

State of Illinois
Department of Human Services

Financial Audit
For the Year Ended June 30, 2017

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



**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
Assistant Secretary (Operations)	Vacant
Assistant Secretary (Programs)	Vacant (7/1/16 – 2/15/17) Maria Bruni (Acting 2/16/17 – 2/12/18, Confirmed 2/13/18)
Budget Director	Robert Brock
Business Services Director	Paul Hartman
Chief of Staff	Fred Flather
Chief Financial Officer	Robert Brock
Chief Operating Officer	Khari Hunt
Office of Contract Administration Manager	Brian Bertrand
Chief Internal Auditor	Jane Hewitt (7/1/16 – 3/15/17) Vacant (3/16/17 – 4/16/17) Amy DeWeese (4/17/17 – Present)
Agency Procurement Officer	William Strahle
Fiscal Services Director	Vacant (7/1/16 – 7/30/16) Alex Jordan (Acting 7/31/16 – Present)
Human Resources Director	Scott Viniard
Management Information Services Chief	Brad Long (7/1/16 – 10/31/16) Vacant (11/1/16 – 8/15/17) Amy Gentry (8/16/17 – Present)
Office of Community Relations Director	Marianne Manko (7/1/16 – 11/15/16) Meredith Krantz (11/16/16 – 7/14/17) Vacant (7/15/17 – 8/20/17) Meghan Powers (8/21/17 – Present)
Chief Legislative Liaison	Jennifer Aring

State of Illinois
DEPARTMENT OF HUMAN SERVICES
Agency Officials (Continued)

Hispanic/Latino Affairs Director	Vacant (7/1/16 – 11/30/16) Elizabeth Diaz Castillo (12/1/16 – Present)
General Counsel	Corey-Anne Gulkewicz
Inspector General	Michael McCotter
Office of Innovation, Strategy & Performance	Bruce Bendix
Division of Alcohol and Substance Abuse Director	Maria Bruni (7/1/16 – 2/28/18) Danielle Kirby (3/1/18 – Present)
Division of Rehabilitation Services Director	Kris Smith (7/1/16 – 12/31/16) Quinetta Wade (Acting 2/1/17 – 5/4/17, Appointed 5/5/17 – Present)
Division of Developmental Disabilities	Greg Fenton (7/1/16 – Present)
Division of Mental Health Director	Diana Knaebe
Division of Clinical, Administrative and Program Support Manager	J. Michael (Mike) Patton (7/1/16 – Present)
Office of Family Community Services Director (Formally: HCD)	Diane Grigsby-Jackson
Grant Administration Director	Mary Jennings
Office of Security and Emergency Preparedness Director	Vacant
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 (pages 68 through 93 of this report) as items 2017-001, 2017-002, 2017-003, 2017-004, 2017-005, 2017-007, 2017-008, 2017-010 and 2017-011. The significant deficiencies are described in the accompanying Schedule of Findings as items 2017-006 and 2017-009.

Exit Conference

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on February 20, 2018. Attending were:

Department of Human Services:

Amy DeWeese	Chief Internal Auditor
Albert Okwuegbunam	Senior Auditor
Sunday Odelle	Audit Liaison
Robert Brock	Chief Financial Officer
Paul Thelen	Chief, Bureau of Performance Management
Alex Jordan	Acting Director, Fiscal Services
Lauren Page	Supervisor, Bureau of Collections, Fiscal Services
Mark Bartolozzi	Bureau Chief, Bureau of Revenue Management and Federal Reporting
Khari Hunt	Chief Operating Officer
Fred Flather	Chief of Staff, Office of the Secretary
Corey-Anne Gulkewicz	General Counsel
Kelly Sweeton	Assistant Bureau Chief, Bureau of Collections, Fiscal Services
Kate Atteberry	Chief Information Security Officer
Susan Twitchell	Information System Analyst
Vince Guerrettaz	Assistant for Special Projects, Office of the Secretary

State of Illinois
Department of Human Services
Financial Statement Report

Exit Conference (Continued)

Office of the Auditor General:

Janis VanDurme Audit Manager
Kathy Lovejoy Audit Manager

RSM US LLP:

Linda Abernethy, Partner
Ryan Caldwell, Manager

The responses to the recommendations were provided by Amy DeWeese, Chief Internal Auditor, in an email dated March 2, 2018.

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, 2017, 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 for the State of Illinois, Department of Human Services, as of June 30, 2017, 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, 2017, 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 opinions are 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 opinions on the basic financial statements are 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 schedule 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 March 6, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Illinois, Department of Human Services' 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 Services' 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
March 6, 2018

State of Illinois
Department of Human Services

Statement of Net Position and Governmental Funds Balance Sheet

June 30, 2017 (Expressed in Thousands)

	General Fund	Other Non-major Funds	Total Governmental Funds	Adjustments	Statement of Net Position
ASSETS					
Unexpended appropriations	\$ 436,019	\$ 3,318	\$ 439,337	\$ -	\$ 439,337
Cash deposited with State Treasurer	101,564	199,091	300,655	-	300,655
Cash and cash equivalents	207	7,005	7,212	-	7,212
Securities lending collateral equity with State Treasurer	37,963	9,570	47,533	-	47,533
Investments	-	1,859	1,859	-	1,859
Due from other government - federal	26,896	114,172	141,068	-	141,068
Due from other government - local	-	223	223	-	223
Taxes receivable, net	-	160	160	-	160
Loans and notes receivable, net	-	446	446	-	446
Due from other Department funds	9,209	68,941	78,150	(78,150)	-
Due from other State funds	42,070	8,811	50,881	-	50,881
Inventories	4,499	3,027	7,526	-	7,526
Prepaid expenses	-	-	-	800	800
Recipient services and other receivables, net	5,289	184,408	189,697	-	189,697
Capital assets not being depreciated	-	-	-	7,721	7,721
Capital assets being depreciated, net	-	-	-	188,142	188,142
Total assets	663,716	601,031	1,264,747	118,513	1,383,260
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows of resources - SERS pensions	-	-	-	1,801,953	1,801,953
Deferred outflows of resources - TRS pensions	-	-	-	1,562	1,562
Total deferred outflows of resources	-	-	-	1,803,515	1,803,515
Total assets and deferred outflows of resources	\$ 663,716	\$ 601,031	\$ 1,264,747		
LIABILITIES					
Accounts payable and accrued liabilities	\$ 372,914	\$ 157,265	\$ 530,179	-	530,179
Due to other government - federal	2,427	92,996	95,423	-	95,423
Due to other government - local	8,069	13,350	21,419	-	21,419
Due to other Department fiduciary funds	43	-	43	-	43
Due to other State fiduciary funds	9	1,434	1,443	-	1,443
Due to other Department funds	68,941	9,209	78,150	(78,150)	-
Due to other State funds	131,954	21,752	153,706	-	153,706
Due to State of Illinois component units	1,183	5,517	6,700	-	6,700
Unearned revenue	476	20,599	21,075	-	21,075
Obligations under securities lending of State Treasurer	37,963	9,570	47,533	-	47,533
Long-term obligations:					
Due within one year	-	-	-	6,629	6,629
Due subsequent to one year	-	-	-	7,009,211	7,009,211
Total liabilities	623,979	331,692	955,671	6,937,690	7,893,361
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	1,851	177,267	179,118	(179,118)	-
Deferred inflows of resources - SERS pensions	-	-	-	267,284	267,284
Deferred inflows of resources - TRS pensions	-	-	-	1,796	1,796
Total deferred inflows of resources	1,851	177,267	179,118	89,962	269,080
FUND BALANCES/NET POSITION					
Fund Balances (Deficit):					
Nonspendable	4,499	4,189	8,688	(8,688)	-
Restricted	112,200	78,633	190,833	(190,833)	-
Committed	43,582	99,815	143,397	(143,397)	-
Unassigned	(122,395)	(90,565)	(212,960)	212,960	-
Net Position (Deficit):					
Net investment in capital assets	-	-	-	195,592	195,592
Restricted for health and social service programs	-	-	-	366,959	366,959
Restricted-funds held as permanent investments:					
Nonexpendable purposes	-	-	-	1,162	1,162
Expendable purposes	-	-	-	94	94
Unrestricted net position (deficit)	-	-	-	(5,539,473)	(5,539,473)
Total fund balances/net position (deficit)	37,886	92,072	129,958	\$ (5,105,624)	\$ (4,975,666)
Total liabilities, deferred inflows and fund balances	\$ 663,716	\$ 601,031	\$ 1,264,747		

State of Illinois
Department of Human Services
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Position
June 30, 2017
(Expressed in Thousands)

Total fund balances - governmental funds	\$	129,958
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 governmental funds.		195,863
Prepaid expenses for governmental activities are current uses of financial resources in the governmental funds.		800
Revenues in the Statement of Activities that do not provide current financial resources are deferred inflows of resources in the governmental funds.		179,118
Pension related liabilities and deferrals are not reported in the governmental funds since they do not provide or use current financial resources. These amounts consist of the following:		
Net pension liability - SERS	(6,952,590)	
Net pension liability - TRS	(2,398)	
Deferred outflows of resources - SERS pensions	1,801,953	
Deferred outflows of resources - TRS pensions	1,562	
Deferred inflows of resources - SERS pensions	(267,284)	
Deferred inflows of resources - TRS pensions	<u>(1,796)</u>	(5,420,553)
Other 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:		
Capital lease obligations	(271)	
Compensated absences	<u>(60,581)</u>	<u>(60,852)</u>
Net position (deficit) of governmental activities	\$	<u><u>(4,975,666)</u></u>

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, 2017 (Expressed in Thousands)

	General Fund	Other Non-major Funds	Total Governmental Funds	Adjustments	Statement of Activities
Expenditures/expenses:					
Health and social services	\$ 3,884,277	\$ 4,536,179	\$ 8,420,456	\$ 537,808	\$ 8,958,264
Debt service - principal	261	16	277	(277)	-
Debt service - interest	157	13	170	-	170
Capital outlays	6,511	2,209	8,720	(8,720)	-
Total expenditures/expenses	3,891,206	4,538,417	8,429,623	528,811	8,958,434
Program revenues:					
Charges for services:					
Licenses and fees	59	8,206	8,265	-	8,265
Other charges for services	96	41,109	41,205	30,814	72,019
Total charges for services	155	49,315	49,470	30,814	80,284
Operating grant revenue:					
Federal operating grants	546,711	4,236,413	4,783,124	(9,925)	4,773,199
Other operating grants	5	451	456	-	456
Total operating grant revenue	546,716	4,236,864	4,783,580	(9,925)	4,773,655
Total program revenues	546,871	4,286,179	4,833,050	20,889	4,853,939
Net program expense					(4,104,495)
General revenues and transfers:					
General revenues:					
Interest and investment income	850	331	1,181	-	1,181
Other taxes	-	708	708	-	708
Other revenues	2,365	5,339	7,704	-	7,704
Appropriations from State resources	4,154,325	315,071	4,469,396	-	4,469,396
Lapsed appropriations	(487,027)	(32,177)	(519,204)	-	(519,204)
Receipts collected and transmitted to State Treasury	(162,295)	(13,640)	(175,935)	-	(175,935)
Transfers:					
Net capital transfers and other adjustments	-	-	-	3,297	3,297
Amount of SAMS transfers-in	(32,397)	-	(32,397)	-	(32,397)
Amount of SAMS transfers-out	6,351	-	6,351	-	6,351
Transfers-in	20,715	158,463	179,178	(143,904)	35,274
Transfers-out	(150,547)	(191)	(150,738)	143,904	(6,834)
Total general revenues and transfers	3,352,340	433,904	3,786,244	3,297	3,789,541
Excess of revenues and transfers in over expenditures and transfers out	8,005	181,666	189,671	(189,671)	-
Change in net position	-	-	-	(314,954)	(314,954)
Fund balance (deficit) /net position (deficit), July 1, 2016	29,154	(89,349)	(60,195)	(4,600,517)	(4,660,712)
Increase (decrease) for changes in inventories	727	(245)	482	(482)	-
Fund balance /net position (deficit), June 30, 2017	\$ 37,886	\$ 92,072	\$ 129,958	\$ (5,105,624)	\$ (4,975,666)

State of Illinois
Department of Human Services
Reconciliation of Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to Statement of Activities
For the Year Ended June 30, 2017
(Expressed in Thousands)

Net change in fund balances	\$ 189,671	
Change in inventories	482	\$ 190,153
	<hr/>	
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	8,720	
Depreciation	(25,182)	
Losses on disposals of capital assets	(722)	(17,184)
	<hr/>	
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.		3,297
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.		277
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.		20,889
Pension related liabilities and deferrals are not reported in the governmental funds since they do not provide or use current financial resources. Changes in these amounts consist of the following:		
Increase in net pension liability - SERS pensions	(1,291,934)	
Increase in net pension liability - TRS pensions	(831)	
Change in deferred inflows	(9,233)	
Change in deferred outflows	784,839	(517,159)
	<hr/>	
Prepaid expenses in the Statement of Activities are reported as expenditures in governmental funds.		242
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		4,531
		<hr/>
Change in net position (deficit) of governmental activities		\$ (314,954)
		<hr/> <hr/>

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, 2017 (Expressed in Thousands)

	<u>Private-Purpose Trust</u>	
	Hansen- Therkelsen Memorial Deaf Student College 0123	<u>Agency Funds</u>
ASSETS		
Cash deposited with State Treasurer	\$ 1,038	\$ -
Cash and cash equivalents	-	1,378
Securities lending collateral equity with State Treasurer	334	-
Investments	-	890
Due from other government - federal	-	28
Other receivables, net	1	-
Loans and notes receivable	48	-
Due from other Department funds	-	43
Total assets	<u>1,421</u>	<u>\$ 2,339</u>
LIABILITIES		
Accounts payable and accrued liabilities	-	43
Obligations under securities lending of State Treasurer	334	-
Other liabilities	-	2,296
Total liabilities	<u>334</u>	<u>\$ 2,339</u>
NET POSITION		
Held in trust and other purposes	<u>\$ 1,087</u>	

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, 2017 (Expressed in Thousands)

	<u>Private-Purpose Trust</u>
	<u>Hansen-Therkelsen Memorial Deaf Student College 0123</u>
Additions:	
Investment income	\$ 8
Other additions	6
Total additions	<u>14</u>
Net additions	14
Net position, July 1, 2016	<u>1,073</u>
Net position, June 30, 2017	<u><u>\$ 1,087</u></u>

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

State of Illinois
Department of Human Services
Notes to Financial Statements
June 30, 2017

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 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/>.

The Department's 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, if any. The Department does not currently report any component units.

(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, 2017 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

State of Illinois
Department of Human Services
Notes to Financial Statements
June 30, 2017

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 Federal operating grant 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

State of Illinois
Department of Human Services
Notes to Financial Statements
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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, as defined above, 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.

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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 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. For fiscal year 2017, the lapse period was extended through September.

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.

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(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:

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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 acquisition 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

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(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.

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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, 2017, 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.

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 (Deficit)

Net position (deficit) 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:

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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 (deficit) 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, 2017, the Department adopted the portion of 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 addresses accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68. The implementation of this statement did not have a significant impact on the Department’s financial statements.

Effective for the year ending June 30, 2017, the Department adopted 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. The Department does not report an OPEB Trust Fund, as such, the implementation of this statement had no impact on the Department’s net position or results of operations.

Effective for the year ending June 30, 2017, the Department adopted Statement No. 77, *Tax Abatement Disclosures*, which is intended to improve financial reporting by requiring disclosure of

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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. The implementation of this statement had no impact on the Department's financial statements.

Effective for the year ending June 30, 2017, the Department adopted 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 employees 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 pensions 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. The implementation of this statement had no impact on the Department's financial statements.

Effective for the year ending June 30, 2017, 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. Only the portion of this statement related to certain provisions on portfolio quality, custodial credit risk and shadow pricing was implemented effective for the year ending June 30, 2017. The implementation of this statement had no impact on the Department's financial statements.

Effective for the year ending June 30, 2017, the Department adopted Statement No. 80, *Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 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. The Department does not have component units, as such, the implementation of this statement had no impact on the Department's financial statements.

Effective for the year ending June 30, 2017, the Department adopted Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 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. 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, 2018, the Department will be required to adopt the following GASB statements, if applicable:

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- 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.
- Statement No. 85, *Omnibus 2017*, which is intended to address practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits.
- Statement No. 86, *Certain Debt Extinguishment Issues*, which is intended to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the sole purpose of extinguishing debt. In addition, this statement improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

Effective for the year ending June 30, 2019, the Department will adopt the following GASB statement:

- Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) and establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs.

Effective for the year ending June 30, 2020, the Department will adopt the following GASB statements:

- Statement No. 84, *Fiduciary Activities*, which is intended to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. In addition, this Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and post-employment benefit arrangements that are fiduciary activities.

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Effective for the year ending June 30, 2021, the Department will adopt the following GASB Statement.

- Statement No. 87, *Leases*, which is intended to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources and/or outflow of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

The Department has not yet determined the impact of adopting these statements on its financial statements; however, the provisions of GASB Statements No. 75, 85 and 87 are expected to be significant, and 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 \$10.186 million (\$7.941 million and \$2.245 million reported in governmental activities and fiduciary funds, respectively) and a bank balance of \$8.789 million at June 30, 2017.

Of the total bank balances, \$5.912 million was uninsured and uncollateralized, and \$545 thousand was uninsured with collateral held by the financial institution in the Department's name.

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(b) Investments

The Department 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, 2017, which are held outside of the State Treasury:

Investments Measured at Fair Value

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
	06/30/2017 (Level 1)	(Level 2)	(Level 3)	
Governmental Activities	(Thousands)			
U.S. Agency Obligations	\$ 35	\$ -	\$ 35	\$ -
Total Governmental Activities	\$ 35	\$ -	\$ 35	\$ -

The Department also has \$1.067 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 (\$25,000) and maturities of one to five years (\$10,000).

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.

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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
<i>Governmental Activities</i>		
Amounts per note 3 (a) and 3 (b)	\$ 7,941	\$ 1,102
Deposits held for investment purposes	(879)	879
Cash equivalents	122	(122)
Petty cash	28	-
Amounts per Statement of Net Position	\$ 7,212	\$ 1,859
<i>Fiduciary Funds</i>		
Amounts per note 3 (a)	\$ 2,245	\$ -
Deposits held for investment purposes	(890)	890
Petty cash	23	-
Amounts per Statement of Fiduciary Net Position	\$ 1,378	\$ 890

NOTE (4) - Other Receivables

Recipient services and other receivables, net at June 30, 2017 (amounts expressed in thousands) consisted of the following:

Revenue Source	Governmental Funds	
	General Fund	Non-major Funds
Fines	\$ -	\$ 756
Public Assistance Recoveries	7,404	133
Rebates	-	11,402
Recipient services and recoveries	7,565	483,373
Interest and Other Income	116	31
Total Other receivables	15,085	495,695
Allowance for uncollectible amounts	(9,796)	(311,287)
Other receivables, net	\$ 5,289	\$ 184,408

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.

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During Fiscal Year 2017, 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 during Fiscal Year 2017 on loan amounts of available and eligible securities. 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 2017 resulting from a default of the borrowers or Deutsche Bank AG.

During Fiscal Year 2017, 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, 2017 were \$3,522,922,500 and \$3,475,790,990, respectively.

NOTE (6) - Interfund Balances and Activity

(a) Balances Due from/to Other Funds

The following balances (amounts expressed in thousands) at June 30, 2017 represent amounts due from other Department and State of Illinois funds:

<u>Fund Type</u>	<u>Due from Other</u>		<u>Description/Purpose</u>
	<u>Department Funds</u>	<u>State Funds</u>	
General	\$ 9,209	\$ 42,070	See comment that follows
Non-major governmental	68,941	8,811	See comment that follows
Fiduciary	43	-	See comment that follows
	<u>\$ 78,193</u>	<u>\$ 50,881</u>	

General - Due from other Department funds for required transfers and expenditure reimbursements. Due from other State funds for an interfund loan to the Department of Healthcare and Family Services Fund 001 by Fund 142, and for expenditure reimbursements.

Non-major governmental - Due to budget impasse, \$40 million was to provide funding from the General Revenue Fund to the Commitment to Human Services Fund (644) as of June 30, 2017.

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Additionally, amounts were 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, 2017 represent amounts due to other Department and State of Illinois funds:

<u>Fund Type</u>	<u>Due to Other</u>				<u>Description/Purpose</u>
	<u>Department Funds</u>	<u>Department Fiduciary</u>	<u>State Funds</u>	<u>State Fiduciary</u>	
General	\$ 68,941	\$ 43	\$ 131,954	\$ 9	See comment that follows
Non-major governmental	9,209	-	21,752	1,434	See comment that follows
	<u>\$ 78,150</u>	<u>\$ 43</u>	<u>\$ 153,706</u>	<u>\$ 1,443</u>	

General – Due to the budget impasse, \$40 million was to provide funding from the General Revenue Fund to the Commitment to Human Services Fund (644) as of June 30, 2017. Additionally, due to other Department funds and other Department fiduciary funds for expenditure reimbursements, other State funds for expenditure reimbursements, and other State fiduciary funds for 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, 2017 were as follows:

<u>Fund Type</u>	<u>Transfers-in from Other</u>		<u>Description/Purpose</u>
	<u>Department Funds</u>	<u>State Funds</u>	
General	\$ 191	\$ 20,524	Transfer from other Department funds and other State funds pursuant to statute.
Non-major governmental	143,713	14,750	Transfers from the General Revenue Fund to the Commitment to Human Services Fund (644) due to the budget impasse and transfers from other Department funds and other State funds pursuant to statute and annual appropriations bill.
Totals	<u>\$ 143,904</u>	<u>\$ 35,274</u>	

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Interfund transfers-out (amounts expressed in thousands) for the year ended June 30, 2017 were as follows:

<u>Fund Type</u>	<u>Transfer-out to Other</u>		<u>Description/Purpose</u>
	<u>Department Funds</u>	<u>State Funds</u>	
General	\$ 143,713	\$ 6,834	Transfers to the Commitment to Human Services Fund (644) due to the budget impasse and transfers to other Department funds and State funds pursuant to statute.
Non-major governmental	191	-	Transfers to other Department funds pursuant to statute.
Totals	<u>\$ 143,904</u>	<u>\$ 6,834</u>	

(c) Balances due to State of Illinois Component Units

The following balances (amounts expressed in thousands) at June 30, 2017 represent amounts due to State of Illinois component units for reimbursement for expenses incurred:

<u>Component Unit</u>	<u>"Due to" amounts</u>	
	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>
Toll Highway Authority	\$ 10	\$ -
Eastern Illinois University	-	135
Governors State University	-	61
Northeastern Illinois	-	30
Western Illinois University	-	84
Northern Illinois University	-	187
Southern Illinois University	-	16
University of Illinois	1,173	5,004
Totals	<u>\$ 1,183</u>	<u>\$ 5,517</u>

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NOTE (7) - Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2017 was as follows:

	Balance July 1, 2016	Additions	Deletions	Transfers and Adjustments	Balance June 30, 2017
Capital assets not being depreciated/amortized:					
Land and land improvements	\$ 2,993	\$ -	\$ -	\$ -	\$ 2,993
Construction in progress	-	-	(722)	5,450	4,728
Internally generated intangible assets in development	-	5,935	-	(5,935)	-
Total capital assets not being depreciated/amortized	2,993	5,935	(722)	(485)	7,721
Capital assets being depreciated/amortized:					
Site improvements	81,296	-	-	-	81,296
Buildings and building improvements	544,852	520	-	1,244	546,616
Equipment	32,937	2,265	-	(1,594)	33,608
Capital leases - equipment	925	-	-	(219)	706
Non-internally generated software	204	-	-	-	204
Internally generated software	81,618	-	-	-	81,618
Total capital assets being depreciated/amortized	741,832	2,785	-	(569)	744,048
Less accumulated depreciation/amortization:					
Site improvements	73,834	1,443	-	-	75,277
Buildings and building improvements	419,278	11,510	-	(26)	430,762
Equipment	21,545	4,272	-	(4,106)	21,711
Capital leases - equipment	471	263	-	(219)	515
Non-internally generated software	130	17	-	-	147
Internally generated software	19,817	7,677	-	-	27,494
Total accumulated depreciation/amortization	535,075	25,182	-	(4,351)	555,906
Total capital assets being depreciated/amortized, net	206,757	(22,397)	-	3,782	188,142
Total capital assets, net	\$ 209,750	\$ (16,462)	\$ (722)	\$ 3,297	\$ 195,863

Depreciation/amortization expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2017 was charged as follows:

Health and social services	\$ <u>25,182</u>
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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, 2017 were as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Amounts Due Within One Year
Other long-term obligations:					
Compensated absences	\$ 65,112	\$ 93,648	\$ 98,179	\$ 60,581	\$ 6,403
Capital lease obligations	548	-	277	271	226
Net pension liability - SERS	5,660,656	1,291,934	-	6,952,590	-
Net pension liability - TRS	1,567	831	-	2,398	-
Totals	\$ 5,727,883	\$ 1,386,413	\$ 98,456	\$ 7,015,840	\$ 6,629

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 through 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 \$706 and \$515, 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, 2017 are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 226	\$ 58	\$ 284
2019	45	5	50
Totals	\$ 271	\$ 63	\$ 334

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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 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 850 local school districts, 126 special districts, and 16 other State agencies that contribute to the TRS plan as of the measurement date June 30, 2016. 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.trsil.org.

Benefit Provisions

State Employees' Retirement System

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.

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Regular Formula Tier 1	Regular Formula Tier 2
<p>A member must have a minimum of eight years of service credit and may retire at:</p> <ul style="list-style-type: none"> • 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). <p>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.</p> <p>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.</p> <p>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.</p>	<p>A member must have a minimum of 10 years of credited service and may retire at:</p> <ul style="list-style-type: none"> • 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). <p>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.</p> <p>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 2016 rate is \$111,572.</p> <p>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.</p>

Additionally, the Plan 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.

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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 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 4 consecutive years within the last 10 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 8 consecutive years within the last 10 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 lesser of 3% or one-half of the annual percentage increase in the Consumer Price Index. For 2017, this amount was \$112,408.

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 2017, 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 until the 90% funded level is achieved. For fiscal year 2017, the employer contribution rate was 44.568%. The Department's contribution amount for fiscal year 2017 was \$33.685 million. In addition, the Department recorded \$326.614 million of revenue and expenditures in the General Revenue account of the General Fund to account for on-behalf payments to SERS for Department employees.

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

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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, 2017 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 lesser of 3% or one-half of the annual percentage increase in the Consumer Price Index. For 2017, this amount was \$112,408. The Department's contribution amount for fiscal year 2017 was \$29 thousand.

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

State Employees' Retirement System

At June 30, 2017, the Department reported a liability of \$6.953 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, 2016 (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, 2016. As of the measurement date of June 30, 2016, the Department's proportion was 20.3617%, which was an increase of 0.1510% from its proportion measured as of the prior year of 20.2107%.

For the year ended June 30, 2017, the Department recognized pension expense of \$885.185 million. At June 30, 2017, 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	\$ 10,644	\$ 170,023
Changes of assumptions	1,068,692	-
Net difference between projected and actual investment earnings on pension plan investments	147,602	-
Changes in proportion	214,716	97,261
Department contributions subsequent to the measurement date	360,299	-
Total	<u>\$1,801,953</u>	<u>\$ 267,284</u>

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\$360.299 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, 2018.

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
2018	\$ 381,502
2019	329,877
2020	288,302
2021	174,689
Total	\$ 1,174,370

Teachers' Retirement System

At June 30, 2017, the Department reported a liability of \$2.398 million for its proportionate share of the TRS net pension liability on the statement of net position. The net pension liability reported by the State of Illinois (as a nonemployer contributing entity in a special funding situation), for DHS employees was \$74.668 million. The total net pension liability for all DHS employees participating in TRS was \$77.066 million as of the measurement date. The net pension liability was measured as of June 30, 2016 (measurement date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, and rolled forward to June 30, 2016. The Department's portion of the net pension liability was based on the Department's contributions relative to the contributions of all participating TRS employers and the State during the year ended June 30, 2016. At June 30, 2016, the measurement date, the Department's proportionate share was 0.00304% for the TRS plan, which was a 0.00065% increase from its proportion at the prior year measurement date of .00239%.

For the year ended June 30, 2017, the Department recognized pension expense of \$126 thousand. At June 30, 2017, 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	\$ 18	\$ 2
Changes of assumptions	206	-
Net difference between projected and actual investment earnings on pension plan investments	68	-
Changes in proportion	1,241	1,794
Department contributions subsequent to the measurement date	29	-
Total	\$ 1,562	\$ 1,796

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\$29 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, 2018. 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
2018	\$ (112)
2019	(112)
2020	(217)
2021	151
2022	27
Total	\$ (263)

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	6/30/2016	6/30/2015*
Measurement date	6/30/2016	6/30/2016
Actuarial cost method	Entry Age	Entry Age
Actuarial assumptions:		
Investment rate of return	7.00%	7.00%
Projected salary increases**	3.25% - 7.67%	3.25% - 9.25%
Inflation rate	2.75%	2.50%
Postretirement benefit increases		
Tier 1	3%, compounded	3%, compounded
Tier 2	Lesser of 3% or 1/2 of CPI [^] , on original benefit	1.25% not compounded
Retirement age experience study ^^	July 2009 - June 2013	July 2011 - June 2014

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	SERS	TRS
Mortality ^{^^^}		
SERS	105 percent of the RP 2014 Healthy Annuitant	
	RP - 2014 with future mortality improvements on a fully generational basis using projection table MP-2014	
TRS		

* The total pension liability is based on an actuarial valuation date of June 30, 2015, 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.

Changes of Assumptions and Other Inputs that Affected Measurement of the Total Pension Liability.

Input and assumption changes since the previous measurement date which impacted the calculation of the total pension liability and other pension amounts are noted below.

State Employees Retirement System

- The rate of inflation decreased from 3.00 percent to 2.75 percent.
- The investment return assumption decreased from 7.25 percent to 7.0 percent. The discount rate decreased from 7.02 percent to 6.64 percent.
- The payroll growth assumption decreased from 3.5 percent to 3.25 percent.
- Separate Tier 2 turnover rates were implemented for members eligible for regular formula and alternative formula benefits. The new rates increased the expected turnover.
- Generational mortality improvement factors were added to reflect future mortality improvements. The new mortality tables move from a single dimensional age-based table to a two-dimensional table where the year of a person's birth influences their mortality rate.
- An assumption was added that all current and future active members would increase service by 4.5 months upon retirement due to the optional service purchase of unused sick and vacation leave upon leaving state employment.

Teachers' Retirement System

- The rate of inflation decreased from 3.00 percent to 2.50 percent.
- The investment return assumption decreased from 7.5 percent to 7.0 percent. The discount rate decreased from 7.47 percent to 6.83 percent.
- The payroll growth assumption decreased from a range of 3.75 to 9.95 percent, to a range of 3.25 to 9.25 percent.

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State Employees' Retirement System

The long-term expected real rate of return on pension plan investments was determined based on the simulated average 20-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, 2016, the best estimates of the geometric real rates of return as summarized in the following table:

<u>Asset Class</u>	SERS	
	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	23%	5.8%
Developed Foreign Equity	13%	6.1%
Emerging Market Equity	7%	8.5%
Private Equity	9%	7.4%
Hedge Funds	3%	3.6%
Intermediate Investment Grade Bonds	11%	1.6%
Long-term Government Bonds	3%	1.6%
TIPS	5%	1.3%
High Yield and Bank Loans	5%	4.8%
Opportunistic Debt	4%	4.8%
Emerging Market Debt	2%	4.1%
Real Estate	10%	4.5%
Infrastructure	5%	5.9%
Total	100%	5.04%

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 the measurement date of June 30, 2016, that were used by the actuary are summarized in the following table:

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Asset Class	TRS	
	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equities Large Cap	14.4%	6.94%
U.S. Equities Small/Mid Cap	3.6%	8.09%
International Equities Developed	14.4%	7.46%
Emerging Market Equities	3.6%	10.15%
U.S. Bonds Core	10.7%	2.44%
International Debt Developed	5.3%	1.70%
Real Estate	15.0%	5.44%
Commodities (Real Return)	11.0%	4.28%
Hedge Funds (Absolute Return)	8.0%	4.16%
Private Equity	14.0%	10.63%
Total	100.0%	

Discount Rate

State Employees' Retirement System

A discount rate of 6.64% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 2.85%, 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 2072 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 2072, and the municipal bond rate was applied to all benefit payments after that date for SERS.

Teachers' Retirement System

A discount rate of 6.83% was used to measure the total pension liability. This single discount rate was based on the expected rate of return of pension plan investments of 7.00% and a municipal bond rate of 2.85% based on an S&P Municipal Bond 20-Year High. 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 2079 and for the benefit payments after the year 2128. For the period of 2080 through 2128, projected plan assets do not cover benefit payments. As a result, the municipal bond rate was applied to all benefit payments during the 49-year period of 2080 through 2128 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):

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	SERS		
	1%	Discount Rate	1%
	Decrease		Increase
	5.64%	6.64%	7.64%
Department's Proportionate Share of the SERS Net Pension Liability	\$ 8,391,120	\$ 6,952,590	\$ 5,778,707

	TRS		
	1%	Discount Rate	1%
	Decrease		Increase
	6.47%	7.47%	8.47%
Department's Proportionate Share of the TRS Net Pension Liability	\$ 2,933	\$ 2,398	\$ 1,961

Payables to the pension plan. At June 30, 2017, the Department reported a payable of \$1.433 million to SERS for the outstanding amount of contributions to the pension plans required for the year ended June 30, 2017.

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.

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.

State of Illinois
Department of Human Services
Notes to Financial Statements
June 30, 2017

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 from the Illinois Officer of the Auditor General's website, <http://www.auditor.illinois.gov/Audit-Reports/CENTRAL-MANAGEMENT-SERVICES-DEPARTMENT.asp>.

NOTE (11) - Fund Balances

(a) Categories

At June 30, 2017, the Department's fund balances were classified as follows:

	General Fund	Nonmajor Governmental Funds	Total
Nonspendable:			
Inventory	\$ 4,499	\$ 3,027	\$ 7,526
Permanent endowments	-	1,162	1,162
Total nonspendable	<u>4,499</u>	<u>4,189</u>	<u>8,688</u>
Restricted Purposes:			
Health and social services	112,200	78,633	190,833
Committed Purposes:			
Health and social services	43,582	99,815	143,397
Unassigned	<u>(122,395)</u>	<u>(90,565)</u>	<u>(212,960)</u>
Total fund balance	<u>\$ 37,886</u>	<u>\$ 92,072</u>	<u>\$ 129,958</u>

(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 \$117,152, \$140, \$391, and \$213, respectively (expressed in thousands), at June 30, 2017. The Prevention and Treatment of Alcoholism and Substance Abuse Block Grant, Early Intervention Services Revolving, USDA Women Infants and Children, and DHS Recoveries Trust, non-major governmental funds had fund deficits (expressed in thousands) of \$3, \$10,063, \$36, and \$80,463, respectively, at June 30, 2017.

State of Illinois
Department of Human Services
Notes to Financial Statements
June 30, 2017

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 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 \$12.272 million for the year ended June 30, 2017.

(b) Federal Funding

Backlog of Applications in Integrated Eligibility System (IES)

The State of Illinois implemented an Integrated Eligibility System (IES) for the intake and processing of applications in order to determine eligibility for various health and human services programs (i.e., Medicaid, SNAP, TANF) effective March 2014. Upon the implementation of IES, the State has experienced delays in processing applications due to an increase in the number of applications for the expanded Medicaid programs and open enrollment periods, insufficient caseworker resources and other factors. These delays resulted in applications not being reviewed and approved or denied within the mandated 45 day timeframe. As of June 30, 2017, the Department, along with the Department of Healthcare and Family Services, had approximately 75,000 unprocessed applications in IES. Department management cannot presently estimate the amount of the contingent liabilities (retroactive benefits) associated with the unprocessed applications. However, such amounts could be material to the financial statements.

Unsupported Eligibility Determination for Human Service Programs (IES)

Department management has determined that some eligibility determinations within the Integrated Eligibility System (IES) lacked sufficient documentation to support the eligibility conclusion. In order to obtain human service benefits, individuals are evaluated on financial and non-financial criteria. All application information related to the eligibility criteria is required to be supported, with documentation of support retained. The Department does not have historical information or other data to estimate the proportion of initial applications that result in over (under) payment of benefits. Department management cannot estimate the amount of the contingent assets or liabilities (related to excess benefits provided) associated with the unsupported eligibility criteria within the population of applications. However, such amounts could be material to the financial statements.

State of Illinois
Department of Human Services
Notes to Financial Statements
June 30, 2017

SNAP Overpayment Claims

The Department has significant delays in investigating and resolving overpayment claims for the Supplemental Nutrition Assistance Program (SNAP). Department management cannot establish a claim against a SNAP recipient until their investigation is complete. When resolution of these claims is complete, the Department estimates it will record net receivables from beneficiaries under the program of approximately \$119 million, for benefits established on or before June 30, 2017. Additionally, it is estimated that \$94 million will be recorded as a liability to the Federal government for their share of overpayment collections.

Federal Program Audits

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 is 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 accessing the Illinois Office of the Auditor General's website, <http://www.auditor.illinois.gov/Audit-Reports/Statewide-Single-Audit.asp>.

(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 Events

Subsequent to June 30, 2017, the State of Illinois passed a full operating budget for FY18 (P.A. 100-0021). In addition to appropriations for FY18, P.A. 100-0021 also included appropriations for FY17. Prior to this budget, many, but not all, payments were made based on various court orders.

The Department implemented Phase 2 of the Integrated Eligibility System (IES) on 10/24/2017. IES Phase 1 functionality consisted of the initial benefit determination and Phase 2 functionality included the annual re-determination of benefits and all other benefit eligibility changes. With this implementation, IES is now the book of record for all benefits determination. The redetermination of benefits may impact liabilities, expenses, federal receivables, and revenue.

State of Illinois
Department of Human Services
Combining Schedule of
Accounts - General Fund
June 30, 2017 (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	\$ 430,339	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,429	\$ -	\$ 251	\$ -	\$ -	\$ 436,019
Cash deposited with State Treasurer	593	354	513	17,036	46,322	-	-	9,336	-	27,410	-	101,564
Cash and cash equivalents	207	-	-	-	-	-	-	-	-	-	-	207
Securities lending collateral equity with State Treasurer	-	-	154	12,334	14,669	-	-	2,698	-	8,108	-	37,963
Due from other government - federal	3,700	-	-	10,887	4,057	-	-	1,140	-	7,112	-	26,896
Recipient services and other receivables, net	5,173	-	-	38	45	-	-	8	-	25	-	5,289
Due from other Department funds	9,232	3,175	-	-	-	-	-	-	-	6	(3,204)	9,209
Due from other State funds	-	-	16	-	42,054	-	-	-	-	-	-	42,070
Inventories	4,499	-	-	-	-	-	-	-	-	-	-	4,499
Total assets	\$ 453,743	\$ 3,529	\$ 683	\$ 40,295	\$ 107,147	\$ -	\$ 5,429	\$ 13,182	\$ 251	\$ 42,661	\$ (3,204)	\$ 663,716
LIABILITIES												
Accounts payable and accrued liabilities	355,007	15	175	6,271	1,420	-	5,820	2,502	459	1,245	-	372,914
Due to other government - federal	2,426	-	-	-	-	-	-	-	-	1	-	2,427
Due to other government - local	8,000	-	-	27	2	-	-	40	-	-	-	8,069
Due to other Department fiduciary funds	43	-	-	-	-	-	-	-	-	-	-	43
Due to other State fiduciary funds	-	-	-	-	-	-	-	-	-	9	-	9
Due to other Department funds	72,005	-	-	-	-	140	-	-	-	-	(3,204)	68,941
Due to other State funds	131,761	-	-	117	-	-	-	41	5	30	-	131,954
Due to State of Illinois component units	1,177	-	-	6	-	-	-	-	-	-	-	1,183
Unearned revenue	476	-	-	-	-	-	-	-	-	-	-	476
Obligations under securities lending of State Treasurer	-	-	154	12,334	14,669	-	-	2,698	-	8,108	-	37,963
Total liabilities	570,895	15	329	18,755	16,091	140	5,820	5,281	464	9,393	(3,204)	623,979
DEFERRED INFLOWS OF RESOURCES												
Unavailable revenue	-	-	-	-	750	-	-	667	-	434	-	1,851
Total Deferred Inflows of Resources	-	-	-	-	750	-	-	667	-	434	-	1,851
FUND BALANCES (DEFICITS)												
Nonspendable	4,499	-	-	-	-	-	-	-	-	-	-	4,499
Restricted	-	-	354	21,540	90,306	-	-	-	-	-	-	112,200
Committed	-	3,514	-	-	-	-	-	7,234	-	32,834	-	43,582
Unassigned	(121,651)	-	-	-	-	(140)	(391)	-	(213)	-	-	(122,395)
Total fund balances (deficits)	(117,152)	3,514	354	21,540	90,306	(140)	(391)	7,234	(213)	32,834	-	37,886
Total liabilities, deferred inflows and fund balances (deficits)	\$ 453,743	\$ 3,529	\$ 683	\$ 40,295	\$ 107,147	\$ -	\$ 5,429	\$ 13,182	\$ 251	\$ 42,661	\$ (3,204)	\$ 663,716

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, 2017 (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	\$ 177,743	\$ -	\$ -	\$ 246,688	\$ 65,730	\$ -	\$ -	\$ 2,513	\$ -	\$ 54,037	\$ -	\$ 546,711
Licenses and fees, net of refunds	59	-	-	-	-	-	-	-	-	-	-	59
Interest and investment income	-	-	2	180	393	-	-	71	-	204	-	850
Other charges for services, net of refunds	96	-	-	-	-	-	-	-	-	-	-	96
Other operating grants	5	-	-	-	-	-	-	-	-	-	-	5
Other revenues, net of refunds	2,320	-	45	-	-	-	-	-	-	-	-	2,365
Total revenues	180,223	-	47	246,868	66,123	-	-	2,584	-	54,241	-	550,086
EXPENDITURES												
Health and social services	3,486,737	3,538	1,041	234,727	49,974	-	32,585	21,435	(37)	54,277	-	3,884,277
Debt service - principal	261	-	-	-	-	-	-	-	-	-	-	261
Debt service - interest	157	-	-	-	-	-	-	-	-	-	-	157
Capital outlays	6,474	-	-	-	-	-	-	-	37	-	-	6,511
Total expenditures	3,493,629	3,538	1,041	234,727	49,974	-	32,585	21,435	-	54,277	-	3,891,206
Excess (deficiency) of revenues over (under) expenditures	(3,313,406)	(3,538)	(994)	12,141	16,149	-	(32,585)	(18,851)	-	(36)	-	(3,341,120)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES												
Appropriations from State resources	4,084,325	-	-	-	-	-	45,000	-	25,000	-	-	4,154,325
Lapsed appropriations	(474,859)	-	-	-	-	-	(11,955)	-	(213)	-	-	(487,027)
Receipts collected and transmitted to State Treasury	(162,295)	-	-	-	-	-	-	-	-	-	-	(162,295)
Amount of SAMS transfers-in	(32,397)	-	-	-	-	-	-	-	-	-	-	(32,397)
Amount of SAMS transfers-out	6,351	-	-	-	-	-	-	-	-	-	-	6,351
Transfers-in	191	4,366	524	-	-	-	-	20,000	-	-	(4,366)	20,715
Transfers-out	(154,913)	-	-	-	-	-	-	-	-	-	4,366	(150,547)
Net other sources (uses) of financial resources	3,266,403	4,366	524	-	-	-	33,045	20,000	24,787	-	-	3,349,125
Net change in fund balances	(47,003)	828	(470)	12,141	16,149	-	460	1,149	24,787	(36)	-	8,005
Fund balances (deficits), July 1, 2016	(70,876)	2,686	824	9,399	74,157	(140)	(851)	6,085	(25,000)	32,870	-	29,154
Increase for change in inventories	727	-	-	-	-	-	-	-	-	-	-	727
FUND BALANCES (DEFICITS), JUNE 30, 2017	\$ (117,152)	\$ 3,514	\$ 354	\$ 21,540	\$ 90,306	\$ (140)	\$ (391)	\$ 7,234	\$ (213)	\$ 32,834	\$ -	\$ 37,886

State of Illinois
Department of Human Services
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2017 (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	Survivors Human Trafficking 0132
ASSETS							
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash deposited with State Treasurer	489	44	32,767	19,991	644	1,010	1
Cash and cash equivalents	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	14	-	-	-	-	-
Investments	-	-	-	-	-	-	-
Due from other government - federal	7,408	-	3,576	10,057	-	-	-
Due from other government - local	-	-	-	-	-	-	-
Taxes receivable, net	-	-	160	-	-	-	-
Other receivables, net	-	-	2,070	19	-	-	-
Loans and notes receivable, net	-	21	-	-	-	-	-
Due from other Department funds	-	-	11	65	-	-	-
Due from other State funds	-	-	1,784	-	1	2,325	-
Inventories	-	-	3,027	-	-	-	-
Total assets	\$ 7,897	\$ 79	\$ 43,395	\$ 30,132	\$ 645	\$ 3,335	\$ 1
LIABILITIES							
Accounts payable and accrued liabilities	6,685	-	6,097	6,195	-	426	-
Due to other government - federal	6	-	7	105	-	-	-
Due to other government - local	448	-	-	1,153	-	37	-
Due to other State fiduciary funds	29	-	40	639	-	-	-
Due to other Department funds	-	-	26	-	-	-	-
Due to other State funds	148	-	32	2,098	-	31	-
Due to State of Illinois component units	584	-	50	945	-	-	-
Unearned revenue	-	-	-	460	-	-	-
Obligations under securities lending of State Treasurer	-	14	-	-	-	-	-
Total liabilities	7,900	14	6,252	11,595	-	494	-
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue	-	-	1,797	-	-	-	-
Total Deferred Inflows of Resources	-	-	1,797	-	-	-	-
FUND BALANCES (DEFICITS)							
Nonspendable	-	-	3,027	-	-	-	-
Restricted	-	65	-	18,537	-	-	1
Committed	-	-	32,319	-	645	2,841	-
Unassigned	(3)	-	-	-	-	-	-
Total fund balances (deficits)	(3)	65	35,346	18,537	645	2,841	1
Total liabilities, deferred inflows and fund balances (deficits)	\$ 7,897	\$ 79	\$ 43,395	\$ 30,132	\$ 645	\$ 3,335	\$ 1

(Continued)

State of Illinois
Department of Human Services
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2017 (Expressed in Thousands)

	Special Revenue						
	Mental Health Reporting 0148	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
ASSETS							
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash deposited with State Treasurer	4,394	554	36	45	7,815	4	363
Cash and cash equivalents	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	1,380	178	-	-	2,527	1	-
Investments	-	-	-	-	-	-	-
Due from other government - federal	-	-	-	-	376	-	-
Due from other government - local	-	-	-	-	-	-	-
Taxes receivable, net	-	-	-	-	-	-	-
Other receivables, net	4	1	-	-	8	-	-
Loans and notes receivable, net	-	-	-	-	-	-	-
Due from other Department funds	-	-	-	-	-	-	5
Due from other State funds	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-
Total assets	\$ 5,778	\$ 733	\$ 36	\$ 45	\$ 10,726	\$ 5	\$ 368
LIABILITIES							
Accounts payable and accrued liabilities	-	156	-	-	783	-	56
Due to other government - federal	-	-	-	-	-	-	1
Due to other government - local	-	-	-	-	-	-	1
Due to other State fiduciary funds	2	-	-	-	-	-	7
Due to other Department funds	-	-	-	-	-	-	297
Due to other State funds	2	-	-	-	1,496	-	3
Due to State of Illinois component units	-	-	-	-	-	-	3
Unearned revenue	-	-	-	-	-	-	-
Obligations under securities lending of State Treasurer	1,380	178	-	-	2,527	1	-
Total liabilities	1,384	334	-	-	4,806	1	368
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue	-	-	-	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-	-	-	-
FUND BALANCES (DEFICITS)							
Nonspendable	-	-	-	-	-	-	-
Restricted	-	399	36	45	5,920	4	-
Committed	4,394	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-
Total fund balances (deficits)	4,394	399	36	45	5,920	4	-
Total liabilities, deferred inflows and fund balances (deficits)	\$ 5,778	\$ 733	\$ 36	\$ 45	\$ 10,726	\$ 5	\$ 368

(Continued)

State of Illinois
Department of Human Services
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2017 (Expressed in Thousands)

	Special Revenue						
	Federal National Community Services 0343	Employment and Training 0347	Drug Treatment 0368	Sexual Assault Services 0389	Gaining Early Awareness and Readiness for Undergraduate Programs 0394	Autism Care 0399	DHS Special Purposes Trust 0408
ASSETS							
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash deposited with State Treasurer	476	5,520	1,002	144	3,256	39	59,725
Cash and cash equivalents	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	-	-	1,046	-	-
Investments	-	-	-	-	-	-	-
Due from other government - federal	-	22,253	-	-	-	-	46,465
Due from other government - local	-	-	150	4	-	-	-
Taxes receivable, net	-	-	-	-	-	-	-
Other receivables, net	-	-	-	-	3	-	2
Loans and notes receivable, net	-	-	-	-	-	-	-
Due from other Department funds	-	-	7	-	-	-	-
Due from other State funds	-	-	-	-	-	-	3,551
Inventories	-	-	-	-	-	-	-
Total assets	\$ 476	\$ 27,773	\$ 1,159	\$ 148	\$ 4,305	\$ 39	\$ 109,743
LIABILITIES							
Accounts payable and accrued liabilities	80	24,946	589	-	-	-	48,928
Due to other government - federal	-	-	1	-	-	-	14
Due to other government - local	-	405	-	-	-	-	5,193
Due to other State fiduciary funds	-	-	8	-	-	-	67
Due to other Department funds	-	-	-	-	-	-	-
Due to other State funds	380	2,348	4	-	5	-	3,188
Due to State of Illinois component units	16	74	-	-	35	-	2,702
Unearned revenue	-	-	-	-	3,219	-	25
Obligations under securities lending of State Treasurer	-	-	-	-	1,046	-	-
Total liabilities	476	27,773	602	-	4,305	-	60,117
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue	-	-	-	-	-	-	285
Total Deferred Inflows of Resources	-	-	-	-	-	-	285
FUND BALANCES (DEFICITS)							
Nonspendable	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	39	49,341
Committed	-	-	557	148	-	-	-
Unassigned	-	-	-	-	-	-	-
Total fund balances (deficits)	-	-	557	148	-	39	49,341
Total liabilities, deferred inflows and fund balances (deficits)	\$ 476	\$ 27,773	\$ 1,159	\$ 148	\$ 4,305	\$ 39	\$ 109,743

(Continued)

State of Illinois
Department of Human Services
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2017 (Expressed in Thousands)

	Special Revenue						
	Autism Awareness 0458	Old Age Survivors Insurance 0495	Early Intervention Services Revolving 0502	DHS Community Services 0509	Domestic Violence Abuser Services 0528	Juvenile Accountability Incentive Block Grant 0581	DHS Federal Projects 0592
ASSETS							
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash deposited with State Treasurer	19	524	3,972	10,434	75	94	2,985
Cash and cash equivalents	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	833	3,559	-	32	-
Investments	-	-	-	-	-	-	-
Due from other government - federal	-	3,098	11,468	6,920	-	-	1,151
Due from other government - local	-	-	-	-	1	-	-
Taxes receivable, net	-	-	-	-	-	-	-
Other receivables, net	-	-	264	11	-	-	-
Loans and notes receivable, net	-	-	-	-	-	-	-
Due from other Department funds	-	-	28,242	-	-	-	26
Due from other State funds	-	-	157	770	-	-	-
Inventories	-	-	-	-	-	-	-
Total assets	\$ 19	\$ 3,622	\$ 44,936	\$ 21,694	\$ 76	\$ 126	\$ 4,162
LIABILITIES							
Accounts payable and accrued liabilities	-	2,090	42,425	818	-	22	1,677
Due to other government - federal	-	92	2	-	-	-	-
Due to other government - local	-	3	898	3	-	-	487
Due to other State fiduciary funds	-	488	14	-	-	-	2
Due to other Department funds	-	-	-	-	-	-	-
Due to other State funds	-	948	103	3	-	-	1
Due to State of Illinois component units	-	1	301	-	-	-	300
Unearned revenue	-	-	3,994	-	-	72	1,347
Obligations under securities lending of State Treasurer	-	-	833	3,559	-	32	-
Total liabilities	-	3,622	48,570	4,383	-	126	3,814
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue	-	-	6,429	-	-	-	-
Total Deferred Inflows of Resources	-	-	6,429	-	-	-	-
FUND BALANCES (DEFICITS)							
Nonspendable	-	-	-	-	-	-	-
Restricted	19	-	-	-	-	-	348
Committed	-	-	-	17,311	76	-	-
Unassigned	-	-	(10,063)	-	-	-	-
Total fund balances (deficits)	19	-	(10,063)	17,311	76	-	348
Total liabilities, deferred inflows and fund balances (deficits)	\$ 19	\$ 3,622	\$ 44,936	\$ 21,694	\$ 76	\$ 126	\$ 4,162

(Continued)

State of Illinois
Department of Human Services
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2017 (Expressed in Thousands)

	Special Revenue						
	Special Olympics Illinois 0623	DHS State Projects 0642	Commitment to Human Services 0644	Alcoholism and Substance Abuse 0646	DHS Private Resources 0690	U.S.D.A. Women Infants and Children 0700	Tobacco Settlement Recovery 0733
ASSETS							
Unexpended appropriations	\$ -	\$ -	\$ 2,470	\$ -	\$ -	\$ -	\$ -
Cash deposited with State Treasurer	18	11,882	-	815	3,152	1,539	-
Cash and cash equivalents	-	-	-	-	-	5,979	-
Securities lending collateral equity with State Treasurer	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-
Due from other government - federal	-	-	-	392	-	163	-
Due from other government - local	-	-	-	-	-	-	-
Taxes receivable, net	-	-	-	-	-	-	-
Other receivables, net	-	2	-	-	-	11,396	-
Loans and notes receivable, net	-	-	-	-	-	-	-
Due from other Department funds	-	-	40,000	-	-	-	-
Due from other State funds	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-
Total assets	\$ 18	\$ 11,884	\$ 42,470	\$ 1,207	\$ 3,152	\$ 19,077	\$ -
LIABILITIES							
Accounts payable and accrued liabilities	13	232	1,879	801	150	8,527	-
Due to other government - federal	-	-	-	1	-	5	-
Due to other government - local	-	-	705	33	-	2,805	-
Due to other State fiduciary funds	-	-	-	-	-	32	-
Due to other Department funds	-	1,267	-	-	-	-	-
Due to other State funds	-	10,385	130	1	3	77	-
Due to State of Illinois component units	-	-	29	147	-	144	-
Unearned revenue	1	-	-	224	2,999	7,487	-
Obligations under securities lending of State Treasurer	-	-	-	-	-	-	-
Total liabilities	14	11,884	2,743	1,207	3,152	19,077	-
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue	-	-	-	-	-	36	-
Total Deferred Inflows of Resources	-	-	-	-	-	36	-
FUND BALANCES (DEFICITS)							
Nonspendable	-	-	-	-	-	-	-
Restricted	4	-	-	-	-	-	-
Committed	-	-	39,727	-	-	-	-
Unassigned	-	-	-	-	-	(36)	-
Total fund balances (deficits)	4	-	39,727	-	-	(36)	-
Total liabilities, deferred inflows and fund balances (deficits)	\$ 18	\$ 11,884	\$ 42,470	\$ 1,207	\$ 3,152	\$ 19,077	\$ -

(Continued)

State of Illinois
Department of Human Services
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2017 (Expressed in Thousands)

	Special Revenue						
	Local Initiative 0762	Rehabilitation Services Elementary and Secondary Education Act 0798	Domestic Violence Shelter and Service 0865	Maternal and Child Health Services Block Grant 0872	Community Mental Health Services Block Grant 0876	Youth Drug Abuse Prevention 0910	Juvenile Justice Trust 0911
ASSETS							
Unexpended appropriations	\$ -	\$ -	\$ -	\$ 848	\$ -	\$ -	\$ -
Cash deposited with State Treasurer	2,808	671	1,057	-	328	864	1,031
Cash and cash equivalents	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-
Due from other government - federal	-	-	21	807	-	-	8
Due from other government - local	-	-	-	-	-	-	-
Taxes receivable, net	-	-	-	-	-	-	-
Other receivables, net	-	-	-	-	-	-	-
Loans and notes receivable, net	-	-	-	-	-	-	-
Due from other Department funds	555	-	-	-	-	-	-
Due from other State funds	-	217	6	-	-	-	-
Inventories	-	-	-	-	-	-	-
Total assets	\$ 3,363	\$ 888	\$ 1,084	\$ 1,655	\$ 328	\$ 864	\$ 1,039
LIABILITIES							
Accounts payable and accrued liabilities	2,752	34	53	470	10	-	81
Due to other government - federal	1	-	-	-	1	-	-
Due to other government - local	385	-	76	379	-	-	303
Due to other State fiduciary funds	5	-	-	-	4	-	2
Due to other Department funds	-	3	-	-	-	-	-
Due to other State funds	138	19	22	-	2	-	90
Due to State of Illinois component units	82	-	-	-	-	-	104
Unearned revenue	-	-	-	-	311	-	459
Obligations under securities lending of State Treasurer	-	-	-	-	-	-	-
Total liabilities	3,363	56	151	849	328	-	1,039
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue	-	-	-	54	-	-	-
Total Deferred Inflows of Resources	-	-	-	54	-	-	-
FUND BALANCES (DEFICITS)							
Nonspendable	-	-	-	-	-	-	-
Restricted	-	832	-	752	-	-	-
Committed	-	-	933	-	-	864	-
Unassigned	-	-	-	-	-	-	-
Total fund balances (deficits)	-	832	933	752	-	864	-
Total liabilities, deferred inflows and fund balances (deficits)	\$ 3,363	\$ 888	\$ 1,084	\$ 1,655	\$ 328	\$ 864	\$ 1,039

(Continued)

State of Illinois
Department of Human Services
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2017 (Expressed in Thousands)

	Special Revenue						
	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	Vending Facility Program for the Blind 1385
ASSETS							
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash deposited with State Treasurer	18,504	-	-	-	-	-	-
Cash and cash equivalents	-	342	8	53	178	-	256
Securities lending collateral equity with State Treasurer	-	-	-	-	-	-	-
Investments	-	641	-	-	17	-	-
Due from other government - federal	-	9	-	-	-	-	-
Due from other government - local	10	-	-	-	58	-	-
Taxes receivable, net	-	-	-	-	-	-	-
Other receivables, net	170,577	1	-	-	-	-	49
Loans and notes receivable, net	-	-	-	-	-	-	425
Due from other Department funds	-	-	-	-	194	-	-
Due from other State funds	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-
Total assets	\$ 189,091	\$ 993	\$ 8	\$ 53	\$ 447	\$ -	\$ 730
LIABILITIES							
Accounts payable and accrued liabilities	259	-	-	3	-	-	28
Due to other government - federal	92,759	-	-	1	-	-	-
Due to other government - local	36	-	-	-	-	-	-
Due to other State fiduciary funds	95	-	-	-	-	-	-
Due to other Department funds	7,644	-	1	-	-	-	-
Due to other State funds	95	-	-	-	-	-	-
Due to State of Illinois component units	-	-	-	-	-	-	-
Unearned revenue	-	-	1	-	-	-	-
Obligations under securities lending of State Treasurer	-	-	-	-	-	-	-
Total liabilities	100,888	-	2	4	-	-	28
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue	168,666	-	-	-	-	-	-
Total Deferred Inflows of Resources	168,666	-	-	-	-	-	-
FUND BALANCES (DEFICITS)							
Nonspendable	-	-	-	-	-	-	-
Restricted	-	993	6	49	447	-	702
Committed	-	-	-	-	-	-	-
Unassigned	(80,463)	-	-	-	-	-	-
Total fund balances (deficits)	(80,463)	993	6	49	447	-	702
Total liabilities, deferred inflows and fund balances (deficits)	\$ 189,091	\$ 993	\$ 8	\$ 53	\$ 447	\$ -	\$ 730

(Continued)

State of Illinois
Department of Human Services
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2017 (Expressed in Thousands)

	Permanent			
	DHS/DORS		Eliminations	Total
	Permanent Trust 1150	Burr Bequest 1272		
ASSETS				
Unexpended appropriations	\$ -	\$ -	\$ -	\$ 3,318
Cash deposited with State Treasurer	-	-	-	199,091
Cash and cash equivalents	140	49	-	7,005
Securities lending collateral equity with State Treasurer	-	-	-	9,570
Investments	256	945	-	1,859
Due from other government - federal	-	-	-	114,172
Due from other government - local	-	-	-	223
Taxes receivable, net	-	-	-	160
Other receivables, net	-	1	-	184,408
Loans and notes receivable, net	-	-	-	446
Due from other Department funds	17	-	(181)	68,941
Due from other State funds	-	-	-	8,811
Inventories	-	-	-	3,027
Total assets	\$ 413	\$ 995	\$ (181)	\$ 601,031
LIABILITIES				
Accounts payable and accrued liabilities	-	-	-	157,265
Due to other government - federal	-	-	-	92,996
Due to other government - local	-	-	-	13,350
Due to other State fiduciary funds	-	-	-	1,434
Due to other Department funds	152	-	(181)	9,209
Due to other State funds	-	-	-	21,752
Due to State of Illinois component units	-	-	-	5,517
Unearned revenue	-	-	-	20,599
Obligations under securities lending of State Treasurer	-	-	-	9,570
Total liabilities	152	-	(181)	331,692
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	-	-	-	177,267
Total Deferred Inflows of Resources	-	-	-	177,267
FUND BALANCES (DEFICITS)				
Nonspendable	217	945	-	4,189
Restricted	44	50	-	78,633
Committed	-	-	-	99,815
Unassigned	-	-	-	(90,565)
Total fund balances (deficits)	261	995	-	92,072
Total liabilities, deferred inflows and fund balances (deficits)	\$ 413	\$ 995	\$ (181)	\$ 601,031

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, 2017 (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	Survivors Human Trafficking 0132
REVENUES							
Federal operating grants, net of refunds	\$ 69,983	\$ -	\$ -	\$ 110,747	\$ -	\$ -	\$ -
Licenses and fees, net of refunds	-	-	-	-	-	1,180	-
Interest and investment income	-	-	-	-	-	-	-
Other charges for services, net of refunds	-	-	24,521	-	-	-	-
Other operating grants, net of refunds	-	-	-	-	-	-	-
Other taxes, net of refunds	-	-	708	-	-	-	-
Other revenues, net of refunds	-	-	-	98	151	-	1
Total revenues	69,983	-	25,229	110,845	151	1,180	1
EXPENDITURES							
Health and social services	69,984	5	15,385	108,745	-	479	-
Debt service - principal	-	-	-	8	-	-	-
Debt service - interest	-	-	-	9	-	-	-
Capital outlays	-	-	115	1,208	-	-	-
Total expenditures	69,984	5	15,500	109,970	-	479	-
Excess (deficiency) of revenues over (under) expenditures	(1)	(5)	9,729	875	151	701	1
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-
Transfers-in	-	-	-	57	-	-	-
Transfers-out	-	-	-	-	-	-	-
Net other sources (uses) of financial resources	-	-	-	57	-	-	-
Net change in fund balances	(1)	(5)	9,729	932	151	701	1
Fund balances (deficits), July 1, 2016	(2)	70	25,862	17,605	494	2,140	-
Decrease for changes in inventories	-	-	(245)	-	-	-	-
FUND BALANCES (DEFICITS), JUNE 30, 2017	\$ (3)	\$ 65	\$ 35,346	\$ 18,537	\$ 645	\$ 2,841	\$ 1

(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, 2017 (Expressed in Thousands)

	Special Revenue						
	Mental Health Reporting 0148	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
REVENUES							
Federal operating grants, net of refunds	\$ -	\$ -	\$ -	\$ -	\$ 5,781	\$ -	\$ -
Licenses and fees, net of refunds	1,343	-	-	-	-	-	1,723
Interest and investment income	31	5	-	-	68	-	-
Other charges for services, net of refunds	-	459	-	-	-	-	-
Other operating grants, net of refunds	-	-	-	-	-	-	-
Other taxes, net of refunds	-	-	-	-	-	-	-
Other revenues, net of refunds	-	-	-	-	-	-	-
Total revenues	1,374	464	-	-	5,849	-	1,723
EXPENDITURES							
Health and social services	184	383	-	-	3,865	-	1,554
Debt service - principal	-	-	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-	-
Total expenditures	184	383	-	-	3,865	-	1,554
Excess (deficiency) of revenues over (under) expenditures	1,190	81	-	-	1,984	-	169
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-
Transfers-in	-	-	-	-	-	-	-
Transfers-out	-	-	-	-	-	-	(169)
Net other sources (uses) of financial resources	-	-	-	-	-	-	(169)
Net change in fund balances	1,190	81	-	-	1,984	-	-
Fund balances (deficits), July 1, 2016	3,204	318	36	45	3,936	4	-
Decrease for changes in inventories	-	-	-	-	-	-	-
FUND BALANCES (DEFICITS), JUNE 30, 2017	\$ 4,394	\$ 399	\$ 36	\$ 45	\$ 5,920	\$ 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, 2017 (Expressed in Thousands)

	Special Revenue						
	Federal National Community Services 0343	Employment and Training 0347	Drug Treatment 0368	Sexual Assault Services 0389	Gaining Early Awareness and Readiness for Undergraduate Programs 0394	Autism Care 0399	DHS Special Purposes Trust 0408
REVENUES							
Federal operating grants, net of refunds	\$ -	\$ 428,798	\$ -	\$ -	\$ 366	\$ -	\$ 243,859
Licenses and fees, net of refunds	-	-	-	-	-	-	-
Interest and investment income	-	-	-	-	27	-	-
Other charges for services, net of refunds	-	-	-	-	-	-	-
Other operating grants, net of refunds	-	-	-	-	-	-	283
Other taxes, net of refunds	-	-	-	-	-	-	-
Other revenues, net of refunds	-	-	3,001	67	-	3	(500)
Total revenues	-	428,798	3,001	67	393	3	243,642
EXPENDITURES							
Health and social services	-	428,798	2,913	100	393	-	249,472
Debt service - principal	-	-	-	-	-	-	1
Debt service - interest	-	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-	-
Total expenditures	-	428,798	2,913	100	393	-	249,473
Excess (deficiency) of revenues over (under) expenditures	-	-	88	(33)	-	3	(5,831)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-
Transfers-in	-	-	-	-	-	-	-
Transfers-out	-	-	-	-	-	-	-
Net other sources (uses) of financial resources	-	-	-	-	-	-	-
Net change in fund balances	-	-	88	(33)	-	3	(5,831)
Fund balances (deficits), July 1, 2016	-	-	469	181	-	36	55,172
Decrease for changes in inventories	-	-	-	-	-	-	-
FUND BALANCES (DEFICITS), JUNE 30, 2017	\$ -	\$ -	\$ 557	\$ 148	\$ -	\$ 39	\$ 49,341

(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, 2017 (Expressed in Thousands)

	Special Revenue						
	Autism Awareness 0458	Old Age Survivors Insurance 0495	Early Intervention Services Revolving 0502	DHS Community Services 0509	Domestic Violence Abuser Services 0528	Juvenile Accountability Incentive Block Grant 0581	DHS Federal Projects 0592
REVENUES							
Federal operating grants, net of refunds	\$ -	\$ 77,498	\$ 55,076	\$ 6,920	\$ -	\$ 184	\$ 13,473
Licenses and fees, net of refunds	20	-	3,920	-	-	-	-
Interest and investment income	-	-	31	135	-	2	-
Other charges for services, net of refunds	-	-	-	-	-	-	-
Other operating grants, net of refunds	-	-	-	-	-	-	138
Other taxes, net of refunds	-	-	-	-	-	-	-
Other revenues, net of refunds	-	-	(399)	340	30	-	-
Total revenues	20	77,498	58,628	7,395	30	186	13,611
EXPENDITURES							
Health and social services	81	77,487	149,306	24,279	-	186	13,461
Debt service - principal	-	7	-	-	-	-	-
Debt service - interest	-	4	-	-	-	-	-
Capital outlays	-	-	-	-	-	-	-
Total expenditures	81	77,498	149,306	24,279	-	186	13,461
Excess (deficiency) of revenues over (under) expenditures	(61)	-	(90,678)	(16,884)	30	-	150
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-
Transfers-in	-	-	92,719	14,750	-	-	-
Transfers-out	-	-	-	-	-	-	-
Net other sources (uses) of financial resources	-	-	92,719	14,750	-	-	-
Net change in fund balances	(61)	-	2,041	(2,134)	30	-	150
Fund balances (deficits), July 1, 2016	80	-	(12,104)	19,445	46	-	198
Decrease for changes in inventories	-	-	-	-	-	-	-
FUND BALANCES (DEFICITS), JUNE 30, 2017	\$ 19	\$ -	\$ (10,063)	\$ 17,311	\$ 76	\$ -	\$ 348

(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, 2017 (Expressed in Thousands)

	Special Revenue						
	Special Olympics Illinois 0623	DHS State Projects 0642	Commitment to Human Services 0644	Alcoholism and Substance Abuse 0646	DHS Private Resources 0690	U.S.D.A. Women Infants and Children 0700	Tobacco Settlement Recovery 0733
REVENUES							
Federal operating grants, net of refunds	\$ -	\$ -	\$ -	\$ 6,918	\$ -	\$ 188,822	\$ -
Licenses and fees, net of refunds	20	-	-	-	-	-	-
Interest and investment income	-	-	-	-	-	-	-
Other charges for services, net of refunds	-	-	-	-	-	-	-
Other operating grants, net of refunds	-	-	-	30	-	-	-
Other taxes, net of refunds	-	-	-	-	-	-	-
Other revenues, net of refunds	-	-	-	-	156	-	-
Total revenues	20	-	-	6,948	156	188,822	-
EXPENDITURES							
Health and social services	13	-	98,106	6,948	156	187,814	-
Debt service - principal	-	-	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-	-
Capital outlays	-	-	873	-	-	-	-
Total expenditures	13	-	98,979	6,948	156	187,814	-
Excess (deficiency) of revenues over (under) expenditures	7	-	(98,979)	-	-	1,008	-
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	-	-	303,778	-	-	-	1,389
Lapsed appropriations	-	-	(23,933)	-	-	-	(1,389)
Receipts collected and transmitted to State Treasury	-	-	(11,000)	-	-	-	-
Transfers-in	-	-	51,000	-	-	-	-
Transfers-out	-	-	-	-	-	-	-
Net other sources (uses) of financial resources	-	-	319,845	-	-	-	-
Net change in fund balances	7	-	220,866	-	-	1,008	-
Fund balances (deficits), July 1, 2016	(3)	-	(181,139)	-	-	(1,044)	-
Decrease for changes in inventories	-	-	-	-	-	-	-
FUND BALANCES (DEFICITS), JUNE 30, 2017	\$ 4	\$ -	\$ 39,727	\$ -	\$ -	\$ (36)	\$ -

(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, 2017 (Expressed in Thousands)

	Special Revenue					
	Local Initiative 0762	Rehabilitation Services Elementary and Secondary Education Act 0798	Domestic Violence Shelter and Service 0865	Maternal and Child Health Services Block Grant 0872	Community Mental Health Services Block Grant 0876	Youth Drug Abuse Prevention 0910
REVENUES						
Federal operating grants, net of refunds	\$ 18,060	\$ 385	\$ -	\$ 3,049	\$ 18,795	\$ -
Licenses and fees, net of refunds	-	-	-	-	-	-
Interest and investment income	-	-	-	-	-	-
Other charges for services, net of refunds	-	-	-	-	-	-
Other operating grants, net of refunds	-	-	-	-	-	-
Other taxes, net of refunds	-	-	-	-	-	-
Other revenues, net of refunds	-	316	484	-	-	308
Total revenues	18,060	701	484	3,049	18,795	308
EXPENDITURES						
Health and social services	18,060	626	539	3,051	18,795	530
Debt service - principal	-	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-
Capital outlays	-	13	-	-	-	-
Total expenditures	18,060	639	539	3,051	18,795	530
Excess (deficiency) of revenues over (under) expenditures	-	62	(55)	(2)	-	(222)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	-	-	-	9,904	-	-
Lapsed appropriations	-	-	-	(6,855)	-	-
Receipts collected and transmitted to State Treasury	-	-	-	(2,640)	-	-
Transfers-in	-	-	-	-	-	-
Transfers-out	-	-	-	-	-	-
Net other sources (uses) of financial resources	-	-	-	409	-	-
Net change in fund balances	-	62	(55)	407	-	(222)
Fund balances (deficits), July 1, 2016	-	770	988	345	-	1,086
Decrease for changes in inventories	-	-	-	-	-	-
FUND BALANCES (DEFICITS), JUNE 30, 2017	\$ -	\$ 832	\$ 933	\$ 752	\$ -	\$ 864

(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, 2017 (Expressed in Thousands)

	Special Revenue						
	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
REVENUES							
Federal operating grants, net of refunds	\$ 1,291	\$ 199	\$ 261	\$ -	\$ -	\$ -	\$ 2,985,948
Licenses and fees, net of refunds	-	-	-	-	-	-	-
Interest and investment income	-	-	12	-	-	-	-
Other charges for services, net of refunds	-	16,047	-	49	-	-	-
Other operating grants, net of refunds	-	-	-	-	-	-	-
Other taxes, net of refunds	-	-	-	-	-	-	-
Other revenues, net of refunds	-	-	215	-	205	327	-
Total revenues	1,291	16,246	488	49	205	327	2,985,948
EXPENDITURES							
Health and social services	1,245	65,671	664	41	206	316	2,985,948
Debt service - principal	-	-	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-	-
Total expenditures	1,245	65,671	664	41	206	316	2,985,948
Excess (deficiency) of revenues over (under) expenditures	46	(49,425)	(176)	8	(1)	11	-
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-
Transfers-in	(12)	-	-	-	-	-	-
Transfers-out	-	-	-	(8)	-	-	-
Net other sources (uses) of financial resources	(12)	-	-	(8)	-	-	-
Net change in fund balances	34	(49,425)	(176)	-	(1)	11	-
Fund balances (deficits), July 1, 2016	(34)	(31,038)	1,169	6	50	436	-
Decrease for changes in inventories	-	-	-	-	-	-	-
FUND BALANCES (DEFICITS), JUNE 30, 2017	\$ -	\$ (80,463)	\$ 993	\$ 6	\$ 49	\$ 447	\$ -

(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, 2017 (Expressed in Thousands)

	Special Revenue	Permanent			Total
	Vending Facility Program for the Blind 1385	DHS/DORS Permanent Trust 1150	Burr Bequest 1272	Eliminations	
REVENUES					
Federal operating grants, net of refunds	\$ -	\$ -	\$ -	\$ -	\$ 4,236,413
Licenses and fees, net of refunds	-	-	-	-	8,206
Interest and investment income	-	13	7	-	331
Other charges for services, net of refunds	33	-	-	-	41,109
Other operating grants, net of refunds	-	-	-	-	451
Other taxes, net of refunds	-	-	-	-	708
Other revenues, net of refunds	519	17	-	-	5,339
Total revenues	<u>552</u>	<u>30</u>	<u>7</u>	<u>-</u>	<u>4,292,557</u>
EXPENDITURES					
Health and social services	379	10	1	-	4,536,179
Debt service - principal	-	-	-	-	16
Debt service - interest	-	-	-	-	13
Capital outlays	-	-	-	-	2,209
Total expenditures	<u>379</u>	<u>10</u>	<u>1</u>	<u>-</u>	<u>4,538,417</u>
Excess (deficiency) of revenues over (under) expenditures	<u>173</u>	<u>20</u>	<u>6</u>	<u>-</u>	<u>(245,860)</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Appropriations from State resources	-	-	-	-	315,071
Lapsed appropriations	-	-	-	-	(32,177)
Receipts collected and transmitted to State Treasury	-	-	-	-	(13,640)
Transfers-in	-	16	-	(67)	158,463
Transfers-out	(67)	(14)	-	67	(191)
Net other sources (uses) of financial resources	<u>(67)</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>427,526</u>
Net change in fund balances	<u>106</u>	<u>22</u>	<u>6</u>	<u>-</u>	<u>181,666</u>
Fund balances (deficits), July 1, 2016	596	239	989	-	(89,349)
Decrease for changes in inventories	-	-	-	-	(245)
FUND BALANCES (DEFICITS), JUNE 30, 2017	<u>\$ 702</u>	<u>\$ 261</u>	<u>\$ 995</u>	<u>\$ -</u>	<u>\$ 92,072</u>

State of Illinois
Department of Human Services
Combining Statement of Fiduciary Net Position -
Agency Funds

June 30, 2017 (Expressed in Thousands)

	<u>Agency</u>			
	Electronic Benefits Transfers 0540	DHS Resident's Trust 1143	DHS/DORS Agency 1147	Total
ASSETS				
Cash and cash equivalents	\$ -	\$1,378	\$ -	\$ 1,378
Investments	-	890	-	890
Due from other government - federal	-	28	-	28
Due from other Department funds	-	-	43	43
Total assets	\$ -	\$ 2,296	\$ 43	\$ 2,339
LIABILITIES				
Accounts payable and accrued liabilities	-	-	43	43
Other liabilities	-	2,296	-	2,296
Total liabilities	\$ -	\$ 2,296	\$ 43	\$ 2,339

State of Illinois
Department of Human Services
Combining Statement of Changes in Assets and Liabilities -
Agency Funds

For the Year Ended June 30, 2017 (Expressed in Thousands)

	Balance at July 1, 2016	Additions	Deletions	Balance at June 30, 2017
Electronic Benefits Transfers (0540)				
ASSETS				
Cash equity with State Treasurer	\$ -	\$ 117,034	\$ 117,034	\$ -
Total assets	\$ -	\$ 117,034	\$ 117,034	\$ -
LIABILITIES				
Accounts payable and accrued liabilities	-	117,034	117,034	-
Total liabilities	\$ -	\$ 117,034	\$ 117,034	\$ -
DHS Resident's Trust (1143)				
ASSETS				
Cash and cash equivalents	1,495	15,853	15,970	1,378
Investments	760	280	150	890
Due from other government - federal	47	13,403	13,422	28
Total assets	\$ 2,302	\$ 29,536	\$ 29,542	\$ 2,296
LIABILITIES				
Other liabilities	2,302	29,536	29,542	2,296
Total liabilities	\$ 2,302	\$ 29,536	\$ 29,542	\$ 2,296
DHS/DORS Agency (1147)				
ASSETS				
Cash and cash equivalents	-	196	196	-
Due from other Department funds	48	43	48	43
Total assets	\$ 48	\$ 239	\$ 244	\$ 43
LIABILITIES				
Accounts payable and accrued liabilities	48	174	179	43
Total liabilities	\$ 48	\$ 174	\$ 179	\$ 43
Total - All Agency Funds				
ASSETS				
Cash and cash equivalents	1,495	133,083	133,200	1,378
Investments	760	280	150	890
Due from other government - federal	47	13,403	13,422	28
Due from other Department funds	48	43	48	43
Total assets	\$ 2,350	\$ 146,809	\$ 146,820	\$ 2,339
LIABILITIES				
Accounts payable and accrued liabilities	48	117,208	117,213	43
Other liabilities	2,302	29,536	29,542	2,296
Total liabilities	\$ 2,350	\$ 146,744	\$ 146,755	\$ 2,339

**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 the 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, 2017, 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 March 6, 2018.

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 first paragraph of this section 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 item 2017-001, 2017-002, 2017-003, 2017-004, 2017-005, 2017-007, 2017-008, 2017-010 and 2017-011 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 2017-006 and 2017-009 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 2017-001, 2017-002, 2017-003, 2017-007, 2017-008, 2017-009, 2017-010 and 2017-011.

State of Illinois, Department of Human Services' Responses 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
March 6, 2018

State of Illinois
Department of Human Services

Schedule of Findings
June 30, 2017

Current Findings – Government Auditing Standards

FINDING 2017-001 (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 Illinois Office of the Comptroller, 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:

- During testing of amounts owed to other State funds, we noted the Department did not record certain invoice/vouchers for Central Management Services (CMS) which amounted to approximately \$54 million, or associated unapplied credits of approximately \$33 million, which netted to a \$21 million unrecorded liability in the General Fund. The vouchers were not recorded due to a lack of internal communication at the Department. The unapplied credits were not provided by CMS to the Department until after the draft financial statements were prepared and the Department was not aware the credits were issued to them. These amounts were recorded in the final financial statements.

GAAP 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 Department facility employees participate in the Teachers Retirement System of Illinois (TRS), which is a multiple employer cost sharing plan with a special funding situation. GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*, requires that the Department, as an employer, record its portion of the non-employer contributing entity (NECE) pension expense pertaining to Department employees in the government wide financial statements (as a revenue and an expense). This amount for the year ended June 30, 2017 was approximately \$7.3 million and was not recorded. GASB Statement No. 24 *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requires that the Department, as an employer, record contributions made by the State to TRS on-behalf of Department employees as a revenue and expenditure in the governmental fund financials statements. This amount for the year ended June 30, 2017 was approximately \$3.7 million and was not recorded. Both of these amounts were deemed immaterial and were not adjusted in the final financial statements. GASB 68 also requires disclosure of the pension liability amounts recorded by the NECE (State) for Department employees. The amount of the collective net pension liability for TRS that is recorded by the State (the non-employer contributing entity) for Department employees was approximately \$75 million. This amount was not disclosed in the draft financial statements, but has been properly disclosed in the final financial statements.

State of Illinois
Department of Human Services

Schedule of Findings
June 30, 2017

GASB Statement No. 68, paragraphs 94 and 95 provide direction for recording pension expense for the non-employer contributing entity (NECE) total proportionate share of collective pension expense that is associated with the employer (Department). GASB Statement No. 24 paragraphs 8 and 9 provide direction for recording pension expenditures and revenues for on-behalf payments for fringe benefits in governmental fund financial statements. GASB Statement No. 68, paragraph 80 requires disclosure of the portion of (1) the non-employer contributing entities' total proportionate share (amount) of the collective net pension liability that is associated with the employer (Department) and, (2) the total of the employer's (Department) proportionate share (amount) of the collective net pension liability and the portion of the non-employer contributing entities' total proportionate share of the collective net pension liability that is associated with the employer (Department).

- Monthly fund cash receipt reconciliations were not completed or reviewed in a timely manner and some reconciliations lacked documentation of final review. We selected a sample of four months (each of which contained 45 fund reconciliations, or 180 in total) for testing and reviewed the receipt reconciliations to determine if the Department complied with the Illinois Office of the Comptroller's Statewide Accounting Management System (SAMS) Manual (Procedure 25.40.20) which requires reconciliations to be performed monthly. For this purpose, and in keeping with the 2018 revised SAMS Manual procedure cited above, we considered final completion of the reconciliation within 60 days of month end to be reasonable. During our testing, we tested the 180 reconciliations and noted seven (7) were not prepared within 60 days of month-end (4%) and ranged from 2 to 124 days late. Additionally, of the 180 reconciliations tested, 94 reconciliations (52%) were not finally approved and thus complete within 60 days of month end, and ranged from 13 to 181 days late.
- The Department makes a federal draw of \$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, signed November 3, 2000, provided 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. Management of both agencies have agreed to this amount; however, they have not put it in writing. Department management stated that the amount paid was based on the Illinois Public Aid Code (Code) (305 ILCS 5/12-5) which states that 80 percent of the federal financial participation funds received by the Department under Title IV-A of the 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.

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 the two agencies should contain information on the amount of the payments under the agreement and the frequency of the payments. If the Code (305 ILCS

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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 automated control within the Consolidated Accounting Reporting System (CARS) that restricts the same individual from initiating a journal entry and approving that same entry is not being used. CARS does have the ability to restrict approvals to only approved employees that did not initiate the entry. However, this security setting for processing journal entries has never been enacted. The CARS can generate a report indicating who approves the journal entries, but does not provide a report documenting the individual who initially entered the journal entry. However, during our journal entry testing, we noted no selected entries were approved by the same person who initiated the entry per the manual record.

A good system of internal control requires adequate segregation of duties. For this purpose, automated controls are superior to manual controls.

- Amounts reported on the SCO 563 form for cash basis federal expenditures for Fund 0081 (CFDA 84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States) were overstated by approximately \$9.7 million. Additionally, the related receivable, Due from Federal Government, was overstated by \$7.5 million on the form and in the financial statements.

GAAP requires that all expenditures/expenses be recorded in the period incurred, unless specifically exempted through standards issued by the Governmental Accounting Standards Board (GASB). A good system of internal control requires the recording to be accurate. Additionally, a good system of internal control requires that management review all significant accounts and balances recorded in the financial statements for accuracy. This review should include the SCO 563 forms which are used as a basis to determine balances for federal grant programs.

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.

Department 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, 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. 2017-001, 2016-001, 2015-003, 2014-003, 2013-001, 12-1, 11-1, 10-1, and 09-1)

**State of Illinois
Department of Human Services**

**Schedule of Findings
June 30, 2017**

RECOMMENDATION:

We recommend management increase the level and quality of supervisory review of year-end financial reporting including the following:

- Determine through analytical procedures and inquiry whether there are any unrecorded expenditures/liabilities, including amounts billed to the Department by other State agencies.
- Complete a report checklist, such as the one available on the Government Finance Officers' Association (GFOA) website, to determine if all amounts and disclosures in the financial statements are complete and accurate. Also obtain documentation prepared by the 2 pension systems (SERS and TRS) for their members' employers, and compare amounts to the schedules prepared by the Illinois Office of the Comptroller.
- The Department's accounting system (CARS) should be reconciled to the Illinois Office of the Comptroller's Statewide Accounting Management System (SAMS) each month in a timely manner. Beginning in FY2018, the SAMS manual requires that receipt reconciliations be final approved within 60 days after the end of the month.
- Payments to DCFS should be supported by documentation that demonstrates the amount paid complies with the Illinois Public Aid Code.
- The Department should instruct its Management Information Services (MIS) division to activate the automated control in CARS which prevents an employee from preparing and approving the same journal entry.
- In order to improve the accuracy of amounts reported in the SCO 563 forms for cash basis expenditures by program, the amounts recorded in CARS should be reconciled to amounts reported by the Federal Financial Reporting division.

DEPARTMENT RESPONSE:

The Department accepts the recommendation. The Department has procedures and completes checklists for the compilation and review of year-end financial reporting. The Department will thoroughly analyze and report all liabilities at year end for GAAP reporting. The Department will compare the schedules prepared by the Illinois Office of the Comptroller to the SERS and TRS financial statements for the departmental financial statements. In addition, the Department will work to ensure the receipt reconciliations are prepared and approved in a timely manner. The Department has drafted proposed revisions to the legislation regarding the amount of the TANF Block Grant to be drawn for the Department of Children and Family Services. The Department addressed and activated the CARS control for approval of journal vouchers on February 16, 2018. For the accurate reporting of SCO-563 forms, the Department will analyze and reconcile the amounts provided by the Federal Financial Reporting division and the program areas.

**State of Illinois
Department of Human Services**

**Schedule of Findings
June 30, 2017**

FINDING 2017-002 (Medical Assistance Program Financial Information)

The Department of Human Services (Department) does not have an adequate understanding of the internal controls in place over all data recorded in its financial statements and the Department does not sufficiently review transactions initiated by other State agencies and recorded in the Department's financial statements.

During our testing of the financial statements we noted the following:

- The Department could not provide documentation of its preparation or review of expenditure reconciliations for the Federal Medical Assistance Program (MAP) funds (Funds 0120, 0142, 0365, 0502, 0718) between amounts reported in the Department's Consolidated Accounting and Reporting System (CARS), and amounts reported in the Illinois Office of 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 approximately \$425 million) is a computed amount (a formula), which is the amount needed to achieve the reported receivable balance provided by the Department of Healthcare and Family Services (HFS), a separate State agency. The Department does not retain a reconciliation between amounts reported on the SCO 563 Form (claimable expenditures) and amounts recorded 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.
- During testing of expenditures and liabilities payable from future year appropriations, we determined that the Department is not monitoring or reviewing the payments submitted by HFS, or the liabilities calculated by HFS on behalf of the Department. When HFS submits a request for payment to the Illinois Office of the Comptroller (IOC), 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 Bureau reconciles the payments between CARS and the IOC'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 transactions, 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. We selected and tested multiple expenditures and liabilities initially processed by HFS. 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 performing sufficient procedures to determine the accuracy of the information.

A good system of internal control requires that management review all significant accounts and balances recorded in the financial statements for accuracy, which includes transactions initiated by other State agencies.

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June 30, 2017**

- The Community Developmental Disability Services Medicaid Trust Fund (Fund 142) is the designated recipient of federal funds received in accordance with the Mental Health and Developmental Disabilities Administrative Act (Act) (20 ILCS 1705/18.5). These eligible amounts were drawn from the federal government by HFS, received by HFS and deposited in the HFS General Fund; however, on the draft financial statements the amounts were reported in Department's Fund 142 as an asset "due from the federal government". The amount should have been reported as "due from other State agency funds". The misclassification of the receivable also resulted in a \$42 million overstatement of deferred inflows of resources (unavailable revenue). These errors were corrected in the final financial statements.

The Act (20 ILCS 1705/18.5(b)) requires certain funds paid to the State by the federal government under Title XIX or Title XXI of the Social Security Act, be deposited directly into Fund 142 to pay for Medicaid-reimbursed community developmental disability services provided to eligible individuals.

In addition, GASB Statement No 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, establishes requirements for reporting interfund activity. By depositing the funds into the HFS General Fund, the Department and HFS created an unauthorized loan from the Department's Fund 142 to the HFS General Fund, requiring repayment to Fund 142. GASB 34 requires that interfund loans be reported as interfund receivables in lender funds and interfund payables in borrower funds.

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.

Department management stated that in order to meet the State Comptroller's due dates for GAAP reporting packages, DHS has to rely on information submitted by other agencies to the State Comptroller. DHS reviewed the other agencies' information for reasonableness, but did not review the information at a detailed level.

Lack of sufficient control over transactions and balances recorded in the Department's financial statements increases the likelihood of misstatements. (Finding Code No. 2017-002)

**State of Illinois
Department of Human Services**

**Schedule of Findings
June 30, 2017**

RECOMMENDATION:

We recommend the Department assume more responsibility for the transactions and balances reported in its financial statements that are initiated/estimated by other State agencies, including the following:

- The Department should work with management of HFS to gain a better understanding of the internal control system established over Department transactions, enter into an interagency agreement with HFS that details the responsibilities of each agency and how this will be monitored. Subsequently on a regular basis the Department should determine if the control system and related monitoring is sufficient to prevent and detect significant financial statement errors.
- Expenditure amounts provided by HFS in connection with year-end reporting of Federal MAP receivables should be reconciled to CARS.
- The Department should analyze federal receivables not received during the lapse period to see if they have been properly recorded as it is not typical for these types of balances to be unpaid for more than 60 days.

DEPARTMENT RESPONSE:

The Department accepts the recommendation. The Department will work with HFS to gain assurance that the data provided is complete and accurate. In addition, the Department will propose an interagency agreement with HFS.

**State of Illinois
Department of Human Services**

**Schedule of Findings
June 30, 2017**

FINDING 2017-003 (SNAP Overpayment Referrals not Completed Timely)

The Department of Human Services (Department) does not have sufficient controls over the tracking and processing of Supplemental Nutrition Assistance Program (SNAP) potential overpayments resulting in significant delays in processing overpayment referrals for the program.

SNAP overpayment referrals (claims) are first initiated and processed at the various Department field offices, with final assessments and the “debt” establishment occurring in the Department’s central office Bureau of Collections (BOC). The BOC, based on their review and assessment, may establish the claim as determined by the field office, waive the claim, or establish a claim for a different amount. We discovered the Department has a significant time lag for processing these referrals, sometimes taking several years to fully establish the debt. The BOC does not have an inventory of initiated SNAP overpayment referrals while they reside at the various field offices.

We obtained the “Claims Established Late” report for each quarter in FY2017 and the first quarter in FY2018 to determine the number of late established claims and the range of days late for each quarter. This report showed the following:

FY	QTR	Period	No. of Claims	Total No. of	% Claims Late	Range of Days Late
			Est Late	Claims Est		
FY18	1	July - Sept 2017	429	7,098	6.04%	117 - 11,249
FY17	4	April - June 2017	452	5,405	8.36%	100 - 1,434
FY17	3	Jan - March 2017	891	9,455	9.42%	95 - 4,072
FY17	2	Oct - Dec 2016	435	7,066	6.16%	100 - 1,641
FY17	1	July - Sept 2016	337	5,625	5.99%	99 - 2,149

(Est = established)

Based on the Department’s quality control error rate of 5.45% applied to FY2017 SNAP benefits paid, we estimate approximately \$128 million in SNAP benefits were overpaid to SNAP recipients on or before June 30, 2017, for which the claim has not been established at year-end.

Additionally, we tested 5 overpayments that were established in FY2017. The 5 tested were late by 95 to 178 days, and ranged in amount from \$333 to \$7,990. The Department was not able to provide the total dollar amount of all late claims.

The Code of Federal Regulations (Code) (7 CFR § 273.18) requires State Agencies to establish a claim before the last day of the quarter following the quarter in which the overpayment was discovered. Additionally, the Code requires that each State agency develop and mail or otherwise deliver to the household written notification to begin collection action on any claim. The claim will be considered established as of the date of the initial demand letter or written notification.

Department management stated that the cause of the finding is due to insufficient resources in Family and Community Resource Centers to handle the establishment of overpayment claims on a timely basis.

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Delays in processing SNAP overpayment referrals postpones the Department's ability to establish the debts and collect the overpayment amounts from the recipients and is noncompliance with the Code. (Finding Code No. 2017-003)

RECOMMENDATION:

We recommend the Department improve controls over the tracking, review, and assessment of SNAP overpayment referrals so the Department can establish SNAP overpayment referrals within the timeframe established by the Code in order to comply with the Code and maximize State revenues.

DEPARTMENT RESPONSE:

The Department accepts the recommendation. Although the Family and Community Resource Center (FCRC) staff is insufficient in order to handle the establishment of claims on a timely basis, it is expected that the full implementation of the Integrated Eligibility System (IES) will assist in providing a solution.

IES will improve the identification of overpayments in a timely manner. Although the Department is still working through a few design flaws in the system, IES will systematically identify overpayments based on the date of the change, date reported, and entry of the changed information while applying State Policy and Federal regulations. This system will eliminate the need for workers to identify overpayments as IES will determine if there is an overpayment automatically in the course of their daily responsibilities of maintaining case management.

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FINDING 2017-004 (Methodology used for Calculating the Allowance for Doubtful Accounts not Accurate and Unavailable Revenue Understated)

The Department of Human Services (Department) did not correctly use all information it had available in determining the allowance for doubtful accounts and calculated unavailable revenue incorrectly.

During testing of the allowance for doubtful accounts for the DHS Recoveries Trust Fund (Fund 0921), we noted that the Department was not including “recoupment” amounts when calculating the collection percentage. Additionally, the Department’s allowance analysis used an average of an average in determining the collection rate which was not weighted and thus not reflective of the true collection history.

In addition to using the allowance rate to calculate net accounts receivable, the allowance is used to determine the estimated amount owed to the federal government for the Federal government’s share of certain programs collections. The Department uses the allowance rate determined for all programs (collective rate), which is less accurate than the use of a calculated rate for each individual program in calculating the liability estimate.

We performed an independent calculation of the collective allowance amount, as well as each individual program amount. We concluded that the collective allowance recorded by the Department and used to determine net accounts receivable was within a reasonable range of our estimate due to the fact that the lack of weighting the collections by program was offset by not using recoupment amounts. We also performed an independent calculation of the estimated liability owed to the Federal government. The impact on the liability from the Department’s use of a collective rate was an understatement of approximately \$3.5 million. This amount was deemed immaterial and not recorded in the final financial statements.

The amount recorded each year in the DHS Recoveries Trust Fund as “deferred inflows of resources - unavailable revenue” reflects the net receivable, less collections on those receivables during the lapse period (July and August). The amount of unavailable revenue in the draft financial statements was further reduced by the liability to the federal government resulting in an understatement of unavailable revenue and an overstatement of revenue in the draft financial statements of approximately \$92 million. This was corrected in the final financial statements.

According to generally accepted accounting principles (GAAP), the allowance for uncollectable accounts should represent management’s best estimate of the amount of receivables that will not be collected. The allowance for doubtful accounts is a significant estimate that requires proper analysis and evaluation of past and current events as well as the assumptions used. Modified accrual requires that revenues that are not available, defined as collected during the fiscal year or within the availability period, should be reported as deferred inflows of resources. The State has defined the availability period as 60 days from the end of the fiscal year.

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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.

Department management stated that the methodology was revised in FY14 pursuant to a potential audit finding. At the time, the Department was not utilizing all available collection data to calculate the collection percentage. The procedure was subsequently revised to include all available data. The Department currently analyzes all available collection data. Although the recoupment amounts were included on the reports utilized for the collection percentage calculation, the amounts were not included in the calculation.

Recording an allowance for doubtful accounts that isn't reflective of known events and conditions has and will continue to result in misstatements of accounts receivable and amounts due to the Federal government. Reducing the unavailable revenue amount by the liability owed to the Federal government has and will continue to result in material misstatements of the draft financial statements for Nonmajor governmental funds. (Finding Code No. 2017-004)

RECOMMENDATION:

We recommend the Department analyze all available collection data annually and adjust the methodology for calculating the allowance for doubtful accounts as necessary so balances are accurately reported in the financial statements. The recoupment amounts should be included in order to calculate an estimated collection percentage. Individual program allowance amounts should be determined and used to calculate the amount owed to the federal government. All calculations should be reviewed thoroughly by a knowledgeable supervisor. Amounts reported for unavailable revenue in governmental funds should be limited to the net receivable reduced by lapse period collections of those receivables.

DEPARTMENT RESPONSE:

The Department accepts the recommendation. Although the recoupment amounts were included on the reports utilized for the collection percentage calculation, the amounts were not included in the calculation. The recoupment amounts will be included in the calculation to determine the total collection percentage in future years. An MIS request to accommodate this change has been submitted. The Department feels this is the best method for calculating the collection percentage.

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FINDING 2017-005 (Lack of adequate controls over the review of internal controls over service providers)

The Department of Human Services (Department) did not obtain or conduct independent internal control reviews over external service providers.

The Department could not provide a complete population of external service providers utilized during FY2017. Due to these conditions, the auditors were unable to conclude the Department's population records were sufficiently precise and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AU-C § 330, AU-C § 530, AT-C § 205).

Even given the population limitations noted above, we performed testing of the service providers utilized by the Department from the listing provided by the Department. We noted the Department did not obtain support for (or conduct its own) analysis of the internal control at the external service providers.

The Department utilized significant external service providers:

- To provide the Department with services for the Illinois Link Program which distributes SNAP (Supplemental Nutrition Assistance Program) and TANF (Temporary Assistance for Needy Families) benefits.
- To provide banking and processing for payment of food benefits, including the review and reconciliation of Women, Infants and Children (WIC) and Farmer's Market and Senior Farmer's Market benefits.

During testing, we noted:

- The Department did not obtain System and Organization Control (SOC) reports or conduct independent internal control reviews of all the external service providers.
- Although the Department received a SOC report for the three external service providers listed above, the Department's review and analysis of the reports, if performed, had not been documented.

An external service provider, which processed payments for a program, utilized subcontractors in order to carry out their contractual duties. However, the Department did not perform an analysis to determine the need to obtain information as to the subservice organization's internal controls.

The Department is responsible for the design, implementation, and maintenance of internal controls related to information systems and operations to assure its critical and confidential data are adequately safeguarded. This responsibility is not limited due to the processes being outsourced.

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. In addition, generally accepted information

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technology guidance endorses the review and assessment of internal controls related to information systems and operations to assure the accurate processing and security of information.

Department management stated that a documented review of the SOC 1 was not completed due to competing priorities in the current workflow.

Without obtaining, reviewing, and monitoring a SOC report or another form of independent internal control review, the Department does not have assurance the external service providers' or subservice organizations' internal controls are adequate to ensure program payments and claims are accurate and secure. (Finding Code No. 2017-005)

RECOMMENDATION:

We recommend the Department strengthen its controls to confirm all external service providers are considered when compiling a population. Further, we recommend the Department obtain or perform independent reviews of internal controls associated with external party service providers at least annually.

The independent reviews should include an assessment of the following five key system attributes, as applicable:

- Security - The system is protected against both physical and logical unauthorized access.
- Availability - The system is available for operation and use as committed or agreed.
- Processing integrity - System processing is complete, accurate, timely and authorized.
- Confidentiality - Information designated as confidential is protected as committed or agreed.
- Privacy - Personal information is collected, used, retained, disclosed, and disposed of in conformity with Department requirements.

The Department should perform a timely review of the reports, assess the effect of any noted deficiencies, and identify and implement any compensating controls. The Department's reviews and corrective actions taken by the service provider should be documented and maintained.

In addition, the Department should perform an analysis to determine the need to obtain information as to the subservice organization's internal controls and perform reviews as needed.

DEPARTMENT RESPONSE:

The Department accepts the recommendation. The Department agrees that a more formal documentation of the SOC-1 review can be implemented. A review sheet has been identified to use to document the review and, if necessary, any corrective action plan measures that are needed. This form will be utilized for all SOC-1 reviews going forward.

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FINDING 2017-006 (System Reconciliations Not Regularly Performed)

The Department of Human Services' (Department) does not document the performance of any reconciliations between its 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 accounting system, are performed to ensure transactions recorded in CARS are transmitted to SAMS correctly. However, it is not evident that reconciliations between CARS and several interface systems are being performed on a regular basis. We noted at least three systems - Child Care Management System (CCMS), Client Payment System (CPS), and Community Reimbursement System (CRS) - for which documentation of reconciliations was not able to be provided to us when requested.

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.

Department management stated that during transition, a breakdown in communication occurred and these duties were not properly transferred to the appropriate staff. In some cases, reconciliations were not documented.

Lack of a regular reconciliation between the Department's major integrated systems could lead to errors in one or more systems going undetected for a sustained period of time. (Finding Code No. 2017-006, 2016-003)

RECOMMENDATION:

We recommend the Department perform reconciliations between CARS and the systems that are interfaced into CARS on a regular basis, with documented supervisory review and approval of the reconciliation.

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DEPARTMENT RESPONSE:

The Department accepts the recommendation. The Department will review the current reconciliation processes for major systems interfacing with CARS to ensure reconciliations are performed on a regular basis, with documented supervisory review and approval of the reconciliations.

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FINDING 2017-007 (Backlog of Applications for Human Service Programs)

The Department of Human Services and the Department of Healthcare and Family Services (Departments) did not maintain adequate controls to ensure applications for human service programs were reviewed and approved or denied within the mandated 45-day timeframe.

The Department of Human Services and the Department of Healthcare and Family Services have shared responsibility for various human service programs in the State. This includes the intake, processing, and approval of applications for benefits. The Departments have shared responsibility for internal control over manual and automated processes relating to eligibility for these programs.

The Departments' Integrated Eligibility System (IES) takes in applications from individuals in order to determine eligibility and subsequent payments for the State's human service programs.

As of June 30, 2017, the Departments had incurred a backlog of 74,649 applications that were more than 45 days old, with the oldest application dating back to November 19, 2014. As of January 12, 2018,

- The Departments had worked 1,714 applications, which resulted in payments totaling \$209,894 for medical services that were incurred during FY2017.
- The Departments had worked 676 applications, which resulted in payments totaling \$47,568 for SNAP (Supplemental Nutrition Assistance Program) and TANF (Temporary Assistance for Needy Families) services that were incurred during FY2017.

The Code of Federal Regulations (42 CFR § 435.912) requires the Departments to determine eligibility within 45 days of receipt of the application.

Departments' management stated the delay in processing was due to increased numbers of applications from expanded Medicaid programs and open enrollment periods, delays in receiving some Federally Facilitated Marketplace applications (transfers from the Federal Marketplace), training of new caseworkers hired, and availability of caseworker staff to process applications due to training on the new IES processing system prior to Phase II implementation of IES.

Because the Departments may be required to retroactively pay for services determined, at a later date, to be eligible, not all expense and liabilities may be reported in the Departments' financial statements in the period incurred. Additionally, untimely eligibility determinations may cause hardships on the applicants. (Finding Code No. 2017-007)

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RECOMMENDATION:

We recommend the Department of Human Services work with the Department of Healthcare and Family Services to implement controls to comply with the requirement that applications are reviewed and approved or denied within 45 days.

DEPARTMENTS' RESPONSE:

The Departments accept the recommendation. The Departments continue to strive to be in compliance with its mandated application disposition timelines. There are several factors that lead to the current backlog. During the audit period, the Departments were planning for the implementation of a new processing system, for which substantial training was needed for all casework staff. As the implementation of the system stabilizes, and staff become more efficient in the processing of applications, it is expected that any backlog of applications will be reduced considerably.

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FINDING 2017-008 (Untimely Redetermination of Eligibility)

The Department of Human Services and the Department of Healthcare and Family Services (Departments) did not conduct timely redeterminations of eligibility for Medicaid recipients. The Code of Federal Regulations (42 CFR § 435.916) requires states to conduct redeterminations of an individual's eligibility every 12 months.

The Department of Human Services and the Department of Healthcare and Family Services have shared responsibility for various human service programs in the State. This includes the intake, processing, and approval of applications for benefits, as well as redeterminations of eligibility where applicable. The Departments have shared responsibility for internal control over manual and automated processes relating to eligibility for these programs.

In order to determine if redeterminations were performed timely, we tested all individuals who received a capitation payment on their behalf to a managed care organization during the audit period and reviewed their redetermination dates. The testing results indicated 8,187 individuals' eligibility redeterminations were not performed within the required 12 month period.

The Departments made payments on behalf of these individuals, totaling \$71,300,077, for medical services during FY2017.

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

Departments' management stated staff turnover and availability contributed to the delay in completing all of the redeterminations due each month.

By not conducting eligibility redeterminations as required by the Code of Federal Regulations, the Departments may have incurred expenditures for ineligible individuals. (Finding Code No. 2017-008)

RECOMMENDATION:

We recommend the Department of Human Services work with the Department of Healthcare and Family Services to establish the appropriate controls to monitor eligibility redeterminations, and assign the resources necessary so that redeterminations of eligibility are performed annually as required by the Code of Federal Regulations.

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DEPARTMENTS' RESPONSE:

The Departments accept the recommendation. The redetermination process will be enhanced with the implementation of the newly updated processing system in IES Phase II, which went live on October 24, 2017. In Phase II, both new applications and case maintenance are completed within one system. The IES Phase II system will assist in tracking and auto initiating renewal notices to eligible customers using a three step process. Beginning with cases due for renewal effective February 2018, anyone who is required to return their redetermination notice but does not respond will have their benefits automatically canceled by IES. Previously, these cancelations had to be completed manually by casework staff. Online and classroom training venues are available to all staff using the new system.

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FINDING 2017-009 (Inaccurate Determination of Eligibility for Human Service Programs)

The Department of Human Services and the Department of Healthcare and Family Services (Departments) lacked adequate controls over the operation of the State of Illinois' Integrated Eligibility System (IES) to sufficiently prevent the inaccurate determination of eligibility.

The Department of Human Services and the Department of Healthcare and Family Services have shared responsibility for various human service programs in the State. This includes the intake, processing, and approval of applications for benefits. The Departments have shared responsibility for internal control over manual and automated processes (such as IES) relating to eligibility for these programs.

The Departments implemented IES for the intake and processing of applications in order to determine eligibility for the State's human service programs. During FY2017, the Departments processed:

Applications submitted via IES	677,753
Application approved via IES	496,154
Expenditures associated with applications approved via IES	\$1,316,575,345

In order to obtain social services, individuals are evaluated on financial and non-financial criteria. To ensure the accuracy of the Departments' determination, through IES, of eligibility for social service programs, we selected the non-financial criteria (citizenship, residency, social security information) for detailed testing. We tested all individuals whose applications were approved via IES in order to determine if they were properly approved based on the eligibility criteria selected. Our testing noted 251 distinct applications which were approved even though the IES data indicated the eligibility criteria had not been met. Specifically, applications were approved:

- Without meeting immigration requirements,
- Without verification of citizenship,
- Without verification of residency, and/or
- Without valid Social Security Numbers (SSNs) or documentation of submitted application for SSNs.

As a result of the exceptions noted, the Departments incurred expenditures of \$1,028,316 for individuals who may not have been eligible for benefits received.

It should be noted that the Departments and the auditors came to an agreement regarding the identified exceptions on December 7, 2017. Then on February 21, 2018, the Department provided the auditors with additional information related to the testing of the non-financial criteria. The results of testing noted above take into consideration the additional information.

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In addition, we selected a statistical sample of 138 distinct applications to determine if they were properly approved based on all eligibility criteria (financial and non-financial). In order to determine if the applications were properly approved, we reviewed each distinct application in IES. Our testing noted:

- 5 (3.6%) applications did not contain support related to residency.
- 3 (2.2%) applications did not contain support related to income.
- 7 (5%) applications did not contain the caseworker's verification of the budgeted income.
- 7 (5%) applications did not contain a copy of the application or the application was not signed.
- 6 (4.3%) applications did not contain support of citizenship being verified.

The Department of Human Services incurred expenditures of \$18,571 for these individuals who may not have been eligible for benefits received.

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) requires all agencies to establish and maintain a system of internal fiscal and administrative controls to provide assurance that resources are utilized efficiently, effectively, and in compliance with applicable laws and obligations and costs are in compliance with applicable laws.

Departments' management indicated the problems noted were due to a combination of caseworker error and system defects.

Inadequate controls over the operation of IES have resulted in expenditures for which eligibility has not been adequately demonstrated or documented and may result in future expenditures for individuals who are ineligible to receive benefits from these human service programs. (Finding Code No. 2017-009, 2016-005, 2015-009)

RECOMMENDATION:

We recommend the Department of Human Services work with the Department of Healthcare and Family Services to improve controls over caseworker involvement and system defects by refining supervisory oversight to confirm all applications are properly approved and caseworkers are properly obtaining and retaining documentation in IES to support eligibility.

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DEPARTMENTS' RESPONSE:

The Departments accept the recommendation. The errors noted in the testing of the 138 cases are attributed to casework error. The current transition the Departments were undertaking from one system to another comes with an unfamiliarity of processing procedures and nuances that are still being learned and perfected. During the audit period, casework staff had been required to spend substantial time participating in training of the new system. The transition from paper case records to electronic case records required a massive change in the gathering and maintaining of documentation. Although the new system does allow for proper maintenance of documentation in an electronic format, the conversion to the new process is still being refined. It is expected that as the transition to the new system stabilizes, casework errors will be reduced.

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FINDING 2017-010 (Lack of controls over changes to the Integrated Eligibility System)

The Department of Human Services and the Department of Healthcare and Family Services (Departments) lacked controls over changes to the Integrated Eligibility System (IES).

The Department of Human Services and the Department of Healthcare and Family Services have shared responsibilities for various human service programs in the State. As such, the Departments have a shared responsibility for the adequacy of internal controls over the IT applications and data which is utilized in determining eligibility for the human service programs.

IES is utilized for the intake of applications and the determination of eligibility for the State's human service programs. During FY2017, IES determined eligibility for 677,753 applications, approved and denied.

In October 2013, the Departments contracted with a vendor for the development and maintenance of IES; however, the Departments were responsible for ensuring proper controls were in place. As noted in the past two audits, we determined the Departments still had not developed policies and procedures to control changes over IES. As such, we were unable to determine if changes were properly controlled.

In addition, we requested documentation to demonstrate programmers' access was restricted; however, the Departments were unable to provide complete and accurate documentation. During discussions with the Departments, it was also noted vendor programmers had access to the production environment. In fact, a programmer had moved a change into the production environment that caused problems with the use and processing of IES data.

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.

Generally accepted information technology guidance endorses the implementation of suitable change management procedures to control changes to computer systems. Effective change management procedures reduce the risk of unauthorized, improper, or erroneous changes to computer systems. These procedures include restricting programmers from accessing the production environment.

Departments' management stated that control policies and procedures for IES have not been fully documented due to competing IES priorities.

The inability to determine and document that changes to IES are proper and approved increases the risk that IES will not have the required accuracy, integrity, availability, and security. (Finding Code No. 2017-010)

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RECOMMENDATION:

We recommend the Department of Human Services work with the Department of Healthcare and Family Services to implement controls over changes to IES. Specifically, the Department should develop change control policies and procedures to control changes. The policies and procedures should include at a minimum:

- Procedures to generate a complete list of program changes,
- Formal documentation authorizing the change by the Departments,
- Testing and documentation requirements,
- Formal documentation authorizing the change prior to being moved to the production environment.

In addition, the Department should require that programmers' access be properly restricted and an adequate segregation of duties exists.

DEPARTMENTS' RESPONSE:

The Departments accept the recommendation and will work together to implement an approval process for changes made to the IES. The Departments will develop formal change control policies and procedures for IES that encompass the recommendations listed and ensure that programmers do not have direct access to the production environment without proper approval.

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FINDING 2017-011 (Lack of Security Controls over the IES Computing Environment)

The Department of Human Services and the Department of Healthcare and Family Services (Departments) failed to implement adequate security controls over the computing environment supporting the Integrated Eligibility System (IES).

The Department of Human Services and the Department of Healthcare and Family Services have shared responsibilities for various human service programs in the State. As such, the Departments have a shared responsibility for the adequacy of internal controls over the IT applications and data which is utilized in determining eligibility for the human service programs.

IES is utilized for the intake of applications and the determination of eligibility for the State's human service programs. During FY2017, IES determined eligibility for 677,753 applications.

During our engagement, we requested the Departments provide the population of servers in which IES resides in order to determine the security over the servers. In response, the Department provided a listing of servers; however, during testing, we noted servers which were not included on the listing.

Due to these conditions, we were unable to conclude the Department's population records were sufficiently precise and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AU-C § 330, AU-C § 530, AT-C § 205).

Even given the population limitations noted above, we performed testing and noted:

- 209 of 346 servers were running operating systems that were no longer supported by the vendor.
- The IES Disaster Recovery Plan had not been updated to reflect the current environment.

In addition, the Departments' own internal review noted:

- Personal identifiable information (PII) and protected health information (PHI) is exposed in shared service areas.
- Lack of documentation or inaccurate documentation of users on infrastructure devices.
- Separation of duties not being exercised.
- Access privileges are not limited.
- Security functions assigned to personnel outside of security.
- Devices incorrectly configured and not working correctly.
- Server configuration setting maintained only by a vendor.
- Audit logs are not generated.
- Hardware/software contains out of date batches and fixes.
- Password reset questions are maintained in clear text.

Departments' management stated the IES Plan of Action and Milestones included all items identified during this audit. These items are in various stages of development and implementation; several of which require significant time and resources to resolve. The Departments determined that those items presenting the highest risk would be included with the Phase II Go-Live release in October 2017. The remaining items, moderate and low risk, were determined by the Departments as acceptable risks due to compensating or

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other implemented security controls. The remaining three high risk items are among those that require substantial code and infrastructure changes.

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.

Generally accepted information technology guidance endorses the development of well-designed and well-managed controls to protect computer systems and data.

Failure to implement and maintain adequate controls over security could result in inaccurate data and availability issues. (Finding Code No. 2017-011)

RECOMMENDATION:

We recommend the Department of Human Services work with the Department of Healthcare and Family Services to implement suitable security controls over the computing environment supporting IES.

DEPARTMENTS' RESPONSE:

The Departments accept the recommendation. The security issues were previously identified by the Departments and a Plan of Action and Milestones were developed to track each issue, with the exception of two items which are tracked in the weekly infrastructure technical meeting. In addition, corrective action plans are in progress for each.

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Prior Findings Not Repeated

- A. **FINDING** (Inadequate supporting detail maintained for Division of Alcohol and Substance Abuse (DASA) adjustments)

During the prior engagement, the Department of Human Services (Department) did not maintain sufficient detailed records in support of approved DASA adjustments and payments.

During the current engagement, the Department implemented, on June 1, 2017, a new process in which it reconciles the expenditure payments to the DASA Automated Reporting and Tracking System. (Finding Code No. 2016-002, 2015-005)

- B. **FINDING** (Lack of control over the Integrated Eligibility System)

During the prior engagement, 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).

During the current engagement, we noted adequate controls still had not been implemented over security, change management, and recovery services. As such, the auditors reported the issues separately in Finding 2017-010 and Finding 2017-011. (Finding Code No. 2016-004, 2015-008)