

STATE OF ILLINOIS  
DEPARTMENT OF HUMAN SERVICES

FINANCIAL AUDIT

For the Year Ended June 30, 2010

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

STATE OF ILLINOIS  
DEPARTMENT OF HUMAN SERVICES

FINANCIAL AUDIT

For the Year Ended June 30, 2010

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STATE OF ILLINOIS  
DEPARTMENT OF HUMAN SERVICES

FINANCIAL AUDIT

For the Year Ended June 30, 2010

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**STATE OF ILLINOIS  
DEPARTMENT OF HUMAN SERVICES**

**AGENCY OFFICIALS**

Secretary	Carol L. Adams, Ph.D. (Through 10/31/09) Michelle R. B. Saddler (Effective 10/11/09, through 9/30/2010) Grace Hong Duffin (Acting, Effective 10/1/2010 through 12/16/2010) Michelle R. B. Saddler (Effective 12/16/2010)
Assistant Secretary (Operations)	Jerome Butler (Effective 11/12/08 through 12/15/09) Matthew Hammoudeh (Acting, Effective 10/1/2010)
Assistant Secretary (Programs)	Grace Hou
Budget Director	Robert Brock
Business Services Director	Ron Brian (Acting, Effective 8/20/08 through 12/31/09) Melissa Wright (Acting, Effective 5/1/10)
Chief of Staff	Teyonda Wertz (Through 10/30/09) Grace Hong Duffin (Effective 11/1/09)
Chief Financial Officer	Robert Stanek (Through 4/15/10) Carol Kraus (Effective 4/16/10)
Chief Operational Officer	Andrew Fox (Effective 10/14/08 through 10/30/09) Vacant (Effective 10/31/09)
Contract Administration Manager	Sally Hardwick Adams (Through 12/31/09) Debra Matlock (Effective 1/1/10)
Chief Internal Auditor	Debbie Abbott (Effective 9/16/10)
State Purchasing Officer	Curtis Thompson (Through 4/26/10) William Strahle (Acting, Effective 4/27/10 through 8/12/2010) Vacant (Effective 8/13/2010)
Fiscal Services Director	Solomon Oriakhi (Through 7/31/10) Matthew Grady (Effective 8/2/2010)

**STATE OF ILLINOIS  
DEPARTMENT OF HUMAN SERVICES**

AGENCY OFFICIALS - Continued

Human Resources Director	Elizabeth Sarmiento
Management Information Services Chief	Jeremy Margaron (Effective 12/10/08 through 9/30/09) Doug Kasamis (Effective 10/1/09)
Office of Community Relations Director	Aurelio Huertas Fabrizio (Acting, Effective 10/29/07 through 1/16/10) Jesus Garcia (Effective 2/22/10 through 12/2/2010) Tom Green (Effective 1/16/2011)
Chief Legislative Liaison	Randy Wells
Compliance Workforce Safety	Martha Younger-White
Hispanic/Latino Affairs Director	Agueda Corona (Effective 7/16/07 through 3/19/10) Nelida Smyser-DeLeon (Effective 5/16/10)
General Counsel	Mary-Lisa Sullivan (Acting)
Inspector General	Bill Davis
Office of Strategic Planning and Performance Management Director	Layla Suleiman-Gonzalez (Effective 3/16/10)
Office of Alcoholism and Substance Abuse Director	Theodora Binion-Taylor
Office of Rehabilitation Services Associate Director	Rob Kilbury
Office of Community Health and Prevention Director	Ivonne Sambolin-Jones
Office of Developmental Disabilities Director	Lilia Teninty
Office of Mental Health Director	Lorrie Rickman-Jones, Ph.D.
Office of Clinical, Administrative and Program Support Manager	Jim Hobbs

**STATE OF ILLINOIS  
DEPARTMENT OF HUMAN SERVICES**

AGENCY OFFICIALS - Continued

Office of Human Capital Development Director	Marva Arnold (Through 2/28/10) Linda Saterfield (Acting, Effective 3/1/10)
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Grant Administration Director	Sharon Zahorodnyj
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Office of Security and Emergency Preparedness Director	Hero Taming
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Agency main offices are located at:

100 South Grand Avenue, East  
Springfield, Illinois 62762

501 South Clinton Street  
Chicago, Illinois 60607

STATE OF ILLINOIS  
DEPARTMENT OF HUMAN SERVICES

FINANCIAL STATEMENT REPORT

SUMMARY

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

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

SUMMARY OF FINDINGS

The auditors identified matters involving the Department's internal control over financial reporting that they considered to be material weaknesses, significant deficiencies and non-compliance with certain provisions of laws and regulations. The material weakness, significant deficiencies and non-compliance are described in the accompanying Schedule of Findings listed in the table of contents, as findings 10-1 through 10-5, summarized as follows:

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
10-1	52	Weaknesses in preparation of GAAP reporting forms submitted to the Illinois Office of the Comptroller and preparation of year-end Department financial statements	Material Weakness
10-2	56	Inadequate controls over commodities	Significant Deficiency
10-3	59	Commodity inventory system outdated and insufficient for user needs	Significant Deficiency
10-4	61	Inadequate controls over capital asset financial reporting	Significant Deficiency
10-5	63	Failure to comply with Medicare and Medicaid certification requirements	Non-compliance

PRIOR FINDING NOT REPEATED

A.	65	Failure to update allowance for uncollectible accounts receivable in a consistent manner
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EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on March 29, 2011. Attending were:

Department of Human Services

Michelle R. B. Saddler	Secretary
Carol Kraus	Chief Financial Officer
Matthew Grady	Fiscal Services Director
Mike Layden	Office of Fiscal Services
Melissa Wright	Business Services Director
Debbie Abbott	Chief Internal Auditor
Albert Okwuegbunam	Audit Liaison

Office of the Auditor General

Paul Usherwood	Audit Manager
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Sikich LLP – Special Assistant Auditors

Nick Appelbaum	Partner
Andy Lascody	Partner
Nikki Lanier	Supervisor

The responses to the recommendations were provided by Michelle R. B. Saddler, Secretary in a letter dated March 31, 2011.





3201 West White Oaks Drive, Suite 102 • Springfield, IL 62704

## INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Human Services (the Department), as of and for the year ended June 30, 2010, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 2, the financial statements of the Department are intended to present the financial position and changes in financial position of only that portion of the governmental activities, the major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2010, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Department, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 31, 2011 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Department has not presented a management's discussion and analysis and budgetary comparison information for any of its funds that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The combining General Fund, nonmajor governmental funds and Agency funds financial statements and schedules listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining General Fund, nonmajor governmental funds and Agency funds financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

*Schick LLP*

Springfield, Illinois  
March 31, 2011

**State of Illinois**  
**Department of Human Services**

**Statement of Net Assets and Governmental Funds Balance Sheet**

June 30, 2010 (Expressed in Thousands)

	General Fund	Other Non-major Funds	Total Governmental Funds	Adjustments	Statement of Net Assets
<b>ASSETS</b>					
Unexpended appropriations	\$ 262,364	\$ 3,086	\$ 265,450	\$ -	\$ 265,450
Cash equity with State Treasurer	70,931	86,212	157,143	-	157,143
Cash and cash equivalents	225	3,288	3,513	-	3,513
Securities lending collateral equity with State Treasurer	17,125	4,782	21,907	-	21,907
Investments	-	2,377	2,377	-	2,377
Due from other government - federal	178,387	85,273	263,660	-	263,660
Due from other government - local	2,822	425	3,247	-	3,247
Taxes receivable, net	-	246	246	-	246
Other receivables, net	33,302	16,094	49,396	-	49,396
Loans and notes receivable, net	-	434	434	-	434
Due from other Department funds	226	25,582	25,808	(25,808)	-
Due from other State funds	128	3,403	3,531	-	3,531
Due from State of Illinois component units	-	150	150	-	150
Inventories	9,420	-	9,420	-	9,420
Prepaid expenses	-	-	-	1,703	1,703
Capital assets not being depreciated	-	-	-	3,248	3,248
Capital assets being depreciated, net	-	-	-	227,126	227,126
<b>Total assets</b>	<b>\$ 574,930</b>	<b>\$ 231,352</b>	<b>\$ 806,282</b>	<b>206,269</b>	<b>1,012,551</b>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ 265,441	\$ 117,540	\$ 382,981	-	382,981
Due to other government - federal	3,135	689	3,824	-	3,824
Due to other government - local	10,900	13,325	24,225	-	24,225
Due to other Department fiduciary funds	27	-	27	-	27
Due to other State fiduciary funds	324	1,221	1,545	-	1,545
Due to other Department funds	25,111	697	25,808	(25,808)	-
Due to other State funds	19,567	8,081	27,648	-	27,648
Due to State of Illinois component units	2,006	5,643	7,649	-	7,649
Unavailable revenue	85,006	15,265	100,271	(100,271)	-
Unearned revenue	35,559	36,668	72,227	-	72,227
Obligations under securities lending of State Treasurer	17,125	4,782	21,907	-	21,907
Long-term obligations:					
Due within one year	-	-	-	3,430	3,430
Due subsequent to one year	-	-	-	73,160	73,160
<b>Total liabilities</b>	<b>464,201</b>	<b>203,911</b>	<b>668,112</b>	<b>(49,489)</b>	<b>618,623</b>
<b>FUND BALANCES/NET ASSETS</b>					
Reserved for:					
Encumbrances	3,369	954	4,323	(4,323)	-
Long-term portion of loans and notes receivable	-	434	434	(434)	-
Inventories	9,420	-	9,420	(9,420)	-
Other	-	1,154	1,154	(1,154)	-
Unreserved:					
General funds	97,940	-	97,940	(97,940)	-
Special revenue funds	-	24,806	24,806	(24,806)	-
Permanent funds	-	93	93	(93)	-
Invested in capital and intangible assets, net of related debt	-	-	-	229,808	229,808
Restricted net assets:					
Restricted for health and social service programs	-	-	-	968	968
Funds held as permanent investments:					
Nonexpendable purposes	-	-	-	1,089	1,089
Expendable purposes	-	-	-	158	158
Unrestricted net assets	-	-	-	161,905	161,905
<b>Total fund balances/net assets</b>	<b>110,729</b>	<b>27,441</b>	<b>138,170</b>	<b>\$ 255,758</b>	<b>\$ 393,928</b>
<b>Total liabilities and fund balances</b>	<b>\$ 574,930</b>	<b>\$ 231,352</b>	<b>\$ 806,282</b>		

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

**State of Illinois**  
**Department of Human Services**  
**Reconciliation of Governmental Funds Balance Sheet**  
**to Statement of Net Assets**  
**June 30, 2010**  
**(Expressed in Thousands)**

<b>Total fund balances-governmental funds</b>	\$	138,170
<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.		230,374
Prepaid expenses for governmental activities are current uses of financial resources for funds.		1,703
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		100,271
Some liabilities reported in the Statement of Net Assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. These liabilities consist of:		
Capital lease obligations	(319)	
Installment purchase obligations	(247)	
Compensated absences	(76,024)	
	(76,024)	(76,590)
<b>Net assets of governmental activities</b>	<b>\$</b>	<b>393,928</b>

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

**State of Illinois**  
**Department of Human Services**

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

For the Year Ended June 30, 2010 (Expressed in Thousands)

	General Fund	Other Non-major Funds	Total Governmental Funds	Adjustments	Statement of Activities
Expenditures/expenses:					
Health and social services	\$ 4,114,783	\$ 3,768,975	\$ 7,883,758	\$ 17,894	\$ 7,901,652
Debt service - principal	608	11	619	(619)	-
Debt service - interest	42	-	42	-	42
Capital outlays	1,668	771	2,439	(2,439)	-
<b>Total expenditures/expenses</b>	<b>4,117,101</b>	<b>3,769,757</b>	<b>7,886,858</b>	<b>14,836</b>	<b>7,901,694</b>
Program revenues:					
Charges for services:					
Licenses and fees	85	4,547	4,632	(191)	4,441
Other	9,575	35,609	45,184	(162)	45,022
Total charges for services	9,660	40,156	49,816	(353)	49,463
Operating grant revenue:					
Federal	902,840	3,639,675	4,542,515	362	4,542,877
Other	-	248	248	2,822	3,070
Total operating grant revenue	902,840	3,639,923	4,542,763	3,184	4,545,947
<b>Net program revenues</b>	<b>(3,204,601)</b>	<b>(89,678)</b>	<b>(3,294,279)</b>	<b>(12,005)</b>	<b>(3,306,284)</b>
General revenues:					
Other taxes	-	1,115	1,115	(2)	1,113
Interest and investment income	434	133	567	-	567
Other	1,034	6,065	7,099	6,677	13,776
<b>Total general revenues</b>	<b>1,468</b>	<b>7,313</b>	<b>8,781</b>	<b>6,675</b>	<b>15,456</b>
Other sources (uses):					
Appropriations from State resources	4,097,085	32,189	4,129,274	-	4,129,274
Lapsed appropriations	(49,918)	(11,021)	(60,939)	-	(60,939)
Receipts collected and transmitted to State Treasury	(611,700)	(17,659)	(629,359)	-	(629,359)
Capital transfers from other State agencies	-	-	-	12,668	12,668
Amount of SAMS transfers-in	(99,573)	-	(99,573)	-	(99,573)
Amount of SAMS transfers-out	3,969	-	3,969	-	3,969
Transfers-in	20,011	82,931	102,942	(81,607)	21,335
Transfers-out	(74,282)	(29,462)	(103,744)	81,607	(22,137)
Capital lease and installment purchase financing	800	-	800	(800)	-
<b>Total other sources (uses)</b>	<b>3,286,392</b>	<b>56,978</b>	<b>3,343,370</b>	<b>11,868</b>	<b>3,355,238</b>
Change in fund balance/net assets	83,259	(25,387)	57,872	6,538	64,410
Fund balance/net assets, July 1, 2009	26,636	52,828	79,464	250,054	329,518
Increase for changes in inventories	834	-	834	(834)	-
Fund balance/net assets, June 30, 2010	<b>\$ 110,729</b>	<b>\$ 27,441</b>	<b>\$ 138,170</b>	<b>\$ 255,758</b>	<b>\$ 393,928</b>

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

**State of Illinois**  
**Department of Human Services**  
**Reconciliation of Statement of Revenues, Expenditures and Changes in**  
**Fund Balances of Governmental Funds to Statement of Activities**  
**For the Year Ended June 30, 2010**  
**(Expressed in Thousands)**

<b>Net change in fund balances</b>	\$ 57,872
Change in inventories	834
	58,706
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which depreciation in the current period exceeded capital outlays.	(15,370)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	619
Some capital additions were financed through installment purchases. In governmental funds, installment purchases are considered a source of financing, but in the Statement of Net Assets the installment purchase obligation is reported as a liability.	(800)
Some capital assets were transferred in from other State agencies and therefore, were received at no cost.	12,668
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	9,506
Prepaid expenses in the Statement of Activities are reported as expenses in governmental funds.	21
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	(940)
<b>Change in net assets of governmental activities</b>	<b>\$ 64,410</b>

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

**State of Illinois**  
**Department of Human Services**

**Statement of Fiduciary Net Assets**

June 30, 2010 (Expressed in Thousands)

	<u>Private-Purpose Trust</u>	
	<b>Hansen- Therkelsen Memorial Deaf Student College 0123</b>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash equity with State Treasurer	\$ 471	\$ -
Cash and cash equivalents	-	1,513
Securities lending collateral equity with State Treasurer	170	-
Investments	-	1,039
Other receivables, net	-	4
Due from other Department funds	-	27
Due from other funds	504	-
Loans and notes receivable	44	-
<b>Total assets</b>	<u>1,189</u>	<u>\$ 2,583</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	-	\$ 48
Obligations under securities lending of State Treasurer	170	-
Other liabilities	-	2,535
<b>Total liabilities</b>	<u>170</u>	<u>\$ 2,583</u>
<b>NET ASSETS</b>		
Held in trust and other purposes	<u>\$ 1,019</u>	

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

**State of Illinois**  
**Department of Human Services**

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**Statement of Changes in Fiduciary Net Assets**

For the Year Ended June 30, 2010 (Expressed in Thousands)

	<b>Private-Purpose Trust</b>
	<b>Hansen-Therkelsen Memorial Deaf Student College 0123</b>
	<hr/>
<b>Additions:</b>	
Investment earnings:	
Interest, dividends and other investment income	\$ 6
<b>Net investment income</b>	<hr/> 6
<b>Total additions</b>	<hr/> 6
<b>Deductions:</b>	
Other deductions:	
Allowance for uncollectible adjustment	35
<b>Total deductions</b>	<hr/> 35
<b>Net additions (deductions)</b>	(29)
Net assets, July 1, 2009	<hr/> 1,048
<b>Net assets, JUNE 30, 2010</b>	<hr/> <hr/> \$ 1,019

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



**STATE OF ILLINOIS**  
**DEPARTMENT OF HUMAN SERVICES**

Notes to the Financial Statements

June 30, 2010

**(1) Organization**

The Department of Human Services (the Department) is a part of the executive branch of government of the State of Illinois (State) and operates under the authority of, and review by, the Illinois General Assembly. The Department operates under a budget approved by the General Assembly in which resources primarily from the General Fund are appropriated for the use of the Department. Activities of the Department are subject to the authority of the Office of the Governor, the State's chief executive officer, and other departments of the executive and legislative branches of government (such as the Department of Central Management Services, the Governor's Office of Management and Budget, the State Treasurer's Office, and the State Comptroller's Office) as defined by the Illinois General Assembly. All funds appropriated to the Department and all other cash received are under the custody and control of the State Treasurer, excluding all locally-held funds authorized by State law.

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

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

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

**(a) Financial Reporting Entity**

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

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

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

**STATE OF ILLINOIS  
DEPARTMENT OF HUMAN SERVICES**

Notes to the Financial Statements

June 30, 2010

**(b) Basis of Presentation**

The financial statements of the State of Illinois, Department of Human Services, are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund of the State of Illinois, and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2010 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

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

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

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

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

**STATE OF ILLINOIS  
DEPARTMENT OF HUMAN SERVICES**

Notes to the Financial Statements

June 30, 2010

**General** – This is the State’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The services which are administered by the Department and accounted for in the General Fund include, among others, health and social services. Certain resources obtained from federal grants and used to support general governmental activities are accounted for in the General Fund consistent with applicable legal requirements. The Department’s portion of the General Fund is composed of a primary sub-account (General Revenue) and five secondary sub-accounts (Community Developmental Disabilities Services Medicaid Trust, Care Provider Fund for Persons with a Developmental Disability, Health and Human Services Medicaid Trust, Community Mental Health Medicaid Trust, and DHS Recoveries Trust).

Additionally, the Department reports the following fund types:

**Governmental Fund Types:**

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

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

**Fiduciary Fund Types:**

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

**Agency** – These funds account for receipts from individuals or groups of individuals at the Department’s mental health and developmental centers, and schools, as well as electronic benefit transfers, and receipts from the Federal Government for transfer to other funds for social service programs. These funds are collected by the Department, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

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

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

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

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

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

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

The financial statement presentation for the General Revenue and Care Provider Fund for Persons with a Developmental Disability subaccounts of the General Fund and the FY 09 Budget Relief Fund, Tobacco Settlement Recovery Fund, Maternal and Child Health Services Block Grant Fund, and Preventive Health and Health Services Block Grant Fund, non-major governmental funds, represents only the portion of the shared fund that can be directly attributed to the operations of the Department. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' Comprehensive Annual Financial Report.

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

Unexpended Appropriations

This "asset" account represents lapse period expenditure transactions processed by the State Comptroller's Office after June 30, annually in accordance with the Statewide Accounting Management System (SAMS) records plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year.

Appropriations from State Resources

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

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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. For State fiscal year 2010, the Illinois General Assembly extended the lapse period from August 31 to December 31, 2010, to allow for the liquidation of all expenditure transactions for the year.

Receipts Collected and Transmitted to State Treasury

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

Amount of SAMS Transfers-In

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

Amount of SAMS Transfers-Out

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

*(e) Eliminations*

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

*(f) Cash and Cash Equivalents*

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

*(g) Investments*

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

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**(h) Inventories**

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

**(i) Interfund Transactions**

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

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

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

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

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

**(j) Capital and Intangible Assets**

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

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Capitalization thresholds and the estimated useful lives are as follows:

Capital and Intangible Asset Category	Capitalization Threshold	Estimated Useful Life (in Years)
Capital Assets:		
Land	\$ 100,000	N/A
Land Improvements	25,000	N/A
Site Improvements	25,000	3 - 50
Buildings	100,000	10 - 60
Building Improvements	25,000	10 - 45
Equipment	5,000	3 - 25
Intangible Assets:		
Purchased Computer Software	25,000	3 - 5
Internally Generated Computer Software	1,000,000	5 - 20

**(k) *Compensated Absences***

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

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

**(l) *Fund Balances***

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

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**(m) Net Assets**

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

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

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

***Unrestricted*** – This consists of net assets that do not meet the definition of “restricted” or “invested in capital and intangible assets, net of related debt.”

**(n) Use of Estimates**

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

**(o) New Accounting Pronouncements**

Effective for the year ending June 30, 2010 the State adopted GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, which established guidance for recognition and amortization of intangible assets in the financial statements of governments. There was no significant impact on the Department’s financial statements as a result of adopting this statement.

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

Effective for the year ending June 30, 2011, the Department will adopt GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, which establishes fund balance classifications of the general, special revenue, capital projects, debt service, and permanent fund types. The Department has not yet determined the impact on the Department’s financial statements as a result of adopting this statement.

**(3) Deposits and Investments**

**(a) Deposits**

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



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

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Department is required by the State Officers and Employees Money Disposition Act (30 ILCS 230/2c) to obtain a bond, pledged securities, or other eligible collateral equal to or greater than the uninsured portion of the deposit. Deposits for locally-held funds of governmental activities had a carrying amount and a bank balance of \$4.724 and \$4.771 million at June 30, 2010, respectively. Deposits of locally-held funds of fiduciary funds had a carrying amount and a bank balance of \$2.519 and \$2.552 million, respectively, at June 30, 2010. Of the total bank balances, \$2.900 million was exposed to custodial credit risk (amounts expressed in thousands) as follows:

Uninsured and collateral held by the pledging financial institution (but not in its trust department or agent) in the Department's name	\$ 1,213
Uninsured and collateral not held by the pledging financial institution in the Department's name	1,687
	\$ 2,900

**(b) Investments**

As of June 30, 2010, the Department had the following investments outside of the State Treasury:

	<b>Fair Value (Thousands)</b>	<b>Weighted Average Maturity (Years)</b>
<b><i>Governmental Funds</i></b>		
U.S. Treasury Notes	\$ 11	6.000
U.S. Agency Obligations	43	5.000
Illinois Public Treasurers' Investment Pool	1,079	.078 years
	\$ 1,133	

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

**Credit Risk:** The Department does not have a formal investment policy that limits investment choices. The U.S. Agency Obligations were rated Aaa by Moody's and AAA by Standard & Poor's. The Illinois Public Treasurers' Investment Pool was rated AAAM by Standard & Poor's.

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

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

<i>Governmental Activities</i>	<u>Cash and Cash Equivalents/ Deposits</u>	<u>Investments</u>
Amounts Per Note	\$ 4,724	\$ 1,133
Deposits held for investment purposes	(1,378)	1,378
Cash equivalents	134	(134)
Petty cash	33	-
<b>Amounts per Statement of Net Assets</b>	<u><u>\$ 3,513</u></u>	<u><u>\$ 2,377</u></u>
<i>Fiduciary Funds</i>	<u>Cash and Cash Equivalents/ Deposits</u>	<u>Investments</u>
Amounts Per Note	\$ 2,519	\$ -
Deposits held for investment purposes	(1,039)	1,039
Petty cash	33	-
<b>Amounts per Statement of Fiduciary Net Assets</b>	<u><u>\$ 1,513</u></u>	<u><u>\$ 1,039</u></u>

**(4) Other Receivables**

Other receivables at June 30, 2010, (expressed in thousands) consisted of the following:

<u>Revenue Source</u>	<u>Governmental Funds</u>		<u>Fiduciary Funds</u>
	<u>General Fund</u>	<u>Nonmajor Funds</u>	
Fines and fees	\$ -	\$ 1,011	\$ -
Public assistance recoveries	114	100	-
Rebates	-	13,668	-
Recipient services	475,080	23,349	1
Investment and other income	37	11	3
Total other receivables	475,231	38,139	4
Allowance for uncollectible amounts	(441,929)	(22,045)	-
<b>Other receivables, net</b>	<u><u>\$ 33,302</u></u>	<u><u>\$ 16,094</u></u>	<u><u>\$ 4</u></u>

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**(5) Securities Lending Transactions**

Under the authority of the Treasurer's published investment policy that was developed in accordance with State statute, the State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank Group to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During fiscal year 2010, Deutsche Bank Group lent U.S. agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%.

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

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

In accordance with GASB Statement No. 28, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2010 arising from securities lending agreements to the various funds of the State. The total allocated to the Department was \$22.077 million at June 30, 2010.

The total cash collateral held and the market value of securities on loan for the State Treasurer as of June 30, 2010 were \$3,107,545,325 and \$3,095,533,634, respectively.

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**(6) Interfund Balances and Activity**

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

The following balances (amounts expressed in thousands) at June 30, 2010 represent amounts due from other Department and State of Illinois funds.

<u>Fund</u>	<u>Due from</u>		<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	
General	\$ 226	\$ 128	Due from other Department funds for required transfers and expenditure reimbursements and other State funds for expenditure reimbursements.
Nonmajor governmental funds	25,582	3,403	Due from other Department funds for required transfers and expenditure reimbursements and other State funds for expenditure reimbursements.
Fiduciary	27	504	Due from other Department funds for expenditure reimbursements, and other State funds for required transfers.
	<u>\$ 25,835</u>	<u>\$ 4,035</u>	

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The following balances (amounts expressed in thousands) at June 30, 2010 represent amounts due to other Department and State of Illinois funds.

<b>Fund</b>	<b>Due to</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	\$ 25,111	\$ 19,567	\$ 27	\$ 324	Due to other Department funds and other Department fiduciary funds for expenditure reimbursements, other State funds for expenditure reimbursements, and other State fiduciary funds for postemployment benefits.
Nonmajor governmental funds	697	8,081	-	1,221	Due to other Department funds for required transfers and expenditure reimbursements, other State funds for expenditure reimbursements, and other State fiduciary funds for postemployment benefits.
	<u>\$ 25,808</u>	<u>\$ 27,648</u>	<u>\$ 27</u>	<u>\$ 1,545</u>	

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

Interfund transfers-in (amounts expressed in thousands) for the year ended June 30, 2010, 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	\$ 11	\$ 20,000	Transfer from other Department funds and other State funds pursuant to statute.
Nonmajor governmental funds	81,596	1,335	Transfers from other Department funds and other State funds pursuant to statute and annual appropriations bill.
	<u>\$ 81,607</u>	<u>\$ 21,335</u>	

Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2010, 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	\$ 60,546	\$ 13,736	Transfers to other Department funds pursuant to statute and to other State funds for State budget shortfalls and debt service requirements.
Nonmajor governmental funds	61	29,401	Transfers to other Department funds pursuant to statute.
	<u>\$ 60,607</u>	<u>\$ 43,137</u>	

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

The University of Illinois owes the Department \$150 thousand for reimbursement of advances on grant expenditures at June 30, 2010.

The following balances (amounts expressed in thousands) at June 30, 2010 represent amounts due to State of Illinois Component Units for reimbursement for expenses incurred

<u>Component Unit</u>	<u>Due to</u>	
	<u>General Fund</u>	<u>Nonmajor Governmental Fund</u>
Toll Highway Authority	\$ 1	\$ -
Chicago State University	7	80
Eastern Illinois University	21	79
Governors State University	-	19
Northeastern Illinois	2	10
Western Illinois University	-	100
Illinois State University	2	-
Northern Illinois University	5	13
Southern Illinois University	516	153
University of Illinois	1,452	5,189
	<u>\$ 2,006</u>	<u>\$ 5,643</u>

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**(7) Capital and Intangible Assets**

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2010 was as follows:

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Net Transfers</u>	<u>Balance June 30, 2010</u>
Capital assets not being depreciated:					
Land and land improvements	\$ 3,248	\$ -	\$ -	\$ -	\$ 3,248
Total capital assets not being depreciated	<u>3,248</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,248</u>
Capital assets being depreciated:					
Site improvements	109,127	300	-	56	109,483
Buildings and building improvements	659,561	161	-	12,612	672,334
Equipment	44,707	1,224	-	(2,852)	43,079
Capital leases - equipment	95	714	95	-	714
Intangible assets being amortized:					
Purchased computer software	<u>-</u>	<u>40</u>	<u>-</u>	<u>-</u>	<u>40</u>
Total capital and intangible assets being depreciated/amortized	<u>813,490</u>	<u>2,439</u>	<u>95</u>	<u>9,816</u>	<u>825,650</u>
Less accumulated depreciation:					
Site improvements	80,142	3,011	-	-	83,153
Buildings and building improvements	468,514	12,686	-	-	481,200
Equipment	34,927	1,683	-	(2,852)	33,758
Capital leases - equipment	79	427	95	-	411
Less accumulated amortization:					
Purchased computer software	<u>-</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>2</u>
Total accumulated depreciation/amortization	<u>583,662</u>	<u>17,809</u>	<u>95</u>	<u>(2,852)</u>	<u>598,524</u>
Total capital and intangible assets being depreciated/amortized, net	<u>229,828</u>	<u>(15,370)</u>	<u>-</u>	<u>12,668</u>	<u>227,126</u>
Total capital and intangible assets, net	<u>\$ 233,076</u>	<u>\$ (15,370)</u>	<u>\$ -</u>	<u>\$ 12,668</u>	<u>\$ 230,374</u>



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Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2010 was charged as follows:

Health and social services \$ 17,809

During fiscal year 2002, the Department closed the Lincoln Developmental Center which has a book value of \$10.703 million, net of \$35.643 million in accumulated depreciation. It is unknown whether the Center will be placed back into service in the future.

**(8) Long-Term Obligations**

*(a) Changes in Long-Term Obligations*

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2010, were as follows:

	<b>Balance July 1, 2009</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2010</b>	<b>Amounts Due Within One Year</b>
Other long-term obligations:					
Compensated absences	\$ 75,084	\$ 95,704	\$ 94,764	\$ 76,024	\$ 3,041
Capital lease obligations	18	714	413	319	248
Installment purchase obligations	367	86	206	247	141
<b>Total</b>	<b>\$ 75,469</b>	<b>\$ 96,504</b>	<b>\$ 95,383</b>	<b>\$ 76,590</b>	<b>\$ 3,430</b>

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

*(b) Capital lease obligations*

The Department leases office and computer equipment with a historical cost and accumulated depreciation (amounts expressed in thousands) of \$714 and \$411, respectively, under capital lease arrangements. Although lease terms vary, certain leases are renewable subject to appropriation by the General Assembly. If renewal is reasonably assured, leases requiring appropriation by the General Assembly are considered noncancelable leases for financial reporting. Future minimum lease payments (amounts expressed in thousands) at June 30, 2010 are as follows:

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**(c) Installment purchase obligations**

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011	\$ 248	\$ 13	\$ 261
2012	68	1	69
2013	3	-	3
	<u>\$ 319</u>	<u>\$ 14</u>	<u>\$ 333</u>

The Department has acquired certain office equipment, computer equipment, and other assets through installment purchase arrangements. Future debt service requirements under installment purchase contracts (amounts expressed in thousands) at June 30, 2010, are as follows:

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011	\$ 141	\$ 10	\$ 151
2012	71	4	75
2013	17	1	18
2014	18	-	18
	<u>\$ 247</u>	<u>\$ 15</u>	<u>\$ 262</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 2010 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2010. 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 2010, the employer contribution rate was 28.377%.

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June 30, 2010

**(10) Post-employment Benefits**

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

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

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

**(11) Fund Deficits**

The Vocational Rehabilitation, Federal National Community Services, Employment and Training, DHS Federal Projects, and State Projects funds, nonmajor governmental funds, had fund deficits (amounts expressed in thousands) of \$1,039, \$161, \$426, \$2,464 and \$129 respectively, at June 30, 2010. These deficits will be eliminated by future recognition of earned but unavailable revenues and from future revenues.

**(12) Risk Management**

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

**STATE OF ILLINOIS  
DEPARTMENT OF HUMAN SERVICES**

Notes to the Financial Statements

June 30, 2010

**(13) Commitments and Contingencies**

**(a) Operating leases**

The Department leases office facilities, office equipment, and computer equipment under the terms of noncancelable operating lease agreements that require the Department to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was \$15.439 million for the year ended June 30, 2010.

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

<u>Year ending June 30,</u>	<u>Amount</u>
2011	\$ 588
2012	329
2013	300
2014	300
2015	225
	<u>\$ 1,742</u>

**(b) Federal Funding**

The Department receives federal grants which are subject to review and audit by federal grantor agencies. Certain costs could be questioned as not being an eligible expenditure under the terms of the grants and subject to repayment by the Department. Generally, no provision for repayment is recorded until the federal grantor agency has determined a repayment is necessary. Identified questioned costs are reported in the State of Illinois Single Audit Report. A copy of the report may be obtained by contacting the State of Illinois Office of the Auditor General; Iles Park Plaza; 740 East Ash Street; Springfield, IL 62703-3154.

For federal grant programs in which questioned costs could be determined, the State of Illinois Single Audit Reports for the years ended June 30, 2009 and June 30, 2008 include questioned costs totaling \$30 thousand and \$60 thousand, respectively, for the Department that have not been resolved. Management of the Department disagrees with the determination of questioned costs and has provided documentation supporting their position to the federal grantor agency conducting the review. The Department expects questioned costs to be reported in the State of Illinois Single Audit Report for the year ended June 30, 2010.

**(c) Litigation**

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

**STATE OF ILLINOIS  
DEPARTMENT OF HUMAN SERVICES**

Notes to the Financial Statements

June 30, 2010

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

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

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

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

**SUPPLEMENTARY INFORMATION**

**State of Illinois**  
**Department of Human Services**

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

June 30, 2010 (Expressed in Thousands)

	General Revenue 0001	Community DD Services Medicaid Trust 0142	Care Provider Fund for Persons with a Developmental Disability 0344	Health and Human Services Medicaid Trust 0365	Community Mental Health Medicaid Trust 0718	DHS Recoveries Trust 0921	Eliminations	Total
<b>ASSETS</b>								
Unexpended appropriations	\$ 262,251	\$ -	\$ 113	\$ -	\$ -	\$ -	\$ -	\$ 262,364
Cash equity with State Treasurer	184	10,268	-	19,899	32,961	7,619	-	70,931
Cash and cash equivalents	225	-	-	-	-	-	-	225
Securities lending collateral equity with State Treasurer	-	3,709	-	6,874	6,542	-	-	17,125
Due from other government - federal	106,981	32,354	-	23,523	15,529	-	-	178,387
Due from other government - local	2,822	-	-	-	-	-	-	2,822
Other receivables, net	676	8	-	15	14	32,589	-	33,302
Due from other Department funds	26,385	-	-	-	-	-	(26,159)	226
Due from other State funds	10	-	-	118	-	-	-	128
Inventories	9,420	-	-	-	-	-	-	9,420
<b>Total assets</b>	<b>\$ 408,954</b>	<b>\$ 46,339</b>	<b>\$ 113</b>	<b>\$ 50,429</b>	<b>\$ 55,046</b>	<b>\$ 40,208</b>	<b>\$ (26,159)</b>	<b>\$ 574,930</b>
<b>LIABILITIES</b>								
Accounts payable and accrued liabilities	\$ 255,153	\$ 4,129	\$ 4,077	\$ 698	\$ 665	\$ 719	\$ -	\$ 265,441
Due to other government - federal	2,311	-	-	1	3	820	-	3,135
Due to other government - local	10,407	23	-	25	445	-	-	10,900
Due to other Department fiduciary funds	27	-	-	-	-	-	-	27
Due to other State fiduciary funds	270	-	-	2	10	42	-	324
Due to other Department funds	25,111	18,899	-	-	-	7,260	(26,159)	25,111
Due to other State funds	19,473	-	-	1	12	81	-	19,567
Due to State of Illinois component units	1,828	61	-	-	117	-	-	2,006
Unavailable revenue	31,738	3,403	-	4,113	14,466	31,286	-	85,006
Unearned revenue	35,559	-	-	-	-	-	-	35,559
Obligations under securities lending of State Treasurer	-	3,709	-	6,874	6,542	-	-	17,125
<b>Total liabilities</b>	<b>381,877</b>	<b>30,224</b>	<b>4,077</b>	<b>11,714</b>	<b>22,260</b>	<b>40,208</b>	<b>(26,159)</b>	<b>464,201</b>
<b>FUND BALANCES (DEFICITS)</b>								
Reserved for:								
Encumbrances	3,317	-	-	-	-	52	-	3,369
Inventories	9,420	-	-	-	-	-	-	9,420
Unreserved	14,340	16,115	(3,964)	38,715	32,786	(52)	-	97,940
<b>Total fund balances (deficits)</b>	<b>27,077</b>	<b>16,115</b>	<b>(3,964)</b>	<b>38,715</b>	<b>32,786</b>	<b>-</b>	<b>-</b>	<b>110,729</b>
<b>Total liabilities and fund balances (deficits)</b>	<b>\$ 408,954</b>	<b>\$ 46,339</b>	<b>\$ 113</b>	<b>\$ 50,429</b>	<b>\$ 55,046</b>	<b>\$ 40,208</b>	<b>\$ (26,159)</b>	<b>\$ 574,930</b>

**State of Illinois**  
**Department of Human Services**

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

For the Year Ended June 30, 2010 (Expressed in Thousands)

	General Revenue 0001	Community DD Services Medicaid Trust 0142	Care Provider Fund for Persons with a Developmental Disability 0344	Health and Human Services Medicaid Trust 0365	Community Mental Health Medicaid Trust 0718	DHS Recoveries Trust 0921	Eliminations	Total
<b>REVENUES</b>								
Federal operating grants	\$ 723,013	\$ 73,614	\$ -	\$ 19,410	\$ 86,803	\$ -	\$ -	\$ 902,840
Licenses and fees	85	-	-	-	-	-	-	85
Interest and investment income	-	99	-	229	106	-	-	434
Other revenues	1,034	-	-	-	-	-	-	1,034
Other charges for services	96	-	-	-	-	9,479	-	9,575
<b>Total revenues</b>	<b>724,228</b>	<b>73,713</b>	<b>-</b>	<b>19,639</b>	<b>86,909</b>	<b>9,479</b>	<b>-</b>	<b>913,968</b>
<b>EXPENDITURES</b>								
Health and social services	3,902,008	30,717	43,981	46,480	84,070	7,527	-	4,114,783
Debt service - principal	608	-	-	-	-	-	-	608
Debt service - interest	42	-	-	-	-	-	-	42
Capital outlays	1,668	-	-	-	-	-	-	1,668
<b>Total expenditures</b>	<b>3,904,326</b>	<b>30,717</b>	<b>43,981</b>	<b>46,480</b>	<b>84,070</b>	<b>7,527</b>	<b>-</b>	<b>4,117,101</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(3,180,098)</b>	<b>42,996</b>	<b>(43,981)</b>	<b>(26,841)</b>	<b>2,839</b>	<b>1,952</b>	<b>-</b>	<b>(3,203,133)</b>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>								
Appropriations from State resources	4,047,085	-	50,000	-	-	-	-	4,097,085
Lapsed appropriations	(49,839)	-	(79)	-	-	-	-	(49,918)
Receipts collected and transmitted to State Treasury	(611,700)	-	-	-	-	-	-	(611,700)
Amount of SAMS transfers-in	(99,573)	-	-	-	-	-	-	(99,573)
Amount of SAMS transfers-out	3,969	-	-	-	-	-	-	3,969
Transfers-in	20,862	-	-	20,000	-	-	(20,851)	20,011
Transfers-out	(66,449)	(18,899)	-	(6,802)	(1,031)	(1,952)	20,851	(74,282)
Capital lease and installment purchase financing	800	-	-	-	-	-	-	800
<b>Net other sources (uses) of financial resources</b>	<b>3,245,155</b>	<b>(18,899)</b>	<b>49,921</b>	<b>13,198</b>	<b>(1,031)</b>	<b>(1,952)</b>	<b>-</b>	<b>3,286,392</b>
<b>Net change in fund balances</b>	<b>65,057</b>	<b>24,097</b>	<b>5,940</b>	<b>(13,643)</b>	<b>1,808</b>	<b>-</b>	<b>-</b>	<b>83,259</b>
Fund balances (deficits), July 1, 2009	(38,814)	(7,982)	(9,904)	52,358	30,978	-	-	26,636
Increase for change in inventories	834	-	-	-	-	-	-	834
<b>FUND BALANCES (DEFICITS), JUNE 30, 2010</b>	<b>\$ 27,077</b>	<b>\$ 16,115</b>	<b>\$ (3,964)</b>	<b>\$ 38,715</b>	<b>\$ 32,786</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 110,729</b>



**State of Illinois**  
**Department of Human Services**

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

June 30, 2010 (Expressed in Thousands)

	Special Revenue								
	Prevention and Treatment of Substance Abuse Block Grant 0013	Group Home Loan Revolving 0025	Illinois Veterans' Rehabilitation 0036	Mental Health 0050	Vocational Rehabilitation 0081	Assistance to the Homeless 0100	Youth Alcoholism and Substance Abuse Prevention 0128	Mental Health Transportation 0134	Diabetes Research Check-off 0198
<b>ASSETS</b>									
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash equity with State Treasurer	8,057	48	459	12,281	5,073	63	1,029	-	44
Cash and cash equivalents	-	-	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	17	-	-	-	-	-	-	16
Investments	-	-	-	-	-	-	-	-	-
Due from other government - federal	11,399	-	-	7,112	4,718	-	-	-	-
Due from other government - local	-	-	-	-	-	-	-	-	-
Taxes receivable, net	-	-	-	246	-	-	-	-	-
Other receivables, net	-	-	-	1,974	102	-	-	-	-
Loans and notes receivable, net	-	26	-	-	-	-	-	-	-
Due from other Department funds	-	-	839	-	3,227	-	-	-	-
Due from other State funds	-	-	-	1,266	-	143	-	-	90
Due from State of Illinois component units	-	-	-	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ 19,456</b>	<b>\$ 91</b>	<b>\$ 1,298</b>	<b>\$ 22,879</b>	<b>\$ 13,120</b>	<b>\$ 206</b>	<b>\$ 1,029</b>	<b>\$ -</b>	<b>\$ 150</b>
<b>LIABILITIES</b>									
Accounts payable and accrued liabilities	\$ 18,207	\$ -	\$ 63	\$ 358	\$ 7,814	\$ -	\$ 719	\$ -	\$ -
Due to other government - federal	33	-	4	9	466	-	-	-	-
Due to other government - local	602	-	-	6	153	-	141	-	-
Due to other State fiduciary funds	-	-	16	34	487	-	-	-	-
Due to other Department funds	-	-	-	-	268	-	-	-	-
Due to other State funds	292	-	19	22	1,466	-	150	-	-
Due to State of Illinois component units	322	-	-	45	282	-	-	-	-
Unavailable revenue	-	-	-	3,754	1,467	-	-	-	-
Unearned revenue	-	-	-	-	1,756	-	-	-	-
Obligations under securities lending of State Treasurer	-	17	-	-	-	-	-	-	16
<b>Total liabilities</b>	<b>19,456</b>	<b>17</b>	<b>102</b>	<b>4,228</b>	<b>14,159</b>	<b>-</b>	<b>1,010</b>	<b>-</b>	<b>16</b>
<b>FUND BALANCES (DEFICITS)</b>									
Reserved for:									
Encumbrances	-	-	-	-	43	-	-	-	-
Long-term portion of loans and notes receivable	-	26	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Unreserved, undesignated	-	48	1,196	18,651	(1,082)	206	19	-	134
<b>Total fund balances (deficits)</b>	<b>-</b>	<b>74</b>	<b>1,196</b>	<b>18,651</b>	<b>(1,039)</b>	<b>206</b>	<b>19</b>	<b>-</b>	<b>134</b>
<b>Total liabilities and fund balances (deficits)</b>	<b>\$ 19,456</b>	<b>\$ 91</b>	<b>\$ 1,298</b>	<b>\$ 22,879</b>	<b>\$ 13,120</b>	<b>\$ 206</b>	<b>\$ 1,029</b>	<b>\$ -</b>	<b>\$ 150</b>

**State of Illinois**  
**Department of Human Services**

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

June 30, 2010 (Expressed in Thousands)

**Special Revenue**

	<b>Autism Research Check-off 0228</b>	<b>Drunk and Drugged Driving Prevention 0276</b>	<b>Federal National Community Services 0343</b>	<b>Employment and Training 0347</b>	<b>Drug Treatment 0368</b>	<b>Sexual Assault Services 0389</b>	<b>Gaining Early Awareness and Readiness for Undergraduate Programs 0394</b>	<b>DHS Special Purposes Trust 0408</b>	<b>Old Age Survivors Insurance 0495</b>
<b>ASSETS</b>									
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash equity with State Treasurer	64	287	490	99	404	87	9,542	22,621	817
Cash and cash equivalents	-	-	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	23	-	-	-	-	-	3,436	-	-
Investments	-	-	-	-	-	-	-	-	-
Due from other government - federal	-	-	1,009	19,797	-	-	118	19,938	2,590
Due from other government - local	-	-	-	-	-	-	-	-	-
Taxes receivable, net	-	-	-	-	-	-	-	-	-
Other receivables, net	-	-	-	-	-	-	7	2	-
Loans and notes receivable, net	-	-	-	-	-	-	-	-	-
Due from other Department funds	-	-	-	-	-	-	-	-	-
Due from other State funds	-	-	-	-	-	-	-	178	-
Due from State of Illinois component units	-	-	-	-	-	-	-	127	-
<b>Total assets</b>	<b>\$ 87</b>	<b>\$ 287</b>	<b>\$ 1,499</b>	<b>\$ 19,896</b>	<b>\$ 404</b>	<b>\$ 87</b>	<b>\$ 13,103</b>	<b>\$ 42,866</b>	<b>\$ 3,407</b>
<b>LIABILITIES</b>									
Accounts payable and accrued liabilities	\$ -	\$ 208	\$ 1,209	\$ 19,167	\$ -	\$ 18	\$ 96	\$ 21,303	\$ 2,117
Due to other government - federal	-	2	-	-	-	-	-	42	101
Due to other government - local	-	11	208	82	-	-	4	3,693	1
Due to other State fiduciary funds	-	6	2	-	-	-	-	166	389
Due to other Department funds	-	-	-	-	-	-	-	-	-
Due to other State funds	-	31	5	-	-	-	2	1,192	799
Due to State of Illinois component units	-	-	80	147	-	-	50	2,326	-
Unavailable revenue	-	-	156	424	-	-	-	1,840	-
Unearned revenue	-	-	-	502	-	-	9,025	12,203	-
Obligations under securities lending of State Treasurer	23	-	-	-	-	-	3,436	-	-
<b>Total liabilities</b>	<b>23</b>	<b>258</b>	<b>1,660</b>	<b>20,322</b>	<b>-</b>	<b>18</b>	<b>12,613</b>	<b>42,765</b>	<b>3,407</b>
<b>FUND BALANCES (DEFICITS)</b>									
Reserved for:									
Encumbrances	-	53	-	-	-	-	-	-	-
Long-term portion of loans and notes receivable	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Unreserved, undesignated	64	(24)	(161)	(426)	404	69	490	101	-
<b>Total fund balances (deficits)</b>	<b>64</b>	<b>29</b>	<b>(161)</b>	<b>(426)</b>	<b>404</b>	<b>69</b>	<b>490</b>	<b>101</b>	<b>-</b>
<b>Total liabilities and fund balances (deficits)</b>	<b>\$ 87</b>	<b>\$ 287</b>	<b>\$ 1,499</b>	<b>\$ 19,896</b>	<b>\$ 404</b>	<b>\$ 87</b>	<b>\$ 13,103</b>	<b>\$ 42,866</b>	<b>\$ 3,407</b>

State of Illinois  
Department of Human Services

Combining Balance Sheet -  
Non-major Governmental Funds

June 30, 2010 (Expressed in Thousands)

Special Revenue

	Early Intervention Services Revolving 0502	Domestic Violence Abuser Services 0528	DHS Federal Projects 0592	Multiple Sclerosis Assistance 0604	State Projects 0642	Alcoholism and Substance Abuse 0646	FY 09 Budget Relief 0678	DHS Private Resources 0690	U.S.D.A. Women Infants and Children 0700	Tobacco Settlement Recovery 0733
<b>ASSETS</b>										
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 51
Cash equity with State Treasurer	10,311	45	2,284	-	278	776	-	2,664	1,889	-
Cash and cash equivalents	-	-	-	-	-	-	-	-	1,787	-
Securities lending collateral equity with State Treasurer	1,290	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	-	-
Due from other government - federal	9,856	-	3,207	-	-	1,573	-	-	103	-
Due from other government - local	-	-	-	-	-	-	-	-	-	-
Taxes receivable, net	-	-	-	-	-	-	-	-	-	-
Other receivables, net	116	-	-	-	-	-	-	-	13,569	-
Loans and notes receivable, net	-	-	-	-	-	-	-	-	-	-
Due from other Department funds	21,000	-	224	-	-	-	-	-	-	-
Due from other State funds	37	-	59	-	550	-	-	1,000	36	-
Due from State of Illinois component units	-	-	23	-	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ 42,610</b>	<b>\$ 45</b>	<b>\$ 5,797</b>	<b>\$ -</b>	<b>\$ 828</b>	<b>\$ 2,349</b>	<b>\$ -</b>	<b>\$ 3,664</b>	<b>\$ 17,384</b>	<b>\$ 51</b>
<b>LIABILITIES</b>										
Accounts payable and accrued liabilities	\$ 27,764	\$ -	\$ 2,698	\$ -	\$ 89	\$ 1,452	\$ -	\$ 22	\$ 11,109	\$ 48
Due to other government - federal	3	-	3	-	-	-	-	-	11	-
Due to other government - local	582	-	1,152	-	548	135	-	-	4,765	3
Due to other State fiduciary funds	16	-	11	-	-	1	-	-	43	-
Due to other Department funds	-	-	2	-	-	-	-	-	-	-
Due to other State funds	97	-	3,087	-	317	2	-	-	184	-
Due to State of Illinois component units	198	-	190	-	-	71	-	-	15	-
Unavailable revenue	6,922	-	352	-	-	-	-	-	-	-
Unearned revenue	3,484	-	766	-	3	688	-	3,642	1,257	-
Obligations under securities lending of State Treasurer	1,290	-	-	-	-	-	-	-	-	-
<b>Total liabilities</b>	<b>40,356</b>	<b>-</b>	<b>8,261</b>	<b>-</b>	<b>957</b>	<b>2,349</b>	<b>-</b>	<b>3,664</b>	<b>17,384</b>	<b>51</b>
<b>FUND BALANCES (DEFICITS)</b>										
Reserved for:										
Encumbrances	-	-	-	-	758	11	-	37	1	-
Long-term portion of loans and notes receivable	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Unreserved, undesignated	2,254	45	(2,464)	-	(887)	(11)	-	(37)	(1)	-
<b>Total fund balances (deficits)</b>	<b>2,254</b>	<b>45</b>	<b>(2,464)</b>	<b>-</b>	<b>(129)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total liabilities and fund balances (deficits)</b>	<b>\$ 42,610</b>	<b>\$ 45</b>	<b>\$ 5,797</b>	<b>\$ -</b>	<b>\$ 828</b>	<b>\$ 2,349</b>	<b>\$ -</b>	<b>\$ 3,664</b>	<b>\$ 17,384</b>	<b>\$ 51</b>

**State of Illinois**  
**Department of Human Services**

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

June 30, 2010 (Expressed in Thousands)

	Special Revenue									
	Local Initiative 0762	Rehabilitation Services Elementary and Secondary Education Act 0798	Domestic Violence Shelter and Service 0865	Maternal and Child Health Services Block Grant 0872	Preventive Health and Health Services Block Grant 0873	Community Mental Health Services Block Grant 0876	Youth Drug Abuse Prevention 0910	Juvenile Justice Trust 0911	DHS Other Special Trusts 1139	
<b>ASSETS</b>										
Unexpended appropriations	\$ -	\$ -	\$ -	\$ 3,035	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash equity with State Treasurer	4,377	597	573	-	-	104	143	706	-	-
Cash and cash equivalents	-	-	-	-	-	-	-	-	607	-
Securities lending collateral equity with State Treasurer	-	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	1,055	-
Due from other government - federal	-	-	-	3,850	-	-	-	3	-	-
Due from other government - local	-	-	-	-	-	-	-	-	350	-
Taxes receivable, net	-	-	-	-	-	-	-	-	-	-
Other receivables, net	-	-	-	-	-	-	-	-	3	-
Loans and notes receivable, net	-	-	-	-	-	-	-	-	-	-
Due from other Department funds	-	2	-	-	-	-	-	-	-	-
Due from other State funds	-	43	-	-	-	-	-	1	-	-
Due from State of Illinois component units	-	-	-	-	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ 4,377</b>	<b>\$ 642</b>	<b>\$ 573</b>	<b>\$ 6,885</b>	<b>\$ -</b>	<b>\$ 104</b>	<b>\$ 143</b>	<b>\$ 710</b>	<b>\$ 2,015</b>	<b>\$ -</b>
<b>LIABILITIES</b>										
Accounts payable and accrued liabilities	\$ 1,913	\$ 73	\$ 38	\$ 514	\$ -	\$ 39	\$ 79	\$ 141	\$ -	\$ -
Due to other government - federal	1	-	-	9	-	2	-	1	-	-
Due to other government - local	480	13	-	723	-	-	-	23	-	-
Due to other State fiduciary funds	5	-	-	36	-	7	-	2	-	-
Due to other Department funds	-	-	-	-	-	-	-	-	-	-
Due to other State funds	60	182	4	41	-	17	-	112	-	-
Due to State of Illinois component units	72	-	-	1,835	-	-	-	10	-	-
Unavailable revenue	-	-	-	-	-	-	-	-	350	-
Unearned revenue	1,846	-	-	1,033	-	39	-	421	-	-
Obligations under securities lending of State Treasurer	-	-	-	-	-	-	-	-	-	-
<b>Total liabilities</b>	<b>4,377</b>	<b>268</b>	<b>42</b>	<b>4,191</b>	<b>-</b>	<b>104</b>	<b>79</b>	<b>710</b>	<b>350</b>	<b>-</b>
<b>FUND BALANCES (DEFICITS)</b>										
Reserved for:										
Encumbrances	-	-	51	-	-	-	-	-	-	-
Long-term portion of loans and notes receivable	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Unreserved, undesignated	-	374	480	2,694	-	-	64	-	1,665	-
<b>Total fund balances (deficits)</b>	<b>-</b>	<b>374</b>	<b>531</b>	<b>2,694</b>	<b>-</b>	<b>-</b>	<b>64</b>	<b>-</b>	<b>1,665</b>	<b>-</b>
<b>Total liabilities and fund balances (deficits)</b>	<b>\$ 4,377</b>	<b>\$ 642</b>	<b>\$ 573</b>	<b>\$ 6,885</b>	<b>\$ -</b>	<b>\$ 104</b>	<b>\$ 143</b>	<b>\$ 710</b>	<b>\$ 2,015</b>	<b>\$ -</b>

**State of Illinois**  
**Department of Human Services**

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

June 30, 2010 (Expressed in Thousands)

	Special Revenue						Permanent Trust		
	DHS Commissary Funds	DHS Rehabilitation	DHS/DORS Special Revenue	Food Stamp and Commodity	Vending Facility Program for the Blind	Assets for Independence	DHS/DORS Permanent Trust	Burr Bequest	Total
	1140	1144	1149	1245	1385	1391	1150	1272	
<b>ASSETS</b>									
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,086
Cash equity with State Treasurer	-	-	-	-	-	-	-	-	86,212
Cash and cash equivalents	10	53	107	-	116	446	69	93	3,288
Securities lending collateral equity with State Treasurer	-	-	-	-	-	-	-	-	4,782
Investments	-	-	37	-	-	-	340	945	2,377
Due from other government - federal	-	-	-	-	-	-	-	-	85,273
Due from other government - local	-	-	75	-	-	-	-	-	425
Taxes receivable, net	-	-	-	-	-	-	-	-	246
Other receivables, net	-	15	2	-	304	-	-	-	16,094
Loans and notes receivable, net	-	-	-	-	408	-	-	-	434
Due from other Department funds	-	-	216	-	-	74	-	-	25,582
Due from other State funds	-	-	-	-	-	-	-	-	3,403
Due from State of Illinois component units	-	-	-	-	-	-	-	-	150
<b>Total assets</b>	<b>\$ 10</b>	<b>\$ 68</b>	<b>\$ 437</b>	<b>\$ -</b>	<b>\$ 828</b>	<b>\$ 520</b>	<b>\$ 409</b>	<b>\$ 1,038</b>	<b>\$ 231,352</b>
<b>LIABILITIES</b>									
Accounts payable and accrued liabilities	\$ -	\$ 4	\$ -	\$ -	\$ 278	\$ -	\$ -	\$ -	\$ 117,540
Due to other government - federal	-	2	-	-	-	-	-	-	689
Due to other government - local	-	-	-	-	-	-	-	-	13,325
Due to other State fiduciary funds	-	-	-	-	-	-	-	-	1,221
Due to other Department funds	3	-	-	-	-	224	200	-	697
Due to other State funds	-	-	-	-	-	-	-	-	8,081
Due to State of Illinois component units	-	-	-	-	-	-	-	-	5,643
Unavailable revenue	-	-	-	-	-	-	-	-	15,265
Unearned revenue	3	-	-	-	-	-	-	-	36,668
Obligations under securities lending of State Treasurer	-	-	-	-	-	-	-	-	4,782
<b>Total liabilities</b>	<b>6</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>278</b>	<b>224</b>	<b>200</b>	<b>-</b>	<b>203,911</b>
<b>FUND BALANCES (DEFICITS)</b>									
Reserved for:									
Encumbrances	-	-	-	-	-	-	-	-	954
Long-term portion of loans and notes receivable	-	-	-	-	408	-	-	-	434
Other	-	-	-	-	-	-	209	945	1,154
Unreserved, undesignated	4	62	437	-	142	296	-	93	24,899
<b>Total fund balances (deficits)</b>	<b>4</b>	<b>62</b>	<b>437</b>	<b>-</b>	<b>550</b>	<b>296</b>	<b>209</b>	<b>1,038</b>	<b>27,441</b>
<b>Total liabilities and fund balances (deficits)</b>	<b>\$ 10</b>	<b>\$ 68</b>	<b>\$ 437</b>	<b>\$ -</b>	<b>\$ 828</b>	<b>\$ 520</b>	<b>\$ 409</b>	<b>\$ 1,038</b>	<b>\$ 231,352</b>

State of Illinois  
Department of Human Services

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

For the Year Ended June 30, 2010 (Expressed in Thousands)

	Special Revenue							
	Prevention and Treatment of Alcoholism and Substance Abuse Block Grant 0013	Group Home Loan Revolving 0025	Illinois Veterans' Rehabilitation 0036	Mental Health 0050	Vocational Rehabilitation 0081	Assistance to the Homeless 0100	Youth Alcoholism and Substance Abuse Prevention 0128	Mental Health Transportation 0134
<b>REVENUES</b>								
Federal operating grants	\$ 70,104	\$ -	\$ -	\$ -	\$ 100,216	\$ -	\$ -	\$ -
Licenses and fees	-	-	-	-	-	-	-	-
Interest and investment income	-	-	-	-	-	-	-	-
Other charges for services	-	-	-	32,150	1,636	-	-	-
Other taxes	-	-	-	1,115	-	-	-	-
Other operating grants	-	-	-	-	-	-	-	-
Other	-	-	-	-	6	-	-	-
<b>Total revenues</b>	<b>70,104</b>	<b>-</b>	<b>-</b>	<b>33,265</b>	<b>101,858</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>EXPENDITURES</b>								
Health and social services	70,085	-	4,633	32,418	104,173	292	1,057	-
Debt service - principal	-	-	-	-	11	-	-	-
Capital outlays	-	-	-	-	544	-	-	-
<b>Total expenditures</b>	<b>70,085</b>	<b>-</b>	<b>4,633</b>	<b>32,418</b>	<b>104,728</b>	<b>292</b>	<b>1,057</b>	<b>-</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>19</b>	<b>-</b>	<b>(4,633)</b>	<b>847</b>	<b>(2,870)</b>	<b>(292)</b>	<b>(1,057)</b>	<b>-</b>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>								
Appropriations from State resources	-	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	-
Transfers-in	-	19	4,763	-	105	158	1,071	-
Transfers-out	(19)	-	-	(24,560)	-	(14)	-	(1)
<b>Net other sources (uses) of financial resources</b>	<b>(19)</b>	<b>19</b>	<b>4,763</b>	<b>(24,560)</b>	<b>105</b>	<b>144</b>	<b>1,071</b>	<b>(1)</b>
<b>Net change in fund balances</b>	<b>-</b>	<b>19</b>	<b>130</b>	<b>(23,713)</b>	<b>(2,765)</b>	<b>(148)</b>	<b>14</b>	<b>(1)</b>
Fund balances (deficits), July 1, 2009	-	55	1,066	42,364	1,726	354	5	1
<b>FUND BALANCES (DEFICITS), JUNE 30, 2010</b>	<b>\$ -</b>	<b>\$ 74</b>	<b>\$ 1,196</b>	<b>\$ 18,651</b>	<b>\$ (1,039)</b>	<b>\$ 206</b>	<b>\$ 19</b>	<b>\$ -</b>

State of Illinois  
Department of Human Services

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

For the Year Ended June 30, 2010 (Expressed in Thousands)

	Special Revenue							
	Diabetes Research Check-off 0198	Autism Research Check-off 0228	Drunk and Drugged Driving Prevention 0276	Federal National Community Services 0343	Employment and Training 0347	Drug Treatment 0368	Sexual Assault Services 0389	Gaining Early Awareness and Readiness for Undergraduate Programs 0394
<b>REVENUES</b>								
Federal operating grants	\$ -	\$ -	\$ -	\$ 9,267	\$ 57,210	\$ -	\$ -	\$ 1,477
Licenses and fees	-	-	1,816	-	-	-	-	-
Interest and investment income	1	-	-	-	-	-	-	56
Other charges for services	-	-	-	-	-	-	61	-
Other taxes	-	-	-	-	-	-	-	-
Other operating grants	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	3,836	-	-
<b>Total revenues</b>	<b>1</b>	<b>-</b>	<b>1,816</b>	<b>9,267</b>	<b>57,210</b>	<b>3,836</b>	<b>61</b>	<b>1,533</b>
<b>EXPENDITURES</b>								
Health and social services	100	-	1,836	9,274	57,598	8	30	1,478
Debt service - principal	-	-	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-	-	-
<b>Total expenditures</b>	<b>100</b>	<b>-</b>	<b>1,836</b>	<b>9,274</b>	<b>57,598</b>	<b>8</b>	<b>30</b>	<b>1,478</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(99)</b>	<b>-</b>	<b>(20)</b>	<b>(7)</b>	<b>(388)</b>	<b>3,828</b>	<b>31</b>	<b>55</b>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>								
Appropriations from State resources	-	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	-
Transfers-in	99	-	-	-	-	-	-	-
Transfers-out	(9)	-	-	-	-	(4,400)	-	(15)
<b>Net other sources (uses) of financial resources</b>	<b>90</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,400)</b>	<b>-</b>	<b>(15)</b>
<b>Net change in fund balances</b>	<b>(9)</b>	<b>-</b>	<b>(20)</b>	<b>(7)</b>	<b>(388)</b>	<b>(572)</b>	<b>31</b>	<b>40</b>
Fund balances (deficits), July 1, 2009	143	64	49	(154)	(38)	976	38	450
<b>FUND BALANCES (DEFICITS), JUNE 30, 2010</b>	<b>\$ 134</b>	<b>\$ 64</b>	<b>\$ 29</b>	<b>\$ (161)</b>	<b>\$ (426)</b>	<b>\$ 404</b>	<b>\$ 69</b>	<b>\$ 490</b>

**State of Illinois**  
**Department of Human Services**

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

For the Year Ended June 30, 2010 (Expressed in Thousands)

	Special Revenue							
	DHS Special Purposes Trust 0408	Old Age Survivors Insurance 0495	Early Intervention Services Revolving 0502	Domestic Violence Abuser Services 0528	DHS Federal Projects 0592	Multiple Sclerosis Assistance 0604	State Projects 0642	Alcoholism and Substance Abuse 0646
<b>REVENUES</b>								
Federal operating grants	\$ 228,428	\$ 74,927	\$ 67,778	\$ -	\$ 21,477	\$ -	\$ 46	\$ 14,223
Licenses and fees	-	-	2,731	-	-	-	-	-
Interest and investment income	-	-	23	-	-	-	-	-
Other charges for services	-	-	-	28	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-
Other operating grants	-	-	-	-	-	-	-	208
Other	7	-	378	-	-	-	(95)	18
<b>Total revenues</b>	<b>228,435</b>	<b>74,927</b>	<b>70,910</b>	<b>28</b>	<b>21,477</b>	<b>-</b>	<b>(49)</b>	<b>14,449</b>
<b>EXPENDITURES</b>								
Health and social services	228,696	74,927	143,127	-	24,646	78	(114)	14,390
Debt service - principal	-	-	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-	-	-
<b>Total expenditures</b>	<b>228,696</b>	<b>74,927</b>	<b>143,127</b>	<b>-</b>	<b>24,646</b>	<b>78</b>	<b>(114)</b>	<b>14,390</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(261)</b>	<b>-</b>	<b>(72,217)</b>	<b>28</b>	<b>(3,169)</b>	<b>(78)</b>	<b>65</b>	<b>59</b>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>								
Appropriations from State resources	-	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	-
Transfers-in	-	-	76,709	-	-	7	-	-
Transfers-out	-	-	-	(12)	-	(6)	(194)	-
<b>Net other sources (uses) of financial resources</b>	<b>-</b>	<b>-</b>	<b>76,709</b>	<b>(12)</b>	<b>-</b>	<b>1</b>	<b>(194)</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(261)</b>	<b>-</b>	<b>4,492</b>	<b>16</b>	<b>(3,169)</b>	<b>(77)</b>	<b>(129)</b>	<b>59</b>
Fund balances (deficits), July 1, 2009	362	-	(2,238)	29	705	77	-	(59)
<b>FUND BALANCES (DEFICITS), JUNE 30, 2010</b>	<b>\$ 101</b>	<b>\$ -</b>	<b>\$ 2,254</b>	<b>\$ 45</b>	<b>\$ (2,464)</b>	<b>\$ -</b>	<b>\$ (129)</b>	<b>\$ -</b>



State of Illinois  
Department of Human Services

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

For the Year Ended June 30, 2010 (Expressed in Thousands)

	Special Revenue							
	FY 09 Budget Relief 0678	DHS Private Resources 0690	U.S.D.A. Women Infants and Children 0700	Tobacco Settlement Recovery 0733	Local Initiative 0762	Rehabilitation Services Elementary and Secondary Education Act 0798	Domestic Violence Shelter and Service 0865	Maternal and Child Health Services Block Grant 0872
<b>REVENUES</b>								
Federal operating grants	\$ -	\$ -	\$ 224,122	\$ -	\$ 20,261	\$ 457	\$ -	\$ 18,917
Licenses and fees	-	-	-	-	-	-	-	-
Interest and investment income	-	-	1	-	-	-	-	-
Other charges for services	-	-	-	-	-	-	716	-
Other taxes	-	-	-	-	-	-	-	-
Other operating grants	-	-	-	-	-	40	-	-
Other	-	453	-	-	-	-	-	-
<b>Total revenues</b>	-	453	224,123	-	20,261	497	716	18,917
<b>EXPENDITURES</b>								
Health and social services	10	453	224,123	2,369	20,261	199	540	18,917
Debt service - principal	-	-	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	227	-	-
<b>Total expenditures</b>	10	453	224,123	2,369	20,261	426	540	18,917
<b>Excess (deficiency) of revenues over (under) expenditures</b>	(10)	-	-	(2,369)	-	71	176	-
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>								
Appropriations from State resources	-	-	-	2,368	-	-	-	28,321
Lapsed appropriations	-	-	-	-	-	-	-	(9,521)
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	(17,659)
Transfers-in	-	-	-	-	-	-	-	-
Transfers-out	-	-	-	-	-	-	(56)	-
<b>Net other sources (uses) of financial resources</b>	-	-	-	2,368	-	-	(56)	1,141
<b>Net change in fund balances</b>	(10)	-	-	(1)	-	71	120	1,141
Fund balances (deficits), July 1, 2009	10	-	-	1	-	303	411	1,553
<b>FUND BALANCES (DEFICITS), JUNE 30, 2010</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 374	\$ 531	\$ 2,694

State of Illinois  
Department of Human Services

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

For the Year Ended June 30, 2010 (Expressed in Thousands)

	Special Revenue								
	Preventive Health and Health Services Block Grant 0873	Community Mental Health Services Block Grant 0876	Youth Drug Abuse Prevention 0910	Juvenile Justice Trust 0911	DHS Other Special Trusts 1139	DHS Commissary Funds 1140	DHS Rehabilitation 1144	DHS/DORS Special Revenue 1149	Food Stamp and Commodity 1245
<b>REVENUES</b>									
Federal operating grants	\$ -	\$ 15,730	\$ -	\$ 1,527	\$ 283	\$ -	\$ -	\$ -	\$ 2,713,161
Licenses and fees	-	-	-	-	-	-	-	-	-
Interest and investment income	-	-	-	-	33	-	-	-	-
Other charges for services	-	-	395	-	-	52	-	-	-
Other taxes	-	-	-	-	-	-	-	-	-
Other operating grants	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	550	-	250	357	-
<b>Total revenues</b>	-	15,730	395	1,527	866	52	250	357	2,713,161
<b>EXPENDITURES</b>									
Health and social services	-	15,730	219	1,527	1,097	43	270	394	2,713,161
Debt service - principal	-	-	-	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-	-	-	-
<b>Total expenditures</b>	-	15,730	219	1,527	1,097	43	270	394	2,713,161
<b>Excess (deficiency) of revenues over (under) expenditures</b>	-	-	176	-	(231)	9	(20)	(37)	-
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>									
Appropriations from State resources	1,500	-	-	-	-	-	-	-	-
Lapsed appropriations	(1,500)	-	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	-	-
Transfers-in	-	-	-	-	6	-	-	(80)	-
Transfers-out	-	-	(134)	-	-	(11)	(6)	-	-
<b>Net other sources (uses) of financial resources</b>	-	-	(134)	-	6	(11)	(6)	(80)	-
<b>Net change in fund balances</b>	-	-	42	-	(225)	(2)	(26)	(117)	-
Fund balances (deficits), July 1, 2009	-	-	22	-	1,890	6	88	554	-
<b>FUND BALANCES (DEFICITS), JUNE 30, 2010</b>	\$ -	\$ -	\$ 64	\$ -	\$ 1,665	\$ 4	\$ 62	\$ 437	\$ -

**State of Illinois**  
**Department of Human Services**

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

For the Year Ended June 30, 2010 (Expressed in Thousands)

	Special Revenue		Permanent Trust		Total
	Vending Facility Program for the Blind 1385	Assets for Independence 1391	DHS/DORS Permanent Trust 1150	Burr Bequest 1272	
<b>REVENUES</b>					
Federal operating grants	\$ -	\$ 64	\$ -	\$ -	\$ 3,639,675
Licenses and fees	-	-	-	-	4,547
Interest and investment income	-	-	18	1	133
Other charges for services	571	-	-	-	35,609
Other taxes	-	-	-	-	1,115
Other operating grants	-	-	-	-	248
Other	292	13	-	-	6,065
<b>Total revenues</b>	<b>863</b>	<b>77</b>	<b>18</b>	<b>1</b>	<b>3,687,392</b>
<b>EXPENDITURES</b>					
Health and social services	748	142	33	7	3,768,975
Debt service - principal	-	-	-	-	11
Capital outlays	-	-	-	-	771
<b>Total expenditures</b>	<b>748</b>	<b>142</b>	<b>33</b>	<b>7</b>	<b>3,769,757</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>115</b>	<b>(65)</b>	<b>(15)</b>	<b>(6)</b>	<b>(82,365)</b>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>					
Appropriations from State resources	-	-	-	-	32,189
Lapsed appropriations	-	-	-	-	(11,021)
Receipts collected and transmitted to State Treasury	-	-	-	-	(17,659)
Transfers-in	-	74	-	-	82,931
Transfers-out	(105)	-	80	-	(29,462)
<b>Net other sources (uses) of financial resources</b>	<b>(105)</b>	<b>74</b>	<b>80</b>	<b>-</b>	<b>56,978</b>
<b>Net change in fund balances</b>	<b>10</b>	<b>9</b>	<b>65</b>	<b>(6)</b>	<b>(25,387)</b>
Fund balances (deficits), July 1, 2009	540	287	144	1,044	52,828
<b>FUND BALANCES (DEFICITS), JUNE 30, 2010</b>	<b>\$ 550</b>	<b>\$ 296</b>	<b>\$ 209</b>	<b>\$ 1,038</b>	<b>\$ 27,441</b>

**State of Illinois**  
**Department of Human Services**

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

June 30, 2010 (Expressed in Thousands)

	<u>Agency</u>			Total
	Electronic Benefits Transfers 0540	DHS Resident's Trust 1143	DHS/DORS Agency 1147	
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ 1,507	\$ 6	\$ 1,513
Investments	-	1,024	15	1,039
Other receivables, net	-	3	1	4
Due from other Department funds	-	1	26	27
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 2,535</b>	<b>\$ 48</b>	<b>\$ 2,583</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 48	\$ 48
Other liabilities	-	2,535	-	2,535
<b>Total liabilities</b>	<b>\$ -</b>	<b>\$ 2,535</b>	<b>\$ 48</b>	<b>\$ 2,583</b>

**State of Illinois**  
**Department of Human Services**

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

For the Year Ended June 30, 2010 (Expressed in Thousands)

	Balance at June 30, 2009		Additions	Deletions	Balance at June 30, 2010	
<b>Electronic Benefits Transfers (0540)</b>						
<b>ASSETS</b>						
Cash equity with State Treasurer	\$	-	\$ 148,152	\$	148,152	\$ -
<b>Total assets</b>	<b>\$</b>	<b>-</b>	<b>\$ 148,152</b>	<b>\$</b>	<b>148,152</b>	<b>\$ -</b>
<b>LIABILITIES</b>						
Other liabilities	\$	-	\$ 148,152	\$	148,152	\$ -
<b>Total liabilities</b>	<b>\$</b>	<b>-</b>	<b>\$ 148,152</b>	<b>\$</b>	<b>148,152</b>	<b>\$ -</b>
<b>DHS Resident's Trust (1143)</b>						
<b>ASSETS</b>						
Cash and cash equivalents	\$	1,279	\$ 17,661	\$	17,433	\$ 1,507
Investments		1,079	-		55	1,024
Due from other government - federal		36	15,147		15,183	-
Other receivables, net		17	158		172	3
Due from other Department funds		-	1		-	1
<b>Total assets</b>	<b>\$</b>	<b>2,411</b>	<b>\$ 32,967</b>	<b>\$</b>	<b>32,843</b>	<b>\$ 2,535</b>
<b>LIABILITIES</b>						
Other liabilities	\$	2,411	\$ 17,557	\$	17,433	\$ 2,535
<b>Total liabilities</b>	<b>\$</b>	<b>2,411</b>	<b>\$ 17,557</b>	<b>\$</b>	<b>17,433</b>	<b>\$ 2,535</b>
<b>DHS/DORS Agency (1147)</b>						
<b>ASSETS</b>						
Cash and cash equivalents	\$	31	\$ 290	\$	315	\$ 6
Investments		15	-		-	15
Other receivables, net		1	2		2	1
Due from other Department funds		7	60		41	26
<b>Total assets</b>	<b>\$</b>	<b>54</b>	<b>\$ 352</b>	<b>\$</b>	<b>358</b>	<b>\$ 48</b>
<b>LIABILITIES</b>						
Accounts payable and accrued liabilities	\$	54	\$ 309	\$	315	\$ 48
<b>Total liabilities</b>	<b>\$</b>	<b>54</b>	<b>\$ 309</b>	<b>\$</b>	<b>315</b>	<b>\$ 48</b>
<b>Total - All Agency Funds</b>						
<b>ASSETS</b>						
Cash equity with State Treasurer	\$	-	\$ 148,152	\$	148,152	\$ -
Cash and cash equivalents		1,310	17,951		17,748	1,513
Investments		1,094	-		55	1,039
Due from other government - federal		36	15,147		15,183	-
Other receivables, net		18	160		174	4
Due from other Department funds		7	61		41	27
<b>Total assets</b>	<b>\$</b>	<b>2,465</b>	<b>\$ 181,471</b>	<b>\$</b>	<b>181,353</b>	<b>\$ 2,583</b>
<b>LIABILITIES</b>						
Accounts payable and accrued liabilities	\$	54	\$ 309	\$	315	\$ 48
Other liabilities		2,411	165,709		165,585	2,535
<b>Total liabilities</b>	<b>\$</b>	<b>2,465</b>	<b>\$ 166,018</b>	<b>\$</b>	<b>165,900</b>	<b>\$ 2,583</b>



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

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Human Services (the Department), as of and for the year ended June 30, 2010, which collectively comprise the Department's basic financial statements and have issued our report thereon dated March 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Department's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the combination of deficiencies described in finding 10-1 in the accompanying schedule of findings to be a material weakness.

A *significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in findings 10-2 through 10-4 in the accompanying schedule of findings to be significant deficiencies.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 finding 10-5.

We noted certain matters that we reported to management of the Department in a separate letter dated March 31, 2011.

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

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

*Schick LLP*

Springfield, Illinois  
March 31, 2011

**STATE OF ILLINOIS  
DEPARTMENT OF HUMAN SERVICES**

**SCHEDULE OF FINDINGS**

**June 30, 2010**

**FINDINGS (GOVERNMENT AUDITING STANDARDS)**

**10-1 FINDING:** (Weaknesses in preparation of GAAP reporting forms submitted to the Illinois Office of the Comptroller and preparation of year-end Department financial statements)

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

During the audit of the June 30, 2010 Department financial statements, the following exceptions were noted:

- GAAP reporting packages contained numerous inaccuracies and required corrections which delayed audit testing of the financial statements and the Schedule of Federal Awards prepared by the Department. As of February 10, 2011, the Department was still communicating corrections to the auditors that had been discovered in the preparation of the GAAP packages requiring revisions to financial reporting. Auditors did not receive the final draft of the financial statements from the Department until February 22, 2011, approximately five months late.
- Current year expenditures were overstated for four programs in the General Revenue Fund (0001) as follows.

<u>CFDA Number</u>	<u>Program</u>	<u>Overstatement (in thousands)</u>
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	\$ 4,250
93.667	Social Services Block Grant	3,583
93.558	Temporary Assistance for Need Families	345
93.575	Child Care and Development Block Grant	3,908

The Department overstated these program expenditures due to understating expenditures for fiscal year 2009 by the same amounts for the same programs. The overstatement was reported in order to adjust the fund financial statements to



correct ending amounts for fiscal year 2010. The Grant/Contract Analysis Form (SCO-563) and Schedule of Expenditures of Federal Awards were revised to correct the misstatement.

- During testing of liabilities reported on the Interfund Activity – Grantor Agency (SCO-568) for the General Revenue Fund (0001), auditors noted amounts that were duplicated. As a result, an adjusting entry in the amount of \$23.420 million was proposed by the auditors and made by the Department to correct the misstatement.
- The Department did not record prepaid expenses in the General Revenue Fund (0001) totaling \$1.169 million. The Department made grant payments in advance which were determined to be unearned as of June 30, 2010; however, it was overlooked during the preparation of the fund reporting package.
- Receivable totaling \$11.889 million in the U.S.D.A. Women, Infants and Children Fund (0700) were not recorded or considered when completing the fund reporting package. As a result, current year expenditures were overstated by this amount. The Department receives rebates related to infant formula sales, which offset expenditures for financial reporting purposes. The May and June rebates relating to fiscal year 2010 expenditures were available to drawdown from the vendor during the lapse period. However, the Department did not initiate the transfer until September 17, 2010. As the funds were available during the lapse period, the receivables for the fund should have been recorded. This resulted in the auditors proposing a material adjustment to correct the misstatement. In addition, the Grant/Contract Analysis Form (SCO-563) was revised as a result of the adjustment.
- Expenditures as originally reported for the Rehabilitation Services program (Vocational Rehabilitation Grants to States (84.126)) were understated by \$12.521 million. During preparation of the fund reporting package, lapse period expenditures originally were not included. The Department identified the error and submitted an updated Grant/Contract Analysis Form (SCO-563) to the Comptroller. Upon subsequent completion of the final reconciliation of expenditures for the program, the Department noted amounts utilized to prepare the analysis of expenditures for the fund were not accurate. As a result, the Grant/Contract Analysis Form (SCO-563) required a second revision to reduce expenditures by \$5 million.
- The Department transferred \$15 thousand from the Gaining Early Awareness and Readiness for Undergraduate Programs Fund (0394) (a federal trust fund) to the General Revenue Fund (0001) in violation of federal requirements for expenditures from Fund 0394. The purpose of the 0394 Fund is for federal receipts and expenditures pursuant to the federal Gaining Early Awareness and Readiness for Undergraduate Program (Program). This transfer was in violation of the terms of the Program. The Department did not seek to restore these funds to fund 0394 and did not record an interfund receivable for \$15 thousand due from the General Revenue Fund.

- Auditors noted the Department had not properly accounted for prior or current year liabilities related to the Children’s Health Insurance Program (93.767), the Medical Assistance Program (93.778), and the Medical Assistance Program (ARRA) (93.778). As a result, the current year expenditures on the Grant/Contract Analysis Form (SCO-563) were misstated on a cash basis. This resulted in a total understatement of \$4.871 million of liabilities for the Early Intervention Services Revolving Fund (0502) and a total net overstatement of \$4.511 million for the Community Mental Health Medicaid Trust Fund (0718). As a result, the Grant/Contract Analysis Form (SCO-563) and Schedule of Expenditures of Federal Awards were revised to correct the misstatement.
- Auditors noted current year expenditures were understated by a combined \$2.633 million for a combination of lines for the Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to State and Territories – ARRA (CFDA No. 16.803). The original Interfund Activity Grantee Agency Form (SCO-567) was submitted with incorrect amounts. The Department attempted to submit a revised form with the correct totals handwritten on the form. However, due to the timing of the revision, the Office of the Comptroller did not make the adjustments.
- The Department is required to report intangible assets to comply with GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets. In the original submission, the Department reported a balance of \$2.8 million for intangible assets. After the original assessment was revised, the balance of intangible assets reported by the Department decreased to \$40 thousand. The revision required an adjustment to the financial statements to correct the misstatement.

Department officials stated the delays and errors contained in the GAAP packages were due to the late submission of financial information from other state agencies and component units, late decisions on the threshold for reporting new accounting standards and new policies regarding the financial statement preparation responsibilities were not communicated until November. In addition, the Department does not have a complete general ledger and grants management system as well as lacking a sufficient number of staff and corresponding titles to hire staff with adequate qualifications, education, and experience to prepare GAAP packages and financial statements in accordance with GAAP.

The Comptroller requires State agencies to prepare GAAP Reporting Packages for each of their funds to assist in the annual preparation of the statewide financial statements. GAAP Reporting Package instructions are specified in the Comptroller’s Statewide Accounting Management System (SAMS) Manual, Chapter 27. The Comptroller sets due dates for the financial information to be submitted in order for the statewide financial statements and statewide Schedule of Expenditures of Federal Awards (SEFA) to be prepared and audited within a specified timeline to provide users of these statements information in a timely manner.

In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001), requires all State agencies to establish and maintain a system of internal fiscal control to provide assurance that revenues, expenditures and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial reports.

Because of the significance of the weaknesses in preparation of GAAP reporting forms submitted to the Illinois Office of the Comptroller and preparation of year end Department financial statements, this is considered a material weakness in the Department's internal control. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

The exceptions noted, if not detected and corrected, can materially misstate the Department's financial statements and negatively impact the statewide financial statements. Some of the exceptions noted pertain to federal expenditures and again, if not corrected can materially misstate the federal expenditure information used to prepare the Schedule of Expenditures of Federal Awards as part of the Statewide Single Audit. Accurate and timely preparation of the Department's financial information for GAAP reporting purposes is important due to the complexity of the Department and the impact adjustments have on the statewide financial statements. (Finding Code No. 10-1, 09-1)

**RECOMMENDATION:**

We recommend the Department implement procedures and cross-training measures to ensure GAAP Reporting Packages are prepared in a timely, accurate and complete manner. This should include allocating sufficient staff resources and the implementation of formal procedures to ensure GAAP financial information is prepared and submitted to the Office of the Comptroller in a timely and accurate manner, and that all supporting documentation is maintained in a contemporaneous manner.

**DEPARTMENT RESPONSE:**

The Department agrees with the recommendation. The Department is working with the Department of Central Management Services and the Governor's Office of Management and Budget to develop new titles to allow hiring of staff with necessary qualifications, including education and experience. In addition, a corrective action plan is being implemented that includes cross-training wherever possible by reallocating job duties currently assigned to qualified staff allowing them to concentrate solely on the preparation of financial statements, to mitigate weaknesses.

**10-2 FINDING:** (Inadequate controls over commodities)

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

Audit testing performed at various locations including warehouses, facilities, schools, and centers, identified several exceptions and weaknesses over commodities inventories. The following inventory problems were noted during testing:

- During the engagement period, 19 facilities, 2 warehouses, and 13 pharmacies failed to perform a complete year-end physical inventory count in close proximity to the end of the fiscal year. The counts were conducted from 2-19 days prior to fiscal year end.
- Weaknesses in segregation of duties for annual inventory counting were noted at nine of twenty-one (43%) locations. For example, Alton Mental Health Center had a staff pharmacist who recorded inventory in the same area that they were responsible for in their day to day job responsibilities.
- Three clerical errors in year-end inventory count documentation were noted including incomplete forms and incorrect inventory count dates. For example, the Chicago Warehouse recorded their inventory count as occurring 19 days prior to the actual count date.
- The Department's Warehouse Control System (WCS) does not allow the system user to readily review the purchase history of items to ensure the commodities are accurately priced under the average cost method. Under the average cost method, inventory is valued based on the average purchase price (cost) of the items in stock. Auditors noted 4 of 30 (13%) items tested had recorded values that varied from the supporting documentation by more than 15% and whose total variance exceeded \$5.
- The Department is improperly recording the value of commodity inventory accounted for on the WCS. The unit price for an internally printed item was incorrectly entered into the system.

Similar exceptions were noted at the Department in previous reports. An analysis summarizing the exceptions identified in the current and past 3 reports is noted in the following table:

Inventory Exceptions	Year Ending June 30,			
	2010	2009	2008	2007
Unable to determine propriety of inventory balance				X
Discrepancies/weakness noted in inventory balance			X	X
Manual adjustments required for financial reporting				X
Lack of or inadequate written inventory procedures				X
Inadequate segregation of duties	X	X	X	X
Failure to make timely adjustments to inventory records				X
Counts that could not be reconciled		X		X
Inadequate records supporting inventory changes				X
Inventory storage areas were disorganized				X
Duplicate system used to track inventory		X	X	X
Counting not performed at all facilities	X	X	X	
Failure to document who counted inventory			X	
Net adjustments over 2% not explained			X	
Errors on Summary of Commodity Control System and Other Inventories	X	X	X	
Purchase history unable to be reviewed	X	X	X	
Improperly recording values of inventory	X	X	X	

The Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3001) notes State agencies shall establish and maintain a system of internal fiscal and administrative controls, which shall provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources. In addition, generally accepted accounting principles require the proper valuation and control over annual physical inventory processes to ensure complete and accurate inventories for financial reporting purposes. An improved oversight function would allow the Department to increase the accuracy of reported inventory balances and reduce deficiencies in internal control over maintaining inventory.

The Department stated they have established a centralized oversight for commodities; however, staffing shortages and the outdated system continue to contribute to the weaknesses noted for commodity inventories.

Because of the significance of the exceptions noted, specifically the overall weaknesses in the inventory and oversight function over commodities, we are considering this to be a significant deficiency in the Department's internal control. A significant deficiency is a deficiency, or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Strong internal controls would require an improved centralized oversight function related to commodities. This is important considering the Department made commodities expenditures of \$26.14 million during fiscal year 2010. In addition, the Department recorded ending commodities inventories of \$9.42 million at June 30, 2010. (Finding Code No. 10-2, 09-2, 08-3, 07-4, 06-2, 05-2, 03-15, 03-17, 01-9 and 99-14)

**RECOMMENDATION:**

We recommend the Department continue strengthening its oversight function related to commodities to allow for improved internal controls.

**DEPARTMENT RESPONSE:**

The Department agrees with the recommendation. The Department will identify strategies to continue strengthening its oversight function related to commodities.

**10-3 FINDING:** (Commodity inventory system outdated and insufficient for user needs)

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

The CCS is utilized for inventory at all mental health and developmental centers and for the Bureau of Pharmacy and Clinical Support Services pharmaceutical warehouse. The CCS had an inventory balance of approximately \$7.6 million at June 30, 2010.

The CCS does not allow the system user to readily review the purchase history of items to ensure the commodities are accurately priced under the average cost method. Under the average cost method, inventory is valued based on the average purchase price (cost) of the items in stock. Auditors identified 4 of 30 (13%) items tested had recorded values that varied from supporting documentation by more than 5%.

Auditors performed inventory test counts on Monday, June 28, 2010. Since the CCS only provides for a weekly report, which is run on Sunday nights, actual quantities of stock are not readily available at any given time. Auditors had to reconcile their inventory count taken on June 28, 2010 to the quantities on the previous Sunday night's report.

The Department counted their annual inventory for all stores from June 21st to June 22nd as opposed to June 30th which is the fiscal year end. However, the Department did count the top twenty-five most expensive items in each storeroom on June 30th. As a result of the count, the records for fourteen facilities required adjustments. Since the Department had so many adjustments in June, the Department should have counted all of its inventory in its stores on June 30th in order to ensure that inventory was properly stated at year end.

This finding has been reported four other times. In the response to the June 30, 2009 finding, the Department indicated they will continue to pursue a new real-time inventory system to allow better management of inventories. Management further indicated they would issue a Request for Proposal (RFP) at the end of fiscal year 2010 for a new system. As of February 2011, Department personnel stated a decision memorandum had been drafted and approved by the executive leadership team. After the decision memorandum has been fully executed within the Department, a RFP will be developed.

The Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3001) notes State agencies shall establish and maintain a system of internal fiscal and administrative controls, which shall provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

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

As a result of recommendations made by auditors, the Department implemented the practice of conducting periodic inventory counts for all users of the Commodity Control System. The Department began conducting a ten percent spot check of inventories each month in December 2009.

Because of the significance of the weaknesses in the Department's current Commodity Control System, this is considered a significant deficiency in the Department's internal control. A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

An outdated computer inventory system may result in over-purchasing, waste, obsolescence, theft, loss, or unauthorized use of State assets, and contributed to the inadequate controls over commodities noted in finding 10-2. Recording of inventory quantity information is crucial to maintain control over and to properly manage inventory quantities, such as determining reorder and overstocking points. This is especially important due to the size of the Department and the number of users throughout the State. (Finding Code No. 10-3, 09-3, 08-4, 07-13, 05-17)

**RECOMMENDATION:**

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

**DEPARTMENT RESPONSE:**

The Department agrees with the recommendation. A decision will be developed requesting permission to procure a new inventory control system that includes real-time capabilities and allow the Department to access current inventory levels so all inventory unit costs are properly recorded.



**10-4 FINDING:** (Inadequate controls over capital asset financial reporting)

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

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

Additionally, the Department did not have an adequate system in place to track intangible assets which are required to be reported in compliance with Governmental Accounting Standards Board (GASB) Statement No. 51, Accounting and Financial Reporting for Intangible Assets. The intangible assets summary form originally submitted reported a balance of \$2.8 million. Also, the form did not contain all of the required information regarding internally generated intangible assets. After the original submission, the Department revised the balance of intangible assets to \$40 thousand. This change required the auditors to propose an adjustment to the financial statements to reflect the revised balance.

This finding has been reported three other times. In the response to the June 30, 2009 finding, the Department indicated they had requested and were provided an additional report and were reviewing that report to ensure accuracy and completeness. The Department went on to note they would request the applicable fiscal year 2010 capital asset reports (if the fiscal year 2009 reports were deemed accurate) for GAAP reporting.

The Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3001) notes State agencies shall establish and maintain a system of internal fiscal and administrative controls, which shall provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Department officials stated if additions, deletions, or net transfers are unknown, then the overall net change is used to get to an ending balance that agrees to the Department's property and equipment records. Department records do not always readily reflect the components of addition, deletions, and net transfers. Department officials further stated balances originally reported to comply with GASB Statement No. 51 were based on information from the Department of Central Management Services. Upon later analysis by the Department, it was determined the original balances should be adjusted.

Because of the significance of the exceptions noted, specifically the weaknesses in the capital asset financial reporting, this is considered a significant deficiency in the Department's internal control. A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

An important element of internal control is the accurate review, reconciliation and reporting of accounting data. In addition, the Comptroller's SAMS (Procedure 27.20.38) requires a State agency to report capital assets and related accumulated depreciation. (Finding Code No. 10-4, 09-4, 08-5, 07-5)

**RECOMMENDATION:**

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

**DEPARTMENT RESPONSE:**

The Department agrees with the recommendation. The Department is reviewing and revising the Capital Asset Reporting system to improve the accuracy of its property system records.

**10-5 FINDING:** (Failure to comply with Medicare and Medicaid certification requirements)

Two of the Department of Human Services' (Department's) facilities, Howe Developmental Center (Howe) and Tinley Park Mental Health Center (Tinley), continued to remain decertified during fiscal year 2010 due to failure to comply with requirements to be certified as eligible Medicare or Medicaid service providers.

The Department of Human Services lost approximately \$21.646 million of federal revenue during fiscal year 2010 due to the decertification status of Howe. As the process of closing Howe proceeded, and residents were moved from Howe into settings that were certified, the revenue lost was reduced.

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

Tinley, which was decertified on February 23, 2007, had applied for its recertification with the CMMS. A three day certification survey was completed on September 16, 2009. On October 21, 2009 CMMS issued their report ruling that Tinley remained out of compliance with "Special Conditions of Participation" and that the facility remain decertified. The Department disagreed with the CMMS report and filed an appeal on December 16, 2009 which was denied. A request for a hearing was submitted to the CMMS administrative law judges which was also denied. As a result, the Department must initiate a new application for CMMS certification.

As of June 30, 2010, Tinley did not maintain housing for any Medicare/Medicaid patients. Therefore, the Department stated there was no revenue lost as a result of the decertification during fiscal year 2010. Due to the decertification at Tinley, a screening process was implemented at Madden Mental Health Center to identify patients with Medicaid or Medicare eligibility. These patients were sent to State hospitals with CMMS certification increasing the burden to provide care at those locations.

This finding has been reported three other times. In the response to the June 30, 2009 finding, the Department indicated the Division of Mental Health will continue its efforts to recertify Tinley. In addition, the Department described their plan for transitioning individuals residing at Howe to other facilities to effectively close the center at June 30, 2010.

Because of the Department's failure to comply with Medicare and Medicaid certification requirements, this is considered to be noncompliance with certain provisions of laws and regulations which could have a direct and material effect on the determination of financial statement amounts.

The Department was not aware of any other facilities with certification issues as of January 12, 2011. (Finding Code No. 10-5, 09-5, 08-6, 07-6)

**RECOMMENDATION:**

We recommend the Department continue its efforts to recertify Tinley Park Mental Health Center.

**DEPARTMENT RESPONSE:**

The Department agrees with the recommendation. The Department will continue its efforts to recertify Tinley Park Mental Health Center. The facility continues to train, monitor and adjust its processes to obtain consistent outcomes for the majority of patients. The facility will reapply for CMMS certification by end of fiscal year 2012.

**PRIOR FINDING NOT REPEATED**  
***(GOVERNMENT AUDITING STANDARDS)***

**A.** Failure to update allowance for uncollectible accounts receivable in a consistent manner

The previous engagement noted the Department did not update its calculations for uncollectible accounts receivable in a consistent manner for the DHS Recoveries Trust Fund (0921 fund). During the current engagement, auditors noted the Department had updated the allowance for uncollectible accounts receivable through fiscal year 2010. As a result, the finding is not repeated. (Finding Code No. 09-6)