STATE OF ILLINOIS
DEPARTMENT OF HUMAN SERVICES

FINANCIAL AUDIT

For the Year Ended June 30, 2012

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, 2012

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DEPARTMENT OF HUMAN SERVICES

FINANCIAL AUDIT

For the Year Ended June 30, 2012

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STATE OF ILLINOIS
DEPARTMENT OF HUMAN SERVICES

AGENCY OFFICIALS

Secretary	Michelle R. B. Saddler
Assistant Secretary (Operations)	Matthew Hammoudeh
Assistant Secretary (Programs)	Grace Hou (through 12/6/12) Nelida Smyser-DeLeon (Acting, Effective 12/7/12)
Budget Director	Robert Brock
Business Services Director	Melissa Wright (Acting, 5/1/10 through 6/30/12, Appointed, Effective 7/1/12)
Chief of Staff	Grace Hong Duffin (11/1/09 through 5/29/12) Nelida Smyser-DeLeon (Acting, 5/30/12 through 11/1/12) Anna D'Ascenzo (Acting, 5/30/12 through 1/1/13)
Chief Financial Officer	Carol Kraus
Chief Operational Officer	Vacant (10/31/09 through 7/30/11) Matthew Grady (Effective 8/1/11)
Office of Contract Administration Manager	Vacant (5/1/11 through 10/31/11) Nelida Smyser-DeLeon (Acting, 11/1/11 through 6/21/12) Bradley Howard (Effective 6/22/12)
Chief Internal Auditor	Debbie Abbott
Agency Procurement Officer	Trudy Haffer (Acting, 10/15/10 through 12/15/11) Bradley Howard (12/16/11 through 2/15/12) William Strahle (Effective 2/16/12)
Fiscal Services Director	Matthew Grady (8/2/10 through 7/26/11) Gary Anderson (Acting, 7/27/11 through 12/31/11) Michael Layden (Acting, 1/3/12 through 4/30/12, Appointed, Effective 5/1/12)
Human Resources Director	Elizabeth Sarmiento

STATE OF ILLINOIS
DEPARTMENT OF HUMAN SERVICES

AGENCY OFFICIALS - Continued

Management Information Services Chief	Doug Kasamis
Office of Community Relations Director	Tom Green
Chief Legislative Liaison	Randy Wells
Office of Accessiblity and Customer Support Director	Martha Younger-White (Acting, 7/16/08 through 5/15/12) Vacant (5/16/12 through 6/15/12) Pam Enno (Acting, Effective 6/16/12)
Hispanic/Latino Affairs Director	Nelida Smyser-DeLeon
General Counsel	Mary-Lisa Sullivan (11/09/09 through 4/20/12) Brian Dunn (Effective 4/23/12)
Inspector General	Bill Davis (through 7/27/12) Daniel Dyslin (Acting, 7/28/12 through 12/9/12) Michael McCotter (Effective 12/10/12)
Office of Strategic Planning and Performance Management Director	Layla Suleiman-Gonzalez
Division of Alcohol and Substance Abuse Director	Theodora Binion-Taylor
Division of Rehabilitation Services Director	Rob Kilbury (through 11/30/11) Kris Smith (Acting, 8/1/11 through 11/15/12) David Hanson (Effective 11/16/12)
*Division of Community Health and Prevention Director	Ivonne Sambolin-Jones (through 12/15/11) Vacant (12/16/11 through 2/29/12) Dan Harris (Effective 3/1/12)
Division of Developmental Disabilities Director	Reta Hoskin (Acting, 4/16/11 through 8/28/11) Kevin Casey (Effective 8/29/11)

STATE OF ILLINOIS
DEPARTMENT OF HUMAN SERVICES

AGENCY OFFICIALS – Continued

Division of Mental Health Director	Lorrie Rickman-Jones, Ph.D.
Division of Clinical, Administrative and Program Support Manager	Jim Hobbs
*Division of Human Capital Development Director	Linda Saterfield (Acting, Effective 3/1/10)
Grant Administration Director	Sharon Zahorodnyj
Office of Security and Emergency Preparedness Director	Hero Tameling (through 8/17/11) Vacant (8/18/11 through 1/12/12) John Mack (Effective 1/13/12)

*Effective 7/1/12, the Division of Human Capital Development (DHCD) and the Division of Community Health and Prevention (DCHP) were merged together to create a new division, Division of Family and Community Services (DFCS). At that time, Linda Saterfield became the Director of DFCS.

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 12-1 through 12-7, summarized as follows:

Item No.	Page	Description	Finding Type
12-1	51	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
12-2	55	Inadequate controls over prompt payment interest	Material Weakness
12-3	58	Noncompliance with statutory requirements for fiscal reporting	Material Weakness/ Non-compliance
12-4	60	Weaknesses over quarterly reporting of accounts receivable	Material Weakness
12-5	62	Inadequate controls over commodities	Significant Deficiency
12-6	65	Commodity inventory system outdated and insufficient for user needs	Significant Deficiency
12-7	67	Inadequate controls over capital asset financial reporting	Significant Deficiency

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on April 22, 2013. Attending were:

Department of Human Services

Michelle R. B. Saddler	Secretary
Matt Hammoudeh	Assistant Secretary – Operations
Grace Hong-Duffin	Chief of Staff
Carol Kraus	Chief Financial Officer
Mike Layden	Fiscal Services Director
Rebecca Wilson	Assistant Bureau Chief
Jim Hobbs	Division of Clinical, Administrative and Program Support Manager
Dale Brooks	Executive I
Albert Okwuegbunam	Bureau Chief, Audit Liaisons
Anna Moore	Audit Liaison

Office of the Auditor General

Janis Van Durme	Audit Manager
Elvin Lay	Audit Manager
Joseph A. Gudgel	IT Audit Manager

Sikich LLP – Special Assistant Auditors

Andy Lascody	Partner

The responses to the recommendations were provided by Michelle R. B. Saddler, Secretary in a letter dated April 23, 2013.

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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 (Department), as of and for the year ended June 30, 2012, 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, 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, 2012, 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, 2012, 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 April 24, 2013 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.

Management has omitted 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 require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining General Fund, nonmajor governmental funds and Agency funds financial statements 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.

Sikich LLP

Springfield, Illinois
April 24, 2013

State of Illinois

Department of Human Services

Statement of Net Assets and Governmental Funds Balance Sheet

June 30, 2012 (Expressed in Thousands)

	General Fund	Other Non-major Funds	Total Governmental Funds	Adjustments	Statement of Net Assets
ASSETS					
Unexpended appropriations	$ 412,719	$ 5,116	$ 417,835	$ -	$ 417,835
Cash equity with State Treasurer	46,597	175,335	221,932	-	221,932
Cash and cash equivalents	229	3,918	4,147	-	4,147
Securities lending collateral equity with State Treasurer	16,823	7,415	24,238	-	24,238
Investments	-	2,422	2,422	-	2,422
Due from other government - federal	127,816	112,700	240,516	-	240,516
Due from other government - local	-	274	274	-	274
Taxes receivable, net	-	260	260	-	260
Other receivables, net	38,277	18,161	56,438	-	56,438
Loans and notes receivable, net	-	428	428	-	428
Due from other Department funds	45,696	168	45,864	(45,864)	-
Due from other State funds	43,160	3,644	46,804	-	46,804
Due from State of Illinois component units	-	17	17	-	17
Inventories	8,472	210	8,682	-	8,682
Prepaid expenses	-	-	-	1,647	1,647
Capital assets not being depreciated	-	-	-	14,282	14,282
Capital assets being depreciated, net	-	-	-	206,678	206,678
Total assets	$ 739,789	$ 330,068	$ 1,069,857	176,743	1,246,600
LIABILITIES					
Accounts payable and accrued liabilities	$ 588,219	$ 141,796	$ 730,015	-	730,015
Due to other government - federal	4,086	263	4,349	-	4,349
Due to other government - local	13,658	9,657	23,315	-	23,315
Due to other Department fiduciary funds	101	-	101	-	101
Due to other Department funds	23,368	22,496	45,864	(45,864)	-
Due to other State funds	27,059	17,865	44,924	-	44,924
Due to State of Illinois component units	675	7,298	7,973	-	7,973
Unavailable revenue	107,111	16,566	123,677	(123,677)	-
Unearned revenue	41,986	61,357	103,343	-	103,343
Obligations under securities lending of State Treasurer	16,823	7,415	24,238	-	24,238
Long-term obligations:					
Due within one year	-	-	-	3,095	3,095
Due subsequent to one year	-	-	-	66,118	66,118
Total liabilities	823,086	284,713	1,107,799	(100,328)	1,007,471
FUND BALANCES/NET ASSETS					
Fund Balances:					
Nonspendable	8,472	1,372	9,844	(9,844)	-
Restricted	15,805	4,628	20,433	(20,433)	-
Committed	67,779	52,540	120,319	(120,319)	-
Assigned	-	-	-	-	-
Unassigned	(175,353)	(13,185)	(188,538)	188,538	-
Invested in capital assets, net of related debt	-	-	-	220,187	220,187
Restricted net assets:					
Restricted for health and social service programs	-	-	-	19,569	19,569
Funds held as permanent investments:					
Nonexpendable purposes	-	-	-	10,272	10,272
Expendable purposes	-	-	-	85	85
Unrestricted net assets	-	-	-	(10,984)	(10,984)
Total fund balances/net assets	(83,297)	45,355	(37,942)	$ 277,071	$ 239,129
Total liabilities and fund balances	$ 739,789	$ 330,068	$ 1,069,857		

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, 2012
(Expressed in Thousands)

Total fund balances-governmental funds		$	(37,942)
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			220,960
Prepaid expenses for governmental activities are current uses of financial resources for funds.			1,647
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.			123,677
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	(738)		
Installment purchase obligations	(35)		
Compensated absences	(68,440)		
			(69,213)
Net assets of governmental activities		$	239,129

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, 2012 (Expressed in Thousands)

	General Fund	Other Non-major Funds	Total Governmental Funds	Adjustments	Statement of Activities
Expenditures/expenses:					
Health and social services	$ 3,672,337	$ 4,609,741	$ 8,282,078	$ 21,681	$ 8,303,759
Debt service - principal	340	20	360	(360)	-
Debt service - interest	71	15	86	-	86
Capital outlays	3,216	7,263	10,479	(10,479)	-
Total expenditures/expenses	3,675,964	4,617,039	8,293,003	10,842	8,303,845
Program revenues:					
Charges for services:					
Licenses and fees	86	6,848	6,934	-	6,934
Other charges for services	9,222	42,224	51,446	-	51,446
Total charges for services	9,308	49,072	58,380	-	58,380
Operating grant revenue:					
Federal operating grants	344,967	4,468,226	4,813,193	(20,724)	4,792,469
Other operating grants	-	(1,449)	(1,449)		(1,449)
Total operating grant revenue	344,967	4,466,777	4,811,744	(20,724)	4,791,020
Net program revenues	(3,321,689)	(101,190)	(3,422,879)	(31,566)	(3,454,445)
General revenues:					
Interest and investment income	284	143	427	-	427
Other taxes	-	1,022	1,022	-	1,022
Other revenues	494	5,904	6,398	(3,596)	2,802
Total general revenues	778	7,069	7,847	(3,596)	4,251
Other sources (uses):					
Appropriations from State resources	3,510,741	30,958	3,541,699	-	3,541,699
Lapsed appropriations	(48,804)	(11,255)	(60,059)	-	(60,059)
Receipts collected and transmitted to State Treasury	(75,915)	(14,326)	(90,241)	-	(90,241)
Capital transfers from other State agencies	-	-	-	18,328	18,328
Amount of SAMS transfers-in	(65,979)	-	(65,979)	-	(65,979)
Amount of SAMS transfers-out	5,134	-	5,134	-	5,134
Transfers-in	20,020	92,582	112,602	(78,740)	33,862
Transfers-out	(83,041)	(20)	(83,061)	78,740	(4,321)
Capital lease and installment purchase financing	694	18	712	(712)	-
Total other sources (uses)	3,262,850	97,957	3,360,807	17,616	3,378,423
Change in fund balance/net assets	(58,061)	3,836	(54,225)	(17,546)	(71,771)
Fund balance/net assets, July 1, 2011	(23,743)	41,565	17,822	293,078	310,900
Increase for changes in inventories	(1,493)	(46)	(1,539)	1,539	-
Fund balance/net assets, June 30, 2012	$ (83,297)	$ 45,355	$ (37,942)	$ 277,071	$ 239,129

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, 2012
(Expressed in Thousands)

Net change in fund balances	$ (54,225)
Change in inventories	(1,539)
	(55,764)
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.	(18,194)
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.	360
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.	(712)
Some capital assets were transferred in from other State agencies and therefore, were received at no cost.	18,328
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(24,320)
Prepaid expenses in the Statement of Activities are reported as expenses in governmental funds.	(34)
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.	
Decrease in compensated absences obligation	8,565
Change in net assets of governmental activities	$ (71,771)

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

Statement of Fiduciary Net Assets

June 30, 2012 (Expressed in Thousands)

	Private-Purpose Trust: Hansen-Therkelsen Memorial Deaf Student College 0123	Agency Funds
ASSETS		
Cash equity with State Treasurer	$ 992	$ -
Cash and cash equivalents	-	1,329
Securities lending collateral equity with State Treasurer	464	-
Investments	-	930
Due from other government - federal	-	61
Other receivables, net	-	2
Loans and notes receivable	72	-
Due from other Department funds	-	101
Total assets	1,528	$ 2,423
LIABILITIES		
Accounts payable and accrued liabilities	-	$ 109
Obligations under securities lending of State Treasurer	464	-
Other liabilities	-	2,314
Total liabilities	464	$ 2,423
NET ASSETS		
Held in trust and other purposes	$ 1,064	

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

State of Illinois
Department of Human Services

Statement of Changes in Fiduciary Net Assets

For the Year Ended June 30, 2012 (Expressed in Thousands)

	Private-Purpose Trust — Hansen-Therkelsen Memorial Deaf Student College 0123
Additions:	
Investment earnings:	
Interest, dividends and other investment income	$ 6
Net investment income	6
Other additions:	
Mandatory transfer-in allowance for uncollectible adjustment	16
Total additions	22
Deductions:	
Other deductions:	
Mandatory transfer-out allowance for uncollectible adjustment	-
Total deductions	-
Net additions (deductions)	22
Net assets, July 1, 2011	1,042
Net assets, JUNE 30, 2012	$ 1,064

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

NOTE (1) - Organization

The Department of Human Services (the Department) is a part of the executive branch of government of the State of Illinois (State) and operates under the authority of, and review by, the Illinois General Assembly. The Department operates under a budget approved by the General Assembly in which resources primarily from the 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.

NOTE (2) - Summary of Significant Accounting Policies

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

(a) Financial Reporting Entity

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.

(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, 2012 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 of 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 non-major funds.

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

> ***General*** – This is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The services which are administered by the Department and accounted for in the General Fund include, among others, health and social services. Certain resources obtained from federal grants and used to support general governmental activities are accounted for in the General Fund consistent with applicable legal requirements. The Department's portion of the General Fund is composed of a primary sub-account (General Revenue) and six secondary sub-accounts (Illinois Veterans' Rehabilitation, 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 the DHS Recoveries Trust). Any sub-account additions are the result of adoption of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with GASB 54, those funds receiving 100% of revenue as a result of transfers from the General Fund are reported within the General Fund group.

Additionally, the Department reports the following fund types:

Governmental Fund Types:

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

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

Fiduciary Fund Types:

Private Purpose – These funds account for resources legally held in trust for use by individuals the Department serves. All resources of these funds, including any earnings on invested resources, may be used to support these individuals. 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.

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 Tobacco Settlement Recovery and Maternal and Child Health Services Block Grant, non-major governmental funds, represents only the portion of the shared fund that can be directly attributed to the operations of the Department. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' Comprehensive Annual Financial Report. In presenting these financial statements, certain unique accounts are used for the presentation of shared funds. The following accounts are used in these financial statements to present the Department's portion of shared funds:

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

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

Lapsed appropriations – Lapsed appropriations are the legally adopted appropriations less net warrants issued for the 14 month period from July to August of the following year and re-appropriations to subsequent years according to SAMS records. For State fiscal year 2012, the Illinois General Assembly extended the lapse period from August 31 to December 31, 2012, 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 provisions from the corresponding fund during the fiscal year per SAMS records in which a legally adopted appropriation was not charged.

(e) Eliminations

Eliminations have been made in the government-wide statement of net 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.

(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:

Interfund borrowings – Interfund loans made in accordance with State statute that are to be repaid with interest to the lender fund. Interfund borrowings are reported as interfund receivables in lender funds and interfund payables in borrower funds.

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

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

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

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

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

(j) Capital Assets

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

Capitalization thresholds (amounts expressed in whole dollars) and the estimated useful lives are as follows:

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

(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

Effective July 1, 2010, the Department adopted the provisions of Governmental Accounting Standards Board Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in the governmental funds. In addition, GASB 54 modified certain fund type definitions.

At June 30, 2012, components of fund balance include the following captions:

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

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

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

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

Unassigned – Total fund balance in excess of nonspendable, restricted, committed, and assigned fund balance.

The implementation of these new components of fund balance is intended to decrease confusion and to better serve the needs of financial statement users. If there is an expenditure incurred for purposes for which both restricted and unrestricted (committed, assigned and unassigned) fund balance is available, the Department considers restricted fund balance to be spent before unrestricted fund balance. In addition, if there is an expenditure incurred for which committed, assigned or unassigned fund balance may be used, the Department considers committed fund balance to be spent before assigned fund balance and assigned fund balance to be spent before unassigned fund balance.

(m) Net Assets

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

Invested in capital assets, net of related debt – This consists of capital assets, net of accumulated depreciation/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 restricted by outside parties or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed.

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

(n) Use of Estimates

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

(o) Future Adoption of Governmental Accounting Standards Board (GASB) Pronouncements

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, will be effective for the Department beginning with its year ending June 30, 2013. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, will be effective for the Department beginning with its year ending June 30, 2013. The objective of this statement is to provide financial reporting guidance for deferred outflows and inflows of resources and to rename the residual measure from "Net Assets" to "Net Position".

The Department has not yet determined the impact these statements will have on financial reporting.

NOTE (3) - Deposits and Investments

(a) Deposits

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

Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because 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 $4.034 and $4.314 million at June 30, 2012, respectively. Deposits of locally-held funds of fiduciary funds had a carrying amount and a bank balance of $1.314 and $1.322 million, respectively, at June 30, 2012.

Of the total bank balances, $3.309 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	$ 1,100
Uninsured and collateral not held by the pledging financial institution in the Department's name	2,209
Total	$ 3,309

(b) Investments

As of June 30, 2012, the Department had the following investments outside of the State Treasury:

Governmental Activities	Fair Value (Thousands)	Weighted Average Maturity (Years)
U.S. Treasury Notes	$ 10	6.000
U.S. Agency Obligations	32	5.000
Certificates of deposit	1,416	Various
Illinois Public Treasurers' Investment Pool	1,072	.117 years
Total Governmental Activities	$ 2,530	

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 Investors Services, AAA by Fitch Ratings, or AAA by Standard & Poor's ratings. The Illinois Public Treasurers' Investment Pool was rated AAAm by Standard & Poor's.

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

	Cash & Cash Equivalents/ Deposits	Investments
Governmental Activities		
Amounts per note	$ 4,034	$ 2,530
Deposits held for investment purposes	(19)	19
Cash equivalents	127	(127)
Petty cash	5	-
Amounts per Statement of Net Assets	$ 4,147	$ 2,422
Fiduciary Funds		
Amounts per note	$ 1,314	$ -
Deposits held for investment purposes	-	930
Petty cash	15	-
Amounts per Statement of Fiduciary Net Assets	$ 1,329	$ 930

NOTE (4) - Other Receivables

Other receivables at June 30, 2012 (amounts expressed in thousands) consisted of the following:

	Governmental Funds		
Revenue Source	**General Fund**	**Non-major Funds**	**Fiduciary Funds**
Fines and fees	$ -	$ 1,429	$ -
Public assistance recoveries	8,072	426	-
Rebates	-	11,723	-
Recipient services	467,110	33,143	2
Investment and other income	11	5	-
Total other receivables	475,193	46,726	2
Allowance for uncollectible amounts	(436,916)	(28,565)	-
Other receivables, net	$ 38,277	$ 18,161	$ 2

NOTE (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 2012, Deutsche Bank Group lent U.S. Treasury and U.S. agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate 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 available or the 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, 2012 arising from securities lending agreements to the various funds of the State. The amounts allocated to the Department were $24.238 million for governmental activities and $.464 million for fiduciary funds at June 30, 2012.

NOTE (6) - Interfund Balances and Activity

(a) Balances Due from/to Other Funds

The following balances (amounts expressed in thousands) at June 30, 2012 represent amounts due from other Department and State of Illinois funds:

	Due from Other		
Fund Type	**Department Funds**	**State Funds**	**Description/Purpose**
General	$ 45,696	$ 43,160	See comment below.
Non-major governmental	168	3,644	See comment below.
Fiduciary	101	-	See comment below.
Totals	$ 45,965	$ 46,804	

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

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

Fiduciary - Due from other Department and State funds for expenditure reimbursements.

The following balances (amounts expressed in thousands) at June 30, 2012 represent amounts due to other Department and State of Illinois funds:

	Due to Other			
Fund Type	**Department Funds**	**State Funds**	**Department Fiduciary Funds**	**Description/Purpose**
General	$ 23,368	$ 27,059	$ 101	See comment below.
Non-major governmental	22,496	17,865	-	See comment below.
Totals	$ 45,864	$ 44,924	$ 101	

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

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

(b) Transfers from/to Other Funds

Interfund transfers-in (amounts expressed in thousands) for the year ended June 30, 2012, were as follows:

	Transfers-in from Other		
Fund Type	**Department Funds**	**State Funds**	**Description/Purpose**
General	$ 20	$ 20,000	Transfer from other Department funds and other State funds pursuant to statute.
Non-major governmental	78,720	13,862	Transfers from other Department funds and other State funds pursuant to statute and annual appropriations bill.
Totals	$ 78,740	$ 33,862	

Interfund transfers-out (amounts expressed in thousands) for the year ended June 30, 2012, were as follows:

Fund Type	Transfers-out to Other Department Funds	Transfers-out to Other State Funds	Description/Purpose
General	$ 78,720	$ 4,321	Transfers to other Department funds pursuant to statute and to other State funds for State budget shortfalls.
Non-major governmental	20	-	Transfers to other Department funds pursuant to statute.
Totals	$ 78,740	$ 4,321	

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

The following balances (amounts expressed in thousands) at June 30, 2012 represent amounts due from/to State of Illinois Component Units for reimbursement for expenses incurred:

	Due from	Due to	
Component Unit	Non-major Governmental Funds	General Fund	Non-major Governmental Funds
Toll Highway Authority	$ -	$ -	$ 2
Illinois Housing Dev Authority	-	62	-
Chicago State University	-	-	19
Eastern Illinois University	17	9	138
Governors State University	-	-	12
Northeastern Illinois University	-	1	5
Western Illinois University	-	-	93
Illinois State University	-	-	48
Northern Illinois University	-	-	24
Southern Illinois University	-	98	363
University of Illinois	-	505	6,594
Totals	$ 17	$ 675	$ 7,298

NOTE (7) - Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2012 was as follows:

	Balance July 1, 2011	Additions	Deletions	Net Transfers	Balance June 30, 2012
Capital assets not being depreciated/amortized:					
Land and land improvements	$ 3,248	$ -	$ -	$ -	$ 3,248
Internally generated intangible assets in development	4,928	6,106	-	-	11,034
Total capital assets not being depreciated/amortized	8,176	6,106	-	-	14,282
Capital assets being depreciated/amortized:					
Site improvements	109,329	-	-	-	109,329
Buildings and building improvements	676,160	955	(443)	5,891	682,563
Equipment	38,821	2,711	-	(6,354)	35,178
Capital leases - equipment	1,008	712	(700)	-	1,020
Non-internally generated software	204	-	-	-	204
Internally generated software	5,628	-	-	-	5,628
Total capital assets being depreciated/amortized	831,150	4,378	(1,143)	(463)	833,922
Less accumulated depreciation/amortization:					
Site improvements	86,592	4,025	-	(806)	89,811
Buildings and building improvements	501,890	18,880	-	(9,560)	511,210
Equipment	29,000	4,418	-	(8,425)	24,993
Capital leases - equipment	711	308	(700)	-	319
Non-internally generated software	26	41	-	-	67
Internally generated software	281	563	-	-	844
Total accumulated depreciation/amortization	618,500	28,235	(700)	(18,791)	627,244
Total capital assets being depreciated/amortized, net	212,650	(23,857)	(443)	18,328	206,678
Total capital assets, net	$ 220,826	$ (17,751)	$ (443)	$ 18,328	$ 220,960

Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2012 was charged as follows:

Health and social services	$ 28,235

During fiscal year 2002, the Department closed the Lincoln Developmental Center which has a current book value of $8.684 million, net of $37.662 million in accumulated depreciation. It is unknown whether the Center will be placed back into service in the future.

NOTE (8) - Long-term Obligations

(a) Changes in Long-term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2012, were as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012	Amounts Due Within One Year
Other long-term obligations:					
Compensated absences	$77,005	$ 90,394	$98,959	$68,440	$ 2,738
Capital lease obligations	315	712	289	738	340
Installment purchase obligations	106	-	71	35	17
Totals	$77,426	$ 91,106	$99,319	$69,213	$ 3,095

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

(b) Capital Lease Obligations

The Department leases office and computer equipment with a historical cost and accumulated depreciation (amounts expressed in thousands) of $1,020 and $ 319, respectively, under capital lease arrangements. Although lease terms vary, certain leases are renewable subject to appropriation by the General Assembly. If renewal is reasonably assured, leases requiring appropriation by the General Assembly are considered non-cancelable leases for financial reporting. Future minimum lease payments (amounts expressed in thousands) at June 30, 2012 are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	$ 340	$ 71	$ 411
2014	295	27	322
2015	103	4	107
Totals	$ 738	$ 102	$ 840

(c) Installment Purchase Obligations

The Department has acquired certain office equipment, computer equipment, and other assets through installment purchase arrangements. Future debt service requirements under installment purchase contracts (amounts expressed in thousands) at June 30, 2012, are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	$ 17	$ 1	$ 18
2014	18	-	18
2015	-	-	-
Totals	$ 35	$ 1	$ 36

NOTE (9) - Pension Plan

Substantially all of the Department's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2012 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2012. 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 2012, the employer contribution rate was 34.190%.

NOTE (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.

NOTE (11) - Fund Balances

(a) Categories

At June 30, 2012, the Department's fund balances were classified as follows:

	General Fund	Non-major Governmental Funds	Total
Nonspendable:			
Inventory	$ 8,472	$ 210	$ 8,682
Permanent endowments	-	1,162	1,162
Total nonspendable	8,472	1,372	9,844
Restricted purposes:			
Health and social services	15,805	4,628	20,433
Committed purposes:			
Health and social services	67,779	52,540	120,319
Total unassigned	(175,353)	(13,185)	(188,538)
Total fund balances	$ (83,297)	$ 45,355	$ (37,942)

(b) Fund Deficits

The General Revenue and Care Provider Fund for Persons with a Developmental Disability subaccounts of the General Fund, Vocational Rehabilitation Fund, Federal National Community Services, Gaining Early Awareness and Readiness for Undergraduate Programs, DHS Special Purposes Trust, and Early Intervention Services Revolving, non-major governmental funds, had fund deficits (amounts expressed in thousands) of $140,958, $25,923 $3,943, $169, $39, $11,761, and $1,701 respectively, at June 30, 2012. The deficit in the General Fund will be eliminated through the collection and allocation of future State revenues to the Department. The deficits in the non-major governmental funds will be eliminated by future recognition of earned but unavailable revenues and from future revenues.

NOTE (12) - Risk Management

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

NOTE (13) - Commitments and Contingencies

(a) Operating Leases

The Department leases office facilities, office equipment, and computer equipment under the terms of non-cancelable operating lease agreements that require the Department to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was $14.746 million for the year ended June 30, 2012.

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

Year Ending June 30,	**Amount**
2013	$ 337
2014	337
2015	243
2016	-
2017	-
Total	$ 917

(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, 2011 and June 30, 2010 included either nominal or no questioned costs. 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, 2012.

(c) Litigation

The Department is a defendant in the cases discussed below, among others. For each case, there is a likelihood of a negative outcome, or the case has been settled and will result in costs for the Department. In several cases the Department will need to commit future financial resources to satisfy the terms of a consent decree.

Stanley Ligas v. Julie Hamos, et al., 05 C 4331 (N.D. Ill.):

In Ligas v. Maram, Plaintiffs, a class of individuals with developmental disabilities, brought a complaint for declaratory and injunctive relief against the Department and the Department of Healthcare and Family Services claiming violation of various statutes in connection with defendants' alleged failure to provide them with appropriate services sufficient to permit them to live in more integrated settings. A consent decree and implementation plan have been approved by the Court.

For fiscal year 2012, the Department's outlay was expected to be $1,522,000. After Medicaid reimbursement, that amount will be reduced to $761,000. For fiscal year 2013, that amount is expected to increase to $34,259,000; $17,129,000 after Medicaid reimbursement.

Ethel Williams v. Pat Quinn et al., 05 C 4673 (N.D. Ill.):

In Williams v. Quinn, Plaintiffs, a class of individuals with serious mental illness residing in or at risk of entering Institutions for Mental Disease, alleged that State agencies were not providing them with services in the most integrated setting appropriate. Their complaint was filed against the Office of the Governor, the Department, the Department of Healthcare and Family Services, and the Department of Public Health. The court approved a consent decree and implementation plan in the case and the Parties have been working on implementation.

In fiscal year 2012, the State planned to invest $15,900,000 to continue to build the infrastructure for transitioning class members and to support the development of 256 permanent supportive housing units and service supports necessary for successful transitions. The budget builds upon the fiscal year 2011 budget that seeded the development of infrastructure supports in the form of required personnel and administrative supports to begin the process of transitioning individuals to the community. Consistent with the implementation plan, the fiscal year 2012 budget summary is organized around several functional plan elements.

Lenil Colbert v. Pat Quinn, 07 C 4737 (N.D. Ill.):

In Colbert v. Quinn, a Plaintiff class of Cook County residents with disabilities alleged that they were unnecessarily segregated and institutionalized in nursing facilities in violation of the Americans with Disabilities Act, the Social Security Act and the Rehabilitation Act. A consent decree was approved on December 20, 2011 and the parties agreed upon an implementation plan in November 2012. It provides class members with a greater array of community supports and services.

The Department did not incur liability in fiscal year 2012. However, the Consent Decree states that the Defendants (Office of the Governor, Illinois Department of Human Services, Illinois Department of Public Health, Illinois Department of Healthcare and Family Services, and the Department on Aging) will be liable for assistance to class members in an amount up to $1,330,000 during the first year after finalization of the implementation plan.

Additionally, in fiscal year 2013, Plaintiffs' attorneys will be paid $400,000 as attorneys' fees and costs by the Defendants.

State of Illinois (Illinois Department of Central Management Services) v. American Federation of State, County, and Municipal Employees Council 31 ("AFSCME"), Case No. 11 CH 31591 (Cir Ct. Cook County)

The State of Illinois seeks to vacate and AFSCME seeks to confirm an arbitration award for certain fiscal year 2012 wage increases allegedly owed to State Department of Human Services' employees. The State has contested the obligation to pay the wage increases on Constitutional and public policy grounds, and the matter is currently pending before the Circuit Court of Cook County. Dependent on whether, or to what extent, the arbitration award is confirmed, and the related impact of an adverse decision, the estimated possible loss ranges from $0 to $40 million, excluding fringe benefits.

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.

NOTE (14) – Subsequent Events

The Department is at various stages in the process of potentially closing four facilities. The Department closed Tinley Park Mental Health Center and Jacksonville Developmental Center during the months of July 2012 through December 2012. The closures of Singer Mental Health Center and Murray Developmental Center are anticipated during fiscal year 2013 or fiscal year 2014. Public hearings have been held regarding these expected closures; however, the closure dates are subject to change due to the availability of appropriations, the movement of residents to other facilities and other factors impacting the decision making process.

State of Illinois

Department of Human Services

Combining Schedule of Accounts - General Fund

June 30, 2012 (Expressed in Thousands)

	General Revenue 0001	Illinois Veterans' Rehabilitation 0036	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
ASSETS									
Unexpended appropriations	$ 412,703	$ -	$ -	$ 16	$ -	$ -	$ -	$ -	$ 412,719
Cash equity with State Treasurer	1,763	459	339	-	14,787	16,325	12,924	-	46,597
Cash and cash equivalents	229	-	-	-	-	-	-	-	229
Securities lending collateral equity with State Treasurer	-	-	442	-	8,657	7,724	-	-	16,823
Due from other government - federal	84,771	-	3,689	-	2,708	36,648	-	-	127,816
Other receivables, net	6,240	-	-	-	6	5	32,026	-	38,277
Due from other Department funds	81,658	851	-	-	-	-	-	(36,813)	45,696
Due from other State funds	6	-	36,547	-	6,607	-	-	-	43,160
Inventories	8,472	-	-	-	-	-	-	-	8,472
Total assets	$ 595,842	$ 1,310	$ 41,017	$ 16	$ 32,765	$ 60,702	$ 44,950	$ (36,813)	$ 739,789
LIABILITIES									
Accounts payable and accrued liabilities	$ 552,202	$ 68	$ 162	$ 25,939	$ 2,684	$ 6,538	$ 626	$ -	$ 588,219
Due to other government - federal	2,353	4	-	-	-	2	1,727	-	4,086
Due to other government - local	13,515	-	-	-	17	126	-	-	13,658
Due to other Department fiduciary funds	101	-	-	-	-	-	-	-	101
Due to other Department funds	24,162	-	24,364	-	-	-	11,655	(36,813)	23,368
Due to other State funds	26,720	42	-	-	-	112	185	-	27,059
Due to State of Illinois component units	550	-	-	-	121	4	-	-	675
Unavailable revenue	75,211	-	244	-	899	-	30,757	-	107,111
Unearned revenue	41,986	-	-	-	-	-	-	-	41,986
Obligations under securities lending of State Treasurer	-	-	442	-	8,657	7,724	-	-	16,823
Total liabilities	736,800	114	25,212	25,939	12,378	14,506	44,950	(36,813)	823,086
FUND BALANCES (DEFICITS)									
Nonspendable	8,472	-	-	-	-	-	-	-	8,472
Restricted	-	-	15,805	-	-	-	-	-	15,805
Committed	-	1,196	-	-	20,387	46,196	-	-	67,779
Assigned	-	-	-	-	-	-	-	-	-
Unassigned	(149,430)	-	-	(25,923)	-	-	-	-	(175,353)
Total fund balances (deficits)	(140,958)	1,196	15,805	(25,923)	20,387	46,196	-	-	(83,297)
Total liabilities and fund balances (deficits)	$ 595,842	$ 1,310	$ 41,017	$ 16	$ 32,765	$ 60,702	$ 44,950	$ (36,813)	$ 739,789

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, 2012 (Expressed in Thousands)

	General Revenue 0001	Illinois Veterans' Rehabilitation 0036	Community DD Services Medicaid Trust 0142	Care Provider Fund for Persons with a Developmental Disability 0344	Health and Human Services Medicaid Trust 0365	Community Mental Health Medicaid Trust 0718	DHS Recoveries Trust 0921	Eliminations	Total
REVENUES									
Federal operating grants	$ 180,539	$ -	$ 54,429	$ -	$ 16,085	$ 93,914	$ -	$ -	$ 344,967
Licenses and fees	86	-	-	-	-	-	-	-	86
Interest and investment income	-	-	60	-	87	137	-	-	284
Other charges for services	64	-	-	-	-	-	9,158	-	9,222
Other revenues	494	-	-	-	-	-	-	-	494
Total revenues	181,183	-	54,489	-	16,172	94,051	9,158	-	355,053
EXPENDITURES									
Health and social services	3,430,314	4,889	34,988	71,171	35,557	87,726	7,692	-	3,672,337
Debt service - principal	340	-	-	-	-	-	-	-	340
Debt service - interest	71	-	-	-	-	-	-	-	71
Capital outlays	3,216	-	-	-	-	-	-	-	3,216
Total expenditures	3,433,941	4,889	34,988	71,171	35,557	87,726	7,692	-	3,675,964
Excess (deficiency) of revenues over (under) expenditures	(3,252,758)	(4,889)	19,501	(71,171)	(19,385)	6,325	1,466	-	(3,320,911)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES									
Appropriations from State resources	3,460,741	-	-	50,000	-	-	-	-	3,510,741
Lapsed appropriations	(45,765)	-	-	(3,039)	-	-	-	-	(48,804)
Receipts collected and transmitted to State Treasury	(75,915)	-	-	-	-	-	-	-	(75,915)
Amount of SAMS transfers-in	(65,979)	-	-	-	-	-	-	-	(65,979)
Amount of SAMS transfers-out	5,134	-	-	-	-	-	-	-	5,134
Transfers-in	25,850	4,763	-	-	20,000	-	-	(30,593)	20,020
Transfers-out	(87,804)	-	(24,364)	-	-	-	(1,466)	30,593	(83,041)
Capital lease and installment purchase financing	694	-	-	-	-	-	-	-	694
Net other sources (uses) of financial resources	3,216,956	4,763	(24,364)	46,961	20,000	-	(1,466)	-	3,262,850
Net change in fund balances	(35,802)	(126)	(4,863)	(24,210)	615	6,325	-	-	(58,061)
Fund balances (deficits), July 1, 2011	(103,663)	1,322	20,668	(1,713)	19,772	39,871	-	-	(23,743)
Decrease for change in inventories	(1,493)	-	-	-	-	-	-	-	(1,493)
FUND BALANCES (DEFICITS), JUNE 30, 2012	$ (140,958)	$ 1,196	$ 15,805	$ (25,923)	$ 20,387	$ 46,196	$ -	$ -	$ (83,297)

State of Illinois

Department of Human Services

Combining Balance Sheet - Non-major Governmental Funds

June 30, 2012 (Expressed in Thousands)

	Special Revenue								
	Prevention and Treatment of Alcoholism and Substance Abuse Block Grant 0013	Group Home Loan Revolving 0025	Mental Health 0050	Vocational Rehabilitation 0081	Assistance to the Homeless 0100	Youth Alcoholism and Substance Abuse Prevention 0128	Diabetes Research Check-off 0198	Autism Research Check-off 0228	Drunk and Drugged Driving Prevention 0276
ASSETS									
Unexpended appropriations	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cash equity with State Treasurer	223	76	29,816	10,523	260	3	165	64	354
Cash and cash equivalents	-	-	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	36	-	-	-	-	86	30	-
Investments	-	-	-	-	-	-	-	-	-
Due from other government - federal	7,693	-	6,137	5,219	-	-	-	-	-
Due from other government - local	-	-	-	-	-	-	-	-	-
Taxes receivable, net	-	-	260	-	-	-	-	-	-
Other receivables, net	-	-	5,740	440	-	-	-	-	-
Loans and notes receivable, net	-	26	-	-	-	-	-	-	-
Due from other Department funds	-	-	-	1,410	-	-	-	-	-
Due from other State funds	-	-	1,754	-	1	1,094	-	-	-
Due from State of Illinois component units	9	-	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-	-	-
Total assets	$ 7,925	$ 138	$ 43,707	$ 17,592	$ 261	$ 1,097	$ 251	$ 94	$ 354
LIABILITIES									
Accounts payable and accrued liabilities	$ 7,131	$ -	$ 1,029	$ 12,106	$ -	$ 548	$ 54	$ -	$ 126
Due to other government - federal	6	-	11	120	-	-	-	-	1
Due to other government - local	433	-	-	1,399	-	87	-	-	9
Due to other Department funds	-	-	-	251	-	-	-	-	-
Due to other State funds	118	-	653	2,720	-	49	-	-	7
Due to State of Illinois component units	237	-	36	440	-	-	-	-	-
Unavailable revenue	-	-	7,249	2,772	-	-	-	-	-
Unearned revenue	-	-	-	1,727	-	-	-	-	-
Obligations under securities lending of State Treasurer	-	36	-	-	-	-	86	30	-
Total liabilities	7,925	36	8,978	21,535	-	684	140	30	143
FUND BALANCES (DEFICITS)									
Nonspendable	-	-	-	-	-	-	-	-	-
Restricted	-	102	-	-	-	-	-	64	-
Committed	-	-	34,729	-	261	413	111	-	211
Assigned	-	-	-	-	-	-	-	-	-
Unassigned	-	-	-	(3,943)	-	-	-	-	-
Total fund balances (deficits)	-	102	34,729	(3,943)	261	413	111	64	211
Total liabilities and fund balances (deficits)	$ 7,925	$ 138	$ 43,707	$ 17,592	$ 261	$ 1,097	$ 251	$ 94	$ 354

State of Illinois
Department of Human Services

Combining Balance Sheet - Non-major Governmental Funds

June 30, 2012 (Expressed in Thousands)

	Special Revenue								
	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	DHS Special Purposes Trust 0408	Old Age Survivors Insurance 0495	Early Intervention Services Revolving 0502	Department of Human Services Community Services 0509
ASSETS									
Unexpended appropriations	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cash equity with State Treasurer	548	259	1,347	20	10,589	76,657	830	1,564	13,850
Cash and cash equivalents	-	-	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	-	-	4,957	-	-	1,870	433
Investments	-	-	-	-	-	-	-	-	-
Due from other government - federal	875	50,799	-	-	56	12,539	2,488	13,187	-
Due from other government - local	-	-	173	3	-	-	-	-	-
Taxes receivable, net	-	-	-	-	-	-	-	-	-
Other receivables, net	-	-	-	-	3	6	-	114	-
Loans and notes receivable, net	-	-	-	-	-	-	-	-	-
Due from other Department funds	-	-	-	-	-	-	-	21,942	-
Due from other State funds	-	-	-	103	-	3	-	30	-
Due from State of Illinois component units	-	-	-	-	-	8	-	-	-
Inventories	-	-	-	-	-	-	210	-	-
Total assets	$ 1,423	$ 51,058	$ 1,520	$ 126	$ 15,605	$ 89,213	$ 3,528	$ 38,707	$ 14,283
LIABILITIES									
Accounts payable and accrued liabilities	$ 1,019	$ 50,060	$ 29	$ -	$ 40	$ 14,713	$ 2,024	$ 30,079	$ -
Due to other government - federal	-	-	-	-	-	15	90	2	-
Due to other government - local	306	344	1	-	10	1,193	2	459	-
Due to other Department funds	-	-	-	-	-	45,443	-	-	-
Due to other State funds	-	-	6	-	-	975	1,202	74	-
Due to State of Illinois component units	64	152	-	-	28	2,499	-	79	-
Unavailable revenue	169	-	-	-	39	1,721	-	4,026	-
Unearned revenue	34	502	-	-	10,570	34,415	-	3,819	-
Obligations under securities lending of State Treasurer	-	-	-	-	4,957	-	-	1,870	433
Total liabilities	1,592	51,058	36	-	15,644	100,974	3,318	40,408	433
FUND BALANCES (DEFICITS)									
Nonspendable	-	-	-	-	-	-	210	-	-
Restricted	-	-	-	-	-	-	-	-	-
Committed	-	-	1,484	126	-	-	-	-	13,850
Assigned	-	-	-	-	-	-	-	-	-
Unassigned	(169)	-	-	-	(39)	(11,761)	-	(1,701)	-
Total fund balances (deficits)	(169)	-	1,484	126	(39)	(11,761)	210	(1,701)	13,850
Total liabilities and fund balances (deficits)	$ 1,423	$ 51,058	$ 1,520	$ 126	$ 15,605	$ 89,213	$ 3,528	$ 38,707	$ 14,283

State of Illinois

Department of Human Services

Combining Balance Sheet - Non-major Governmental Funds

June 30, 2012 (Expressed in Thousands)

	Special Revenue									
	Domestic Violence Abuser Services 0528	DHS Federal Projects 0592	DHS State Projects 0642	Alcoholism and Substance Abuse 0646	DHS Private Resources 0690	U.S.D.A. Women Infants and Children 0700	Hunger Relief 0706	Tobacco Settlement Recovery 0733	Local Initiative 0762	Crisis Nursery 0777
ASSETS										
Unexpended appropriations	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 79	$ -	$ -
Cash equity with State Treasurer	17	1,944	11,624	752	3,336	1,497	7	-	6,454	-
Cash and cash equivalents	-	-	-	-	-	2,309	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	-	-	-	-	3	-	-	-
Investments	-	-	-	-	-	-	-	-	-	-
Due from other government - federal	-	3,300	-	394	-	3,914	-	-	-	-
Due from other government - local	1	-	-	-	-	-	-	-	-	-
Taxes receivable, net	-	-	-	-	-	-	-	-	-	-
Other receivables, net	-	-	-	-	-	11,783	-	-	-	-
Loans and notes receivable, net	-	-	-	-	-	-	-	-	-	-
Due from other Department funds	-	-	-	-	-	-	-	-	-	-
Due from other State funds	29	2	-	-	-	-	-	-	-	-
Due from State of Illinois component units	-	-	-	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-	-	-	-
Total assets	$ 47	$ 5,246	$ 11,624	$ 1,146	$ 3,336	$ 19,503	$ 10	$ 79	$ 6,454	$ -
LIABILITIES										
Accounts payable and accrued liabilities	$ 6	$ 2,294	$ 226	$ 523	$ 122	$ 15,954	$ -	$ 78	$ 2,155	$ -
Due to other government - federal	-	2	-	2	-	6	-	-	1	-
Due to other government - local	3	1,135	9	8	17	2,636	-	1	324	-
Due to other Department funds	-	2	-	-	-	-	-	-	-	-
Due to other State funds	-	89	11,389	31	2	266	-	-	119	-
Due to State of Illinois component units	-	263	-	187	16	8	-	-	67	-
Unavailable revenue	-	327	-	-	-	16	-	-	-	-
Unearned revenue	-	783	-	395	3,179	617	-	-	3,788	-
Obligations under securities lending of State Treasurer	-	-	-	-	-	-	3	-	-	-
Total liabilities	9	4,895	11,624	1,146	3,336	19,503	3	79	6,454	-
FUND BALANCES (DEFICITS)										
Nonspendable	-	-	-	-	-	-	-	-	-	-
Restricted	-	351	-	-	-	-	-	-	-	-
Committed	38	-	-	-	-	-	7	-	-	-
Assigned	-	-	-	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-	-	-	-
Total fund balances (deficits)	38	351	-	-	-	-	7	-	-	-
Total liabilities and fund balances (deficits)	$ 47	$ 5,246	$ 11,624	$ 1,146	$ 3,336	$ 19,503	$ 10	$ 79	$ 6,454	$ -

State of Illinois

Department of Human Services

Combining Balance Sheet - Non-major Governmental Funds

June 30, 2012 (Expressed in Thousands)

	Special Revenue								
	Rehabilitation Services Elementary and Secondary Education Act 0798	**Domestic Violence Shelter and Service 0865**	**Maternal and Child Health Services Block Grant 0872**	**Community Mental Health Services Block Grant 0876**	**Habitat for Humanity 0877**	**Youth Drug Abuse Prevention 0910**	**Juvenile Justice Trust 0911**	**DHS Other Special Trusts 1139**	**DHS Commissary Funds 1140**
ASSETS									
Unexpended appropriations	$ -	$ -	$ 5,037	$ -	$ -	$ -	$ -	$ -	$ -
Cash equity with State Treasurer	647	551	-	226	-	410	722	-	-
Cash and cash equivalents	-	-	-	-	-	-	-	686	9
Securities lending collateral equity with State Treasurer	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	1,060	-
Due from other government - federal	-	-	5,761	72	-	-	204	62	-
Due from other government - local	-	27	-	-	-	-	-	38	-
Taxes receivable, net	-	-	-	-	-	-	-	-	-
Other receivables, net	-	-	-	-	-	-	-	1	-
Loans and notes receivable, net	-	-	-	-	-	-	-	-	-
Due from other Department funds	2	-	-	-	-	-	-	-	-
Due from other State funds	141	356	-	-	-	14	117	-	-
Due from State of Illinois component units	-	-	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-	-	-
Total assets	$ 790	$ 934	$ 10,798	$ 298	$ -	$ 424	$ 1,043	$ 1,847	$ 9
LIABILITIES									
Accounts payable and accrued liabilities	$ 83	$ 37	$ 746	$ 277	$ -	$ -	$ 287	$ -	$ -
Due to other government - federal	-	-	4	1	-	-	-	-	-
Due to other government - local	5	1	1,225	-	-	-	50	-	-
Due to other Department funds	-	-	-	-	-	-	-	-	2
Due to other State funds	19	10	38	20	-	-	78	-	-
Due to State of Illinois component units	9	-	3,077	-	-	-	136	-	-
Unavailable revenue	-	-	247	-	-	-	-	-	-
Unearned revenue	-	-	1,033	-	-	-	492	-	3
Obligations under securities lending of State Treasurer	-	-	-	-	-	-	-	-	-
Total liabilities	116	48	6,370	298	-	-	1,043	-	5
FUND BALANCES (DEFICITS)									
Nonspendable	-	-	-	-	-	-	-	-	-
Restricted	674	-	-	-	-	-	-	1,847	4
Committed	-	886	-	-	-	424	-	-	-
Assigned	-	-	-	-	-	-	-	-	-
Unassigned	-	-	4,428	-	-	-	-	-	-
Total fund balances (deficits)	674	886	4,428	-	-	424	-	1,847	4
Total liabilities and fund balances (deficits)	$ 790	$ 934	$ 10,798	$ 298	$ -	$ 424	$ 1,043	$ 1,847	$ 9

State of Illinois

Department of Human Services

Combining Balance Sheet - Non-major Governmental Funds

June 30, 2012 (Expressed in Thousands)

	Special Revenue					Permanent Trust			
	DHS Rehabilitation 1144	DHS/DORS Special Revenue 1149	Food Stamp and Commodity 1245	Vending Facility Program for the Blind 1385	Assets for Independence 1391	DHS/DORS Permanent Trust 1150	Burr Bequest 1272	Eliminations	Total
ASSETS									
Unexpended appropriations	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 5,116
Cash equity with State Treasurer	-	-	-	-	-	-	-	-	175,335
Cash and cash equivalents	62	145	-	210	314	98	85	-	3,918
Securities lending collateral equity with State Treasurer	-	-	-	-	-	-	-	-	7,415
Investments	-	83	-	-	-	334	945	-	2,422
Due from other government - federal	-	-	-	-	-	-	-	-	112,700
Due from other government - local	-	32	-	-	-	-	-	-	274
Taxes receivable, net	-	-	-	-	-	-	-	-	260
Other receivables, net	3	1	-	66	4	-	-	-	18,161
Loans and notes receivable, net	-	-	-	402	-	-	-	-	428
Due from other Department funds	9	173	-	-	-	-	-	(23,368)	168
Due from other State funds	-	-	-	-	-	-	-	-	3,644
Due from State of Illinois component units	-	-	-	-	-	-	-	-	17
Inventories	-	-	-	-	-	-	-	-	210
Total assets	$ 74	$ 434	$ -	$ 678	$ 318	$ 432	$ 1,030	$ (23,368)	$ 330,068
LIABILITIES									
Accounts payable and accrued liabilities	$ 3	$ -	$ -	$ 47	$ -	$ -	$ -	$ -	$ 141,796
Due to other government - federal	2	-	-	-	-	-	-	-	263
Due to other government - local	-	-	-	-	-	-	-	-	9,657
Due to other Department funds	-	-	-	-	-	166	-	(23,368)	22,496
Due to other State funds	-	-	-	-	-	-	-	-	17,865
Due to State of Illinois component units	-	-	-	-	-	-	-	-	7,298
Unavailable revenue	-	-	-	-	-	-	-	-	16,566
Unearned revenue	-	-	-	-	-	-	-	-	61,357
Obligations under securities lending of State Treasurer	-	-	-	-	-	-	-	-	7,415
Total liabilities	5	-	-	47	-	166	-	(23,368)	284,713
FUND BALANCES (DEFICITS)									
Nonspendable	-	-	-	-	-	217	945	-	1,372
Restricted	69	434	-	631	318	49	85	-	4,628
Committed	-	-	-	-	-	-	-	-	52,540
Assigned	-	-	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-	-	(13,185)
Total fund balances (deficits)	69	434	-	631	318	266	1,030	-	45,355
Total liabilities and fund balances (deficits)	$ 74	$ 434	$ -	$ 678	$ 318	$ 432	$ 1,030	$ (23,368)	$ 330,068

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, 2012 (Expressed in Thousands)

	Special Revenue								
	Prevention and Treatment of Alcoholism and Substance Abuse Block Grant 0013	Group Home Loan Revolving 0025	Mental Health 0050	Vocational Rehabilitation 0081	Assistance to the Homeless 0100	Youth Alcoholism and Substance Abuse Prevention 0128	Diabetes Research Check-off 0198	Autism Research Check-off 0228	Drunk and Drugged Driving Prevention 0276
REVENUES									
Federal operating grants	$ 62,531	$ -	$ -	$ 109,953	$ -	$ -	$ -	$ -	$ -
Licenses and fees	-	-	-	-	-	1,094	-	-	1,900
Interest and investment income	-	-	-	-	-	-	2	-	-
Other charges for services	-	-	36,215	469	-	-	-	-	-
Other operating grants	-	-	-	-	-	-	-	-	-
Other taxes	-	-	1,022	-	-	-	-	-	-
Other revenues	-	-	(7)	3,676	133	-	3	-	3
Total revenues	62,531	-	37,230	114,098	133	1,094	5	-	1,903
EXPENDITURES									
Health and social services	62,518	-	28,341	120,639	3	687	108	-	1,635
Debt service - principal	1	-	-	16	-	-	-	-	-
Debt service - interest	-	-	-	14	-	-	-	-	-
Capital outlays	2	-	-	1,368	-	-	-	-	-
Total expenditures	62,521	-	28,341	122,037	3	687	108	-	1,635
Excess (deficiency) of revenues over (under) expenditures	10	-	8,889	(7,939)	130	407	(103)	-	268
OTHER SOURCES (USES) OF FINANCIAL RESOURCES									
Appropriations from State resources	-	-	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	-	-
Transfers-in	-	12	-	2,964	-	-	-	-	-
Transfers-out	-	-	-	-	-	-	-	-	-
Capital lease and installment purchase financing	2	-	-	5	-	-	-	-	-
Net other sources (uses) of financial resources	2	12	-	2,969	-	-	-	-	-
Net change in fund balances	12	12	8,889	(4,970)	130	407	(103)	-	268
Fund balances (deficits), July 1, 2011	(12)	90	25,840	1,027	131	6	214	64	(57)
Increase for changes in inventories	-	-	-	-	-	-	-	-	-
FUND BALANCES (DEFICITS), JUNE 30, 2012	$ -	$ 102	$ 34,729	$ (3,943)	$ 261	$ 413	$ 111	$ 64	$ 211

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, 2012 (Expressed in Thousands)

	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	DHS Special Purposes Trust 0408	Old Age Survivors Insurance 0495	Early Intervention Services Revolving 0502	Department of Human Services Community Services 0509
REVENUES									
Federal operating grants	$ 8,576	$ 511,537	$ -	$ -	$ 1,861	$ 225,549	$ 77,812	$ 63,711	$ -
Licenses and fees	-	-	-	-	-	-	-	3,821	-
Interest and investment income	-	-		-	48	-	-	26	-
Other charges for services	-	-	3,871	74	-	-	-	-	-
Other operating grants	-	-		-	-	(1,660)	-	-	-
Other taxes	-	-		-	-	-	-	-	-
Other revenues	-	-		-	-	5	-	(163)	-
Total revenues	8,576	511,537	3,871	74	1,909	223,894	77,812	67,395	-
EXPENDITURES									
Health and social services	8,603	511,537	3,399	46	2,120	229,556	77,770	149,916	-
Debt service - principal	-	-	-	-	-	2	-	-	-
Debt service - interest	-	-	-	-	-	1	-	-	-
Capital outlays	-	-	-	-	-	5,848	42	-	-
Total expenditures	8,603	511,537	3,399	46	2,120	235,407	77,812	149,916	-
Excess (deficiency) of revenues over (under) expenditures	(27)	-	472	28	(211)	(11,513)	-	(82,521)	-
OTHER SOURCES (USES) OF FINANCIAL RESOURCES									
Appropriations from State resources	-	-	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	-	-
Transfers-in	-	-	-	-	-	-	-	75,900	13,850
Transfers-out	-	-	-	-	-	-	-	-	-
Capital lease and installment purchase financing	-	-	-	-	-	8	-	-	-
Net other sources (uses) of financial resources	-	-	-	-	-	8	-	75,900	13,850
Net change in fund balances	(27)	-	472	28	(211)	(11,505)	-	(6,621)	13,850
Fund balances (deficits), July 1, 2011	(142)	-	1,012	98	172	(256)	256	4,920	-
Increase for changes in inventories	-	-	-	-	-	-	(46)	-	-
FUND BALANCES (DEFICITS), JUNE 30, 2012	$ (169)	$ -	$ 1,484	$ 126	$ (39)	$ (11,761)	$ 210	$ (1,701)	$ 13,850

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, 2012 (Expressed in Thousands)

	Special Revenue									
	Domestic Violence Abuser Services 0528	**DHS Federal Projects 0592**	**DHS State Projects 0642**	**Alcoholism and Substance Abuse 0646**	**DHS Private Resources 0690**	**U.S.D.A. Women Infants and Children 0700**	**Hunger Relief 0706**	**Tobacco Settlement Recovery 0733**	**Local Initiative 0762**	**Crisis Nursery 0777**
REVENUES										
Federal operating grants	$ -	$ 21,953	$ 15	$ 6,756	$ -	$ 229,562	$ -	$ -	$ 19,709	$ -
Licenses and fees	-	-	-	-	33	-	-	-	-	-
Interest and investment income	-	-	-	-	-	1	-	-	-	-
Other charges for services	25	-	-	-	-	-	-	-	-	-
Other operating grants	-	-	-	211	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-	-	-
Other revenues	-	(311)	(8)	-	851	-	3	-	-	-
Total revenues	25	21,642	7	6,967	884	229,563	3	-	19,709	-
EXPENDITURES										
Health and social services	45	21,807	(65)	6,967	884	229,563	183	2,367	19,708	-
Debt service - principal	-	-	-	-	-	-	-	-	1	-
Debt service - interest	-	-	-	-	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-	-	-	3	-
Total expenditures	45	21,807	(65)	6,967	884	229,563	183	2,367	19,712	-
Excess (deficiency) of revenues over (under) expenditures	(20)	(165)	72	-	-	-	(180)	(2,367)	(3)	-
OTHER SOURCES (USES) OF FINANCIAL RESOURCES										
Appropriations from State resources	-	-	-	-	-	-	-	2,368	-	-
Lapsed appropriations	-	-	-	-	-	-	-	(1)	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	-	-	-
Transfers-in	-	-	-	-	-	-	-	-	-	-
Transfers-out	-	-	-	-	-	-	-	-	-	-
Capital lease and installment purchase financing	-	-	-	-	-	-	-	-	3	-
Net other sources (uses) of financial resources	-	-	-	-	-	-	-	2,367	3	-
Net change in fund balances	(20)	(165)	72	-	-	-	(180)	-	-	-
Fund balances (deficits), July 1, 2011	58	516	(72)	-	-	-	187	-	-	-
Increase for changes in inventories	-	-	-	-	-	-	-	-	-	-
FUND BALANCES (DEFICITS), JUNE 30, 2012	$ 38	$ 351	$ -	$ -	$ -	$ -	$ 7	$ -	$ -	$ -

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, 2012 (Expressed in Thousands)

	Special Revenue								
	Rehabilitation Services Elementary and Secondary Education Act 0798	Domestic Violence Shelter and Service 0865	Maternal and Child Health Services Block Grant 0872	Community Mental Health Services Block Grant 0876	Habitat for Humanity 0877	Youth Drug Abuse Prevention 0910	Juvenile Justice Trust 0911	DHS Other Special Trusts 1139	DHS Commissary Funds 1140
REVENUES									
Federal operating grants	$ 558	$ -	$ 17,617	$ 12,979	$ -	$ -	$ 1,952	$ 283	$ -
Licenses and fees	-	-	-	-	-	-	-	-	-
Interest and investment income	-	-	-	-	-	-	-	35	-
Other charges for services	-	650	-	-	-	473	-	-	51
Other operating grants	-	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-	-
Other revenues	123	-	-	-	61	-	-	866	-
Total revenues	681	650	17,617	12,979	61	473	1,952	1,184	51
EXPENDITURES									
Health and social services	563	366	17,367	12,979	61	246	1,952	1,268	41
Debt service - principal	-	-	-	-	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-	-	-	-
Total expenditures	563	366	17,367	12,979	61	246	1,952	1,268	41
Excess (deficiency) of revenues over (under) expenditures	118	284	250	-	-	227	-	(84)	10
OTHER SOURCES (USES) OF FINANCIAL RESOURCES									
Appropriations from State resources	-	-	28,590	-	-	-	-	-	-
Lapsed appropriations	-	-	(11,254)	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	(14,326)	-	-	-	-	-	-
Transfers-in	-	-	-	-	-	-	-	-	-
Transfers-out	-	-	-	-	-	-	-	-	(10)
Capital lease and installment purchase financing	-	-	-	-	-	-	-	-	-
Net other sources (uses) of financial resources	-	-	3,010	-	-	-	-	-	(10)
Net change in fund balances	118	284	3,260	-	-	227	-	(84)	-
Fund balances (deficits), July 1, 2011	556	602	1,168	-	-	197	-	1,931	4
Increase for changes in inventories	-	-	-	-	-	-	-	-	-
FUND BALANCES (DEFICITS), JUNE 30, 2012	$ 674	$ 886	$ 4,428	$ -	$ -	$ 424	$ -	$ 1,847	$ 4

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, 2012 (Expressed in Thousands)

	Special Revenue					Permanent Trust			
	DHS Rehabilitation 1144	DHS/DORS Special Revenue 1149	Food Stamp and Commodity 1245	Vending Facility Program for the Blind 1385	Assets for Independence 1391	DHS/DORS Permanent Trust 1150	Burr Bequest 1272	Eliminations	Total
REVENUES									
Federal operating grants	$ -	$ -	$ 3,095,094	$ -	$ 218	$ -	$ -	$ -	$ 4,468,226
Licenses and fees	-	-	-	-	-	-	-	-	6,848
Interest and investment income	-	-	-	-	-	30	1	-	143
Other charges for services	-	-	-	396	-	-	-	-	42,224
Other operating grants	-	-	-	-	-	-	-	-	(1,449)
Other taxes	-	-	-	-	-	-	-	-	1,022
Other revenues	242	262	-	476	(311)	-	-	-	5,904
Total revenues	242	262	3,095,094	872	(93)	30	1	-	4,522,918
EXPENDITURES									
Health and social services	256	374	3,095,094	670	186	(24)	5	-	4,609,741
Debt service - principal	-	-	-	-	-	-	-	-	20
Debt service - interest	-	-	-	-	-	-	-	-	15
Capital outlays	-	-	-	-	-	-	-	-	7,263
Total expenditures	256	374	3,095,094	670	186	(24)	5	-	4,617,039
Excess (deficiency) of revenues over (under) expenditures	(14)	(112)	-	202	(279)	54	(4)	-	(94,121)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES									
Appropriations from State resources	-	-	-	-	-	-	-	-	30,958
Lapsed appropriations	-	-	-	-	-	-	-	-	(11,255)
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	-	(14,326)
Transfers-in	-	5	-	-	-	-	-	(149)	92,582
Transfers-out	(10)	-	-	(144)	-	(5)	-	149	(20)
Capital lease and installment purchase financing	-	-	-	-	-	-	-	-	18
Net other sources (uses) of financial resources	(10)	5	-	(144)	-	(5)	-	-	97,957
Net change in fund balances	(24)	(107)	-	58	(279)	49	(4)	-	3,836
Fund balances (deficits), July 1, 2011	93	541	-	573	597	217	1,034	-	41,565
Increase for changes in inventories	-	-	-	-	-	-	-	-	(46)
FUND BALANCES (DEFICITS), JUNE 30, 2012	$ 69	$ 434	$ -	$ 631	$ 318	$ 266	$ 1,030	$ -	$ 45,355

Combining Statement of Fiduciary Net Assets - Agency Funds

June 30, 2012 (Expressed in Thousands)

	Agency			
	Electronic Benefits Transfers 0540	**DHS Resident's Trust 1143**	**DHS/DORS Agency 1147**	**Total**
ASSETS				
Cash and cash equivalents	$ -	$ 1,322	$ 7	$ 1,329
Investments	-	930	-	930
Due from other government - federal	-	61	-	61
Other receivables, net	-	1	1	2
Due from other Department funds	76	-	25	101
Total assets	$ 76	$ 2,314	$ 33	$ 2,423
LIABILITIES				
Accounts payable and accrued liabilities	$ 76	$ -	$ 33	$ 109
Other liabilities	-	2,314	-	2,314
Total liabilities	$ 76	$ 2,314	$ 33	$ 2,423

State of Illinois

Department of Human Services

Combining Statement of Changes in Assets and Liabilities - Agency Funds

For the Year Ended June 30, 2012 (Expressed in Thousands)

	Balance at June 30, 2011	Additions	Deletions	Balance at June 30, 2012
Electronic Benefits Transfers (0540)				
ASSETS				
Cash equity with State Treasurer	$ -	$ 213,566	$ 213,566	$ -
Due from other Department funds	-	76	-	76
Total assets	$ -	$ 213,642	$ 213,566	$ 76
LIABILITIES				
Other liabilities	$ -	$ 213,642	$ 213,566	$ 76
Total liabilities	$ -	$ 213,642	$ 213,566	$ 76
DHS Resident's Trust (1143)				
ASSETS				
Cash and cash equivalents	$ 1,481	$ 16,357	$ 16,516	$ 1,322
Investments	934	-	4	930
Due from other government - federal	53	1,293	1,285	61
Other receivables, net	1	1	1	1
Due from other Department funds	-	-	-	-
Total assets	$ 2,469	$ 17,651	$ 17,806	$ 2,314
LIABILITIES				
Due to other Department funds	$ -	$ 1,232	$ 1,232	$ -
Other liabilities	2,469	16,419	16,574	2,314
Total liabilities	$ 2,469	$ 17,651	$ 17,806	$ 2,314
DHS/DORS Agency (1147)				
ASSETS				
Cash and cash equivalents	$ 1	$ 294	$ 288	$ 7
Investments	15	-	15	-
Other receivables, net	1	207	207	1
Due from other Department funds	16	81	72	25
Total assets	$ 33	$ 582	$ 582	$ 33
LIABILITIES				
Accounts payable and accrued liabilities	$ 33	$ 288	$ 288	$ 33
Total liabilities	$ 33	$ 288	$ 288	$ 33
Total - All Agency Funds				
ASSETS				
Cash equity with State Treasurer	$ -	$ 213,566	$ 213,566	$ -
Cash and cash equivalents	1,482	16,651	16,804	1,329
Investments	949	-	19	930
Due from other government - federal	53	1,293	1,285	61
Other receivables, net	2	208	208	2
Due from other Department funds	16	157	72	101
Total assets	$ 2,502	$ 231,875	$ 231,954	$ 2,423
LIABILITIES				
Accounts payable and accrued liabilities	$ 33	$ 364	$ 288	$ 109
Due to other Department funds	-	1,232	1,232	-
Other liabilities	2,469	16,419	16,574	2,314
Total liabilities	$ 2,502	$ 18,015	$ 18,094	$ 2,423

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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, 2012, which collectively comprise the Department's basic financial statements and have issued our report thereon dated April 24, 2013. 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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Department's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in findings 12-1 through 12-4 in the accompanying schedule of findings to be material weaknesses.

A *significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in findings 12-5 through 12-7 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 12-3.

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.

Sikich LLP

Springfield, Illinois
April 24, 2013

FINDINGS *(GOVERNMENT AUDITING STANDARDS)*

12-1 **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, 2012 Department financial statements, the following exceptions were noted:

- GAAP reporting packages contained numerous inaccuracies and required corrections which delayed testing of the financial statements and the Schedule of Expenditures of Federal Awards prepared by the Department. Auditors did not receive a complete draft of the financial statements and footnotes from the Department until November 26, 2012, approximately one month late.

- The auditors noted the Department had not properly accounted for amounts due from the federal government and deferred revenue in the DHS Special Purposes Trust Fund (Fund 0408) and the General Revenue Fund (Fund 0001). Federal revenue was deposited in the amount of $45.443 million into the DHS Special Purposes Trust Fund (Fund 0408) for expenditures that were incurred in the General Revenue Fund (Fund 0001). The Department recorded the amount as due from other funds in Fund 0001. However, an amount due from the federal government was also recorded for the same amount which is not correct as the monies had already been received from the federal government and deposited into Fund 0408. This resulted in an overstatement of the receivable from the federal government and deferred revenue in the amount of $45.443 million. The Grant/Contract Analysis Form (SCO-563) and the financial statements were revised as a result.

- In preparing the Schedule of Expenditures of Federal Awards, the Department made several errors which were later corrected by the auditors. These errors included inaccurate expenditure and sub-grantee award amounts for several programs as well as numerous incomplete Catalog of Federal Domestic Assistance (CFDA) titles which did not agree with the CFDA catalog or an award letter.

- The Department had not properly accounted for deferred revenue and federal grant revenue related to the Children's Health Insurance Program (CFDA 93.767) and the Medical Assistance Program (CFDA 93.778) (regular and ARRA) in the Early Intervention Services Revolving Fund (Fund 0502). When the Department prepared the schedule of lapse period draws for GAAP reporting purposes for fiscal year 2011, a lapse period draw in the amount of $2.279 million was omitted. As the amount was not material, the auditors did not propose a financial statement adjustment in the prior year. As a result, amounts reported for current year federal revenue are overstated by $2.279 million.

- The auditors noted the Department included an estimated $3.262 million as lapse period draws when preparing the Grant/Contract Analysis Form (SCO-563) for purposes of calculating deferred revenue – unavailable in the Community Mental Health Medicaid Trust Fund (Fund 0718). This amount was not drawn in lapse period and should not have been included. The Department of Healthcare and Family Services initiates the draws of federal revenue into this fund and provides the Department with the amounts drawn. The spreadsheet provided to the Department was misinterpreted by Department personnel when preparing the reporting package. As a result, deferred revenue was understated by $3.262 million and federal operating grants were overstated by $3.262 million in the Governmental Fund Statements.

- The Department paid fiscal year 2011 prompt payment interest at the erroneous rate of 2% rather than at 1% to 983 vendors. The funds overpaid totaled $5.380 million. Six vendors were overpaid approximately $1.628 million. This error was discovered by the Department in January 2012; however, the receivable to recoup these funds was not recorded in the original GAAP reporting package for the General Revenue Fund (Fund 0001). The Department instructed the Illinois Office of the Comptroller to post an adjustment to record the additional receivables of $5.380 million on November 7, 2012. Consequently, the Department underpaid a significant portion of fiscal year 2011 prompt payment interest to other vendors as a result of the overpayments. Therefore, in conjunction with the additional adjustment for the receivables, the Illinois Office of the Comptroller posted an adjustment of Fund 0001's GAAP reporting package to record the additional payables of $7.608 million to 727 vendors. See finding 12-2 for additional detail.

- In the Mental Health Fund (Fund 0050), auditors noted the Department had recorded an accounts receivable for postage charges incurred by another State agency. However, the amounts incurred for postage were paid directly to the vendor by the other State agency. As a result, accounts receivable and other charges for services were overstated by $1.143 million.

- Auditors noted the Department had not timely posted payroll expenditures to their accounting system, Consolidated Accounting and Reporting System (CARS). The reports which support financial reporting data had to be manually adjusted to include expenditures for the May and June 2012 payroll periods that were not posted. This occurred in nineteen fund reporting packages for a total of $196.816 million in payroll expenditures.

- When reviewing the expenditure reconciliation from the Department's accounting system, CARS, to the Illinois Office of the Comptroller's accounting system at June 30, 2012, the auditors noted the General Revenue Fund (Fund 0001) and the Community Mental Health Medicaid Trust Fund (Fund 0718) both had significant reconciling items. In Fund 0001, a total of $7 million of expenditures were not posted in CARS. In Fund 0718, amounts totaling $21.432 million were not posted in CARS.

Department officials stated the errors contained in the GAAP reporting packages were primarily due to a lack of a sufficient number of qualified staff and corresponding titles, education, and experience to prepare GAAP reporting packages and financial statements in accordance with GAAP. The lack of a complete general ledger and grants management system also contributed to the errors.

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. 12-1, 11-1, 10-1 and 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 seeking or 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 will implement procedures and cross-training measures to ensure GAAP Reporting Packages are prepared in a timely, accurate and complete manner. This will include seeking or 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.

12-2 **<u>FINDING:</u>** (Inadequate controls over prompt payment interest)

The Department of Human Services (Department) did not maintain adequate controls over the calculation and payment of its 2011 prompt payment interest (PPI) expenditures. In addition, the Department failed to timely recover overpayments paid to vendors during the current audit period.

As part of performing testing associated with the Department's financial statement audit, the auditors requested supporting documentation to verify its accrual of the Department's reported accounts receivable balance and accounts payable balance in the General Revenue Fund's (Fund 0001) 2012 GAAP reporting package submitted to the Illinois Office of the Comptroller (Comptroller). While reviewing the documentation provided by the Department, the auditors noted the Department had not recorded an accounts receivable adjustment for Fund 0001 relating to an erroneous overpayment of PPI paid out to 983 vendors, totaling $5.380 million, during December 2011. In addition, the auditors noted the Department had not recorded an accounts payable adjustment for Fund 0001 relating to 727 vendors, totaling $7.608 million, not being paid PPI due to the overpayment of PPI and a lack of appropriation authority. (As a result, these vendors will have to seek payment through the Illinois Court of Claims which is a process that can take between one and two years to complete.) On November 7, 2012, the Department instructed the Comptroller to post an adjustment to Fund 0001's GAAP reporting package to record both the additional receivable of $5.380 million and the additional payable of $7.608 million.

The auditors conducted additional auditing procedures in order to assess what had caused the overpayments to be paid out and what the Department's procedures were for recouping the $5.380 million from the 983 vendors and to ensure the Department's established policies and procedures were followed.

During fiscal year 2011, the laws and regulations governing agencies' calculation of PPI changed in the following ways:

- The State Prompt Payment Act (Act) (30 ILCS 540/1, <u>et seq.</u>) and its related rules (74 Ill. Adm. Code 900, <u>et seq.</u>) sets forth the terms under which State agencies should begin accruing interest to vendors until such time the original amount billed to the State can be paid. Since the original Act was passed, the terms of the interest penalty have changed frequently. During fiscal year 2011, the Department had two applicable interest penalty rates. Certain medical assistance payments (bills submitted under Article V of the Illinois Public Aid Code (305 ILCS 5/5-1 <u>et seq.</u>)) were required to be paid at an interest penalty rate of 2% per month. All other bills were to be paid at an interest penalty rate of 1% per month. P.A. 97-72, effective for fiscal year 2012, eliminated the variance in rates thereby returning all interest penalties to the rate of 1%.

- In fiscal year 2011, the Act was additionally amended to change the dollar thresholds for issuing and consolidating interest payments. Effective July 1, 2010 interest penalties less than $50 were not to be paid but accrued until all interest due the vendor for all similar warrants exceeded $50, at which time the accrued interest was payable and interest would begin to accrue again. With the exception, that any interest due and payable at the end of the fiscal year, which was less than $50, was payable at that time.

- The State Finance Act (30 ILCS 105-25) extended the timeframe for paying liabilities from expiring appropriations for fiscal year 2011 from August 31, 2011 until December 31, 2011. The Comptroller issued Accounting Bulletin No. 170 to State agencies on July 27, 2011 to inform them the closing date for Prompt Payment Interest Penalty vouchers for fiscal year 2011 would be December 19, 2011.

The auditors discovered the overpayments to the 983 vendors were a result of a formula error within the newly developed PPI calculation program. As the PPI laws and regulations had changed from the previous years, the Department was unable to calculate the 2011 PPI due to vendors at fiscal year-end in the same system which it previously had for 2010. Development of the new PPI program was completed in December 2011. Within the new program utilized for 2011 PPI, an inaccurate formula was used which resulted in the enhanced medical assistance rate of 2% being applied to 983 ineligible vendors.

Due primarily to staffing constraints, the number of PPI payments needing to be paid out, the changing of laws governing PPI and an impending due date for the final PPI calculation's submission to the Comptroller, the program was implemented without sufficient testing, review and approval by upper management.

Department personnel discovered the error of overpaying PPI during January 2012 at which time they promptly brought the matter of the overpayments to the attention of management. Management developed a corrective action plan dated January 26, 2012 and shared it with staff on January 30, 2012. The corrective action plan included a collection step to contact the vendors receiving the largest overpayments immediately by telephone to advise that the payments should be returned. The Department calculated 60 vendors which accounted for approximately 84% of the total overpayments. The corrective action plan was discussed at regular meetings held during the months of February 2012 through July 2012. However, no action was taken to establish the accounts receivable within the Department's Consolidated Accounting and Reporting System (CARS) and begin collection activity until after March 6, 2013, over 14 months from the time the overpayments were discovered, even though staff repeatedly asked for guidance and approval from management to begin. It is general business knowledge that the longer an organization takes to initiate collection activity the less likely it is that it will be able to collect all funds due.

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

Because of the significance of the weaknesses in the Department's failure to properly calculate and pay PPI, timely record accounts receivable and timely initiate procedures to recover overpayments, 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.

Failure to properly develop, test and approve application programs increases the chances for potential errors, inaccurate financial reporting and misappropriation of State assets. In addition, failure to timely address Departmental errors decreases the likelihood of collecting all funds due to the State. (Finding Code No. 12-2)

RECOMMENDATION:

We recommend Department management provide timely guidance to its staff and thoroughly review new or revised application programs before implementation. Further, we recommend the Department follow established policies and procedures for recording overpayments as receivables and billing to ensure the likelihood that all State funds are eventually recouped.

DEPARTMENT RESPONSE:

We partially agree. This error was the result of lack of staffing. The decision to postpone the collection of this overpayment was made due to the fact that the same providers that received an overpayment collectively were owed $522 million. Management did not ignore staff in correcting the overpayment issue it was a conscious decision that due to lack of staff and the GAAP packages and financials deadline at the same time we chose to postpone the collection of the overpayments. If the back payments to providers were up to date, a different decision to pursue collection activities immediately would have been made. Currently, providers are owed over $500 million and under these circumstances we do not believe collectability will be an issue.

We are currently working with the legislature on writing legislation that will allow DHS to offset 2012 prompt payment interest with the overpayment.

AUDITOR COMMENT:

The FY12 GAAP reporting package preparation process would normally begin during the first few weeks of July 2012, which is several months after the January 2012 date when the Department discovered the overpayment problem. The auditors obtained information from various Department staff members regarding the overpayments and the need to establish an accounts receivable. In fact, staff members within the Bureau of Collections set up a receivable code in the Department's Consolidated Accounting and Reporting System in late January 2012.

The Department has established policies and procedures to recover overpayments which are standardized and ensures proper internal controls are in place to recoup funds due to the State in a timely manner. In this instance management did not follow those procedures and delayed the collection of $5.380 million for over a year. In addition, not all vendors who were overpaid were service providers. The list of vendors who were overpaid FY11 PPI also included vendors who had performed other operational and administrative services for the Department.

The Illinois Office of Comptroller (Comptroller) issues guidance on establishing, reporting and collecting amounts owed to the State in the Statewide Accounting Management System Manual (SAMS Manual Procedures 26.10.10 through 26.40.80). SAMS Manual Procedure 26.20.10 requires an accounts receivable to be created when goods are delivered, services are performed or when the State's claim for future cash is reasonably estimable. Taking 14 months to initiate collection procedures clearly is an inordinate amount of time and deviates from State requirements.

12-3 FINDING: (Noncompliance with statutory requirements for fiscal reporting)

The Department of Human Services (Department) did not file timely the necessary financial information for fiscal year 2012 with the Illinois Office of the Comptroller (Comptroller).

The State Comptroller Act (Act) (15 ILCS 405/19.5) requires State agencies to report, on or before October 31, 2012, all financial information as directed by the Comptroller in order to compile and publish a comprehensive annual financial report (CAFR) in accordance with generally accepted accounting principles (GAAP). The Act permits the Comptroller to require certain State agencies to submit information before this date.

The Statewide Accounting Management System Manual (Procedure 27.10.10) requires a State agency to submit annual GAAP reporting packages for any fund or funds in which they expend from and/or deposit receipts. Department personnel in the Office of Fiscal Services received a schedule of due dates from the Comptroller for various financial information on June 8, 2012. The due dates ranged from July 13, 2012 to October 1, 2012. In addition, the personnel received a memorandum from the Comptroller dated June 20, 2012 noting the importance and inter-relationships of specific fund GAAP reporting forms administered by the Department with a due date of September 10, 2012 for those funds.

The auditors noted several weaknesses in the preparation of GAAP reporting forms and year-end Department financial statements. See finding and recommendation 12-1 beginning on page 51. Among the weaknesses noted was the late submission of the Department's financial statements to the auditors on November 26, 2012. Likewise, in a letter dated November 5, 2012, the Comptroller notified the Department about items that had not been received as of October 31, 2012. These items included: 1) draft financial statements as of June 30, 2012, 2) responses to review comments relating to the GAAP package submission for the General Revenue Fund, and 3) revisions to the form SCO-538 for reporting information on capital assets.

In response to the letter, the Department submitted a report and action plan on November 15, 2012 to the Comptroller, the Auditor General, the Office of the Governor, the Speaker and Minority Leader of the House of Representatives, and the President and Minority Leader of the Senate. The action plan included four steps. Steps two through four addressed the three items noted by the Comptroller as being late and were completed either by the time the plan was submitted or by the end of November 2012. The first step of the action plan was to hire enough qualified personnel. Department personnel stated the delays were attributed to the lack of a sufficient number of qualified staff. The Department believes existing job titles do not allow them to hire personnel with the proper qualifications. The Department noted the Financial Reporting Standards Board Act (30 ILCS 30/1 et seq.) effective August 23, 2012 will enable them to hire qualified personnel. As of November 15, 2012, the Department estimated they are 5% complete with this step.

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 compliance with statutory requirements for fiscal reporting, 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.

Failure to submit required financial information timely could cause delays in the statewide financial reporting by the Comptroller. (Finding Code No. 12-3)

RECOMMENDATION:

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

12-4 FINDING: (Weaknesses over quarterly reporting of accounts receivable)

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

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

During testing of the quarterly receivable forms, the auditors noted the reports were manually compiled from multiple accounts receivable systems in order to issue a single report. The compilation is complex and cumbersome and, as a result, there is a potential for errors in reporting. The current process takes approximately 15-20 hours to complete over a period of several weeks. The Department's current primary accounts receivable system is the Accounts Receivable System (ARS) with the secondary systems in the Consolidated Accounting and Reporting System (CARS) and the Reimbursement System II (RE2). The systems need to be updated to handle the quantity of transactions processed by the Department.

Auditors noted the quarterly Form C-98 submitted to the Comptroller contained differences that could not be reconciled with the Department's supporting documentation. For example, for the Mental Health Fund (Fund 0050), receivable balances each quarter consist of balances from CARS, RE2, plus entries for Medicare Part D and postage reimbursements. The Department does not maintain a detail accounts receivable subsidiary ledger to support the detail of the ending Fund 0050 quarterly balances. Rather, the Department generally takes the beginning quarterly receivable balance, adds new receivables and deletes payments to derive an ending quarterly balance. Auditors reviewed the supporting documentation for these receivables but were unable to reconcile the amounts to the totals reported for the quarter end. For fiscal year 2012, differences ranged from $20 million to $37 million at the end of each quarter.

Auditors also noted there were Form C-98's generated for funds that do not report receivables. Department personnel indicated that CARS will populate receivable amounts for funds that actually do not have receivables. According to Department personnel, these amounts are populated in error and must be zeroed out manually.

In addition, auditors noted amounts erroneously recorded as accounts receivable during their review of the fund reporting package for the Mental Health Fund (Fund 0050). When the Department prepared the C-97 for the fund, they included $12.7 million as a receivable which was for postage charges being used by another agency. The Department received the vendor invoices for the postage being used by the other agency; however, the other agency was responsible for paying the vendor directly. Auditors also noted the Department had recorded an amount as uncollectible of approximately $11.5 million which reduces the overall receivable for financial statement purposes. As a result, the financial statements contained accounts receivable that were overstated by $1.1 million.

Additionally, auditors noted discrepancies when reviewing the Form C-97 for the Group Home Loan Revolving Fund (Fund 0025) when compared to amounts reported in the GAAP reporting package for the fund. The Department reported net receivables on the Form C-97 of $63 thousand while the GAAP reporting package reported $26 thousand which is a difference of $37 thousand. Also, auditors noted the estimated uncollectible portion of the receivables was not consistently calculated between quarters.

In response to this prior finding, the Department has developed formal written policies and procedures to document its existing system and cross-trained other workers on preparing the required reports. It appears there is a methodology for accumulating quarterly accounts receivable information, but limitations in current systems make it cumbersome and difficult to support. However, due to the size of the Department and the balance of accounts receivable (approximately $522 million), the current process for compiling the data does not efficiently or effectively integrate automation of its accounts receivable activity into the Department's financial accounting system, CARS, and makes it difficult to prepare an accurate aging of the Department's accounts receivable.

Because of the significance of the weaknesses in the Department's accounts receivable reporting system, 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.

Failure to maintain a centralized and automated accounts receivable system could hinder the Department's ability to timely and accurately report accounts receivable balances. The current process also increases the possibility there are unrecorded accounts receivable, interest or double counted amounts. (Finding Code No. 12-4, 11-5, 09-24 and 07-16)

RECOMMENDATION:

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

DEPARTMENT RESPONSE:

The Department agrees with the recommendation. The Department continues to review the Accounts Receivable agency wide. Based on the results of the review, we will establish and implement any changes as solutions occur.

DHS is in the process of consolidating the financial reporting from the three Accounts Receivable Systems. The Department will continue to work with the appropriate parties regarding any possible state-wide consolidated accounting system initiatives.

12-5 **<u>FINDING</u>:** (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:

- Weaknesses in segregation of duties for annual inventory counting were noted at six of twenty-two (27%) locations (20 facilities and 2 warehouses). For example, Chicago Read Mental Health Center had a staff member who counted inventory and recorded the amounts to be entered in the inventory system. At other facilities, staff members counted and recorded inventory in their own work area. In addition, at two facilities the recorder also approved the count sheet.

- The annual inventory counts were not conducted on the required dates at one facility and two warehouses. The annual count at the Jacksonville Developmental Center took place nine days after year-end. The warehouse counts took place prior to June 28, 2012, which was the earliest date allowed according to established inventory procedures.

- The auditors noted eight items of inventory were miscounted at the Springfield Warehouse during physical inventory counts. This resulted in a net overstatement of inventory totaling $1,151.

- Auditors noted the Department is not consistently removing items classified as forward stock from the inventory system. Forward stock includes items altered in the print shop such as envelopes, folders and application forms. Department personnel stated the forward stock items would not be included in the year end physical count as they were not reflected on the inventory listing. During the physical count conducted by auditors, it was noted there were items on the year end inventory listing that were considered forward stock. At the Springfield and Chicago Warehouses there were a total of 912 print shop items with a dollar value of $117,038 on the inventory listing at year end.

- Auditors noted count sheets utilized to document the inventory count at six facilities were not complete. The count sheets lacked the page numbers of inventory counted, contained no signature of approval, or were not signed by the recorder.

- 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 weighted average cost method. Under the weighted average cost method, inventory is valued based on the total cost of goods available for sale divided by the total number of units available for sale. Auditors noted the weighted average cost method is not being utilized to record the cost of commodity inventories at the two warehouses; instead, the warehouses value the inventory based on most recent invoice price.

- The auditors noted the Department did not provide year end adjustment listings for 19 of 20 facilities until nearly two months after the initial request. After a review of the adjustments by facility, auditors noted a total of four facilities with significant adjustments. The percentage of net adjustments to the total general ledger balance for each facility that were considered significant ranged from 4 to 17%.

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,			
	2012	2011	2010	2009
Inadequate segregation of duties	X	X	X	X
Lack of or inadequate written inventory procedures		X		
Count sheets not properly completed	X	X		
Purchase history unable to be reviewed	X	X	X	X
Failure to make timely adjustments to inventory records		X		
Counts that could not be reconciled		X		X
Improper cutoff for pharmaceutical inventories		X		
Inventory items overstocked or expired		X		
Inventory items not clearly labeled with CCS item number		X		
Improperly recording values of inventory	X	X	X	X
Incorrect adjustments made after physical count		X		
Inventory items not included in physical count		X		
Inventory items not adequately controlled		X		
Discrepancies/weakness noted in inventory balance	X	X		
Inventory storage areas were disorganized		X		
Duplicate system used to track inventory				X
Counting not performed at all facilities			X	X
Failure to document who counted inventory		X		
Errors on Summary of Commodity Control System and Other Inventories		X	X	X
Improper removal of forward stock from inventory listing	X			
Inventory counts not conducted on required dates	X			
Significant adjustments to year end balances	X			

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to 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, this is considered 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 $29.632 million during fiscal year 2012. In addition, the Department recorded ending commodities inventories of $8.682 million at June 30, 2012. (Finding Code No. 12-5, 11-2, 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 continue strengthening its oversight function related to commodities to allow for improved internal controls.

12-6 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 $8.472 million at June 30, 2012.

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 performed inventory test counts on June 29th and July 2nd. 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 29th and July 2nd to the quantities on the previous Sunday night's report.

The Department counted their annual inventory for all stores from June 26th to July 9th as opposed to June 30th which is the fiscal year end. In addition, the Department was unable to provide year end adjustment listings for 19 of 20 facilities. Department personnel indicated the process of obtaining information from each location regarding year end adjustments was very cumbersome. Therefore, auditors were unable to determine if there were significant adjustments and if they were made timely.

This finding has been reported six other times. In the response to the June 30, 2011 finding, Department personnel stated a decision memorandum had been implemented by the Department and a Request for Proposal (RFP) had been submitted to the Department of Central Management Services (DCMS) for approval. As of December 21, 2012, the RFP had been returned to the Department for clarification and had not been approved by DCMS.

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

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

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. 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. 12-6, 11-3, 10-3, 09-3, 08-4, 07-13 and 05-17)

RECOMMENDATION:

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

DEPARTMENT RESPONSE:

The Department agrees with the recommendation. The Department is issuing an RFP for a centralized commodity control system. This would replace five current systems with one Agency-wide inventory system. This will allow the Department to access current inventory levels and to ensure all inventory unit costs are properly recorded.

12-7 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 Form) 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 transfer, when in fact there may have been deletions. For example, the Department has reports that calculate depreciation expense monthly or quarterly. Compiling this data to accumulate annual totals is very cumbersome. As a result, the Department recorded any differences as transfers. Since the differences between "netted" and "gross" totals are significant, additions, deletions and transfers during the year should be supported and reported separately.

The original SCO-538 Form was submitted to the Illinois Office of the Comptroller (Comptroller) on September 9, 2012, approximately one month late. However, after the initial submission the Comptroller noted numerous changes that needed to be made to the SCO-538 Form. Due to staffing shortages at the Department, the Comptroller made the revisions and provided the revised SCO-538 Form to the Department on November 7, 2012. As a result, the SCO-538 Form was submitted approximately three months late. The Department originally reported $6.781 million of building and building improvement additions; however, the Comptroller revised the amount to $955 thousand after their review. The Department originally reported no deletions of building and building improvements when the actual amount should have been reported as $443 thousand. Additionally, the transfers associated with building and building improvements was originally reported as $378 thousand while the revised amount was $5.891 million resulting in an increase of $5.513 million. As the original SCO-538 Form was submitted after the lapse period, the Department would have had all information for capital assets available when completing the SCO-538 Form.

Auditors noted the Department was unable to provide supporting documentation for the amounts reported on the supporting schedules utilized to prepare the SCO-538 Form. The Department reported amounts totaling $1.579 million for building improvements that could not be supported by cost summary reports or other supporting documentation. In addition, the Department reported the beginning balance from the supporting schedule for building and building improvements of $244.280 million on the SCO-538 Form instead of properly reporting the ending balance of $243.810 million.

This finding has been reported five other times. In the response to the June 30, 2011 finding, the Department stated they agreed with the recommendation. The Department further stated they were considering alternatives to enhance the overall reporting capabilities of the Department's tracking systems.

The Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3001) requires State agencies to 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 capital asset records. Department records do not always readily reflect the components of addition, deletions, and net transfers.

Because of the significance of the exceptions noted, specifically the weaknesses in the capital asset financial reporting, 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 Manual (Procedure 27.20.38) requires a State agency to report capital assets and related accumulated depreciation. (Finding Code No. 12-7, 11-4, 10-4, 09-4, 08-5 and 07-5)

RECOMMENDATION:

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

DEPARTMENT RESPONSE:

The Department agrees with the recommendation. The Department will review and enhance, as necessary, its current system of gathering capital asset information to improve the accuracy and timeliness of its capital asset records and devote necessary personnel to these tasks.