

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (STATE COMPLIANCE)**  
For the Year Ended June 30, 2007

07-3. **FINDING** (Hospital improvement access payments not paid timely)

The Illinois Department of Healthcare and Family Services (Department) did not pay the fiscal year 2007 hospital improvement access payments on a timely basis.

The Department paid all fiscal year 2007 hospital improvement access payments totaling \$1.2 billion on September 25, 2007 (fiscal year 2008). The fiscal year 2007 payments for the first two quarters were due by March 8, 2007, the third quarter payment was due by March 9, 2007 and the fourth quarter payment was due by May 9, 2007.

The Illinois Public Aid Code (305 ILCS 5/5A-12.1) requires that once payment methodologies and other criteria are approved by the Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services, the Department must pay hospital improvement access payments within 100 days of the latest notification or in equal quarterly installments by the 7<sup>th</sup> business day of September, December, March and May. Federal government approval was received on November 28, 2006, therefore, the fiscal year 2007 payments for the first two quarters became due 100 days after approval and the third and fourth quarters were due by the 7<sup>th</sup> business day of March and May, respectively.

Department management stated that the appropriation to make the above referenced payments was not available as of May 9, 2007.

Delayed hospital improvement access payments to hospital providers is in non-compliance with the Illinois Public Aid Code. (Finding Code No. 07-3)

**RECOMMENDATION**

We recommend the Department comply with the Illinois Public Aid Code and ensure that adequate funding is secure to make the hospital improvement access payments as required.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (STATE COMPLIANCE)**  
For the Year Ended June 30, 2007

**DEPARTMENT RESPONSE**

The Department has and will ensure that payments are timely made when sufficient spending authority exists. The Department was unable to fully execute requirements set forth in 305 ILCS 5/5A of the Public Aid Code, in regards to a payment schedule originally anticipated as \$2.4 billion in payments be made to eligible hospitals in FY'07, to be used to improve access to services for Medicaid clients. However, for FY'07 the Department originally only received \$1.2 billion in appropriation authority from the General Assembly to the Hospital Provider Fund (HPF) for execution of the statutory requirement. Supplemental appropriation language requesting an additional \$1.2 billion was submitted, but was not passed by the legislature until June 13, 2007 and was subsequently passed into law August 13, 2007. The payments were not rendered due to the minimal time available to utilize the supplemental appropriation and the lack of the required funding. The payments were made in September 2007.

Therefore, given that the General Assembly first acted on these appropriations in June 2007, the Department could not have paid the AIP at the May 9, 2007 date. Further, the Department made the payments at the earliest possible point after appropriations and funding became available.

**AUDITORS' COMMENT**

The supplemental appropriation was passed by the General Assembly on May 31, 2007 and sent to the Governor on June 14, 2007.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (STATE COMPLIANCE)**  
For the Year Ended June 30, 2007

07-4. **FINDING** (Terms of Cook County intergovernmental agreement not complied with)

The Illinois Department of Healthcare and Family Services (Department) did not require Cook County (County) to comply with an Intergovernmental Agreement (Agreement) that was executed between the Department and the County.

The Department allowed the County to adjust the timing and submit the County's Secondary Transfer Payments according to a payment schedule established in a proposed amendment to the Agreement. The proposed amendment was never executed and as of June 30, 2007, the Department had not collected the entire amount of the Secondary Transfer Payments as required by the Agreement. The County has not paid \$10 million of the entire balance of the transfer, which was due by April 30, 2007. The Department also granted the County an extension until December 1, 2007 to remit the \$10 million payment without a proper amendment to the Agreement.

The Intergovernmental Agreement between the Department and the County requires the County to submit secondary transfer payments for each annual rate period on a quarterly basis in amounts specified by the Intergovernmental Agreement.

Department management stated that the Department and the County agreed to delay repayment of the final \$10 million until December 1, 2007, due to cash flow issues faced by Cook County, and the critical role that is performed by the County's three hospitals.

As of June 30, 2007, \$10 million remains due to the General Revenue Fund from the County. Failure to comply with the established Intergovernmental Agreement could result in underpayment or improper payment by the County.

Furthermore, good business practices state that terms of all binding agreements should be properly complied with and that every reasonable effort should be made to maximize State revenues through prompt billing and collection of amounts owed to the State and timely deposit of revenues into the State Treasury. (Finding Code No. 07-4)

**RECOMMENDATION**

We recommend the Department require the County to comply with the terms of the Intergovernmental Agreement between the Department and the County. Furthermore, we recommend the Department execute proposed amendments prior to implementing the proposed terms.

**DEPARTMENT RESPONSE**

The Department agrees with the finding and has taken steps to ensure that the County complies with the terms of the Intergovernmental Agreement. Monies due to the Department have been recouped according to the terms of the agreement.



STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (STATE COMPLIANCE)**  
For the Year Ended June 30, 2007

07-5. **FINDING** (Payments for Information Technology services without supporting documentation)

The Illinois Department of Healthcare and Family Services (Department) made payments for Information Technology (consolidated services) to the Department of Central Management Services without supporting documentation.

Each month the Department of Central Management Services provided the Department a billing statement indicating the total charged to the Department. The Department did not receive sufficient supporting documentation to ensure the charges were for services incurred on their behalf.

During our audit, we reviewed eight billings, totaling \$3,730,252 and we noted the Department did not obtain detailed support for payroll charges of \$2,306,225. The Department received a spreadsheet indicating the charge for each employee; however, there was no detail to determine if the employee worked on behalf of the Department.

The Statewide Accounting Management System (SAMS) (Procedure 17.10.30) requires each agency head or designated individual to pre-audit invoices for the purpose of determining the legality and propriety of a proposed transaction or a transaction in process. Without proper detailed documentation, the Department was unable to determine propriety of the charges. In addition, SAMS (Procedure 17.10.20) requires each State agency maintain all supporting documentation necessary to substantiate their expenditures.

The Department stated that sufficient documentation was provided by Central Management Services to process the Information Technology billings for payment.

Failure to obtain adequate supporting documentation, could lead to the Department paying for goods and services not incurred on their behalf. (Finding Code No. 07-5)

**RECOMMENDATION**

We recommend the Department obtain adequate supporting documentation to ensure all charges are on behalf of the Department.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (STATE COMPLIANCE)**  
For the Year Ended June 30, 2007

**DEPARTMENT RESPONSE**

The Department respectfully disagrees with this finding. Upon receipt of the vouchers from Central Management Services (CMS), the Department did not have adequate detail to process the payments and at that time disputed the billings. The Department conducted a series of communications over the need for detail and CMS presented information on daily time allocation of hours collected on their Service Center Allocation System (SCAS). According to CMS these hours were individually certified and approved by supervisory staff. Based on this information the Department felt that sufficient documentation had been provided to ensure that all charges were incurred on behalf of the Department and payments were processed.

In December of 2007, CMS went to a further extent and provided the Department with an affidavit attesting to the correctness of the billings for FY 2007.

The Department will continue to review all vouchers with the same intensity towards accuracy and detail as before and will continue to maintain the requirement for all detail to be presented before any voucher is processed for payment.

**AUDITORS' COMMENT**

The Department made expenditures without adequate supporting documentation. Although the Department states the individual hours were certified and approved by their supervisor, this information was not obtained by the Department until March 18, 2008. In addition, the Department did not obtain an affidavit attesting to the correctness of the fiscal year 2007 billings until December 4, 2007.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (STATE COMPLIANCE)**  
For the Year Ended June 30, 2007

07-6. **FINDING** (Voucher processing weaknesses)

The Illinois Department of Healthcare and Family Services (Department) did not exercise adequate internal control over voucher processing. We noted the following:

- During lapse period voucher testing, we noted the Department paid \$1,619,391 for medical services that were performed during fiscal year 2008 from fiscal year 2007 appropriations. The State Finance Act (30 ILCS 105/25) states that outstanding liabilities as of June 30, payable from appropriations which have otherwise expired, may be paid out of the expiring appropriations during the 2-month period ending at the close of business on August 31<sup>st</sup>. The medical procedures for which payment was made were not performed as of June 30, 2007 and therefore should not be charged against fiscal year 2007 appropriations. The Department management stated that prior to the discovery of this issue there were system controls already in place in the NIPS/Pharmacy and Hospital/LTC claiming systems to prevent the payment of current fiscal year services from prior fiscal year funds. Once this issue was reported, further examination revealed that under certain conditions these controls were not handling all situations adequately.
- The Department did not pay interest on vouchers as required by the State Prompt Payment Act. The Department estimated at June 30, 2007 that approximately \$16.13 million of automatic interest and \$1.47 million of requested interest was owed to vendors supplying medical services. The State Prompt Payment Act (30 ILCS 540/3-2) requires agencies to determine whether interest is due and automatically pay interest penalties amounting to \$50 or more to the appropriate vendor when payment is not issued within 60 days after receipt of a proper bill. For interest of at least \$5 but less than \$50, the vendor must initiate a written request for the interest penalty when such interest is due and payable. Department management stated that they had implemented an automated procedure to calculate the interest penalties. The Department's calculation and payment of Prompt Payment Act interest is examined in detail in the Auditor General's May 2008 performance audit of the Department of Healthcare and Family Services' Prompt Payment Act Compliance and Medicaid Payment Process.
- Six of 44 (14%) internal service vouchers tested, totaling \$189,242, were approved for payment from 7 to 22 days late. The Illinois Administrative Code (74 Ill. Admin. Code 1000.50) requires user agencies to process payments within 30 days after physical receipt of Internal Service Fund bills. Department management stated that bills are distributed to different program areas throughout the agency for detailed supervisory reviews and approvals, which sometimes result in delays in processing.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (STATE COMPLIANCE)**  
For the Year Ended June 30, 2007

Failure to pay the required interest on vouchers is noncompliance with the State Prompt Payment Act. In addition, failure to approve internal service vouchers timely is noncompliance with the Illinois Administrative Code. Further, failure to charge expenses to the correct fiscal year's appropriation is a violation of the State Finance Act. (Finding Code No. 07-6, 06-3)

**RECOMMENDATION**

We recommend the Department comply with the Illinois Administrative Code and the State Prompt Payment Act and implement controls to ensure vouchers are approved within the required time frame and to automatically pay interest of \$50 or more on all vouchers not paid within 60 days. Further, the Department should pay expenses with the correct fiscal year's appropriation unless otherwise permitted by law.

**DEPARTMENT RESPONSE**

The Department agrees with this finding. Prior to the discovery of this issue there were system controls already in place in the NIPS/Pharmacy and Hospital/LTC claiming systems to prevent the payment of current fiscal year services from prior fiscal year funds. Once this issue was reported, further examination revealed that under certain conditions these controls were not handling all situations adequately. A problem request (PRR) was written to have the Bureau of Information Systems (BIS) address the issue. Coding changes were made by BIS to correct the issue. These changes have been tested and the changes have been implemented in the production environment to prevent this from occurring in the future.

The Department believes that its newly automated procedures for payment of interest will enable those payments to be made timely.

In addition, procedures are in effect to process telecom vouchers timelier. Reminders are sent with each voucher to the program areas requesting that the vouchers be reviewed and returned to Fiscal Operations within two weeks of receipt.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (STATE COMPLIANCE)**  
For the Year Ended June 30, 2007

07-7. **FINDING** (Interest not paid on intercepted State income tax refunds)

The Illinois Department of Healthcare and Family Services (Department) did not comply with the Illinois Public Aid Code regarding State income tax refunds and other payments that were intercepted.

During our review of state income tax refunds that were erroneously or wrongfully intercepted by the Department, we noted 8 of 15 (53%) payees did not receive the proper interest. After further review, it was noted that the Department could potentially owe interest on approximately 300 of 4,371 intercepted payments.

We also noted during our review of the process of interest payments made to the payee for erroneously or wrongfully intercepted state income tax refunds, that the Key Information Delivery System (KIDS) is not capable of automatically calculating interest on intercepted state income tax refunds. In addition, the KIDS system does not generate reports detailing refunds that are due interest. As a result, the Department does not know how much interest is currently due on intercepted state income tax refunds.

The Illinois Public Aid Code (305 ILCS 5/10-17.5) requires the Department in any case where a state income tax refund is intercepted wrongfully or erroneously, to pay to such relative and any joint payee affected the amount of the refund plus interest, if any, on such amount at the rate of 9% per annum (or at such adjusted rate as is established under Section 6621(b) of the Internal Revenue Code). Interest shall be calculated from the date the Department receives the refund or from 60 days following the date the Department receives a request to be heard, whichever is later, until the date of payment to such relative and joint payee.

Department management stated that prior to the adoption of the Key Information Delivery System (KIDS), the interest due on wrongfully or erroneously intercepted state income tax refunds was manually calculated. With the implementation of the KIDS system it was thought that the interest due on these refunds would automatically be calculated.

Failure to account for interest accrued on wrongfully or erroneously intercepted state tax refunds results in noncompliance with the Illinois Public Aid Code. (Finding Code No. 07-7)

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (STATE COMPLIANCE)**  
For the Year Ended June 30, 2007

**RECOMMENDATION**

We recommend the Department comply with the Illinois Public Aid Code by strengthening its controls to ensure all wrongfully or erroneously intercepted state income tax refunds are properly refunded with interest, if any. Further, the Department should pay interest to all individuals who are entitled due to their state income tax refunds being erroneously or wrongfully intercepted.

**DEPARTMENT RESPONSE**

The Department agrees with this finding and has developed and implemented a system to automatically identify interest due on intercepted State income tax refunds. Interest is now being identified and paid on a quarterly basis.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (STATE COMPLIANCE)**  
For the Year Ended June 30, 2007

07-8. **FINDING** (Lack of adequate written internal policies and procedures)

The Illinois Department of Healthcare and Family Services (Department) did not have adequate written internal policies and procedures for the Office of Energy Assistance.

The Department's Office of Energy Assistance is responsible for the administration of the Low Income Home Energy Assistance Program (LIHEAP) and the Illinois Home Weatherization Assistance Program (IHWAP). These two programs provide assistance to low income residents to pay for winter energy services. The Department enters into grant agreements with service agencies to assist the Department in administering the program. The Department does not have adequate written policies and procedures related to the internal functions that are required by the Office of Energy Assistance, such as grant agreement processing, the monitoring of grant agreements, the process of closing out grant agreements, and the review of service agency audit reports. The Department expended approximately \$230 million for these two programs.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the establishment and maintenance of a system of internal controls to provide assurance that resources are utilized efficiently, effectively, and in compliance with applicable law. Further, good business practice requires the use of policy statements and procedure manuals to guide employee's actions. The Department should have written policies and procedures in place for the Office of Energy Assistance, which will allow employees to expedite processes and mitigate personnel changeover lag time.

The lack of formal policies and procedures can lead to inconsistency and can slow down procedures. In addition, the lack of formal policies and procedures can also lead to costly lag times during personnel turnover. (Finding Code No. 07-8)

**RECOMMENDATION**

We recommend the Department develop formal written policies and procedures to govern the activities of the employees of the Office of Energy Assistance.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (STATE COMPLIANCE)**  
For the Year Ended June 30, 2007

**DEPARTMENT RESPONSE**

The Department respectfully disagrees with this finding. The Department provided the Annual Fiscal Monitoring Procedures, Grant Processing Procedures, and Grant Closeout Procedures. Based on feedback from the auditors the Grant Processing Procedures and Grant Closeout Procedures were enhanced and were subsequently provided to the audit staff. No enhancement to the Annual Fiscal Monitoring Procedures were recommended by the audit staff.

The processing of the A-133 Single Audit reviews are performed within the Bureau of Budget and Cash Management, and therefore, the Procedure Manual for A-133 Single Audit Reviews (July 2007), and Sanction Procedures for A-133 Single Audit Requirements are maintained in their office. These manuals were also subsequently provided.

**AUDITORS' COMMENT**

The auditors requested all internal policies and procedures in regard to the Office of Energy Assistance on April 5, 2007 and the auditors received a memo on April 19, 2007 from the Department stating "The Office of Energy Assistance is in the process of developing internal procedure manuals." We were provided "Grant Processing Procedures" and "Closeout Package Procedures" after the end of the fiscal year, however, after the auditors reviewed these procedures, they did not appear to be adequate and did not address the specific processes that needed to be performed. The revised procedures were provided on March 14, 2008 and were not dated so the auditors could not determine whether the revised procedures were completed prior to the end of the fiscal year.



STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (STATE COMPLIANCE)**  
For the Year Ended June 30, 2007

07-9. **FINDING** (Grants not approved or closed out timely)

The Illinois Department of Healthcare and Family Services (Department) did not approve or close out Low Income Home Energy Assistance Program (LIHEAP) and Illinois Home Weatherization Assistance Program (IHWAP) grants in a timely manner. We noted the following during detail testing of LIHEAP and IHWAP grant agreements:

- Fifty of 50 (100%) LIHEAP and IHWAP grant agreements were not signed by the Director of the Department until 27 to 192 days after the effective date of the grant agreement. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires that agencies establish internal fiscal and administrative controls to provide assurance that obligations are in compliance with applicable laws. Good business practice requires that grants be approved by all involved parties prior to the effective date of the grant agreements. Department management stated that the grant agreements not being executed in a timely fashion is a consequence of the review submission date not allowing adequate time for review and execution of the grant contracts prior to their start date.
- Five of 25 (20%) closeout packages submitted to the Department by grantees were not reviewed by the Department until 68 to 375 days after the close out date. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the establishment and maintenance of a system of internal controls to provide assurance that resources are utilized efficiently, effectively, and in compliance with applicable law. Good business practice requires timely review of fiscal reports to ensure their accuracy. The Department stated that the grant closeouts not being executed in a timely fashion is a direct consequence of the ratio of closeouts to be reviewed to available staff to review them. Department management stated that grant closeouts not being executed in a timely fashion is a direct consequence of the number of closeouts to be reviewed.
- 20 of 25 (80%) closeout packages and refunds totaling \$5,067,940 were not submitted to the Department in the time frame as required by the grant agreements. The closeout packages were submitted 2 to 484 days late. After review of grantee files, we noted that there was no documentation indicating that the Department contacted the grantees to obtain the proper closeout packages. The Grant Funds Recovery Act (30 ILCS 705/5) requires grantees to return unexpended grant funds to the Department within 45 days of the expiration of that grant agreement. Department management stated that the grant closeouts not being submitted timely is a direct result of the grantees not submitting closeout packages to the Department in a timely manner.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (STATE COMPLIANCE)**  
For the Year Ended June 30, 2007

When written grant agreements are not finalized timely the risk that vendors may not provide necessary services to the State increases, which could cause delays in the State providing mandated services. Failure to obtain and review grant close out packages timely could result in the loss of State funds. (Finding Code No. 07-9, 06-7)

**RECOMMENDATION**

We recommend the Department ensure that written agreements are executed in a timely manner. Further, the Department should implement procedures to ensure all closeout packages submitted by grantees are timely reviewed and approved.

**DEPARTMENT RESPONSE**

The Department accepts this finding. Increased effort will be made to ensure that all future grant agreements and grant closeouts are processed in a timely fashion. The Department is also in the process of revising the review procedures to ensure that there are no unnecessary redundancies that contribute to the problem. In addition, the Department is developing a process that would enable the numerous similar IHWAP and LIHEAP grants to be approved as a group, enabling a more timely execution.

The Office of Energy Assistance is also in the process of adding additional accounting staff with the proper expertise in the area of grant closeouts to ensure that the closeouts are processed in a timely fashion. The closeout process will also continue to be streamlined to maximize the efficient submission, tracking and review of the grant closeouts.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (STATE COMPLIANCE)**  
For the Year Ended June 30, 2007

- 07-10. **FINDING** (Failure to receive or review external A-133 grantee audits in a timely manner)

The Illinois Department of Healthcare and Family Services (Department) did not review or receive the most recent external A-133 grantee audits in a timely manner for the Weatherization Assistance for Low-Income Persons and Low-Income Home Energy Assistance federal grants. We noted the following:

- Seven of 22 (32%) grantee A-133 audits were not reviewed in a timely manner. The reviews were performed 92 to 164 days after the audits were received. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the establishment and maintenance of a system of internal controls to provide assurance that resources are utilized efficiently, effectively, and in compliance with applicable law. Good business practice requires that grantee A-133 audits be reviewed in a timely manner to ensure the grantee has no issues in regard to internal control and compliance with federal guidelines.
- Twelve of 22 (54%) grantee A-133 audits were not received by the Department in a timely manner. The reports were received from 28 to 227 days late. As set forth in the grant agreement, external A-133 grantee audits must be received by the Department no later than 9 months following the end of the period for which the audit was performed. In addition, good business practice requires the Department to follow-up on any audits that were not received by the due date.

Department management stated that the transfer of LIHEAP program staff from the Illinois Department of Commerce and Economic Opportunity (DCEO) to the Department's predecessor, Illinois Department of Healthcare and Family Services, occurred in fiscal year 2005 and did not include the transfer of the staff responsible for monitoring and performance of the A-133 reviews. The cases noted above pertained to fiscal years 2005 and 2006 Single Audits, and therefore, required the Department to institute procedures to ensure receipt and review of the Single Audits.

Proper communication is necessary for entities to conduct business. If the Department is unaware of the findings or other issues involved with a grantee, they may be relying on outdated or false information and may be at risk of losing funds. (Finding Code No. 07-10)

**RECOMMENDATION**

We recommend the Department ensure that grantees are submitting the audit reports within the applicable timeframe. Further, the Department should implement procedures to ensure all A-133 audits are timely reviewed.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (STATE COMPLIANCE)**  
For the Year Ended June 30, 2007

**DEPARTMENT RESPONSE**

The Department agrees with this finding. Beginning in FY08, the Department utilizes tools to monitor the nine-month submittal deadline and timely review of received A-133 material and has incorporated such procedures into the A-133 process to comply with OMB Circular A-133 guidelines.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (STATE COMPLIANCE)**  
For the Year Ended June 30, 2007

07-11. **FINDING** (Inadequate controls over personal services)

The Illinois Department of Healthcare and Family Services (Department) did not have adequate controls over personal services. We noted the following:

- The Department did not conduct annual or probationary employee performance evaluations during fiscal year 2007 for 11 of 60 (18%) employees tested. The evaluations were from 43 to 327 business days late. The Illinois Administrative Code (80 Ill. Admin. Code 302.270 (d)) requires that, for a certified employee, each agency shall prepare an employee performance evaluation not less often than annually. In addition, the Illinois Administrative Code (80 Ill. Admin. Code 310.450(c)) requires that evaluations be completed prior to when annual merit increases are awarded. Further, the Illinois Administrative Code (80 Ill. Admin. Code 302.270 (b)) requires the Agency to prepare two evaluations for employees serving a six-month probationary period, one at the end of the third month and one fifteen days before the conclusion of the employee's six-month probationary period. Department management stated that the Division of Personnel and Administrative Services sends reminders when evaluations are due and will not process any personnel transactions if the performance appraisal is past due.
- During our review of employee absences, we noted that 8 of 60 (13%) employees had completed "Employee Absence Request Reports" (HFS 2053) but those requests were not approved prior to their absence or within a reasonable time frame after the absence. The requests were approved from 2 to 8 business days after the absence, and two were never approved. The Department's Employee Handbook (Section 205.2(A)) requires that, for scheduled absences, employees must request time off in advance of the date its use is planned and the employee's immediate supervisor must approve or deny the request. Further, the Department's Employee Handbook (Section 205.2(B)) requires that, for unscheduled absences, the employee must notify their immediate supervisor within one hour of the start of the work shift and the immediate supervisor (or the designee) completes the proper form on the day of the absence showing the date, the amount, and the type of time that has been requested to be applied towards the absence. Department management stated that the lapse in approval time specifically relates to employees with supervisors in different geographical locations.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (STATE COMPLIANCE)**  
For the Year Ended June 30, 2007

Performance evaluations are a systematic and uniform approach used for the development of employees and communication of performance expectations to employees. By not ensuring performance appraisals are completed in a timely manner, the Department is in noncompliance with State rules, which might result in missing information that could be relevant to subsequent personnel decisions. Furthermore, failure to timely approve requests for employee's absences limits management's ability to disapprove the time if necessary and is noncompliance with the Department's policies and procedures. (Finding Code No. 07-11, 06-6, 05-1)

**RECOMMENDATION**

We recommend the Department follow current procedures and comply with the Illinois Administrative Code by conducting employee performance evaluations in a timely manner. Further, the Department should comply with the Department's Employee Handbook and ensure supervisors approve employee absences prior to their absence or within a reasonable time frame after the absence.

**DEPARTMENT RESPONSE**

The Department agrees that all employees should receive annual or probationary employee performance evaluations and "Employee Absence Request Reports" (HFS 2053) should be approved prior to the absence or within a reasonable time frame after the absence.

The Division of Personnel and Administrative Services will continue to send out notifications indicating when evaluations are due.

In addition, the Department will make every effort to ensure supervisors approve employee's absences in advance and emphasize the importance of obtaining prior approval by email for employees that have supervisors in a different geographical location.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (STATE COMPLIANCE)**  
For the Year Ended June 30, 2007

07-12. **FINDING** (Failure to comply with interagency agreements)

The Illinois Department of Healthcare and Family Services (Department) failed to follow the procedures specified in an interagency agreement.

The Department issued grant monies for the purchase of Automated External Defibrillators to 74 of 132 (56%) grantees without receiving proper reimbursement certification forms indicating eligibility from the Department of Public Health.

The interagency agreement between the Department and the Department of Public Health (IDPH) requires IDPH forward to the Department the approved grant agreement and reimbursement certification form for each grant that is in need of funding. The Department shall then forward the requested grant amount to the grantee. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the establishment and maintenance of a system of internal controls to safeguard funds against waste, loss, unauthorized use and misappropriation. Furthermore, strong internal controls and good business practices dictate that policies should be established to delineate appropriate uses of funds.

Department management stated that the request for payment from Illinois Department of Public Health (IDPH) came at the end of the fiscal year and the Department did not have sufficient time to properly monitor grant applications and paperwork. The Department relied upon IDPH that these grants should have been paid.

In total, \$36,447 of Department funds were issued prematurely. Failure to adequately monitor grants for eligibility requirements can result in an overpayment or improper payment of grant monies. Also, strong internal controls dictate that supporting documentation should be maintained for all expenditures to safeguard assets and prevent improper expenditures. (Finding Code No. 07-12)

**RECOMMENDATION**

We recommend the Department comply with all procedures specified in their interagency agreements. Further, the Department should maintain sufficient documentation for disbursements.

**DEPARTMENT RESPONSE**

The Department agrees with the finding. Because of the timing of these contracts, in relation to the end of the fiscal year, the necessary documents were not obtained prior to the distribution of grant funds. The Department has since obtained these documents for all but 4 grants. The Department has referred these last 4 files to IDPH to take appropriate action.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (STATE COMPLIANCE)**  
For the Year Ended June 30, 2007

07-13. **FINDING** (Inadequate supporting documentation)

The Illinois Department of Healthcare and Family Services (Department) did not maintain adequate documentation to support professional expenditures to consultants for Healthcare Purchasing. During detail testing of contracts, we noted the following:

- The Department entered into a contract for which the Department expended \$4,000 during fiscal year 2007 for consulting services. The only information submitted by the consultants was an invoice containing only the dollar amount owed. The Department was not able to provide adequate documentation to support that the work was actually performed by the vendor. Department management stated that the terms of the contract with the vendor did not require detailed billing tied to discrete deliverables.
- The Department entered into a contract for \$200/hour totaling \$25,000 for management consulting for the Local Government Health Plan with the description “Medical Consulting for Healthcare Purchasing.” One invoice for the entire amount of the contract, totaling \$25,000 did not contain adequate documentation to substantiate the dates the work was completed. A list of hours and tasks completed was submitted with the invoices, but no dates or Department review and approval of the services was maintained. The Department was not able to provide adequate documentation to support that the work was actually performed by the vendor. Department management stated that the deficiencies occurred prior to the establishment of guidelines for the approval of invoices.

The Statewide Accounting Management System (SAMS) (Procedure 17.10.20) requires that each State agency maintain all supporting documentation necessary to substantiate their expenditures. In addition, good business practice requires that all vouchers submitted for payment have adequate support to substantiate the work performed by the vendor.

Failure to require and maintain supporting documentation for expenditures does not allow for a determination as to whether the expenditures were reasonable and necessary. In addition, insufficient documentation increases the risk that payments could be made for services not provided. (Finding Code No. 07-13, 06-9)

**RECOMMENDATION**

We recommend the Department require and maintain sufficient documentation to ensure services contracted have been provided and that the expenditures are reasonable and necessary.



STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (STATE COMPLIANCE)**  
For the Year Ended June 30, 2007

**DEPARTMENT RESPONSE**

The Department partially agrees with this finding. The Department's contract for consultation services on issues related to the implementation of the disease management program were not tied to discrete deliverables with specific rates. The documents provided thus far, which support the value of the consultation services and the dates of consultation with the vendor, were considered to be sufficient by the Department for payment of the billings submitted.

The Department has implemented procedures for the approval of Local Government Health Plan consulting contract invoices.

**AUDITORS' COMMENT**

Department management indicated to the auditors that the consultations with the contractor were to be in the form of telephonic communications. The Department was not able to provide any documentation in regard to the specific dates that the contractor was contacted for consultation services. The invoice that the contractor submitted to the Department for payment also did not provide specific details of consultation services.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (STATE COMPLIANCE)**  
For the Year Ended June 30, 2007

07-14. **FINDING** (Inadequate controls over travel expenditures)

The Illinois Department of Healthcare and Family Services (Department) did not exercise adequate internal controls over its travel expenditures. During our review of travel expenditures, we noted the following weaknesses:

- One traveler was reimbursed twice for a rental vehicle, totaling \$216, while the traveler was at his designated headquarters and not considered on travel status. The Illinois Administrative Code (Code) (80 Ill. Admin. Code 3000.300(e)) allows the reimbursement for the rental of an automobile only while an employee is on travel status. The Code (80 Ill. Admin. Code 3000.140) also states that an employee shall be considered “on travel status” while away from headquarters on authorized State business. Department management stated that the reimbursement for the rental vehicle was acceptable as it was for the replacement of a State assigned vehicle during repair. Pooled vehicles are assigned for use by specific Bureau's and the costs associated with these vehicles, i.e. repairs, gas, etc. are in that Bureau's appropriation. The Bureau of Information Services has three vehicles assigned to their use. It was one of these vehicles that needed repairs and therefore, the individual that needed a vehicle for the day rented another vehicle and was reimbursed those costs.
- Three of 9 (33%) travelers tested that received controlled housing exceeded their maximum allowable amount as set by the Governor’s Travel Control Board. Overage amounts ranged from \$350 to \$1,458, with a total overage paid of \$2,423. The Illinois Administrative Code (80 Ill. Admin. Code 2800.410) requires each State agency to monitor expenses to ensure compliance with the Travel Regulations and the total reimbursement for the fiscal year has not exceeded the mortgage, installment or rental total of that fiscal year. Further, good internal controls would require adequate monitoring to ensure individuals receiving controlled housing would not exceed their allowable annual amounts set by the Governor’s Travel Control Board. Department management stated that the overpayments and errors resulted from formula errors used in the compilation of the quarterly report.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (STATE COMPLIANCE)**  
For the Year Ended June 30, 2007

- The controlled housing quarterly reports contained multiple mathematical and content errors resulting in an understatement of the overall controlled housing expenditure for fiscal year 2007. There were 8 instances where mathematical errors occurred; 10 instances where one or more reimbursed days were omitted; and 2 instances where the report did not accurately reflect changes in the controlled housing allowances. The Illinois Administrative Code (80 Ill. Admin. Code 2800.410) requires each State agency report quarterly to the Board, fiscal year-to-date expenses of employees receiving reimbursement. Further, good business practice requires that sufficient and properly designed accounting records should be maintained to adequately control fiscal operations and provide reliable data for necessary management reports. Department management stated that the overpayments and errors resulted from formula errors used in the compilation of the quarterly report.

Failure to follow the Illinois Administrative Code and implement adequate internal controls over travel expenditures increases the risk that non-reimbursable expenditures and over payments will occur and not be detected. (Finding Code No. 07-14)

**RECOMMENDATION**

We recommend the Department comply with the Illinois Administrative Code and implement adequate internal controls to ensure travel expenditures are properly reimbursed. Further, the Department should accurately complete the required controlled housing quarterly reports that are sent to the Governor's Travel Control Board. The Department should also request reimbursement from employees for the improper reimbursements for travel claimed.

**DEPARTMENT RESPONSE**

The Department partially agrees with this finding. The Department does not agree with the first dot point due to considering the reimbursement legitimate and is currently seeking an exception from the Travel Control Board. Regarding the second and third dot points, the Department agrees with the exceptions and has implemented additional controls to more closely audit controlled housing vouchers to ensure regulations are followed. Also, both the database and related procedures have been revised to improve the method of calculation of the quarterly reports. Monitoring will be done by independent staff, as well as a copy of the quarterly reports will be sent to the individual employees utilizing controlled housing to ensure that their annual cap is not exceeded. The overpayments to the three employees who were overcompensated for their controlled housing will be collected by 4/15/08.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (STATE COMPLIANCE)**  
For the Year Ended June 30, 2007

**AUDITORS' COMMENT**

The expenditures noted were not considered reasonable or allowable under State Travel Regulations. The Illinois Administrative Code (80 Ill. Admin. Code 3000.300(e)) allows the reimbursement for the rental of an automobile only while an employee is on travel status. This employee was working in the city of their residence and headquarters and was not on travel status at the time the car was rented.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS (STATE COMPLIANCE)**  
For the Year Ended June 30, 2007

07-15. **FINDING** (Failure to comply with the provisions of the Alternative Healthcare Delivery Act)

The Illinois Department of Healthcare and Family Services (Department) failed to comply with the provisions of the Alternative Healthcare Delivery Act (Act).

The Department has not implemented a reimbursement methodology for the Act. In addition, the Department did not keep a record of services provided under the program or submit an annual report of that information to the Illinois Department of Public Health (IDPH).

The Alternative Healthcare Delivery Act was intended to foster new innovations in health care delivery through the development of demonstration projects to license and study alternative health care delivery systems. The Alternative Healthcare Delivery Act (210 ILCS 3/30) requires the Department to cooperate with IDPH to develop and implement a reimbursement methodology for all facilities in the demonstration program. In addition, the Department is required to keep a record of services provided under the demonstration program and to submit an annual report of that information to IDPH.

Department management stated that although program rules were drafted, they were not implemented due to disinterest from the Illinois Health Care Association (IHCA) and the long-term care provider associations and facilities. The Department further stated that they did seek a repeal to Section 30 (d-5) of the Act during the Spring 2006 and 2007 legislative sessions. The repeal was not introduced, but the Department stated that they will continue to seek such a repeal in the future.

Failure to implement the reimbursement methodology, keep a record of the services, and submit an annual report to IDPH could result in the failure to identify the benefits and efficiencies in the delivery of alternative models of health care delivery and further savings in that area. (Finding Code No. 07-15, 06-10, 05-8)

**RECOMMENDATION**

We recommend the Department in coordination with IDPH implement a reimbursement methodology for all facilities in the demonstration program, keep records of services, and submit an annual report to IDPH or continue to seek revisions to the statutory requirements.

**DEPARTMENT RESPONSE**

The Department agrees that it has not yet adopted rules for the demonstration program. The Department notes that no provider licensed under the demonstration program has sought reimbursement for these services. If the Act is not amended, the Department will propose a rule.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**PRIOR FINDINGS NOT REPEATED (STATE COMPLIANCE)**  
For the Year Ended June 30, 2007

- 07-16. **FINDING** (Department did not follow procedures for disposal of confidential information)

During the prior examination, the Department had not ensured adequate procedures exist for the disposal of documents containing confidential and sensitive information.

During the current examination, the Department has contracted with a vendor to provide secure bins within the facilities and secure destruction (shredding) of the information. (Finding Code No. 06-1)

- 07-17. **FINDING** (Time sheets not maintained in compliance with the State Officials and Employees Ethics Act)

During the prior examination, the Department did not maintain time sheets in compliance with the State Officials and Employees Ethics Act. The Department had personnel policies in regard to timekeeping, but the Department only required "Executive Level Staff" to maintain a daily timesheet, which documents the time spent each day on official State business.

During the current examination, all of the Department's employees except bargaining union employees are completing timesheets in accordance of the State Officials and Employees Ethics Act. The Department has referred the matter to the Department of Central Management Services to negotiate the change on the bargaining union's time sheet to be in compliance with the Act. As a result of the improvements that the Department has made, this finding has been moved to an immaterial finding. (Finding Code No. 06-2, 05-2)

- 07-18. **FINDING** (Premiums not billed for all required children)

During the prior examination, the Departments' All Kids application system did not properly bill premiums for all required children. During the review of the All Kids application system, it was noted the premium calculation process of the application contained a program error, in which recipients enrolled were not billed monthly premiums.

During the current examination, the Department corrected the application program error. Additionally, during our testing of billing, we did not note any recipients who were not billed, but should have been. (Finding Code No. 06-4)

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**PRIOR FINDINGS NOT REPEATED (STATE COMPLIANCE)**  
For the Year Ended June 30, 2007

07-19. **FINDING** (Computer disaster recovery plans not tested)

During the prior examination, the Department had not conducted disaster recovery testing of its computing environment within the last fiscal year.

During the current examination, the Department had performed testing for each of its mission critical applications and data. (Finding Code No. 06-5)

07-20. **FINDING** (Reports of reorganization not filed as required)

During the prior examination, the Department did not file reorganization reports, as required by the Executive Reorganization Implementation Act, with the General Assembly in a timely manner.

During the current examination, the Department submitted the required reports to the General Assembly in a timely manner. (Finding Code No. 06-8, 05-5)

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**STATUS OF MANAGEMENT AUDIT**  
**KIDCARE PROGRAM**  
For the Year Ended June 30, 2007

**Program Audit of the Illinois Department of Public Aid KidCare Program**

The Illinois Department of Healthcare and Family Services (Department) (formerly the Department of Public Aid) has fully implemented six recommendations; however, it had not fully implemented the remaining recommendation contained in the OAG's *Program and Management Audit of the Illinois Department of Public Aid's KidCare Program*, released in July 2002. The program and management audit tested a variety of KidCare areas including: the enrollment process, KidCare spending, eligibility cards, case files, outreach and advertising, contractor effectiveness, bid status of contracts, and the overall health of enrolled children. The program and management audit was conducted pursuant to Senate Resolution 152.

The following discusses the status of the remaining recommendation not implemented from the 2002 program and management audit. The action taken by the Department to implement the recommendation is also described below.

- The Department should continue its planned conversion to permanent durable eligibility cards in order to realize significant cost savings to the State as well as improved program effectiveness. (Program and Management Audit Recommendation Number 1)

*Under Study:* While the Department expects the move to using permanent or semi-permanent cards, the Department has found that providers prefer to have specific eligibility information available to them, as they do on the current monthly paper cards. Eligibility status, including cost-sharing frequency, can change during the course of a year, and the printing of this information on a permanent card causes significant risk that the Department would pay for ineligible persons or providers would not charge proper co-pays. There have been delays in moving to a permanent card while the Illinois Health Connect, the Department's statewide primary care case management system, is being implemented. This involves a massive change in the service delivery system and is only partially implemented at this time.



STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**STATUS OF MANAGEMENT AUDIT**  
**SPECIAL ADVOCATE FOR PRESCRIPTION DRUGS**  
For the Year Ended June 30, 2007

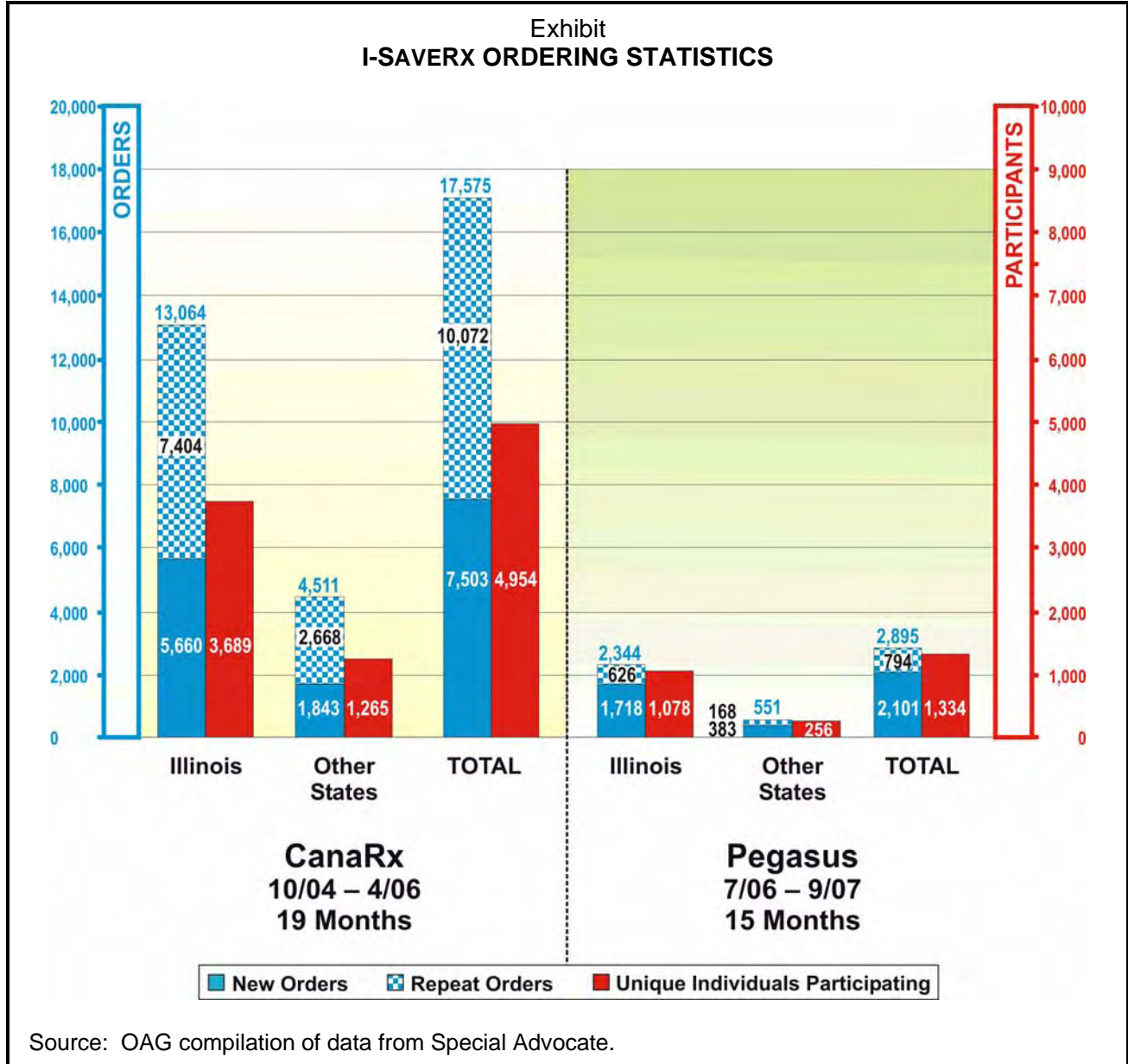
**Management Audit of the Flu Vaccine Procurement and the I-Save Rx Program  
(September 2006)**

Illinois House of Representatives Resolution Number 394 directed the Auditor General to conduct a management audit of the process followed in negotiating and entering into the contract with Ecosse Hospital Products Limited and in establishing and operating the I-SaveRx Program. Regarding the contract with Ecosse Hospital Products Limited, the Resolution directed the Auditor General to determine the roles played by the Office of the Governor and the Special Advocate for Prescription Drugs in negotiating and entering into the flu vaccine contract. Regarding the I-SaveRx Program, the Auditor General was to determine the procedures applicable to, and the agencies responsible for, establishing and operating the Program and whether the entities involved in the Program followed all applicable laws, regulations, policies and procedures.

During the management audit the pharmacy benefit manager for the I-SaveRx program was CanaRx. As of July 1, 2006, the State selected Pegasus as the pharmacy benefit manager for the program. Participation in the I-SaveRx program has declined under the new pharmacy benefit manager. In the 15 month period from July 2006 to September 2007, I-SaveRx program participants placed 2,101 new orders and 794 refill orders with Pegasus. Total sales during that 15 month period were \$441,000. I-SaveRx ordering statistics are summarized in the following Exhibit.

Effective November 15, 2007, the State expanded the I-SaveRx program to State employees that participate in the Quality Care Health Plan. This expansion occurred even though the program, which imports prescription drugs into the United States, is in violation of federal law. The Special Advocate reported that the State has not had any conversations with the FDA since the release of the management audit about the I-SaveRx program.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**STATUS OF MANAGEMENT AUDIT**  
**SPECIAL ADVOCATE FOR PRESCRIPTION DRUGS**  
For the Year Ended June 30, 2007



The management audit contained five recommendations to the Department and Special Advocate. During the period covered by this compliance examination, we noted progress had been made in implementing some of the recommendations. However, certain recommendations were only partially implemented by the Department or Special Advocate as follows:

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**STATUS OF MANAGEMENT AUDIT**  
**SPECIAL ADVOCATE FOR PRESCRIPTION DRUGS**  
For the Year Ended June 30, 2007

- *The Special Advocate for Prescription Drugs should monitor the I-SaveRx Program to ensure that only approved pharmacies are filling prescriptions.*

During the current engagement we found that the Special Advocate did monitor, through the Drug Usage by Region and Pharmacy management report, which approved pharmacies were filling prescriptions for the I-SaveRx program. This report showed that six pharmacies dispensed prescriptions to program participants for the period July 1, 2006 through September 30, 2007.

However, our review of the Drug Usage by Region and Pharmacy report also found instances where prescriptions were filled for drugs that were not on the I-SaveRx Complete Drug List. The I-SaveRx website has a complete listing of approved drugs for the program. This listing is effective as of **July 1, 2006**, and we printed it out and used it for comparison on **November 2, 2007**. Our review found 47 instances where drugs provided to program participants, by four different pharmacies, were not on the listing maintained on the I-SaveRx website. Total cost to the participants for the 47 instances was \$11,522.

The Special Advocate questioned whether the drug listing on the website was accurate and indicated that drugs are added to or deleted from the list all the time. For 43 of the 47 instances the Special Advocate provided quarterly “addition/deletion lists” which showed the quarter in which the prescriptions were added. However, the actual addition dates were not provided. Furthermore, for the remaining 4 instances, the Special Advocate provided no documentation to show that these prescriptions were approved at the time they were dispensed.

Since we were not able to determine that all the drugs dispensed to I-SaveRx participants were approved at the time they were dispensed, the finding will be repeated.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**STATUS OF MANAGEMENT AUDIT**  
**SPECIAL ADVOCATE FOR PRESCRIPTION DRUGS**  
For the Year Ended June 30, 2007

<p><b>DEPARTMENT RESPONSE</b></p>	<p>The Department accepts the finding. The initial recommendation related to monitoring the I-SaveRx Program to ensure that only approved pharmacies were filling prescriptions and Department compliance was noted to the recommendation in this Status Report.</p> <p>The further issue identified under this recommendation in the Status Report is a new and separate issue from the recommendation noted in the original report. <i>(See Auditor Comment #1)</i> In response to this new issue, the Department offers the following response.</p> <p>As noted during the review, the I-SaveRx “Complete Drug List” document on the home page, with an effective date of July 1, 2006, was not a current complete listing of approved drugs for the program and was not intended to be anything more than a static page. <i>(See Auditor Comment #2)</i> Due to the changing nature of approved drugs the “Find Your Medication” selection on the home page provides the most up to date information regarding allowable drugs under the I-SaveRx program. The current drug list information contained in this section is always updated real time on the website.</p> <p>In addition, quarterly addition/deletion lists were also provided. An explanation was provided with these lists that the dates for all additions to the complete drug list were identified in the sub title of each sheet. In the Department review of the 47 instances noted, there were only 4 instances, with a total cost of \$543.29, which were not included on the addition/deletion list provided for review.</p> <p>In order to make the website more user friendly, the Department will encourage the use of the “Find Your Medication” selection from the I-SaveRx Home Page.</p>
	<p><b>AUDITOR COMMENTS:</b></p> <p><i>#1: The 2007 management audit examined the Department’s monitoring of pharmacies and included a recommendation titled “Monitoring Approved Pharmacies”. The audit also noted as a contract monitoring issue the need to ensure that only approved prescription drugs are dispensed by I-SaveRx pharmacies.</i></p> <p><i>#2: The Department responded that it “intended” the “Complete Drug List” on the I-SaveRx web-site to be a “static page” which was not updated. Failure to post updated information on its web-site raises further questions concerning the Department’s administration of the Program.</i></p>

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**STATUS OF MANAGEMENT AUDIT**  
**SPECIAL ADVOCATE FOR PRESCRIPTION DRUGS**  
For the Year Ended June 30, 2007

- *The Special Advocate for Prescription Drugs should take the necessary steps to monitor and test the safety and efficacy of medications provided to I-SaveRx Program participants to ensure that the participants are getting medications as advertised.*

In his response to the audit, the Special Advocate stated “At the suggestion of the OAG, as the I-SaveRx Program grows and the threat of tampering manifests, the Special Advocate for Prescription Drugs will perform medication testing.” During the current engagement, the Special Advocate explained that talks were held with University of Illinois at Chicago, College of Pharmacy officials relative to testing medications. He also explained that there are economies of scale when asking someone to pay for medication testing but that they are looking at many issues relative to testing. None of these conversations or meetings with College of Pharmacy officials were documented by the Special Advocate. Given that the program has expanded to certain State employees and since no testing has been conducted since the release of the management audit, the finding is repeated.

<b>DEPARTMENT RESPONSE</b>	The Department respectfully disagrees with the finding. The I-Save Rx Program has not yet expanded to State employees and retirees and no State employee or retiree has enrolled in the I-SaveRx Program. Currently medications are packaged by the drug manufacturers and are considered to be safe. The Department conducted talks with relevant officials, in the preliminary stages of possible expansion, which were considered preparatory in nature. In preparation of possible expansion, the Department will continue to reach out for guidance from relevant officials. <i>(See Auditor Comment #3)</i>
	<b>AUDITOR COMMENTS:</b>  <i>#3: The contract with Pegasus was amended, effective November 15, 2007, to include certain State employees. In its response to this follow-up, the Department disagrees with the finding regarding medication testing. However, its response to the finding in the 2007 management audit stated “At the suggestion of the OAG, as the I-SaveRx Program grows and the threat of tampering manifests, the Special Advocate for Prescription Drugs will perform medication testing.” Furthermore, at the September 2007 meeting of the Legislative Audit Commission, the Special Advocate testified that “. . . we’ve asked our colleagues at UIC to help us develop that protocol and procedure and certainly as the volume increases.” Finally, it is unclear why the testing of medication appears to be only being considered if the Program is expanded to State employees, and why it isn’t an important consideration for current Program recipients.</i>

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**STATUS OF MANAGEMENT AUDIT**  
**SPECIAL ADVOCATE FOR PRESCRIPTION DRUGS**  
For the Year Ended June 30, 2007

- *In order to monitor Acquisition Fund requirements in the Memorandum of Understanding, the Special Advocate should require the I-SaveRx pharmacy benefit manager, and its successors, to provide documentation to support their activities using start-up acquisition fees and the Program's total amount of prescription drug sales on an ongoing basis. In addition, the total amount of prescription drug sales should be broken-down by state and forwarded to other participating states so they can track the percentage of acquisition fees attributable to their state's zip codes.*

During the current engagement the Special Advocate indicated that the Acquisition Fund in place under the previous pharmacy benefit manager contract with CanaRx was not closed out or reconciled. The reason for the failure to perform any close out was that CanaRx, relative to the Acquisition Fund, lost tens of thousands of dollars due to the low volume of sales.

Under the pricing structure with the current pharmacy benefit manager Pegasus, there is a two percent markup on the cost charged to program participants for drug program expenses, such as travel reimbursement. The Special Advocate has the ability to monitor those costs using a management report entitled "Marketing Pool Allocation." Since the inception of Pegasus as the pharmacy benefit manager through October 2007, the marketing pool compiled \$7,173 for Pegasus to use to reimburse the State for travel expenses and advertising.

This finding is not repeated.

- *The Special Advocate should perform and document adequate monitoring of the pharmacy benefit manager for the I-SaveRx Program to ensure the vendor meets all contract requirements. Monitoring should include: having access to the I-SaveRx pharmacy benefit manager management database in order to allow for better monitoring; conducting no-notice pharmacy inspections; and performing and documenting an audit of the I-SaveRx Program.*

During the current engagement we noted that the Special Advocate does have access to the new pharmacy benefit manager database and was able to provide management reports which he can view online. These reports included: Drug Usage by Region and Pharmacy, Marketing Pool Allocation, Length of Time to fill prescription by Pharmacy, Prescription Seizures and Ordering Statistics.

The Special Advocate provided a policy document for No-Notice Inspections for I-SaveRx pharmacies. While the policy was to define the processes to be used by the Special Advocate in monitoring the I-SaveRx program, there was no indication this policy was ever reviewed or approved by anyone within the Department. Documentation showed that the Special Advocate completed one No-Notice inspection of a Canadian pharmacy and three inspections of UK pharmacies during the audit period on inspection forms that were not similar to those utilized for inspections of individual pharmacies.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**STATUS OF MANAGEMENT AUDIT**  
**SPECIAL ADVOCATE FOR PRESCRIPTION DRUGS**  
For the Year Ended June 30, 2007

These inspections were reviewed by the Special Advocate’s assistant generally two weeks after completion of the inspection form. Neither the Special Advocate nor his assistant are authorized pharmacy inspectors.

The contract with the pharmacy benefit manager (Pegasus) stipulates that “financial auditing” of the I-SaveRx Program will be provided after a two-week notice to the Vendor (section 3.3.19). During the engagement we found that no such financial audit had been completed as of November 28, 2007. Instead, the Special Advocate completed a contract compliance checklist approximately 3.5 months into the contract with Pegasus. The Special Advocate indicated that they may have a CPA from the Illinois Office of Internal Audit perform a true financial audit during the first quarter of calendar 2008.

Given that the No-Notice policy and procedures had not been approved by anyone in the Department, the No-Notice inspections were conducted and reviewed by staff not duly authorized under the Pharmacy Practice Act, and no financial audit had been performed, the finding will be repeated.

<p><b>DEPARTMENT RESPONSE</b></p>	<p>The Department respectfully disagrees with the finding. The Department contracted with an outside consulting firm to design a No-Notice Inspection Policy. That policy underwent several revisions to ensure that the processes in the policy matched the vendor’s responsibilities as outlined in the pharmacy benefit manager contract. Along with the outside consultants, the Special Advocate, the Special Assistant to the Special Advocate, the Counsel to the Special Advocate, and a manager at the Office of Healthcare Purchasing all gave input on the policy and approved its implementation. <i>(See Auditor Comment #4)</i></p> <p>The no-notice inspections were for contract compliance only and therefore, can be conducted by someone who is -“not duly authorized under the Pharmacy Practices Act”. Specifically, the policy requires inspections be conducted by the Special Advocate or his designee. These inspections were never intended to equal or replace the initial inspection that a pharmacy must undergo in order to become a Network Pharmacy. Therefore, as per the policy, the Special Advocate is qualified to conduct these No-Notice inspections. <i>(See Auditor Comment #5)</i></p> <p>While section 3.3.19 of the pharmacy benefits manager contract states that financial auditing of the I-SaveRx Program will be provided after a two-week notice to the Vendor, there is no specific requirement of the Special Advocate to do so. Additionally, had the Special Advocate found anything that warranted a financial audit while conducting his No-Notice Inspection, he would have subsequently conducted (or requested) a financial audit subject to the contract provisions. <i>(See Auditor Comment #6)</i></p>
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STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**STATUS OF MANAGEMENT AUDIT**  
**SPECIAL ADVOCATE FOR PRESCRIPTION DRUGS**  
For the Year Ended June 30, 2007

	<p><b>AUDITOR COMMENTS:</b></p> <p><b>#4:</b> <i>We reviewed the files the Special Advocate maintained for the No-Notice Inspection issue. The files contained <b>no</b> documentation to support the Department response that a contractor was utilized and that the policy underwent multiple revisions or that it had been approved. Additionally, <b>no</b> documentation was subsequently provided by the Department to support its claim. Finally, at a meeting on April 3, 2008, the Special Advocate stated the policy had <b>not</b> been formally approved and the Department was waiting to see what the OAG was going to do with the issue that the policy was not approved.</i></p> <p><b>#5:</b> <i>Although different forms are used, there are many similarities in what is examined in the initial pharmacy inspections, conducted by licensed pharmacy inspectors, and what is examined in the “No-Notice Inspections”, conducted by the Special Advocate, who <b>is not</b> a licensed pharmacy inspector. The areas of similarity include: use of child resistant containers; maintenance of policies and procedures manual to provide staff with clear direction on scope of their functions; procedures for handling medication errors; and, a mechanism for handling drug recalls.</i></p> <p><b>#6:</b> <i>The Department’s response is contrary to the Special Advocate’s position during our follow-up work. On November 28, 2007, the Special Advocate stated he would make use of the Illinois Office of Internal Audit to perform a true financial audit of the pharmacy benefit manager.</i></p>
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- *With respect to travel the Special Advocate should: take the steps necessary to ensure that its staff seek documented prior approval when traveling out of State or out of country, as outlined in the Governor’s Travel Control Board Travel Guide for State Employees; and, take the steps necessary to ensure that its staff follow travel regulations when being reimbursed for per diem when traveling out of country, or seek appropriate exceptions to the travel regulations.*

During the current engagement we noted that the Special Advocate traveled out-of-country on four occasions related to the I-SaveRx program for pharmacy inspections – July and October 2006 and May and June of 2007. Travel regulations, as set out in the Illinois Administrative Code (80 Ill. Adm. Code 2800.700 (b)), require for travel outside the contiguous United States “the approval of the Chairman of the Governor’s Travel Control Board.” The request for approval must be in writing and submitted at least 30 days in advance of the departure date. The Department had no such approvals for any of the four out-of-country trips that occurred during the audit period.



STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**STATUS OF MANAGEMENT AUDIT**  
**SPECIAL ADVOCATE FOR PRESCRIPTION DRUGS**  
For the Year Ended June 30, 2007

The Department provided eTravel history documents which showed that for 2 of the 4 trips, the travel requests were submitted to the Governor's Office of Management and Budget for approval at least 30 days prior to travel. However, this is not the approval requirement set forth in the travel regulations. Travel regulations require the approval of the Chairman of the Governor's Travel Control Board. In fact, after the auditors' inquiry, the Department did obtain approval from the Chairman of the Travel Control Board for these four trips. These approvals were dated March 13, 2008, between 9 and 18 months **after the travel** – not prior to the travel as required by the travel regulations.

The management audit noted that staff from the Department (Special Advocate) did not follow Governor's Travel Control Board regulations relative to per diem reimbursement for out-of-country travel for the I-SaveRx Program – which provides for \$32 daily in per diem for travel outside of Illinois. During the current engagement, the Department indicated that foreign per diem rates could be found on a U.S. Department of State website. State of Illinois employees that travel for the I-SaveRx Program are not being reimbursed by the federal government – federal laws prohibit such importation programs like I-SaveRx. While the Department contends these federal rates are applicable for the out-of-country travel, these rates are not delineated in the State of Illinois travel regulations.

The Special Advocate did use the higher federal reimbursement rates when traveling on I-SaveRx business during the current engagement. He was reimbursed by the State at this higher rate – resulting in \$1,244 in charges above what is provided in the Governor's Travel Control Board regulations. However, under the current pharmacy benefit manager agreement, Pegasus reimburses the State for travel associated with the I-SaveRx program. The State reimburses the State employee then invoices Pegasus for the travel.

We did note that in one instance, the October 2006 trip the Special Advocate made to Canada, the State submitted a request to Pegasus that included a per diem rate that was aligned with State travel regulations yet the Special Advocate was actually reimbursed at the higher federal rate – an overpayment of \$210 from what the State billed to Pegasus. Department officials indicated that an additional charge was made to Pegasus in December 2007. Since prior approvals were not obtained for I-SaveRx travel and per diem rates were not in compliance with State travel regulations, the finding is repeated.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**STATUS OF MANAGEMENT AUDIT**  
**SPECIAL ADVOCATE FOR PRESCRIPTION DRUGS**  
For the Year Ended June 30, 2007

<p><b>DEPARTMENT RESPONSE</b></p>	<p>The Department partially agrees with the finding. The eTravel history documents for the travel taken under the I-SaveRx program for the two filed late, contained justification as to why they were submitted late. The Department accepted the eTravel approvals from the Governor’s office and did not obtain approval from the Chairman of the Governor’s Travel Control Board. The Department will make every effort to ensure that approvals for out of country travel are received from the Governor’s Travel Control Board as required. <i>(See Auditor Comment #7)</i></p> <p>The Department respectfully disagrees with the determination regarding the use of the per diem reimbursement rates used by the federal government. As the regulations did not contain specific per diem reimbursement rates for out-of-country travel, the Department sought and received guidance from the Travel Board Coordinator Liaison of the Governor’s Travel Control Board. Based on this guidance, the Department used the foreign per diem amount according to country and month/year found at <a href="http://aoprals.state.gov/web920/perdiem.asp">http://aoprals.state.gov/web920/perdiem.asp</a>. <i>(See Auditor Comment #8)</i></p>
	<p><b>AUDITOR COMMENTS:</b></p> <p><i>#7: Contrary to the Department’s formal response, the Department <b>did request approval</b> from the Chairman of the Travel Control Board. However the approvals were dated March 13, 2008, between 9 and 18 months <b>after the travel</b> – not prior to the travel as required by the travel regulations.</i></p> <p><i>#8: State travel regulations do not permit the use of the per diem rates claimed and used by the Special Advocate. While travel regulations have an “Actual/Reasonable” out-of-country reimbursement rate for lodging, the regulations do not have a similar out-of-country rate for meals/per diem. Consequently, the out-of-State rate of \$32 per day would apply. The Department should either follow the travel regulations or seek a change to those regulations.</i></p>

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION  
For the Year Ended June 30, 2007

**FINANCIAL STATEMENT REPORT**

**SUMMARY**

The audit of the accompanying financial statements of the Illinois Department of Healthcare and Family Services was performed by the Office of the Auditor General.

Based on their audit, the auditors expressed unqualified opinions on the Department's financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

**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 12-17 of this report, as finding 07-1 (Financial statement preparation), and finding 07-2 (Inappropriate use of appropriation authority). The auditors also consider findings 07-1 and 07-2 to be material weaknesses.

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OFFICE OF THE AUDITOR GENERAL  
WILLIAM G. HOLLAND

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland  
Auditor General  
State of Illinois

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Healthcare and Family Services, as of and for the year ended June 30, 2007, which collectively comprise the State of Illinois, Department of Healthcare and Family Services' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Illinois, Department of Healthcare and Family Services' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 2, the financial statements of the State of Illinois, Department of Healthcare and Family 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, the business-type 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 Healthcare and Family Services. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2007, and its changes in financial position including cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

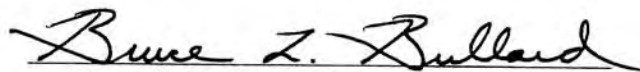
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Healthcare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

In accordance with *Government Auditing Standards*, we have also issued a report dated June 12, 2008 on our consideration of the State of Illinois, Department of Healthcare and Family Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The State of Illinois, Department of Healthcare and Family 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 Healthcare and Family Services' basic financial statements. The accompanying supplementary combining statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining statements and schedules 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.



Bruce L. Bullard, CPA

Director of Financial and Compliance Audits

June 12, 2008

*State of Illinois*

*Department of Healthcare and Family Services*

**Statement of Net Assets**

June 30, 2007 (Expressed in Thousands)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Unexpended appropriations	\$ 129,121	\$ -	\$ 129,121
Cash equity with State Treasurer	311,978	9,423	321,401
Cash and cash equivalents	39,431	1,952	41,383
Due from other government - federal	1,742,816	49	1,742,865
Due from other government - local	79,765	88	79,853
Taxes receivable, net	739,562	-	739,562
Other receivables, net	104,080	341	104,421
Due from other Department fiduciary funds	2	-	2
Due from other State fiduciary funds	69	-	69
Internal balances	1	(1)	-
Due from other State funds	2,206	-	2,206
Due from State of Illinois component units	32,026	-	32,026
Prepaid expenses	454	-	454
Capital assets being depreciated, net	3,662	9	3,671
<b>Total assets</b>	<u>3,185,173</u>	<u>11,861</u>	<u>3,197,034</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	3,398,221	4,437	3,402,658
Due to other government - federal	60,951	-	60,951
Due to other government - local	223,034	-	223,034
Due to other State fiduciary funds	709	-	709
Due to other State funds	14,742	18	14,760
Due to State of Illinois component units	45,457	-	45,457
Long term obligations:			
Due within one year	710	-	710
Due subsequent to one year	11,315	32	11,347
<b>Total liabilities</b>	<u>3,755,139</u>	<u>4,487</u>	<u>3,759,626</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	3,662	9	3,671
Restricted for health and social services	444	-	444
Unrestricted	(574,072)	7,365	(566,707)
<b>Total net assets</b>	<u>\$ (569,966)</u>	<u>\$ 7,374</u>	<u>\$ (562,592)</u>

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

*State of Illinois  
Department of Healthcare and Family Services*

**Statement of Activities**

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

Functions/Programs	Program Revenues		Net (Expense) Revenues and Changes in Net Assets			
	Expenses	Operating Grants and Contributions	Charges for Services	Governmental Activities	Business-type Activities	Total
Primary government						
Governmental activities						
Health and social services	\$ 14,340,601	\$ 7,827,894	\$ 1,734,819	\$ (4,777,888)	\$ (4,777,888)	
Education	356,124	-	-	(356,124)	(356,124)	
Employment and economic development	8,851	-	-	(8,851)	(8,851)	
General government	111,925	-	-	(111,925)	(111,925)	
Transportation	86,734	-	-	(86,734)	(86,734)	
Public protection and justice	304,386	-	-	(304,386)	(304,386)	
Environment and business regulation	21,172	-	-	(21,172)	(21,172)	
Total governmental activities	15,229,793	7,827,894	1,734,819	(5,667,080)	(5,667,080)	
Business-type activities						
Insurance program	60,516	-	63,881		\$ 3,365	3,365
Total business-type activities	60,516	-	63,881		3,365	3,365
<b>Total primary government</b>	<b>\$ 15,290,309</b>	<b>\$ 7,827,894</b>	<b>\$ 1,798,700</b>			<b>(5,663,715)</b>
<b>General revenues</b>						
Appropriations from State resources				8,398,247	-	8,398,247
Lapsed appropriations				(67,480)	-	(67,480)
Transfer of liabilities from other State programs				(75,163)	-	(75,163)
Receipts collected and transmitted to State Treasury				(4,647,402)	-	(4,647,402)
Other taxes				1,766,620	-	1,766,620
Interest and investment income				22,388	469	22,857
Other revenues				343,604	185	343,789
Capital transfers to other State agencies				(722)	-	(722)
Amount of SAMS transfers-in				(76,607)	-	(76,607)
Amount of SAMS transfers-out				44,700	-	44,700
Transfers-in				908,780	-	908,780
Transfers-out				(1,009,931)	(1,000)	(1,010,931)
Total general revenues and transfers				5,607,034	(346)	5,606,688
Change in net assets				(60,046)	3,019	(57,027)
Net assets July 1, 2006 (as restated)				(509,920)	4,355	(505,565)
Net assets June 30, 2007				\$ (569,966)	\$ 7,374	\$ (562,592)

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

*State of Illinois*

*Department of Healthcare and Family Services*

**Governmental Funds Balance Sheet**

June 30, 2007 (Expressed in Thousands)

	<b>General Fund</b>	<b>Road Fund</b>	<b>Other Nonmajor Funds</b>	<b>Total</b>
<b>ASSETS</b>				
Unexpended appropriations	\$ 127,378	\$ -	\$ 1,743	\$ 129,121
Cash equity with State Treasurer	206,872	-	48,120	254,992
Cash and cash equivalents	370	-	-	370
Due from other government - federal	1,698,813	-	34,935	1,733,748
Due from other government - local	79,765	-	-	79,765
Taxes receivable, net	739,562	-	-	739,562
Other receivables, net	83,007	-	10,152	93,159
Due from other Department funds	-	-	621	621
Due from other State funds	2,322	-	-	2,322
Due from State of Illinois component units	24,893	-	-	24,893
<b>Total assets</b>	<b>\$ 2,962,982</b>	<b>\$ -</b>	<b>\$ 95,571</b>	<b>\$ 3,058,553</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 3,167,990	\$ -	\$ 14,845	\$ 3,182,835
Due to other government - federal	54,343	-	6,604	60,947
Due to other government - local	215,265	-	7,769	223,034
Due to other State fiduciary funds	408	-	294	702
Due to other Department funds	93,906	-	541	94,447
Due to other State funds	7,935	-	5,574	13,509
Due to State of Illinois component units	45,457	-	-	45,457
Unavailable revenues	1,655,270	-	365	1,655,635
<b>Total liabilities</b>	<b>5,240,574</b>	<b>-</b>	<b>35,992</b>	<b>5,276,566</b>
<b>FUND BALANCES (DEFICITS)</b>				
Reserved for encumbrances	6	-	-	6
Unreserved:				
General fund	(2,277,598)	-	-	(2,277,598)
Special revenue funds	-	-	59,579	59,579
<b>Total fund balances (deficits)</b>	<b>(2,277,592)</b>	<b>-</b>	<b>59,579</b>	<b>(2,218,013)</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,962,982</b>	<b>\$ -</b>	<b>\$ 95,571</b>	<b>\$ 3,058,553</b>

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



**State of Illinois**  
**Department of Healthcare and Family Services**  
**Reconciliation of Governmental Funds Balance Sheet**  
**to Statement of Net Assets**  
**June 30, 2007**  
**(Expressed in Thousands)**

<b>Total fund balances-governmental funds</b>	<b>\$ (2,218,013)</b>
<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.	3,662
Prepaid expenses for governmental activities are current uses of financial resources for funds.	454
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.	1,655,635
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 activities consist of:	
Compensated absences	<u>(11,704)</u>
<b>Net assets of governmental activities</b>	<b><u><u>\$ (569,966)</u></u></b>

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

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

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

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

	<u>General Fund</u>	<u>Road Fund</u>	<u>Other Nonmajor Funds</u>	<u>Total</u>
<b>REVENUES</b>				
Operating grants - federal	\$ 6,211,980	\$ -	\$ 465,669	\$ 6,677,649
Other operating grants	872,773	-	1,505	874,278
Licenses and fees	11,438	-	879	12,317
Other charges for services	23,068	-	14,801	37,869
Interest and other investment income	17,297	-	-	17,297
Other taxes	1,033,249	-	-	1,033,249
Other	308,049	-	4	308,053
<b>Total revenues</b>	<u>8,477,854</u>	<u>-</u>	<u>482,858</u>	<u>8,960,712</u>
<b>EXPENDITURES</b>				
Health and social services	11,871,496	-	772,602	12,644,098
Education	356,124	-	-	356,124
Employment and economic developmen	8,851	-	-	8,851
General government	89,953	21,666	-	111,619
Transportation	69	86,665	-	86,734
Public protection and justice	282,197	22,189	-	304,386
Environment and business regulation	21,172	-	-	21,172
Capital outlays	2,424	-	38	2,462
<b>Total expenditures</b>	<u>12,632,286</u>	<u>130,520</u>	<u>772,640</u>	<u>13,535,446</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(4,154,432)</u>	<u>(130,520)</u>	<u>(289,782)</u>	<u>(4,574,734)</u>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>				
Appropriations from State resources	7,780,874	130,520	486,853	8,398,247
Lapsed appropriations	(50,546)	-	(16,934)	(67,480)
Transfer of liabilities from other State programs	(75,163)	-	-	(75,163)
Receipts collected and transmitted to State Treasury	(4,362,260)	-	(285,142)	(4,647,402)
Amount of SAMS transfers-in	(76,566)	-	(41)	(76,607)
Amount of SAMS transfers-out	44,700	-	-	44,700
Transfers-in	922,539	-	31,049	953,588
Transfers-out	(1,019,939)	-	(13,800)	(1,033,739)
<b>Net other sources (uses) of financial resources</b>	<u>3,163,639</u>	<u>130,520</u>	<u>201,985</u>	<u>3,496,144</u>
<b>Net change in fund balances</b>	(990,793)	-	(87,797)	(1,078,590)
Fund balances (deficits), July 1, 2006	<u>(1,286,799)</u>	<u>-</u>	<u>147,376</u>	<u>(1,139,423)</u>
<b>FUND BALANCES (DEFICITS), JUNE 30, 2007</b>	<u>\$ (2,277,592)</u>	<u>\$ -</u>	<u>\$ 59,579</u>	<u>\$ (2,218,013)</u>

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

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

**Net change in fund balances** \$ (1,078,590)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which capital outlays in the current period exceeded depreciation. 1,002

Prepaid expenses in the Statement of Activities are not reported as expenses in governmental funds. This amount represents the decrease in prepaid expenses over the prior year. (529)

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 decrease in unavailable revenue over the prior year. 1,019,600

Proceeds from sales of capital assets are reported in the governmental funds. However, in the Statement of Activities, losses from the sale of capital assets are also reported. This is the amount the losses from the sale of capital assets exceeded proceeds. (306)

Some capital assets were transferred out to other State agencies and, therefore, no proceeds were received for the capital asset's value. (722)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Below are such activities.

Increase in compensated absences obligation (501)

**Change in net assets of governmental activities** \$ (60,046)

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

**Statement of Net Assets**  
**Proprietary Funds**

June 30, 2007 (Expressed in Thousands)

	<b>Business-Type Activities - Nonmajor Enterprise Fund</b>	<b>Governmental Activities - Internal Service Fund</b>
	<b>Local Government Health Insurance Reserve Fund</b>	<b>Health Insurance Reserve Fund</b>
<b>ASSETS</b>		
Cash equity with State Treasurer	\$ 9,423	\$ 56,986
Cash and cash equivalents	1,952	39,061
Due from other government - federal	49	9,068
Due from other government - local	88	-
Other receivables, net	341	10,921
Due from other Department fiduciary funds	-	2
Due from other State fiduciary funds	-	69
Due from other Department funds	-	93,827
Due from other State funds	-	(116)
Due from State of Illinois component units	-	7,133
<b>Total current assets</b>	<b>11,853</b>	<b>216,951</b>
Capital assets being depreciated, net	9	-
<b>Total assets</b>	<b>11,862</b>	<b>216,951</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	4,437	215,386
Due to other government - federal	-	4
Due to other State fiduciary funds	-	7
Due to other Department funds	1	-
Due to other State funds	18	1,233
Current portion of long-term obligations	-	37
<b>Total current liabilities</b>	<b>4,456</b>	<b>216,667</b>
Noncurrent portion of long-term obligations	32	284
<b>Total liabilities</b>	<b>4,488</b>	<b>216,951</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	9	-
Unrestricted	7,365	-
<b>Total net assets</b>	<b>\$ 7,374</b>	<b>\$ -</b>

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

*State of Illinois*

*Department of Healthcare and Family Services*

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

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

	<b>Business-Type Activities - Nonmajor Enterprise Fund</b>	<b>Governmental Activities - Internal Service Fund</b>
	<b>Local Government Health Insurance Reserve Fund</b>	<b>Health Insurance Reserve Fund</b>
<b>OPERATING REVENUES</b>		
Charges for sales and services	\$ 63,792	\$ 1,718,290
Other	89	-
<b>Total operating revenues</b>	<u>63,881</u>	<u>1,718,290</u>
<b>OPERATING EXPENSES</b>		
Benefit payments and refunds	59,647	1,715,141
Interest expense	-	1,505
General and administrative	869	11,607
<b>Total operating expenses</b>	<u>60,516</u>	<u>1,728,253</u>
<b>Operating income (loss)</b>	3,365	(9,963)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest and investment income	469	5,091
Other revenues	185	25,872
<b>Income (loss) before contributions and transfers</b>	<u>4,019</u>	<u>21,000</u>
Transfers-out	<u>(1,000)</u>	<u>(21,000)</u>
<b>Changes in net assets</b>	3,019	-
Net assets, July 1, 2006	<u>4,355</u>	<u>-</u>
<b>NET ASSETS, JUNE 30, 2007</b>	<u>\$ 7,374</u>	<u>\$ -</u>

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

State of Illinois

Department of Healthcare and Family Services

Statement of Cash Flows -  
Proprietary Funds

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

	Business-Type Activities - Nonmajor Enterprise Fund	Governmental Activities - Internal Service Fund
	Local Government Health Insurance Reserve Fund	Health Insurance Reserve Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from sales and services	\$ 64,420	\$ 274,898
Cash received from transactions with other funds	-	1,424,576
Cash payments to suppliers for goods and services	(61,774)	(1,744,386)
Cash payments to employees for services	(792)	(3,606)
Cash receipts from other operating activities	420	37,395
Net cash provided (used) by operating activities	<u>2,274</u>	<u>(11,123)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Operating grants received	206	36,472
Transfers-out to other funds	(1,000)	(21,000)
Net cash provided (used) by noncapital financing activities	<u>(794)</u>	<u>15,472</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(9)	-
Net cash (used) by capital and related financing activities	<u>(9)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and dividends on investments	458	5,052
Net cash provided (used) by investing activities	<u>458</u>	<u>5,052</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,929</b>	<b>9,401</b>
Cash and cash equivalents, July 1, 2006	9,446	86,646
<b>CASH AND CASH EQUIVALENTS, JUNE 30, 2007</b>	<u><u>\$ 11,375</u></u>	<u><u>\$ 96,047</u></u>
<b>Reconciliation of cash and cash equivalents to the statement of net assets:</b>		
Total cash and cash equivalents per the statement of net assets	\$ 1,952	\$ 39,061
Add: cash equity with State Treasurer	9,423	56,986
<b>CASH AND CASH EQUIVALENTS, JUNE 30, 2007</b>	<u><u>\$ 11,375</u></u>	<u><u>\$ 96,047</u></u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
<b>OPERATING INCOME (LOSS)</b>	<u><u>\$ 3,365</u></u>	<u><u>\$ (9,963)</u></u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	134	436
(Increase) decrease in intergovernmental receivables	(88)	-
(Increase) decrease in due from other funds	-	(18,296)
(Increase) decrease in due from State of Illinois component units	-	754
Increase (decrease) in accounts payable and accrued liabilities	(1,102)	15,649
Increase (decrease) in intergovernmental payables	(1)	(1)
Increase (decrease) in due to other funds	3	282
Increase (decrease) in deferred revenues	(10)	-
Increase (decrease) in other liabilities	(27)	16
Total adjustments	(1,091)	(1,160)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u><u>\$ 2,274</u></u>	<u><u>\$ (11,123)</u></u>

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

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

**Statement of Fiduciary Net Assets**

June 30, 2007 (Expressed in Thousands)

	<b>Pension (and Other Employee Benefit) Trust Funds</b>	<b>Agency Funds</b>
<b>ASSETS</b>		
Cash equity with State Treasurer	\$ 86,893	\$ 10,189
Cash and cash equivalents	9,515	4,149
Receivables, net:		
Federal government	5,926	-
Employee	3,648	-
Employer	2,767	-
Interest and investment income	311	-
Other	5,997	172,002
<b>Total assets</b>	<b>115,057</b>	<b>\$ 186,340</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	39,563	15,283
Intergovernmental payables	1	-
Due to other State fiduciary funds	1	-
Due to other Department funds	2	-
Due to other State funds	70	-
Other liabilities	-	171,057
Long term obligations:		
Due within one year	1	-
Due subsequent to one year	67	-
<b>Total liabilities</b>	<b>39,705</b>	<b>\$ 186,340</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION AND OTHER EMPLOYEE BENEFITS</b>	<b>\$ 75,352</b>	

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

*State of Illinois*

*Department of Healthcare and Family Services*

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**Statement of Changes in Fiduciary Net Assets**

**Fiduciary Funds**

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

	<b>Pension (and Other Employee Benefit) Trust Funds</b>
<hr/>	
<b>ADDITIONS</b>	
Contributions:	
Employer	\$ 61,836
State	79,546
Plan members:	
Active	81,022
Retiree	140,124
Terminated employees	200
Federal Medicare Part D	18,369
Total contributions	<u>381,097</u>
Investment Income:	
Interest and other investment income	<u>3,992</u>
Net investment income	<u>3,992</u>
<b>Total additions</b>	<u>385,089</u>
<b>DEDUCTIONS</b>	
Benefit payments	380,606
General and administration	3,600
<b>Total deductions</b>	<u>384,206</u>
<b>Net additions (deductions)</b>	883
Net assets held in trust for pension and other employee benefits, July 1, 2006 (as restated)	<u>74,469</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION AND OTHER EMPLOYEE BENEFITS, June 30, 2007</b>	<u><u>\$ 75,352</u></u>

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



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

Notes to the Financial Statements

June 30, 2007

**(1) Organization**

The Department of Healthcare and Family Services (the Department) is a part of the executive branch of government of the State of Illinois (State) and operates under the authority of and review by the Illinois General Assembly. The Department operates under a budget approved by the General Assembly in which resources primarily from the State's General Revenue Fund are appropriated for the use of the Department. Activities of the Department are subject to the authority of the Office of the Governor, the State's chief executive officer, and other departments of the executive and legislative branches of government (such as the Department of Central Management Services, the Governor's Office of Management and Budget, the State Treasurer's Office, and the State Comptroller's Office) as defined by the Illinois General Assembly. All funds appropriated to the Department and all other cash received are under the custody and control of the State Treasurer, with the exception of various locally-held portions of health insurance funds and the Child Support Enforcement Trust Fund - SDU.

The Department is organized to provide for the improvement of the lives of Illinois' families through healthcare coverage, child support enforcement and energy assistance and employees of the State of Illinois and other local governments and schools through group insurance plan administration.

**(2) Summary of Significant Accounting Policies**

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

**(a) Financial Reporting Entity**

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

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

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

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

Notes to the Financial Statements

June 30, 2007

**(b) Basis of Presentation**

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

**Government-wide Statements.** The government-wide statement of net assets and statement of activities report the overall financial activity of the Department, excluding fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities of the Department. These statements distinguish between the *governmental* and *business-type* activities of the Department. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of net assets presents the assets and liabilities of the Department's governmental and business-type 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 business-type activity of the Department and for the functions of the Department's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements.** The fund financial statements provide information about the Department's funds, including fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary - are presented. The emphasis on fund financial statements is on major governmental and enterprise 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. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

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

**General** – This is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The services which are administered by the Department and accounted for in the General Fund include, among others, promoting access to quality healthcare and child support. Certain resources obtained from federal grants and used to support general governmental activities

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

Notes to the Financial Statements

June 30, 2007

are accounted for in the General Fund consistent with applicable legal requirements. The Department's portion of the General Fund is composed of five primary sub-accounts (General Revenue, U of I Hospital Services, County Hospital Services, Long-Term Care Provider, and Hospital Provider) and thirteen secondary sub-accounts.

**Road** – This fund accounts for the activities of the Department for payment to the Health Insurance Reserve Fund for allocated costs associated with providing medical and dental benefits for State employees paid from the Road Fund.

Additionally, the Department reports the following fund types:

***Governmental Fund Types:***

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

***Proprietary Fund Types:***

***Enterprise*** – This fund accounts for operations where the intent of the Department is that the cost of providing goods or services for health insurance programs on a continuing basis be financed or recovered primarily through user charges.

***Internal Service*** – This fund accounts for medical and dental benefits for State employees provided to agencies of the State on a reimbursement basis.

***Fiduciary Fund Types:***

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

***Pension Trust*** – These funds account for resources that are required to be held in trust for payment of postemployment benefits on-behalf of beneficiaries.

**(c) *Measurement Focus and Basis of Accounting***

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include nursing home assessments, hospital assessments and intergovernmental grants. On an accrual basis, revenues from the nursing home assessments are recognized in the fiscal year in which the underlying exchange transaction occurs. Revenue from grants, entitlements, and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

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

Notes to the Financial Statements

June 30, 2007

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 collected 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 the 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 the nursing home assessment, federal matching revenues, drug rebates, intergovernmental transfer agreement revenues, insurance charges, and child support. Other miscellaneous revenue sources 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. The State also has the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance as it relates to the Department's operations.

***(d) Shared Fund Presentation***

The financial statement presentation for the General Revenue, Care Provider Fund for Persons with Developmental Disabilities, and Trauma Center Accounts of the General Fund, the Road Fund, and the Supplemental Low-Income Energy Assistance Fund and the Tobacco Settlement Recovery Fund, non-major governmental funds, represent only the portion of the shared fund that can be directly attributed to the operations of the Department. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' Comprehensive Annual Financial Report.

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

Unexpended Appropriations

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

Transfer of liabilities from other State programs

This "liability" account reflects the amount related to the transfer of the Health Insurance Reserve Fund (HIRF) from the Department of Central Management Services and is the amount of long-term liability in the General Fund due to the HIRF at June 30, 2006.

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

Notes to the Financial Statements

June 30, 2007

Appropriations from State Resources

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

Lapsed Appropriations

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

Receipts Collected and Transmitted to State Treasury

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

Amount of SAMS Transfers-In

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

Amount of SAMS Transfers-Out

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

**(e) Eliminations**

Eliminations have been made in the government-wide statement of net assets to minimize the “grossing-up” effect on assets and liabilities within the governmental activities column of the Department. As a result, amounts reported in the governmental funds balance sheet as interdepartmental interfund receivables and payables have been eliminated in the government-wide statement of net assets. Amounts reported in the governmental funds balance sheet and proprietary funds 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 less than 90 days at the time of purchase. Cash and cash equivalents include cash on hand and cash in banks for locally held funds.

**(g) Investments**

Investments are reported at fair value.

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

Notes to the Financial Statements

June 30, 2007

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

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

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

The Department also has activity with the University of Illinois, a State of Illinois component unit, for medical programs and intergovernmental transfer agreements administered by the University and with various component units of the State of Illinois for on-behalf employee benefits paid.

**(i) Capital Assets**

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

Capitalization thresholds and the estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life (in Years)
Equipment	\$5,000	3-10 years

**(j) Compensated Absences**

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

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

Notes to the Financial Statements

June 30, 2007

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.

**(k) Fund Balances**

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

**(l) Net Assets**

In the government-wide and the proprietary statement of net assets, equity is displayed in three components as follows:

***Invested in capital assets, net of related debt*** – This consists of capital assets, net of accumulated depreciation. The Department does not finance capital assets with debt.

***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."

**(m) Use of Estimates**

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

**(n) Health Benefits Claims Processing**

By State statute, the Department is responsible for administering the State's health benefit programs. The Department contracts with third party administrators to process health, dental and prescription claims submitted by healthcare service providers relating to the applicable self-insured portions of the health benefit programs accounted for in the Local Government Health Insurance Reserve Fund, Teacher Health Insurance Security Fund, Community College Health Insurance Security Fund and Health Insurance Reserve Fund. It is the Department's policy to recognize claims expense and accrue any unpaid liability relating to claims incurred but not reported (IBNR) based on actuarial projections and reports of processed claims provided by the third-party administrators.

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

Notes to the Financial Statements

June 30, 2007

**(o) *New Accounting Standards***

For the year ended June 30, 2007, the Department implemented Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* which establishes financial reporting standards for postemployment benefit plans other than pensions.

**(p) *Future Adoption of GASB Statements***

Effective for the year ending June 30, 2008, the Department will adopt GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Other Than Pensions*, which establishes standards of accounting and financial reporting for postemployment benefit plan (other than pension plans) expenditures, related liabilities or assets, note disclosures and required supplementary information in the financial reports of states and local governmental employers. The Department has not yet determined the impact on the Department's financial statements as a result of adopting this statement.

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

**(3) Deposits and Investments**

**(a) *Deposits***

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

Cash on deposit for locally held funds of fiduciary activities had a carrying amount and bank balance of \$54 thousand at June 30, 2007.



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

Notes to the Financial Statements

June 30, 2007

**(b) Investments**

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

	<b>Fair Value <u>(Thousands)</u></b>	<b>Book Value <u>(Thousands)</u></b>	<b>Weighted Average Maturity <u>(Years)</u></b>
<b><i>Governmental and Business-Type Activities</i></b>			
Repurchase agreements	\$ 4,535	\$ 4,535	0.003
Money market mutual funds	36,516	36,516	0.090
Illinois Public Treasurers' Investment Pool	<u>332</u>	<u>332</u>	0.020
Total fixed income investments	<u>\$ 41,383</u>	<u>\$ 41,383</u>	
<b><i>Fiduciary Funds</i></b>			
Repurchase agreements	\$ 11,808	\$ 4,149	0.003
Money market mutual funds	<u>9,461</u>	<u>9,461</u>	0.090
Total fixed income investments	<u>\$ 21,269</u>	<u>\$ 13,610</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. Of the total repurchase agreements of \$16.343 million, \$4.497 million were rated Aaa by Moody's and \$11.846 million were not subject to credit risk. The Money Market Mutual Funds and the Illinois Public Treasurers' Investment Pool were rated AAAM by Standard & Poor's.

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

Notes to the Financial Statements

June 30, 2007

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

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

<i><b>Governmental and Business-Type Activities</b></i>	<u><b>Deposits</b></u>	<u><b>Investments</b></u>
Amounts Per Note	\$ -	\$ 41,383
Cash Equivalents	41,383	(41,383)
<b>Amounts Per Statement of Net Assets</b>	<u>\$ 41,383</u>	<u>\$ -</u>

<i><b>Fiduciary Funds</b></i>	<u><b>Deposits</b></u>	<u><b>Investments</b></u>
Amounts Per Note	\$ 54	\$ 13,610
Cash equivalents	13,610	(13,610)
<b>Amounts per Statement of Fiduciary Net Assets</b>	<u>\$ 13,664</u>	<u>\$ -</u>

**(4) Accounts Receivable**

**(a) Taxes Receivable**

Taxes receivable (amounts expressed in thousands) at June 30, 2007 are as follows:

	<u><b>General Fund</b></u>
Taxes receivable	\$ 742,489
Less: allowance for uncollectible taxes	(2,927)
<b>Taxes receivable, net</b>	<u>\$ 739,562</u>

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

Notes to the Financial Statements

June 30, 2007

**(b) Other Receivables**

Other receivables (amounts expressed in thousands) at June 30, 2007 are as follows:

	<b>General Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Nonmajor Proprietary Fund</b>	<b>Internal Service Fund</b>	<b>Fiduciary Funds</b>
Other receivables	\$ 114,464	\$ 619,855	\$ 341	\$ 10,921	\$ 2,743,064
Less: allowance for uncollectible accounts	(31,457)	(609,703)	-	-	(2,558,339)
<b>Other receivables, net</b>	<b>\$ 83,007</b>	<b>\$ 10,152</b>	<b>\$ 341</b>	<b>\$ 10,921</b>	<b>\$ 184,725</b>

**(5) Interfund Balances and Activity**

**(a) Balances Due to/from Other Funds**

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

<b>Fund</b>	<b>Due From</b>				<b>Description/Purpose</b>
	<b>Other Department Funds</b>	<b>Other State Funds</b>	<b>Other Department Fiduciary Funds</b>	<b>Other State Fiduciary Funds</b>	
General	\$ -	\$ 2,322	\$ -	\$ -	Due from other State funds for subgrants received.
Nonmajor governmental funds	621	-	-	-	Due from other State funds for unexpended subgrants made.
Internal service fund	93,827	(116)	2	69	Due from other Departments funds for insurance benefits.
	<b>\$ 94,448</b>	<b>\$ 2,206</b>	<b>\$ 2</b>	<b>\$ 69</b>	

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

Notes to the Financial Statements

June 30, 2007

The following balances (amounts expressed in thousands) at June 30, 2007 represent amounts due to the Department's internal service fund for insurance benefits, to other State of Illinois funds for purchases of services, and to pension (and other employee benefit) trust funds for post-employment benefits.

	<b>Due to</b>		
<b>Fund</b>	<b>Other Department Funds</b>	<b>Other State Funds</b>	<b>Other State Fiduciary Funds</b>
General	\$ 93,906	\$ 7,935	\$ 408
Nonmajor governmental Funds	541	5,574	294
Nonmajor Proprietary Fund	1	18	-
Internal service Fund	-	1,233	7
Fiduciary Funds	2	70	1
	<u>\$ 94,450</u>	<u>\$ 14,830</u>	<u>\$ 710</u>

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

Notes to the Financial Statements

June 30, 2007

**(b) Transfers to/from Other Funds**

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

<u>Fund</u>	<u>Transfers in from</u>		<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	
General	\$ 13,800	\$ 908,739	Transfers from the Tobacco Settlement Fund for Medicaid programs; Children's Mental Health Initiative transfers; and short-term borrowing for the Hospital Provider Fund.
Nonmajor governmental funds	31,008	41	Transfer from General Fund per State appropriation.
	<u>\$ 44,808</u>	<u>\$ 908,780</u>	

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

<u>Fund</u>	<u>Transfers out to</u>		<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	
General	\$ 31,008	\$ 988,931	Transfer to Department nonmajor governmental funds per State appropriation, transfer to State debt services funds and transfers to assist State budget shortfalls.
Nonmajor governmental funds	13,800	-	Transfer to General Fund for Medicaid programs.
Internal service fund	-	21,000	Transfers to State's General Fund to assist State budget shortfalls.
Nonmajor proprietary fund	-	1,000	Transfers to State's General Fund to assist State budget shortfalls.
	<u>\$ 44,808</u>	<u>\$ 1,010,931</u>	

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

Notes to the Financial Statements

June 30, 2007

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

The following balances (amounts expressed in thousands) at June 30, 2007 represent amounts due from State of Illinois Component Units to the General Fund for intergovernmental agreement reimbursements and to the internal service fund for health insurance charges.

<b>Fund</b>	<b>Due from</b>	
	<b>General Fund</b>	<b>Internal Service Fund</b>
Toll Highway Authority	\$ -	\$ 2,288
Eastern Illinois University	-	51
Governors State University	-	107
Western Illinois University	-	55
Illinois State University	-	116
Northern Illinois University	-	117
Southern Illinois University	-	143
University of Illinois	24,893	4,256
	\$ 24,893	\$ 7,133

The following balances (amounts expressed in thousands) at June 30, 2007 represent amounts due to State of Illinois Component Units.

<b>Fund</b>	<b>Due to General Fund</b>	<b>Description/Purpose</b>
University of Illinois	\$ 45,457	Medicaid expenditure reimbursements.
	\$ 45,457	

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

Notes to the Financial Statements

June 30, 2007

**(6) Capital Assets**

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

<u><b>Governmental Activities :</b></u>	<u><b>Balance July 1, 2006</b></u>	<u><b>Additions</b></u>	<u><b>Deletions</b></u>	<u><b>Net Transfers</b></u>	<u><b>Balance June 30, 2007</b></u>
Capital assets being depreciated:					
Equipment	\$ 24,510	\$ 2,462	\$ 8,261	\$ (3,207)	\$ 15,504
Less accumulated depreciation:					
Equipment	<u>20,822</u>	<u>1,460</u>	<u>7,955</u>	<u>(2,485)</u>	<u>11,842</u>
Total capital assets being depreciated, net	<u>3,688</u>	<u>1,002</u>	<u>306</u>	<u>(722)</u>	<u>3,662</u>
Governmental activity capital assets, net	<u>\$ 3,688</u>	<u>\$ 1,002</u>	<u>\$ 306</u>	<u>\$ (722)</u>	<u>\$ 3,662</u>

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

Health and social services \$ 1,460

<u><b>Business-type Activities :</b></u>	<u><b>Balance July 1, 2006</b></u>	<u><b>Additions</b></u>	<u><b>Deletions</b></u>	<u><b>Net Transfers</b></u>	<u><b>Balance June 30, 2007</b></u>
Capital assets being depreciated:					
Equipment	\$ -	\$ 9	\$ -	\$ -	\$ 9
Less accumulated depreciation:					
Equipment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Business-type activity capital assets, net	<u>\$ -</u>	<u>\$ 9</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9</u>

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

Notes to the Financial Statements

June 30, 2007

**(7) Long-Term Obligations**

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

	<b>Balance July 1, 2006 <u>Restated</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b>Balance June 30, 2007</b>	<b>Amounts Due Within One Year</b>
<b>Governmental activities:</b>					
Compensated Absences	\$ 11,508	\$ 9,860	\$ 9,343	\$ 12,025	\$ 710
<b>Total governmental activities</b>	<u>\$ 11,508</u>	<u>\$ 9,860</u>	<u>\$ 9,343</u>	<u>\$ 12,025</u>	<u>\$ 710</u>
<b>Business-type activities:</b>					
Compensated Absences	\$ 59	\$ 15	\$ 42	\$ 32	\$ -
<b>Total business-type activities</b>	<u>\$ 59</u>	<u>\$ 15</u>	<u>\$ 42</u>	<u>\$ 32</u>	<u>\$ -</u>
<b>Fiduciary funds:</b>					
Compensated Absences	\$ 63	\$ 59	\$ 54	\$ 68	\$ 1
<b>Total fiduciary funds</b>	<u>\$ 63</u>	<u>\$ 59</u>	<u>\$ 54</u>	<u>\$ 68</u>	<u>\$ 1</u>

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

**(8) General Obligation Certificates**

The State is authorized to borrow up to 5% of the State's appropriations in a fiscal year to meet deficits in anticipated revenues. All debt shall be retired from the revenues received in that fiscal year.

On February 7, 2007, the State issued \$900 million of general obligation certificates, which matured on June 7, 2007, with interest rate of 4.25%. The certificates were issued to address timing variations which occur between disbursement and receipt of budgeted funds within a fiscal year. Proceeds from the certificates were deposited as follows: \$900 million into the General Revenue Account (a sub-account of the General Fund) and \$1.6 million of bond issuance premium into the General Obligation Bond Retirement and Interest Fund (a nonmajor governmental fund). The amount deposited into the General Revenue Account was transferred to the Hospital Provider Fund (a sub-account of the General Fund) for the use by the Department in providing access improvement payments to hospitals.



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

Notes to the Financial Statements

June 30, 2007

Changes in general obligation certificates payable (amounts expressed in thousands) during the year ended June 30, 2007 are as follows:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>
<b>Governmental Activities:</b>				
General Obligation Certificates payable	\$ -	\$ 900,000	\$ \$900,000	\$ -
Unamortized premiums	-	1,602	1,602	-
<b>Total</b>	<u>\$ -</u>	<u>\$ 901,602</u>	<u>\$ 901,602</u>	<u>\$ -</u>

**(9) Pension Plan**

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

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

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

**(10) Post-employment Benefits**

The State provides health, dental, and life insurance benefits for certain retirees and their dependents. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to \$5,000 per annuitant age 60 and older. The total cost of health, dental, and life insurance benefits of all members, including post-employment health, dental, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive

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

Notes to the Financial Statements

June 30, 2007

Annual Financial Report. The total costs incurred for health, dental, and life insurance benefits are not separated by Department for annuitants and their dependents nor active employees and their dependents.

**(11) Fund Deficits**

The General Fund and the Supplemental Low Income Energy Assistance, Energy Administration, and Low Income Home Energy Assistance Block Grant funds, nonmajor governmental funds, had deficit fund balances of \$2.278 billion, \$6 thousand, \$3 thousand, and \$330 thousand, respectively, at June 30, 2007.

The General Fund deficit of \$2.278 billion resulted from liabilities recognized at June 30, 2007 of \$93 million for the Group Insurance program and \$2.184 billion for the Medicaid and the Hospital Assessment Tax (HAT) programs. The Group Insurance program liability reflects amounts due from all State funds contributing to the program for all outstanding claims. The HAT program liability is a result of a payment schedule anticipated under the Public Aid Code (305 ILCS 5/5A-12.1) to pay Access Improvement Payments (AIP's) to eligible hospitals within 100 days of notification by the federal government of approval of the State's Medicaid plan amendment. Subsequent quarterly payments were anticipated to be paid by the 7<sup>th</sup> business day of September, December, March and May. The program was to be administered within the Hospital Provider Fund (HPF), Fund 0346, an account of the General Fund. To satisfy the requirement, the Department required \$2.4 billion in appropriation authority in FY 2007, however only \$1.2 billion was initially authorized for the HPF. A supplemental appropriation was signed into law on August 13, 2007. As the Department was unable to utilize the supplemental appropriation to complete the mandate, a liability has been recorded in the HPF as of June 30, 2007 for the remaining \$1.2 billion in AIP's. The effect of paying two years of AIP's within one fiscal year created an extraordinary increase in disbursements for the general funds, whereas the program enabled both an assessment tax and new federal revenue resulting in an additional \$268 million in net revenue gain to the State.

Once executed, the AIP's generated \$600 million in federal revenue and, as required by Public Aid Code (305 ILCS 5/5A-4), mandated the eligible hospitals to pay \$734 million in assessment tax revenue, resulting in an additional \$134 million in net revenue to the State. The \$1.34 billion in revenues generated by the assessment program were received in the ensuing month, however are not recognized to offset the \$1.2 billion liability due to the State's current 60-day revenue recognition policy at the general fund reporting level. The General Fund deficit related to the Medicaid program is expected to be reduced to \$851 million through the recognition of future unavailable revenue.

The deficit of the Supplemental Low Income Energy Assistance fund is expected to be eliminated through future revenue. The deficits of the Energy Administration and Low Income Home Energy Assistance Block Grant funds are expected to be eliminated through the future recognition of unavailable revenue.

**(12) Risk Management**

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation and natural disasters. The State retains the risk of loss (i.e. self insured) for these risks except computer equipment insurance purchased by the Department.

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

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

Notes to the Financial Statements

June 30, 2007

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 administers the State of Illinois' risk management for employee and retiree health and dental insurance benefit programs of the State. The Department uses the Health Insurance Reserve Fund, an internal service fund, to account for employee and retiree health and dental insurance benefit programs of the State, which are partially self-funded. Employees of the State may obtain health care services through participation in the State's group health insurance plan or through membership in one of eight health maintenance organization plans under contract with the State. The State maintains the risk of insurance for employees who participate in the State's group health insurance plan. Expenses and liabilities for claims, which include incurred but not reported or not processed benefit claims, have been recorded as liabilities in the amount of \$214.483 million. Payments to the Health Insurance Reserve Fund are based on estimates of amounts needed to pay prior year unprocessed and current year claims.

The following is a reconciliation of the Department's claims liabilities (amounts expressed in thousands) for the year ended June 30, 2006 and 2007.

<b>Year Ended June 30</b>	<b>Beginning Balance</b>	<b>Claims Incurred</b>	<b>Decreases</b>	<b>Ending Balance</b>
2006	\$ 229,903	\$ 948,966	\$ 979,450	\$ 199,419
2007	\$ 199,419	\$ 961,052	\$ 945,988	\$ 214,483

**(13) Local Government Health Insurance Reserve Fund Risk Pool Disclosure**

The Local Government Health Plan provides health and dental insurance to participating local governmental entities. This plan, which accounts for other postemployment benefit plans (other than pension plans) for local government employees, is reported in the Local Government Health Insurance Reserve Fund (LGHIRF). As of June 30, 2007, there were 501 local governmental entities participating with approximately 6,399 employees, 4,156 dependents and 352 retirees covered. Each participating local governmental unit is required to enter into a written agreement with the Department of Central Management Services (DCMS). The Department works in conjunction with the DCMS to administer the plan.

The Department issues a publicly available financial report that includes financial statements and required supplementary information for LGHIRF. The financial report may be obtained from the Department of Healthcare and Family Services, 201 South Grand Avenue, Springfield, Illinois, 62763.

The responsibilities required of the DCMS are:

- Setting and adjusting premium rates
- Billing and collection of monthly premiums from local governmental units
- Enrollment and termination of members and dependents after notification by the local governmental unit
- Establishment of a Local Government Health Plan Advisory Board, consisting of seven advisors from the participating local governmental units

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

Notes to the Financial Statements

June 30, 2007

The responsibilities required of the Department of Healthcare and Family Services are:

- Establishment of the Local Government Health Insurance Reserve Fund
- Processing and payment of authorized claims

The responsibilities required of the local governmental units are:

- Enrollment of all employees and dependents that meet eligibility guidelines and who elect to participate
- Collection and transmission of monthly member and dependent premiums
- Designation of a Health Plan Representative
- Participate in the program for a minimum of two years

The Local Government Health Insurance Reserve Fund (LGHIRF) had previously contracted with third-party reinsurers for reinsurance coverage. However, no such coverage was in place for the year ended June 30, 2007.

The basis used in calculating the estimated liability for future claims is based on claims reported but not paid during the fiscal year plus an estimate of claims incurred but not reported (IBNR). The estimate for claims incurred but not reported was calculated using a factor based on historical experience stated as a percentage of claims reported vs. total claims incurred during the policy cycle. For the year ended June 30, 2007, all claims are paid on a two-year claim cycle.

Based on the above method, the liability for future claims (amounts expressed in thousands) at June 30, 2007 is as follows:

Claims incurred and reported but not paid as of June 30	\$ 1,555
Estimated liability for claims incurred but not reported	<u>2,847</u>
Total estimated liability for future claims	\$ <u>4,402</u>

A reconciliation of total benefit claim payments and refunds including claims adjustment expense is as follows (amounts expressed in thousands):

Payments made for benefit claims	\$ 60,749
Less: liability for unpaid claims, beginning of year	<u>5,504</u>
Subtotal	55,245
Add: Liability for unpaid claims, end of year	<u>4,402</u>
Total benefit claim payments and refunds	\$ <u>59,647</u>

**(14) Other Postemployment Benefit Plans**

The Department is responsible for the financial reporting of the Teachers' Retirement Insurance Program (TRIP) and the College Insurance Program (CIP). These programs, which account for other postemployment benefit plans (other than pension plans) for non-State employees, are reported in the Teacher Health Insurance Security Fund and the Community College Health Insurance Security Fund.

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

Notes to the Financial Statements

June 30, 2007

The TRIP and CIP are cost-sharing, multiple-employer defined benefit other postemployment benefit plans.

For both plans, plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and when the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Investments are in money market funds. Investments are reported at fair value.

The Department issues a publicly available financial report that includes financial statements and required supplementary information for TRIP and CIP. The financial reports may be obtained from the Department of Healthcare and Family Services, 201 South Grand Avenue, Springfield, Illinois, 62763.

***(a) Teacher Health Insurance Security Fund***

The Teacher Health Insurance Security Fund (THISF) was established to provide health insurance for the Illinois Teachers' Retirement System (TRS) annuitants and dependent beneficiaries. As of June 30, 2007, there were 1,007 school districts participating with approximately 51,792 annuitants and 9,468 dependents covered. The Department and the Department of Central Management Services administer this cost-sharing, multiple-employer defined benefit other postemployment benefit plan with the cooperation of the TRS.

The responsibilities required of the Department are:

- Setting and adjusting premium rates
- Establishment of the Teacher Health Insurance Security Fund
- Processing and payment of authorized claims
- Other matters noted in the administration of the fund

The responsibilities required of the TRS are:

- Enrollment of annuitants and dependents that meet eligibility guidelines and who elect to participate
- Termination of membership for annuitants and dependents
- Collection and transmission of monthly annuitant and dependent premiums
- Collection and transmission of 0.8 percent contribution from active teachers and 0.6 percent contributions from school districts for program funding purposes

***(b) Community College Health Insurance Security Fund***

The Community College Health Insurance Security Fund (CCHISF) was established to provide health and dental insurance for the Illinois community college retirees and dependent beneficiaries. As of June 30, 2007, there were 38 community colleges participating with approximately 4,023 annuitants and 830 dependents covered. The Department and the Department

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

Notes to the Financial Statements

June 30, 2007

of Central Management Services administer this cost-sharing, multiple-employer defined benefit other postemployment benefit plan with the cooperation of the State Universities Retirement System (SURS) and the boards of trustees of the various community college districts.

The responsibilities required of the Department are:

- Setting and adjusting premium rates
- Establishment of the Community College Health Insurance Security Fund
- Processing and payment of authorized claims
- Other matters noted in the administration of the fund

The responsibilities required of SURS are:

- Enrollment of annuitants and dependents that meet eligibility guidelines and who elect to participate
- Termination of membership for annuitants and dependents
- Collection and transmission of monthly annuitant and dependent premiums
- Collection and transmission of 0.5 percent contributions from active community college employees and community college districts for program funding purposes

**(15) Commitments and Contingencies**

***(a) Operating Leases***

The Department leases equipment, buildings and office space under terms of noncancelable operating lease agreements not extending past the end of the fiscal year, 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 \$5.742 million for the year ended June 30, 2007.

***(b) Federal Funding***

On January 9, 2007, the Department filed an appeal before the U. S. Department of Health and Human Services Department Appeals Board challenging the federal Centers for Medicare and Medicaid Services (CMS) disallowance of \$53.108 million in federal financial participation (FFP) attributable to payments the Department made to County owned or operated nursing facilities. CMS claims that the methodology the Department used would have resulted in FFP being paid in excess of actual expenditure of funds for medical assistance. If the Department wins the appeal, FFP will be paid to the state.

The Department receives federal grants which are subject to review and audit by federal grantor agencies. Certain costs could be questioned as not being an eligible expenditure under the terms of the grants. At June 30, 2007, there were no material questioned costs that have not been resolved with the federal awarding agencies. However, questioned costs could still be identified during audits to be conducted in the future. Management of the Department believes there will be no material adjustments to the federal grants and, accordingly, has not recorded a provision for possible repayment.

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

Notes to the Financial Statements

June 30, 2007

**(c) Litigation**

On July 28, 2005, a statewide class action was brought on behalf of individuals with mental retardation and other developmental disabilities who are allegedly “required” to reside in large, privately-run congregate care institutions, Intermediate Care Facilities for the Developmentally Disabled, as a condition of receiving services. The prayer for relief included determination of class members’ eligibility for community services and provision to eligible class members of sufficient services to “live in the most integrated setting appropriate to their needs.” The case is in the early stage of discovery.

On August 15, 2005 a class action suit was filed on behalf of two Institution for Mental Disease (IMD) residents who allegedly wish to be moved to a more integrated facility. Plaintiffs seek that steps be taken to receive services in the most integrated setting appropriate.

The Department is a party to numerous other legal proceedings, many of which normally occur in the course of operations. These proceedings are not, in the opinion of the Department’s legal counsel, likely to have a material adverse impact on the Department’s financial position. In the event a material action is settled against the Department, such amounts would be paid from future appropriations or by another State agency. Accordingly, no amounts have been provided in the accompanying financial statements related to outstanding litigation.

**(16) Restatement**

The Teacher Health Insurance Security Fund and the Community College Health Insurance Security Fund were reclassified from proprietary fund category enterprise fund types to fiduciary fund category pension (and other postemployment benefit) trust fund types during the current fiscal year due to the implementation of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

	<b>Business-Type Activities</b>	<b>Fiduciary Funds</b>
<b>Net Assets, June 30, 2006, as previously reported</b>	\$ 78,824	\$ -
Reclassification of:		
Teacher Health Insurance Security Fund	(64,599)	64,599
Community College Health Insurance Security Fund	(9,870)	9,870
<b>Net Assets, June 30, 2006 as restated</b>	\$ 4,355	\$ 74,469

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

Notes to the Financial Statements

June 30, 2007

**(17) Subsequent Events**

The U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services (CMS) approved the State's Medicaid State plan amendment on November 28, 2006. This approval by the federal grantor agency established the Access Improvement Program, whereby the State made Access Improvement Payments (AIP's) to eligible hospitals authorized under 305 ILCS 5/5A-12.1. Local health care providers are also required to pay a Hospital Assessment Tax to the State, once the AIP's are received. The program resulted in AIP payments of \$1.2 billion with resulting assessment revenues of \$734 million and new federal revenue of \$600 million, netting \$134 million in a net revenue gain to the State.

In fiscal year 2007, the Department made the first set of AIP's in February 2007 of \$1.2 billion to eligible hospitals authorized under 305 ILCS 5/5A-12.1. The statutory payment schedule anticipated a second set of payments of \$1.2 billion for a total of \$2.4 billion in AIP's to be paid in fiscal year 2007, however only \$1.2 billion in appropriation authority was granted to the Department during fiscal year 2007 to execute the payments.

GASB Statement 33, paragraph 74 defines the criteria whereby a provider government would recognize a liability for government mandated non-exchange transactions. These accounting criteria require program eligibility criteria to be met and a legal budgetary appropriation to exist. Due to the accounting requirements, a liability has been recorded as of June 30, 2007 for the remaining \$1.2 billion in AIP's.

Once executed and paid, the AIP's generated \$600 million in newly additional federal revenue and, as required by Public Aid Code (305 ILCS 5/5A-4), mandated the eligible hospitals to pay \$734 million in assessment tax revenue, which was received by the State in the ensuing month, fiscal year 2008. Although the \$1.34 billion in revenues generated by the assessment program were received within a month of rendering the AIP payments, under the modified accrual basis of accounting, the revenues are not recognized to offset the \$1.2 billion liability due to the State's 60-day revenue recognition policy at the general fund's reporting level. Under this policy, the associated revenues will be recognized in fiscal year 2008.



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

Notes to the Financial Statements

June 30, 2007

The following illustrates the history of the program since the November 2006 federal approval (amounts expressed in thousands):

FY	AIP payment	New Federal Revenue	HAT Tax Receipt	Rev Gain to State
2006	-0-	-0-	-0-	-0-
2007	\$1,198	\$599	\$733	\$134
2008	\$2,398	\$1,199	\$1,467	\$268

As shown in the table above, if the revenue was recorded to match the fiscal year 2007 liability, the net effect for each of the AIP payments is \$134 million of net revenue gain to the State.

Had GASB Statement 33 not required the recognition for accounting purposes of the \$1.2 billion liability at June 30, 2007, the General Fund deficit relative to the Medicaid program would have been \$851 million, instead of the \$2.184 billion reported on the Governmental Funds Financial Statements.

State of Illinois  
Department of Healthcare and Family Services

Combining Schedule of Accounts  
General Fund

June 30, 2007 (Expressed in Thousands)

	General Revenue Account 0001	U of I Hospital Services 0136	County Hospital Services 0329	Care Provider for Persons with DD 0344	Long-Term Care Provider 0345	Hospital Provider 0346	Special Education Medicaid Matching 0355
<b>ASSETS</b>							
Unexpended appropriations	\$ 125,814	\$ -	\$ -	\$ 3	\$ -	\$ -	\$ -
Cash equity with State Treasurer	568	-	8,739	1	42,895	8,639	18,506
Cash and cash equivalents	370	-	-	-	-	-	-
Due from other government - federal	868,252	27,406	69,761	4,438	67,509	599,703	23,333
Due from other government - local	10,000	-	61,457	-	7,261	-	1,047
Taxes receivable, net	289	-	-	182	4,851	734,240	-
Other receivables, net	1,513	-	41	-	127	693	-
Due from other Department funds	92,630	-	-	-	-	-	-
Due from other State funds	88	-	-	-	23	-	-
Due from State of Illinois component units	-	24,893	-	-	-	-	-
<b>Total assets</b>	<b>\$ 1,099,524</b>	<b>\$ 52,299</b>	<b>\$ 139,998</b>	<b>\$ 4,624</b>	<b>\$ 122,666</b>	<b>\$ 1,343,275</b>	<b>\$ 42,886</b>
<b>LIABILITIES</b>							
Accounts payable and accrued liabilities	\$ 1,851,763	\$ -	\$ -	\$ 2	\$ 97,164	\$ 1,198,662	\$ -
Due to other government - federal	235	-	-	-	2	-	-
Due to other government - local	-	-	139,998	-	25,486	-	42,886
Due to other State fiduciary funds	364	-	-	-	4	-	-
Due to other Department funds	98,236	11,895	-	1	7	-	-
Due to other State funds	5,988	-	-	-	3	-	-
Due to State of Illinois component units	4,497	40,404	-	-	-	-	-
Unavailable revenues	157,245	23,796	74,789	2,846	40,448	1,333,137	14,380
<b>Total liabilities</b>	<b>2,118,328</b>	<b>76,095</b>	<b>214,787</b>	<b>2,849</b>	<b>163,114</b>	<b>2,531,799</b>	<b>57,266</b>
<b>FUND BALANCES (DEFICITS)</b>							
Reserved for encumbrances	-	-	-	-	-	-	-
Unreserved, undesignated	(1,018,804)	(23,796)	(74,789)	1,775	(40,448)	(1,188,524)	(14,380)
Total fund balances (deficits)	(1,018,804)	(23,796)	(74,789)	1,775	(40,448)	(1,188,524)	(14,380)
<b>Total liabilities and fund balances (deficits)</b>	<b>\$ 1,099,524</b>	<b>\$ 52,299</b>	<b>\$ 139,998</b>	<b>\$ 4,624</b>	<b>\$ 122,666</b>	<b>\$ 1,343,275</b>	<b>\$ 42,886</b>

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

**Combining Schedule of Accounts**  
**General Fund**

June 30, 2007 (Expressed in Thousands)

	Health and Human Services Medicaid Trust 0365	Trauma Center 0397	Public Assistance Recoveries Trust 0421	Medical Research and Development 0486	Post- Tertiary Clinical Services 0487	Juvenile Rehab Services Medicaid Matching 0575	Family Care 0720
<b>ASSETS</b>							
Unexpended appropriations	\$ -	\$ 1,561	\$ -	\$ -	\$ -	\$ -	\$ -
Cash equity with State Treasurer	38,018	-	52,688	-	-	13	1,345
Cash and cash equivalents	-	-	-	-	-	-	-
Due from other government - federal	-	798	4,390	-	-	863	-
Due from other government - local	-	-	-	-	-	-	-
Taxes receivable, net	-	-	-	-	-	-	-
Other receivables, net	104	-	80,393	-	-	-	4
Due from other Department funds	-	-	-	-	-	-	4,413
Due from other State funds	-	-	4	-	-	-	2,207
Due from State of Illinois component units	-	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ 38,122</b>	<b>\$ 2,359</b>	<b>\$ 137,475</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 876</b>	<b>\$ 7,969</b>
<b>LIABILITIES</b>							
Accounts payable and accrued liabilities	\$ -	\$ 1,561	\$ 1,890	\$ -	\$ -	\$ -	\$ 6,815
Due to other government - federal	-	-	22	-	-	-	-
Due to other government - local	-	-	6,130	-	-	765	-
Due to other State fiduciary funds	-	-	36	-	-	-	-
Due to other Department funds	-	-	127,772	-	-	-	-
Due to other State funds	-	-	1,625	-	-	111	-
Due to State of Illinois component units	-	-	-	-	-	-	-
Unavailable revenues	-	-	4,318	-	-	500	-
<b>Total liabilities</b>	<b>\$ -</b>	<b>\$ 1,561</b>	<b>\$ 141,793</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,376</b>	<b>\$ 6,815</b>
<b>FUND BALANCES (DEFICITS)</b>							
Reserved for encumbrances	-	-	5	-	-	-	-
Unreserved, undesignated	38,122	798	(4,323)	-	-	(500)	1,154
Total fund balances (deficits)	38,122	798	(4,318)	-	-	(500)	1,154
<b>Total liabilities and fund balances (deficits)</b>	<b>\$ 38,122</b>	<b>\$ 2,359</b>	<b>\$ 137,475</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 876</b>	<b>\$ 7,969</b>

*State of Illinois  
Department of Healthcare and Family Services*

**Combining Schedule of Accounts  
General Fund**

June 30, 2007 (Expressed in Thousands)

	Drug Rebate 0728	Independent Academic Medical Center 0735	Medicaid Buy-in Program Revolving 0740	Medical Special Purpose Trust 0808	Eliminations	Total
<b>ASSETS</b>						
Unexpended appropriations	-	-	-	-	-	127,378
Cash equity with State Treasurer	32,299	-	1,243	1,918	-	206,872
Cash and cash equivalents	-	-	-	-	-	370
Due from other government - federal	31,903	-	-	457	-	1,698,813
Due from other government - local	-	-	-	-	-	79,765
Taxes receivable, net	-	-	-	-	-	739,562
Other receivables, net	119	-	13	-	-	83,007
Due from other Department funds	46,967	-	-	-	(144,010)	-
Due from other State funds	-	-	-	-	-	2,322
Due from State of Illinois component units	-	-	-	-	-	24,893
<b>Total assets</b>	<b>\$ 111,288</b>	<b>\$ -</b>	<b>\$ 1,256</b>	<b>\$ 2,375</b>	<b>\$ (144,010)</b>	<b>\$ 2,962,982</b>
<b>LIABILITIES</b>						
Accounts payable and accrued liabilities	9,695	-	6	432	-	3,167,990
Due to other government - federal	54,082	-	-	2	-	54,343
Due to other government - local	-	-	-	-	-	215,265
Due to other State fiduciary funds	-	-	1	3	-	408
Due to other Department funds	-	-	1	4	(144,010)	93,906
Due to other State funds	-	-	-	208	-	7,935
Due to State of Illinois component units	556	-	-	-	-	45,457
Unavailable revenues	3,593	-	3	215	-	1,655,270
<b>Total liabilities</b>	<b>67,926</b>	<b>-</b>	<b>11</b>	<b>864</b>	<b>(144,010)</b>	<b>5,240,574</b>
<b>FUND BALANCES (DEFICITS)</b>						
Reserved for encumbrances	-	-	-	1	-	6
Unreserved, undesignated	43,362	-	1,245	1,510	-	(2,277,598)
Total fund balances (deficits)	43,362	-	1,245	1,511	-	(2,277,592)
<b>Total liabilities and fund balances (deficits)</b>	<b>\$ 111,288</b>	<b>\$ -</b>	<b>\$ 1,256</b>	<b>\$ 2,375</b>	<b>\$ (144,010)</b>	<b>\$ 2,962,982</b>

State of Illinois  
Department of Healthcare and Family Services

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

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

	General Revenue Account 0001	U of I Hospital Services 0136	County Hospital Services 0329	Care Provider for Persons with DD 0344	Long-Term Care Provider 0345	Hospital Provider 0346	Special Education Medicaid Matching 0355
<b>REVENUES</b>							
Operating grants - federal	\$ 3,992,528	\$ 131,815	\$ 705,751	\$ 20,788	\$ 325,493	\$ 607,872	\$ 119,748
Other operating grants	-	86,834	713,905	-	70,796	-	-
Licenses and fees	10,987	-	-	-	-	-	-
Other charges for services	-	-	-	-	-	-	-
Interest and other investment income	480	-	571	-	1,291	12,071	-
Other taxes	-	-	-	20,697	279,333	733,219	-
Other	308,049	-	-	-	-	-	-
<b>Total revenues</b>	4,312,044	218,649	1,420,227	41,485	676,913	1,353,162	119,748
<b>EXPENDITURES</b>							
Health and social services	6,676,328	225,890	1,322,540	68	746,767	2,413,324	112,894
Education	356,124	-	-	-	-	-	-
Employment and economic development	8,851	-	-	-	-	-	-
General government	89,953	-	-	-	-	-	-
Transportation	69	-	-	-	-	-	-
Public protection and justice	282,197	-	-	-	-	-	-
Environment and business regulation	21,172	-	-	-	-	-	-
Capital outlays	120	-	-	-	-	-	-
<b>Total expenditures</b>	7,434,814	225,890	1,322,540	68	746,767	2,413,324	112,894
<b>Excess (deficiency) of revenues over (under) expenditures</b>	(3,122,770)	(7,241)	97,687	41,417	(69,854)	(1,060,162)	6,854
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>							
Appropriations from State resources	7,764,780	-	-	1,094	-	-	-
Lapsed appropriations	(39,427)	-	-	(1,027)	-	-	-
Transfer of liabilities from other State programs	(75,163)	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	(4,318,500)	-	-	(40,953)	-	-	-
Amount of SAMS transfers-in	(76,566)	-	-	-	-	-	-
Amount of SAMS transfers-out	44,700	-	-	-	30,000	900,000	-
Transfers-in	42,142	44,700	-	-	-	900,000	-
Transfers-out	(89,689)	(44,051)	-	-	-	(1,028,091)	-
<b>Net other sources (uses) of financial resources</b>	3,252,277	649	-	(40,886)	30,000	(128,091)	-
<b>Net change in fund balances</b>	129,507	(6,592)	97,687	531	(39,854)	(1,188,253)	6,854
Fund balances (deficits), July 1, 2006	(1,148,311)	(17,204)	(172,476)	1,244	(594)	(271)	(21,234)
<b>FUND BALANCES (DEFICITS), JUNE 30, 2007</b>	\$ (1,018,804)	\$ (23,796)	\$ (74,789)	\$ 1,775	\$ (40,448)	\$ (1,188,524)	\$ (14,380)

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

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

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

	Health and Human Services Medicaid Trust 0365	Trauma Center 0397	Public Assistance Recoveries Trust 0421	Medical Research and Development 0486	Post- Tertiary Clinical Services 0487	Juvenile Rehab Services Medicaid Matching 0575	Family Care 0720
<b>REVENUES</b>							
Operating grants - federal	\$ -	\$ 2,509	\$ 22,803	\$ 6,400	\$ 6,400	\$ 690	\$ -
Other operating grants	-	-	-	-	-	-	-
Licenses and fees	-	-	-	-	-	-	-
Other charges for services	-	-	23,068	-	-	-	-
Interest and other investment income	922	-	-	-	-	-	53
Other taxes	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
<b>Total revenues</b>	922	2,509	45,871	6,400	6,400	690	53
<b>EXPENDITURES</b>							
Health and social services	-	4,908	38,026	12,800	12,800	1,190	22,397
Education	-	-	-	-	-	-	-
Employment and economic development	-	-	-	-	-	-	-
General government	-	-	-	-	-	-	-
Transportation	-	-	-	-	-	-	-
Public protection and justice	-	-	-	-	-	-	-
Environment and business regulation	-	-	-	-	-	-	-
Capital outlays	-	-	2,304	-	-	-	-
<b>Total expenditures</b>	-	4,908	40,330	12,800	12,800	1,190	22,397
<b>Excess (deficiency) of revenues over (under) expenditures</b>	922	(2,399)	5,541	(6,400)	(6,400)	(500)	(22,344)
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>							
Appropriations from State resources	-	15,000	-	-	-	-	-
Lapsed appropriations	-	(10,092)	-	-	-	-	-
Transfer of liabilities from other State programs	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	(2,807)	-	-	-	-	-
Amount of SAMS transfers-in	-	-	-	-	-	-	-
Amount of SAMS transfers-out	20,000	-	343	6,400	6,400	-	22,377
Transfers-in	-	-	(8,612)	-	-	-	-
Transfers-out	-	-	-	-	-	-	-
<b>Net other sources (uses) of financial resources</b>	20,000	2,101	(8,269)	6,400	6,400	-	22,377
<b>Net change in fund balances</b>	20,922	(298)	(2,728)	-	-	(500)	33
Fund balances (deficits), July 1, 2006	17,200	1,096	(1,590)	-	-	-	1,121
<b>FUND BALANCES (DEFICITS), JUNE 30, 2007</b>	\$ 38,122	\$ 798	\$ (4,318)	\$ -	\$ -	\$ (500)	\$ 1,154

*State of Illinois  
Department of Healthcare and Family Services*

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

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

	Drug Rebate 0728	Independent Academic Medical Center 0735	Medicaid Buy-in Program Revolving Trust 0740	Medical Special Purpose Trust 0808	Eliminations	Total
<b>REVENUES</b>						
Operating grants - federal	\$ 266,050	\$ 1,000	\$ -	\$ 2,133	\$ -	\$ 6,211,980
Other operating grants	-	-	-	1,238	-	872,773
Licenses and fees	-	-	451	-	-	11,438
Other charges for services	-	-	-	-	-	23,068
Interest and other investment income	1,849	-	60	-	-	17,297
Other taxes	-	-	-	-	-	1,033,249
Other	-	-	-	-	-	308,049
<b>Total revenues</b>	267,899	1,000	511	3,371	-	8,477,854
<b>EXPENDITURES</b>						
Health and social services	277,285	2,000	96	2,183	-	11,871,496
Education	-	-	-	-	-	356,124
Employment and economic development	-	-	-	-	-	8,851
General government	-	-	-	-	-	89,953
Transportation	-	-	-	-	-	69
Public protection and justice	-	-	-	-	-	282,197
Environment and business regulation	-	-	-	-	-	21,172
Capital outlays	-	-	-	-	-	2,424
<b>Total expenditures</b>	277,285	2,000	96	2,183	-	12,632,286
<b>Excess (deficiency) of revenues over (under) expenditures</b>	(9,386)	(1,000)	415	1,188	-	(4,154,432)
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>						
Appropriations from State resources	-	-	-	-	-	7,780,874
Lapsed appropriations	-	-	-	-	-	(50,546)
Transfer of liabilities from other State programs	-	-	-	-	-	(75,163)
Receipts collected and transmitted to State Treasury	-	-	-	-	-	(4,362,260)
Amount of SAMS transfers-in	-	-	-	-	-	(76,566)
Amount of SAMS transfers-out	-	-	-	-	-	44,700
Transfers-in	-	1,000	-	-	(150,823)	922,539
Transfers-out	-	-	(319)	-	150,823	(1,019,939)
<b>Net other sources (uses) of financial resources</b>	-	1,000	(319)	-	-	3,163,639
<b>Net change in fund balances</b>	(9,386)	-	96	1,188	-	(990,793)
Fund balances (deficits), July 1, 2006	52,748	-	1,149	323	-	(1,286,799)
<b>FUND BALANCES (DEFICITS), JUNE 30, 2007</b>	\$ 43,362	\$ -	\$ 1,245	\$ 1,511	\$ -	\$ (2,277,592)

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

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

June 30, 2007 (Expressed in Thousands)

	Special Revenue						
	Illinois Prescription Drug Discount Program 0316	Provider Inquiry Trust 0341	Energy Assistance 0550	Supplemental Low-Income Energy 0555	Samaritan Energy Trust 0555	Good Settlement Recovery 0733	Tobacco
<b>ASSETS</b>							
Unexpended appropriations	-	-	-	1,265	-	-	478
Cash equity with State Treasurer	257	636	-	-	26	-	-
Cash and cash equivalents	-	-	-	-	-	-	-
Due from other government - federal	-	-	-	-	-	-	19,550
Other receivables, net	1	38	-	-	-	-	-
Due from other Department funds	-	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ 258</b>	<b>\$ 674</b>	<b>\$ 1,265</b>	<b>\$ 1,265</b>	<b>\$ 26</b>	<b>\$ 26</b>	<b>\$ 20,028</b>
<b>LIABILITIES</b>							
Accounts payable and accrued liabilities	2	-	-	896	-	-	478
Due to other government - federal	-	-	-	1	-	-	-
Due to other government - local	-	-	-	338	-	-	-
Due to other State fiduciary funds	-	-	-	2	-	-	-
Due to other Department funds	-	-	-	4	-	-	-
Due to other State funds	14	174	30	-	-	-	-
Unavailable revenue	-	1	-	-	-	-	-
<b>Total liabilities</b>	<b>16</b>	<b>175</b>	<b>1,271</b>	<b>1,271</b>	<b>-</b>	<b>-</b>	<b>478</b>
<b>FUND BALANCES</b>							
Unreserved, undesignated	242	499	(6)	(6)	26	-	19,550
Total fund balances	242	499	(6)	(6)	26	-	19,550
<b>Total liabilities and fund balances</b>	<b>\$ 258</b>	<b>\$ 674</b>	<b>\$ 1,265</b>	<b>\$ 1,265</b>	<b>\$ 26</b>	<b>\$ 26</b>	<b>\$ 20,028</b>



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

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

June 30, 2007 (Expressed in Thousands)

	Special Revenue			Total
	Energy Administration 0737	Child Support Administration 0757	Low Income Home Energy Assistance Block Grant 0870	
<b>ASSETS</b>				
Unexpended appropriations	\$ -	\$ -	\$ -	1,743
Cash equity with State Treasurer	113	42,260	4,828	48,120
Cash and cash equivalents	-	-	-	-
Due from other government - federal	653	9,970	4,762	34,935
Other receivables, net	-	10,113	-	10,152
Due from other Department funds	-	621	-	621
<b>Total assets</b>	<b>\$ 766</b>	<b>\$ 62,964</b>	<b>\$ 9,590</b>	<b>\$ 95,571</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 502	\$ 6,808	\$ 6,159	14,845
Due to other government - federal	1	6,599	3	6,604
Due to other government - local	256	3,798	3,377	7,769
Due to other State fiduciary funds	1	286	5	294
Due to other Department funds	2	527	8	541
Due to other State funds	4	5,314	38	5,574
Unavailable revenue	3	31	330	365
<b>Total liabilities</b>	<b>769</b>	<b>23,363</b>	<b>9,920</b>	<b>35,992</b>
<b>FUND BALANCES</b>				
Unreserved, undesignated	(3)	39,601	(330)	59,579
Total fund balances	(3)	39,601	(330)	59,579
<b>Total liabilities and fund balances</b>	<b>\$ 766</b>	<b>\$ 62,964</b>	<b>\$ 9,590</b>	<b>\$ 95,571</b>

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

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

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

	Special Revenue					
	Illinois Prescription Drug Discount Program 0316	Provider Inquiry Trust 0341	Supplemental Low-Income Energy Assistance 0550	Good Samaritan Energy Trust 0555	Tobacco Settlement Recovery 0733	
<b>REVENUES</b>						
Operating grants - federal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 195,704
Other operating grants	-	-	1,500	5	-	-
License and fees	-	879	-	-	-	-
Other charges for services	-	-	-	-	-	-
Other revenues, net	5	-	-	-	-	-
<b>Total revenues</b>	<b>5</b>	<b>879</b>	<b>1,500</b>	<b>5</b>	<b>-</b>	<b>195,704</b>
<b>EXPENDITURES</b>						
Health and social services	18	623	81,240	1,506	-	374,691
Capital outlays	-	-	-	-	-	-
<b>Total expenditures</b>	<b>18</b>	<b>623</b>	<b>81,240</b>	<b>1,506</b>	<b>-</b>	<b>374,691</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(13)</b>	<b>256</b>	<b>(79,740)</b>	<b>(1,501)</b>	<b>-</b>	<b>(178,987)</b>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>						
Appropriations from State resources	-	-	97,900	-	-	388,953
Lapsed appropriations	-	-	(16,472)	-	-	(462)
Receipts collected and transmitted to State Treasury	-	-	(1,694)	-	-	(283,448)
Amount of SAMS transfers-in	-	-	(41)	-	-	-
Transfers-in	-	-	41	-	-	-
Transfers-out	-	-	-	-	-	(13,800)
<b>Net other sources (uses) of financial resources</b>	<b>-</b>	<b>-</b>	<b>79,734</b>	<b>-</b>	<b>-</b>	<b>91,243</b>
<b>Net change in fund balances</b>	<b>(13)</b>	<b>256</b>	<b>(6)</b>	<b>(1,501)</b>	<b>-</b>	<b>(87,744)</b>
Fund balances, July 1, 2006	255	243	-	1,527	-	107,294
<b>FUND BALANCES, JUNE 30, 2007</b>	<b>\$ 242</b>	<b>\$ 499</b>	<b>(6)</b>	<b>\$ 26</b>	<b>\$ -</b>	<b>\$ 19,550</b>

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

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

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

	Special Revenue			Low Income	Total
	Energy Administration 0737	Child Support Administration 0757	Home Energy Assistance Block Grant 0870		
<b>REVENUES</b>					
Operating grants - federal	\$ 14,138	\$ 117,026	\$ 138,801	\$	465,669
Other operating grants	-	-	-	-	1,505
License and fees	-	-	-	-	879
Other charges for services	-	14,801	-	-	14,801
Other revenues, net	-	(1)	-	-	4
<b>Total revenues</b>	<b>14,138</b>	<b>131,826</b>	<b>138,801</b>		<b>482,858</b>
<b>EXPENDITURES</b>					
Health and social services	14,141	161,259	139,124		772,602
Capital outlays	-	31	7		38
<b>Total expenditures</b>	<b>14,141</b>	<b>161,290</b>	<b>139,131</b>		<b>772,640</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(3)</b>	<b>(29,464)</b>	<b>(330)</b>		<b>(289,782)</b>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>					
Appropriations from State resources	-	-	-		486,853
Lapsed appropriations	-	-	-		(16,934)
Receipts collected and transmitted to State Treasury	-	-	-		(285,142)
Amount of SAMS transfers-in	-	-	-		(41)
Transfers-in	-	31,008	-		31,049
Transfers-out	-	-	-		(13,800)
<b>Net other sources (uses) of financial resources</b>	<b>-</b>	<b>31,008</b>	<b>-</b>		<b>201,985</b>
<b>Net change in fund balances</b>	<b>(3)</b>	<b>1,544</b>	<b>(330)</b>		<b>(87,797)</b>
Fund balances, July 1, 2006	-	38,057	-		147,376
<b>FUND BALANCES, JUNE 30, 2007</b>	<b>(3)</b>	<b>39,601</b>	<b>(330)</b>		<b>59,579</b>

*State of Illinois*

*Department of Healthcare and Family Services*

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**Combining Statement of Fiduciary Net Assets  
Pension (and Other Employee Benefit) Trust Funds**

June 30, 2007 (Expressed in Thousands)

	<b>Teacher Health Insurance Security 0203</b>	<b>Community College Health Insurance Security 0577</b>	<b>Total</b>
<b>ASSETS</b>			
Cash equity with State Treasurer	\$ 77,007	\$ 9,886	\$ 86,893
Cash and cash equivalents	8,906	609	9,515
Receivables, net:			
Federal government	5,479	447	5,926
Employee	3,521	127	3,648
Employer	2,641	126	2,767
Interest and investment income	271	40	311
Other	5,539	458	5,997
<b>Total assets</b>	<b>103,364</b>	<b>11,693</b>	<b>115,057</b>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	37,454	2,109	39,563
Intergovernmental payables	1	-	1
Due to other State fiduciary funds	1	-	1
Due to other Department funds	2	-	2
Due to other State funds	54	16	70
Long term obligations:			
Due within one year	1	-	1
Due subsequent to one year	61	6	67
<b>Total liabilities</b>	<b>37,574</b>	<b>2,131</b>	<b>39,705</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION AND OTHER EMPLOYEE BENEFITS</b>	<b>\$ 65,790</b>	<b>\$ 9,562</b>	<b>\$ 75,352</b>

*State of Illinois*

*Department of Healthcare and Family Services*

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**Combining Statement of Changes in Fiduciary Net Assets**

**Pension (and Other Employee Benefit) Trust Funds**

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

	<b>Teacher Health Insurance Security 0203</b>	<b>Community College Health Insurance Security 0577</b>	<b>Total</b>
<b>ADDITIONS</b>			
Contributions:			
Employer	\$ 58,191	\$ 3,645	\$ 61,836
State	75,839	3,707	79,546
Plan members:			
Active	77,377	3,645	81,022
Retiree	128,580	11,544	140,124
Terminated employees	189	11	200
Federal Medicare Part D	17,026	1,343	18,369
Total contributions	<u>357,202</u>	<u>23,895</u>	<u>381,097</u>
Investment income:			
Interest and other investment income	3,454	538	3,992
Net investment income	<u>3,454</u>	<u>538</u>	<u>3,992</u>
<b>Total additions</b>	<u>360,656</u>	<u>24,433</u>	<u>385,089</u>
<b>DEDUCTIONS</b>			
Benefit payments	356,212	24,394	380,606
General and administration	3,253	347	3,600
<b>Total deductions</b>	<u>359,465</u>	<u>24,741</u>	<u>384,206</u>
<b>Net additions (deductions)</b>	1,191	(308)	883
Net assets held in trust for pension and other employee benefits, July 1, 2006 (as restated)	<u>64,599</u>	<u>9,870</u>	<u>74,469</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION AND OTHER EMPLOYEE BENEFITS, JUNE 30, 2007</b>	<u>\$ 65,790</u>	<u>\$ 9,562</u>	<u>\$ 75,352</u>

*State of Illinois*

*Department of Healthcare and Family Services*

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**Combining Statement of Fiduciary Net Assets**

**Agency Funds**

June 30, 2007 (Expressed in Thousands)

	<b>Child Support Enforcement Trust 0957</b>	<b>Child Support Enforcement Trust - SDU 2957</b>	<b>Total</b>
<b>ASSETS</b>			
Cash equity with State Treasurer	\$ 10,189	\$ -	\$ 10,189
Cash and cash equivalents	183	3,966	4,149
Other receivables, net	171,903	99	172,002
<b>Total assets</b>	<b>\$ 182,275</b>	<b>\$ 4,065</b>	<b>\$ 186,340</b>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 11,218	\$ 4,065	\$ 15,283
Other liabilities	171,057	-	171,057
<b>Total liabilities</b>	<b>\$ 182,275</b>	<b>\$ 4,065</b>	<b>\$ 186,340</b>

*State of Illinois*

*Department of Healthcare and Family Services*

**Combining Statement of Changes in Assets and Liabilities**

**Agency Funds**

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

	<b>Balance at July 1, 2006</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at June 30, 2007</b>
<b>Child Support Enforcement Trust (0957)</b>				
<b>ASSETS</b>				
Cash equity with State Treasurer	\$ 8,607	\$ 167,039	\$ 165,457	\$ 10,189
Cash and cash equivalents	195	183	195	183
Other receivables, net	157,657	181,468	167,222	171,903
<b>Total assets</b>	<b>\$ 166,459</b>	<b>\$ 348,690</b>	<b>\$ 332,874</b>	<b>\$ 182,275</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 9,465	\$ 11,218	\$ 9,465	\$ 11,218
Other liabilities	156,994	170,250	156,187	171,057
<b>Total liabilities</b>	<b>\$ 166,459</b>	<b>\$ 181,468</b>	<b>\$ 165,652</b>	<b>\$ 182,275</b>
<b>Child Support Enforcement Trust - SDU (2957)</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,660	\$ 1,044,340	\$ 1,042,034	\$ 3,966
Other receivables, net	74	1,044,365	1,044,340	99
<b>Total assets</b>	<b>\$ 1,734</b>	<b>\$ 2,088,705</b>	<b>\$ 2,086,374</b>	<b>\$ 4,065</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 1,734	\$ 1,044,365	\$ 1,042,034	\$ 4,065
<b>Total liabilities</b>	<b>\$ 1,734</b>	<b>\$ 1,044,365</b>	<b>\$ 1,042,034</b>	<b>\$ 4,065</b>
<b>Total</b>				
<b>ASSETS</b>				
Cash equity with State Treasurer	\$ 8,607	\$ 167,039	\$ 165,457	\$ 10,189
Cash and cash equivalents	1,855	1,044,523	1,042,229	4,149
Other receivables, net	157,731	1,225,833	1,211,562	172,002
<b>Total assets</b>	<b>\$ 168,193</b>	<b>\$ 2,437,395</b>	<b>\$ 2,419,248</b>	<b>\$ 186,340</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 11,199	\$ 1,055,583	\$ 1,051,499	\$ 15,283
Other liabilities	156,994	170,250	156,187	171,057
<b>Total liabilities</b>	<b>\$ 168,193</b>	<b>\$ 1,225,833</b>	<b>\$ 1,207,686</b>	<b>\$ 186,340</b>

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION  
For the Year Ended June 30, 2007

**SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES**

**SUMMARY**

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

- Fiscal Schedules and Analysis:
  - Schedule of Expenditures of Federal Awards
  - Notes to the Schedule of Expenditures of Federal Awards
  - Schedule of Appropriations, Expenditures and Lapsed Balances
  - Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
  - Locally Held Funds – Cash Basis Schedule
  - Schedule of Changes in State Property
  - Comparative Schedule of Cash Receipts and Transfers
  - Reconciliation of Cash Receipts and Transfers to Deposits Remitted to the Comptroller
  - Analysis of Significant Variations in Expenditures
  - Analysis of Significant Variations in Receipts
  - Analysis of Significant Lapse Period Spending
  - Analysis of Significant Balance Sheet Accounts
  - Analysis of Accounts Receivable
  - Indirect Cost Reimbursements (Unaudited)
  - Schedule of Adjudication Pattern, Payment Patterns and Claims Paid (Unaudited)
  
- Analysis of Operations:
  - Department Functions and Planning Program
  - Average Number of Employees
  - Fiscal Year Statistics Medicaid Enrollment, (Unaudited)
  - Emergency Purchases
  - Service Efforts and Accomplishments (Unaudited)

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



STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2007  
(expressed in thousands)

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Health and Human Services:</b>		
Medicaid Cluster:		
Medical Assistance Program	93.778	\$ 6,383,755
State Survey and Certification of Health Care Providers and Suppliers	93.777	9,171
Total Medicaid Cluster		<u>6,392,926</u>
State Children's Insurance Program	93.767	324,904
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768	(73)
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	465
Reimbursement of State Costs for Provision of Part D Drugs	93.794	(785)
Healthy Start Initiative	93.926	50
Child Support Enforcement	93.563	128,591
Grants to States for Access and Visitation Programs	93.597	317
Child Support Enforcement Demonstrations and Special Projects	93.601	240
Low-Income Home Energy Assistance	93.568	138,522
<b>Total U.S. Department of Health and Human Services</b>		<u><u>6,985,157</u></u>
<b>U.S. Department of Energy:</b>		
Weatherization Assistance for Low-Income Persons	81.042	14,141
<b>Total U.S. Department of Energy</b>		<u><u>14,141</u></u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		<u><u>\$ 6,999,298</u></u>

See accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2007

**(1) Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) of the State of Illinois, Department of Healthcare and Family Services (the Department) for the year ended June 30, 2007 is presented on the modified accrual basis of accounting for expenditures. Such basis differs from the cash basis of accounting because it includes costs incurred prior to the end of the year, but not paid, and excludes costs paid during the current year but reported in the prior year.

A \$599 million liability was recorded for the fiscal year 2008 disbursement of Access Improvement Payments (AIP's) associated with CFDA #93.778 in compliance with the modified accrual basis of accounting. The liability, which was satisfied with ensuing federal and assessment tax revenues, created an extraordinary increase in federal expenditures for this reporting period caused by the two AIP's being reported in fiscal year 2007 though for one of the payments the actual disbursement and federal reimbursement occurred in fiscal year 2008.

**(2) Subrecipients**

Of the federal expenditures presented in the accompanying Schedule, the Department provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided Subrecipients</u>
Medical Assistance Program	93.778	\$ 69,057
Child Support Enforcement	93.563	20,493
Grants to States for Access and Visitation Programs	93.597	305
Low-Income Home Energy Assistance	93.568	135,603
Weatherization Assistance for Low-Income Persons	81.042	13,761

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2007

**(3) Descriptions of Major Federal Programs**

The following summarizes the major federal programs for the year ended June 30, 2007.

Medical Assistance Program CFDA #93.778

Federal Agency: Centers for Medicare and Medicaid Services  
Department of Health and Human Services

State Match: 50% (varies among programs)

The objective of the Medical Assistance Program is to provide financial assistance to states for payments of medical assistance on behalf of cash assistance recipients, children, pregnant women, and the aged who meet income and resource requirements, and other categorically eligible groups. Financial assistance is also provided to states to pay for Medicare premiums, co-payments, and deductibles of qualified Medicare beneficiaries meeting certain income requirements. In addition, the federal government under this program pays 50 percent of the expenses relating to most state administrative costs for Medicaid. Some expenditures can be matched at an enhanced rate of 75% to 90%. Examples of such expenditures are certain costs related to the Medicaid Management Information System and the employment of skilled professional medical personnel.

State Children's Insurance Program (SCHIP) CFDA #93.767

Federal Agency: Centers for Medicare and Medicaid Services  
Department of Health and Human Services

State Match: 35%

The objective of the SCHIP is to provide funds to states to initiate and expand child health assistance to uninsured, low-income children. Assistance is provided by two methods (1) obtain health insurance coverage that meets the requirements in Section 2103 relating to the amount, duration, and scope of benefits; and (2) expand eligibility for children under the State's Medicaid program.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2007

**(3) Descriptions of Major Federal Programs (Continued)**

*Child Support Enforcement CFDA #93.563*

Federal Agency: Administration for Children and Families  
Department of Health and Human Services

State match: 34%

The objective of the Title IV-D Program is to enforce the support obligation owed by absent parents to their children, locate absent parents, establish paternity, and obtain child, spousal and medical support. The State takes over the role of the absent parent and provides payments to the family based on need and hardship level. The State then attempts to collect the support payments from the parent. Collections in excess of the support provided by the State are passed along to the family. If collections do not equal the support provided by the State, the difference is absorbed by the Department.

*Low-Income Home Energy Assistance CFDA #93.568*

Federal Agency: Administration for Children and Families  
Department of Health and Human Services

State Match: 0%

This program provides grants to states and other jurisdictions to assist eligible low-income households in meeting the costs of home energy. States can provide regular heating assistance benefits or energy crisis assistance, which may include cooling costs or weatherization assistance. Supplemental leveraging incentive funds may be awarded to households beyond federal funding. Up to 10 percent of these funds can be used for state and local planning.

**(4) Other Agency Federal Programs Expenditures**

In addition to expenditures made by the Department, other State Agencies, Local Governments and Local Education Agencies also pay for federally reimbursable costs associated with the above federal programs. The Department claims eligible amounts for federal reimbursement as part of its standard claiming process with the U.S. Department of Health and Human Services. The resulting reimbursement is then deposited into the appropriate State fund.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES**  
For the Fourteen Months Ended August 31, 2007  
(expressed in thousands)

	Appropriations (Net after transfers)	Expenditures through June 30	Lapse period		Total Expenditures 14 Months Ended August 31	Balances Lapsed August 31
			Expenditures July 1 to August 31	Expenditures July 1 to August 31		
<b>P.A. 94-0798, 95-0144</b>						
<b>General Revenue Fund - 0001</b>						
Administrative:						
Program/Administrative Level	\$ 41,223	\$ 34,362	\$ 3,240	\$ 37,602	\$ 3,621	
Inspector General	18,023	14,118	1,029	15,147	2,876	
Attorney General	2,223	1,918	144	2,062	161	
Medical	58,114	46,659	4,359	51,018	7,096	
Deposit into Child Support Administrative Fund	31,008	30,388	620	31,008	-	
Group Insurance	1,065,037	1,043,737	-	1,043,737	21,300	
Total Administrative and Group Insurance	1,215,628	1,171,182	9,392	1,180,574	35,054	
Medical Assistance:						
Medicaid Therapies for 0-3 Year Olds	765	-	-	-	765	
Physicians	767,288	766,398	610	767,008	280	
Hospital In-Patient	2,579,424	2,576,072	3,246	2,579,318	106	
Prescribed Drugs	698,288	657,796	40,307	698,103	185	
Optometrists	18,861	18,690	131	18,821	40	
Podiatrists	3,930	3,868	51	3,919	11	
Chiropractors	1,521	1,480	17	1,497	24	
Federally Defined Institutions for Mental Diseases	126,400	124,655	1,614	126,269	131	
Supportive Living Facilities	58,799	58,771	-	58,771	28	
Skilled and Intermediate Long-Term Care	852,653	819,384	32,967	852,351	302	
Dentists	157,091	156,992	22	157,014	77	
Community Health Centers	235,919	235,738	181	235,919	-	
Appliances	71,939	70,408	1,529	71,937	2	
Independent Laboratories	43,834	43,306	527	43,833	1	
Transportation	94,398	93,647	751	94,398	-	
Other Related Medical Services	164,831	146,373	17,210	163,583	1,248	
Hospice Care	55,034	52,963	2,071	55,034	-	
Home Health Care, Therapy and Nursing Services	49,471	48,761	709	49,470	1	
Division of Special Care for Children	60,485	60,304	181	60,485	-	
Medicare Part A and B Premiums	271,872	271,872	-	271,872	-	
Renal Disease Medical Care	1,199	1,193	6	1,199	-	
Hemophilia Medical Care	8,002	8,001	-	8,001	1	
Sexual Assault Victims Medical Care	1,600	1,596	-	1,596	4	
Children Health Initiative	7,833	7,630	200	7,830	3	
Health Maintenance Organizations & Managed Care	216,219	207,717	8,339	216,056	163	
Rush Alzheimer's Disease Center	500	-	-	-	500	
Gilead Outreach & Referral Center	500	-	-	-	500	
Altegra Clinic Grants	400	400	-	400	-	
Total Medical Assistance	6,549,056	6,434,015	110,669	6,544,684	4,372	
Kid Care Refunds	96	95	-	95	1	
<b>Total General Revenue Fund - 0001</b>	<b>\$ 7,764,780</b>	<b>\$ 7,605,292</b>	<b>\$ 120,061</b>	<b>\$ 7,725,353</b>	<b>\$ 39,427</b>	

Note: The data contained in this schedule are taken from agency records, which have been reconciled to those of the State Comptroller.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES**  
For the Fourteen Months Ended August 31, 2007  
(expressed in thousands)

P.A. 94-0798, 95-0144	Appropriations (Net after transfers)	Expenditures through June 30	Lapse period		Total Expenditures 14 Months Ended August 31	Balances Lapsed August 31
			Expenditures July 1 to August 31	Expenditures August 31		
<b>Road Fund - 0011</b>						
Group Insurance	\$ 130,520	\$ 130,520	\$ -	\$ -	\$ 130,520	\$ -
<b>University of Illinois Hospital Services Fund - 0136</b>						
U of I Hospital Services	\$ 225,000	\$ 224,976	\$ -	\$ -	\$ 224,976	\$ 24
<b>Local Government Health Insurance Reserve Fund - 0193</b>						
Personal Services	\$ 555	\$ 548	\$ -	\$ -	\$ 548	\$ 7
State Contribution to State Employees' Retirement System	64	63	-	-	63	1
Social Security	42	40	-	-	40	2
Group Insurance	147	121	1	1	122	25
Contractual Services	170	86	16	16	102	68
Travel	19	15	-	-	15	4
Commodities	10	2	-	-	2	8
Printing	140	2	-	-	2	138
Equipment	18	14	-	-	14	4
Electronic Data Processing	47	8	2	2	10	37
Telecommunications Services	18	1	1	1	2	16
Operations of Auto Equipment	6	1	1	1	2	4
Group Health Insurance	98,832	57,855	3,515	3,515	61,370	37,462
Total Local Government Health Insurance Reserve Fund - 0193	\$ 100,068	\$ 58,756	\$ 3,536	\$ 3,536	\$ 62,292	\$ 37,776
<b>Illinois Prescription Drug Discount Program Fund - 0316</b>						
Health Insurance Expenses	\$ 350	\$ -	\$ -	\$ -	\$ -	\$ 350
<b>County Hospital Services Fund - 0329</b>						
Administrative Expenses	\$ 500	\$ -	\$ -	\$ -	\$ -	\$ 500
Hospital Provider	1,981,119	1,398,892	65,692	65,692	1,464,584	516,535
Overpayment Assessment Refunds	1,000	-	-	-	-	1,000
Total County Hospital Services Fund - 0329	\$ 1,982,619	\$ 1,398,892	\$ 65,692	\$ 65,692	\$ 1,464,584	\$ 518,035
<b>Provider Inquiry Trust Fund - 0341</b>						
Provider Inquiry Services	\$ 1,500	\$ 447	\$ 174	\$ 174	\$ 621	\$ 879

Note: The data contained in this schedule are taken from agency records, which have been reconciled to those of the State Comptroller.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES**  
For the Fourteen Months Ended August 31, 2007  
(expressed in thousands)

P.A. 94-0798, 95-0144	Appropriations (Net after transfers)	Expenditures through June 30	Lapse period		Total Expenditures 14 Months Ended August 31	Balances Lapsed August 31
			July 1 to August 31	August 31		
<b>Care Provider for Persons with Developmental Disabilities Fund - 0344</b>						
Administrative Expenses	\$ 94	\$ 65	\$ 3	\$ 68	\$ 26	
Overpayment Assessment Refunds	1,000	-	-	-	1,000	
Total Care Provider for Persons with Developmental Disabilities Fund - 0344	\$ 1,094	\$ 65	\$ 3	\$ 68	\$ 1,026	
<b>Long-Term Care Provider Fund - 0345</b>						
Administrative Expenses	\$ 2,202	\$ 873	\$ 47	\$ 920	\$ 1,282	
Long-Term Care Provider Services	795,328	656,009	5,129	661,138	134,190	
Overpayment Assessment Refunds	2,750	55	-	55	2,695	
Total Long-Term Care Provider Fund - 0345	\$ 800,280	\$ 656,937	\$ 5,176	\$ 662,113	\$ 138,167	
<b>Hospital Provider Fund - 0346</b>						
	\$ 2,430,400	\$ 1,215,193	-	\$ 1,215,193	\$ 1,215,207	
<b>Special Education Medicaid Matching Fund - 0355</b>						
	\$ 140,000	\$ 111,129	\$ 9,101	\$ 120,230	\$ 19,770	
<b>Trauma Center Fund - 0397</b>						
	\$ 15,000	\$ 3,347	\$ 1,561	\$ 4,908	\$ 10,092	
<b>Public Assistance Recoveries Trust Fund - 0421</b>						
Personal Services	\$ 7,614	\$ 6,713	\$ 298	\$ 7,011	\$ 603	
State Contribution to State Employees' Retirement System	878	781	36	817	61	
Social Security	583	499	22	521	62	
Group Insurance	2,132	1,644	71	1,715	417	
Contractual Services	21,547	9,543	3,155	12,698	8,849	
Travel	120	58	8	66	54	
Commodities	50	17	1	18	32	
Printing	25	3	-	3	22	
Equipment	2,974	311	9	320	2,654	
Telecommunications Services	320	60	9	69	251	
Total Public Assistance Recoveries Trust Fund - 0421	\$ 36,243	\$ 19,629	\$ 3,609	\$ 23,238	\$ 13,005	
<b>Medical Research &amp; Development Fund - 0486</b>						
	\$ 12,800	\$ 12,800	-	\$ 12,800	\$ -	

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STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES**  
For the Fourteen Months Ended August 31, 2007  
(expressed in thousands)

P.A. 94-0798, 95-0144	Appropriations (Net after transfers)	Expenditures through June 30	Lapse period Expenditures July 1 to August 31	Total Expenditures 14 Months Ended August 31	Balances Lapsed August 31
<b>Post-Tertiary Clinical Services Fund - 0487</b>	\$ 12,800	\$ 12,800	-	\$ 12,800	\$ -
<b>Supplemental Low-Income Energy Assistance Fund - 0550</b>	\$ 97,900	\$ 80,164	\$ 1,264	\$ 81,428	\$ 16,472
<b>Good Samaritan Energy Trust Fund - 0555</b>	\$ 2,150	\$ 1,507	-	\$ 1,507	\$ 643
<b>Juvenile Rehabilitation Services Medicaid Matching Fund- 0575</b>	\$ 8,500	\$ 619	\$ 362	\$ 981	\$ 7,519
<b>Family Care Fund - 0720</b>	\$ 40,000	\$ 24,679	\$ 329	\$ 25,008	\$ 14,992
<b>Drug Rebate Fund- 0728</b>	\$ 766,000	\$ 504,948	\$ 30,801	\$ 535,749	\$ 230,251
<b>Tobacco Settlement Recovery Fund - 0733</b>	\$ 1,000	\$ 1,000	-	\$ 1,000	\$ -
Deposit into Independent Academic Medical Center Fund	6,400	6,400	-	6,400	-
Deposit into Medical Research and Development Fund	6,400	6,400	-	6,400	-
Deposit into Post-Tertiary Clinical Services Fund	375,153	374,214	477	374,691	462
Prescribed Drugs	388,953	388,014	477	388,491	462
Total Tobacco Settlement Recovery Fund - 0733	2,000	2,000	-	2,000	-
<b>Independent Academic Medical Center Fund - 0735</b>	\$ -	\$ -	-	\$ -	\$ -
<b>Energy Administration Fund - 0737</b>	\$ 257	\$ 236	\$ 10	\$ 246	\$ 11
Personal Services	30	27	2	29	1
State Contribution to State Employees' Retirement System	20	18	-	18	2
Social Security	63	50	2	52	11
Group Insurance	255	5	2	7	248
Contractual Services	40	32	2	34	6
Travel	2	-	-	-	2
Commodities	9	2	-	2	7
Equipment	6	-	-	-	6
Telecommunications Services	1	-	-	-	1
Operations of Auto Equipment	250	-	-	-	250
Weatherization Program Grants	17,500	13,045	745	13,790	3,710
Nonprofit Community Organization Grants	300	-	-	-	300
Energy Administrative Refunds	18,733	13,415	763	14,178	4,555
Total Energy Administration Fund - 0737	100	91	8	99	1
<b>Medicaid Buy-in Program Revolving Fund - 0740</b>	\$ -	\$ -	-	\$ -	\$ -

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STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES**  
For the Fourteen Months Ended August 31, 2007  
(expressed in thousands)

P.A. 94-0798, 95-0144	Appropriations (Net after transfers)	Lapse period		Total Expenditures 14 Months Ended August 31	Balances Lapsed August 31
		Expenditures through June 30	Expenditures July 1 to August 31		
<b>Child Support Administration Fund - 0757</b>					
Personal Services	\$ 52,861	\$ 47,727	\$ 2,368	\$ 50,095	\$ 2,766
Employee Retirement Contributions paid by Employer	70	60	3	63	7
State Contribution to State Employees' Retirement System	6,092	5,505	274	5,779	313
Social Security	4,044	3,512	174	3,686	358
Group Insurance	15,355	11,928	527	12,455	2,900
Contractual Services	64,422	46,009	8,970	54,979	9,443
Travel	529	390	56	446	83
Commodities	319	215	24	239	80
Printing	163	129	2	131	32
Equipment	2,534	1,276	57	1,333	1,201
Telecommunications Services	4,454	2,548	762	3,310	1,144
Enhanced Collection Efforts & Paternity Adjudication Demo	13,059	8,735	1,143	9,878	3,181
Child Support Enforcement Demonstration Projects	1,400	488	133	621	779
State Disbursement Unit Costs	15,789	13,778	1,252	15,030	759
Total Child Support Administration Fund - 0757	\$ 181,091	\$ 142,300	\$ 15,745	\$ 158,045	\$ 23,046
<b>Medical Special Purpose Trust Fund - 0808</b>					
	\$ 8,673	\$ 1,532	\$ 650	\$ 2,182	\$ 6,491
<b>Low Income Home Energy Assistance Block Grant Fund - 0870</b>					
Personal Services	\$ 1,182	\$ 1,024	\$ 43	\$ 1,067	\$ 115
State Contribution to State Employees' Retirement System	136	118	5	123	13
Social Security	91	76	3	79	12
Group Insurance	212	203	8	211	1
Contractual Services	1,479	390	256	646	833
Travel	127	80	13	93	34
Commodities	8	2	-	2	6
Printing	65	15	37	52	13
Equipment	145	18	9	27	118
Telecommunications Services	586	46	7	53	533
Operations of Auto Equipment	3	-	-	-	3
System Development / Maintenance	1,000	481	-	481	519
Weatherization Program Grants	302,000	133,643	8,842	142,485	159,515
Low Income Home Energy Assistance Program Refunds	600	-	-	-	600
Total Low Income Home Energy Assistance Block Grant Fund - 0870	\$ 307,634	\$ 136,096	\$ 9,223	\$ 145,319	\$ 162,315
<b>Health Insurance Reserve Fund - 0907</b>					
Health Care Coverage	\$ 1,785,234	\$ 1,629,165	\$ 113,616	\$ 1,742,781	\$ 42,453
<b>TOTAL - ALL APPROPRIATED FUNDS</b>	\$ 17,260,422	\$ 14,375,313	\$ 382,151	\$ 14,757,464	\$ 2,502,958

Note: The data contained in this schedule are taken from agency records, which have been reconciled to those of the State Comptroller.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES**  
For the Fourteen Months Ended August 31, 2007  
(expressed in thousands)

P.A. 94-0798, 95-0144	Appropriations (Net after transfers)	Expenditures through June 30	Lapse period		Balances Lapsed August 31
			Expenditures July 1 to August 31	Total Expenditures 14 Months Ended August 31	
<b><u>NON-APPROPRIATED FUNDS</u></b>					
<b>Teacher Health Insurance Security Fund - 0203</b>					
Administrative Expenses	N/A	\$ 2,035	\$ 51	\$ 2,086	N/A
Health Care Coverage	N/A	349,725	21,192	370,917	N/A
Total Teacher Health Insurance Security Fund - 0203		\$ 351,760	\$ 21,243	\$ 373,003	
<b>Illinois Prescription Drug Discount Program Fund - 0316</b>					
Health Insurance Payments	N/A	\$ 2	\$ 2	\$ 4	N/A
<b>Public Assistance Recoveries Trust Fund - 0421</b>					
Payment to Local Gov. for Serv to Recip.	N/A	\$ 20,977	\$ 1,823	\$ 22,800	N/A
Federal Share Due To General Revenue Fund	N/A	202,148	11,459	213,607	N/A
Refund of TPL Recoveries	N/A	542	-	542	N/A
Refund of Non-TPL Recoveries	N/A	412	-	412	N/A
Non-Administrative Expenses	N/A	15	-	15	N/A
Early Intervention - Due DHS	N/A	13	27	40	N/A
Total Public Assistance Recoveries Trust Fund - 0421		\$ 224,107	\$ 13,309	\$ 237,416	
<b>Community College Health Insurance Security Fund - 0577</b>					
Administrative Expenses	N/A	\$ 334	\$ 15	\$ 349	N/A
Health Care Coverage	N/A	23,592	738	24,330	N/A
Total Community College Health Insurance Security Fund - 0577		\$ 23,926	\$ 753	\$ 24,679	

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STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES**  
For the Fourteen Months Ended August 31, 2007  
(expressed in thousands)

P.A. 94-0798, 95-0144	Appropriations (Net after transfers)	Expenditures through June 30	Lapse period		Balances Lapsed August 31
			Expenditures July 1 to August 31	Total Expenditures 14 Months Ended August 31	
<b>Child Support Enforcement Trust Fund - 0957</b>					
Redirects:					
Illinois TANF Excess Child Support Clients	N/A	\$ 2,128	\$ -	2,128	N/A
Out-of-State TANF Clients	N/A	10,090	-	10,090	N/A
Illinois Non-TANF Clients	N/A	84,809	-	84,809	N/A
Out-of-State Non-TANF Clients	N/A	36,874	-	36,874	N/A
Total Redirects		133,901	-	133,901	
Refunds/Payments to Other Agencies:					
Refund Responsible Relative - IRS Offsets	N/A	4,271	-	4,271	N/A
Refund Responsible Relative - IRS pre N/A	N/A	27	-	27	N/A
Refund Responsible Relative - State Offsets	N/A	749	-	749	N/A
Refund Responsible Relative - State pre N/A	N/A	2	-	2	N/A
Refund Responsible Relative - Courts or Third Parties	N/A	1,256	-	1,256	N/A
Refund Responsible Relative - Courts or Third Parties Out of State	N/A	1	-	1	N/A
Refund Responsible Relative - Courts or Third Parties N/A Out of State	N/A	3	-	3	N/A
Refunds/IRS Offset Nonpublic Aid Clients	N/A	49	-	49	N/A
Refunds/State Offset Nonpublic Aid Clients	N/A	41	-	41	N/A
Refund - Nonassistance Clients	N/A	1,853	-	1,853	N/A
Unclaimed Property	N/A	6	-	6	N/A
Interest Paid to Clients, DCFS, Others	N/A	627	-	627	N/A
Reimburse DCFS Title IV-E	N/A	1,861	-	1,861	N/A
Total Refunds/Payments to Other Agencies		10,746	-	10,746	
Total Child Support Enforcement Trust Fund - 0957		\$ 144,647	\$ -	\$ 144,647	
<b>TOTAL - ALL NON-APPROPRIATED FUNDS</b>		\$ 744,442	\$ 35,307	\$ 779,749	
<b>ALL FUNDS</b>					
All Appropriated Funds		\$ 14,375,313	\$ 382,151	\$ 14,757,464	
All Non-Appropriated Funds		744,442	35,307	779,749	
<b>GRAND TOTAL - ALL FUNDS</b>		\$ 15,119,755	\$ 417,458	\$ 15,537,213	

Note: The data contained in this schedule are taken from agency records, which have been reconciled to those of the State Comptroller.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,  
EXPENDITURES AND LAPSED BALANCES**  
For the Fiscal Years Ended June 30, 2007 and 2006  
(expressed in thousands)

	Fiscal Year	
	2007	2006
	P.A. 94-0798 P.A. 95-0144	P.A. 94-0015 P.A. 94-0798
<b>General Revenue Fund - 0001</b>		
Appropriations (net after transfers)	\$ 7,764,780	\$ 7,490,872
Expenditures:		
Administrative:		
Personal Services	57,184	50,964
Employee Retirement Contribution Paid by Employer	23	272
State Contribution to State Employees Retirement System	6,601	3,977
Social Security	4,223	3,749
Contractual Services	23,375	25,304
Travel	699	728
Commodities	392	381
Printing	852	623
Equipment	377	465
Telecommunications Services	2,440	2,555
Operation of Auto Equipment	90	93
Medical Management Services	5,493	8,231
Information Systems (Medical Eligibility)	272	1,007
Med Level - Medical Data Warehouse	3,808	3,826
Deposit into Child Support Administrative Fund	31,008	31,008
Group Insurance	1,043,737	1,004,232
Total Administrative and Group Insurance	1,180,574	1,137,415
Medical Assistance	6,544,684	6,205,164
Kid Care Refunds	95	59
Total Expenditures	<u>7,725,353</u>	<u>7,342,638</u>
Lapsed Balances	<u>\$ 39,427</u>	<u>\$ 148,234</u>
<b>Road Fund - 0011</b>		
Appropriations (net after transfers)	\$ 130,520	\$ 126,113
Expenditures:		
Group Insurance	130,520	126,113
Lapsed Balances	<u>\$ -</u>	<u>\$ -</u>

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,  
EXPENDITURES AND LAPSED BALANCES**  
For the Fiscal Years Ended June 30, 2007 and 2006  
(expressed in thousands)

	Fiscal Year	
	2007	2006
	P.A. 94-0798 P.A. 95-0144	P.A. 94-0015 P.A. 94-0798
<b>University of Illinois Hospital Services Fund - 0136</b>		
Appropriations (net after transfers)	\$ 225,000	\$ 228,400
Expenditures:		
U of I Hospital Services	224,976	228,370
Lapsed Balances	\$ 24	\$ 30
<b>Local Government Health Insurance Reserve Fund - 0193</b>		
Appropriations (net after transfers)	\$ 100,068	\$ 96,319
Expenditures:		
Personal Services	548	508
Employee Retirement Contribution Paid by Employer	-	1
State Contribution to State Employees Retirement System	63	40
Social Security	40	37
Group Insurance	122	123
Contractual Services	102	83
Travel	15	10
Commodities	2	2
Printing	2	1
Equipment	14	-
Electronic Data Processing	10	-
Telecommunications Services	2	2
Operations of Auto Equipment	2	3
Group Health Insurance	61,370	65,980
Total Expenditures	62,292	66,790
Lapsed Balances	\$ 37,776	\$ 29,529
<b>Illinois Prescription Drug Discount Program Fund - 0316</b>		
Appropriations (net after transfers)	\$ 350	\$ 350
Expenditures:		
Health Insurance Expenses	-	-
Lapsed Balances	\$ 350	\$ 350

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,  
EXPENDITURES AND LAPSED BALANCES**  
For the Fiscal Years Ended June 30, 2007 and 2006  
(expressed in thousands)

	Fiscal Year	
	2007	2006
	P.A. 94-0798 P.A. 95-0144	P.A. 94-0015 P.A. 94-0798
<b>County Hospital Services Fund - 0329</b>		
Appropriations (net after transfers)	\$ 1,982,619	\$ 1,982,619
Expenditures:		
Administrative Expenses	-	-
Hospital Provider	1,464,584	1,610,448
Overpayment Assessment Refunds	-	-
Total Expenditures	<u>1,464,584</u>	<u>1,610,448</u>
Lapsed Balances	<u>\$ 518,035</u>	<u>\$ 372,171</u>
<b>Provider Inquiry Trust Fund - 0341</b>		
Appropriations (net after transfers)	\$ 1,500	\$ 1,500
Expenditures:		
Provider Inquiry Services	<u>621</u>	<u>703</u>
Lapsed Balances	<u>\$ 879</u>	<u>\$ 797</u>
<b>Care Provider for Persons with Developmental Disabilities Fund - 0344</b>		
Appropriations (net after transfers)	\$ 1,094	\$ 1,094
Expenditures:		
Administrative Expenses	68	59
Overpayment Assessment Refunds	-	-
Total Expenditures	<u>68</u>	<u>59</u>
Lapsed Balances	<u>\$ 1,026</u>	<u>\$ 1,035</u>
<b>Long-Term Care Provider Fund - 0345</b>		
Appropriations (net after transfers)	\$ 800,280	\$ 825,480
Expenditures:		
Administrative Expenses	920	862
Long-Term Care Provider Services	661,138	800,901
Overpayment Assessment Refunds	55	16
Total Expenditures	<u>662,113</u>	<u>801,779</u>
Lapsed Balances	<u>\$ 138,167</u>	<u>\$ 23,701</u>

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,  
EXPENDITURES AND LAPSED BALANCES**  
For the Fiscal Years Ended June 30, 2007 and 2006  
(expressed in thousands)

	Fiscal Year	
	2007	2006
	P.A. 94-0798 P.A. 95-0144	P.A. 94-0015 P.A. 94-0798
<b>Hospital Provider Fund - 0346</b>		
Appropriations (net after transfers)	\$ 2,430,400	\$ 1,385,500
Expenditures:		
Hospitals	1,215,193	166,603
Medical Assistance Providers	-	-
Total Expenditures	<u>1,215,193</u>	<u>166,603</u>
Lapsed Balances	<u>\$ 1,215,207</u>	<u>\$ 1,218,897</u>
<b>Special Education Medicaid Matching Fund - 0355</b>		
Appropriations (net after transfers)	\$ 140,000	\$ 140,000
Expenditures:		
Administrative Expenses	<u>120,230</u>	<u>135,979</u>
Lapsed Balances	<u>\$ 19,770</u>	<u>\$ 4,021</u>
<b>Health and Human Services Medicaid Trust Fund - 0365</b>		
Appropriations (net after transfers)	\$ -	\$ 60,000
Expenditures:		
Long Term Care Services	-	-
Medical Assistance Providers	-	-
Total Expenditures	<u>-</u>	<u>-</u>
Lapsed Balances	<u>\$ -</u>	<u>\$ 60,000</u>
<b>Trauma Center Fund - 0397</b>		
Appropriations (net after transfers)	\$ 15,000	\$ 15,000
Expenditures:		
Trauma Centers	<u>4,908</u>	<u>10,401</u>
Lapsed Balances	<u>\$ 10,092</u>	<u>\$ 4,599</u>

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,  
EXPENDITURES AND LAPSED BALANCES**  
For the Fiscal Years Ended June 30, 2007 and 2006  
(expressed in thousands)

	Fiscal Year	
	2007	2006
	P.A. 94-0798 P.A. 95-0144	P.A. 94-0015 P.A. 94-0798
<b>Public Assistance Recoveries Trust Fund - 0421</b>		
Appropriations (net after transfers)	\$ 36,243	\$ 27,663
Expenditures:		
Personal Services	7,011	6,814
Employee Retirement Contribution Paid by Employer	-	28
State Contribution to State Employees Retirement System	817	539
Social Security	521	512
Group Insurance	1,715	1,810
Contractual Services	12,698	10,832
Travel	66	80
Commodities	18	20
Printing	3	4
Equipment	320	282
Telecommunications Services	69	79
Total Expenditures	<u>23,238</u>	<u>21,000</u>
Lapsed Balances	<u>\$ 13,005</u>	<u>\$ 6,663</u>
<b>Medical Research &amp; Development Fund - 0486</b>		
Appropriations (net after transfers)	\$ 12,800	\$ 12,800
Expenditures:		
Awards and Grants	<u>12,800</u>	<u>12,800</u>
Lapsed Balances	<u>\$ -</u>	<u>\$ -</u>
<b>Post-Tertiary Clinical Services Fund - 0487</b>		
Appropriations (net after transfers)	\$ 12,800	\$ 12,800
Expenditures:		
Awards and Grants	<u>12,800</u>	<u>12,800</u>
Lapsed Balances	<u>\$ -</u>	<u>\$ -</u>



STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,  
EXPENDITURES AND LAPSED BALANCES**  
For the Fiscal Years Ended June 30, 2007 and 2006  
(expressed in thousands)

	Fiscal Year	
	2007	2006
	P.A. 94-0798 P.A. 95-0144	P.A. 94-0015 P.A. 94-0798
<b>Supplemental Low-Income Energy Assistance Fund - 0550</b>		
Appropriations (net after transfers)	\$ 97,900	\$ 101,100
Expenditures:		
Awards and Grants	81,428	92,530
Lapsed Balances	\$ 16,472	\$ 8,570
<b>Good Samaritan Energy Trust Fund - 0555</b>		
Appropriations (net after transfers)	\$ 2,150	\$ 2,150
Expenditures:		
Awards and Grants	1,507	500
Lapsed Balances	\$ 643	\$ 1,650
<b>Juvenile Rehabilitation Services Medicaid Matching Fund - 0575</b>		
Appropriations (net after transfers)	\$ 8,500	\$ 8,500
Expenditures:		
Juvenile Behavioral Health Services	981	1,781
Lapsed Balances	\$ 7,519	\$ 6,719
<b>Energy Assistance Contribution Fund - 0610</b>		
Appropriations (net after transfers)	\$ -	\$ 300
Expenditures:		
Energy Assistance Programs	-	-
Lapsed Balances	\$ -	\$ 300
<b>Family Care Fund - 0720</b>		
Appropriations (net after transfers)	\$ 40,000	\$ 40,000
Expenditures:		
Medical Assistance	25,008	29,128
Lapsed Balances	\$ 14,992	\$ 10,872

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,  
EXPENDITURES AND LAPSED BALANCES**  
For the Fiscal Years Ended June 30, 2007 and 2006  
(expressed in thousands)

	Fiscal Year	
	2007	2006
	P.A. 94-0798 P.A. 95-0144	P.A. 94-0015 P.A. 94-0798
<b>Drug Rebate Fund - 0728</b>		
Appropriations (net after transfers)	\$ 766,000	\$ 822,800
Expenditures:		
Prescribed Drugs	535,749	822,788
Lapsed Balances	\$ 230,251	\$ 12
<b>Tobacco Settlement Recovery Fund - 0733</b>		
Appropriations (net after transfers)	\$ 388,953	\$ 521,829
Expenditures:		
Fund Transfers	13,800	13,800
Prescribed Drugs	374,691	427,884
Total Expenditures	388,491	441,684
Lapsed Balances	\$ 462	\$ 80,145
<b>Independent Academic Medical Center Fund - 0735</b>		
Appropriations (net after transfers)	\$ 2,000	\$ 2,000
Expenditures:		
Lump Sums	2,000	2,000
Lapsed Balances	\$ -	\$ -

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,  
EXPENDITURES AND LAPSED BALANCES**  
For the Fiscal Years Ended June 30, 2007 and 2006  
(expressed in thousands)

	Fiscal Year	
	2007	2006
	P.A. 94-0798 P.A. 95-0144	P.A. 94-0015 P.A. 94-0798
<b>Energy Administration Fund - 0737</b>		
Appropriations (net after transfers)	\$ 18,733	\$ 18,496
Expenditures:		
Personal Services	246	165
Employee Retirement Contribution Paid by Employer	-	1
State Contribution to State Employees Retirement System	29	13
Social Security	18	12
Group Insurance	52	39
Contractual Services	7	4
Travel	34	27
Commodities	-	-
Equipment	2	5
Telecommunications Services	-	2
Operations of Auto Equipment	-	-
Weatherization Program Grants	-	-
Nonprofit Community Organization Grants	13,790	13,231
Energy Administrative Refunds	-	-
Total Expenditures	14,178	13,499
Lapsed Balances	\$ 4,555	\$ 4,997
<b>Medicaid Buy-in Program Revolving Fund - 0740</b>		
Appropriations (net after transfers)	\$ 100	\$ 100
Expenditures:		
Medical Assistance	99	2
Lapsed Balances	\$ 1	\$ 98

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,  
EXPENDITURES AND LAPSED BALANCES**  
For the Fiscal Years Ended June 30, 2007 and 2006  
(expressed in thousands)

	Fiscal Year	
	2007	2006
	P.A. 94-0798 P.A. 95-0144	P.A. 94-0015 P.A. 94-0798
<b>Child Support Administration Fund - 0757</b>		
Appropriations (net after transfers)	\$ 181,091	\$ 174,596
Expenditures:		
Personal Services	50,095	46,343
Employee Retirement Contribution Paid by Employer	63	360
State Contribution to State Employees Retirement System	5,779	3,612
Social Security	3,686	3,397
Group Insurance	12,455	12,497
Contractual Services	54,979	56,469
Travel	446	416
Commodities	239	216
Printing	131	77
Equipment	1,333	772
Telecommunications Services	3,310	2,677
Enhanced Collection Efforts & Paternity Adjudication Demo	9,878	8,406
Child Support Enforcement Demonstration Projects	621	593
State Disbursement Unit Costs	15,030	17,909
Total Expenditures	158,045	153,744
Lapsed Balances	\$ 23,046	\$ 20,852
<b>Medical Special Purpose Trust Fund - 0808</b>		
Appropriations (net after transfers)	\$ 8,673	\$ 8,673
Expenditures		
Health Insurance Portability and Accountability Act Costs	2,182	3,344
Lapsed Balances	\$ 6,491	\$ 5,329

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,  
EXPENDITURES AND LAPSED BALANCES**  
For the Fiscal Years Ended June 30, 2007 and 2006  
(expressed in thousands)

	Fiscal Year	
	2007	2006
	P.A. 94-0798 P.A. 95-0144	P.A. 94-0015 P.A. 94-0798
<b>Low Income Home Energy Assistance Block Grant Fund - 0870</b>		
Appropriations (net after transfers)	\$ 307,634	\$ 216,467
Expenditures:		
Personal Services	1,067	980
Employee Retirement Contribution Paid by Employer	-	3
State Contribution to State Employees Retirement System	123	76
Social Security	79	73
Group Insurance	211	198
Contractual Services	646	224
Travel	93	93
Commodities	2	2
Printing	52	43
Equipment	27	23
Telecommunications Services	53	60
Operations of Auto Equipment	-	-
System Development / Maintenance	481	885
Weatherization Program Grants	142,485	186,530
Low Income Home Energy Assistance Program Refunds	-	-
Total Expenditures	<u>145,319</u>	<u>189,190</u>
Lapsed Balances	<u>\$ 162,315</u>	<u>\$ 27,277</u>
<b>Health Insurance Reserve Fund - 0907</b>		
Appropriations (net after transfers)	\$ 1,785,234	\$ 1,683,284
Expenditures:		
Health Care Coverage	<u>1,742,781</u>	<u>1,612,468</u>
Lapsed Balances	<u>\$ 42,453</u>	<u>\$ 70,816</u>
<b>TOTAL - ALL APPROPRIATED FUNDS</b>		
Appropriations (net after transfers)	\$ 17,260,422	\$ 16,006,805
Total Expenditures	<u>14,757,464</u>	<u>13,899,141</u>
Lapsed Balances	<u>\$ 2,502,958</u>	<u>\$ 2,107,664</u>

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,  
EXPENDITURES AND LAPSED BALANCES**  
For the Fiscal Years Ended June 30, 2007 and 2006  
(expressed in thousands)

Fiscal Year	
2007	2006
P.A. 94-0798	P.A. 94-0015
P.A. 95-0144	P.A. 94-0798

**NON-APPROPRIATED FUNDS**

**Teacher Health Insurance Security Fund - 0203**

Administrative Expenses	\$ 2,086	\$ 1,005
Health Care Coverage	370,917	320,837
Total Expenditures	<u>\$ 373,003</u>	<u>\$ 321,842</u>

**Illinois Prescription Drug Discount Program Fund - 0316**

Health Insurance Payments	<u>\$ 4</u>	<u>\$ 7</u>
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**Public Assistance Recoveries Trust Fund - 0421**

Payment to Local Gov. for Serv to Recip.	\$ 22,800	\$ 20,505
Federal Share Due To General Revenue Fund	213,607	379,425
Refund of TPL Recoveries	542	1,799
Refund of Non-TPL Recoveries	412	173
Non-Administrative Expenses	15	562
Early Intervention - Due DHS	40	70
Total Expenditures	<u>\$ 237,416</u>	<u>\$ 402,534</u>

**Community College Health Insurance Security Fund - 0577**

Administrative Expenses	\$ 349	\$ 318
Health Care Coverage	24,330	23,473
Total Expenditures	<u>\$ 24,679</u>	<u>\$ 23,791</u>

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,  
EXPENDITURES AND LAPSED BALANCES**  
For the Fiscal Years Ended June 30, 2007 and 2006  
(expressed in thousands)

	Fiscal Year	
	2007	2006
	P.A. 94-0798 P.A. 95-0144	P.A. 94-0015 P.A. 94-0798
<b>Child Support Enforcement Trust Fund - 0957</b>		
Interest Paid to Clients, DCFS, Other	\$ 627	\$ 15
Redirect IL	2,128	1,745
Pass Through - TANF	-	1
Refund - IRS Offset	4,271	3,068
Refund - State Offset	749	426
Refund - Responsible Relative	1,256	1,164
DCFS TANF Re/IV-E	1,861	1,568
Redirect TANF - Out of State	10,090	10,016
Redirect IL - NA	84,809	70,667
Redirect NA - Out of State	36,874	33,945
Refund - IRS Non-Recipient	49	46
Refund - State - Non-Recipient	41	10
Refund - NA Clients	1,853	1,622
Refund - Responsible Relative	33	28
Unclaimed Property	6	11
Total Expenditures	<u>\$ 144,647</u>	<u>\$ 124,332</u>
<b>TOTAL - ALL NON-APPROPRIATED FUNDS</b>	<u>\$ 779,749</u>	<u>\$ 872,506</u>
<b>GRAND TOTAL - ALL FUNDS</b>	<u>\$ 15,537,213</u>	<u>\$ 14,771,647</u>
<b>State Officers' Salaries</b>		
<b>General Revenue Fund - 0001</b>		
Appropriations (net after transfers)	\$ 239	\$ 224
Expenditures:		
Director's salary (1)	129	123
Assistant Director's salary (1)	57	84
Total Expenditures	<u>186</u>	<u>207</u>
Lapsed Balances	<u>\$ 53</u>	<u>\$ 17</u>

(1) Note: State Officers' salaries are paid from the appropriation for the Office of the Comptroller.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**LOCALLY HELD FUNDS**  
**CASH BASIS SCHEDULE**  
For the Year Ended June 30, 2007  
(expressed in thousands)

	2007
<b><u>Public Aid Emergency Revolving Fund</u></b>	
An imprest fund used to provide emergency aid to recipients.	
Beginning balance	\$ 325
Receipts (including cash on hand and in-transit)	425
Disbursements	(418)
Ending balance	\$ 332
<b><u>Local Government Health Insurance Reserve Local Fund</u></b>	
Beginning balance	\$ 2,191
Receipts (including cash on hand and in-transit)	24,547
Disbursements	(24,786)
Ending balance	\$ 1,952
<b><u>Teacher Health Insurance Security Local Fund</u></b>	
Beginning balance	\$ 6,760
Receipts (including cash on hand and in-transit)	175,622
Disbursements	(173,476)
Ending balance	\$ 8,906
<b><u>Community College Health Insurance Security Local Fund</u></b>	
Beginning balance	\$ 896
Receipts (including cash on hand and in-transit)	12,783
Disbursements	(13,069)
Ending balance	\$ 610
<b><u>Health Insurance Reserve Local Fund</u></b>	
Beginning balance	\$ 69,660
Receipts (including cash on hand and in-transit)	713,603
Disbursements	(744,202)
Ending balance	\$ 39,061



STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF CHANGES IN STATE PROPERTY**  
For the Year Ended June 30, 2007  
(expressed in thousands)

	<u>Equipment</u>
Balance at July 1, 2006	\$ 43,121
Additions	5,614
Deletions	(10,569)
Net Transfers	(3,663)
Balance at June 30, 2007	\$ 34,503

Notes:

This summary schedule has been reconciled to property reports (C-15 Agency Report of State Property) submitted to the Office of the Comptroller.  
The Department's State property is composed of equipment items only.

This summary schedule was prepared using State property records required by the Illinois Administrative Code. The capitalization policy in the Code is different than the capitalization policy established by the Office of the Comptroller for financial reporting in accordance with accounting principles generally accepted in the United States of America.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**COMPARATIVE SCHEDULE OF CASH RECEIPTS AND TRANSFERS**  
For the Years Ended June 30, 2007 and 2006  
(expressed in thousands)

	<u>2007</u>	<u>2006</u>
<b>General Revenue Fund - 0001</b>		
Federal government	\$ 3,792,965	\$ 3,628,760
Federal reimbursable portion due from the Public Assistance Recoveries Trust Fund	206,734	378,834
Investment income	486	579
Local Illinois governmental units	307,338	349,689
Recipient collections	10,680	3,779
Fund transfers	7	7
Miscellaneous	1	54
Total cash receipts per Department	<u>4,318,211</u>	<u>4,361,702</u>
Add: Transfers from other funds	76,566	87,210
Total cash receipts and transfers per Department	<u>4,394,777</u>	<u>4,448,912</u>
 <b>University of Illinois Hospital Services Fund - 0136</b>		
Federal government	137,410	140,853
Other Illinois State agencies	83,970	94,322
Total cash receipts per Department	<u>221,380</u>	<u>235,175</u>
Add: Transfers from other funds	44,701	44,700
Total cash receipts and transfers per Department	<u>266,081</u>	<u>279,875</u>
 <b>Community Developmental Disability Services Medicaid Trust Fund - 0142</b>		
Federal government	<u>20,437</u>	<u>8,566</u>
Total cash receipts per Department	<u>20,437</u>	<u>8,566</u>
 <b>Illinois Veterans Assistance Fund - 0236<sup>(1)</sup></b>		
Insurance Premiums	<u>7</u>	<u>-</u>
Total cash receipts per Department	<u>7</u>	<u>-</u>

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**COMPARATIVE SCHEDULE OF CASH RECEIPTS AND TRANSFERS**  
For the Years Ended June 30, 2007 and 2006  
(expressed in thousands)

	<u>2007</u>	<u>2006</u>
<b>County Hospital Services Fund - 0329</b>		
Federal government	718,627	813,781
Provider participation fees	719,966	816,171
Total cash receipts per Department	<u>1,438,593</u>	<u>1,629,952</u>
<b>Provider Inquiry Trust Fund - 0341</b>		
User Fees/Private Organizations or Individuals	848	742
Total cash receipts per Department	<u>848</u>	<u>742</u>
<b>Care Provider For Persons with Developmental Disabilities Fund - 0344</b>		
Federal government	20,298	19,743
Provider taxes	20,647	20,447
Total cash receipts per Department	<u>40,945</u>	<u>40,190</u>
<b>Long-Term Care Provider Fund - 0345</b>		
Federal government	346,726	341,742
Provider taxes	50,935	52,243
Federal monies via other State agencies	92	-
Local governmental units	76,052	71,373
Total cash receipts per Department	<u>473,805</u>	<u>465,358</u>
Add: Transfers from other funds	30,015	83,353
Total cash receipts and transfers per Department	<u>503,820</u>	<u>548,711</u>
<b>Hospital Provider Fund - 0346</b>		
Federal government	613,882	78,957
Provider taxes	732,785	-
Total cash receipts per Department	<u>1,346,667</u>	<u>78,957</u>
Add: Transfers from other funds	1,356,000	83,333
Total cash receipts and transfers per Department	<u>2,702,667</u>	<u>162,290</u>

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**COMPARATIVE SCHEDULE OF CASH RECEIPTS AND TRANSFERS**  
For the Years Ended June 30, 2007 and 2006  
(expressed in thousands)

	<u>2007</u>	<u>2006</u>
<b>Special Education Medicaid Matching Fund - 0355</b>		
Federal government	119,263	132,339
Total cash receipts per Department	<u>119,263</u>	<u>132,339</u>
<b>Health and Human Services Medicaid Trust Fund - 0365</b>		
Federal government	-	-
Add: Transfers from other funds	20,000	-
Total cash receipts and transfers per Department	<u>20,000</u>	<u>-</u>
<b>Trauma Center Fund - 0397</b>		
Federal government	2,807	5,429
Total cash receipts per Department	<u>2,807</u>	<u>5,429</u>
<b>Protest Fund - 0401</b>		
Health Care Provider Tax	18	12
Total cash receipts per Department	<u>18</u>	<u>12</u>
<b>Public Assistance Recoveries Trust Fund - 0421</b>		
Federal government	31,624	38,577
Recipient collections	28,043	30,281
3rd party collections - Pharmacy assistance	310	1,720
Court and anti-trust distributions	1	839
Private organizations or individuals	431,486	748,890
Total cash receipts per Department	<u>491,464</u>	<u>820,307</u>
<b>Medical Research &amp; Development Fund - 0486</b>		
Federal government	6,400	6,401
Fund transfers	6,400	6,400
Total cash receipts per Department	<u>12,800</u>	<u>12,801</u>

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**COMPARATIVE SCHEDULE OF CASH RECEIPTS AND TRANSFERS**  
For the Years Ended June 30, 2007 and 2006  
(expressed in thousands)

	<u>2007</u>	<u>2006</u>
<b>Post-Tertiary Clinical Services Fund - 0487</b>		
Federal government	6,400	6,401
Fund transfers	6,400	6,400
Total cash receipts per Department	<u>12,800</u>	<u>12,801</u>
<b>Early Intervention Services Revolving Fund - 0502</b>		
Federal government	36,231	27,411
Total cash receipts per Department	<u>36,231</u>	<u>27,411</u>
<b>Department of Corrections Reimbursement Fund - 0523<sup>(1)</sup></b>		
Federal government	1	-
Total cash receipts per Department	<u>1</u>	<u>-</u>
<b>Supplemental Low-Income Energy Assistance - 0550</b>		
Private organizations or individuals	1,500	-
Total cash receipts per Department	<u>1,500</u>	<u>-</u>
<b>Good Samaritan Energy Trust Fund - 0555</b>		
Private organizations or individuals	5	2,002
Total cash receipts per Department	<u>5</u>	<u>2,002</u>
<b>Juvenile Rehabilitation Services Medicaid Matching Fund - 0575</b>		
Federal government	798	1,799
Total cash receipts per Department	<u>798</u>	<u>1,799</u>
<b>Community Mental Health Medicaid Trust Fund - 0718</b>		
Federal government	84,422	79,690
Total cash receipts per Department	<u>84,422</u>	<u>79,690</u>

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**COMPARATIVE SCHEDULE OF CASH RECEIPTS AND TRANSFERS**  
For the Years Ended June 30, 2007 and 2006  
(expressed in thousands)

	<u>2007</u>	<u>2006</u>
<b>Family Care Fund - 0720</b>		
Other Illinois State agencies	9,281	10,198
Reimbursements	<u>14,868</u>	<u>19,912</u>
Total cash receipts per Department	<u>24,149</u>	<u>30,110</u>
<b>Drug Rebate Fund - 0728</b>		
Federal government	247,582	398,089
Add: Transfers from other funds	172,014	424,125
Total cash receipts and transfers per Department	<u>419,596</u>	<u>822,214</u>
<b>Tobacco Settlement Recovery Fund - 0733</b>		
Federal government	<u>283,448</u>	<u>103,956</u>
Total cash receipts per Department	<u>283,448</u>	<u>103,956</u>
<b>Independent Academic Medical Center Fund - 0735</b>		
Federal government	1,000	1,000
Fund transfers	<u>1,000</u>	<u>1,000</u>
Total cash receipts per Department	<u>2,000</u>	<u>2,000</u>
<b>Energy Administration Fund - 0737</b>		
Federal government	<u>13,940</u>	<u>13,815</u>
Total cash receipts per Department	<u>13,940</u>	<u>13,815</u>
<b>Medicaid Buy-In Program Revolving Fund - 0740</b>		
Recipient collections	<u>454</u>	<u>476</u>
Total cash receipts per Department	<u>454</u>	<u>476</u>

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**COMPARATIVE SCHEDULE OF CASH RECEIPTS AND TRANSFERS**  
For the Years Ended June 30, 2007 and 2006  
(expressed in thousands)

	<u>2007</u>	<u>2006</u>
<b>Child Support Administration Fund - 0757</b>		
Federal government	103,682	97,156
Fund transfers	30,388	31,008
Repayment to State pursuant to law	18	26
Total cash receipts per Department	<u>134,088</u>	<u>128,190</u>
Add: Transfers from other funds	25,001	30,000
Total cash receipts and transfers per Department	<u>159,089</u>	<u>158,190</u>
 <b>Medical Special Purpose Trust Fund - 0808</b>		
Federal government	2,061	1,748
Federal monies via other Illinois agency	50	100
Contracts and grants - private organizations	940	608
Total cash receipts per Department	<u>3,051</u>	<u>2,456</u>
 <b>Low Income Home Energy Assistance Block Grant Fund - 0870</b>		
Federal government	183,482	145,355
Total cash receipts per Department	<u>183,482</u>	<u>145,355</u>
 <b>Health Insurance Reserve Fund - 0907</b>		
Fund transfers	1,176,409	1,128,192
Total cash receipts per Department	<u>1,176,409</u>	<u>1,128,192</u>
 <b>Child Support Enforcement Trust Fund - 0957</b>		
Child support collections	172,539	151,860
Repayment to State pursuant to law	4,972	3,938
Total cash receipts per Department	<u>177,511</u>	<u>155,798</u>
 <b>GRAND TOTAL - ALL FUNDS</b>	<u><u>\$ 12,593,413</u></u>	<u><u>\$ 10,776,391</u></u>

<sup>(1)</sup> This is a new fund for the Department for fiscal year 2007.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
RECONCILIATION OF CASH RECEIPTS AND TRANSFERS  
TO DEPOSITS REMITTED TO THE COMPTROLLER

For the Year Ended June 30, 2007  
(expressed in thousands)

	0001	0136	0142	0236	0329
		University of Illinois Hospital Services Fund	Community Developmental Disability Services Medicaid Trust Fund	Illinois Veterans Assistance Fund	County Hospital Services Fund
Total cash receipts and transfers per Department	\$ 4,394,777	\$ 266,081	\$ 20,437	\$ 7	\$ 1,438,593
Less - In transit at June 30, 2007	(520)	-	-	-	-
Less - Transfers not reported on Comptroller's report	(76,566)	(44,701)	-	-	-
Add - In transit at June 30, 2006	625	-	-	-	-
Add - PY refunds/warrant voids on Comptroller's report	184	-	-	-	-
<b>Total cash receipts and transfers per Comptroller</b>	<b>\$ 4,318,500</b>	<b>\$ 221,380</b>	<b>\$ 20,437</b>	<b>\$ 7</b>	<b>\$ 1,438,593</b>

	0341	0344	0345	0346	0355
	Provider Inquiry Trust Fund	Care Provider for Persons with Developmental Disability Fund	Long-Term Care Provider Fund	Hospital Provider Fund	Special Education Medicaid Matching Fund
Total cash receipts and transfers per Department	\$ 848	\$ 40,945	\$ 503,820	\$ 2,702,667	\$ 119,263
Less - In transit at June 30, 2007	(85)	(1)	(221)	-	-
Less - Transfers Not Reported on Comptroller's Report	-	-	(30,015)	(1,356,000)	-
Add - In transit at June 30, 2006	54	8	4,745	-	-
Add - PY Refunds/Warrant Voids on Comptroller's Report	-	-	2	-	195
<b>Total cash receipts and transfers per Comptroller</b>	<b>\$ 817</b>	<b>\$ 40,952</b>	<b>\$ 478,331</b>	<b>\$ 1,346,667</b>	<b>\$ 119,458</b>



STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
RECONCILIATION OF CASH RECEIPTS AND TRANSFERS  
TO DEPOSITS REMITTED TO THE COMPTROLLER

For the Year Ended June 30, 2007  
(expressed in thousands)

	0365	0397	0401	0421	0486
	Health and Human			Medical	
	Services	Trauma		Public Assistance	Research &
	Medicaid Trust	Center	Protest	Recoveries Trust	Development
	Fund	Fund	Fund	Fund	Fund
Total cash receipts and transfers per Department	\$ 20,000	\$ 2,807	\$ 18	\$ 491,464	\$ 12,800
Less - In transit at June 30, 2007	-	-	-	(36,107)	-
Less - Transfers Not Reported on Comptroller's Report	(20,000)	-	-	-	-
Add - In transit at June 30, 2006	-	-	-	5,064	-
Add - PY Refunds/Warrant Voids on Comptroller's Report	-	-	-	-	-
Total cash receipts and transfers per Comptroller	\$ -	\$ 2,807	\$ 18	\$ 460,421	\$ 12,800

	0487	0502	0523	0550	0555
	Early		Department of	Supplemental	Good
	Post-Tertiary	Intervention	Corrections	Low-Income	Samaritan
	Clinical Services	Services	Reimbursement	Energy	Energy Trust
	Fund	Revolving Fund	Fund	Assistance Fund	Fund
Total cash receipts and transfers per Department	\$ 12,800	\$ 36,231	\$ 1	\$ 1,500	\$ 5
Less - In transit at June 30, 2007	-	-	-	-	-
Less - Transfers Not Reported on Comptroller's Report	-	-	-	-	-
Add - In transit at June 30, 2006	-	-	-	-	-
Add - PY Refunds/Warrant Voids on Comptroller's Report	-	-	-	193	-
Total cash receipts and transfers per Comptroller	\$ 12,800	\$ 36,231	\$ 1	\$ 1,693	\$ 5

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
RECONCILIATION OF CASH RECEIPTS AND TRANSFERS  
TO DEPOSITS REMITTED TO THE COMPTROLLER

For the Year Ended June 30, 2007  
(expressed in thousands)

	0575	0718	0720	0728	0733
	Juvenile Rehab Services Medicaid Fund	Community Mental Health Medicaid Trust Fund	Family Care Fund	Drug Rebate Fund	Tobacco Settlement Recovery Fund
Total cash receipts and transfers per Department	\$ 798	\$ 84,422	\$ 24,149	\$ 419,596	\$ 283,448
Less - In transit at June 30, 2007	-	-	-	-	-
Less - Transfers Not Reported on Comptroller's Report	-	-	-	(172,014)	-
Add - In transit at June 30, 2006	-	-	-	-	-
Add - PY Refunds/Warrant Voids on Comptroller's Report	-	-	-	1	-
Total cash receipts and transfers per Comptroller	\$ 798	\$ 84,422	\$ 24,149	\$ 247,583	\$ 283,448

	0735	0737	0740	0757	0808
	Independent Academic Medical Center Fund	Energy Administration Fund	Medicaid Buy-In Program Revolving Fund	Child Support Administration Fund	Medical Special Purpose Trust Fund
Total cash receipts and transfers per Department	\$ 2,000	\$ 13,940	\$ 454	\$ 159,089	\$ 3,051
Less - In transit at June 30, 2007	-	-	(15)	-	-
Less - Transfers Not Reported on Comptroller's Report	-	-	-	(25,001)	-
Add - In transit at June 30, 2006	-	-	5	-	125
Add - PY Refunds/Warrant Voids on Comptroller's Report	-	39	-	80	-
Total cash receipts and transfers per Comptroller	\$ 2,000	\$ 13,979	\$ 444	\$ 134,168	\$ 3,176

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**RECONCILIATION OF CASH RECEIPTS AND TRANSFERS  
TO DEPOSITS REMITTED TO THE COMPTROLLER**

For the Year Ended June 30, 2007  
(expressed in thousands)

	0870	0907	0957	
	Low Income	Health	Child	
	Home Energy	Insurance	Support	Total
	Assistance Block	Reserve	Enforcement	All
	Grant Fund	Fund	Trust Fund	Funds
Total cash receipts and transfers per Department	\$ 183,482	\$ 1,176,409	\$ 177,511	\$ 12,593,413
Less - In transit at June 30, 2007	-	-	(1,603)	(38,552)
Less - Transfers Not Reported on Comptroller's Report	-	-	-	(1,724,297)
Add - In transit at June 30, 2006	-	-	1,457	12,083
Add - PY Refunds/Warrant Voids on Comptroller's Report	6,520	-	110	7,324
Total cash receipts and transfers per Comptroller	\$ 190,002	\$ 1,176,409	\$ 177,475	\$ 10,849,971

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES**  
For the Year Ended June 30, 2007

The following is a summary of explanations for significant fluctuations in appropriated expenditures incurred by the Department for the fiscal year ended June 30, 2007 as compared to the fiscal year ended June 30, 2006. Included are explanations for variances to the General Funds (Major Fund) greater than \$1 million and 15%, and explanations for variances to the Road Fund (Major Fund), Non-Major Governmental Funds, Proprietary Funds and Fiduciary Funds greater than \$300 thousand and 15%. Dollar amounts are in thousands unless otherwise stated. The Department's total appropriated expenditures for fiscal years ended June 30, 2007 and 2006 are presented in the "Comparative Schedule of Appropriations, Expenditures, and Lapsed Balances" of this report.

**GENERAL FUNDS**

**General Revenue Fund – 0001**

State Contribution to State Employees' Retirement System

The increase of \$2,624 (66.0%) in State contributions to State employees' retirement system expenditures was due to the employer retirement rate increasing from 7.792% in fiscal year 2006 to 11.525% in fiscal year 2007 and an increase of 3.5% in active staff paid from this fund.

Medical Management Services

The decrease of \$2,738 (33.3%) in medical management services is due to the reduction of information technology consultants and a conversion to fulltime staff along with a decrease in statistical and tabulation expenditures.

**Long-Term Care Provider Fund – 0345**

Long-Term Care Provider Services

Long-term care provider services expenditures decreased \$139,763 (17.5%) as a result of less monies being available in the fund due to Public Act 94-0774 which required transfers into the fund in fiscal year 2006, but these same transfers did not occur in fiscal year 2007. This resulted in less funds to pay for services.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES**  
For the Year Ended June 30, 2007

**Hospital Provider Fund – 0346**

Hospitals

Hospital service expenditures increased \$1,048,590 (629.4%) due to the Department providing hospital access improvement payments to hospital providers once a methodology was approved by the U.S. Department of Health and Human Services. The methodology was not approved by the federal government until fiscal year 2007. As a result, the fiscal year 2006 hospital access improvement payments were not paid to hospitals until fiscal year 2007.

**Trauma Center Fund – 0397**

Trauma Centers

The decrease in trauma center expenditures of \$5,493 (52.8%) was due to Public Act 94-0839 increasing the statutory transfers out of the fund, which resulted in less monies available for expenditures.

**Public Assistance Recoveries Trust Fund – 0421**

Contractual Services

The increase in contractual services expenditures of \$1,866 (17.2%) is the result of consulting services for the maintenance and support for the upgrade of the medical data warehouse and an increase in postage costs.

Federal Share Due to General Revenue Fund

The decrease of \$165,818 (43.7%) was due to a decrease in receipts, specifically the drug rebate collections, due to the implementation of the Medicare Part D program. The decrease in receipts resulted in a decrease in the federal share being transferred to the general revenue fund.

Refund of TPL Recoveries

The decrease in refunds of \$1,257 (69.9%) was the result of a decrease in the recoveries made by the Department for third-party liability collections.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES**  
For the Year Ended June 30, 2007

**Drug Rebate Fund – 0728**

Prescribed Drugs

The decrease of \$ 287,039 (34.9%) in prescription drug expenditures was due to the implementation of the Medicare Part D program which resulted in a reduction of drug rebate collections. The decrease was partially offset by increased expenditures for the Medicaid Prior Authorization Project, the Medicare Part D Stand Alone PDP, and Medicare Part D Clawback payments.

**Medical Special Purpose Trust Fund – 0808**

Health Insurance Portability and Accountability Act Costs

The decrease of \$1,162 (34.7%) in Health Insurance Portability and Accountability Act (HIPAA) expenditures was due to the Department progressing on the implementation of the HIPAA requirements.

**NON-MAJOR GOVERNMENTAL FUNDS**

**Good Samaritan Energy Trust Fund – 0555**

Awards and Grants

The increase in awards and grants of \$1,007 (201.4%) is the result of a large corporate donation received in fiscal year 2006, but not expended until fiscal year 2007.

**Child Support Administration Fund – 0757**

State Contribution to State Employees' Retirement System

The increase of \$2,167 (60.0%) in State contributions to State employees' retirement system expenditures was due to the employer retirement rate increasing from 7.792% in fiscal year 2006 to 11.525% in fiscal year 2007 and an increase in active staff paid from this fund.

Equipment

The increase of \$561 (72.7%) in equipment expenditures was due to an increase in the purchase of new computers, monitors and printers.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES**  
For the Year Ended June 30, 2007

**Child Support Administration Fund – 0757 (continued)**

Telecommunications Services

The increase of \$633 (23.6%) in telecommunications services expenditures was due to an increase in rental charges paid to the Department of Central Management Service and the purchase of a new phone system.

Enhanced Collection Efforts & Paternity Adjudication Demo

The increase of \$1,472 (17.5%) in enhanced collection efforts expenditures was the result of increased expenditures for child support orders and enforcement efforts.

State Disbursement Unit Costs

The decrease in State Disbursement Unit costs of \$2,879 (16.1%) was due to a contract amendment reducing the reimbursement rate for each disbursement sent for child support.

**Low Income Home Energy Assistance Block Grant Fund – 0870**

Contractual Services

The increase of \$422 (188.4%) in contractual services expenditures is the result of consulting services to assist with the Low Income Home Energy Assistance Program (LIHEAP) electronic communications program, an increase for training on the Illinois Home Weatherization Assistance Program (IHWAP) training and certification program, and an increase in cost for mail service.

System Development / Maintenance

The decrease of \$404 (45.6%) in system development and maintenance expenditures was due to a reduction in the costs for consulting and maintenance services for the LIHEAP system and a reduction in the costs for the information technology consolidation.

Weatherization Program Grants

The decrease of \$44,045 (23.6%) in weatherization program grants was due to an increased appropriation authority and additional LIHEAP block grant monies available to the states by the U.S. Department of Health and Human Services in fiscal year 2006. The additional monies were not available in fiscal year 2007.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES**  
For the Year Ended June 30, 2007

**FIDUCIARY FUNDS**

**Teacher Health Insurance Security Fund – 0203**

Administrative Expenses

The increase in administrative expenses of \$1,081 (107.6%) was due to increased costs for payroll and increased costs for statistical and tabulation charges. The statistical and tabulation charges were paid by the Department of Central Management Services in fiscal year 2006.

Health Care Coverage

The increase of \$50,080 (15.6%) in health care coverage expenditures was due to an increase in enrolled members and an increase in healthcare costs.

**Child Support Enforcement Trust Fund – 0957**

Interest Paid to Clients, DCFS, Other

The increase of \$612 (4,080.0%) was due to fiscal year 2007 being the first full year that the Department charged and collected interest from non-custodial parents.

Redirect IL

The increase of \$383 (21.9%) was attributed to the increase in child support collections due to increased collection efforts.

Refund – IRS Offset

The increase in IRS Offset refunds of \$1,203 (39.2%) is due to the outstanding debt that was submitted for offset being collected through other efforts prior to receiving the Federal offset.

Refund – State Offset

The increase in State Offset refunds of \$323 (75.8%) is due to the outstanding debt that was submitted for offset being collected through other efforts prior to receiving the State offset.

Redirect IL - NA

The increase of \$14,142 (20.0%) is attributed to the increase in child support collections due to increased collection efforts.



STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS**  
For the Year Ended June 30, 2007

The following is a summary of explanations for significant fluctuations in receipts received by the Department for fiscal year ended June 30, 2007 as compared to the fiscal year ended June 30, 2006. Included are explanations for variances to the General Funds (Major Fund) greater than \$1 million and 15% and explanations to the Non-Major Governmental Funds, Proprietary Funds, and Fiduciary Funds greater than \$300 thousand and 15%. Dollar amounts are in thousands unless otherwise stated. The Department's receipts are presented in the "Comparative Schedule of Cash Receipts and Transfers."

**GENERAL FUNDS**

**General Revenue Fund - 0001**

Federal Reimbursable Portion Due from the Public Assistance Recoveries Trust Fund

The decrease of \$172,100 (45.4%) was the result of a decrease in receipts from the drug rebate collections due to the implementation of the Medicare Part D program.

Recipient Collections

The increase of \$6,901 (182.6%) was a result of more insurance premiums being collected due to the increased growth of the All Kids Program.

**Community Developmental Disability Services Medicaid Trust Fund – 0142**

Federal Government

The \$11,871 increase (138.6%) was a result of increased waiver spending for services to the developmentally disabled in fiscal year 2006, which was higher than associated spending in fiscal year 2005. Federal reimbursements are received based upon expenditures made in the prior fiscal year.

**Long-Term Care Provider Fund - 0345**

Transfers from Other Funds

The decrease of \$53,338 (64%) was a result of a combination of two separate transfers. During fiscal year 2006, the Department received \$83,333 due to Public Act 94-0774 transferring monies into this fund. There was no such transfer in fiscal year 2007. However, the Department received a transfer totaling \$30,000 in fiscal year 2007 as a result of a Hospital Assessment Tax, collected from hospital providers, which did not occur in fiscal year 2006.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS**  
For the Year Ended June 30, 2007

**Hospital Provider Fund – 0346**

Federal Government

The increase of \$534,925 (677.5%) was a result of the Department receiving federal participation monies from the U.S. Department of Health and Human Services for hospital access improvement payments made to hospitals during fiscal year 2007. These same payments to hospitals were not made during fiscal year 2006.

Provider Taxes

The 100% increase of \$732,785 in fiscal year 2007 was a result of the Department charging a hospital assessment fee in fiscal year 2007, which was not charged in fiscal year 2006.

Transfers from Other Funds

The increase of \$1,272,667 (1,527.2%) was the result of the Department receiving a short-term borrowing totaling \$900,000 and the repayment of a short-term loan to the general revenue fund totaling \$456,000 during fiscal year 2007. These same short-term borrowing/loan was not received in fiscal year 2006.

**Health and Human Services Medicaid Trust Fund – 0365**

Transfers from Other Funds

The 100% increase of \$20,000 was a result of Public Act 94-839 transferring monies into this fund in fiscal year 2007 as a result of a Hospital Assessment Tax, collected from hospital providers, which did not occur in fiscal year 2006.

**Trauma Center Fund – 0397**

Federal Government

The decrease of \$2,622 (48.3%) was a result of a significant reduction in the amount of expenditures during fiscal year 2007, which resulted in less federal financial participation collected. The reduction in expenditures was the result of increased statutory transfers to other funds during fiscal year 2007.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS**  
For the Year Ended June 30, 2007

**Public Assistance Recoveries Trust Fund – 0421**

Federal Government

The decrease of \$6,953 (18%) was a result of a repayment of an interagency loan to the Department of Human Services in fiscal year 2005 for the Community Mental Health Medicaid Trust Fund. The loan repayment was from federal financial participation drawn for expenditures made in the Community Mental Health Medicaid Trust Fund, which was deposited directly into the Public Assistance Recoveries Trust Fund in fiscal year 2006. There were no loan repayments in fiscal year 2007.

Third Party Collections – Pharmacy Assistance

The decrease of \$1,410 (82%) in receipts was a result of the increased emphasis on the Federal Medicare Part D Prescription Drug Program. The same clients that qualified for the IL Cares RX Program also became eligible for Medicare Part D. The increase in Medicare Part D enrollment caused a corresponding decrease in IL Cares RX enrollment during the period. Clients were required to be enrolled in Medicare Part D no later than May 2006, therefore the IL Cares RX enrollment and corresponding receipts decreased steadily during fiscal year 2007.

Private Organizations or Individuals

The decrease of \$317,404 (42.4%) was a result of the Department participating in the Federal Medicare Part D Prescription Drug Program, which directly affected the Department's Drug Rebate receipts during fiscal year 2007. As a result of less State spending on drugs for Medicaid recipients, there was less drug rebate receipts received during fiscal year 2007.

**Juvenile Rehabilitation Services Medicaid Matching Fund - 0575**

Federal Government

The decrease of \$1,001 (55.6%) was the result of a decrease in Medicaid eligible expenditures in fiscal year 2007 for Juvenile Rehabilitation services. A decrease in expenditures resulted in decreased federal financial participation collections.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS**  
For the Year Ended June 30, 2007

**Family Care Fund - 0720**

Reimbursements

The decrease of \$5,044 (25.3%) was a result of less spending by the Department for Children's Mental Health Initiative services, which resulted in fewer receipts from the General Revenue Fund for the reimbursement of these services.

**Drug Rebate Fund – 0728**

Federal Government

The decrease of \$150,507 (37.8%) was a result of the Department decreasing their spending for prescription drugs during fiscal year 2007. The decrease in spending resulted in less federal financial participation collections in fiscal year 2007.

Transfers from Other Funds

The decrease of \$252,111 (59.4%) was a result of a decrease in Drug Rebate collections in the Public Assistance Recoveries Trust Fund (Fund 421) and due to the implementation of the Medicare Part D Program. As a result, the transfers from Fund 421 decreased.

**NON-MAJOR GOVERNMENTAL FUNDS**

**Early Intervention Services Revolving Fund – 0502**

Federal Government

The increase of \$8,820 (32.2%) was a result of increased Medicaid expenditures for early intervention services during fiscal year 2007, which resulted in an increase in federal financial participation collections.

**Supplemental Low-Income Energy Assistance Fund – 0550**

Private Organizations or Individuals

The increase of \$1,500 (100%) was a result of the Department being allowed to deposit donations into this fund due to a change in legislation (Public Act 94-0773) during fiscal year 2007.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS**  
For the Year Ended June 30, 2007

**Good Samaritan Energy Trust Fund – 0555**

Private Organizations or Individuals

The decrease of \$1,997 (99.8%) was a result of there being a large corporate donation of \$2 million during fiscal year 2006. This same donation was not received in fiscal year 2007.

**Tobacco Settlement Recovery Fund – 0733**

Federal Government

The increase of \$179,492 (172.7%) was due to the Department's increased spending during the fourth quarter and lapse period of fiscal year 2006. This increase in spending at the end of fiscal year 2006 resulted in an increase in fiscal year 2007 receipts.

**Child Support Administration Fund – 0757**

Transfers from Other Funds

The decrease of \$4,999 (16.7%) was a result of the General Revenue funds being received within the first few months of fiscal year 2007 as compared to fiscal year 2006 when the General Revenue funds were received throughout the entire year. As a result, there was a decrease in the amount of transfers that were needed from the Child Support Enforcement Trust Fund to cover these administrative costs.

**Low Income Home Energy Assistance Block Grant Fund – 0870**

Federal Government

The increase of \$38,127 (26.2%) was a result of the Department receiving additional Low Income Energy Assistance Program (LIHEAP) block grant monies due to monies being made available to the states by the U.S. Department of Health and Human Services at the end of fiscal year 2006. This increase in spending at the end of fiscal year 2006 resulted in more federal funds being received during fiscal year 2007.

**FIDUCIARY FUNDS**

**Child Support Enforcement Trust Fund – 0957**

Repayment to State pursuant to law

The increase of \$1,034 (26.3%) was a result of an increase in the caseload assumed by the Department and improvements being made in the child support collection efforts.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING**  
For the Year Ended June 30, 2007

The following is a summary of explanations for significant lapse period expenditures incurred by the Department for fiscal year 2007. Included are lapse period expenditures for the General Funds (Major Fund) that are greater than \$1 million and 15%, and lapse period expenditures for the Road Fund (Major Fund), Non-Major Governmental Funds, Proprietary Funds and Fiduciary Funds that are greater than \$300 thousand and 15% of the expenditure level noted in the following details. Dollar amounts are in thousands unless otherwise stated. The Department's overall lapse period spending for fiscal year 2007 is presented in the "Schedule of Appropriations, Expenditures, and Lapsed Balances" of this report.

**GENERAL FUNDS**

**Trauma Center Fund – 0397**

The adjustment amounts for the fourth quarter trauma center payments of \$1,561 were calculated and paid during the lapse period.

**Public Assistance Recoveries Trust Fund – 0421**

Contractual Services

The Department paid a total of \$3,155 for the following services incurred prior to June 30 during the lapse period: \$1,400 for statistical and tabulation services and \$146 for facilities management to the Department of Central Management Services, \$1,087 for audit and management services, and \$313 for postage charges.

**NON-MAJOR GOVERNMENTAL FUNDS**

**Child Support Administration Fund – 0757**

Contractual Services

The Department paid a total of \$8,970 for the following services incurred prior to June 30 during the lapse period: \$2,857 for statistical, tabulation and information technology services and \$1,270 for facilities management to the Department of Central Management Services, \$3,936 to the counties for the maintenance of child support records, summons and processing fees, and orders for support, \$344 for postage charges, and \$298 to DHS for shared staff and office space.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING**  
For the Year Ended June 30, 2007

**Child Support Administration Fund – 0757 (continued)**

Telecommunications Services

The Department paid invoices totaling \$762 for the following services incurred prior to June 30 during the lapse period: \$409 for the rental or lease for telephone service, equipment, and data communications service and \$276 for the installation of a new phone system to the Department of Central Management Services.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**ANALYSIS OF SIGNIFICANT BALANCE SHEET ACCOUNTS**  
For the Year Ended June 30, 2007

In the prior year, the Department administered three enterprise funds: Local Government Health Insurance Reserve Fund, Teacher Health Insurance Security Fund and the Community College Health Insurance Security Fund. During the current year, the Teacher Health Insurance Security Fund and the Community College Health Insurance Security Fund were reclassified as Pension Trust Funds.

Threshold levels for analysis and explanation are changes of at least \$1 million and 15% for general funds (major fund), and changes of at least \$300 thousand and 15% for non-major governmental funds, non-major proprietary funds and fiduciary funds.

**GENERAL FUNDS**

**Assets**

Due from other government – federal – The \$484,707 increase was a result of federal participation monies due to the Department from the U.S. Department of Health and Human Services for hospital improvement access payments made to hospitals for fiscal year 2007. These same payments to hospitals were not made during fiscal year 2006.

Due from other government – local – The \$52.8 million decrease was attributable to the net of the following increase and decrease: an increase in the General Revenue Fund due to outstanding intergovernmental transfers from Cook County; and a decrease in the County Hospital Services Fund due to decreased expenditures as a result of a federal requirement that Cook County's excess payments decrease 15% per year until phased out and a decrease in the amount of claims by Cook County in fiscal year 2007.

Due from other State funds – The decrease of \$1.4 million was due to: a decrease in the Family Care Fund as a result of less spending by the Department for Children's Mental Health Initiative services, which resulted in fewer receipts from the General Revenue Fund for the reimbursement of these services; and a decrease in the Health and Human Services Medicaid Trust Fund due to the Department recording two years of interest receivable that was not deposited in the fund by the State Treasurer until fiscal year 2007.

Taxes receivable – The \$733,850 increase was due to the Hospital Assessment Tax program. This same tax program was not in effect during fiscal year 2006.



STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**ANALYSIS OF SIGNIFICANT BALANCE SHEET ACCOUNTS**  
For the Year Ended June 30, 2007

**Liabilities**

Accounts payable and accrued liabilities – The increase of \$1.1 million was a result of the hospital access improvement payments due to the hospitals by the Department at the end of fiscal year 2007. These same payments were not in effect in fiscal year 2006.

Due to other government – federal – The \$53.6 million increase in the Drug Rebate Fund was due to a reclassification of the Medicare Part D payment owed to the federal government into this account instead of Accounts Payable as reflected in fiscal year 2006.

Due to other government – local – The \$89.4 million decrease was attributable to the net of the following increases and decreases: a decrease in the County Hospital Services Fund due to a decrease in expenditures as a result of a federal requirement that Cook County's excess payments decrease 15% per year until phased out and a decrease in the claims by Cook County in fiscal year 2007; an increase in the Long-term Care Provider Fund due to increased vouchers in-transit at the end of the fiscal year; and an increase in the Special Education Medicaid Matching Fund due to fluctuations in the billing patterns by school districts from year-to-year.

Due to other Department funds – the increase of \$93.8 million was due to an increase in the General Revenue Fund due to the State Employees Group Insurance Act (5 ILCS 375/13.1) which requires the General Revenue Fund to supplement any deficit in the Health Insurance Reserve Fund.

Due to other State funds – The \$4.5 million decrease in the Hospital Provider Fund was due to a short-term loan from the General Revenue Fund in fiscal year 2006 not being paid back until fiscal year 2007. The Department received the same short-term loan from the General Revenue Fund in fiscal year 2007, but the loan was paid back before June 30, 2007. No outstanding loans existed at the end of fiscal year 2007.

Unavailable revenue - The \$1.0 billion increase was a result of federal participation monies due to the Department from the U.S. Department of Health and Human Services and taxes from hospitals for hospital improvement access payments made to hospitals for fiscal year 2007, but these receivables were not received until 60 days after the fiscal year end. These same payments to hospitals were not made during fiscal year 2006.

**Fund Balance**

Unreserved – The \$991 million increase in the general fund deficit was a result of the 2007 hospital access improvement payments totaling \$1.2 billion that were due to the hospitals by the Department at the end of fiscal year 2007. However, the Department did not receive federal reimbursement or hospital assessment taxes until after the fiscal year end, which resulted in an increase in the general fund's deficit. These same payments were not in effect in fiscal year 2006. The offset was due to a decrease in unavailable revenue; a decrease in the County Hospital Services Fund for unavailable revenue resulted in an increase of Fund Balance during fiscal year 2007; a decrease of \$39.8 million in the Long-term Care Provider Fund as a result of

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**ANALYSIS OF SIGNIFICANT BALANCE SHEET ACCOUNTS**  
For the Year Ended June 30, 2007

an increase in the medical accrual and a decrease in estimated accrual expenditures that were not paid during the lapse period; and an increase in the Special Education Medicaid Trust Fund as a result of the fluctuations of the billing patterns by school districts from year to year and the fourth quarter claim not being paid until lapse period.

**NON-MAJOR GOVERNMENTAL FUNDS**

**Assets**

Cash equity with State Treasurer – The increase of \$8.2 million was attributable to the following increases: an increase in the Child Support Administration Fund was due to the Department receiving General Revenue funds within the first few months of fiscal year 2007, as a result, there was a decrease in the amount of funds that were needed from the Child Support Enforcement Trust Fund to cover administrative costs; and an increase in the Low Income Home Energy Assistance Block Grant Fund was due to larger refunds of fiscal year 2006 grant closeouts received during fiscal year 2007.

Due from other governments - federal - The decrease of \$135.2 million was due to: a decrease in the Tobacco Settlement Recovery Fund as a result of the Department's increased spending during the fourth quarter and lapse period of fiscal year 2006, which resulted in a larger than usual receivable; a decrease in the Low Income Home Energy Assistance Block Grant Fund was a result of the Department receiving additional Low Income Home Energy Assistance Program (LIHEAP) block grant monies due to monies being made available to the states by the U.S. Department of Health and Human Services at the end of fiscal year 2006. This additional grant did not occur in fiscal year 2007.

Due from other Department funds – The increase of \$620 thousand in the Child Support Administration Fund was due to an outstanding General Revenue Fund appropriation that was not transferred to this fund by June 30, 2007. In the prior year, all of the General Revenue Fund appropriation was transferred to this fund by the end of June 30, 2006.

**Liabilities**

Accounts payable and accrued liabilities - The decrease of \$136.1 million was due to: a decrease in the Tobacco Settlement Recovery Fund as a result of the Department's increased spending during the fourth quarter and lapse period during fiscal year 2006, as the same spending did not happen in fiscal year 2007; a decrease in the Low Income Home Energy Assistance Block Grant Fund as a result of the Department receiving additional LIHEAP block grant monies due to monies being made available to the states by the U.S. Department of Health and Human Services at the end of fiscal year 2006. This grant did not occur during fiscal year 2007 and resulted in less money being spent from this fund during the year.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**ANALYSIS OF SIGNIFICANT BALANCE SHEET ACCOUNTS**  
For the Year Ended June 30, 2007

Due to other governments – local - The decrease of \$2.9 million was due to the Department receiving additional LIHEAP block grant monies from the U.S. Department of Health and Human Services at the end of fiscal year 2006. These additional grants did not occur during fiscal year 2007 and resulted in less money being spent from this fund during the year.

Unavailable revenue – An increase of \$327 thousand was due to the Low Income Home Energy Assistance Block Grant Fund recording a receivable from the federal government of \$4.8 million and receiving cash in the lapse period of only \$4.4 million. As a result, the outstanding receivable was reclassified as unavailable revenue at the end of fiscal year 2007 since the money was not available to pay fiscal year 2007 expenditures.

**Fund Balance**

Unreserved Fund Balance – The decrease of \$87.8 million was due to a decrease in the Tobacco Settlement Recovery Fund as a result of the Department’s increased spending during the fourth quarter and lapse period of fiscal year 2006. This increase in spending, at the end of fiscal year 2006, resulted in a larger than usual receivable.

**PROPRIETARY FUNDS**

**Enterprise Funds**

**Assets**

Cash equity with State Treasurer – An increase of \$2.2 million in the Local Government Health Insurance Reserve Fund was due to cash receipts exceeding cash disbursements which resulted in more cash at the end of fiscal year 2007.

**Liabilities**

Accounts payable and accrued liability – A decrease of \$1.1 million in the Local Government Health Insurance Reserve Fund was due to a decrease in the incurred but not reported liability (IBNR) claims during fiscal year 2007 as a result of a reduction in medical claims.

**Net Assets**

Unrestricted net assets – An increase of \$3.0 million in the Local Government Health Insurance Reserve Fund was due to revenues exceeding expenses and a decrease in the IBNR liabilities as a result of a reduction in medical claims.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**ANALYSIS OF SIGNIFICANT BALANCE SHEET ACCOUNTS**  
For the Year Ended June 30, 2007

**Internal Service Funds**

**Assets**

Cash equity with State Treasurer – An increase of \$40.0 million in the Health Insurance Reserve Fund was due to a \$33 million transfer made at the end of June 30, 2006 to the Locally Held Northern Trust Cigna operating account to cover the outstanding checks issued at month end. A similar transfer occurred during fiscal year 2007, but was not posted until after year end which resulted in a greater cash balance at the end of fiscal year 2007.

Cash and cash equivalents – A decrease of \$30.6 million in the Health Insurance Reserve Fund was due to a \$33 million transfer made at the end of June 30, 2006 to the Locally Held Northern Trust Cigna operating account to cover the outstanding checks issued at month end. A similar transfer occurred during fiscal year 2007, but was not posted until after year end which resulted in a smaller cash balance at the end of fiscal year 2007.

Due from other government – federal – A decrease of \$10.6 million in the Health Insurance Reserve Fund was due to the implementation of the Medicare Part D Program during fiscal year 2006. The federal reimbursement for fiscal year 2006 was for a six month period while the fiscal year 2007 reimbursement was reported on a quarterly basis.

Due from other State funds – An increase of \$18.3 million in the Health Insurance Reserve Fund was due to an additional receivable due from the General Revenue Fund to cover the excess expenditures incurred during fiscal year 2007.

**FIDUCIARY FUNDS**

**Pension Trust Funds**

**Assets**

Cash and cash equivalents – The increase of \$1.9 million was due to a delay in payment for health insurance claims until after year-end for June invoices which resulted in a cash increase.

Due from other governments – federal – The decrease of \$5.3 million was due to the implementation of the Medicare Part D program during fiscal year 2006. As a result, the receivable at the end of fiscal year 2006 was for a six month period while the fiscal year 2007 reimbursement was reported on a quarterly basis.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**ANALYSIS OF SIGNIFICANT BALANCE SHEET ACCOUNTS**  
For the Year Ended June 30, 2007

**Liabilities**

Accounts payable and accrued liabilities – The increase of \$5.4 million in the Teacher Health Insurance Security Fund was due to a delay in payment for health insurance claims until after year-end for June invoices and an increase of the incurred but not reported liability.

**Agency Funds**

**Assets**

Cash equity with State Treasurer – The increase of \$1.6 million in the Child Support Enforcement Trust Fund was a result of an increase in General Revenue funds being deposited in the Child Support Administration Fund to be used for administrative expenses. As a result, there was a decrease in the amount of funds that were needed from the Child Support Enforcement Trust Fund to cover these administrative costs as required by the Illinois Public Aid Code (ILCS 305 5/12-10/2a).

Cash and Cash Equivalents – The increase of \$2.3 million in the Child Support Enforcement Trust Fund – SDU was related to a timing issue as a result of June 30, 2007 falling on a Saturday. The State Disbursement Unit received money on June 30, but did not disburse the funds for child support until the next fiscal year. This resulted in a larger cash balance than the previous year.

**Liabilities**

Accounts payable and accrued liabilities – The increase of \$4.2 million was due to: an increase in the Child Support Enforcement Trust Fund - SDU due to a timing issue as a result of June 30, 2007 falling on a Saturday and the State Disbursement Unit not disbursing the funds for child support until the next fiscal year; and an increase in the Child Support Enforcement Trust Fund due to an increase in the funds remaining in the fund as a result of increased tax offsets collections and interest collections pending distribution.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**ANALYSIS OF ACCOUNTS RECEIVABLE**  
For the Years Ended June 30, 2007 and 2006  
(amounts in thousands)

<b>Balance Sheet at June 30th of</b>	<b>2007</b>	<b>2006</b>
<b>Accounts Receivable (Net)</b>		
General Funds	\$ 822,569	\$ 96,597
Special Revenue Funds	10,152	10,484
Enterprise Funds	341	14,114
Internal Service Funds	10,921	11,318
Fiduciary Funds	184,725	157,731
<b>Total Accounts Receivable (Net)</b>	<b>\$ 1,028,708</b>	<b>\$ 290,244</b>
 <b>Accounts Receivable - All Funds</b>		
At Gross	\$ 4,231,134	\$ 3,109,937
Less: Allowance for Uncollectible Accounts	(3,202,426)	(2,819,693)
<b>Total Accounts Receivable (Net)</b>	<b>\$ 1,028,708</b>	<b>\$ 290,244</b>
 <b>Aging of Gross Receivables</b>		
	<b>2,007</b>	<b>2,006</b>
<b>Receivables Not Past Due</b>	\$ 834,263	\$ 47,381
 <b>Past Due Receivables:</b>		
1 - 30 Days	415,477	443,983
31 - 90 Days	10,642	10,804
91 - 180 Days	20,271	119,464
181 Days - 1 Year	51,805	45,259
Over 1 Year	2,898,676	2,443,046
<b>Total</b>	<b>\$ 4,231,134</b>	<b>\$ 3,109,937</b>

Receivable areas within the Department adhere to the guidelines set forth by the Illinois State Collections Act of 1986 along with policy and legislation relevant to their program. Included in those guidelines are: internal offsets against future claims for providers with outstanding debt, Comptroller's Offset system, cyclical billings, letters and telephone contacts, private collection agencies, liens and judgments, and notify credit reporting agencies. In addition, the Department has implemented other methods of collection such as: income withholding, unemployment insurance benefit intercept, federal income tax refund offsets, professional license revocations, judicial remedies, driver's license revocations, new hire reporting, financial institution data match, agency collectors, Department of Revenue initiative, and referral to Attorney General's office.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**INDIRECT COST REIMBURSEMENTS**  
For the Year Ended June 30, 2007  
(Unaudited)

The Department uses a cost allocation methodology to allocate indirect costs associated with the federal programs it administers in accordance with the Federally Approved Public Assistance Cost Allocation Plan. For fiscal year 2007, the Department's indirect cost pool, which is comprised of personal services and overhead expenditures, aggregated \$57.611 million. For fiscal year 2006, the Department's indirect cost pool, comprised of personal services and overhead expenditures, aggregated \$47.973 million.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF ADJUDICATION PATTERN, PAYMENT PATTERNS AND CLAIMS PAID**  
For the Years Ending June 30, 2007 and 2006  
(Unaudited)

This only reflects schedules processed through MMIS	Adjudication processing time elapsing in calendar days		Time elapsing in calendar days, to pay a claim		Total dollar amount of claims paid	
	Average for FY 2006	Average for FY 2007	Average for FY 2006	Average for FY 2007	FY 2006	FY 2007
<b>General Revenue Fund</b>						
Drugs	58.7	53.1	80.0	71.4	\$ 973,673,771	\$ 481,597,866
Hospitals						
Inpatients	45.5	51.2	58.7	61.7	1,813,897,964	1,745,343,178
Ambulatory	56.6	61.1	71.3	73.1	401,669,710	416,781,764
Long-term care	40.8	51.3	62.9	65.3	774,197,728	1,016,562,549
L-T Care Developmentally Disabled	32.0	36.1	52.6	51.9	341,745,339	334,077,339
Non-institutional provider services	59.5	66.2	71.9	76.3	524,633,212	664,726,834
Physician	65.2	49.2	78.7	55.8	674,770,339	865,542,239
<b>Overall averages/totals</b>	<b>51.2</b>	<b>52.6</b>	<b>68.0</b>	<b>65.1</b>	<b>\$ 5,504,588,063</b>	<b>\$ 5,524,631,769</b>
<b>Assessment Trust Funds</b>						
Drug Rebate	60.7	44.0	65.0	47.9	\$ 584,400,305	\$ 225,709,903
Long-term care	65.0	43.7	67.8	47.4	579,289,498	569,801,335
L-T Care Developmentally Disabled	27.5	32.0	30.8	35.8	39,426,287	40,898,229
<b>Overall averages/totals</b>	<b>51.1</b>	<b>39.9</b>	<b>54.5</b>	<b>43.7</b>	<b>\$ 1,203,116,089</b>	<b>\$ 836,409,468</b>

This analysis presents average Medicaid adjudication days, which are defined as the time elapsing in calendar days from the receipt date to the date the claims are vouchered. This schedule also presents average payment days, which are defined as the time elapsing in calendar days from the receipt date to the date a warrant is mailed by the State Comptroller.

This schedule does not include HMO or Quarterly CHAP expenditures, as these adjudication and payment cycles are not tracked.

The Long-term care - developmentally disabled general revenue fund and assessment trust fund are Department of Human Services (DHS) appropriations, but the Department of Healthcare and Family Services manages payment of claims from these funds on behalf of DHS.

Fiscal year 2006 figures have been adjusted to more accurately reflect claims paid during the fiscal year.



STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**DEPARTMENT FUNCTIONS AND PLANNING PROGRAM**  
For the Year Ended June 30, 2007

The Illinois Department of Healthcare and Family Services (Department) is committed to empowering Illinois residents to lead healthier and more independent lives by providing health care coverage for adults, children, seniors, and the disabled. The Department is also devoted to helping ensure that Illinois children receive financial support from both parents by establishing and enforcing child support obligations, improving the energy efficiency of low-income families through energy conservation and bill payment assistance, and the effective management of healthcare purchasing.

The Department is organized into three major program areas including the Division of Medical Programs (DMP), the Division of Child Support Enforcement (DCSE), and the Office of Energy Assistance (OEA). The Office of Healthcare Purchasing (OHP) was consolidated into the Department in 2005. OHP is responsible for all non-Medicaid procurement of health care services for the State of Illinois. The Office of the Inspector General (OIG) is also maintained within the agency, but functions as a separate, independent entity reporting directly to the Executive Inspector General.

**Child Support Enforcement**

The Department administers the federally mandated Title IV-D child support program for the State of Illinois through the Division of Child Support Enforcement (DCSE). The objectives of the program are to establish paternity, locate non-custodial parents, establish and enforce child and medical support obligations, collect, distribute and disburse support payments, review and modify support orders, and provide services to non-custodial parents. The DCSE serves more than 575,000 families composed of both Temporary Assistance to Needy Families (TANF), mandatory Medical Assistance No Grant (MANG) clients and any other Illinois resident requesting child support enforcement services (Non-Assistance (N/A) clients). Together, the TANF, MANG and non-Assistance cases receiving the services are known as Title IV-D cases. The Division also processes non IV-D cases through the State Disbursement Unit (SDU).

The DCSE additionally assists other states to establish parentage and enforce child support on behalf of their residents. In recent years, the Department has placed additional emphasis on the collection of past-due child support. Various enforcement methods are available for DCSE to utilize in their attempts to collect past due support payments, including, but not limited to: intercepting federal and state tax refunds; intercepting lottery winnings, referring to the Secretary of State for driver's license suspension, and referring to private collection agencies.

Total program expenditures reflect administrative expenses from the Child Support Administrative Fund, the General Revenue Fund and allocation of the Department's indirect administrative expenditures. Not included are the dollars expended as payments to custodial parents, refunds to non-custodial parents who have overpaid support and expenditures from the Illinois Department of Revenue and the Office of the Illinois Attorney General.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**DEPARTMENT FUNCTIONS AND PLANNING PROGRAM**  
For the Year Ended June 30, 2007

**Energy Assistance**

The Department's Office of Energy Assistance (OEA) administers the Low Income Home Energy Assistance (LIHEAP) and the Illinois Home Weatherization Assistance (IHWAP) programs. In fiscal year 2007, over 326,000 households received assistance grants through LIHEAP and over 7,800 homes were weatherized through IHWAP.

Each year through the LIHEAP program, low income households in Illinois with incomes at or below 150 percent of poverty receive one-time grants that allow them to reestablish and/or maintain their home energy service. The purpose of LIHEAP is to assist low-income households that pay a high proportion of household income for home energy with meeting their immediate home energy needs.

The IHWAP program helps low-income families lower their energy costs by providing a range of weatherization services including insulating attics and walls and ensuring that heating systems are safe and in good working order.

**Medical Programs**

In fiscal year 2007, the Department's Medical Program paid for a wide range of health services provided by over 47,000 enrolled providers to over 2 million Illinoisans, including children, parents or caretaker relatives raising children younger than 19, pregnant women, seniors 65 years of age or older and persons who have a disability or blindness. The primary goal of this program is to improve the health of medical program participants by providing access to quality health care.

About two-thirds of the medical program budget is expended for health care to seniors and persons with disabilities. The total number of persons with disabilities on Medicaid was 232,475 in fiscal year 2007. Long-term care caseloads have remained relatively stable over the last few years. The average monthly resident count age 65 and over in fiscal year 2007 was approximately 44,000 individuals.

Legislation was passed in November 2005 for the All Kids program. All Kids provides comprehensive, affordable health care coverage for all uninsured children in Illinois, regardless of family income or pre-existing condition. The Department continued its efforts to strengthen its network of application agents and to educate providers throughout the State, and has increased enrollment to more than one million children.

In addition, the Department again expanded coverage to parents of All Kids (formerly KidCare) children in 2007 through a federal waiver program called FamilyCare. As of June 30, 2007, 545,502 parents were covered through the Department's medical programs. Of those, 310,934 have gained coverage through the FamilyCare program.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**DEPARTMENT FUNCTIONS AND PLANNING PROGRAM**  
For the Year Ended June 30, 2007

The Department also administers several programs that cover a limited set of services. Included in this category is the Illinois Cares Rx program, formerly known as SeniorCare and Circuit Breaker Pharmaceutical Assistance. This program provides drug coverage to seniors and persons with disabilities who have limited incomes. For people with Medicare, Illinois Cares Rx coordinates with Medicare Part D plans to help participants with the gaps in coverage under the federal program.

Overall, the Medical Programs are operated through fourteen units, which directly participate in the administration of the Department's medical programs. Additionally, the Division of Finance (DOF) develops the Department's budget and secures the necessary appropriation authority, ongoing fiscal management, and federal participation that is necessary to carry out the programs.

### **Healthcare Purchasing**

The Office of Healthcare Purchasing (OHP) was formed to oversee all non-Medicaid related procurement of health services. The OHP procures healthcare services needed to provide coverage for: State Employees Group Insurance Program covering 346,000 lives; State Employee/Retiree Flu Vaccination Program providing 29,000 flu shots; Local Government Health Program covering 11,000 lives; Teachers' Retirement Insurance Program covering 61,000 lives; College Insurance Program covering 4,800 lives; Illinois Prescription Drug Discount Program covering 46,000 lives; Department of Corrections and Department of Juvenile Justice inmates in 35 facilities covering youth, female and male inmates; Department of Human Services (DHS) residents in ten Mental Health facilities; DHS residents in nine Developmental Disabilities facilities; DHS residents in four Rehabilitation facilities; and Department of Veteran Affairs residents in four facilities. The Department has entered into various interagency agreements as well as contracts with hospitals for reduced rates for certain healthcare services.

### **Office of the Inspector General**

The mission of the Office of the Inspector General (OIG) is to prevent, detect, and eliminate fraud, waste, abuse, mismanagement and misconduct in programs administered by the Department. The OIG conducts investigations for mismanagement in the programs administered by the Department as well as investigations for programs administered by the Department of Human Services. The OIG combats fraud and abuse by: implementing innovative Medicaid fraud prevention and detection techniques, preventing ineligible applicants from receiving benefits, conducting client eligibility investigations, performing client Medicaid fraud investigations, restricting clients who abuse their benefits to one physician and/or pharmacy, conducting post-payment audits and Quality of Care reviews of Medicaid providers and identifying assets which were not disclosed by applicants for long term care.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**DEPARTMENT FUNCTIONS AND PLANNING PROGRAM**  
For the Year Ended June 30, 2007

**Planning Process**

In fiscal year 2007, the Department conducted its strategic planning effort for the period covering FY08-FY11 in conjunction with the Governor's Office of Management and Budget. For fiscal year 2007, the Department continued to focus on key initiatives that best reflect the Department's mission. Department goals were developed to support these key initiatives and the agency continues to strive toward these goals.

As part of the Governor's Performance Management Initiative, the Department also developed performance measures and targets for each goal. These performance metrics were finalized and implemented following a similar process as the strategic plan. Performance measures and targets were updated for fiscal year 2008.

The Office of Planning monitors the progress of projects related to the accomplishments of the strategic plan. As part of this monitoring, responsible parties, targets, and milestones were identified. The monitoring process allows the Department to collect hard data on how well the Department's programs are performing and what effect the implementation of the strategic plan has on Department outcomes. The Department also reports progress toward their performance metrics to the Governor's Office of Management and Budget on a quarterly basis.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**AVERAGE NUMBER OF EMPLOYEES**  
For the Year Ended June 30, 2007 and 2006

Below is a summary of the average number of personnel employed by the Department, by fund, for the fiscal years ended June 30, 2006 and 2007.

	<u>2007</u>	<u>2006</u>
General Revenue Fund		
Program Administration	261	266
Office of Inspector General	176	182
Attorney General	22	21
Medical	523	458
Managed Care	17	22
Kid Care - Look a Like	113	69
Kid Care - Rebate	33	33
Prescribed Drugs	31	0
Medi Rev*	3	6
Total General Revenue Fund	<u>1,179</u>	<u>1,057</u>
Other Funds		
Care Provider for Persons with DD	1	1
Long-Term Care Provider	11	11
Medical Special Purpose Trust	11	10
Child Support Administration	980	960
Public Assistance Recoveries Trust	136	140
Energy Assistance	29	27
Group Insurance	18	17
Total Other Funds	<u>1,186</u>	<u>1,166</u>
Grand Total - All Funds	<u><u>2,365</u></u>	<u><u>2,223</u></u>

\* Medical electronic interchange recipient eligibility verification

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**FISCAL YEAR STATISTICS**  
**MEDICAID ENROLLMENT**  
For the Years Ended June 30, 2007, and 2006  
(Unaudited)

		<u>2007</u>	<u>2006</u>
Average Number of Enrollees	(1)	2,442,032	2,298,176
Annual Expenditures	(2)	\$8,157,269,000	\$8,285,866,300
Expenditure per Enrollee	(3)	\$3,340.36	\$3,605.41

NOTES:

- (1) Fiscal year 2007 enrollment includes SeniorCare and reflects the average of each month's ending enrollees.
- (2) Fiscal year 2007 Appropriation Spending (14 month). Fiscal year 2007 spending is lower than fiscal year 2006 due to the \$500 million in fiscal year 2006 spending related to Public Act #94-0774 (effective 5/19/06) that was used to pay down bills on hand. Spending also includes individual medical claims expenditures from the Hospital Provider Fund in each fiscal year.
- (3) For illustration purposes only: Expenditure per enrollee is calculated by dividing expenditures against a given fiscal year's appropriation by the average number of enrollees for that fiscal year. The resulting figures do not represent actual cost per user.

SOURCE: Division of Finance

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**EMERGENCY PURCHASES**  
For the Year Ended June 30, 2007

The Department reported the following emergency purchases to the Office of the Auditor General during fiscal year 2007.

<u>Vendor</u>	<u>Description</u>	<u>Cost</u>
Doral Dental	<p>The Department entered into an emergency contract amendment with Doral Dental Services Inc. to amend the current dental contract. This emergency was necessary to include the population of recipients eligible under the All Kids program and to ensure that services were delivered to this population effective July 1, 2006. This amendment included maintaining and offering services to children under the All Kids Program administered under the Covering All Kids Health Insurance Act. Contract Term - July 1, 2006 through February 28, 2007.</p>	\$ 629,558
First Transit Inc.	<p>The Department was not satisfied with the results of the NEMT Broker RFP, so the Department extended the current contract with First Transit pursuant to the Standard Procurement Rules Section 1.2030(b)(2) and 1.2030(b)(3). An emergency extension to the contract to extend the contract by 6 months was necessary to maintain the NETSPAP while a new contract is procured – RFP developed, issued, reviewed and evaluated, awarded and sufficient time for implementation. The only alternative to extending the current contract with First Transit would be to turn off prior approval claim editing in the Agency’s claims processing system. This would result in the Agency relying solely on back-end audits to enforce compliance with Agency policy. Fraud and abuse would increase resulting in an increase in payments to providers and increased costs for the Department. Under the emergency extension, First Transit will also be paid at the rate under the current contract on a per participant/per month basis for each Medical Assistance participant that is eligible for transportation services, excluding residents of long-term care facilities and certain other small programs. Contract Term - July 1, 2006 through December 31, 2006.</p>	\$ 2,074,622

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**EMERGENCY PURCHASES**  
For the Year Ended June 30, 2007

First Transit Inc.	The Department entered into a second emergency extension to extend the contract with First Transit, Inc. by six months. An emergency extension to the contract was necessary to maintain the NETSPAP while a new contract is procured. Contract Term - January 1, 2007 through June 30, 2007.	* \$ 2,058,394
Total		<u>\$ 4,762,574</u>

\* The reported amount is an estimate.



STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SERVICE EFFORTS AND ACCOMPLISHMENTS**  
For the Year Ended June 30, 2007  
(Unaudited)

**Child Support Enforcement Program**

**Description of the Program**

The Division of Child Support Enforcement (DCSE) serves more than 600,000 families composed of Temporary Assistance to Needy Families (TANF), mandatory Medical Assistance No Grant (MANG) clients and any other Illinois resident requesting child support enforcement services (Non-Assistance (NA) clients). The Division helps to establish paternity, locate non-custodial parents, establish child support through judicial or administrative processes, and enforce child support orders through income withholding orders, unemployment benefit intercepts, federal and state tax intercepts, real and personal property liens, denial of passports, and other lump sum intercepts. It also assists other states to establish parentage and establish and enforce child support on behalf of their residents. Together, the TANF, MANG and Non-Assistance cases receiving these services are known as Title IV-D cases. The Division also processes non IV-D cases through the State Disbursement Unit. These activities suggest some of the basic indicators of the Division's performance, many of which are driven by federal reporting requirements and standards.

**Program Goal**

The program goal is to enforce child support payment obligations of non-custodial parents for Illinois' most vulnerable children.

<b>Performance Measures</b>	<b><u>FY 2006</u></b>	<b><u>FY 2007</u></b>
Total child support collections (in thousands, includes all Title IV-D, TANF & non-TANF)	\$1,145,015	\$1,224,257
Number of IV-D cases with new support orders established	61,876	56,487
Amount of total child support arrearages collected (in thousands, includes all Title IV-D, TANF & non-TANF)	\$253,669	\$265,371

**Evaluation of Performance/Activity Measures**

Effectiveness is measured by monitoring the status of the measures shown above on an ongoing basis. Additionally, DCSE measures the percentage of children in IV-D cases born out-of-wedlock where parentage has been established and the percentage of IV-D cases where support orders are established.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SERVICE EFFORTS AND ACCOMPLISHMENTS**  
For the Year Ended June 30, 2007  
(Unaudited)

**Energy Assistance Program**

**Description of the Program**

The Office of Energy Assistance administers the Low Income Home Energy Assistance (LIHEAP) and the Illinois Home Weatherization Assistance (IHWAP) programs.

Each year through the LIHEAP program, low-income households in Illinois receive one-time grants that allow them to reestablish and/or maintain their home energy service. The purpose of LIHEAP is to assist low-income households that pay a high proportion of household income for home energy with meeting their immediate home energy needs.

The IHWAP program helps low-income families lower their energy costs by providing a range of weatherization services, including insulating attics and walls and ensuring that heating systems are safe and in good working order.

**Program Goal**

The program goal is to reduce the energy burden of low-income Illinoisans in the Energy Assistance programs.

<b>Performance Measures</b>	<b><u>FY 2006</u></b>	<b><u>FY2007</u></b>
Percent of vulnerable households receiving LIHEAP assistance	66.29%	65.70%
Number of households receiving home weatherization services	7,128	7,854

**Evaluation of Performance/Activity Measures**

Effectiveness is measured by monitoring the status of the measures shown above on an ongoing basis. Additionally, the Office of Energy Assistance measures numerous other activities such as the number of applications taken, emergency reconnections for heating and cooling assistance and the average benefit per household for furnace and cooling assistance.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SERVICE EFFORTS AND ACCOMPLISHMENTS**  
For the Year Ended June 30, 2007  
(Unaudited)

**Medical Programs**

**Description of the Program**

The Division of Medical Programs provides managed care services, long-term care services, and comprehensive health services to Illinois' neediest residents. The Department of Healthcare and Family Services (Department) is also the primary State administrator of federal Medicaid health care policies under the Social Security Act. Through a central unit based in Springfield, the Department also determines eligibility for AllKids and FamilyCare programs for children and parents, Medicaid, the State Children's Health Insurance Program, and Moms and Babies health plans for pregnant women, through mail-in and web-based applications. In-person applications are taken and processed by the Illinois Department of Human Services local offices throughout the State.

**Program Goal**

The program goal is to improve the health of Illinois' children and families by providing access to quality medical care.

<b>Performance Measures</b>	<b><u>FY 2006</u></b>	<b><u>FY 2007</u></b>
Total Medical Program Expenditures (in thousands)	\$10,593,217	\$11,331,340
Number of actively enrolled physicians billing over 100 claims per year	17,882	18,308
Total number of children enrolled in Medical Programs	1,216,983	1,369,050

**Evaluation of Performance/Activity Measures**

**AllKids/FamilyCare**

In the Fall of 2005, the Governor proposed that Illinois provide health insurance to all Illinois children in need of health insurance. The Governor's plan was launched through the passage of the Covering All Kids Health Insurance Program. The Department renamed its KidCare program "All Kids," offering affordable health care coverage for all uninsured children in Illinois, regardless of income. The Department now covers over one million children through all of its health benefits programs.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SERVICE EFFORTS AND ACCOMPLISHMENTS**  
For the Year Ended June 30, 2007  
(Unaudited)

**Medical Programs (continued)**

In addition, the Department expanded coverage to parents of AllKids children in 2007 through a federal waiver program called FamilyCare. Parents with incomes up to 185 percent of the federal poverty level are now eligible for health care coverage through FamilyCare. FamilyCare covers qualified parents living with their children 18 years or younger or caretaker relatives of children, regardless of assets. All Kids Moms and Babies covers pregnant women and their infants.

**Illinois Cares RX Program and Persons with Disabilities Program**

About two-thirds of the medical assistance program budget is expended for health care to seniors and persons with disabilities.

In June 2005, the “No Senior or Person with Disability Left Behind” law was passed, which created the Illinois Cares Rx program, the nation’s most comprehensive response to fill in the gaps created by the federal Medicare Part D prescription drug program. The Illinois Cares Rx program took effect January 1, 2006, in conjunction with the start of the new Medicare prescription coverage.

Illinois Cares Rx covers those who were previously enrolled in either the SeniorCare drug program or the Circuit Breaker pharmaceutical assistance program. In addition, those who are not eligible for Medicare will have their current SeniorCare or Circuit Breaker pharmaceutical benefits maintained in the Illinois Cares Rx program. The Illinois Cares Rx program is administered by the Department and the Illinois Department on Aging.

**Accountability**

Although providing access to quality health care is the overriding mission of the Department, the goal is to be accountable to the citizens of Illinois and to perform this function in the most cost effective and efficient manner. Two performance indicators have been selected to measure this effectiveness: Savings from prepayment review of over 5.5 million medical services and cost avoidance by preventing unnecessary expenditures. Savings from prepayment review of claims for fiscal year 2007 was over \$61 million. Cost avoidance is a strategy recognized by the Centers for Medicare and Medicaid Services and is devised to make Medicaid the payer of last resort. Cost avoided dollars are Medicaid savings, realized through the discovery of a private payer responsible for medical bills of medical assistance participants. The Department saved the taxpayers of Illinois over \$110 million in fiscal year 2005, over \$128 million in fiscal year 2006, and over \$141 million in fiscal year 2007.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SERVICE EFFORTS AND ACCOMPLISHMENTS**  
For the Year Ended June 30, 2007  
(Unaudited)

**Inspector General**

**Description of the Program**

The Inspector General is appointed by the Governor, reports to the Executive Inspector General, and is confirmed by the Senate. The mission of the Office of Inspector General (OIG) is to prevent, detect and eliminate fraud, waste, abuse, misconduct, and mismanagement in the programs administered by the Department. The OIG conducts investigations for the Department's programs administered by the Department of Human Services.

**Program Goal**

The OIG is committed to combating fraud and abuse through its efforts of implementing innovative Medicaid fraud prevention and detection techniques, preventing ineligible applicants from receiving benefits, conducting client eligibility investigations, performing client Medicaid fraud investigations, restricting clients who abuse their benefits to one physician and/or pharmacy, conducting post-payment audits and quality of care reviews of Medicaid providers, and identifying assets hidden by long term care applicants.

<b>Performance Measures</b>	<b><u>FY 2006</u></b>	<b><u>FY 2007</u></b>
Provider post-payment audits performed	635	934
Number of fraud prevention investigations completed	1,793 <sup>a</sup>	4,000

**Evaluation of Performance/Activity Measures**

The OIG conducted 934 post-payment audits during fiscal year 2007, which is 284 more audits than the targeted goal of 650 audits. The audits were conducted to help ensure that Medicaid dollars were spent appropriately. These audits allowed the OIG to recover approximately \$19 million in overpayments during fiscal year 2007. The OIG conducted 4,000 fraud prevention investigations during fiscal year 2007, to prevent ineligible applicants from receiving welfare benefits.

<sup>a</sup> The Fraud Prevention Investigations (FPI) program was stopped at the end of October 2005 and a new FPI contractor started in April 2006. Therefore, the FY06 actual total reflects seven months of operation. The FY07 total is consistent with the FY05 total of 3,950 investigations completed.