

**STATE OF ILLINOIS
DEPARTMENT OF
CENTRAL MANAGEMENT SERVICES**

FINANCIAL AUDIT

For the Year Ended June 30, 2011

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

**STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

FINANCIAL AUDIT

For the Year Ended June 30, 2011

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**STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

FINANCIAL AUDIT

For the Year Ended June 30, 2011

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**STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

AGENCY OFFICIALS

| | |
|-------------------------|--|
| Director | Mr. Malcolm Weems – acting (Effective June 16, 2011 through present) Mr. James Sledge (Through June 16, 2011) |
| Assistant Directors | Ms. Christine Cegelis (Through May 31, 2011) Mr. Steve McCurdy |
| Chief Operating Officer | Ms. Tasha Cruzat (Effective September 20, 2010 through present) |
| Chief Fiscal Officer | Mr. Paul Romiti |
| General Counsel | Ms. Nadine Lacombe |
| Chief Internal Auditor | Mr. Spenser Staton (Effective September 16, 2010) |

AGENCY OFFICE LOCATION

715 Stratton Office Building
401 South Spring Street
Springfield, IL 62706

**STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Department of Central Management Services as of June 30, 2011 and for the year then ended, was performed by Sikich LLP as Special Assistant Auditors to the Auditor General, State of Illinois.

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

SUMMARY OF FINDINGS

The auditors identified matters involving the Department's internal control over financial reporting that they considered to be material weaknesses and significant deficiencies. The material weakness is described in the accompanying Schedule of Findings listed in the table of contents as finding 11-1, weaknesses in internal control over financial reporting. The significant deficiency is described in the accompanying Schedule of Findings listed in the table of contents as finding 11-2, inadequate security and control over the midrange environment.

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on March 28, 2012. Attending were:

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Paul Romiti, Chief Fiscal Officer
Tammy Compton, Fiscal
Roger Nondorf, Chief Administrative Officer
Amy Walter, Internal Auditor
Denise Reed, Administrative Assistant

OFFICE OF THE AUDITOR GENERAL

Terri Davis, Audit Manager

SIKICH LLP

Gary Neubauer, Partner
Megan Cochran, Supervisor
Amy De Weese, Senior Accountant

The responses to the recommendations were provided by Paul Romiti in a letter dated April 3, 2012.



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

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Central Management Services, as of and for the year ended June 30, 2011, which collectively comprise the Department of Central Management Services' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Illinois, Department of Central Management Services' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 2, the financial statements of the State of Illinois, Department of Central Management Services are intended to present the financial position and changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the State of Illinois, Department of Central Management Services. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2011, and its changes in financial position including cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Central Management Services, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 3, 2012 on our consideration of the State of Illinois, Department of Central Management Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The State of Illinois, Department of Central Management Services has not presented a management's discussion and analysis and budgetary comparison information for the General Revenue Fund and the Road Fund that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Illinois, Department of Central Management Services' basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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



Springfield, Illinois
April 3, 2012

State of Illinois
Department of Central Management Services

Statement of Net Assets

June 30, 2011 (Expressed in Thousands)

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS | |
| Unexpended appropriations | \$ 23,108 |
| Cash equity with State Treasurer | 52,811 |
| Cash and cash equivalents | 3,849 |
| Securities lending collateral equity of State Treasurer | 10,940 |
| Receivables, net: | |
| Intergovernmental | 3,333 |
| Other | 9,417 |
| Due from other State funds | 773,922 |
| Due from State of Illinois component units | 1,655 |
| Inventories | 2,142 |
| Capital assets not being depreciated | 40,179 |
| Capital assets being depreciated, net | 211,314 |
| Total assets | <u>1,132,670</u> |
| LIABILITIES | |
| Accounts payable and accrued liabilities | 89,700 |
| Intergovernmental payables | 12,739 |
| Due to other State fiduciary funds | 1,094 |
| Due to other State funds | 1,556 |
| Due to State of Illinois component units | 1,106 |
| Obligations under securities lending of State Treasurer | 10,940 |
| Unearned revenue | 3,675 |
| Long term obligations: | |
| Due within one year | 155,178 |
| Due subsequent to one year | 483,979 |
| Total liabilities | <u>759,967</u> |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 218,856 |
| Restricted for debt service | 3,849 |
| Restricted for general government | 6 |
| Unrestricted | 149,992 |
| Total net assets | <u>\$ 372,703</u> |

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

State of Illinois
Department of Central Management Services

Statement of Activities

For the Year Ended June 30, 2011 (Expressed in Thousands)

| Functions/Programs | Expenses | Program Revenues Charges for Services | Net (Expense) Revenues and Changes in Net Assets Governmental Activities |
|--|------------|--|--|
| Primary government | | | |
| Governmental activities | | | |
| General government | \$ 733,748 | \$ 663,929 | \$ (69,819) |
| Education | 1,446 | - | (1,446) |
| Employment and economic development | 61 | - | (61) |
| Health and social services | 3,723 | - | (3,723) |
| Transportation | 2 | - | (2) |
| Public protection and justice | 4,105 | - | (4,105) |
| Environment and business regulation | 107 | - | (107) |
| Total governmental activities | 743,192 | 663,929 | (79,263) |
| General revenues | | | |
| Appropriations from State Resources | | | 102,754 |
| Reappropriation to future year(s) | | | (6,388) |
| Lapsed appropriations | | | (438) |
| Receipts collected and transmitted to State Treasury | | | (101) |
| Interest and investment income | | | 322 |
| Other revenues | | | 11,024 |
| Capital transfers to other State agencies | | | (395) |
| Capital contributions | | | 3,797 |
| Total general revenues and transfers | | | 110,575 |
| Change in net assets | | | 31,312 |
| Net assets, July 1, 2010, After change in presentation | | | 341,391 |
| Net assets, June 30, 2011 | | | \$ 372,703 |

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

State of Illinois
Department of Central Management Services

Balance Sheet -
Governmental Funds

June 30, 2011 (Expressed in Thousands)

| | General Fund | Road Fund | Nonmajor funds | Total Governmental Funds |
|--|------------------|--------------|-------------------|--------------------------------|
| ASSETS | | | | |
| Unexpended appropriations | \$ 23,062 | \$ - | \$ 46 | \$ 23,108 |
| Cash equity with State Treasurer | - | - | 2,005 | 2,005 |
| Receivables, net: | | | | |
| Intergovernmental receivables | - | - | 22 | 22 |
| Other receivables | 580 | - | 4 | 584 |
| Due from other Department funds | 4,916 | - | 197 | 5,113 |
| Due from other State funds | - | - | 2,564 | 2,564 |
| Due from State of Illinois component units | - | - | 34 | 34 |
| Inventories | - | - | 343 | 343 |
| Total assets | \$ 28,558 | \$ - | \$ 5,215 | \$ 33,773 |
| LIABILITIES | | | | |
| Accounts payable and accrued liabilities | \$ 5,411 | \$ - | \$ 175 | \$ 5,586 |
| Intergovernmental payables | 58 | - | 4 | 62 |
| Due to other State fiduciary funds | - | - | 17 | 17 |
| Due to other Department funds | 21,386 | - | 1,064 | 22,450 |
| Due to other State funds | 501 | - | 17 | 518 |
| Due to State of Illinois component units | 121 | - | 1 | 122 |
| Unavailable revenue | 576 | - | - | 576 |
| Matured portion of long-term obligations | 208 | - | - | 208 |
| Total liabilities | 28,261 | - | 1,278 | 29,539 |
| FUND BALANCES | | | | |
| Nonspendable - Inventory | - | - | 343 | 343 |
| Restricted - General Government | - | - | 6 | 6 |
| Committed - General Government | - | - | 3,588 | 3,588 |
| Unassigned | 297 | - | - | 297 |
| Total fund balances | 297 | - | 3,937 | 4,234 |
| Total liabilities and fund balances | \$ 28,558 | \$ - | \$ 5,215 | \$ 33,773 |

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

State of Illinois
Department of Central Management Services
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Assets
June 30, 2011
(Expressed in Thousands)

| | | |
|--|-----------|-----------------------|
| Total fund balances-governmental funds | \$ | 4,234 |
| <p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p> | | |
| <p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p> | | 95 |
| <p>Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.</p> | | 576 |
| <p>Internal service funds are used to charge costs of certain activities to individual funds. The assets and liabilities of the internal service funds are reported as governmental activities in the Statement of Net Assets.</p> | | 372,772 |
| <p>Some liabilities reported in the Statement of Net Assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. These liabilities consist of:</p> | | |
| Compensated absences | (1,401) | |
| Auto liability claims | (3,573) | |
| | (4,974) | (4,974) |
| Net assets of governmental activities | \$ | <u>372,703</u> |

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

State of Illinois
Department of Central Management Services
Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2011 (Expressed in Thousands)

| | General Fund | Road Fund | Nonmajor funds | Total Governmental Funds |
|--|-----------------|--------------|-------------------|--------------------------------|
| REVENUES | | | | |
| Other | \$ 130 | \$ - | \$ 6,199 | \$ 6,329 |
| Other charges for services | - | - | 1,206 | 1,206 |
| Total revenues | 130 | - | 7,405 | 7,535 |
| EXPENDITURES | | | | |
| General government | 89,022 | - | 3,223 | 92,245 |
| Education | 1,446 | - | - | 1,446 |
| Employment and economic development | 61 | - | - | 61 |
| Health and social services | 3,723 | - | - | 3,723 |
| Transportation | 2 | - | - | 2 |
| Public protection and justice | 4,105 | - | - | 4,105 |
| Environment and business regulation | 107 | - | - | 107 |
| Capital outlays | - | - | 395 | 395 |
| Total expenditures | 98,466 | - | 3,618 | 102,084 |
| Excess (deficiency) of revenues over (under) expenditures | (98,336) | - | 3,787 | (94,549) |
| OTHER SOURCES (USES) OF FINANCIAL RESOURCES | | | | |
| Appropriations from State resources | 95,959 | - | 6,795 | 102,754 |
| Reappropriation to future year(s) | - | - | (6,388) | (6,388) |
| Lapsed appropriations | (438) | - | - | (438) |
| Receipts collected and transmitted to State Treasury | (101) | - | - | (101) |
| Transfers-in | 917 | - | - | 917 |
| Transfers-out | - | - | (917) | (917) |
| Net other sources (uses) of financial resources | 96,337 | - | (510) | 95,827 |
| Net change in fund balances | (1,999) | - | 3,277 | 1,278 |
| Fund balances, July 1, 2010, After change in presentation | 2,296 | - | 1,214 | 3,510 |
| Increase (decrease) for changes in inventories | - | - | (554) | (554) |
| FUND BALANCES, JUNE 30, 2011 | \$ 297 | \$ - | \$ 3,937 | \$ 4,234 |

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

State of Illinois
Department of Central Management 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, 2011
(Expressed in Thousands)

| | | |
|--|-----------|----------------------|
| Net change in fund balances | \$ | 1,278 |
| Change in inventories | | (554) |
| | | <u>724</u> |
| <p>Amounts reported for governmental activities in the Statement of Activities are different because:</p> | | |
| Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which capital outlays exceeded depreciation in the current period. | | 392 |
| Some capital assets were transferred to other State agencies. | | (395) |
| Internal service funds are used to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is reported as governmental activities in the Statement of Activities. | | 32,216 |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the decrease in unavailable revenue over the prior year. | | (42) |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Below are such activities. | | |
| Increase in compensated absences obligation | | (4) |
| Increase in auto liability claims | | <u>(1,579)</u> |
| Change in net assets of governmental activities | \$ | <u>31,312</u> |

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

State of Illinois
Department of Central Management Services

Statement of Net Assets -
Proprietary Funds

June 30, 2011 (Expressed in Thousands)

| | Governmental Activities - Internal Service Funds |
|---|---|
| | <u> </u> |
| ASSETS | |
| Cash equity with State Treasurer | \$ 50,806 |
| Cash and cash equivalents | 3,849 |
| Securities lending collateral equity of State Treasurer | 10,940 |
| Receivables, net: | |
| Intergovernmental | 3,311 |
| Other | 8,833 |
| Due from other Department funds | 37,924 |
| Due from other State funds | 771,358 |
| Due from State of Illinois component units | 1,621 |
| Inventories | 1,799 |
| Total current assets | <u>890,441</u> |
| Capital assets not being depreciated | 40,137 |
| Capital assets being depreciated, net | 211,261 |
| Total noncurrent assets | <u>251,398</u> |
| Total assets | <u>1,141,839</u> |
| | |
| LIABILITIES | |
| Accounts payable and accrued liabilities | 84,114 |
| Intergovernmental payables | 12,677 |
| Due to other State fiduciary funds | 1,077 |
| Due to other Department funds | 20,587 |
| Due to other State funds | 1,038 |
| Due to State of Illinois component units | 984 |
| Obligations under securities lending of State Treasurer | 10,940 |
| Deferred revenue | 3,675 |
| Current portion of long-term obligations | 153,534 |
| Total current liabilities | <u>288,626</u> |
| Noncurrent portion of long-term obligations | 480,441 |
| Total liabilities | <u>769,067</u> |
| | |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 218,761 |
| Restricted for debt service | 3,849 |
| Unrestricted | 150,162 |
| Total net assets | <u>\$ 372,772</u> |

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

State of Illinois
Department of Central Management Services

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

For the Year Ended June 30, 2011 (Expressed in Thousands)

| | Governmental Activities - Internal Service Funds |
|---|---|
| OPERATING REVENUES | |
| Charges for sales and services | \$ 714,380 |
| Other | 4,695 |
| Total operating revenues | <u>719,075</u> |
| OPERATING EXPENSES | |
| Cost of sales and services | 440,055 |
| Claims and judgments | 187,237 |
| General and administrative | 23,373 |
| Depreciation | 24,834 |
| Other | 12,219 |
| Total operating expenses | <u>687,718</u> |
| Operating income (loss) | 31,357 |
| NONOPERATING REVENUES (EXPENSES) | |
| Interest and investment income | 322 |
| Interest expense | (3,075) |
| Other expenses | (185) |
| Income (loss) before contributions | <u>28,419</u> |
| Contributions of capital assets | 3,797 |
| Change in net assets | 32,216 |
| Net assets, July 1, 2010 | <u>340,556</u> |
| NET ASSETS, JUNE 30, 2011 | <u><u>\$ 372,772</u></u> |

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

State of Illinois
Department of Central Management Services

Statement of Cash Flows -
Proprietary Funds

For the Year Ended June 30, 2011 (Expressed in Thousands)

| | Governmental Activities - Internal Service Funds |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash received from sales and services | \$ 20,188 |
| Cash received from transactions with other funds | 672,074 |
| Cash payments to suppliers for goods and services | (419,168) |
| Cash payments to employees for services | (120,037) |
| Cash payments for workers compensation | (126,944) |
| Cash receipts from other operating activities | 17 |
| Net cash provided (used) by operating activities | <u>26,130</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Other noncapital financing activities | (1,726) |
| Net cash provided (used) by noncapital financing activities | <u>(1,726)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Acquisition and construction of capital assets | (7,313) |
| Principal paid on capital debt | (6,753) |
| Interest paid on capital debt | (1,802) |
| Net cash (used) by capital and related financing activities | <u>(15,868)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest and dividends on investments | 323 |
| Net cash provided (used) by investing activities | <u>323</u> |
| Net increase (decrease) in cash and cash equivalents | 8,859 |
| Cash and cash equivalents, July 1, 2010 | <u>45,796</u> |
| CASH AND CASH EQUIVALENTS, JUNE 30, 2011 | \$ 54,655 |
| Reconciliation of cash and cash equivalents to the statement of net assets: | |
| Total cash and cash equivalents per the statement of net assets | \$ 3,849 |
| Add: cash equity with State Treasurer | 50,806 |
| CASH AND CASH EQUIVALENTS, JUNE 30, 2011 | \$ 54,655 |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | |
| OPERATING INCOME (LOSS) | \$ 31,357 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | |
| Depreciation | 24,834 |
| Provision for uncollectible accounts | 21 |
| Changes in assets and liabilities: | |
| (Increase) decrease in accounts receivable | 3,215 |
| (Increase) decrease in intergovernmental receivables | (2,116) |
| (Increase) decrease in due from other funds | (37,527) |
| (Increase) decrease in due from State of Illinois component units | 5 |
| (Increase) decrease in inventory | (120) |
| Increase (decrease) in accounts payable and accrued liabilities | (28,734) |
| Increase (decrease) in intergovernmental payables | 473 |
| Increase (decrease) in due to other State funds | (21,312) |
| Increase (decrease) in due to State of Illinois component units | 501 |
| Increase (decrease) in deferred revenues | 2,245 |
| Increase (decrease) in other liabilities | 53,288 |
| Total adjustments | <u>(5,227)</u> |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | \$ 26,130 |
| NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES | |
| Loss on sale of equipment | \$ (167) |
| Transfer of capital assets, net of related debt, to/from other State funds | \$ 3,779 |

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

State of Illinois
Department of Central Management Services

Statement of Fiduciary Net Assets

June 30, 2011 (Expressed in Thousands)

| | Pension Trust Fund State Employees' Deferred Compensation Plan | Agency Funds |
|---|--|------------------|
| ASSETS | | |
| Cash equity with State Treasurer | \$ 5,594 | \$ 10,587 |
| Cash and cash equivalents | 2,412 | 4,070 |
| Investments: | | |
| Equities | 2,255,209 | - |
| Fixed income | 284,930 | - |
| Other | 786,840 | - |
| Other receivables, net | 939 | - |
| Securities lending collateral equity of State Treasurer | 1,892 | 4,937 |
| Total assets | <u>3,337,816</u> | <u>\$ 19,594</u> |
| LIABILITIES | | |
| Accounts payable and accrued liabilities | 889 | \$ 14,642 |
| Intergovernmental payables | 2 | 15 |
| Due to other State fiduciary funds | 6 | - |
| Due to other State funds | 29 | - |
| Obligations under securities lending of State Treasurer | 1,892 | 4,937 |
| Long-term liabilities | 127 | - |
| Total liabilities | <u>2,945</u> | <u>\$ 19,594</u> |
| NET ASSETS | | |
| Held in trust for: | | |
| Deferred compensation benefits | 3,334,871 | |
| Total net assets | <u>\$ 3,334,871</u> | |

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

State of Illinois

Department of Central Management Services

Statement of Changes in Fiduciary Net Assets

For the Year Ended June 30, 2011 (Expressed in Thousands)

| | <u>Pension Trust Fund State</u> |
|---|--|
| | <u>Employees' Deferred Compensation Plan</u> |
| Deposits/Contributions: | |
| Members/participants | \$ 166,814 |
| Other contributions | 5,269 |
| Total contributions | <u>172,083</u> |
| Investment income: | |
| Interest, dividends and other investment income | 86,591 |
| Net appreciation of investments | 514,999 |
| Reimbursement of investment expenses not separable from investment income | 2,535 |
| Less: investment expense | <u>(567)</u> |
| Net investment income | <u>603,558</u> |
| Total additions | <u>775,641</u> |
| Deductions: | |
| Benefit payments | 184,726 |
| Refunds | 42 |
| General and administration | <u>2,970</u> |
| Total deductions | <u>187,738</u> |
| Net additions | 587,903 |
| Net assets, July 1, 2010 | <u>2,746,968</u> |
| Net assets, JUNE 30, 2011 | <u>\$ 3,334,871</u> |

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

**STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

Notes to Financial Statements

June 30, 2011

(1) Organization

The Department of Central Management 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 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 Governor's Office of Management and Budget, the State Treasurer's Office, and the State Comptroller's Office) as defined by the Illinois General Assembly. All funds appropriated to the Department and all other cash received are under the custody and control of the State Treasurer, with the exception of the Facilities Management Fund, the State Employees' Deferred Compensation Plan, and the Flexible Spending Account.

The Department provides a variety of centralized services for the operation of State Government. The Department provides personnel services for State agencies; purchases goods and services for State agencies; supplies telecommunications, data processing, videoconferencing, and office automation; manages state property, and disseminates information about State Government to the news media and general public. It employs volume purchasing and economies of scale to reduce costs and improve government efficiency. The Department also promotes the economic development of minority and female businesses and rehabilitation facilities for persons with disabilities.

(2) Summary of Significant Accounting Policies

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

(a) Financial Reporting Entity

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

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

Based upon the required criteria, the Department has no component units and is not a component unit of any other entity. However, because the Department is not legally separate from the State of Illinois, the financial statements of the Department are included in the financial statements of

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the State of Illinois. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1871.

(b) Basis of Presentation

The financial statements of the State of Illinois, Department of Central Management Services, are intended to present the financial position, the changes in financial position, and the cash flows, when applicable, 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, 2011, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

The statement of activities presents a comparison between direct expenses and program revenues for the general government function of the Department's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges paid by the recipients of goods or services offered by the programs. Revenues that are not classified as program revenues, including sales of surplus State property, are presented as general revenues.

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

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The Department administers the following major governmental funds (or portions thereof in the case of shared funds) - see 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, general government services.

Road – This fund accounts for the activities of the Department for payment to the Workers' Compensation Revolving Fund, an internal service fund, for allocated costs associated with providing workers' compensation benefits for State employees paid from the Road Fund.

Additionally, the Department reports the following fund types:

Governmental Fund Types:

Special Revenue – These funds account for 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. Special revenue funds account for, among other things, federal grant programs, taxes levied with statutorily defined distributions and other resources restricted as to purpose.

Capital Projects – These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including acquisition or construction of capital facilities and other assets. Such resources are derived principally from proceeds of general and special obligation bond issues and certificates of participation.

Proprietary Fund Types:

Internal Service – These funds account for data processing, printing, fleet management, facilities management, professional services, workers compensation claims, life insurance payments for State employees, and telecommunications provided to agencies of the State on a reimbursement basis.

Fiduciary Fund Types:

Pension Trust – The State Employees' Deferred Compensation plan is reported as a pension (and other employee benefit) trust fund in order to account for resources required to be held in trust for the members in accordance with Illinois Compiled Statutes (40 ILCS 5/24-101) and Section 457 of the Internal Revenue Code.

Agency – These funds account for amounts in which the Department acts in the capacity of an agent and collects and distributes employee payroll withholdings for purchase of life insurance, tax-free payments of eligible medical and dental expenses, and tax-free payments of eligible child and/or adult day care costs.

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(c) *Measurement Focus and Basis of Accounting*

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus (except for agency funds which do not have a measurement focus) and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

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

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

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

(d) *Shared Fund Presentation*

The financial statement presentation for the General Fund, the Road Fund, and the Capital Development Fund, a nonmajor governmental fund, represent only the portion of shared funds 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:

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Unexpended Appropriations

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

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.

Reappropriation to Future Year(s)

This contra revenue account reduces current year’s appropriations by the amount of the reappropriation to reflect the State’s realignment of the budgetary needs to the subsequent year and avoid double counting of a portion of the appropriation in more than one fiscal year.

Receipts Collected and Transmitted to State Treasury

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

(e) Eliminations

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

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(f) Cash and Cash Equivalents

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

(g) Inventories

Inventories of the State Garage Revolving Fund, consisting primarily of automotive parts, accessories, and supplies, are valued at cost, principally on the weighted average method. Significant inventories of governmental funds, which consist primarily of federal surplus vehicles held for resale, are recorded as expenditures when consumed or sold rather than when purchased.

(h) Interfund Transactions

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

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

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

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

The Department also has activity with various component units of the State of Illinois for professional services rendered and on-behalf employee benefits paid.

(i) Capital Assets

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

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Capitalization thresholds and the estimated useful lives are as follows:

| Capital Asset Category | Capitalization Threshold | Estimated Useful Life |
|------------------------|--------------------------|-----------------------|
| Land | \$100,000 | N/A |
| Land Improvements | 25,000 | N/A |
| Buildings | 100,000 | 10-60 |
| Building Improvements | 25,000 | 10-45 |
| Site Improvements | 25,000 | 20 |
| Equipment | 5,000 | 3-25 |

(j) Compensated Absences

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

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

(k) Fund Balances

In the fund financial statements, governmental funds report fund balances in the following categories:

Nonspendable- This consists of amounts that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact.

Restricted- This consists of amounts that are restricted to specific purposes, that is, when constraints placed on the use of resources are either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.

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Committed- This consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Department's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Department removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The Department's highest level of decision-making authority rests with the Illinois State legislature and the Governor. The State passes "Public Acts", to commit their fund balances.

Assigned- This consists of net amounts that are constrained by the Department's intent to be used for specific purposes, but that are neither restricted nor committed.

Unassigned- This consists of residual deficit fund balance that has not been restricted, committed, or assigned within the general fund and deficit fund balances of other governmental funds.

When both restricted and unrestricted (committed, assigned, and unassigned) resources are available for use, it is the Department's policy to use restricted resources first. When only unrestricted resources are available, the Department uses committed resources first, followed by assigned, and then unassigned.

(l) Net Assets

In the government-wide and proprietary fund financial statements, equity is displayed in three components as follows:

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

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

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

The government-wide statement of net assets reports \$3.855 million of restricted net assets which are restricted by enabling legislation.

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(m) Use of Estimates

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

(n) State Employees' Deferred Compensation Plan Administration

By State statute the Department is responsible for administering the State Employees' Deferred Compensation Plan (Plan). The Department contracts with Invesco Ltd. for investment management services and T. Rowe Price Retirement Plan Services, Inc. to provide recordkeeping services for the Plan. Additional investment management fees are paid to mutual fund managers before any dividends are declared in accordance with customary industry practices. Asset charges intended to cover the costs of administration, including investment management and recordkeeping fees, are computed monthly and withdrawn from participants' accounts on a monthly or quarterly basis. Effective January 1, 2007, the annual fee charged to participants was limited to a maximum of \$30. This fee has been waived for 2008 through 2011.

(o) New Accounting Pronouncements

Effective for the year ending June 30, 2011 the Department adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. There was no significant impact on the Department's financial statements as a result of adopting this Statement; however, this Statement clarified the definitions of the governmental fund types.

Effective for the year ending June 30, 2011 the Department adopted Governmental Accounting Standards Board Statement No. 59, *Financial Instruments Omnibus*, which established reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in the past. There was no impact on the Department's financial statements as a result of adopting this Statement.

(p) Future Adoption of GASB Statements

Effective for the year ending June 30, 2012 the Department will adopt Governmental Accounting Standards Board Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which allows the use of the alternative measurement method for employers with individual-employer OPEB plans with fewer than 100 total plan members and clarifies the frequency and timing requirements of actuarially determined OPEB measurements by employers that participate in agent multiple-employer OPEB plans. The Department has not yet determined the impact on the Department's financial statements as a result of adopting this Statement.

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Effective for the year ending June 30, 2012 the Department will adopt Governmental Accounting Standards Board Statement No. 64 *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, which sets forth criteria to establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The Department has not yet determined the impact on the Department's financial statements as a result of adopting this Statement.

(3) Deposits and Investments

(a) Deposits

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the investment authority and guidelines for the Treasurer's published investment policy found in Section 22.8 of the Deposit of State Moneys Act (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Department does not own individual securities. Detail on the nature of these deposits and investments is available within the State of Illinois' Comprehensive Annual Financial Report.

Funds maintained outside the State Treasury have independent statutory authority to manage their own deposits and investments. The investment authority of the Illinois State Board of Investments ("ISBI") is governed by the Illinois Pension Code (40 ILCS 5). ISBI has published investment policies incorporating these guidelines.

The carrying amount and bank balance of cash deposits held outside of the State Treasury at June 30, 2011 was \$1.358 million which was uninsured and uncollateralized.

(b) Investments

The Department's investments consist of amounts held by trustees in accordance with debt covenants; tax-free payments of eligible medical and dental expenses, tax-free payments of qualified transportation and/or commuting expenses, and tax-free payments of eligible child and/or adult day care costs; and amounts held as part of the State's employee retirement savings plan in accordance with Section 457 of the Internal Revenue Code. The investments held for the State's Section 457 plan are held in mutual funds, annuities, investment contracts and equity trust funds, which are selected by the Illinois State Board of Investments after satisfactory review of such factors as the investment experience of the underlying manager, the suitability of the investment approach used, and the investment record.

As of June 30, 2011, the Department had the following fixed income investments outside of the State Treasury:

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| | <u>Book Value (Thousands)</u> | <u>Fair Value (Thousands)</u> | <u>Weighted Average Maturity (Years)</u> |
|---------------------------------------|---------------------------------------|---------------------------------------|--|
| <i>Governmental Activities</i> | | | |
| Money market mutual funds | \$ 2,491 | \$ 2,491 | 0.096 |
| Total fixed income investments | <u>\$ 2,491</u> | <u>\$ 2,491</u> | |
| <i>Fiduciary Funds</i> | | | |
| Money market mutual funds | \$ 89,728 | \$ 90,180 | 0.154 |
| Debt mutual funds | <u>107,223</u> | <u>107,223</u> | 7.400 |
| Total fixed income investments | <u>\$ 196,951</u> | <u>\$ 197,403</u> | |

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

Credit Risk: The Department does not have a formal investment policy that limits investment choices. The Governmental Activities money market mutual funds were rated Aaa by Moody's. \$4.522 million of the Fiduciary Funds money market mutual funds were rated Aaa by Moody's, while the remaining \$85.658 million of the money market mutual funds were unrated. The Fiduciary Funds debt mutual funds were unrated.

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

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

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| <i>Governmental Activities</i> | <u>Deposits</u> | <u>Investments</u> |
|--|------------------------|----------------------------|
| Amounts Per Note | \$ 1,358 | \$ 2,491 |
| Cash equivalents | <u>2,491</u> | <u>(2,491)</u> |
| Amounts per Statement of Net Assets | <u>\$ 3,849</u> | <u>\$ -</u> |
| | | |
| <i>Fiduciary Funds</i> | <u>Deposits</u> | <u>Investments</u> |
| Amounts Per Note | \$ - | \$ 196,951 |
| Cash equivalents | 6,482 | (6,482) |
| Equity mutual funds | - | 1,483,562 |
| Blended mutual funds | - | 516,361 |
| Annuities | - | 1,064 |
| Equity trust funds | - | 255,286 |
| Bond trust funds | - | 94,461 |
| Guaranteed investment contracts | <u>-</u> | <u>785,776</u> |
| Amounts per Statement of Fiduciary Net Assets | <u>\$ 6,482</u> | <u>\$ 3,326,979</u> |

(d) Securities Lending Transactions

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

During fiscal year 2011 and 2010, Deutsche Bank Group lent U.S. Agency securities, U.S. Treasury Bills, and U.S. Agency Discount Notes and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%.

The State Treasurer did not impose any restrictions during the fiscal year on the amount of the loans available on the eligible securities. In the event of borrower default, Deutsche Bank Group provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank Group is obligated to indemnify the State Treasurer if Deutsche Bank Group loses any securities, collateral or investments of the State Treasurer in Deutsche Bank Group's custody.

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Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or Deutsche Bank Group.

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

In accordance with GASB Statement No. 28, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations arising from the securities lending agreements as of June 30, 2011, to the various funds of the State. The total allocated to the Department was \$17.769 million at June 30, 2011.

(4) Interfund Balances and Activity

(a) Balances Due to/from Other Funds

The following balances (amounts expressed in thousands) at June 30, 2011 represent amounts due from other Department and State of Illinois funds.

| <u>Fund</u> | <u>Due from</u> | | <u>Description/Purpose</u> |
|------------------------------|---------------------------------------|----------------------------------|--|
| | <u>Other Department Funds</u> | <u>Other State Funds</u> | |
| General | \$ 4,916 | \$ - | Due from other Department funds for reimbursement of advances on expenditures incurred. |
| Non-major governmental funds | 197 | 2,564 | Due from other Department funds and other State funds for sales of federal surplus property. |
| Internal service funds | 37,924 | 771,358 | Due from other Department funds and other State funds for services provided. |
| | <u>\$ 43,037</u> | <u>\$ 773,922</u> | |

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The following balances (amounts expressed in thousands) at June 30, 2011 represent amounts due to other Department and State of Illinois funds.

| <u>Fund</u> | <u>Due to</u> | | | <u>Description/Purpose</u> |
|------------------------------|---------------------------------------|------------------------------|--|--|
| | <u>Other Department Funds</u> | <u>Other State Funds</u> | <u>Other State Fiduciary Funds</u> | |
| General | \$ 21,386 | \$ 501 | \$ - | Due to other Department funds for internal service fund services received including workers compensation claims and other State funds for services received. |
| Non-major governmental funds | 1,064 | 17 | 17 | Due to other Department funds for internal service fund services received, other State funds for services received and other State fiduciary funds for retirement contributions. |
| Internal service funds | 20,587 | 1,038 | 1,077 | Due to other Department funds for internal service fund services received, other State funds for services received and other State fiduciary funds for retirement contributions. |
| Fiduciary funds | - | 29 | 6 | Due to other State funds for audit and other expenses and other State fiduciary funds for retirement contributions. |
| | <u>\$ 43,037</u> | <u>\$ 1,585</u> | <u>\$ 1,100</u> | |

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(b) Transfers to/from Other Funds

Interfund transfers in (amounts expressed in thousands) from other State funds for the year ended June 30, 2011, were as follows:

| <u>Fund</u> | <u>Transfers in from Other Department Funds</u> | <u>Description/Purpose</u> |
|-------------|---|---|
| General | \$ 917 | Transfer from other Department funds pursuant to statute. |

Interfund transfers out (amounts expressed in thousands) to other State funds for the year ended June 30, 2011, were as follows:

| <u>Fund</u> | <u>Transfers out to Other Department Funds</u> | <u>Description/Purpose</u> |
|------------------------------|--|---|
| Non-major governmental funds | \$ 917 | Transfer to other Department funds pursuant to statute. |

(5) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2011 was as follows:

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| | <u>Balance July 1, 2010</u> | <u>Additions</u> | <u>Deletions</u> | <u>Net Transfers</u> | <u>Balance June 30, 2011</u> |
|--|---------------------------------|--------------------|------------------|--------------------------|----------------------------------|
| Governmental activities: | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land and land improvements | \$ 38,407 | \$ - | \$ - | \$ - | \$ 38,407 |
| Nondepreciable historical treasures and works of art | 4 | - | - | - | 4 |
| Construction in Progress | - | 1,768 | - | - | 1,768 |
| Total capital assets not being depreciated | <u>38,411</u> | <u>1,768</u> | <u>-</u> | <u>-</u> | <u>40,179</u> |
| Capital assets being depreciated: | | | | | |
| Site improvements | 3,889 | - | - | - | 3,889 |
| Buildings and building improvements | 456,491 | 549 | - | 3,229 | 460,269 |
| Equipment | 200,552 | 4,367 | 13,129 | 2,258 | 194,048 |
| Depreciable historical treasures and works of art | 970 | - | - | - | 970 |
| Other Intangible Assets-Fiber Optic Rights | - | 1,024 | - | - | 1,024 |
| Total capital assets being depreciated | <u>661,902</u> | <u>5,940</u> | <u>13,129</u> | <u>5,487</u> | <u>660,200</u> |
| Less accumulated depreciation: | | | | | |
| Site improvements | 2,778 | 175 | - | - | 2,953 |
| Buildings and building improvements | 254,669 | 12,342 | - | - | 267,011 |
| Equipment | 176,491 | 12,303 | 12,962 | 2,103 | 177,935 |
| Depreciable historical treasures and works of art | 970 | - | - | - | 970 |
| Other Intangible Assets-Fiber Optic Rights | - | 17 | - | - | 17 |
| Total accumulated depreciation | <u>434,908</u> | <u>24,837</u> | <u>12,962</u> | <u>2,103</u> | <u>448,886</u> |
| Total capital assets being depreciated, net | <u>226,994</u> | <u>(18,897)</u> | <u>167</u> | <u>3,384</u> | <u>211,314</u> |
| Governmental activity capital assets, net | <u>\$ 265,405</u> | <u>\$ (17,129)</u> | <u>\$ 167</u> | <u>\$ 3,384</u> | <u>\$ 251,493</u> |

Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2011 was charged to functions as follows:

General government \$ 24,837

**STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

Notes to Financial Statements

June 30, 2011

(6) Long-Term Obligations

(a) Changes in Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2011 were as follows:

| | <u>Balance July 1, 2010</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance June 30, 2011</u> | <u>Amounts Due Within One Year</u> |
|--|-------------------------------------|-------------------|-------------------|--------------------------------------|--|
| Governmental activities: | | | | | |
| Compensated absences | \$ 14,410 | \$ 8,005 | \$ 9,032 | \$ 13,383 | \$ 823 |
| Capital lease obligations | 233 | - | 68 | 165 | 71 |
| Installment purchase obligations | 9,559 | - | 3,865 | 5,694 | 3,940 |
| Certificates of participation | 27,830 | - | 2,820 | 25,010 | 2,985 |
| Workers' compensation claim obligations | 536,805 | 182,558 | 128,239 | 591,124 | 145,791 |
| Auto liability claim obligations | <u>2,059</u> | <u>2,905</u> | <u>1,183</u> | <u>3,781</u> | <u>1,568</u> |
| Total governmental activities | <u>\$ 590,896</u> | <u>\$ 193,468</u> | <u>\$ 145,207</u> | <u>\$ 639,157</u> | <u>\$ 155,178</u> |

Compensated absences have been liquidated by the applicable fund that accounts for the salaries and wages of the related employees.

**STATE OF ILLINOIS
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Notes to Financial Statements

June 30, 2011

(b) Capital lease obligations

The Department leases office space with a historical cost and accumulated depreciation of \$1.462 and \$.646 million, 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, 2011 are as follows:

| Year Ending | | | |
|--------------------|------------------|-----------------|---------------|
| June 30 | Principal | Interest | Total |
| 2012 | \$ 71 | \$ 7 | \$ 78 |
| 2013 | 75 | 4 | 79 |
| 2014 | 19 | - | 19 |
| | <u>\$ 165</u> | <u>\$ 11</u> | <u>\$ 176</u> |

(c) Installment purchase obligations

The Department has acquired certain vehicles, electronic data processing and data storage equipment, and communication and video equipment through installment purchase arrangements. Future debt service requirements under installment purchase contracts (amounts expressed in thousands) at June 30, 2011, are as follows:

| Year Ending | | | |
|--------------------|------------------|-----------------|-----------------|
| June 30 | Principal | Interest | Total |
| 2012 | \$ 3,940 | \$ 112 | \$ 4,052 |
| 2013 | 1,754 | 18 | 1,772 |
| | <u>\$ 5,694</u> | <u>\$ 130</u> | <u>\$ 5,824</u> |

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DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

Notes to Financial Statements

June 30, 2011

(d) Certificates of participation

The Department has financed the purchase of office buildings and land. The office buildings have a historical cost and accumulated depreciation of \$48.740 and \$16.194 million, respectively and the land has a historic cost of \$2.794 million. This non-state issued certificate is sold by a private concern and is repaid by Department appropriations pursuant to an installment purchase agreement. Future debt service requirements under certificates of participation (amounts expressed in thousands) at June 30, 2011, are as follows:

| <u>June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------|------------------|-----------------|------------------|
| 2012 | \$ 2,985 | \$ 1,406 | \$ 4,391 |
| 2013 | 3,160 | 1,224 | 4,384 |
| 2014 | 3,350 | 1,031 | 4,381 |
| 2015 | 3,545 | 824 | 4,369 |
| 2016 | 3,755 | 606 | 4,361 |
| 2017-2018 | 8,215 | 501 | 8,716 |
| | <u>\$ 25,010</u> | <u>\$ 5,592</u> | <u>\$ 30,602</u> |

(7) Risk Management

The Department administers the State of Illinois' risk management except for minimal commercial insurance purchased on certain capital assets by other State agencies and auto liability for the Department of Transportation. The State is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation; auto liability exposure; and natural disasters. The State retains the risk of loss (i.e. self insured) for these risks except minimal commercial insurance purchased on certain capital assets by other State agencies. There were no significant reductions in insurance coverage for the State from the prior fiscal year. The amount of settlements has not exceeded insurance coverage in the past three fiscal years for the State.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claims liabilities are based upon the estimated ultimate cost of settling the claims including specific, incremental claim adjustment expenses, salvage, and subrogation and considering the effects of inflation and recent claim settlement trends including frequency and amount of payouts and other economic and social factors.

**STATE OF ILLINOIS
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June 30, 2011

The Department's risk financing of auto liability for the State's non-Department of Transportation liability, \$3.781 million, has been determined using an estimate of claims outstanding. Claims that will be liquidated with expendable available financial resources have been recorded as a liability in the General Revenue Fund, a subaccount of the General Fund, in the amount of \$208 thousand. The remaining portion of the liability, \$3.573 million, as of June 30, 2011, is included in the Department-wide financial statements and is expected to be paid from future resources of the General Fund.

The Department's workers' compensation liability, \$591.124 million, has been determined using claims outstanding and a projection of claims to be submitted, based upon prior years experience, to the Department. The liability is recorded in the Workers' Compensation Revolving Fund, an internal service fund.

The following is a reconciliation of the Department's claims liabilities for the years June 30, 2010 and June 30, 2011 (amounts expressed in thousands).

| Year Ended June 30 | Changes in Claims Liability Balances | | | |
|---|--------------------------------------|---|-------------------|-------------------|
| | Beginning Balance | Current Year Claims and Changes in Estimates | Claim Payments | Ending Balance |
| Primary Government-Governmental Activities: | | | | |
| 2010 | | | | |
| Auto Liability | \$ 1,869 | \$ 1,761 | \$ 1,571 | \$ 2,059 |
| Workers' Compensation | 397,935 | 258,817 | 119,947 | 536,805 |
| Total | <u>\$ 399,804</u> | <u>\$ 260,578</u> | <u>\$ 121,518</u> | <u>\$ 538,864</u> |
| 2011 | | | | |
| Auto Liability | \$ 2,059 | \$ 2,905 | \$ 1,183 | \$ 3,781 |
| Workers' Compensation | 536,805 | 182,558 | 128,239 | 591,124 |
| Total | <u>\$ 538,864</u> | <u>\$ 185,463</u> | <u>\$ 129,422</u> | <u>\$ 594,905</u> |

(8) Pension Plan

Substantially all of the Department's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Notes to Financial Statements

June 30, 2011

Systems. The financial position and results of operations of the SERS for fiscal year 2011 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2011. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

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

The Department pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. For fiscal year 2011, the employer contribution rate was 27.988%. Effective for pay periods beginning after December 31, 1991, the State opted to pay the employee portion of retirement for most State agencies (including the Department) with employees covered by the State Employees' and Teachers' Retirement Systems. However, effective with the fiscal year 2004 budget, the State opted to stop paying the portion or a part of the portion of retirement for many State agencies (including the Department) for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. The pickup, when applicable, is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

(9) Post-employment Benefits

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

**STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

Notes to Financial Statements

June 30, 2011

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

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

(10) Commitments and Contingencies

(a) Operating leases

The Department leases parking lots, warehouses, and buildings, under the terms of noncancelable operating lease agreements that require the Department to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was \$100.671 million for the year ended June 30, 2011.

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

| <u>Year ending June 30,</u> | <u>Amount</u> |
|-----------------------------|-------------------|
| 2012 | \$ 89,026 |
| 2013 | 69,388 |
| 2014 | 56,310 |
| 2015 | 36,359 |
| 2016 | 22,100 |
| 2017-2021 | 21,271 |
| | <u>\$ 294,454</u> |

**STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

Notes to Financial Statements

June 30, 2011

(b) Federal Service Charges

The Department's internal service funds receive revenue from charges for services provided to various federal grants of the State which are subject to review and audit by federal grantor agencies. The Department believes that it is probable that a payback representing the federal share of excess fund balances will be required from the Statistical Services Revolving Fund (SSRF) and the Communications Revolving Fund (CRF) for activities in fiscal years 2010 and 2011. The Department estimates the SSRF refund may result in a payment of up to \$7.420 million and the CRF refund may result in payment of up to \$3.405 million. The Department has recorded a liability in the respective funds.

(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.

(11) State Employees' Deferred Compensation Plan General Description

Under State Employees' Deferred Compensation Plan (Plan) provisions, all State employees are eligible to voluntarily elect to contribute a portion of their compensation to the Plan through payroll deduction. The Plan was created in accordance with the Illinois Compiled Statutes (40 ILCS 5/24-101) and Section 457 of the Internal Revenue Code. The financial position and results of operations of the Plan for fiscal year 2011 are included in the State's Comprehensive Annual Financial Report for the year ended June 30, 2011. The Plan issues separate financial statements on a calendar year basis that may be obtained by writing to the Deferred Compensation Plan, 201 E. Madison, Suite 1C, P.O. Box 19208, Springfield, Illinois 62794-9208.

The following description of the Plan is only general information. Participants and other interested parties should refer to the Plan agreement for a complete description of all Plan provisions.

Federal law requires the assets of the Plan and the income earned thereon to be held in trust for the exclusive benefit of the Plan participants and their beneficiaries. Participants' rights under the Plan are limited to an amount equal to the fair value of the deferral account for each individual participant.

In compliance with Section 457 of the Internal Revenue Code, the Plan limits the amount of an individual's annual contribution to 100 percent of their annual taxable compensation, not to exceed \$16,500 (\$22,000 for participants age 50 or older) for both calendar years 2011 and 2010. The State does not make any contributions to the Plan. The Plan allows participants a limited make-up on deferrals in the three years prior to the year a participant reaches normal retirement age. For each of these three years, a participant can defer the regular limit plus an additional amount based on actual underutilized deferrals, which were made in prior years, up to a maximum of \$33,000 for calendar years 2011 and 2010.

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June 30, 2011

Participants may withdraw the current value of funds contributed upon termination of employment with the State of Illinois. Withdrawals can also be made due to financial hardship if approved by a committee established by the Plan. Upon retirement, participants may select various payment options, including lump sum or periodic payments. The participants may also elect to delay the distribution of their accounts to a specific future date. Death beneficiaries may select similar payment options as retired employees. All investments are assets of the Plan until such time as payments are made to participants.

(12) Change in Presentation

It was determined that it is more appropriate for any liability that is reported in the General Revenue Fund and/or the Road Fund related to the workers' compensation program to no longer be accounted for in the Department's financial statements. The liability will be reported in the State's Comprehensive Annual Financial Report (CAFR). In order to implement this change in presentation for the Department's financial statements, the following changes to fund balance were made.

| | Governmental Funds | |
|--|-------------------------------|--------------|
| | General | Road |
| Fund Balance, June 30, 2010, as previously reported | \$ (400,957) | \$ (100,813) |
| Decrease in prior period Reported liabilities | 403,253 | 100,813 |
| Fund Balance, June 30, 2010, after change in presentation | \$ 2,296 | \$ - |

Note: This change in presentation is applicable only to the Department's financial statements and is not applicable to the CAFR presentation.

State of Illinois
Department of Central Management Services

Combining Balance Sheet -
Nonmajor Governmental Funds

June 30, 2011 (Expressed in Thousands)

| | Special Revenue | | | Capital Projects | Total |
|--|---------------------------------------|--|---------------------------------------|--------------------------|-----------------|
| | Efficiency Initiatives Revolving 0315 | Minority and Female Business Enterprise 0352 | State Surplus Property Revolving 0903 | Capital Development 0141 | |
| ASSETS | | | | | |
| Unexpended appropriations | \$ - | \$ - | \$ - | \$ 46 | \$ 46 |
| Cash equity with State Treasurer | - | 6 | 1,999 | - | 2,005 |
| Receivables, net: | | | | | |
| Intergovernmental | - | - | 22 | - | 22 |
| Other | - | - | 4 | - | 4 |
| Due from other Department funds | - | - | 197 | - | 197 |
| Due from other State funds | - | - | 2,564 | - | 2,564 |
| Due from State of Illinois component units | - | - | 34 | - | 34 |
| Inventories | - | - | 343 | - | 343 |
| Total assets | \$ - | \$ 6 | \$ 5,163 | \$ 46 | \$ 5,215 |
| LIABILITIES | | | | | |
| Accounts payable and accrued liabilities | \$ - | \$ - | \$ 129 | \$ 46 | \$ 175 |
| Intergovernmental payables | - | - | 4 | - | 4 |
| Due to other State fiduciary funds | - | - | 17 | - | 17 |
| Due to other Department funds | - | - | 1,064 | - | 1,064 |
| Due to other State funds | - | - | 17 | - | 17 |
| Due to State of Illinois component units | - | - | 1 | - | 1 |
| Total liabilities | - | - | 1,232 | 46 | 1,278 |
| FUND BALANCES | | | | | |
| Nonspendable - Inventory | - | - | 343 | - | 343 |
| Restricted - General Government | - | 6 | - | - | 6 |
| Committed - General Government | - | - | 3,588 | - | 3,588 |
| Total fund balances | - | 6 | 3,931 | - | 3,937 |
| Total liabilities and fund balances | \$ - | \$ 6 | \$ 5,163 | \$ 46 | \$ 5,215 |

State of Illinois

Department of Central Management Services

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

For the Year Ended June 30, 2011 (Expressed in Thousands)

| | Special Revenue | | | Capital Projects | Total |
|--|---------------------------------------|--|---------------------------------------|--------------------------|-----------------|
| | Efficiency Initiatives Revolving 0315 | Minority and Female Business Enterprise 0352 | State Surplus Property Revolving 0903 | Capital Development 0141 | |
| REVENUES | | | | | |
| Other revenues | \$ - | \$ - | \$ 6,199 | \$ - | \$ 6,199 |
| Other charges for services | - | - | 1,206 | - | 1,206 |
| Total revenues | - | - | 7,405 | - | 7,405 |
| EXPENDITURES | | | | | |
| General government | (3) | - | 3,214 | 12 | 3,223 |
| Capital outlay | - | - | - | 395 | 395 |
| Total expenditures | (3) | - | 3,214 | 407 | 3,618 |
| Excess (deficiency) of revenues over (under) expenditures | 3 | - | 4,191 | (407) | 3,787 |
| OTHER SOURCES (USES) OF FINANCIAL RESOURCES | | | | | |
| Appropriations from State resources | - | - | - | 6,795 | 6,795 |
| Reappropriation to future year(s) | - | - | - | (6,388) | (6,388) |
| Transfers-out | - | - | (917) | - | (917) |
| Net other sources (uses) of financial resources | - | - | (917) | 407 | (510) |
| Net change in fund balances | 3 | - | 3,274 | - | 3,277 |
| Fund balances, July 1, 2010 | (3) | 6 | 1,211 | - | 1,214 |
| Increase (decrease) for changes in inventories | - | - | (554) | - | (554) |
| FUND BALANCES, JUNE 30, 2011 | \$ - | \$ 6 | \$ 3,931 | \$ - | \$ 3,937 |

State of Illinois
Department of Central Management Services

Combining Statement of Net Assets

Internal Service Funds

June 30, 2011 (Expressed in Thousands)

| | State Garage Revolving 0303 | Statistical Services Revolving 0304 | Paper and Printing Revolving 0308 | Communications Revolving 0312 | Facilities Management Revolving 0314 | Professional Services 0317 | Workers' Compensation Revolving 0332 | Group Life Insurance Premium 1457 | Total |
|---|-----------------------------------|--|--|-------------------------------------|---|----------------------------------|---|--|-------------------|
| ASSETS | | | | | | | | | |
| Cash equity with State Treasurer | \$ 2,414 | \$ 9,348 | \$ 71 | \$ 5,562 | \$ 11,367 | \$ 7,352 | \$ 13,077 | \$ 1,615 | \$ 50,806 |
| Cash and cash equivalents | - | - | - | - | 3,849 | - | - | - | 3,849 |
| Securities lending collateral equity of State Treasurer | - | - | - | - | 2,911 | 2,960 | 5,069 | - | 10,940 |
| Receivables, net: | | | | | | | | | |
| Intergovernmental | 45 | - | - | 3,266 | - | - | - | - | 3,311 |
| Other | 12 | - | - | 2,226 | 5 | 3 | 6 | 6,581 | 8,833 |
| Due from other Department funds | 2,125 | 3,430 | - | 11,793 | 10,576 | - | 10,000 | - | 37,924 |
| Due from other State funds | 9,149 | 65,329 | - | 47,502 | 77,137 | 3,783 | 568,447 | 11 | 771,358 |
| Due from State of Illinois component units | 4 | 40 | - | 565 | 14 | - | - | 998 | 1,621 |
| Inventories | 1,799 | - | - | - | - | - | - | - | 1,799 |
| Total current assets | 15,548 | 78,147 | 71 | 70,914 | 105,859 | 14,098 | 596,599 | 9,205 | 890,441 |
| Capital assets not being depreciated | - | - | - | 1,768 | 38,369 | - | - | - | 40,137 |
| Capital assets being depreciated, net | 480 | 5,273 | - | 11,562 | 193,946 | - | - | - | 211,261 |
| Total noncurrent assets | 480 | 5,273 | - | 13,330 | 232,315 | - | - | - | 251,398 |
| Total assets | 16,028 | 83,420 | 71 | 84,244 | 338,174 | 14,098 | 596,599 | 9,205 | 1,141,839 |
| LIABILITIES | | | | | | | | | |
| Accounts payable and accrued liabilities | 6,694 | 15,354 | - | 11,106 | 45,382 | 292 | 80 | 5,206 | 84,114 |
| Intergovernmental payables | 3 | 7,566 | - | 3,454 | 1,640 | 10 | 4 | - | 12,677 |
| Due to other State fiduciary funds | 12 | 547 | - | 180 | 301 | 37 | - | - | 1,077 |
| Due to other Department funds | 1,166 | 14,667 | - | 409 | 266 | 42 | 38 | 3,999 | 20,587 |
| Due to other State funds | 33 | 340 | - | 181 | 351 | 104 | 29 | - | 1,038 |
| Due to State of Illinois component units | 1 | - | - | 537 | 446 | - | - | - | 984 |
| Obligations under securities lending of State Treasurer | - | - | - | - | 2,911 | 2,960 | 5,069 | - | 10,940 |
| Deferred revenue | - | - | - | - | 3,675 | - | - | - | 3,675 |
| Current portion of long-term obligations | 192 | 3,095 | - | 1,237 | 3,154 | 42 | 145,814 | - | 153,534 |
| Total current liabilities | 8,101 | 41,569 | - | 17,104 | 58,126 | 3,487 | 151,034 | 9,205 | 288,626 |
| Noncurrent portion of long-term obligations | 1,616 | 6,133 | - | 2,290 | 24,629 | 208 | 445,565 | - | 480,441 |
| Total liabilities | 9,717 | 47,702 | - | 19,394 | 82,755 | 3,695 | 596,599 | 9,205 | 769,067 |
| NET ASSETS | | | | | | | | | |
| Invested in capital assets, net of related debt | 289 | 1,704 | - | 9,629 | 207,139 | - | - | - | 218,761 |
| Restricted for debt services | - | - | - | - | 3,849 | - | - | - | 3,849 |
| Unrestricted | 6,022 | 34,014 | 71 | 55,221 | 44,431 | 10,403 | - | - | 150,162 |
| Total net assets | \$ 6,311 | \$ 35,718 | \$ 71 | \$ 64,850 | \$ 255,419 | \$ 10,403 | \$ - | \$ - | \$ 372,772 |

State of Illinois

Department of Central Management Services

Combining Statement of Revenues, Expenses and
Changes in Net Assets - Internal Service Funds

For the Year Ended June 30, 2011 (Expressed in Thousands)

| | State Garage Revolving 0303 | Statistical Services Revolving 0304 | Paper and Printing Revolving 0308 | Communications Revolving 0312 | Facilities Management Revolving 0314 | Professional Services 0317 | Workers' Compensation Revolving 0332 | Group Life Insurance Premium 1457 | Total |
|---|-----------------------------------|--|--|-------------------------------------|---|----------------------------------|---|--|-------------------|
| OPERATING REVENUES | | | | | | | | | |
| Charges for sales and services | \$ 43,177 | \$ 141,943 | \$ - | \$ 113,285 | \$ 191,814 | \$ 12,555 | \$ 187,057 | \$ 24,549 | \$ 714,380 |
| Other | 17 | - | - | 4,678 | - | - | - | - | 4,695 |
| Total operating revenues | 43,194 | 141,943 | - | 117,963 | 191,814 | 12,555 | 187,057 | 24,549 | 719,075 |
| OPERATING EXPENSES | | | | | | | | | |
| Cost of sales and services | 30,730 | 118,987 | - | 77,274 | 181,945 | 6,831 | - | 24,288 | 440,055 |
| Claims and judgments | - | - | - | - | - | - | 187,237 | - | 187,237 |
| General and administrative | 5,707 | 2,197 | - | 9,597 | 6,042 | (498) | - | 328 | 23,373 |
| Depreciation | 175 | 5,775 | - | 6,387 | 12,497 | - | - | - | 24,834 |
| Other | 313 | - | - | 11,906 | - | - | - | - | 12,219 |
| Total operating expenses | 36,925 | 126,959 | - | 105,164 | 200,484 | 6,333 | 187,237 | 24,616 | 687,718 |
| Operating income (loss) | 6,269 | 14,984 | - | 12,799 | (8,670) | 6,222 | (180) | (67) | 31,357 |
| NONOPERATING REVENUES (EXPENSES) | | | | | | | | | |
| Interest and investment income | - | - | - | - | 36 | 39 | 180 | 67 | 322 |
| Interest expense | (139) | (746) | - | (51) | (2,139) | - | - | - | (3,075) |
| Other expenses | (18) | (162) | - | (5) | - | - | - | - | (185) |
| Income (loss) before contributions | 6,112 | 14,076 | - | 12,743 | (10,773) | 6,261 | - | - | 28,419 |
| Contributions of capital assets | - | 167 | - | 6 | 3,624 | - | - | - | 3,797 |
| Change in net assets | 6,112 | 14,243 | - | 12,749 | (7,149) | 6,261 | - | - | 32,216 |
| Net assets, July 1, 2010 | 199 | 21,475 | 71 | 52,101 | 262,568 | 4,142 | - | - | 340,556 |
| NET ASSETS, JUNE 30, 2011 | \$ 6,311 | \$ 35,718 | \$ 71 | \$ 64,850 | \$ 255,419 | \$ 10,403 | \$ - | \$ - | \$ 372,772 |

State of Illinois

Department of Central Management Services

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended June 30, 2011 (Expressed in Thousands)

| | State Garage Revolving 0303 | Statistical Services Revolving 0304 | Paper and Printing Revolving 0308 | Communications Revolving 0312 | Facilities Management Revolving 0314 | Professional Services 0317 | Workers' Compensation Revolving 0332 | Group Life Insurance Premium 1457 | Total |
|--|-----------------------------------|--|--|-------------------------------------|---|----------------------------------|---|--|-----------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | | | | |
| Cash received from sales and services | \$ 717 | \$ - | \$ - | \$ 18,652 | \$ 819 | \$ - | \$ - | \$ - | \$ 20,188 |
| Cash received from transactions with other funds | 40,733 | 135,931 | - | 95,113 | 215,488 | 9,821 | 136,792 | 38,196 | 672,074 |
| Cash payments to suppliers for goods and services | (30,172) | (67,715) | - | (90,239) | (181,726) | (6,701) | (5,966) | (36,649) | (419,168) |
| Cash payments to employees for services | (9,903) | (64,553) | - | (17,362) | (27,817) | (402) | - | - | (120,037) |
| Cash payments for workers compensation | - | - | - | - | - | - | (126,944) | - | (126,944) |
| Cash receipts from other operating activities | 17 | - | - | - | - | - | - | - | 17 |
| Net cash provided (used) by operating activities | 1,392 | 3,663 | - | 6,164 | 6,764 | 2,718 | 3,882 | 1,547 | 26,130 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | | | | | |
| Other noncapital financing activities | (139) | (609) | - | - | (978) | - | - | - | (1,726) |
| Net cash provided (used) by noncapital financing activities | (139) | (609) | - | - | (978) | - | - | - | (1,726) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | | | | | |
| Acquisition and construction of capital assets | (371) | (862) | - | (5,955) | (125) | - | - | - | (7,313) |
| Principal paid on capital debt | (206) | (2,563) | - | (1,096) | (2,888) | - | - | - | (6,753) |
| Interest paid on capital debt | - | (163) | - | (51) | (1,588) | - | - | - | (1,802) |
| Net cash (used) by capital and related financing activities | (577) | (3,588) | - | (7,102) | (4,601) | - | - | - | (15,868) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | | | | |
| Interest and dividends on investments | - | - | - | - | 37 | 38 | 180 | 68 | 323 |
| Net cash provided by investing activities | - | - | - | - | 37 | 38 | 180 | 68 | 323 |
| Net increase (decrease) in cash and cash equivalents | 676 | (534) | - | (938) | 1,222 | 2,756 | 4,062 | 1,615 | 8,859 |
| Cash and cash equivalents, July 1, 2010 | 1,738 | 9,882 | 71 | 6,500 | 13,994 | 4,596 | 9,015 | - | 45,796 |
| CASH AND CASH EQUIVALENTS, JUNE 30, 2011 | \$ 2,414 | \$ 9,348 | \$ 71 | \$ 5,562 | \$ 15,216 | \$ 7,352 | \$ 13,077 | \$ 1,615 | \$ 54,655 |
| Reconciliation of cash and cash equivalents to the statement of net assets: | | | | | | | | | |
| Total cash and cash equivalents per the statement of net assets | \$ - | \$ - | \$ - | \$ - | \$ 3,849 | \$ - | \$ - | \$ - | \$ 3,849 |
| Add: cash equity with State Treasurer | 2,414 | 9,348 | 71 | 5,562 | 11,367 | 7,352 | 13,077 | 1,615 | 50,806 |
| CASH AND CASH EQUIVALENTS, JUNE 30, 2011 | \$ 2,414 | \$ 9,348 | \$ 71 | \$ 5,562 | \$ 15,216 | \$ 7,352 | \$ 13,077 | \$ 1,615 | \$ 54,655 |

State of Illinois

Department of Central Management Services

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended June 30, 2011 (Expressed in Thousands)

| | State Garage Revolving 0303 | Statistical Services Revolving 0304 | Paper and Printing Revolving 0308 | Communications Revolving 0312 | Facilities Management Revolving 0314 | Professional Services 0317 | Workers' Compensation Revolving 0332 | Group Life Insurance Premium 1457 | Total |
|---|-----------------------------------|--|--|-------------------------------------|---|----------------------------------|---|--|-----------|
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | | | | | | | |
| OPERATING INCOME (LOSS) | \$ 6,269 | \$ 14,984 | \$ - | \$ 12,799 | \$ (8,670) | \$ 6,222 | \$ (180) | \$ (67) | \$ 31,357 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | | | | | | |
| Depreciation | 175 | 5,775 | - | 6,387 | 12,497 | - | - | - | 24,834 |
| Provision for uncollectible accounts | - | - | - | 21 | - | - | - | - | 21 |
| Changes in assets and liabilities: | | | | | | | | | |
| (Increase) decrease in accounts receivable | (4) | - | - | (267) | 5 | - | - | 3,481 | 3,215 |
| (Increase) decrease in intergovernmental receivables | (4) | - | - | (2,112) | - | - | - | - | (2,116) |
| (Increase) decrease in due from other funds | (1,720) | (6,434) | - | (2,307) | 22,242 | (2,734) | (50,265) | 3,691 | (37,527) |
| (Increase) decrease in due from component units | 2 | 117 | - | 130 | (3) | - | - | (241) | 5 |
| (Increase) decrease in inventories | (120) | - | - | - | - | - | - | - | (120) |
| Increase (decrease) in accounts payable and accrued liabilities | (883) | 625 | - | (9,072) | (19,236) | (229) | 5 | 56 | (28,734) |
| Increase (decrease) in intergovernmental payables | (26) | 303 | - | 340 | (134) | (11) | 1 | - | 473 |
| Increase (decrease) in due to other funds | (2,254) | (11,293) | - | (305) | (2,052) | (32) | (3) | (5,373) | (21,312) |
| Increase (decrease) in due to component units | 1 | - | - | 524 | (24) | - | - | - | 501 |
| Increase (decrease) in deferred revenues | (1) | (3) | - | - | 2,249 | - | - | - | 2,245 |
| Increase (decrease) in other liabilities | (43) | (411) | - | 26 | (110) | (498) | 54,324 | - | 53,288 |
| Total adjustments | (4,877) | (11,321) | - | (6,635) | 15,434 | (3,504) | 4,062 | 1,614 | (5,227) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | \$ 1,392 | \$ 3,663 | \$ - | \$ 6,164 | \$ 6,764 | \$ 2,718 | \$ 3,882 | \$ 1,547 | \$ 26,130 |
| NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES | | | | | | | | | |
| Gain (loss) on sale of property and equipment | \$ - | \$ (162) | \$ - | \$ (5) | \$ - | \$ - | \$ - | \$ - | \$ (167) |
| Transfer of capital assets, net of related debt, to/from other State funds | \$ (18) | \$ 167 | \$ - | \$ 6 | \$ 3,624 | \$ - | \$ - | \$ - | \$ 3,779 |

State of Illinois

Department of Central Management Services

Combining Statement of Fiduciary Net Assets

Agency Funds

June 30, 2011 (Expressed in Thousands)

| | Flexible Spending Account 0202 | Group Insurance Premium 0457 | Total |
|---|---|---------------------------------------|------------------|
| ASSETS | | | |
| Cash equity with State Treasurer | \$ 1,516 | \$ 9,071 | \$ 10,587 |
| Cash and cash equivalents | 4,070 | - | 4,070 |
| Securities lending collateral equity of State Treasurer | - | 4,937 | 4,937 |
| Total assets | \$ 5,586 | \$ 14,008 | \$ 19,594 |
| LIABILITIES | | | |
| Accounts payable and accrued liabilities | \$ 5,571 | \$ 9,071 | \$ 14,642 |
| Intergovernmental payables | 15 | - | 15 |
| Obligations under securities lending of State Treasurer | - | 4,937 | 4,937 |
| Total liabilities | \$ 5,586 | \$ 14,008 | \$ 19,594 |

State of Illinois

Department of Central Management Services

Combining Statement of Changes in Assets and Liabilities

Agency Funds

For the Year Ended June 30, 2011 (Expressed in Thousands)

| | Balance at July 1, 2010 | Additions | Deletions | Balance at June 30, 2011 |
|--|----------------------------|-------------------|-------------------|-----------------------------|
| Flexible Spending Account Fund (0202): | | | | |
| ASSETS | | | | |
| Cash equity with State Treasurer | \$ 1,489 | \$ 30,500 | \$ 30,473 | \$ 1,516 |
| Cash and cash equivalents | 4,373 | 29,571 | 29,874 | 4,070 |
| Total assets | \$ 5,862 | \$ 60,071 | \$ 60,347 | \$ 5,586 |
| LIABILITIES | | | | |
| Accounts payable and accrued liabilities | \$ 5,862 | \$ 30,072 | \$ 30,363 | \$ 5,571 |
| Intergovernmental payables | - | 428 | 413 | 15 |
| Total liabilities | \$ 5,862 | \$ 30,500 | \$ 30,776 | \$ 5,586 |
| Group Insurance Premium Fund (0457): | | | | |
| ASSETS | | | | |
| Cash equity with State Treasurer | \$ 8,050 | \$ 49,256 | \$ 48,235 | \$ 9,071 |
| Other receivables, net | 940 | - | 940 | - |
| Securities lending collateral equity of State Treasurer | 3,295 | 45,344 | 43,702 | 4,937 |
| Total assets | \$ 12,285 | \$ 94,600 | \$ 92,877 | \$ 14,008 |
| LIABILITIES | | | | |
| Accounts payable and accrued liabilities | \$ 8,990 | \$ 49,256 | \$ 49,175 | \$ 9,071 |
| Obligations under securities lending of State Treasurer | 3,295 | 45,344 | 43,702 | 4,937 |
| Total liabilities | \$ 12,285 | \$ 94,600 | \$ 92,877 | \$ 14,008 |
| Total | | | | |
| ASSETS | | | | |
| Cash equity with State Treasurer | \$ 9,539 | \$ 79,756 | \$ 78,708 | \$ 10,587 |
| Cash and cash equivalents | 4,373 | 29,571 | 29,874 | 4,070 |
| Other receivables, net | 940 | - | 940 | - |
| Securities lending collateral equity of State Treasurer | 3,295 | 45,344 | 43,702 | 4,937 |
| Total assets | \$ 18,147 | \$ 154,671 | \$ 153,224 | \$ 19,594 |
| LIABILITIES | | | | |
| Accounts payable and accrued liabilities | \$ 14,852 | \$ 79,328 | \$ 79,538 | \$ 14,642 |
| Intergovernmental payables | - | 428 | 413 | 15 |
| Obligations under securities lending of State Treasurer | 3,295 | 45,344 | 43,702 | 4,937 |
| Total liabilities | \$ 18,147 | \$ 125,100 | \$ 123,653 | \$ 19,594 |



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

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Central Management Services as of and for the year ended June 30, 2011, which collectively comprise the State of Illinois, Department of Central Management Services' basic financial statements and have issued our report thereon dated April 3, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the State of Illinois, Department of Central Management Services is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the State of Illinois, Department of Central Management Services' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Department of Central Management Services' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Department of Central Management Services' internal control over financial reporting.

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

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 deficiency described in finding 11-1 in the accompanying schedule of findings to be a material weakness.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in 11-2 in the accompanying schedule of findings to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Department of Central Management Services' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item 11-1.

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

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



Springfield, Illinois
April 3, 2012

**STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

**CURRENT FINDINGS –
GOVERNMENT AUDITING STANDARDS**

FOR THE YEAR ENDED JUNE 30, 2011

11-1 FINDING: (Weaknesses in internal control over financial reporting)

The Department's year-end financial reporting in accordance with generally accepted accounting principles (GAAP) to the Illinois Office of the State Comptroller contained significant errors in the determination of certain year-end account balances and note disclosures.

The Illinois Office of the State Comptroller (IOC) requires State agencies to prepare year-end financial reports (GAAP Reporting Packages) for each of their funds to assist in the annual preparation of the statewide financial statements and the Department's financial statements. GAAP Reporting Package instructions are specified in the Statewide Accounting Management System (SAMS) Manual, Chapter 27. Management is responsible for adopting sound accounting policies and for establishing and maintaining internal controls that will, among other things, initiate, authorize, record, process, and report financial data reliably and consistent with management's assertions embodied in the financial statements.

During our audit of the June 30, 2011 financial statements, we noted material weaknesses and significant deficiencies resulting from the Department's failure to establish adequate internal control over the accumulation of information necessary for the proper reporting of financial information as follows:

- The Department is responsible for recording a liability for workers' compensation claims for injuries incurred before year-end that are probable of resulting in an award. This liability is to include estimated losses for pending or claims considered to be in the process of being awarded at the end of the fiscal year as well as estimated losses for claims that are unreported at year-end. The Department currently uses a methodology that includes an estimate of pension-type awards likely to be paid for injuries already incurred. The Department estimated this portion of the total workers' compensation liability by calculating an average annual number of new awards being paid over the last five fiscal years. Utilizing this methodology, the Department has estimated only 36 pension-type awards with a cost of \$24 million that will be made in the future for injuries incurred prior to June 30, 2011. This methodology does not include any consideration of historical information relating to the date of the injury to the period when pension-type payments would begin. Based on information maintained by the Department relating to current pension-type awards being paid, it takes in excess of three years from the date of the injury before payments begin on pension-type awards for 87% of the claims. As such, we believe

claims with approximate awards of \$93 million represent a more reasonable estimate of the future pension-type awards to be made for injuries incurred prior to June 30, 2011. This results in an understatement of the liability in the Department's financial statements of approximately \$69 million. The estimate would be more accurate if actuarially calculated based on projected outcomes based on facts and circumstances inherent in the individual claims and by applying a consistent and supported assessment of those individual claims. Department officials have stated the determination of a liability on an individual case basis is not feasible given competing priorities and staffing issues. They further stated the suggested methodology seems labor intensive and assumes that the authority, skill sets and staffing will be consistently available for someone to continually assess all the items on the pending claims listing. The Department has adjusted the financial statements to record the additional liability.

- We noted several other errors in the preparation of the Department's financial statements. The errors included improperly calculating the amount reported as "invested in capital assets, net of related debt," overstating accounts payable, failure to eliminate all inter-department charges for internal service fund activity, errors in the allocation of functional expenses, and errors in the calculation of the current year lease payments and the future minimum lease payments in the operating leases footnote. The errors noted were not individually significant to the financial statements taken as a whole; however, the Department did not have effective controls over the reconciliation and review functions to ensure amounts were properly reported at June 30, 2011. Department officials have stated that the Department completes GAAP packages in accordance with deadlines established by the IOC. Data is compiled from various agency accounting sub systems into GAAP format. Estimates must be used and thresholds applied to complete required reporting in the timeframe imposed. Final fiscal year reconciliations of agency records are then completed as part of the normal financial reporting process. Any resulting differences are identified and if material, communicated to the IOC for adjustment in GAAP. The identified items were not material to either the Department statements or the Statewide statements; however, the Department did record adjustments for the elimination of inter-department charges and the allocation of functional expenses.
- The Department did not perform a physical count of the commodities inventory on hand at any of the twelve commodity storage locations and was unable to provide a value of the inventory on hand at June 30, 2011. The Department also has not developed or maintained oversight policies and procedures regarding the commodities inventory. Procedures over commodities inventory should include maintaining perpetual inventory records and periodically reconciling records to physical counts. Generally accepted accounting principles also require the proper valuation of inventory for financial reporting purposes. While the commodities inventory balance was not deemed material to the 2011 financial statements, the lack of a physical count or procedures over the commodities inventory does not provide for the determination of a value of the commodities inventory balance at the end of the fiscal year. Future year financial statements could be misstated as a result.

As a result of these deficiencies, the Department's financial information was inaccurate. (Finding Code No. 11-1, 10-1, 09-1, 08-4, 07-4)

RECOMMENDATION:

We recommend the Department implement procedures to ensure GAAP Reporting Packages prepared and submitted to the Office of the State Comptroller for financial reporting purposes are complete and accurate.

DEPARTMENT RESPONSE:

The Department agrees with the recommendations.

Except for the finding related to the Workers' Compensation calculation, the items detailed above were not material to the Department statements or the statewide statements.

An adjustment was posted to the financial statements for the additional Workers' Compensation liability. The Department plans to contract with an actuary for assistance with future Workers' Compensation liability calculations. In addition, CMS financial staff will examine actual liability figures and compare them with the CMS estimates (\$24 million) and OAG estimates (\$93 million). Based on these comparisons and improved data collection, we will consider any additional historical and current period injury related variables that affect the accuracy of the estimating methodology and make the necessary improvements to enhance accuracy.

The Department continues to cross train and encourage communication and awareness among fiscal and Shared Service Center accounting staff regarding fiscal transactions and the related financial statement treatment. Increased review of financial reports and in particular lapse period transactions continues to be a major focus of the Department. The Department is also working with the Shared Services center on documenting the internal GAAP process.

In terms of commodities inventory, it is Department practice to only purchase commodities sufficient to meet short-term needs. We do not stockpile commodities. We agree to document a policy outlining our commodities purchasing practices.

11-2 FINDING: (Inadequate security and control over the midrange environment)

Although the consolidation was authorized in January 2005, the Department had not implemented adequate security and controls over the midrange environment.

20 ILCS 405/405-410, effective January 15, 2005, mandated the Department to consolidate Information Technology functions of State government. Due to the consolidation, eleven agencies' IT functions were consolidated into the Department. As a result of the consolidation, the Department became responsible for the security and control of the midrange environment.

Although the Department had implemented standards to secure and control the midrange environment, the standards did not require widespread deployment to legacy systems. As such, the Department still had not implemented effective security controls over all servers in the midrange environment.

Upon review, we noted standards had not been consistently applied on all servers. Specifically, we noted servers:

- Running unsupported operating systems or service pack versions,
- Without anti-virus software,
- Not properly backed up,
- With deficient password length and content requirements,
- With administrative and user accounts which did not require passwords.

Additionally, we noted the Department had not conducted a comprehensive review of individuals with administrative rights to the environment, to ensure appropriateness.

Although the Department shares responsibility with consolidated agencies, the Department has the ultimate responsibility to effectively secure and control its midrange environment which supports agency applications and data. As outlined in 20 ILCS 405/405-10 (4) - It shall be the duty of the Director and the policy of the State of Illinois to manage or delegate the management of the procurement, retention, installation, maintenance, and operation of all electronic data processing equipment used by State agencies in a manner that provides for adequate security protection. Since the Department has primary control over the midrange environment, it was incumbent upon them to ensure adequate controls existed to protect agency applications and data. In addition, generally accepted information technology guidance endorses the development of well-designed and well-managed controls to protect computer systems and data. Effective computer security controls provide for safeguarding, securing, and controlling access to hardware, software, and the information stored in the computer system.

Department officials stated while many new comprehensive policies, standards, procedures, processes and associated tools have been developed and implemented to properly address the issues, there are a large number of older systems running on data center servers that cannot be updated until agencies upgrade their applications.

Many of the processes that are required to properly secure the midrange environment are very complex and must be fully tested to ensure that existing agency applications are not impacted by installing operating system updates, anti-virus protection, and/or patches. These legacy agency applications were designed and developed to run on hardware and systems that have since become obsolete – converting the applications to the latest systems is an expensive and lengthy process. Progress in these areas and the other elements in the finding have been hampered over the past few years by staff shortages and financial constraints, neither of which we anticipate will be improving in the near future.

Without the implementation of adequate controls and procedures, there is a greater risk unauthorized access to the Department or agency resources may be gained and data destroyed or misused. Prudent business practices dictate the Department strengthen its security to protect its assets and resources against unauthorized access and misuse. (Finding Code No. 11-2, 10-2, 09-4, 08-7, 07-11)

RECOMMENDATION:

The Department should ensure the standards to secure and control the environment are implemented across the midrange environment.

Specifically the Department should:

- Standardize password length and content requirements and ensure all accounts require a password.
- Update servers to current vendor recommended patch or service pack levels.
- Ensure all servers are running antivirus software.
- Ensure all servers are routinely backed up.
- Conduct a comprehensive review of individuals with administrative rights to ensure appropriateness.

DEPARTMENT RESPONSE:

The Department concurs and will continue to strive toward standardization and maturity in the midrange environment.

The Department has implemented numerous policies, standards, processes, procedures and tools to help address these issues. Due to the size and nature of the disparate environment, many of the legacy agency environments do not fully meet the standards, but we are working to improve these environments and working with the agencies to update applications where needed. Implementing these changes is very time and resource consuming in such a large and diverse environment.

**STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

PRIOR FINDINGS NOT REPEATED

- A **FINDING:** (Incomplete and inaccurate records over computer systems and equipment)

In the prior year, the Department did not maintain complete, accurate, or detailed records to substantiate its current midrange computer system and equipment.

During the current period, the Department embarked on a project to implement a new database to track the midrange equipment and installed a software tool which documented the operating systems, patch levels, and antivirus software. Significant improvements from the prior year were noted regarding the accuracy of information and any discrepancies noted were immaterial. (Finding Code No. 10-3, 09-5, 08-8, 07-12)