State of Illinois
Department of Human Services

Financial Audit
For the Year Ended June 30, 2016

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

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State of Illinois
Department of Human Services
Financial Audit

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State of Illinois

Department of Human Services

Agency Officials

Secretary	James T. Dimas (designate 5/18/15 – present)
Assistant Secretary (Operations)	Vacant
Assistant Secretary (Programs)	Vacant
Budget Director	Robert Brock
Business Services Director	Paul Hartman (Acting 1/20/15 – 2/17/15, Appointed 8/1/15 - present)
Chief of Staff	Melissa Wright (Acting 2/17/15–5/15/15, Appointed 5/18/15 – 12-31-15) Greg Bassi (1/25/16 – 6/30/16) Fred Flather (7/1/16 – present)
Chief Financial Officer	Robert Brock (Acting 2/11/15 – 7/15/15, Appointed 7/16/15 - present)
Chief Operating Officer	Vacant (2/12/15 – 9/20/15) Khari Hunt (9/21/15 – present)
Office of Contract Administration Manager	Dan Melliere (Acting 3/23/15 – 12/31/15) Brian Bertrand (1/1/16 – present)
Chief Internal Auditor	Jane Hewitt
Agency Procurement Officer	William Strahle
Fiscal Services Director	Greg Primm (Acting 6/8/15 – 5/11/16) Alex Jordan (Acting 7/31/16 – present)
Human Resources Director	Scott Viniard
Management Information Services Chief	Brad Long (6/16/15 – 10/31/16)
Office of Community Relations Director	Veronica Vera (Acting 4/20/15 – 12/31/15) Marianne Manko (1/1/16 – 11/15/16)
Chief Legislative Liaison	Jennifer Aring

Hispanic/Latino Affairs Director	Vacant (4/1/15 – 11/30/16) Elizabeth Diaz Castillo (12/1/16 – present)
General Counsel	Greg Bassi (5/16/15 – 7/26/15) Daniel Dyslin (Acting 7/27/15 – 9/14/15) Greg Bassi (9/15/15 – 1/24/16) Fred Flather (1/25/16 – 6/30/16) Corey-Anne Gulkewicz (7/1/16 – present)
Inspector General	Michael McCotter
Office of Strategic Planning and Performance Director – Renamed: Innovation, Strategy & Performance	Vacant (1/20/15 – 7/31/15) Bruce Bendix (8/1/15 – present)
Division of Alcohol and Substance Abuse Director	Theodora Binion (7/1/03 – 12/31/15) Maria Bruni (Acting 1/18/16 – present)
Division of Rehabilitation Services Director	Kris Smith (Acting 2/12/15 – 6/30/15, Appointed 7/1/15 - present)
Division of Developmental Disabilities Director	Greg Fenton (Acting 3/16/15 – 7/15/15, Appointed 7/16/15 – present)
Division of Mental Health Director	Theodora Binion (Acting 2/1/13 – 9/8/15) Diana Knaebe (9/9/15 – present)
Division of Clinical, Administrative and Program Support Manager	Melissa Wright (Acting 3/9/15 – 12/31/15) J. Michael (Mike) Patton (10/3/16 – present)
Office of Family Community Services Director (Formally: HCD)	Diane Grigsby-Jackson
Grant Administration Director	Vacant (1/20/15 – 9/30/15) Mary Jennings (10/1/15 – present)
Office of Security and Emergency Preparedness Director	Ken McCaffrey (Acting 2/1/15 – 9/15/15) Vacant (9/16/15 – present)

Agency main offices are located at:

100 South Grand Avenue, East Springfield, Illinois 62726	401 South Clinton Street Chicago, Illinois 60607

State of Illinois

Department of Human Services

Financial Statement Report

Summary

The audit of the accompanying basic financial statements of the State of Illinois, Department of Human Services (Department) was performed by RSM US LLP.

Based on their audit, the auditors expressed unmodified opinions on the Department's basic financial statements.

Summary of Findings

The auditors identified matters involving the Department's internal control over financial reporting that they considered to be material weaknesses and significant deficiencies. The material weaknesses are described in the accompanying Schedule of Findings on pages 66-79 of this report as items 2016-001, 2016-004 and 2016-005. The significant deficiencies are described in the accompanying Schedule of Findings as items 2016-002 and 2016-003.

Exit Conference

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on January 18, 2017. Attending were:

Department of Human Services:

James T. Dimas	Secretary - Designate
Jane Hewitt	Chief Internal Auditor
Albert Okwuegbunam	Senior Auditor
Sunday Odelle	Audit Liaison
Robert Brock	Chief Financial Officer
Jerri Vogel	General Accounting
Paul Thelen	Program Liaison, FCS
Alex Jordan	Bureau Chief-Collections
Diane Grigsby-Jackson	Director, Office of Family Community Services
Susan Hamlin	Unit Manager, Client Systems Section
Brenda Flowers	Public Service Administrator, Program Reporting Unit, FCS
Lauren Page	Supervisor, Bureau of Collections, Fiscal Services
Mark Bartolozzi	Bureau Chief, Bureau of Revenue Management and Federal Reporting
Bobby Gillmore	Assistant Bureau Chief, General Accounting Services
Carolyn Bowers	Accountant Advance, Division of Alcoholism & Substance Abuse
Vishal Parmar	Project Manager, Office of the Secretary
Khari Hunt	Chief Operating Officer
Fred Flather	Chief of Staff, Office of the Secretary
Maria Brani	Director (Acting) Division of Alcohol and Substance Abuse
Corey-Anne Gulkewicz	General Counsel
Rick Nance	Administrator, Division of Alcohol and Substance Abuse
Kelly Sweeton	Assistant Bureau Chief, Bureau of Collections, Fiscal Services

Exit Conference (Continued)

Office of the Auditor General:		**RSM US LLP:**
Elvin Lay	Audit Manager	Linda Abernethy, Partner
Jennifer Rankin	Audit Manager	Ryan Caldwell, Manager
Kathy Lovejoy	Audit Manager	Adam Lanter, Senior

The responses to the recommendations were provided by Jane Hewitt, Chief Internal Auditor, in an email dated January 26, 2017.

Independent Auditor's Report

Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Human Services, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the State of Illinois, Department of Human Services' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Human Services, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements of the State of Illinois, Department of Human Services are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, the major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the State of Illinois, Department of Human Services. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2016, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2017 on our consideration of the State of Illinois, Department of Human Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Department of Human Service's internal control over financial reporting and compliance.

Restricted Use of this Auditor's Report

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

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
February 2, 2017

State of Illinois

Department of Human Services

Statement of Net Position and Governmental Funds Balance Sheet

June 30, 2016 (Expressed in Thousands)

	General Fund	Other Non-major Funds	Total Governmental Funds	Adjustments	Statement of Net Position
ASSETS					
Unexpended appropriations	$ 207,310	$ 345	$ 207,655	$ -	$ 207,655
Cash deposited with State Treasurer	92,222	195,549	287,771	-	287,771
Cash and cash equivalents	179	3,987	4,166	-	4,166
Securities lending collateral equity with State Treasurer	24,627	11,481	36,108	-	36,108
Investments	-	1,961	1,961	-	1,961
Due from other government - federal	98,352	125,468	223,820	-	223,820
Due from other government - local	-	328	328	-	328
Taxes receivable, net	-	205	205	-	205
Loans and notes receivable, net	-	400	400	-	400
Due from other Department fiduciary funds	-	1,092	1,092	-	1,092
Due from other Department funds	14,201	142	14,343	(14,343)	-
Due from other State funds	1,612	6,643	8,255	-	8,255
Due from State of Illinois component units	-	5	5	-	5
Inventories	3,772	3,272	7,044	-	7,044
Prepaid expenses	-	-	-	558	558
Recipient services and other receivables, net	5,625	155,511	161,136	-	161,136
Capital assets not being depreciated	-	-	-	2,993	2,993
Capital assets being depreciated, net	-	-	-	206,757	206,757
Total assets	447,900	506,389	954,289	195,965	1,150,254
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows of resources - SERS pensions	-	-	-	1,017,907	1,017,907
Deferred outflows of resources - TRS pensions	-	-	-	769	769
Total assets and deferred outflows of resources	$ 447,900	$ 506,389	$ 954,289	1,214,641	2,168,930
LIABILITIES					
Accounts payable and accrued liabilities	$ 296,178	$ 314,716	$ 610,894	$ -	$ 610,894
Due to other government - federal	2,532	39,530	42,062	-	42,062
Due to other government - local	5,146	31,411	36,557	-	36,557
Due to other Department fiduciary funds	48	-	48	-	48
Due to other State fiduciary funds	15	2,615	2,630	-	2,630
Due to other Department funds	142	14,201	14,343	(14,343)	-
Due to other State funds	73,341	11,716	85,057	-	85,057
Due to State of Illinois component units	1,082	7,228	8,310	-	8,310
Unearned revenue	-	20,246	20,246	-	20,246
Obligations under securities lending of State Treasurer	24,627	11,481	36,108	-	36,108
Long-term obligations:					
Due within one year	-	-	-	6,222	6,222
Due subsequent to one year	-	-	-	5,721,661	5,721,661
Total liabilities	403,111	453,144	856,255	5,713,540	6,569,795
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	15,635	142,594	158,229	(158,229)	-
Deferred inflows of resources - SERS pensions	-	-	-	257,989	257,989
Deferred inflows of resources - TRS pensions	-	-	-	1,858	1,858
Total Deferred Inflows of Resources	15,635	142,594	158,229	101,618	259,847
FUND BALANCES/NET POSITION					
Fund Balances (Deficit):					
Nonspendable	3,772	4,434	8,206	(8,206)	-
Restricted	84,380	80,938	165,318	(165,318)	-
Committed	41,641	50,643	92,284	(92,284)	-
Unassigned	(100,639)	(225,364)	(326,003)	326,003	-
Net Position (Deficit):					
Net investment in capital assets	-	-	-	209,202	209,202
Restricted for health and social service programs	-	-	-	307,909	307,909
Restricted-funds held as permanent investments:					
Nonexpendable purposes	-	-	-	1,162	1,162
Expendable purposes	-	-	-	66	66
Unrestricted net position (deficit)	-	-	-	(5,179,051)	(5,179,051)
Total fund balances (deficit)/net position (deficit)	29,154	(89,349)	(60,195)	$ (4,600,517)	$ (4,660,712)
Total liabilities, deferred inflows and fund balances	$ 447,900	$ 506,389	$ 954,289		

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

State of Illinois
Department of Human Services
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Position
June 30, 2016
(Expressed in Thousands)

Total fund balances (deficit) - governmental funds		$ (60,195)
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.		209,750
Deferred outflows of resources related to pensions are not reported in the governmental funds since they do not use current financial resources. These deferred outflows of resources consist of the following:		
Deferred outflows of resources - SERS pensions	1,017,907	
Deferred outflows of resources -TRS pensions	769	1,018,676
Prepaid expenses for governmental activities are current uses of financial resources for funds.		558
Revenues in the Statement of Activities that do not provide current financial resources are deferred inflows of resources in the governmental funds.		158,229
Deferred inflows of resources related to pensions are not reported in the governmental funds since they do not provide current financial resources. These deferred inflows of resources consist of the following:		
Deferred inflows of resources - SERS pensions	(257,989)	
Deferred inflows of resources -TRS pensions	(1,858)	(259,847)
Some liabilities reported in the Statement of Net Position do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. These liabilities consist of:		
Net pension liability - SERS	(5,660,656)	
Net pension liability - TRS	(1,567)	
Capital lease obligations	(548)	
Compensated absences	(65,112)	(5,727,883)
Net position (deficit) of governmental activities		$ (4,660,712)

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

State of Illinois

Department of Human Services

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

For the Year Ended June 30, 2016 (Expressed in Thousands)

	General Fund	Other Non-major Funds	Total Governmental Funds	Adjustments	Statement of Activities
Expenditures/expenses:					
Health and social services	$ 3,885,704	$ 4,811,812	$ 8,697,516	$ 265,189	$ 8,962,705
Debt service - principal	241	13	254	(254)	-
Debt service - interest	216	14	230	-	230
Capital outlays	7,312	1,458	8,770	(8,770)	-
Total expenditures/expenses	3,893,473	4,813,297	8,706,770	256,165	8,962,935
Program revenues:					
Charges for services:					
Licenses and fees	95	9,282	9,377	-	9,377
Other charges for services	(135)	41,669	41,534	(4,496)	37,038
Total charges for services	(40)	50,951	50,911	(4,496)	46,415
Operating grant revenue:					
Federal operating grants	564,603	4,450,437	5,015,040	(45,100)	4,969,940
Other operating grants	5	1,755	1,760	-	1,760
Total operating grant revenue	564,608	4,452,192	5,016,800	(45,100)	4,971,700
Total program revenues	564,568	4,503,143	5,067,711	(49,596)	5,018,115
Net program expense					(3,944,820)
General revenues and transfers:					
General revenues:					
Interest and investment income	485	197	682	-	682
Other taxes	-	801	801	(8,662)	(7,861)
Other revenues	4,277	13,779	18,056	-	18,056
Appropriations from State resources	3,903,260	11,293	3,914,553	-	3,914,553
Lapsed appropriations	(379,270)	(8,022)	(387,292)	-	(387,292)
Receipts collected and transmitted to State Treasury	(113,890)	(3,906)	(117,796)	-	(117,796)
Capital lease and installment purchase financing	211	28	239	(239)	-
Transfers:					
Net capital transfers and other adjustments	-	-	-	942	942
Amount of SAMS transfers-in	(39,865)	-	(39,865)	-	(39,865)
Transfers-in	20,702	101,750	122,452	(87,100)	35,352
Transfers-out	(93,271)	(380)	(93,651)	87,100	(6,551)
Transfer of administration of funds (to)/from other State agencies	-	(77,771)	(77,771)	-	(77,771)
Total general revenues and transfers	3,302,639	37,769	3,340,408	(7,959)	3,332,449
Excess of revenues and transfers in over expenditures and transfers out	(26,266)	(272,385)	(298,651)	298,651	-
Change in net position	-	-	-	(612,372)	(612,372)
Fund balance/net position, July 1, 2015	55,421	183,311	238,732	(4,287,072)	(4,048,340)
Increase (decrease) for changes in inventories	(1)	(275)	(276)	276	-
Fund balance (deficit) /net position (deficit), June 30, 2016	$ 29,154	$ (89,349)	$ (60,195)	$ (4,600,517)	$ (4,660,712)

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

State of Illinois
Department of Human Services
Reconciliation of Statement of Governmental Revenues, Expenditures and Changes in Fund Balances to Statement of Activities
For the Year Ended June 30, 2016
(Expressed in Thousands)

Net change in fund balances	$ (298,651)	
Change in inventories	(276)	$ (298,927)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.		
Capital expenditures	8,770	
Depreciation	(26,252)	
Losses on disposals of capital assets	(680)	(18,162)
Transfers of capital assets from (to) other State agencies and other adjustments do not provide current financial resources and therefore, are not reported in governmental funds.		942
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		254
Some capital additions were financed through capital leases. In governmental funds, capital leases are considered a source of financing, but in the Statement of Net Position the capital lease is reported as a liability.		(239)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.		(58,259)
Deferred inflows and outflows of resources related to pensions do not provide or use current financial resources and are not reported in governmental funds.		
Change in deferred inflows	30,833	
Change in deferred outflows	132,621	163,454
Prepaid expenses in the Statement of Activities are reported as expenditures in governmental funds.		(98)
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	3,085	
Increase in net pension liability - SERS pensions	(406,354)	
Decrease in net pension liability - TRS pensions	1,932	(401,337)
Change in net position (deficit) of governmental activities		$ (612,372)

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

State of Illinois
Department of Human Services
Statement of Fiduciary Net Position
June 30, 2016 (Expressed in Thousands)

	Private-Purpose Trust: Hansen-Therkelsen Memorial Deaf Student College 0123	Agency Funds
ASSETS		
Cash deposited with State Treasurer	$ 1,028	$ -
Cash and cash equivalents	-	1,495
Securities lending collateral equity with State Treasurer	272	-
Investments	-	760
Due from other government - federal	-	47
Loans and notes receivable	45	-
Due from other Department funds	-	48
Total assets	1,345	$ 2,350
LIABILITIES		
Accounts payable and accrued liabilities	-	$ 48
Obligations under securities lending of State Treasurer	272	-
Other liabilities	-	2,302
Total liabilities	272	$ 2,350
NET POSITION		
Held in trust and other purposes	$ 1,073	

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

State of Illinois

Department of Human Services

Statement of Changes in Fiduciary Net Position

For the Year Ended June 30, 2016 (Expressed in Thousands)

	Private-Purpose Trust
	Hansen-Therkelsen Memorial Deaf Student College 0123
Additions:	
Investment income	$ 5
Other additions	24
Total additions	29
Net additions	29
Net position, July 1, 2015	1,044
Net position, June 30, 2016	$ 1,073

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

NOTE (1) - Organization

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

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

NOTE (2) - Summary of Significant Accounting Policies

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

(a) Financial Reporting Entity

The financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. The Department does not report any component units.

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 accessing the State Comptroller Office's website - http://ledger.illinoiscomptroller.gov/find-reports/.

(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, 2016 and the changes in financial position for the year then ended in conformity with GAAP.

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

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

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

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

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

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

> ***General*** – This is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The services which are administered by the Department and accounted for in the General Fund include, among others, health and social services. Certain resources obtained from federal grants and used to support general governmental activities are accounted for in the General Fund consistent with applicable legal requirements. The Department's portion of the General Fund is composed of a primary sub-account (General Revenue) and nine secondary sub-accounts (Illinois Veterans' Rehabilitation, Special Olympics Illinois and Special Children's Charities, Home Services Medicaid Trust, Community Developmental Disabilities Services Medicaid Trust, CMS vs AFSCME Wages Trust, Care Provider Fund for Persons with a Developmental

Disability, Health and Human Services Medicaid Trust, Budget Stabilization, and Community Mental Health Medicaid Trust).

Additionally, the Department reports the following fund types:

***Governmental Fund Types*:**

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

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

***Fiduciary Fund Types*:**

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

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

(c) Measurement Focus and Basis of Accounting

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

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

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

(d) Shared Fund Presentation

The financial statement presentation for the General Revenue, CMS vs AFSCME Wages Trust, Care Provider Fund for Persons with a Developmental Disability and Budget Stabilization subaccounts of the General Fund, and the Commitment to Human Services, Tobacco Settlement Recovery and Maternal and Child Health Services Block Grant, non-major governmental funds, represents only the portion of the shared fund that can be directly attributed to the operations of the Department. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' Comprehensive Annual Financial Report. In presenting these financial statements, certain unique accounts are used for the presentation of shared funds. The following accounts are used in these financial statements to present the Department's portion of shared funds:

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

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

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

Receipts collected and transmitted to State Treasury – This "other financing use" account represents all cash receipts received during the fiscal year from SAMS records.

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

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.

Transfer of administration of fund (to)/from – This "other financing source/use" account represents a change in administration of a fund as directed by the Office of the Comptroller.

(e) Eliminations

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

(f) Cash and Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with maturities of 3 months or less at the time of purchase. Cash and cash equivalents include cash on hand, cash in banks, certificates of deposit, cash invested in the Illinois Funds and money market accounts for locally held funds.

(g) Investments

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

(h) Inventories

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

(i) Prepaid Items

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

(j) Interfund Transactions

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

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

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

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

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

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

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

(k) Capital Assets

Capital assets, which include property, plant, equipment, and intangibles are reported at cost or estimated historical cost. Capital assets transferred from other State agencies are recorded at their carryover basis. 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

(l) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenues in governmental funds include receivables not "available" to finance the current period.

(m) Compensated Absences

The liability for compensated absences reported in the government-wide statement of net position consists of unpaid, accumulated vacation and sick leave balances for Department employees. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability is calculated based on the employees' salary at June 30 and includes salary related costs (e.g., Social Security and Medicare taxes).

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

(n) Pensions

In accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, the net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense have been recognized in the government-wide financial statements.

The net pension liability is calculated as the difference between the actuarially calculated value of the projected benefit payments attributed to past periods of service and the plans' fiduciary net position. The total pension expense is comprised of the service cost or actuarial present value of projected benefit payments attributed to the valuation year, interest on the total pension liability, plan administrative expenses, current year benefit changes, and other changes in plan fiduciary net position less employee contributions and projected earnings on plan investments. Additionally, the total pension expense includes the annual amortization of pension related deferred outflows and inflows of resources.

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, pension expense and expenditures associated with the Department's contribution requirements, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported within the separately issued plan financial statements. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with terms of the plan. Investments are reported at fair value.

In the governmental fund financial statements, pension expenditures represent amounts paid to the pension plan and the change between the beginning and ending balances of amounts owed to the plan for contributions.

(o) Fund Balances

For the year ended June 30, 2016, 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 State Legislature is the highest level of decision-making. In order to commit fund balance for a specific purpose, the State Legislature must enact a law specifying the commitment.

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

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

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

(p) Net Position

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

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

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

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

(q) 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, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(r) Recent and Future Accounting Pronouncements

Effective for the year ending June 30, 2016, the Department adopted Statement No. 72, *Fair Value Measurement and Application,* which addresses accounting and financial reporting issues related to fair value measurements and provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Department implemented this statement for the fiscal year ended June 30, 2016.

Effective for the year ending June 30, 2016, the Department adopted Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which is intended to improve financial reporting for governments by establishing a framework for the evaluation of accounting guidance that will result in governments applying that guidance with less variation. This statement will improve the usefulness of financial statement information for making decisions and assessing accountability and enhance the comparability of financial statement information among governments. This statement is also intended to improve implementation guidance by elevating its authoritative status to a level that requires it to be exposed for a period of broad public comment prior to issuance, as is done for other GASB pronouncements. The implementation of this statement had no financial impact on the Department's net position or results of operations.

Effective for the year ending June 30, 2016, the Department adopted Statement No. 79, *Certain External Investment Pools and Pool Participants,* which establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all the applicable criteria established in this statement. This statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The implementation of this statement had no financial impact on the Department's net position or results of operations.

Effective for the year ending June 30, 2017, the Department will be required to adopt the following GASB statements, if applicable:

- Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* which is intended to improve usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability, and establishes requirements for those pensions and pension plans that are not administered through a trust and pensions and pension plans not covered by Statements 67 and 68.

- Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* which replaces Statement No. 43 and addresses the financial reports of defined benefit other postemployment benefit (OPEB) plans that are administered through trusts that meet specified criteria. This statement follows the framework for financial reporting of defined benefit OPEB plans in Statement No. 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. This statement requires more extensive note disclosures and Required Supplementary Information (RSI) related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. This statement also sets forth note disclosure requirements for defined contribution OPEB plans.

- Statement No. 77, *Tax Abatement Disclosures*, which is intended to improve financial reporting by requiring disclosure of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues.

- Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local government employers whose employees are provided with such pensions. This statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost–sharing multiple-employer defined benefit pension plan that is not a state or local governmental pension plan, is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pension through the pension plan). This statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

- Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement 14*, which amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

- Statement No. 82, *Pension Issues – An Amendment of GASB Statements 67, 68 and 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Effective for the year ending June 30, 2018, the Department will be required to adopt the following GASB statements, if applicable:

- Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which replaces the requirements of Statement No. 45 and requires governments to report a liability on the face of the financial statements for the OPEB they provide. This statement requires governments in all types of OPEB plans to present more extensive note disclosures and RSI about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

- Statement No. 81, *Irrevocable Split-Interest Agreements*, which provides accounting and financial reporting guidance for irrevocable split-interest agreements in which a government is a beneficiary.

The Department has not yet determined the impact of adopting these statements on its financial statements; however, the provisions of GASB Statement No. 75 are expected to have a material negative impact on the net position of governmental activities.

NOTE (3) - Deposits and Investments

(a) Deposits

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

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

Custodial credit risk is the risk that in the event of a bank failure, the Department's deposits may not be returned. The Department is required by the State Officers and Employees Money Disposition Act (30 ILCS 230/2c) to obtain a bond, pledged securities, or other eligible collateral equal to or greater than the uninsured portion of the deposit. Deposits for locally-held funds had a carrying amount of $7.236 million ($4,996 and $2,240 reported in governmental activities and fiduciary funds, respectively) and a bank balance of $7.767 million at June 30, 2016.

Of the total bank balances, $2.714 million was uninsured with collateral held by the financial institution but not in Department's name, and $250 thousand was uninsured with collateral held by the financial institution in the Department's name.

(b) Investments

The Departments categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Department has the following recurring fair value measurements as of June 30, 2016, which are held outside of the State Treasury:

Investments Measured at Fair Value

		Fair Value Measurements Using		
	06/30/2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Governmental Activities		**(Thousands)**		
U.S. Agency Obligations	$ 35	$ -	$ 35	$ -
Total Governmental Activities	$ 35	$ -	$ 35	$ -

The Department also has $1.071 million invested with The Illinois Funds. The Illinois Funds is an investment pool managed by the State of Illinois, Office of the Treasurer, which allows governments within the State to pool their funds for investment purposes. The Illinois Funds is a GASB No. 79 qualified external investment pool that measures for financial reporting purposes all its investments at amortized cost. There are no limitations or restrictions on withdrawals from the pool.

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

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

Interest Rate Risk – The Department's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Department's investments in U.S. Agency securities have maturities of less than one year ($10,000) and maturities of one to five years ($25,000).

Credit Risk – The Department's investment policy does not address credit risk. The U.S. Agency Obligations were rated Aaa by Moody's Investors Services or AA+ by Standard & Poor's ratings. The Illinois Funds was rated AAAm by Standard & Poor's.

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

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

	Cash & Cash Equivalents/ Deposits	Investments
Governmental Activities		
Amounts per note (3) (a)	$ 4,996	$ 1,106
Deposits held for investment purposes	(981)	981
Cash equivalents	126	(126)
Petty cash	25	-
Amounts per Statement of Net Position	$ 4,166	$ 1,961
Fiduciary Funds		
Amounts per note (3) (a)	$ 2,240	$ -
Deposits held for investment purposes	(760)	760
Petty cash	15	-
Amounts per Statement of Fiduciary Net Position	$ 1,495	$ 760

NOTE (4) - Other Receivables

Recipient services and other receivables, net at June 30, 2016 (amounts expressed in thousands) consisted of the following:

	Governmental Funds	
Revenue Source	**General Fund**	**Nonmajor Funds**
Fines	$ -	$ 2,797
Public Assitance Recoveries	8,709	1,456
Rebates	-	11,447
Recipient Services Recoveries	8,078	494,463
Interest and Other Income	44	23
Total Other receivables	16,831	510,186
Allowance for uncollectible amounts	(11,206)	(354,675)
Other receivables, net	$ 5,625	$ 155,511

NOTE (5) - Securities Lending Transactions

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

During fiscal year 2016, Deutsche Bank AG lent U.S. Agency securities and U.S. Treasury securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The State Treasurer did not impose any restrictions on loan amounts of available and eligible securities during fiscal year 2016. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. Moreover, there were no losses during fiscal year 2016 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal year 2016, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral received that was invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2016 were $2,603,015,000 and $2,587,869,617, respectively.

NOTE (6) - Interfund Balances and Activity

(a) Balances Due from/to Other Funds

The following balances (amounts expressed in thousands) at June 30, 2016 represent amounts due from other Department and State of Illinois funds:

	Due from Other			
Fund Type	**Department Funds**	**Department Fiduciary**	**State Funds**	**Description/Purpose**
General	$ 14,201	$ -	$ 1,612	See comment that follows
Nonmajor governmental	142	1,092	6,643	See comment that follows
Fiduciary	48	-	-	See comment that follows
	$ 14,391	$ 1,092	$ 8,255	

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

Nonmajor governmental – Due from other Department funds for required transfers and expenditure reimbursements and other State funds for expenditure reimbursements.

Fiduciary – Due from other Department funds for post-employment benefits.

The following balances (amounts expressed in thousands) at June 30, 2016 represent amounts due to other Department and State of Illinois funds:

Fund Type	Due to Other: Department Funds	Department Fiduciary	State Funds	State Fiduciary	Description/Purpose
General	$ 142	$ 48	$ 73,341	$ 15	See comment that follows
Nonmajor governmental	14,201	-	11,716	2,615	See comment that follows
	$ 14,343	$ 48	$ 85,057	$ 2,630	

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

Nonmajor governmental – Due to other Department funds for required transfers and expenditure reimbursements, other State funds for expenditure reimbursements and State fiduciary funds for post-employment benefits.

(b) Transfers from/to Other Funds

Interfund transfers-in (amounts expressed in thousands) for the year ended June 30, 2016 were as follows:

Fund Type	Transfers in from Other: Department Funds	State Funds	Description/Purpose
General	$ 100	$ 20,602	Transfer from other Deparment funds and other State funds pursuant to statute.
Nonmajor governmental	87,000	14,750	Transfers from other Department funds and other State funds pursuant to statute and annual appropriations bill.
Totals	$ 87,100	$ 35,352	

Interfund transfers-out (amounts expressed in thousands) for the year ended June 30, 2016 were as follows:

	Transfer out to Other		
Fund Type	**Department Funds**	**State Funds**	**Description/Purpose**
General	$ 87,000	$ 6,271	Transfers to other Department funds pursuant to statute and other State funds pursuant to statute.
Nonmajor governmental	100	280	Transfers to other Department funds pursuant to statute and other State funds pursuant to statute.
Totals	$ 87,100	$ 6,551	

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

The following balances (amounts expressed in thousands) at June 30, 2016 represent amounts due from/to State of Illinois component units for reimbursement for expenses incurred:

	"Due from" amounts	"Due to" amounts	
Component Unit	**Nonmajor Governmental Funds**	**General Fund**	**Nonmajor Governmental Funds**
Toll Highway Authority	$ -	$ 2	$ 6
Housing Development Authority	-	63	640
Finance Authority	-	-	538
Chicago State University	-	1	50
Eastern Illinois University	-	8	118
Governors State University	-	-	228
Northeastern Illinois	-	-	47
Western Illinois University	-	-	215
Illinois State University	-	2	216
Northern Illinois University	-	72	272
Southern Illinois University	-	21	988
University of Illinois	5	913	3,910
Totals	$ 5	$ 1,082	$ 7,228

NOTE (7) - Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2016 was as follows:

	Balance July 1, 2015	Additions	Deletions	Transfers and Adjustments	Balance June 30, 2016
Capital assets not being depreciated/amortized:					
Land and land improvements	$ 2,993	$ -	$ -	$ -	$ 2,993
Construction in progress	-	-	680	680	-
Internally generated intangible assets in development	-	6,479	-	(6,479)	-
Total capital assets not being depreciated/amortized	2,993	6,479	680	(5,799)	2,993
Capital assets being depreciated/amortized:					
Site improvements	81,296	-	-	-	81,296
Buildings and building improvements	540,569	782	-	3,501	544,852
Equipment	31,996	1,270	344	15	32,937
Capital leases - equipment	826	238	139	-	925
Non-internally generated software	204	-	-	-	204
Internally generated software	81,618	-	-	-	81,618
Total capital assets being depreciated/amortized	736,509	2,290	483	3,516	741,832
Less accumulated depreciation/amortization:					
Site improvements	72,341	1,493	-	-	73,834
Buildings and building improvements	406,616	12,662	-	-	419,278
Equipment	20,936	4,120	344	(3,167)	21,545
Capital leases - equipment	310	300	139	-	471
Non-internally generated software	188	-	-	(58)	130
Internally generated software	12,140	7,677	-	-	19,817
Total accumulated depreciation/amortization	512,531	26,252	483	(3,225)	535,075
Total capital assets being depreciated/amortized, net	223,978	(23,962)	-	6,741	206,757
Total capital assets, net	$ 226,971	$ (17,483)	$ 680	$ 942	$ 209,750

Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2016 was charged as follows:

Health and social services	$	26,252

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, 2016 were as follows:

	July 1, 2015	Additions	Deletions	June 30, 2016	Due Within One Year
Other long-term obligations:					
Compensated absences	$ 68,197	$ 94,336	$ 97,421	$ 65,112	$ 5,945
Capital lease obligations	564	239	255	548	277
Net pension liability - SERS	5,254,302	406,354	-	5,660,656	-
Net pension liability - TRS	3,499	-	1,932	1,567	-
Totals	$ 5,326,562	$ 500,929	$ 99,608	$ 5,727,883	$ 6,222

Compensated absences will be liquidated by the applicable governmental funds that account for the salaries and wages of the related employees. Net pension liabilities will be liquidated though the General Revenue Fund, and the special revenue funds that report wages. The capital lease obligations will be liquidated primarily by the General Revenue Fund.

(b) Capital Lease Obligations

The Department leases office and computer equipment with a historical cost and accumulated depreciation (amounts expressed in thousands) of $925 and $471, 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, 2016 are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	$ 277	$ 170	$ 447
2018	239	47	285
2019	32	16	48
Totals	$ 548	$ 233	$ 780

NOTE (9) - Defined Benefit Pension Plans

Description of Plans. 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) or the Teachers' Retirement System (TRS), which are pension trust funds in the State of Illinois reporting entity. The SERS is a single-employer defined benefit pension trust fund in which State employees participate except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. SERS is governed by article 14 of the Illinois Pension Code (40 ILCS 5/1, et al.). The Teachers' Retirement System ("TRS") is the administrator of a cost-sharing multiple-employer public employee defined benefit pension plan with a "special funding situation" as described below. TRS provides coverage to personnel in positions that require a certification under the teacher certification law that are employed by public school districts in Illinois (excluding Chicago), special districts and certain State agencies. There are 855 local school districts, 134 special districts, and 17 other State agencies that contribute to the TRS plan as of the measurement date of June 30, 2015. The State of Illinois, as a nonemployer contributing entity, is legally mandated to make contributions to TRS, thus creating a special funding relationship with the plan. TRS is governed by article 16 of the Illinois Pension Code.

Both plans consist of two tiers of contribution requirements and benefit levels based on when an employee was hired. Members who first become an employee and participate under any of the State's retirement plans on or after January 1, 2011 are members of Tier 2, while Tier 1 consists of employees hired before January 1, 2011 or those who have service credit prior to January 1, 2011. The provisions below apply to both Tier 1 and 2 members, except where noted.

Both plans also issue a publicly available financial report that includes financial statements and required supplementary information for that plan. Those reports are available on the respective plan websites or may be obtained by writing or calling the plan as follows:

- State Employees' Retirement System, 2101 South Veterans Parkway, PO Box 19255, Springfield, Illinois, 62794-9255, (217) 785-2340 or www.srs.illinois.gov.
- Teachers' Retirement System, 2815 West Washington Street, PO Box 19253, Springfield, Illinois, 62794-9253, (217) 753-0311 or www.trs.illinois.gov.

Benefit Provisions

State Employees' Retirement System (SERS)
SERS provides retirement benefits based on the member's final average compensation and the number of years of credited service that have been established. The retirement benefit formula available to general State employees is 1.67% for each year of covered service and 2.2% for each year of noncovered service. The maximum retirement annuity payable is 75% of final average compensation as calculated under the regular formula. The minimum monthly retirement annuity payable is $15.00 for each year of covered employment and $25.00 for each year of noncovered employment.

Participants in SERS under the regular formula Tier 1 and Tier 2 receive the following levels of benefits based on the respective age and years of service credits.

<table>
<tr><th>Regular Formula Tier 1</th><th>Regular Formula Tier 2</th></tr>
<tr><td>A member must have a minimum of eight years of service credit and may retire at:

• Age 60, with 8 years of service credit.
• Any age, when the member's age (years & whole months) plus years of service credit (years & whole months) equal 85 years (1,020 months) (Rule of 85) with eight years of credited service.
• Between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60).
The retirement benefit is based on final average compensation and credited service. Final average compensation is the 48 highest consecutive months of service within the last 120 months of service.

Under the Rule of 85, a member is eligible for the first 3% increase on January 1 following the first full year of retirement, even if the member is not age 60. If the member retires at age 60 or older, he/she will receive a 3% pension increase every year on January 1, following the first full year of retirement.

If the member retires before age 60 with a reduced retirement benefit, he/she will receive a 3% pension increase every January 1 after the member turns age 60 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.</td><td>A member must have a minimum of 10 years of credited service and may retire at:

• Age 67, with 10 years of credited service.
• Between ages 62-67 with 10 years of credited service (reduced 1/2 of 1% for each month under age 67).
The retirement benefit is based on final average compensation and credited service. For regular formula employees, final average compensation is the average of the 96 highest consecutive months of service within the last 120 months of service. The retirement benefit is calculated on a maximum salary of $106,800. This amount increases annually by 3% or one-half of the Consumer Price Index, whichever is less.

If the member retires at age 67 or older, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every year on January 1, following the first full year of retirement. The calendar year 2015 rate is $111,572.

If the member retires before age 67 with a reduced retirement benefit, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every January 1 after the member turns age 67 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.</td></tr>
</table>

Additionally, SERS provides an alternative retirement formula for State employees in high-risk jobs, such as State policemen, fire fighters, and security employees. Employees qualifying for benefits under the alternative formula may retire at an earlier age depending on membership in Tier 1 or Tier 2. The retirement formula is 2.5% for each year of covered service and 3.0% for each year of non-covered service. The maximum retirement annuity payable is 80% of final average compensation as calculated under the alternative formula.

SERS also provides occupational and nonoccupational (including temporary) disability benefits. To be eligible for nonoccupational (including temporary) disability benefits, an employee must have at least eighteen months of credited service to the System. The nonoccupational (including temporary) disability benefit is equal to 50% of the monthly rate of compensation of the employee on the date of removal from the payroll. Occupational disability benefits are provided when the member becomes disabled as a direct result of injuries or diseases arising out of and in the course of State employment. The monthly benefit is equal to 75% of the monthly rate of compensation on the date of removal from the payroll. This benefit amount is reduced by Workers' Compensation or payments under the Occupational Diseases Act.

Occupational and nonoccupational death benefits are also available through the System. Certain nonoccupational death benefits vest after eighteen months of credited service. Occupational death benefits are provided from the date of employment.

Teachers' Retirement System (TRS)

TRS provides retirement benefits, whereby, most members retire under a formula that provides 2.2% of final average salary up to a maximum of 75% with 34 years of service. Under Tier 1, a member qualifies for an age retirement annuity after reaching age 62 with 5 years of credited service, age 60 with 10 years of credited service, age 55 with 20 years of credited service, or between the ages of 55 and 60 with fewer than 35 years of service (reduced ½ percent for each month under age 60). The retirement benefit is based on the final average salary which is the average salary for the highest four consecutive years within the last ten years of credible service. Annual automatic increases equal to 3% are provided to essentially all retirees. Under Tier 2, a member qualifies for an age retirement annuity after reaching age 62 with 10 years of credited service at a discounted rate or age 67 with 10 years of credited service. The retirement benefit is based on the final average salary which for Tier 2 is the average salary for the highest eight consecutive years within the last ten years of credible service. Annual automatic increases equal to the lesser of 3% or one half of the Consumer Price Index with the adjustment applied to the original benefit are provided to Tier 2 retirees. Disability and death benefits are also provided by TRS.

Contributions

State Employees' Retirement System

Contribution requirements of active employees and the State are established in accordance with Chapter 40, section 5/14-133 of the Illinois Compiled Statutes. Member contributions are based on fixed percentages of covered payroll ranging between 4.00% and 12.50%. Employee contributions are fully refundable, without interest, upon withdrawal from State employment. Tier 1 members contribute based on total annual compensation. Tier 2 members contribute based on an annual compensation rate not to exceed $106,800 with limitations for future years increased by the lessor of 3% or one-half of the annual percentage increase in the Consumer Price Index. For 2016, this amount was $111,572.

The State is required to make payment for the required departmental employer contributions, all allowances, annuities, any benefits granted under Chapter 40, Article 5/14 of the ILCS and all administrative expenses of the System to the extent specified in the ILCS. State law provides that the employer contribution rate be determined based upon the results of each annual actuarial valuation.

For fiscal year 2016, the required employer contributions were computed in accordance with the State's funding plan. This funding legislation provides for a systematic 50-year funding plan with an ultimate goal to achieve 90% funding of the plan's liabilities. In addition, the funding plan provided for a 15-year phase-in period to allow the State to adapt to the increased financial commitment. Since the 15-year phase-in period ended June 30, 2010, the State's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved. For fiscal year 2016, the employer contribution rate was 45.598%. The Department's contribution amount for fiscal year 2016 was $377 million.

Teachers' Retirement System

The State maintains the primary responsibility for funding TRS. The Illinois Pension Code, as appended by Public Act 88-0593 and subsequent acts, provides that for years 2010 through 2045, the minimum contribution to TRS for each fiscal year be an amount determined to be sufficient to bring the total assets of TRS up to 90% funding. Contributions from active members and TRS contributing employers are also required by the Illinois Pension Code. The active member contribution rate for the year ended June 30, 2016 was 9.4% of salary. Employer contributions are made by or on behalf of employers from several sources. The State of Illinois provides the largest source of contributions through State appropriations. Employers also make contributions of 0.58% of total credible earnings for the 2.2 benefit formula change and for teachers who are paid from federal funds. Additionally, employers contribute their portion of the cost of the Early Retirement Option and any excess salary increase or sick leave costs due as defined within Chapter 40, section 5/16 of the Illinois Compiled Statutes.

For TRS, employee contributions are fully refundable, without interest, upon withdrawal from applicable employment. For Tier 1 members, there is no annual compensation limit on contributions. For Tier 2 members, annual compensation on which contributions are taken cannot exceed $106,800. This amount increases annually by the lessor of 3% or one-half of the annual percentage increase in the Consumer Price Index. For 2016, this amount was $111,572. The Department's contribution amount for fiscal year 2016 was $66 thousand.

Pension liability, deferred outflows of resources, deferred inflows of resources and expense related to pensions

State Employees' Retirement System

At June 30, 2016, the Department reported a liability of $5.661 billion for its proportionate share of the State's net pension liability for SERS on the statement of net position. The net pension liability was measured as of June 30, 2015 (current year measurement date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Department's portion of the net pension liability was based on the Department's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2015. As of the current year measurement date of June 30, 2015, the Department's proportion was 20.2107%, which was an increase of 0.8246% from its proportion measured as of the prior year measurement date of June 30, 2014 of 19.3861%.

For the year ended June 30, 2016, the Department recognized pension expense of $624.5 million. At June 30, 2016, the Department reported deferred outflows and deferred inflows of resources related to the pension liability from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 17,216	$ 73,490
Changes of assumptions	415,307	-
Net difference between projected and actual investment earnings on pension plan investments	-	85,736
Changes in proportion	208,912	98,764
Department contributions subsequent to the measurement date	376,472	-
Total	**$ 1,017,907**	**$ 257,989**

$376.5 million reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts expressed in thousands):

Year ended June 30,	SERS
2017	$ 131,728
2018	131,728
2019	80,608
2020	39,382
2021	-
Thereafter	-
Total	**$ 383,446**

Teachers' Retirement System

At June 30, 2016, the Department reported a liability of $1.567 million for its proportionate share of the TRS net pension liability on the statement of net position. The net pension liability was measured as of June 30, 2015 (current year measurement date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, and rolled forward to June 30, 2015. The Department's portion of the net pension liability was based on the Department' contributions relative to the contributions of all participating TRS employers and the State during the year ended June 30, 2015. At June 30, 2015, the measurement date, the Department's proportionate share was 0.00239% for the TRS plan, which was a 0.00336% decrease from its proportion measured at the prior year measurement date of June 30, 2014 of .00575%.

For the year ended June 30, 2016, the Department recognized pension expense of $15 thousand. At June 30, 2016, the Department reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2015, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1	$ 2
Changes of assumptions	22	-
Net difference between projected and actual investment earnings on pension plan investments	30	55
Changes in proportion	650	1,801
Department contributions subsequent to the measurement date	66	-
Total	**$ 769**	**$ 1,858**

$66 thousand reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts expressed in thousands):

Year ended June 30,	**TRS**
2017	$ (262)
2018	(262)
2019	(262)
2020	(369)
2021	-
Thereafter	-
Total	**$ (1,155)**

Actuarial Methods and Assumptions. The total pension liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement:

	SERS	TRS
Valuation date	6/30/2015	6/30/2014*
Measurement date	6/30/2015	6/30/2015
Actuarial cost method	Entry Age	Entry Age
Actuarial assumptions:		
Investment rate of return	7.25%	7.5%
Projected salary increases**	3.50% - 7.92%	3.75% - 9.75%
Inflation rate	3.0%	3.0%
Postretirement benefit increases		
Tier 1	3%, compounded	3%, compounded
Tier 2	Lesser of 3% or 1/2 of CPI^, on original benefit	Lesser of 3% or 1/2 of CPI^, not compounded
Retirement age experience study ^^	July 2009 - June 2013	July 2011 - June 2014
Mortality^^^		
SERS	105 percent of the RP 2014 Healthy Annuitant table, sex distinct, with rates projected to 2015	
TRS	RP - 2014 with future mortality improvements on a fully generational basis using projection table MP-2014	

* The total pension liability is based on an actuarial valuation date of June 30, 2014, rolled-forward to the measurement date using generally accepted actuarial procedures.

** Includes inflation rate listed.

^ Consumer Price Index

^^ The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined.

^^^ Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.

State Employees' Retirement System

The long-term expected real rate of return on pension plan investments was determined based on the simulated average 10-year annualized geometric return for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage. For each major asset class that is included in the pension plan's target asset allocation, calculated as of the measurement date of June 30, 2015, the best estimates of the geometric real rates of return as summarized in the following table:

	SERS	
Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
U.S. Equity	30%	5.69%
Fixed Income	20%	1.62%
Hedge Funds	10%	4.00%
International Equity	20%	6.23%
Real Estate	10%	5.50%
Infrastructure	5%	6.00%
Private Equity	5%	10.10%
Total	**100%**	**5.03%**

Teachers' Retirement System
The long-term expected rate of return assumption on pension plan investments under the TRS plan was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015, that were used by the actuary are summarized in the following table:

	TRS	
Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
U.S. Large Cap	18%	7.53%
Global Equity Excluding U.S.	18%	7.88%
Aggregate bonds	16%	1.57%
U.S. TIPS	2%	2.82%
NCREIF	11%	5.11%
Opportunistic Real Estate	4%	9.09%
ARS	8%	2.57%
Risk Parity	8%	4.87%
Diversified Inflation Strategy	1%	3.26%
Private Equity	14%	12.33%
Total	**100%**	

Discount Rate

State Employees' Retirement System

A discount rate of 7.02% was used to measure the total pension liability as compared to a discount rate of 7.09% used to measure the total pension liability as of the prior measurement date. This single blended discount rate for the current measurement period was based on the expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 3.80%, based on an index of 20 year general obligation bonds with an average AA credit rating as published by the Federal Reserve. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions will be made based on the statutorily required rates under Illinois law. Based on these assumptions, the pension plan's fiduciary net position and future contributions will be sufficient to finance the benefit payments through the year 2067 for SERS. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2067, and the municipal bond rate was applied to all benefit payments after that date for SERS.

Teachers' Retirement System

A discount rate of 7.47% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7.5% and a municipal bond rate of 3.73%, based on the S&P municipal bond 20-year high grade rate index. The projection of cash flows used to determine the discount rate assumed that employee contributions, employer contributions, and state contributions will be made at the current statutorily-required rates. Based on these assumptions, the pension plan's fiduciary net position and future contributions will be sufficient to finance the benefit payments through the year 2080 and for the benefit payments after the year 2086. For the period of 2081 through 2086, projected plan assets do not cover benefit payments. As a result, the municipal bond rate was applied to all benefit payments during the 6 year period of 2081 through 2086 and the long-term expected rate of return on pension plan investments was applied to projected benefit payments for all remaining periods for the liability calculation.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The net pension liabilities for SERS and TRS were calculated using the stated discount rate, as well as what the net pension liabilities would be if they were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate as shown below (amounts expressed in thousands):

	1% Decrease 6.02%	Discount Rate 7.02%	1% Increase 8.02%
Department's proportionate share of the SERS net pension liability	$ 6,814,490	$ 5,660,656	$ 4,702,884

	1% Decrease 6.47%		Discount Rate 7.47%		1% Increase 8.47%	
Department's Proportionate Share of the TRS Net Pension Liability	$	1,937	$	1,567	$	1,264

Payables to the pension plan. At June 30, 2016, the Department reported a payable of $1.628 million and $3 thousand to SERS and TRS, respectively, for the outstanding amount of contributions to the pension plans required for the year ended June 30, 2016.

NOTE (10) - Post-employment Benefits

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

Public Act 97-0695, effective July 1, 2012, alters the contributions to be paid by the State, annuitants, survivors, and retired employees under the Act. Public Act 97-0695 requires the Director of the Department of Central Management Services to, on an annual basis, determine the amount that the State should contribute. The remainder of the cost of coverage shall be the responsibility of the annuitant, survivor, or retired employee. The costs were assessed beginning July 1, 2013. On August 28, 2014, the Sangamon County Circuit Court directed the State Employee Retirement System to discontinue withholding, as soon as possible, the retiree and survivor health insurance premiums that were in effect since July 2013. The refunding of premiums paid since July 2013 was repaid from an escrow account by June 15, 2015.

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

A summary of post-employment benefits provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Central Management Services. A copy of the financial statements of the Department of Central Management Services may be obtained by writing to the Department of Central Management Services, 715 Stratton Building, 401 South Spring Street, Springfield, Illinois, 62606-4100.

NOTE (11) - Fund Balances

(a) Categories

At June 30, 2016, the Department's fund balances were classified as follows:

	General Fund	Nonmajor Governmental Funds	Total
Nonspendable:			
Inventory	$ 3,772	$ 3,272	$ 7,044
Permanent endowments	-	1,162	1,162
Total nonspendable	3,772	4,434	8,206
Restricted Purposes:			
Health and social services	84,380	80,938	165,318
Committed Purposes:			
Health and social services	41,641	50,643	92,284
Unassigned	(100,639)	(225,364)	(326,003)
Total fund balances	$ 29,154	$ (89,349)	$ (60,195)

(b) Fund Deficits

The General Revenue, the CMS vs AFSCME Wages Trust, Care Provider for Persons with a Developmental Disability, and the Budget Stabilization subaccounts of the General Fund had fund deficits of $70,876, $140, $851, and $25,000, respectively (expressed in thousands), at June 30, 2016. The Prevention of Treatment and Alcoholism and Substance Abuse Block Grant, Early Intervention Services Revolving, Special Olympics Illinois, Commitment to Humans Services, USDA Women Infants and Children, Juvenile Justice Trust and DHS Recoveries Trust non-major governmental funds had fund deficits (amounts expressed in thousands) of $2, $12,104, $3, $181,139, $1,044, $34, and $31,038, respectively, at June 30, 2016.

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. The Department's risk management activities for employee health claims, workers' compensation claims and auto liability claims are financed through appropriations to the Illinois Department of Central Management Services (CMS). Other claims costs could be charged back to the Department upon settlement; however, the Department is not able to estimate those amounts and amounts charged back would be paid out of a future year's appropriation.

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 $13 thousand for the year ended June 30, 2016.

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

Year Ending June 30,	Amount
2017	$ 3
Total	$ 3

(b) Federal Funding

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

(c) Litigation

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

NOTE (14) – Subsequent Event

The State of Illinois has not adopted a full fiscal year 2017 operating budget as of the date of this report. The Department is part of the executive branch of government and operates under a budget in which resources are appropriated for the use of the Department. Consequently, the Department is presently unable to make payments from appropriated accounts beginning January 1, 2017. Payments to Department employees for work performed are being made pursuant to a July 2015 court order.

State of Illinois

Department of Human Services

Combining Schedule of Accounts - General Fund

June 30, 2016 (Expressed in Thousands)

	General Revenue 0001	Illinois Veterans' Rehabilitation 0036	Special Olympics Illinois and Special Children's Charities 0073	Home Services Medicaid Trust 0120	Community Developmental Disabilities Services Medicaid Trust 0142	CMS vs AFSCME Wages Trust 0168	Care Provider Fund for Persons with a Developmental Disability 0344	Health and Human Services Medicaid Trust 0365	Budget Stabilization 0686	Community Mental Health Medicaid Trust 0718	Eliminations	Total
ASSETS												
Unexpended appropriations	$ 204,130	$ -	$ -	$ -	$ -	$ -	$ 3,180	$ -	$ -	$ -	$ -	$ 207,310
Cash deposited with State Treasurer	1,150	3	802	6,538	23,727	-	-	27,690	-	32,312	-	92,222
Cash and cash equivalents	179	-	-	-	-	-	-	-	-	-	-	179
Securities lending collateral equity with State Treasurer	-	-	203	3,357	6,181	-	-	7,013	-	7,873	-	24,627
Due from other government - federal	10,991	-	-	9,643	52,055	-	-	16,987	-	8,676	-	98,352
Recipient services and other receivables, net	5,581	-	-	6	11	-	-	13	-	14	-	5,625
Due from other Department funds	14,224	5,160	-	-	-	-	-	-	-	6	(5,189)	14,201
Due from other State funds	1,590	-	22	-	-	-	-	-	-	-	-	1,612
Inventories	3,772	-	-	-	-	-	-	-	-	-	-	3,772
Total assets	$ 241,617	$ 5,163	$ 1,027	$ 19,544	$ 81,974	$ -	$ 3,180	$ 51,703	$ -	$ 48,881	$ (5,189)	$ 447,900
LIABILITIES												
Accounts payable and accrued liabilities	$ 226,811	$ 1,086	$ -	$ 6,370	$ 1,636	$ -	$ 4,031	$ 25,633	$ 22,788	$ 7,823	$ -	$ 296,178
Due to other government - federal	2,529	-	-	-	-	-	-	1	-	2	-	2,532
Due to other government - local	1,610	1,313	-	52	-	-	-	607	1,310	254	-	5,146
Due to other Department fiduciary funds	48	-	-	-	-	-	-	-	-	-	-	48
Due to other State fiduciary funds	-	-	-	-	-	-	-	-	-	15	-	15
Due to other Department funds	5,191	-	-	-	-	140	-	-	-	-	(5,189)	142
Due to other State funds	72,839	67	-	40	-	-	-	41	327	27	-	73,341
Due to State of Illinois component units	460	11	-	22	-	-	-	4	575	10	-	1,082
Obligations under securities lending of State Treasurer	-	-	203	3,357	6,181	-	-	7,013	-	7,873	-	24,627
Total liabilities	309,488	2,477	203	9,841	7,817	140	4,031	33,299	25,000	16,004	(5,189)	403,111
DEFERRED INFLOWS OF RESOURCES												
Unavailable revenue	3,005	-	-	304	-	-	-	12,319	-	7	-	15,635
Total Deferred Inflows of Resources	3,005	-	-	304	-	-	-	12,319	-	7	-	15,635
FUND BALANCES (DEFICITS)												
Nonspendable	3,772	-	-	-	-	-	-	-	-	-	-	3,772
Restricted	-	-	824	9,399	74,157	-	-	-	-	-	-	84,380
Committed	-	2,686	-	-	-	-	-	6,085	-	32,870	-	41,641
Assigned	-	-	-	-	-	-	-	-	-	-	-	-
Unassigned	(74,648)	-	-	-	-	(140)	(851)	-	(25,000)	-	-	(100,639)
Total fund balances (deficits)	(70,876)	2,686	824	9,399	74,157	(140)	(851)	6,085	(25,000)	32,870	-	29,154
Total liabilities, deferred inflows and fund balances (deficits)	$ 241,617	$ 5,163	$ 1,027	$ 19,544	$ 81,974	$ -	$ 3,180	$ 51,703	$ -	$ 48,881	$ (5,189)	$ 447,900

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, 2016 (Expressed in Thousands)

	General Revenue 0001	Illinois Veterans' Rehabilitation 0036	Special Olympics Illinois and Special Children's Charities 0073	Home Services Medicaid Trust 0120	Community Developmental Disabilities Services Medicaid Trust 0142	CMS vs AFSCME Wages Trust 0168	Care Provider Fund for Persons with a Developmental Disability 0344	Health and Human Services Medicaid Trust 0365	Budget Stabilization 0686	Community Mental Health Medicaid Trust 0718	Eliminations	Total
REVENUES												
Federal operating grants, net of refunds	$ 143,666	$ -	$ -	$ 237,500	$ 98,568	$ -	$ -	$ 12,425	$ -	$ 72,444	$ -	$ 564,603
Licenses and fees, net of refunds	95	-	-	-	-	-	-	-	-	-	-	95
Interest and investment income	-	-	4	151	125	-	-	87	-	118	-	485
Other charges for services, net of refunds	(135)	-	-	-	-	-	-	-	-	-	-	(135)
Other operating grants	5	-	-	-	-	-	-	-	-	-	-	5
Other revenues, net of refunds	4,277	-	-	-	-	-	-	-	-	-	-	4,277
Total revenues	147,908	-	4	237,651	98,693	-	-	12,512	-	72,562	-	569,330
EXPENDITURES												
Health and social services	3,452,509	2,497	700	234,284	49,506	-	33,671	31,290	25,000	56,247	-	3,885,704
Debt service - principal	241	-	-	-	-	-	-	-	-	-	-	241
Debt service - interest	216	-	-	-	-	-	-	-	-	-	-	216
Capital outlays	7,312	-	-	-	-	-	-	-	-	-	-	7,312
Total expenditures	3,460,278	2,497	700	234,284	49,506	-	33,671	31,290	25,000	56,247	-	3,893,473
Excess (deficiency) of revenues over (under) expenditures	(3,312,370)	(2,497)	(696)	3,367	49,187	-	(33,671)	(18,778)	(25,000)	16,315	-	(3,324,143)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES												
Appropriations from State resources	3,858,260	-	-	-	-	-	45,000	-	-	-	-	3,903,260
Lapsed appropriations	(367,090)	-	-	-	-	-	(12,180)	-	-	-	-	(379,270)
Receipts collected and transmitted to State Treasury	(113,890)	-	-	-	-	-	-	-	-	-	-	(113,890)
Amount of SAMS transfers-in	(39,865)	-	-	-	-	-	-	-	-	-	-	(39,865)
Transfers-in	100	5,160	602	-	-	-	-	20,000	-	-	(5,160)	20,702
Transfers-out	(98,431)	-	-	-	-	-	-	-	-	-	5,160	(93,271)
Capital lease and installment purchase financing	211	-	-	-	-	-	-	-	-	-	-	211
Net other sources (uses) of financial resources	3,239,295	5,160	602	-	-	-	32,820	20,000	-	-	-	3,297,877
Net change in fund balances	(73,075)	2,663	(94)	3,367	49,187	-	(851)	1,222	(25,000)	16,315	-	(26,266)
Fund balances (deficits), July 1, 2015	2,200	23	918	6,032	24,970	(140)	-	4,863	-	16,555	-	55,421
Decrease for change in inventories	(1)	-	-	-	-	-	-	-	-	-	-	(1)
FUND BALANCES (DEFICITS), JUNE 30, 2016	$ (70,876)	$ 2,686	$ 824	$ 9,399	$ 74,157	$ (140)	$ (851)	$ 6,085	$ (25,000)	$ 32,870	$ -	$ 29,154

State of Illinois

Department of Human Services

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2016 (Expressed in Thousands)

	Special Revenue							
	Prevention and Treatment of Alcoholism and Substance Abuse Block Grant 0013	Group Home Loan Revolving 0025	Mental Health 0050	Vocational Rehabilitation 0081	Assistance to the Homeless 0100	Youth Alcoholism and Substance Abuse Prevention 0128	Mental Health Reporting 0148	Sexual Assault Services and Prevention 0158
ASSETS								
Unexpended appropriations	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cash deposited with State Treasurer	522	60	17,453	14,213	493	1,502	3,211	918
Cash and cash equivalents	-	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	15	-	-	-	-	836	242
Investments	-	-	-	-	-	-	-	-
Due from other government - federal	5,233	-	3,543	19,474	-	-	-	-
Due from other government - local	-	-	-	-	-	-	-	-
Taxes receivable, net	-	-	205	-	-	-	-	-
Other receivables, net	-	-	1,748	1,302	-	-	2	-
Loans and notes receivable, net	-	10	-	-	-	-	-	-
Due from other Department fiduciary funds	-	-	1,079	-	-	-	-	-
Due from other Department funds	-	-	11	75	-	-	-	-
Due from other State funds	-	-	1,822	-	1	1,145	-	-
Due from State of Illinois component units	-	-	-	-	-	-	-	-
Inventories	-	-	3,272	-	-	-	-	-
Total assets	$ 5,755	$ 85	$ 29,133	$ 35,064	$ 494	$ 2,647	$ 4,049	$ 1,160
LIABILITIES								
Accounts payable and accrued liabilities	$ 4,691	$ -	$ 1,033	$ 10,684	$ -	$ 417	$ 5	$ 600
Due to other government - federal	5	-	-	114	-	-	-	-
Due to other government - local	217	-	-	2,906	-	59	-	-
Due to other State fiduciary funds	45	-	2	1,152	-	-	4	-
Due to other Department funds	-	-	26	-	-	-	-	-
Due to other State funds	434	-	7	919	-	31	-	-
Due to State of Illinois component units	365	-	419	1,319	-	-	-	-
Unearned revenue	-	-	-	365	-	-	-	-
Obligations under securities lending of State Treasurer	-	15	-	-	-	-	836	242
Total liabilities	5,757	15	1,487	17,459	-	507	845	842
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenue	-	-	1,784	-	-	-	-	-
Total Deferred Inflows of Resources	-	-	1,784	-	-	-	-	-
FUND BALANCES (DEFICITS)								
Nonspendable	-	-	3,272	-	-	-	-	-
Restricted	-	70	-	17,605	-	-	-	318
Committed	-	-	22,590	-	494	2,140	3,204	-
Unassigned	(2)	-	-	-	-	-	-	-
Total fund balances (deficits)	(2)	70	25,862	17,605	494	2,140	3,204	318
Total liabilities, deferred inflows and fund balances (deficits)	$ 5,755	$ 85	$ 29,133	$ 35,064	$ 494	$ 2,647	$ 4,049	$ 1,160

(Continued)

State of Illinois

Department of Human Services

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2016 (Expressed in Thousands)

	Special Revenue							
	Children's Wellness Charities 0178	Housing for Families 0181	DHS Technology Initiative 0211	Autism Research Check-off 0228	Drunk and Drugged Driving Prevention 0276	Federal National Community Services 0343	Employment and Training 0347	Drug Treatment 0368
ASSETS								
Unexpended appropriations	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cash deposited with State Treasurer	36	45	8,437	4	1,059	476	4,595	3,379
Cash and cash equivalents	-	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	2,239	1	-	-	-	-
Investments	-	-	-	-	-	-	-	-
Due from other government - federal	-	-	312	-	-	-	36,999	-
Due from other government - local	-	-	-	-	-	-	-	283
Taxes receivable, net	-	-	-	-	-	-	-	-
Other receivables, net	-	-	4	-	-	-	-	-
Loans and notes receivable, net	-	-	-	-	-	-	-	-
Due from other Department fiduciary funds	-	-	-	-	-	-	-	-
Due from other Department funds	-	-	1,175	-	5	-	-	7
Due from other State funds	-	-	347	-	-	-	-	-
Due from State of Illinois component units	-	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-	-
Total assets	$ 36	$ 45	$ 12,514	$ 5	$ 1,064	$ 476	$ 41,594	$ 3,669
LIABILITIES								
Accounts payable and accrued liabilities	$ -	$ -	$ 3,839	$ -	$ 865	$ 80	$ 38,261	$ 3,186
Due to other government - federal	-	-	1	-	1	-	-	1
Due to other government - local	-	-	-	-	29	-	496	-
Due to other State fiduciary funds	-	-	-	-	10	-	-	13
Due to other Department funds	-	-	-	-	133	333	-	-
Due to other State funds	-	-	2,499	-	-	47	2,728	-
Due to State of Illinois component units	-	-	-	-	26	16	109	-
Unearned revenue	-	-	-	-	-	-	-	-
Obligations under securities lending of State Treasurer	-	-	2,239	1	-	-	-	-
Total liabilities	-	-	8,578	1	1,064	476	41,594	3,200
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenue	-	-	-	-	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-	-	-	-	-
FUND BALANCES (DEFICITS)								
Nonspendable	-	-	-	-	-	-	-	-
Restricted	36	45	3,936	4	-	-	-	-
Committed	-	-	-	-	-	-	-	469
Unassigned	-	-	-	-	-	-	-	-
Total fund balances (deficits)	36	45	3,936	4	-	-	-	469
Total liabilities, deferred inflows and fund balances (deficits)	$ 36	$ 45	$ 12,514	$ 5	$ 1,064	$ 476	$ 41,594	$ 3,669

(Continued)

State of Illinois

Department of Human Services

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2016 (Expressed in Thousands)

	Special Revenue							
	Sexual Assault Services 0389	Gaining Early Awareness and Readiness for Undergraduate Programs 0394	Autism Care 0399	DHS Special Purposes Trust 0408	Autism Awareness 0458	Old Age Survivors Insurance 0495	Early Intervention Services Revolving 0502	DHS Community Services 0509
ASSETS								
Unexpended appropriations	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cash deposited with State Treasurer	276	3,593	36	59,791	80	508	13,045	25,291
Cash and cash equivalents	-	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	952	-	-	-	-	1,473	5,596
Investments	-	-	-	-	-	-	-	-
Due from other government - federal	-	-	-	40,325	-	3,184	11,587	1,462
Due from other government - local	5	-	-	-	-	-	-	-
Taxes receivable, net	-	-	-	-	-	-	-	-
Other receivables, net	-	2	-	2	-	-	933	10
Loans and notes receivable, net	-	-	-	-	-	-	-	-
Due from other Department fiduciary funds	-	-	-	-	-	-	-	-
Due from other Department funds	-	-	-	-	-	-	23	-
Due from other State funds	-	-	-	3,043	-	-	101	-
Due from State of Illinois component units	-	-	-	4	-	-	-	-
Inventories	-	-	-	-	-	-	-	-
Total assets	$ 281	$ 4,547	$ 36	$ 103,165	$ 80	$ 3,692	$ 27,162	$ 32,359
LIABILITIES								
Accounts payable and accrued liabilities	$ 100	$ -	$ -	$ 34,123	$ -	$ 2,221	$ 32,548	$ 3,705
Due to other government - federal	-	-	-	14	-	110	2	-
Due to other government - local	-	-	-	9,859	-	2	815	-
Due to other State fiduciary funds	-	-	-	135	-	988	23	-
Due to other Department funds	-	-	-	-	-	-	13	-
Due to other State funds	-	5	-	1,129	-	370	4	2,151
Due to State of Illinois component units	-	5	-	2,376	-	1	302	-
Unearned revenue	-	3,585	-	22	-	-	4,086	-
Obligations under securities lending of State Treasurer	-	952	-	-	-	-	1,473	5,596
Total liabilities	100	4,547	-	47,658	-	3,692	39,266	11,452
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenue	-	-	-	335	-	-	-	1,462
Total Deferred Inflows of Resources	-	-	-	335	-	-	-	1,462
FUND BALANCES (DEFICITS)								
Nonspendable	-	-	-	-	-	-	-	-
Restricted	-	-	36	55,172	80	-	-	-
Committed	181	-	-	-	-	-	-	19,445
Unassigned	-	-	-	-	-	-	(12,104)	-
Total fund balances (deficits)	181	-	36	55,172	80	-	(12,104)	19,445
Total liabilities, deferred inflows and fund balances (deficits)	$ 281	$ 4,547	$ 36	$ 103,165	$ 80	$ 3,692	$ 27,162	$ 32,359

(Continued)

State of Illinois
Department of Human Services
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2016 (Expressed in Thousands)

	Special Revenue							
	Domestic Violence Abuser Services 0528	Juvenile Accountability Incentive Block Grant 0581	DHS Federal Projects 0592	Special Olympics Illinois 0623	DHS State Projects 0642	Commitment to Human Services 0644	Alcoholism and Substance Abuse 0646	DHS Private Resources 0690
ASSETS								
Unexpended appropriations	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cash deposited with State Treasurer	44	464	2,989	57	1,881	-	666	3,037
Cash and cash equivalents	-	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	127	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-
Due from other government - federal	-	-	933	-	-	-	662	-
Due from other government - local	2	-	-	-	-	-	-	-
Taxes receivable, net	-	-	-	-	-	-	-	-
Other receivables, net	-	-	-	-	2	-	-	-
Loans and notes receivable, net	-	-	-	-	-	-	-	-
Due from other Department fiduciary funds	-	-	-	-	-	-	-	-
Due from other Department funds	-	-	26	-	-	-	-	-
Due from other State funds	-	-	-	-	-	-	14	-
Due from State of Illinois component units	-	-	1	-	-	-	-	-
Inventories	-	-	-	-	-	-	-	-
Total assets	$ 46	$ 591	$ 3,949	$ 57	$ 1,883	$ -	$ 1,342	$ 3,037
LIABILITIES								
Accounts payable and accrued liabilities	$ -	$ 186	$ 1,604	$ 59	$ 73	$ 166,377	$ 1,122	$ -
Due to other government - federal	-	-	1	-	-	-	-	-
Due to other government - local	-	-	465	-	-	12,937	20	-
Due to other State fiduciary funds	-	-	6	-	-	-	-	-
Due to other Department funds	-	-	-	-	1,121	-	-	-
Due to other State funds	-	37	-	-	689	41	1	3
Due to State of Illinois component units	-	-	166	-	-	1,784	114	-
Unearned revenue	-	241	1,494	1	-	-	85	3,034
Obligations under securities lending of State Treasurer	-	127	-	-	-	-	-	-
Total liabilities	-	591	3,736	60	1,883	181,139	1,342	3,037
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenue	-	-	15	-	-	-	-	-
Total Deferred Inflows of Resources	-	-	15	-	-	-	-	-
FUND BALANCES (DEFICITS)								
Nonspendable	-	-	-	-	-	-	-	-
Restricted	-	-	198	-	-	-	-	-
Committed	46	-	-	-	-	-	-	-
Unassigned	-	-	-	(3)	-	(181,139)	-	-
Total fund balances (deficits)	46	-	198	(3)	-	(181,139)	-	-
Total liabilities, deferred inflows and fund balances (deficits)	$ 46	$ 591	$ 3,949	$ 57	$ 1,883	$ -	$ 1,342	$ 3,037

(Continued)

State of Illinois

Department of Human Services

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2016 (Expressed in Thousands)

	Special Revenue							
	U.S.D.A. Women Infants and Children 0700	Tobacco Settlement Recovery 0733	Local Initiative 0762	Rehabilitation Services Elementary and Secondary Education Act 0798	Farmer's Market Technology Improvement 0864	Domestic Violence Shelter and Service 0865	Maternal and Child Health Services Block Grant 0872	Community Mental Health Services Block Grant 0876
ASSETS								
Unexpended appropriations	$ -	$ -	$ -	$ -	$ -	$ -	$ 345	$ -
Cash deposited with State Treasurer	96	-	7,185	673	4	1,107	-	324
Cash and cash equivalents	2,964	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-
Due from other government - federal	1,247	-	-	-	-	44	396	-
Due from other government - local	-	-	-	-	-	-	-	-
Taxes receivable, net	-	-	-	-	-	-	-	-
Other receivables, net	11,481	-	-	-	-	-	-	-
Loans and notes receivable, net	-	-	-	-	-	-	-	-
Due from other Department fiduciary funds	-	-	-	13	-	-	-	-
Due from other Department funds	-	-	-	1	-	-	-	-
Due from other State funds	-	-	-	154	-	6	-	-
Due from State of Illinois component units	-	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-	-
Total assets	$ 15,788	$ -	$ 7,185	$ 841	$ 4	$ 1,157	$ 741	$ 324
LIABILITIES								
Accounts payable and accrued liabilities	$ 5,762	$ -	$ 1,850	$ 41	$ -	$ 116	$ 343	$ 21
Due to other government - federal	6	-	1	-	-	-	-	1
Due to other government - local	3,217	-	270	-	-	31	-	-
Due to other State fiduciary funds	53	-	13	-	-	-	-	6
Due to other Department funds	-	-	4,857	-	-	-	-	-
Due to other State funds	58	-	87	30	-	22	1	-
Due to State of Illinois component units	44	-	107	-	-	-	-	15
Unearned revenue	6,648	-	-	-	4	-	-	281
Obligations under securities lending of State Treasurer	-	-	-	-	-	-	-	-
Total liabilities	15,788	-	7,185	71	4	169	344	324
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenue	1,044	-	-	-	-	-	52	-
Total Deferred Inflows of Resources	1,044	-	-	-	-	-	52	-
FUND BALANCES (DEFICITS)								
Nonspendable	-	-	-	-	-	-	-	-
Restricted	-	-	-	770	-	-	345	-
Committed	-	-	-	-	-	988	-	-
Unassigned	(1,044)	-	-	-	-	-	-	-
Total fund balances (deficits)	(1,044)	-	-	770	-	988	345	-
Total liabilities, deferred inflows and fund balances (deficits)	$ 15,788	$ -	$ 7,185	$ 841	$ 4	$ 1,157	$ 741	$ 324

(Continued)

State of Illinois
Department of Human Services
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2016 (Expressed in Thousands)

	Special Revenue							
	Youth Drug Abuse Prevention 0910	Juvenile Justice Trust 0911	DHS Recoveries Trust 0921	DHS Other Special Trusts 1139	DHS Commissary 1140	DHS Rehabilitation 1144	DHS/DORS Special Revenue 1149	Food Stamp and Commodity 1245
ASSETS								
Unexpended appropriations	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cash deposited with State Treasurer	1,331	823	15,845	-	-	-	-	-
Cash and cash equivalents	-	-	-	396	8	53	231	-
Securities lending collateral equity with State Treasurer	-	-	-	-	-	-	-	-
Investments	-	-	-	741	-	-	17	-
Due from other government - federal	-	38	-	29	-	-	-	-
Due from other government - local	-	-	2	-	-	-	36	-
Taxes receivable, net	-	-	-	-	-	-	-	-
Other receivables, net	-	-	139,969	3	-	-	-	-
Loans and notes receivable, net	-	-	-	-	-	-	-	-
Due from other Department fiduciary funds	-	-	-	-	-	-	-	-
Due from other Department funds	5	12	-	-	-	-	153	-
Due from other State funds	-	10	-	-	-	-	-	-
Due from State of Illinois component units	-	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-	-
Total assets	$ 1,336	$ 883	$ 155,816	$ 1,169	$ 8	$ 53	$ 437	$ -
LIABILITIES								
Accounts payable and accrued liabilities	$ 250	$ 124	$ 415	$ -	$ -	$ 2	$ -	$ -
Due to other government - federal	-	3	39,269	-	-	1	-	-
Due to other government - local	-	87	1	-	-	-	-	-
Due to other State fiduciary funds	-	-	165	-	-	-	-	-
Due to other Department funds	-	104	8,819	-	1	-	1	-
Due to other State funds	-	125	298	-	-	-	-	-
Due to State of Illinois component units	-	38	22	-	-	-	-	-
Unearned revenue	-	399	-	-	1	-	-	-
Obligations under securities lending of State Treasurer	-	-	-	-	-	-	-	-
Total liabilities	250	880	48,989	-	2	3	1	-
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenue	-	37	137,865	-	-	-	-	-
Total Deferred Inflows of Resources	-	37	137,865	-	-	-	-	-
FUND BALANCES (DEFICITS)								
Nonspendable	-	-	-	-	-	-	-	-
Restricted	-	-	-	1,169	6	50	436	-
Committed	1,086	-	-	-	-	-	-	-
Unassigned	-	(34)	(31,038)	-	-	-	-	-
Total fund balances (deficits)	1,086	(34)	(31,038)	1,169	6	50	436	-
Total liabilities, deferred inflows and fund balances (deficits)	$ 1,336	$ 883	$ 155,816	$ 1,169	$ 8	$ 53	$ 437	$ -

(Continued)

State of Illinois
Department of Human Services
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2016 (Expressed in Thousands)

	Special Revenue	Permanent			
	Vending Facility Program for the Blind 1385	**DHS/DORS Permanent Trust 1150**	**Burr Bequest 1272**	**Eliminations**	**Total**
ASSETS					
Unexpended appropriations	$ -	$ -	$ -	$ -	$ 345
Cash deposited with State Treasurer	-	-	-	-	195,549
Cash and cash equivalents	166	125	44	-	3,987
Securities lending collateral equity with State Treasurer	-	-	-	-	11,481
Investments	-	258	945	-	1,961
Due from other government - federal	-	-	-	-	125,468
Due from other government - local	-	-	-	-	328
Taxes receivable, net	-	-	-	-	205
Other receivables, net	53	-	-	-	155,511
Loans and notes receivable, net	390	-	-	-	400
Due from other Department fiduciary funds	-	-	-	-	1,092
Due from other Department funds	-	-	-	(1,351)	142
Due from other State funds	-	-	-	-	6,643
Due from State of Illinois component units	-	-	-	-	5
Inventories	-	-	-	-	3,272
Total assets	$ 609	$ 383	$ 989	$ (1,351)	$ 506,389
LIABILITIES					
Accounts payable and accrued liabilities	$ 13	$ -	$ -	$ -	$ 314,716
Due to other government - federal	-	-	-	-	39,530
Due to other government - local	-	-	-	-	31,411
Due to other State fiduciary funds	-	-	-	-	2,615
Due to other Department funds	-	144	-	(1,351)	14,201
Due to other State funds	-	-	-	-	11,716
Due to State of Illinois component units	-	-	-	-	7,228
Unearned revenue	-	-	-	-	20,246
Obligations under securities lending of State Treasurer	-	-	-	-	11,481
Total liabilities	13	144	-	(1,351)	453,144
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	-	-	-	-	142,594
Total Deferred Inflows of Resources	-	-	-	-	142,594
FUND BALANCES (DEFICITS)					
Nonspendable	-	217	945	-	4,434
Restricted	596	22	44	-	80,938
Committed	-	-	-	-	50,643
Unassigned	-	-	-	-	(225,364)
Total fund balances (deficits)	596	239	989	-	(89,349)
Total liabilities, deferred inflows and fund balances (deficits)	$ 609	$ 383	$ 989	$ (1,351)	$ 506,389

(Continued)

State of Illinois
Department of Human Services
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds
For the Year Ended June 30, 2016 (Expressed in Thousands)

	Special Revenue						
	Prevention and Treatment of Alcoholism and Substance Abuse Block Grant 0013	Group Home Loan Revolving 0025	Mental Health 0050	Vocational Rehabilitation 0081	Assistance to the Homeless 0100	Youth Alcoholism and Substance Abuse Prevention 0128	Mental Health Reporting 0148
REVENUES							
Federal operating grants, net of refunds	$ 71,800	$ -	$ -	$ 112,256	$ -	$ -	$ -
Licenses and fees, net of refunds	-	-	-	-	-	1,145	1,462
Interest and investment income	-	-	-	-	-	-	12
Other charges for services, net of refunds	-	-	25,565	157	-	-	-
Other operating grants	-	-	-	-	-	-	-
Other taxes, net of refunds	-	-	801	-	-	-	-
Other revenues, net of refunds	-	-	-	7,241	113	-	-
Total revenues	71,800	-	26,366	119,654	113	1,145	1,474
EXPENDITURES							
Health and social services	71,680	26	13,629	121,460	-	477	206
Debt service - principal	-	-	-	6	-	-	-
Debt service - interest	-	-	-	8	-	-	-
Capital outlays	-	-	44	1,282	-	-	-
Total expenditures	71,680	26	13,673	122,756	-	477	206
Excess (deficiency) of revenues over (under) expenditures	120	(26)	12,693	(3,102)	113	668	1,268
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-
Transfers-in	-	20	-	163	-	-	-
Transfers-out	(20)	-	-	-	-	-	-
Transfer of administration of funds (to)/from other State agencies	-	-	-	-	-	-	-
Capital lease and installment purchase financing	-	-	-	26	-	-	-
Net other sources (uses) of financial resources	(20)	20	-	189	-	-	-
Net change in fund balances	100	(6)	12,693	(2,913)	113	668	1,268
Fund balances (deficits), July 1, 2015	(102)	76	13,287	20,518	381	1,472	1,936
Increase for changes in inventories	-	-	(118)	-	-	-	-
FUND BALANCES (DEFICITS), JUNE 30, 2016	$ (2)	$ 70	$ 25,862	$ 17,605	$ 494	$ 2,140	$ 3,204

(Continued)

State of Illinois
Department of Human Services
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds
For the Year Ended June 30, 2016 (Expressed in Thousands)

	Special Revenue							
	Sexual Assault Services and Prevention 0158	Children's Wellness Charities 0178	Housing for Families 0181	DHS Technology Initiative 0211	Autism Research Check-off 0228	Drunk and Drugged Driving Prevention 0276	Federal National Community Services 0343	Employment and Training 0347
REVENUES								
Federal operating grants, net of refunds	$ -	$ -	$ -	$ 4,605	$ -	$ -	$ -	$ 467,701
Licenses and fees, net of refunds	-	-	-	-	-	1,715	-	-
Interest and investment income	3	-	-	25	-	-	-	-
Other charges for services, net of refunds	522	-	-	-	-	-	-	-
Other operating grants	-	-	-	-	-	-	-	-
Other taxes, net of refunds	-	-	-	-	-	-	-	-
Other revenues, net of refunds	-	-	-	-	-	-	-	-
Total revenues	525	-	-	4,630	-	1,715	-	467,701
EXPENDITURES								
Health and social services	600	-	-	1,134	-	1,652	-	465,676
Debt service - principal	-	-	-	1	-	-	-	-
Debt service - interest	-	-	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-	-	-
Total expenditures	600	-	-	1,135	-	1,652	-	465,676
Excess (deficiency) of revenues over (under) expenditures	(75)	-	-	3,495	-	63	-	2,025
OTHER SOURCES (USES) OF FINANCIAL RESOURCES								
Appropriations from State resources	-	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	-
Transfers-in	-	-	-	1,175	-	-	-	-
Transfers-out	-	-	-	-	-	(63)	-	-
Transfer of administration of funds (to)/from other State agencies	-	-	-	-	-	-	-	-
Capital lease and installment purchase financing	-	-	-	-	-	-	-	-
Net other sources (uses) of financial resources	-	-	-	1,175	-	(63)	-	-
Net change in fund balances	(75)	-	-	4,670	-	-	-	2,025
Fund balances (deficits), July 1, 2015	393	36	45	(734)	4	-	-	(2,025)
Increase for changes in inventories	-	-	-	-	-	-	-	-
FUND BALANCES (DEFICITS), JUNE 30, 2016	$ 318	$ 36	$ 45	$ 3,936	$ 4	$ -	$ -	$ -

(Continued)

State of Illinois
Department of Human Services
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds
For the Year Ended June 30, 2016 (Expressed in Thousands)

	Special Revenue							
	Drug Treatment 0368	**Sexual Assault Services 0389**	**Gaining Early Awareness and Readiness for Undergraduate Programs 0394**	**Autism Care 0399**	**DHS Special Purposes Trust 0408**	**Autism Awareness 0458**	**Old Age Survivors Insurance 0495**	**Early Intervention Services Revolving 0502**
REVENUES								
Federal operating grants, net of refunds	$ -	$ -	$ 1,182	$ -	$ 250,597	$ -	$ 79,089	$ 75,402
Licenses and fees, net of refunds	-	-	-	-	-	19	-	4,928
Interest and investment income	-	-	20	-	-	-	-	25
Other charges for services, net of refunds	-	-	-	-	-	-	-	-
Other operating grants	-	-	-	-	491	-	-	-
Other taxes, net of refunds	-	-	-	-	-	-	-	-
Other revenues, net of refunds	3,478	82	-	36	-	-	-	-
Total revenues	3,478	82	1,202	36	251,088	19	79,089	80,355
EXPENDITURES								
Health and social services	4,002	100	1,202	-	254,803	-	79,008	168,337
Debt service - principal	-	-	-	-	1	-	5	-
Debt service - interest	-	-	-	-	-	-	6	-
Capital outlays	-	-	-	-	1	-	70	-
Total expenditures	4,002	100	1,202	-	254,805	-	79,089	168,337
Excess (deficiency) of revenues over (under) expenditures	(524)	(18)	-	36	(3,717)	19	-	(87,982)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES								
Appropriations from State resources	-	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	-
Transfers-in	-	-	-	-	-	-	-	87,000
Transfers-out	-	-	-	-	-	-	-	-
Transfer of administration of funds (to)/from other State agencies	-	-	-		-	-	-	-
Capital lease and installment purchase financing	-	-	-	-	1	-	-	-
Net other sources (uses) of financial resources	-	-	-	-	1	-	-	87,000
Net change in fund balances	(524)	(18)	-	36	(3,716)	19	-	(982)
Fund balances (deficits), July 1, 2015	993	199	-	-	58,888	61	157	(11,122)
Increase for changes in inventories	-	-	-	-	-	-	(157)	-
FUND BALANCES (DEFICITS), JUNE 30, 2016	$ 469	$ 181	$ -	$ 36	$ 55,172	$ 80	$ -	$ (12,104)

(Continued)

State of Illinois
Department of Human Services

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

For the Year Ended June 30, 2016 (Expressed in Thousands)

	Special Revenue							
	DHS Community Services 0509	**Domestic Violence Abuser Services 0528**	**Juvenile Accountability Incentive Block Grant 0581**	**DHS Federal Projects 0592**	**Special Olympics Illinois 0623**	**DHS State Projects 0642**	**Commitment to Human Services 0644**	**Alcoholism and Substance Abuse 0646**
REVENUES								
Federal operating grants, net of refunds	$ -	$ -	$ 997	$ 11,927	$ -	$ -	$ -	$ 7,984
Licenses and fees, net of refunds	-	-	-	-	13	-	-	-
Interest and investment income	62	-	4	-	-	-	-	-
Other charges for services, net of refunds	-	-	-	-	-	-	-	-
Other operating grants	-	-	-	832	-	-	-	432
Other taxes, net of refunds	-	-	-	-	-	-	-	-
Other revenues, net of refunds	-	29	-	138	41	-	-	-
Total revenues	62	29	1,001	12,897	54	-	-	8,416
EXPENDITURES								
Health and social services	5,008	-	1,001	12,481	59	-	181,139	8,385
Debt service - principal	-	-	-	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-	-	-
Total expenditures	5,008	-	1,001	12,481	59	-	181,139	8,385
Excess (deficiency) of revenues over (under) expenditures	(4,946)	29	-	416	(5)	-	(181,139)	31
OTHER SOURCES (USES) OF FINANCIAL RESOURCES								
Appropriations from State resources	-	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	-
Transfers-in	14,750	-	-	-	-	-	-	-
Transfers-out	-	-	-	(280)	-	-	-	-
Transfer of administration of funds (to)/from other State agencies	-	-	-	-	-	-	(77,771)	-
Capital lease and installment purchase financing	-	-	-	-	-	-	-	-
Net other sources (uses) of financial resources	14,750	-	-	(280)	-	-	(77,771)	-
Net change in fund balances	9,804	29	-	136	(5)	-	(258,910)	31
Fund balances (deficits), July 1, 2015	9,641	17	-	62	2	-	77,771	(31)
Increase for changes in inventories	-	-	-	-	-	-	-	-
FUND BALANCES (DEFICITS), JUNE 30, 2016	$ 19,445	$ 46	$ -	$ 198	$ (3)	$ -	$ (181,139)	$ -

(Continued)

State of Illinois
Department of Human Services
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds
For the Year Ended June 30, 2016 (Expressed in Thousands)

	Special Revenue							
	DHS Private Resources 0690	**U.S.D.A. Women Infants and Children 0700**	**Tobacco Settlement Recovery 0733**	**Local Initiative 0762**	**Rehabilitation Services Elementary and Secondary Education Act 0798**	**Farmer's Market Technology Improvement 0864**	**Domestic Violence Shelter and Service 0865**	**Maternal and Child Health Services Block Grant 0872**
REVENUES								
Federal operating grants, net of refunds	$ -	$ 198,637	$ -	$ 18,949	$ 427	$ -	$ -	$ 3,214
Licenses and fees, net of refunds	-	-	-	-	-	-	-	-
Interest and investment income	-	-	-	-	-	-	-	-
Other charges for services, net of refunds	-	-	-	-	-	-	-	-
Other operating grants	-	-	-	-	-	-	-	-
Other taxes, net of refunds	-	-	-	-	-	-	-	-
Other revenues, net of refunds	1	-	-	-	359	-	603	-
Total revenues	1	198,637	-	18,949	786	-	603	3,214
EXPENDITURES								
Health and social services	1	199,645	-	18,949	679	-	543	3,266
Debt service - principal	-	-	-	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-	-	-
Capital outlays	-	1	-	-	60	-	-	-
Total expenditures	1	199,646	-	18,949	739	-	543	3,266
Excess (deficiency) of revenues over (under) expenditures	-	(1,009)	-	-	47	-	60	(52)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES								
Appropriations from State resources	-	-	1,389	-	-	-	-	9,904
Lapsed appropriations	-	-	(1,389)	-	-	-	-	(6,633)
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	(3,906)
Transfers-in	-	-	-	-	-	-	-	-
Transfers-out	-	-	-	-	-	-	-	-
Transfer of administration of funds (to)/from other State agencies	-	-	-	-	-	-	-	-
Capital lease and installment purchase financing	-	1	-	-	-	-	-	-
Net other sources (uses) of financial resources	-	1	-	-	-	-	-	(635)
Net change in fund balances	-	(1,008)	-	-	47	-	60	(687)
Fund balances (deficits), July 1, 2015	-	(36)	-	-	723	-	928	1,032
Increase for changes in inventories	-	-	-	-	-	-	-	-
FUND BALANCES (DEFICITS), JUNE 30, 2016	$ -	$ (1,044)	$ -	$ -	$ 770	$ -	$ 988	$ 345

(Continued)

State of Illinois
Department of Human Services
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds
For the Year Ended June 30, 2016 (Expressed in Thousands)

	Special Revenue							
	Community Mental Health Services Block Grant 0876	**Youth Drug Abuse Prevention 0910**	**Juvenile Justice Trust 0911**	**DHS Recoveries Trust 0921**	**DHS Other Special Trusts 1139**	**DHS Commissary 1140**	**DHS Rehabilitation 1144**	**DHS/DORS Special Revenue 1149**
REVENUES								
Federal operating grants, net of refunds	$ 20,585	$ -	$ 1,334	$ 551	$ 263	$ -	$ -	$ -
Licenses and fees, net of refunds	-	-	-	-	-	-	-	-
Interest and investment income	-	-	-	-	12	-	-	-
Other charges for services, net of refunds	-	-	-	15,312	-	51	-	-
Other operating grants	-	-	-	-	-	-	-	-
Other taxes, net of refunds	-	-	-	-	-	-	-	-
Other revenues, net of refunds	-	334	-	-	257	-	209	271
Total revenues	20,585	334	1,334	15,863	532	51	209	271
EXPENDITURES								
Health and social services	20,585	250	1,185	50,038	712	41	203	273
Debt service - principal	-	-	-	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-	-	-
Total expenditures	20,585	250	1,185	50,038	712	41	203	273
Excess (deficiency) of revenues over (under) expenditures	-	84	149	(34,175)	(180)	10	6	(2)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES								
Appropriations from State resources	-	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	-
Transfers-in	-	-	-	-	-	-	-	3
Transfers-out	-	-	-	(1,175)	(19)	(8)	-	-
Transfer of administration of funds (to)/from other State agencies	-	-	-	-	-	-	-	-
Capital lease and installment purchase financing	-	-	-	-	-	-	-	-
Net other sources (uses) of financial resources	-	-	-	(1,175)	(19)	(8)	-	3
Net change in fund balances	-	84	149	(35,350)	(199)	2	6	1
Fund balances (deficits), July 1, 2015	-	1,002	(183)	4,312	1,368	4	44	435
Increase for changes in inventories	-	-	-		-	-	-	-
FUND BALANCES (DEFICITS), JUNE 30, 2016	$ -	$ 1,086	$ (34)	$ (31,038)	$ 1,169	$ 6	$ 50	$ 436

(Continued)

State of Illinois
Department of Human Services
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds
For the Year Ended June 30, 2016 (Expressed in Thousands)

	Special Revenue		Permanent			
	Food Stamp and Commodity 1245	Vending Facility Program for the Blind 1385	DHS/DORS Permanent Trust 1150	Burr Bequest 1272	Eliminations	Total
REVENUES						
Federal operating grants, net of refunds	$ 3,122,937	$ -	$ -	$ -	$ -	$ 4,450,437
Licenses and fees, net of refunds	-	-	-	-	-	9,282
Interest and investment income	-	-	34	-	-	197
Other charges for services, net of refunds	-	62	-	-	-	41,669
Other operating grants	-	-	-	-	-	1,755
Other taxes, net of refunds	-	-	-	-	-	801
Other revenues, net of refunds	-	587	-	-	-	13,779
Total revenues	3,122,937	649	34	-	-	4,517,920
EXPENDITURES						
Health and social services	3,122,937	393	33	14	-	4,811,812
Debt service - principal	-	-	-	-	-	13
Debt service - interest	-	-	-	-	-	14
Capital outlays	-	-	-	-	-	1,458
Total expenditures	3,122,937	393	33	14	-	4,813,297
Excess (deficiency) of revenues over (under) expenditures	-	256	1	(14)	-	(295,377)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	-	-	-	-	-	11,293
Lapsed appropriations	-	-	-	-	-	(8,022)
Receipts collected and transmitted to State Treasury	-	-	-	-	-	(3,906)
Transfers-in	-	-	-	-	(1,361)	101,750
Transfers-out	-	(163)	(13)	-	1,361	(380)
Transfer of administration of funds (to)/from other State agencies	-	-	-	-	-	(77,771)
Capital lease and installment purchase financing	-	-	-	-	-	28
Net other sources (uses) of financial resources	-	(163)	(13)	-	-	22,992
Net change in fund balances	-	93	(12)	(14)	-	(272,385)
Fund balances (deficits), July 1, 2015	-	503	251	1,003	-	183,311
Increase for changes in inventories	-	-	-	-	-	(275)
FUND BALANCES (DEFICITS), JUNE 30, 2016	$ -	$ 596	$ 239	$ 989	$ -	$ (89,349)

State of Illinois

Department of Human Services

Combining Statement of Fiduciary Net Position - Agency Funds

June 30, 2016 (Expressed in Thousands)

	Agency			
	Electronic Benefits Transfers 0540	DHS Resident's Trust 1143	DHS/DORS Agency 1147	Total
ASSETS				
Cash and cash equivalents	$ -	$ 1,495	$ -	$ 1,495
Investments	-	760	-	760
Due from other government - federal	-	47	-	47
Due from other Department funds	-	-	48	48
Total assets	$ -	$ 2,302	$ 48	$ 2,350
LIABILITIES				
Accounts payable and accrued liabilities	$ -	$ -	$ 48	$ 48
Other liabilities	-	2,302	-	2,302
Total liabilities	$ -	$ 2,302	$ 48	$ 2,350

State of Illinois

Department of Human Services

Combining Statement of Changes in Assets and Liabilities - Agency Funds

For the Year Ended June 30, 2016 (Expressed in Thousands)

	Balance at July 1, 2015	Additions	Deletions	Balance at June 30, 2016
Electronic Benefits Transfers (0540)				
ASSETS				
Cash equity with State Treasurer	$ -	$ 149,592	$ 149,592	$ -
Total assets	$ -	$ 149,592	$ 149,592	$ -
LIABILITIES				
Accounts payable and accrued liabilities	$ -	$ 149,592	$ 149,592	$ -
Total liabilities	$ -	$ 149,592	$ 149,592	$ -
DHS Resident's Trust (1143)				
ASSETS				
Cash and cash equivalents	$ 1,353	$ 15,032	$ 14,890	$ 1,495
Investments	795	-	35	760
Due from other government - federal	52	13,356	13,361	47
Total assets	$ 2,200	$ 28,388	$ 28,286	$ 2,302
LIABILITIES				
Other liabilities	$ 2,200	$ 28,388	$ 28,286	$ 2,302
Total liabilities	$ 2,200	$ 28,388	$ 28,286	$ 2,302
DHS/DORS Agency (1147)				
ASSETS				
Cash and cash equivalents	$ -	$ 139	$ 139	$ -
Due from other Department funds	24	47	23	48
Total assets	$ 24	$ 186	$ 162	$ 48
LIABILITIES				
Accounts payable and accrued liabilities	$ 24	$ 152	$ 128	$ 48
Total liabilities	$ 24	$ 152	$ 128	$ 48
Total - All Agency Funds				
ASSETS				
Cash and cash equivalents	$ 1,353	$ 164,763	$ 164,621	$ 1,495
Investments	795	-	35	760
Due from other government - federal	52	13,356	13,361	47
Due from other Department funds	24	47	23	48
Total assets	$ 2,224	$ 178,166	$ 178,040	$ 2,350
LIABILITIES				
Accounts payable and accrued liabilities	$ 24	$ 149,744	$ 149,720	$ 48
Other liabilities	2,200	28,388	28,286	2,302
Total liabilities	$ 2,224	$ 178,132	$ 178,006	$ 2,350

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Honorable Frank J. Mautino
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Human Services, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the State of Illinois, Department of Human Services' basic financial statements, and have issued our report thereon dated February 2, 2017.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as items 2016-001, 2016-004 and 2016-005 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings as items 2016-002 and 2016-003 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Department of Human Services' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2016-004 and 2016-005.

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

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

Purpose of this Report

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

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
February 2, 2017

Current Findings – *Government Auditing Standards*

2016-001 **FINDING** (Weaknesses in 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) contained inaccurate information.

The Department does not have a complete general ledger or adequate controls over the completeness and accuracy of monthly and year-end annual financial reporting which resulted in errors in the GAAP basis financial statements, GAAP schedules prepared for the State Comptroller's Office, and additional supporting schedules and analysis.

The Department does not perform a sufficient supervisory review of all amounts recorded in its GAAP packages and financial statements. We noted the following issues with the year-end financial reporting process:

- Benefit overpayments relating to the Supplemental Nutrition Assistance Program (SNAP) and the Aid to Families with Dependent Children program (AFDC) are included in the Department's accounts receivable system (ARS) and are recorded as receivables, net of an allowance, in the DHS Recoveries Trust Fund (Fund 0921). A portion of the AFDC collections (50%) must be paid to the federal government once collected by the Department. The Department did not record an expenditure/expense or liability for this amount estimated at $38.7 million until it was identified by the auditors. Additionally, SNAP debts that are collected through the Federal Offset program, are remitted by the federal government to the Department net of the federal government's 79.1% retention amount. This retention, estimated at $25 million was not considered in the Department's original determination of the allowance for doubtful accounts.

- The Department does not have a robust documented process for estimating and reviewing recorded liabilities payable from future year's appropriations (costs incurred but not reported) for certain programs. Most significant programs administered by the Department allow service providers to claim reimbursement from the Department for services within 120 days of the service date, however a few programs allow up to 2 years. Adding to the complexity is that much of the detailed data on these provider claims is maintained by the Department of Healthcare and Family Services, a separate State agency. Certain liabilities are estimated by the Department's Budget Office for purposes of budgeting, but are also being used for financial reporting purposes. The Department has recorded a $50.7 million estimated liability for program costs that will be paid out of a future year appropriation. Based on the testing performed, we concluded that for one program, Early Intervention, the liability reported at $16.7 million was overstated by approximately $12 million.

- Monthly fund receipt reconciliations were not completed or reviewed in a timely manner and some reconciliations lacked documentation of proper review. We selected a sample of four months and four funds for testing and reviewed the receipt reconciliations to determine if the Department complied with internal policy and the Comptroller's Statewide Accounting Management System (SAMS) (Procedure 25.40.20) which requires reconciliations to be performed on a timely basis. The Department has an unwritten informal policy, which was communicated to us during the audit, to complete the reconciliations within 30 days of month-end. During our testing, we obtained the 16 reconciliations and noted that 2 did not document the date prepared, thirteen were not prepared within 30 days of month-end and ranged from 11 to 214 days late, and 8 did not contain documentation of the date reviewed. For one reconciliation, which did not document the prepared date, the review was documented as occurring 171 days after the respective month-end.

- During our testing of a sample of 35 overpayment accounts receivable balances, we noted two cases that were not reported at the proper amount. With one of the case files, we noted the Department improperly included medical amounts in the total account receivable balance as of June 30, 2016. As a result, the receivable balance was overstated by $20,133. With the second case, one of the case recipients died over 10 years ago and the receivable balance was not properly written off. The Department was not aware of the death and assigned the receivable balance to the wrong client as a result of the case ID number being reused by the local office. As a result, the receivable balance was overstated by $11,046.

- The Department draws $17.2 million every third month and remits it to the Department of Children and Family Services (DCFS), totaling $68.8 million for the year. The agreement provided to the auditors in support of these payments did not contain any information regarding the required amount of the payments under the agreement, or the frequency of the payments. The agencies have both agreed to this amount; however, they have not put it in writing. The Department stated that the amount paid was based on the Illinois Public Aid Code (Code) (305 ILCS 5/12-5) which states that eighty percent of the federal financial participation funds received by the Department under the Title IV-A Emergency Assistance program as reimbursement for expenditures made from the DCFS appropriations for the costs of providing services on behalf of DCFS clients shall be deposited into the DCFS Children's Services Fund. However, the Department was not able to provide an analysis or reconciliation to indicate the amount paid complied with the language in the statute.

- The Department has not made a transfer of $7.644 million excess funds as required by the Code. The Code (305 ILCS 5/12-9.1) required the Department to calculate and certify excess monies in Fund 921 on the first day of each calendar quarter and transfer those monies to Fund 001 within 30 days. The Department recorded liabilities for these transfers as far back as FY 2007 but did not transfer all funds. A statutory change to the Code was effective June 19, 2013 and no longer requires the transfer; however, the statutory change should have been implemented on a prospective basis beginning with the effective date. The physical transfer of $7.644 million pertaining to excess funds that pre-date the statutory change, has still not been made.

- The Department could not provide documentation of the preparation or the Department's review of expenditure reconciliations for federal Medical Assistance Program (MAP) funds (Funds 0120, 0142, 0365, 0502, 0718) between amounts reported in the Departments Consolidated Accounting and Reporting System (CARS), and amounts reported in the Comptroller's Grant / Contract Analysis Forms (SCO 563) which support the receivable calculation for financial reporting. The amount per the SCO 563 Forms (totaling $426 million) is a computed amount (a formula), essentially the amount needed to achieve the reported receivable balance provided by the Department of Health and Family Services (HFS), a separate State agency. The Department does not retain a reconciliation between what is reported on the SCO 563 (claimable expenditures) and within CARS (all expenditures) for each fund. Additionally, there is no documentation maintained by the Department to support the calculation and methodology used by HFS in preparing the federal receivable amount.

- The federal grant accounts receivable amount for the DHS Special Purpose Trust Fund (Fund 0408) was understated by $2 million. During testing of grant receivables, auditors noted that the future year appropriation liability amount of $2 million was not considered when calculating the amount receivable under the Child Care Development Block Grant. Because of this, the calculation for accounts receivable was understated by $2 million.

- During testing of expenditures, the auditors determined that the Department is not monitoring or reviewing the payments submitted by HFS on behalf of the Department. When HFS submits a request for payment to the Comptroller, a summary file is also sent to the Department which goes through an interface and is recorded into CARS. An employee in the Department's Fiscal Services reconciles the payments between CARS and the Comptroller's office before accepting them into CARS. However, the Department has not obtained and documented a detailed understanding of how its transactions are being processed within HFS, the controls in place over those transaction, monitoring performed by HFS, exceptions noted by HFS through its monitoring activities and how exceptions and control deficiencies are addressed by HFS and communicated to the Department. The auditors performed audit procedures over multiple expenditures within HFS that were selected for testing. Although HFS is a separate State agency, certain activities and balances are recorded within the Department's financial statements. Currently, the Department receives summarized information from HFS and records the transactions into CARS and the GAAP packages without reviewing the information.

Criteria related to the issues identified above include:

- Generally Accepted Accounting Principles require that all expenditures/expenses be recorded in the period incurred, unless specifically exempted through standards issued by the Governmental Accounting Standards Board (GASB). Certain expenditures that are incurred in one period and paid in a future period are more difficult to estimate. Industry practice generally involves the analysis of lag reports in formulating estimates of this nature.

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

- The agreement between agencies should contain information on the amount of the payments under the agreement and the frequency of the payments. If the Code (305 ILCS 5/12-5) is to be used by the Department to support the draw amounts, an analysis or reconciliation should be performed to indicate the amount paid complied with the language in the statute. A good system of internal control requires support for all financial transactions.

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

Management stated the financial reporting exceptions are due to the complexity of the Department's financial statements and compiling data from numerous disparate systems and sources.

Under the current process, if not detected and corrected by the auditors, errors could occur which would materially misstate the Department's financial statements and negatively impact the Statewide financial statements. Accurate and timely financial statements of the Department's financial information for GAAP reporting purposes is important due to the complexity of the Department and the impact adjustments have on the Statewide financial statements. (Finding Code No. 2016-001, 2015-003, 2014-003, 2013-001, 12-1, 11-1, 10-1 and 09-1)

RECOMMENDATION:

We recommend management perform a thorough assessment of the year-end financial reporting as follows:

- Determine the significant liability estimates that need to be re-evaluated.
- Evaluate the sufficiency of the allowance for doubtful account methodology.
- The Department should work with management of HFS to gain a better understanding of the internal control system established over DHS transactions, enter into an interagency agreement with HFS and then determine if the control system and related monitoring is sufficient to prevent and detect significant errors.
- Expenditure amounts provided by HFS in connection with year-end reporting of federal Medical Assistance Program receivables should be reconciled to CARS.
- The Department's accounting system (CARS) should be reconciled to the Comptroller's Statewide Accounting Management System (SAMS) each month in a timely manner and receivable subsidiary ledgers should support all balances in CARS.
- Payments to DCFS should be supported by documentation that demonstrates the amount paid complies with the Illinois Public Aid Code.
- The statutory transfer to the DHS Public Assistance Recoveries Trust Fund, required by the Illinois Public Aid Code, should be made or the Department should obtain legislative relief from this requirement.

DEPARTMENT RESPONSE:

The Department agrees with the recommendation. The Department has made significant progress in refining our processes to ensure the accuracy of our financial statements over the past few years. We will perform another assessment of the year-end financial reporting process and continue to make improvements to ensure financial information is reported accurately. The Department will work with HFS to gain assurance that the data provided is complete and accurate. In addition, DHS will continue its efforts to move draft legislation forward addressing statutory requirements.

2016-002 **<u>FINDING</u>** **(**Inadequate supporting detail maintained for Division of Alcohol and Substance Abuse (DASA) adjustments)

The Department of Human Services (Department) does not maintain sufficient detailed records in support of approved DASA adjustments and payments.

During our testing of expenditures for DASA, we noted the detailed Division of Alcohol and Substance Abuse Automated Reporting and Tracking System (DARTS) report that was provided in support of service providers' payments, did not have a total. As a result, auditors tried to add the MOBIUS (report writer) record of payments for the service providers, and compare it to the payment that was recorded into CARS (the Department's accounting system). The two amounts did not agree because the Department's Office of Management Information Services (MIS) adjusted the monthly payments drawn from the provider's DARTS payment information. The Department does not retain detailed monthly adjustment information supporting the MIS adjustments (difference between what was entered into DARTS versus what was approved to be paid).

The process to record the Department's liability is initiated when a vendor inputs patient service information into DARTS for the treatment/services of a given patient. Per the Department, there are over 1,000 different codes that are used when determining what type of service was provided. MIS does a monthly extract that contains numerous edits/adjustments. Currently, the extracted payment data does not match the monthly services MOBIUS reports due to MIS edits/adjustments. Detailed records in support of these edit/adjustment amounts are not retained.

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 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 accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

A good system of internal control requires that support for all payment information, including adjustments, be maintained and reviewed by supervisory employees.

The Department stated that a voucher detail reconciliation could not be performed because the adjustments were not visible to the DARTS system users.

Under the present system, inappropriate adjustments and payments could be made and go undetected by management of the Department. (Finding Code No. 2016-002, 2015-005)

<u>RECOMMENDATION:</u>

We recommend the Department develop processes and procedures whereby detailed support for all adjustments is maintained and reviewed and approved by supervisory personnel within the DASA division.

DEPARTMENT RESPONSE:

We accept the recommendation. DASA has been working with Management Information Systems (MIS) for the past two years to develop a process for reconciling vendor payments. Starting in June 2016, DASA and MIS were able to begin a monthly process by receiving voucher details and reconciling these to the DARTS reports.

2016-003 <u>FINDING</u> (System reconciliations not regularly performed)

The Department does not perform reconciliations between their Consolidated Accounting and Reporting System (CARS) and the systems that electronically interface into CARS.

Due to the complexity and variety of the programs the Department administers, the Department's accounting system CARS, is not designed to capture and record all of the Department's balances and accounting transactions. As a result, various additional systems are used throughout the Department to assist in capturing and recording financial and other information.

Monthly reconciliations between CARS and the Statewide Accounting Management System (SAMS), the Illinois Office of the Comptroller's (IOC) accounting system, are performed to ensure transactions recorded in CARS are transmitted to SAMS correctly. However, reconciliations between CARS and several interface systems are not being performed on a regular basis. During our audit, we noted at least three systems; Child Care Management System (CCMS), Client Payment System (CPS), and DUI Service Reporting System (DSRS) for which reconciliations are not performed until requested by the auditors. The Department does not currently perform these reconciliations as part of their system of internal control.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls 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 accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Management stated they were not aware that the reconciliation of CCMS to CARS was not reassigned when the employee responsible for the reconciliation left the Department.

Lack of a regular reconciliation between the Department's major integrated systems such as CCMS, CPS and DSRS could lead to errors in one or more systems going undetected for a sustained period of time. (Finding Code No. 2016-003)

<u>RECOMMENDATION:</u>

We recommend the Department perform reconciliations between CARS and the systems that are interfaced into CARS on a regular basis, however no less than annually, with a documented supervisory review and approval.

<u>DEPARTMENT RESPONSE:</u>

The Department agrees with the recommendation. The Department will review the current reconciliation processes for major system interfacing with CARS and ensure that reconciliations are performed on a regular basis, but at least annually.

2016-004 FINDING (Lack of control over the Integrated Eligibility System)

The Department of Healthcare and Family Services and the Department of Human Services (Departments) failed to implement adequate security, change management and recovery controls over the State's Integrated Eligibility System (IES). IES determined eligibility for 752,556 applications, with total claims of $1.363 billion being processed during FY16.

IES was developed to consolidate and modernize the State's eligibility functions and to comply with specific federal and State security standards, which was implemented on October 1, 2013.

In the prior audit, the auditors had determined the Departments had not implemented adequate controls over security, change management, and disaster recovery. During the current audit, the auditors determined the Departments had not taken appropriate corrective action to correct these weaknesses.

Access Security Control

In order to determine if access security controls were in place over IES, the auditors requested a listing of users, developers, and administrators. Over the course of the fieldwork, the Departments provided multiple iterations of the listings, which resulted in the auditors being unable to determine the completeness and accuracy of this information.

Based on the information provided by the Departments, the auditors identified individuals and developers with unneeded or inappropriate access rights. Furthermore, the Departments' own review noted issues with separation of duties, inappropriate access rights, security administration, and access rights documentation.

According to the Departments, during the development process for IES, "security functions and roles were developed without appropriate State security oversight."

Infrastructure Security

To assess security, the auditors requested detailed documentation regarding the information technology infrastructure where IES resides. The Departments provided multiple iterations of this information, which resulted in the auditors being unable to determine the completeness and accuracy of this information.

Based on information the Departments provided, the auditors identified servers running outdated operating systems, running outdated or lacking antivirus software, and not being backed-up. In addition, the development vendor and subcontractor had administrative rights to the production environment and only one State employee had access to the IES production environment. Further, the Departments' own review noted issues with clear text security information, a lack of audit logs, vendor's inability to provide complete user listings, and device configuration and operational problems.

Change Management

The Departments had not developed change management policies and procedures for IES modifications. Additionally, a review by the Departments concluded the vendor and subcontractor made changes to IES that were not approved by the State.

<u>Disaster Recovery</u>
After the finalization of the auditor's fieldwork, the Departments provided a disaster recovery plan for IES. However, the plan did not indicate it had been reviewed and approved by the State and did not appear to depict the current IES environment. In addition, testing of IES had not been conducted to ensure it could be recovered in the event of an outage.

Although the Departments had contracted with a development vendor and subcontractor to maintain the IES environment, the State is responsible for the security and controls of the environment on which IES resides.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to ensure State's resources are used efficiently and effectively.

Generally accepted information technology guidance endorses the development of well-designed and well-managed controls to protect computer systems and data. Effective computer security controls provide for safeguarding systems and data, suitable change management procedures, and the formal development and testing of disaster recovery plans.

Department management stated the primary focus for launching Phase 1 of IES was on gaining approval from federal CMS to connect IES to the Federal Data Services Hub by October 1, 2013. Changes required addressing the control weaknesses have taken longer to develop and implement than anticipated.

Failure to implement and maintain adequate control may lead to improper changes, access, and security flaws, which could result in inaccurate data and availability issues. For related finding see 2016-005. (Finding Code No. 2016-004, 2015-008)

<u>RECOMMENDATION</u>

The Departments should establish and maintain adequate controls over the security, availability, integrity, and confidentiality of IES data. Specifically, the Departments should take action that provides a high level of assurance that:

- IES security controls are adequately documented and comply with the required federal and State security standards.
- Access rights are appropriate, based on job duties, approved and documented, and periodically reviewed.
- State employees have proper access to the IES environment in order to monitor and track activities on the environment.
- All changes comply with approved change management procedures and are properly documented.
- An adequately developed and tested disaster contingency plan exists.

DEPARTMENT RESPONSE:

The Departments accept the recommendation. Several of the control weaknesses identified during this audit were identified by state personnel and previously submitted to federal CMS in the IES Plan of Action and Milestones (POA&M). The POA&M includes estimated timeframes for resolution and some requirements have already been documented as well as the action taken to resolve the issues. The Departments will continue to work internally and with the vendor to resolve the deficiencies noted during this audit.

2016-005 **FINDING** (Inaccurate determination of eligibility)

The Department of Healthcare and Family Services and the Department of Human Services (Departments) lacked internal controls over the operation of the State of Illinois' Integrated Eligibility System (IES) to sufficiently prevent or detect defects that caused inaccurate determinations of eligibility.

In October 2013, the Departments implemented IES, which is utilized for the intake of applications and the determination of eligibility for the State's human service programs.

Based on the Departments' information, from July 1, 2015 through June 30, 2016, the Departments had:

Applications submitted via IES	752,556
Applications approved via IES	551,681
Expenditures associated with applications approved via IES	$1,363,290,037

In order to obtain social services, individuals are evaluated on many financial and non-financial criteria. To test the accuracy of IES' determination of eligibility for benefits, the auditors selected the non-financial eligibility criteria (residency, citizenship, and social security information) for detailed testing.

The auditors received from the Departments a dataset of all applications submitted via IES from July 1, 2015 through June 30, 2016. Although the auditors could not verify the completeness and accuracy of the information, they tested all individuals who were approved to determine if they were properly approved based on the eligibility criteria selected for testing. The testing identified multiple defects which resulted in 2,198 distinct cases being improperly approved for certain programs. Specifically, individuals were approved:

- without meeting immigration requirements,
- without verifications of citizenship,
- without verification of residencies,
- without valid SSNs or documentation of submitted SSN applications, and
- for individuals who were not citizens and who did not provide other acceptable alternate information (i.e.; legal permanent residents, refugees, etc.).

As a result of the defects identified, inappropriate expenditures were made to or on-behalf of individuals for fiscal year 2016, totaling:

- Department of Healthcare and Family Services - $7,653,327
- Department of Human Services - $350,258

Based upon the non-financial eligibility criteria tested, the noted total expenditures made in error were not considered material by either Department with respect to their financial statements and therefore, no adjustments were made.

According to Department management, changes were implemented in late May 2016, in order to rectify errors noted in the prior year audit (Finding 2015-007) and the errors noted above.

In addition, the auditors selected a random sample of 60 cases to determine if they had been properly approved based on all eligibility factors (both financial and non-financial). In order to conduct the testing, the auditors worked with the Departments to review each case within IES. The results of the testing were as the follows:

- Income which IES utilized to determine eligibility was not supported in eight of the cases (13%).
- Citizenship was not verified in three of the cases (5%).
- Residency was not verified in two of the cases (3%).
- Application was not signed by an applicant in one of the cases (2%).

Based on the above results, the auditors could not determine the accuracy of the Departments' eligibility determination for 14 of the 60 cases selected (23%). The FY16 expenditure amount associated with the 14 cases in error was $75,764. The Departments stated the errors were the result of caseworker error.

The Illinois Public Aid Code (Code) (305 ILCS 5) requires individuals to provide information related to their citizenship, residencies and SSNs. The Code also requires the Departments to verify, via a third party, the information provided by the individuals.

The State Records Act (5 ILCS 160/8) requires the head of each agency to preserve records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the State and of persons directly affected by the agency's activities.

Finally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) states all agencies are to establish and maintain a system of internal fiscal and administrative controls to provide assurance that: (1) resources are utilized efficiently, effectively, and in compliance with applicable laws; and (2) obligations and costs are in compliance with applicable laws.

Departments' management stated the exceptions noted can be attributed to the complexity of the federal laws governing each program's eligibility rules. Additionally, the eligibility rules for medical programs were changing while IES was being designed and built because the Federal Centers for Medicare and Medicaid Services continued issuing guidance and promulgating regulations. The exceptions identified during testing of the sixty cases were attributable solely to caseworker error and were not the result of any type of errors or calculations attributable to IES.

By inaccurately determining eligibility, the Departments have incurred and may continue to incur expenditures for ineligible individuals. Furthermore, due to the errors being the responsibility of the Departments, a decision was made not to recover the inappropriate payments. (Finding Code No. 2016-005, 2015-007)

RECOMMENDATION

We recommend the Departments implement adequate controls over the operations of IES to provide a high level of assurance that all defects are rectified in a timely manner. We also recommend the Departments evaluate all eligibility criteria within IES so that cases are properly approved and caseworkers are properly trained to obtain and retain documentation in support of case eligibility determinations.

DEPARTMENT RESPONSE:

The Departments accept the recommendation. Upon receiving the FY15 eligibility related audit findings, HFS and IDHS staff worked to resolve the system errors. The dataset exceptions were identified and the system errors with respect to SSN, citizenship, and residence were corrected late in FY16. Most of the errors identified in this audit about eligibility determinations related to SSN, citizenship, and residence occurred in the earlier months of FY16 before the resolutions were in place. The Departments will also continue ongoing training of caseworkers to ensure they are properly trained to obtain and retain documentation in support of case eligibility determinations.

Prior Findings Not Repeated

A. **FINDING** (Accounting for grants needs improvement)

The Department of Human Services (Department) did not have adequate controls over the reconciliation of amounts reported at year-end related to its various federal grant programs, resulting in errors in previous financial statements.

During our current audit, we did not note any significant errors in federal grant program receivables. (Finding Code No. 2015-001, 2014-001)

B. **FINDING** (The allowance for doubtful accounts was overstated)

The Department of Human Services (Department) did not sufficiently review the completeness of the information utilized when establishing the allowance for doubtful accounts.

During our current audit, we noted the Department used the most recent information available in formulating its estimate. (Finding Code No. 2015-002, 2014-002)

C. **FINDING** (Child care program issues)

The Department of Human Services (Department) did not perform a reconciliation between the records in the Child Care Management System to CARS, the Departments accounting record (general ledger) for provider and other payments. Additionally, child care payments were made for children that were deemed ineligible.

The deficiency relating to reconciling the Child Care Management System to CARS is included with finding 2016-003. During the current audit, auditors did not note any instances of child care benefits paid for ineligible children. (Finding Code No. 2015-004, 2014-005)

D. **FINDING** (Lack of due diligence and project management over the Integrated Eligibility System)

During the prior audit, the Department of Healthcare and Family Services and the Department of Human Services (Departments) did not establish control to conduct due diligence or ensure project management over the State's Integrated Eligibility System (IES) development project.

During the current audit period, the Departments had not implemented phase two of IES. Upon completion of phase two, the auditors will review the Departments' controls over the development project. (Finding Code No. 2015-006)