

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

FINANCIAL AUDIT

For the Year Ended June 30, 2012

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

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

FINANCIAL AUDIT

For the Year Ended June 30, 2012

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

FINANCIAL AUDIT

For the Year Ended June 30, 2012

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

AGENCY OFFICIALS

Director	Mr. Malcolm Weems
Assistant Director	Mr. Steve McCurdy
Chief Operating Officer	Ms. Tasha Green Cruzat
Chief Fiscal Officer	Mr. Paul Romiti
General Counsel	Mr. Kevin Connor (Effective July 10, 2012 through present)
	Ms. Nadine Lacombe (Effective through June 15, 2012)
Chief Internal Auditor	Ms. Amy Walter - Acting (Effective March 28, 2012)
	Mr. Spenser Staton (Effective through March 19, 2012)

AGENCY OFFICE LOCATION

**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, 2012 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 12-1, 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 12-2, 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 January 28, 2013. Attending were:

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Paul Romiti, Chief Fiscal Officer
Tammy Compton, Fiscal
David Boyd, Audit Liaison
Roger Nondorf, Chief Administrative Officer

OFFICE OF THE AUDITOR GENERAL

Terri Davis, Audit Manager

SIKICH LLP

Amy Sherwood, Partner
Drew Long, Supervisor

The responses to the recommendations were provided by Paul Romiti in correspondence dated February 5, 2013.



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, 2012, 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 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, 2012, 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, 2012, 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.

As described in Notes 5, 12 and 13 to the financial statements, the Department restated its net assets and capital assets, net of depreciation, as of June 30, 2011 to reflect the transfer in of the Thomson Correctional Center, including the land, buildings, and equipment, on August 1, 2010. The restatement totaled \$100,403 (in thousands). Our opinion is not modified with respect to that matter.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 5, 2013 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Sikich LLP

Springfield, Illinois
February 5, 2013

State of Illinois
Department of Central Management Services

Statement of Net Assets

June 30, 2012 (Expressed in Thousands)

	<u>Governmental Activities</u>
ASSETS	
Unexpended appropriations	\$ 18,806
Cash equity with State Treasurer	66,723
Cash and cash equivalents	4,031
Securities lending collateral equity of State Treasurer	17,088
Receivables, net:	
Intergovernmental	13,815
Other	13,154
Due from other State funds	742,089
Due from State of Illinois component units	1,879
Inventories	1,762
Capital assets not being depreciated	65,821
Capital assets being depreciated, net	302,522
Total assets	<u>1,247,690</u>
LIABILITIES	
Accounts payable and accrued liabilities	57,590
Intergovernmental payables	17,200
Due to other State fiduciary funds	1,490
Due to other State funds	10,381
Due to State of Illinois component units	1,025
Obligations under securities lending of State Treasurer	17,088
Unearned revenue	1,313
Long term obligations:	
Due within one year	144,836
Due subsequent to one year	460,319
Total liabilities	<u>711,242</u>
NET ASSETS	
Invested in capital assets, net of related debt	344,564
Restricted for debt service	4,031
Restricted for general government	6
Unrestricted	187,847
Total net assets	<u>\$ 536,448</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, 2012 (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	\$ 656,100	\$ 589,709	\$ (66,391)
Total governmental activities	<u>656,100</u>	<u>589,709</u>	<u>(66,391)</u>
General revenues			
Appropriations from State Resources			87,760
Reappropriation to future year(s)			(3,616)
Lapsed appropriations			(384)
Receipts collected and transmitted to State Treasury			(99)
Interest and investment income			229
Other revenues			26,289
Capital contributions			6,444
Amount of SAMS transfers-in			(917)
Transfers-in			14,100
Transfers-out			(73)
Total general revenues and transfers			<u>129,733</u>
Change in net assets			63,342
Net assets, July 1, 2011, as restated			473,106
Net assets, June 30, 2012			<u>\$ 536,448</u>

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, 2012 (Expressed in Thousands)

	General Fund	Nonmajor funds	Total Governmental Funds
ASSETS			
Unexpended appropriations	\$ 18,581	\$ 225	\$ 18,806
Cash equity with State Treasurer	1	3,878	3,879
Receivables, net:			
Intergovernmental receivables	-	37	37
Other receivables	616	-	616
Due from other Department funds	8,310	11	8,321
Due from other State funds	-	130	130
Total assets	\$ 27,508	\$ 4,281	\$ 31,789
LIABILITIES			
Accounts payable and accrued liabilities	\$ 2,467	\$ 343	\$ 2,810
Intergovernmental payables	76	5	81
Due to other State fiduciary funds	-	23	23
Due to other Department funds	10,050	2,688	12,738
Due to other State funds	9,002	16	9,018
Due to State of Illinois component units	63	1	64
Unavailable revenue	593	-	593
Matured portion of long-term obligations	2,002	-	2,002
Total liabilities	24,253	3,076	27,329
FUND BALANCES			
Restricted - Business Enterprise	-	6	6
Unrestricted:			
Committed - Surplus Property	-	1,199	1,199
Unassigned	3,255	-	3,255
Total fund balances	3,255	1,205	4,460
Total liabilities and fund balances	\$ 27,508	\$ 4,281	\$ 31,789

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, 2012
(Expressed in Thousands)

Total fund balances-governmental funds	\$	4,460
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		100,490
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		593
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.		435,073
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:		
Compensated absences	(1,370)	
Auto liability claims	(2,798)	
	(4,168)	(4,168)
Net assets of governmental activities	\$	<u>536,448</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, 2012 (Expressed in Thousands)

	<u>General Fund</u>	<u>Nonmajor funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Other	\$ 114	\$ 3,668	\$ 3,782
Other charges for services	-	246	246
Total revenues	<u>114</u>	<u>3,914</u>	<u>4,028</u>
EXPENDITURES			
General government	73,688	4,074	77,762
Capital outlays	11	8,773	8,784
Total expenditures	<u>73,699</u>	<u>12,847</u>	<u>86,546</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(73,585)</u>	<u>(8,933)</u>	<u>(82,518)</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES			
Appropriations from State resources	75,371	12,389	87,760
Reappropriation to future year(s)	-	(3,616)	(3,616)
Lapsed appropriations	(384)	-	(384)
Receipts collected and transmitted to State Treasury	(99)	-	(99)
Amount of SAMS transfers-in	(917)	-	(917)
Transfers-in	2,572	-	2,572
Transfers-out	-	(2,572)	(2,572)
Net other sources (uses) of financial resources	<u>76,543</u>	<u>6,201</u>	<u>82,744</u>
Net change in fund balances	2,958	(2,732)	226
Fund balances, July 1, 2011	<u>297</u>	<u>3,937</u>	<u>4,234</u>
FUND BALANCES, JUNE 30, 2012	<u>\$ 3,255</u>	<u>\$ 1,205</u>	<u>\$ 4,460</u>

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, 2012
(Expressed In Thousands)

Net change in fund balances	\$	226
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<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.</p>		8,773
<p>The amount of net revenue for internal service funds below includes contributions of capital assets from governmental activities.</p>		(8,773)
<p>Proceeds from sales of capital assets are reported in the governmental funds. However, in the Statement of Activities, the book value of capital assets which are sold or scrapped are also reported. This is the book value of capital assets which were sold or scrapped.</p>		(8)
<p>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.</p>		62,301
<p>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 increase in unavailable revenue over the prior year.</p>		17
<p>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.</p>		
Decrease in compensated absences obligation		31
Decrease in auto liability claims		775
		775
Change in net assets of governmental activities	\$	<u>63,342</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, 2012 (Expressed in Thousands)

	Governmental Activities - Internal Service Funds
	<u> </u>
ASSETS	
Cash equity with State Treasurer	\$ 62,844
Cash and cash equivalents	4,031
Securities lending collateral equity of State Treasurer	17,088
Receivables, net:	
Intergovernmental	13,778
Other	12,538
Due from other Department funds	26,383
Due from other State funds	741,959
Due from State of Illinois component units	1,879
Inventories	1,762
Total current assets	<u>882,262</u>
Capital assets not being depreciated	57,884
Capital assets being depreciated, net	209,969
Total noncurrent assets	<u>267,853</u>
Total assets	<u>1,150,115</u>
LIABILITIES	
Accounts payable and accrued liabilities	54,780
Intergovernmental payables	17,119
Due to other State fiduciary funds	1,467
Due to other Department funds	21,966
Due to other State funds	1,363
Due to State of Illinois component units	961
Obligations under securities lending of State Treasurer	17,088
Unearned revenue	1,313
Current portion of long-term obligations	141,394
Total current liabilities	<u>257,451</u>
Noncurrent portion of long-term obligations	457,591
Total liabilities	<u>715,042</u>
NET ASSETS	
Invested in capital assets, net of related debt	244,074
Restricted for debt service	4,031
Unrestricted	186,968
Total net assets	<u>\$ 435,073</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, 2012 (Expressed in Thousands)

	Governmental Activities - Internal Service Funds
OPERATING REVENUES	
Charges for sales and services	\$ 634,589
Other	22,507
Total operating revenues	657,096
OPERATING EXPENSES	
Cost of sales and services	450,840
Claims and judgments	105,246
General and administrative	30,476
Depreciation	23,356
Other	12,761
Total operating expenses	622,679
Operating income (loss)	34,417
NONOPERATING REVENUES (EXPENSES)	
Interest and investment income	229
Interest expense	(1,572)
Other expenses	(17)
Income (loss) before contributions and transfers	33,057
Contributions of capital assets	15,217
Transfers-in	14,100
Transfers-out	(73)
Change in net assets	62,301
Net assets, July 1, 2011	372,772
NET ASSETS, JUNE 30, 2012	\$ 435,073

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, 2012 (Expressed in Thousands)

	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from sales and services	\$ 32,646
Cash received from transactions with other funds	680,707
Cash payments to suppliers for goods and services	(415,075)
Cash payments to employees for services	(131,747)
Cash payments for workers compensation	(125,234)
Cash receipts from other operating activities	27
Net cash provided (used) by operating activities	<u>41,324</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers-in from other funds	4,100
Other noncapital financing activities	(211)
Net cash provided (used) by noncapital financing activities	<u>3,889</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(24,611)
Principal paid on capital debt	(7,090)
Interest paid on capital debt	(1,522)
Net cash (used) by capital and related financing activities	<u>(33,223)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends on investments	230
Net cash provided (used) by investing activities	<u>230</u>
Net increase (decrease) in cash and cash equivalents	12,220
Cash and cash equivalents, July 1, 2011	<u>54,655</u>
CASH AND CASH EQUIVALENTS, JUNE 30, 2012	\$ 66,875
Reconciliation of cash and cash equivalents to the statement of net assets:	
Total cash and cash equivalents per the statement of net assets	\$ 4,031
Add: cash equity with State Treasurer	62,844
CASH AND CASH EQUIVALENTS, JUNE 30, 2012	\$ 66,875
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
OPERATING INCOME (LOSS)	\$ 34,417
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	23,356
Provision for uncollectible accounts	77
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(3,735)
(Increase) decrease in intergovernmental receivables	(10,515)
(Increase) decrease in due from other funds	50,940
(Increase) decrease in due from State of Illinois component units	(258)
(Increase) decrease in inventory	37
Increase (decrease) in accounts payable and accrued liabilities	(29,246)
Increase (decrease) in intergovernmental payables	4,442
Increase (decrease) in due to other State funds	2,084
Increase (decrease) in due to State of Illinois component units	(23)
Increase (decrease) in deferred revenues	(2,362)
Increase (decrease) in other liabilities	(27,900)
Total adjustments	<u>6,907</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 41,324
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	
Loss on sale of equipment	\$ (17)
Transfer of capital assets, net of related debt, to/from other State funds	\$ 15,217

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, 2012 (Expressed In Thousands)

	Pension Trust Fund State Employees' Deferred Compensation Plan	Agency Funds
ASSETS		
Cash equity with State Treasurer	\$ 7,276	\$ 8,925
Cash and cash equivalents	1,241	4,727
Investments:		
Equities	2,158,202	-
Fixed income	316,455	-
Other	887,534	-
Other receivables, net	903	735
Securities lending collateral equity of State Treasurer	2,571	4,232
Total assets	<u>3,374,182</u>	<u>\$ 18,619</u>
LIABILITIES		
Accounts payable and accrued liabilities	651	\$ 14,374
Intergovernmental payables	2	13
Due to other State fiduciary funds	8	-
Due to other State funds	31	-
Obligations under securities lending of State Treasurer	2,571	4,232
Long-term liabilities	134	-
Total liabilities	<u>3,397</u>	<u>\$ 18,619</u>
NET ASSETS		
Held in trust for:		
Deferred compensation benefits	3,370,785	
Total net assets	<u>\$ 3,370,785</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, 2012 (Expressed in Thousands)

	<u>Pension Trust Fund State Employees' Deferred Compensation Plan</u>
Deposits/Contributions:	
Members/participants	\$ 174,932
Other contributions	4,163
Total contributions	<u>179,095</u>
Investment income:	
Interest, dividends and other investment income	84,144
Net appreciation (depreciation) of investments	(36,961)
Reimbursement of investment expenses not separable from investment income	2,301
Less: investment expense	(65)
Net investment income	<u>49,419</u>
Total additions	<u>228,514</u>
Deductions:	
Benefit payments	189,378
Refunds	122
General and administration	3,100
Total deductions	<u>192,600</u>
Net additions (deductions)	35,914
Net assets, July 1, 2011	<u>3,334,871</u>
Net assets, JUNE 30, 2012	<u>\$ 3,370,785</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, 2012

(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 the State of Illinois. The State of Illinois' Comprehensive Annual Financial Report may be

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

Notes to Financial Statements

June 30, 2012

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, 2012, 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.

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.

(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

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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 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:

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.

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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.

Amount of SAMS Transfers-In

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.

(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.

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(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.

(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 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 \$4.037 million of restricted net assets which are restricted by enabling legislation.

(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.

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(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 2012.

(o) New Accounting Pronouncement

Effective for the year ending June 30, 2012 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 material 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, 2013 the Department will adopt Governmental Accounting Standards Board Statement No. 60, *Accounting and Financial Reporting for Services Concession Arrangements*, which establishes requirements for the recognition, measurement and disclosure for SCA's, both as transferors and governmental operators. The Department has not yet determined the impact on the Department's financial statements as a result of adopting this Statement.

Effective for the year ending June 30, 2013 the Department will adopt Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and 34*, which modifies certain requirements for inclusion of component units in the financial reporting entity. The Department has not yet determined the impact on the Department's financial statements as a result of adopting this Statement.

Effective for the year ending June 30, 2013 the Department will adopt Governmental Accounting Standards Board Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which sets forth requirements for codifying all sources of generally accepted accounting principles for state and local governments so that they will derive from a single source. The Department has not yet determined the impact on the Department's financial statements as a result of adopting this Statement.

Effective for the year ending June 30, 2013 the Department will adopt Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, which provides guidance for standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. 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, 2014 the Department will adopt Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which the objective is to determine whether certain transactions previously reported as assets and liabilities should continue to be reported as such. The Department has not yet determined the impact on the Department's financial statements as a result of adopting this Statement.

Effective for the year ending June 30, 2014 the Department will adopt Governmental Accounting Standards Board Statement No. 66, *Technical Corrections – amendment of GASB Statements No. 10 and No. 62*, which resolves conflicting guidance surrounding differences in Statement No. 54 and No. 10 regarding the reporting of risk financing activities. Also, resolves differences between Statements No. 62 and No. 13 regarding the reporting of certain operating lease transactions and No. 48 regarding the reporting of the acquisition of a loan or group of loans. The Department has not yet determined the impact on the Department's financial statements as a result of adopting this Statement.

Effective for the year ending June 30, 2014 the Department will adopt Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans*, which provides guidance relating to the accounting and financial reporting surrounding how pension costs and obligations are measured and reported in audited external financial reports. The Department has not yet determined the impact on the Department's financial statements as a result of adopting this Statement.

Effective for the year ending June 30, 2015 the Department will adopt Governmental Accounting Standards Board Statement No. 68, *Accounting and Reporting for Pensions – replaces GASB Statements No. 27 and No. 50 and amends GASB Statements No. 25 and No. 27*, which requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability and requires new note disclosures and required supplementary information. 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.

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The carrying amount and bank balance of cash deposits held outside of the State Treasury at June 30, 2012 was \$1.387 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, 2012, the Department had the following fixed income investments outside of the State Treasury:

	Book Value <u>(Thousands)</u>	Fair Value <u>(Thousands)</u>	Weighted Average Maturity <u>(Years)</u>
<i>Governmental Activities</i>			
Money market mutual funds	<u>\$ 2,644</u>	<u>\$ 2,644</u>	0.121
Total fixed income investments	<u><u>\$ 2,644</u></u>	<u><u>\$ 2,644</u></u>	
<i>Fiduciary Funds</i>			
Money market mutual funds	\$ 91,909	\$ 92,445	0.150
Debt mutual funds	<u>129,348</u>	<u>129,348</u>	7.100
Total fixed income investments	<u><u>\$ 221,257</u></u>	<u><u>\$ 221,793</u></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. \$5.263 million of the Fiduciary Funds money market mutual funds were rated Aaa by Moody's, while the remaining \$87.182 million of the money market mutual funds were unrated. The Fiduciary Funds debt mutual funds were unrated.

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(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:

<i>Governmental Activities</i>	<u>Deposits</u>	<u>Investments</u>
Amounts Per Note 3(b)	\$ 1,387	\$ 2,644
Cash equivalents	<u>2,644</u>	<u>(2,644)</u>
Amounts per Statement of Net Assets	<u>\$ 4,031</u>	<u>\$ -</u>
<i>Fiduciary Funds</i>	<u>Deposits</u>	<u>Investments</u>
Amounts Per Note 3(b)	\$ -	\$ 221,257
Cash equivalents	5,968	(5,968)
Equity mutual funds	-	1,375,760
Blended mutual funds	-	539,633
Annuities	-	927
Equity trust funds	-	242,809
Bond trust funds	-	101,166
Guaranteed investment contracts	<u>-</u>	<u>886,607</u>
Amounts per Statement of Fiduciary Net Assets	<u>\$ 5,968</u>	<u>\$ 3,362,191</u>

(d) Securities Lending Transactions

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

During fiscal years 2012 and 2011, Deutsche Bank Group lent U.S. Treasury and U.S. agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%.

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The State Treasurer did not impose any restrictions during the fiscal years 2012 and 2011 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. Moreover, there were no losses during the fiscal years 2012 and 2011 resulting from a default of the borrowers or Deutsche Bank Group.

During fiscal years 2012 and 2011, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank Group and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent.

In accordance with GASB Statement No. 28, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations arising from the securities lending agreements as of June 30, 2012, to the various funds of the State. The total allocated to the Department was \$23.891 million at June 30, 2012.

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(4) Interfund Balances and Activity

(a) Balances Due to/from Other Funds

The following balances (amounts expressed in thousands) at June 30, 2012 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	\$ 8,310	\$ -	Due from other Department funds for reimbursement of advances on expenditures incurred.
Non-major governmental funds	11	130	Due from other Department funds and other State funds for sales of federal surplus property.
Internal service funds	26,383	741,959	Due from other Department funds and other State funds for services provided.
	<u>\$ 34,704</u>	<u>\$ 742,089</u>	

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The following balances (amounts expressed in thousands) at June 30, 2012 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	\$ 10,050	\$ 9,002	\$ -	Due to other Department funds for internal service fund services received and other State funds for services received.
Non-major governmental funds	2,688	16	23	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	21,966	1,363	1,467	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	-	31	8	Due to other State funds for audit and other expenses and other State fiduciary funds for retirement contributions.
	<u>\$ 34,704</u>	<u>\$ 10,412</u>	<u>\$ 1,498</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, 2012, were as follows:

<u>Fund</u>	<u>Transfers in from Other</u>		<u>Description/Purpose</u>
	<u>Department Funds</u>	<u>Other State Funds</u>	
General	\$ 2,572	\$ -	Transfer from other Department funds pursuant to statute.
Internal service funds	-	14,100	Transfer from other State funds pursuant to statute.
	<u>\$ 2,572</u>	<u>\$ 14,100</u>	

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

<u>Fund</u>	<u>Transfers out to Other</u>		<u>Description/Purpose</u>
	<u>Department Funds</u>	<u>Other State Funds</u>	
Non-major governmental funds	\$ 2,572	\$ -	Transfer from other Department funds pursuant to statute.
Internal service funds	-	73	Transfer to other State funds pursuant to statute.
	<u>\$ 2,572</u>	<u>\$ 73</u>	

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(5) Capital Assets

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

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Net Transfers</u>	<u>Balance June 30, 2012</u>
Governmental activities:					
Capital assets not being depreciated:					
Land and land improvements	\$ 46,302	\$ -	\$ -	\$ -	\$ 46,302
Nondepreciable historical treasures and works of art	4	-	-	-	4
Construction in Progress	1,768	17,747	-	-	19,515
Total capital assets not being depreciated	<u>48,074</u>	<u>17,747</u>	<u>-</u>	<u>-</u>	<u>65,821</u>
Capital assets being depreciated:					
Site improvements	3,889	-	-	-	3,889
Buildings and building improvements	572,400	-	-	6,444	578,844
Equipment	194,335	14,961	20,846	2,185	190,635
Depreciable historical treasures and works of art	970	-	-	-	970
Other Intangible Assets-Fiber Optic Rights	1,024	687	-	-	1,711
Total capital assets being depreciated	<u>772,618</u>	<u>15,648</u>	<u>20,846</u>	<u>8,629</u>	<u>776,049</u>
Less accumulated depreciation:					
Site improvements	2,953	175	-	-	3,128
Buildings and building improvements	286,634	12,365	-	-	298,999
Equipment	178,222	10,768	20,821	2,185	170,354
Depreciable historical treasures and works of art	970	-	-	-	970
Other Intangible Assets-Fiber Optic Rights	17	59	-	-	76
Total accumulated depreciation	<u>468,796</u>	<u>23,367</u>	<u>20,821</u>	<u>2,185</u>	<u>473,527</u>
Total capital assets being depreciated, net	<u>303,822</u>	<u>(7,719)</u>	<u>25</u>	<u>6,444</u>	<u>302,522</u>
Governmental activity capital assets, net	<u>\$ 351,896</u>	<u>\$ 10,028</u>	<u>\$ 25</u>	<u>\$ 6,444</u>	<u>\$ 368,343</u>

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

General government \$ 23,367

Capital assets include the following amounts (expressed in thousands) related to the Thomson Correctional Center transferred to the Department and being held as surplus real property. Beginning balances have also been restated to include these amounts not previously reported.

	Cost	Accumulated Depreciation	Net
Land	\$7,895	-	\$7,895
Building and building improvements	112,131	19,623	92,508
Equipment	287	287	-
Total	<u>\$120,313</u>	<u>\$19,910</u>	<u>\$100,403</u>

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

Notes to Financial Statements

June 30, 2012

(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, 2012 were as follows:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
Compensated absences	\$ 13,383	\$ 8,238	\$ 8,925	\$ 12,696	\$ 1,134
Capital lease obligations	165	-	165	-	-
Installment purchase obligations	5,694	-	3,940	1,754	1,754
Certificates of participation	25,010	-	2,985	22,025	3,160
Workers' compensation claim obligations	591,124	100,925	128,169	563,880	135,426
Auto liability claim obligations	<u>3,781</u>	<u>2,084</u>	<u>1,065</u>	<u>4,800</u>	<u>3,362</u>
Total governmental activities	<u>\$ 639,157</u>	<u>\$ 111,247</u>	<u>\$ 145,249</u>	<u>\$ 605,155</u>	<u>\$ 144,836</u>

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

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Notes to Financial Statements

June 30, 2012

(b) *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, 2012, are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	<u>\$ 1,754</u>	<u>\$ 18</u>	<u>\$ 1,772</u>

(c) *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 \$17.413 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, 2012, are as follows:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	3,990	373	4,363
2018-2022	4,225	127	4,352
	<u>\$ 22,025</u>	<u>\$ 4,185</u>	<u>\$ 26,210</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.

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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.

The Department's risk financing of auto liability for the State's non-Department of Transportation liability, \$4.8 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 \$2.002 million. The remaining portion of the liability, \$2.798 million, as of June 30, 2012, 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, \$563.880 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, 2011 and June 30, 2012 (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
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>
2012				
Auto Liability	\$ 3,781	\$ 2,084	\$ 1,065	\$ 4,800
Workers' Compensation	591,124	100,925	128,169	\$ 563,880
Total	<u>\$ 594,905</u>	<u>\$ 103,009</u>	<u>\$ 129,234</u>	<u>\$ 568,680</u>

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

Notes to Financial Statements

June 30, 2012

(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 Systems. The financial position and results of operations of the SERS for fiscal year 2012 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2012. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

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

The Department pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. For fiscal year 2012, the employer contribution rate was 34.190%. 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

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towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

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

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

(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 \$91.177 million for the year ended June 30, 2012.

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>
2013	\$ 79,472
2014	66,242
2015	46,806
2016	32,660
2017	16,789
2018-2022	8,183
	<u>\$ 250,152</u>

**STATE OF ILLINOIS
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(b) Construction Commitments

The Department has entered into construction contracts for purposes of statewide fiber optic expansion. The project is authorized for \$39.718 million, of which \$14.881 million has been spent, leaving \$24.837 million in future commitments at June 30, 2012.

(c) 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, 2011 and 2012. The Department estimates the SSRF refund may result in a payment of up to \$11.178 million and the CRF refund may result in payment of up to \$4.343 million. The Department has recorded a liability in the respective funds.

(d) 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 2012 are included in the State's Comprehensive Annual Financial Report for the year ended June 30, 2012. 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 \$17,000 (\$22,500 for participants age 50 or older) and \$16,500 (\$22,000 for participants age 50 or older) for calendar years 2012 and 2011, respectively. The State does not make any contributions to

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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 \$34,000 and \$33,000 for calendar years 2012 and 2011, respectively.

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) Restatement

Beginning net assets of governmental activities have been restated by \$100.403 million to include capital assets related to the Thomson Correctional Center transferred to the Department from the Department of Corrections by quit claim deed dated August 2010. The facility is being held by the Department as surplus real property.

(13) Subsequent Events

Pursuant to Executive Order 2012-1, the fiscal monitoring and functions associated with State healthcare purchasing administered by the Department of Healthcare and Family Services for the State on behalf of State employees and retired State employees through the Health Insurance Reserve Fund and members of the Local Government Health Insurance Reserve Funds, the Teachers Health Insurance Security Fund and the Community College Health Insurance Security Fund were transferred back to the Department on July 1, 2012.

The State transferred the Thomson Correctional Center to the federal government in October 2012. Compensation of \$165 million was given to the State in exchange for the property with a net book value of \$100.403 million.

State of Illinois
Department of Central Management Services

Combining Balance Sheet -
Nonmajor Governmental Funds

June 30, 2012 (Expressed in Thousands)

	Special Revenue		Capital Projects	Total
	Minority and Female Business Enterprise 0352	State Surplus Property Revolving 0903	Capital Development 0141	
ASSETS				
Unexpended appropriations	\$ -	\$ -	\$ 225	\$ 225
Cash equity with State Treasurer	6	3,872	-	3,878
Receivables, net:				
Intergovernmental	-	37	-	37
Due from other Department funds	-	11	-	11
Due from other State funds	-	130	-	130
Total assets	\$ 6	\$ 4,050	\$ 225	\$ 4,281
LIABILITIES				
Accounts payable and accrued liabilities	\$ -	\$ 118	\$ 225	\$ 343
Intergovernmental payables	-	5	-	5
Due to other State fiduciary funds	-	23	-	23
Due to other Department funds	-	2,688	-	2,688
Due to other State funds	-	16	-	16
Due to State of Illinois component units	-	1	-	1
Total liabilities	-	2,851	225	3,076
FUND BALANCES				
Restricted - Business Enterprise	6	-	-	6
Unrestricted:				
Committed - Surplus Property	-	1,199	-	1,199
Total fund balances	6	1,199	-	1,205
Total liabilities and fund balances	\$ 6	\$ 4,050	\$ 225	\$ 4,281

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, 2012 (Expressed in Thousands)

	Special Revenue		Capital Projects	
	Minority and Female Business Enterprise 0352	State Surplus Property Revolving 0903	Capital Development 0141	Total
REVENUES				
Other revenues	\$ -	\$ 3,668	\$ -	\$ 3,668
Other charges for services	-	246	-	246
Total revenues	<u>-</u>	<u>3,914</u>	<u>-</u>	<u>3,914</u>
EXPENDITURES				
General government	-	4,074	-	4,074
Capital outlay	-	-	8,773	8,773
Total expenditures	<u>-</u>	<u>4,074</u>	<u>8,773</u>	<u>12,847</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>(160)</u>	<u>(8,773)</u>	<u>(8,933)</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Appropriations from State resources	-	-	12,389	12,389
Reappropriation to future year(s)	-	-	(3,616)	(3,616)
Transfers-out	-	(2,572)	-	(2,572)
Net other sources (uses) of financial resources	<u>-</u>	<u>(2,572)</u>	<u>8,773</u>	<u>6,201</u>
Net change in fund balances	<u>-</u>	<u>(2,732)</u>	<u>-</u>	<u>(2,732)</u>
Fund balances, July 1, 2011	<u>6</u>	<u>3,931</u>	<u>-</u>	<u>3,937</u>
FUND BALANCES, JUNE 30, 2012	<u>\$ 6</u>	<u>\$ 1,199</u>	<u>\$ -</u>	<u>\$ 1,205</u>

State of Illinois
Department of Central Management Services

Combining Statement of Net Assets

Internal Service Funds

June 30, 2012 (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	\$ 6,339	\$ 12,370	\$ -	\$ 14,473	\$ 3,756	\$ 7,893	\$ 18,013	\$ -	\$ 62,844
Cash and cash equivalents	-	-	-	-	4,031	-	-	-	4,031
Securities lending collateral equity of State Treasurer	-	-	-	-	3,753	3,837	9,498	-	17,088
Receivables, net:									
Intergovernmental	50	-	-	13,728	-	-	-	-	13,778
Other	22	-	-	2,408	6	3	7	10,092	12,538
Due from other Department funds	75	912	-	11,429	10,731	-	3,235	1	26,383
Due from other State funds	19,160	61,553	-	49,715	59,033	9,472	543,011	15	741,959
Due from State of Illinois component units	-	28	-	893	44	-	-	914	1,879
Inventories	1,762	-	-	-	-	-	-	-	1,762
Total current assets	27,408	74,863	-	92,646	81,354	21,205	573,764	11,022	882,262
Capital assets not being depreciated	-	-	-	19,515	38,369	-	-	-	57,884
Capital assets being depreciated, net	1,806	7,880	-	12,382	187,901	-	-	-	209,969
Total noncurrent assets	1,806	7,880	-	31,897	226,270	-	-	-	267,853
Total assets	29,214	82,743	-	124,543	307,624	21,205	573,764	11,022	1,150,115
LIABILITIES									
Accounts payable and accrued liabilities	8,794	8,298	-	11,717	19,913	711	63	5,284	54,780
Intergovernmental payables	34	11,322	-	4,391	1,355	13	4	-	17,119
Due to other State fiduciary funds	160	654	-	211	354	58	20	-	1,467
Due to other Department funds	1,031	14,655	-	292	136	36	78	5,738	21,966
Due to other State funds	146	368	-	202	399	236	12	-	1,363
Due to State of Illinois component units	1	-	-	760	200	-	-	-	961
Obligations under securities lending of State Treasurer	-	-	-	-	3,753	3,837	9,498	-	17,088
Unearned revenue	-	-	-	-	1,313	-	-	-	1,313
Current portion of long-term obligations	206	1,451	-	890	3,352	43	135,452	-	141,394
Total current liabilities	10,372	36,758	-	18,463	30,775	4,934	145,127	11,022	257,451
Noncurrent portion of long-term obligations	1,155	4,691	-	1,573	21,216	319	428,637	-	457,591
Total liabilities	11,527	41,449	-	20,036	51,991	5,253	573,764	11,022	715,042
NET ASSETS									
Invested in capital assets, net of related debt	1,767	6,957	-	31,105	204,245	-	-	-	244,074
Restricted for debt services	-	-	-	-	4,031	-	-	-	4,031
Unrestricted	15,920	34,337	-	73,402	47,357	15,952	-	-	186,968
Total net assets	\$ 17,687	\$ 41,294	\$ -	\$ 104,507	\$ 255,633	\$ 15,952	\$ -	\$ -	\$ 435,073

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, 2012 (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	\$ 41,870	\$ 151,143	\$ -	\$ 113,296	\$ 188,114	\$ 14,463	\$ 105,126	\$ 20,577	\$ 634,589
Other	25	-	2	22,480	-	-	-	-	22,507
Total operating revenues	41,895	151,143	2	135,776	188,114	14,463	105,126	20,577	657,096
OPERATING EXPENSES									
Cost of sales and services	35,732	140,480	-	74,192	171,063	8,837	-	20,556	450,840
Claims and judgments	-	-	-	-	-	-	105,246	-	105,246
General and administrative	8,284	2,227	-	10,340	9,455	112	-	58	30,476
Depreciation	292	5,581	-	4,963	12,520	-	-	-	23,356
Other	302	-	-	12,459	-	-	-	-	12,761
Total operating expenses	44,610	148,268	-	101,954	193,038	8,949	105,246	20,614	622,679
Operating income (loss)	(2,715)	2,875	2	33,822	(4,924)	5,514	(120)	(37)	34,417
NONOPERATING REVENUES (EXPENSES)									
Interest and investment income	-	-	-	-	37	35	120	37	229
Interest expense	(9)	(209)	-	(28)	(1,326)	-	-	-	(1,572)
Other expenses	-	-	-	(17)	-	-	-	-	(17)
Income (loss) before contributions and transfers	(2,724)	2,666	2	33,777	(6,213)	5,549	-	-	33,057
Contributions of capital assets	-	2,910	-	5,880	6,427	-	-	-	15,217
Transfers-in	14,100	-	-	-	-	-	-	-	14,100
Transfers-out	-	-	(73)	-	-	-	-	-	(73)
Change in net assets	11,376	5,576	(71)	39,657	214	5,549	-	-	62,301
Net assets, July 1, 2011	6,311	35,718	71	64,850	255,419	10,403	-	-	372,772
NET ASSETS, JUNE 30, 2012	\$ 17,687	\$ 41,294	\$ -	\$ 104,507	\$ 255,633	\$ 15,952	\$ -	\$ -	\$ 435,073

State of Illinois
 Department of Central Management Services
Combining Statement of Cash Flows
Internal Service Funds

For the Year Ended June 30, 2012 (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	\$ 776	\$ -	\$ -	\$ 30,888	\$ 982	\$ -	\$ -	\$ -	\$ 32,646
Cash received from transactions with other funds	43,290	161,207	-	99,117	202,696	8,774	137,327	28,296	680,707
Cash payments to suppliers for goods and services	(26,119)	(81,920)	-	(83,748)	(177,794)	(8,268)	(7,276)	(29,950)	(415,075)
Cash payments to employees for services	(16,368)	(68,131)	-	(18,510)	(28,738)	-	-	-	(131,747)
Cash payments for workers compensation	-	-	-	-	-	-	(125,234)	-	(125,234)
Cash receipts from other operating activities	25	-	2	-	-	-	-	-	27
Net cash provided (used) by operating activities	1,604	11,156	2	27,747	(2,854)	506	4,817	(1,654)	41,324
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES									
Transfers-in from other funds	4,100	-	-	-	-	-	-	-	4,100
Other noncapital financing activities	(9)	(129)	(73)	-	-	-	-	-	(211)
Net cash provided (used) by noncapital financing activities	4,091	(129)	(73)	-	-	-	-	-	3,889
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Acquisition and construction of capital assets	(1,618)	(5,278)	-	(17,667)	(48)	-	-	-	(24,611)
Principal paid on capital debt	(152)	(2,647)	-	(1,141)	(3,150)	-	-	-	(7,090)
Interest paid on capital debt	-	(80)	-	(28)	(1,414)	-	-	-	(1,522)
Net cash (used) by capital and related financing activities	(1,770)	(8,005)	-	(18,836)	(4,612)	-	-	-	(33,223)
CASH FLOWS FROM INVESTING ACTIVITIES									
Interest and dividends on investments	-	-	-	-	37	35	119	39	230
Net cash provided by investing activities	-	-	-	-	37	35	119	39	230
Net increase (decrease) in cash and cash equivalents	3,925	3,022	(71)	8,911	(7,429)	541	4,936	(1,615)	12,220
Cash and cash equivalents, July 1, 2011	2,414	9,348	71	5,562	15,216	7,352	13,077	1,615	54,655
CASH AND CASH EQUIVALENTS, JUNE 30, 2012	\$ 6,339	\$ 12,370	\$ -	\$ 14,473	\$ 7,787	\$ 7,893	\$ 18,013	\$ -	\$ 66,875
Reconciliation of cash and cash equivalents to the statement of net assets:									
Total cash and cash equivalents per the statement of net assets	\$ -	\$ -	\$ -	\$ -	\$ 4,031	\$ -	\$ -	\$ -	\$ 4,031
Add: cash equity with State Treasurer	6,339	12,370	-	14,473	3,756	7,893	18,013	-	62,844
CASH AND CASH EQUIVALENTS, JUNE 30, 2012	\$ 6,339	\$ 12,370	\$ -	\$ 14,473	\$ 7,787	\$ 7,893	\$ 18,013	\$ -	\$ 66,875

State of Illinois
Department of Central Management Services
Combining Statement of Cash Flows
Internal Service Funds

For the Year Ended June 30, 2012 (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)	\$ (2,715)	\$ 2,875	\$ 2	\$ 33,822	\$ (4,924)	\$ 5,514	\$ (120)	\$ (37)	\$ 34,417
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:									
Depreciation	292	5,581	-	4,963	12,520	-	-	-	23,356
Provision for uncollectible accounts	-	-	-	77	-	-	-	-	77
Changes in assets and liabilities:									
(Increase) decrease in accounts receivable	(10)	-	-	(211)	(1)	-	-	(3,513)	(3,735)
(Increase) decrease in intergovernmental receivables	(5)	-	-	(10,510)	-	-	-	-	(10,515)
(Increase) decrease in due from other funds	2,039	6,294	-	(1,849)	17,949	(5,689)	32,201	(5)	50,940
(Increase) decrease in due from component units	4	12	-	(328)	(30)	-	-	84	(258)
(Increase) decrease in inventories	37	-	-	-	-	-	-	-	37
Increase (decrease) in accounts payable and accrued liabilities	2,100	(7,056)	-	611	(25,381)	419	(17)	78	(29,246)
Increase (decrease) in intergovernmental payables	31	3,756	-	937	(285)	3	-	-	4,442
Increase (decrease) in due to other funds	126	133	-	(65)	(29)	147	43	1,739	2,094
Increase (decrease) in due to component units	-	-	-	223	(246)	-	-	-	(23)
Increase (decrease) in deferred revenues	-	-	-	-	(2,362)	-	-	-	(2,362)
Increase (decrease) in other liabilities	(295)	(439)	-	77	(65)	112	(27,290)	-	(27,900)
Total adjustments	4,319	8,281	-	(6,075)	2,070	(5,008)	4,937	(1,617)	6,907
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 1,604	\$ 11,156	\$ 2	\$ 27,747	\$ (2,854)	\$ 506	\$ 4,817	\$ (1,654)	\$ 41,324
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES									
Gain (loss) on sale of property and equipment	\$ -	\$ -	\$ -	\$ (17)	\$ -	\$ -	\$ -	\$ -	\$ (17)
Transfer of capital assets, net of related debt, to/from other State funds	\$ -	\$ 2,910	\$ -	\$ 5,880	\$ 6,427	\$ -	\$ -	\$ -	\$ 15,217

State of Illinois

Department of Central Management Services

Combining Statement of Fiduciary Net Assets

Agency Funds

June 30, 2012 (Expressed in Thousands)

	Flexible Spending Account 0202	Group Insurance Premium 0457	Total
ASSETS			
Cash equity with State Treasurer	\$ 1,011	\$ 7,914	\$ 8,925
Cash and cash equivalents	4,727	-	4,727
Other receivables, net	-	735	735
Securities lending collateral equity of State Treasurer	-	4,232	4,232
Total assets	\$ 5,738	\$ 12,881	\$ 18,619
LIABILITIES			
Accounts payable and accrued liabilities	\$ 5,725	\$ 8,649	\$ 14,374
Intergovernmental payables	13	-	13
Obligations under securities lending of State Treasurer	-	4,232	4,232
Total liabilities	\$ 5,738	\$ 12,881	\$ 18,619

State of Illinois

Department of Central Management Services

Combining Statement of Changes in Assets and Liabilities

Agency Funds

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

	Balance at July 1, 2011	Additions	Deletions	Balance at June 30, 2012
Flexible Spending Account Fund (0202):				
ASSETS				
Cash equity with State Treasurer	\$ 1,516	\$ 31,967	\$ 32,472	\$ 1,011
Cash and cash equivalents	4,070	31,638	30,981	4,727
Total assets	\$ 5,586	\$ 63,605	\$ 63,453	\$ 5,738
LIABILITIES				
Accounts payable and accrued liabilities	\$ 5,571	\$ 31,599	\$ 31,445	\$ 5,725
Intergovernmental payables	15	368	370	13
Total liabilities	\$ 5,586	\$ 31,967	\$ 31,815	\$ 5,738
Group Insurance Premium Fund (0457):				
ASSETS				
Cash equity with State Treasurer	\$ 9,071	\$ 52,638	\$ 53,795	\$ 7,914
Other receivables, net	-	735	-	735
Securities lending collateral equity of State Treasurer	4,937	36,512	37,217	4,232
Total assets	\$ 14,008	\$ 89,885	\$ 91,012	\$ 12,881
LIABILITIES				
Accounts payable and accrued liabilities	\$ 9,071	\$ 53,373	\$ 53,795	\$ 8,649
Obligations under securities lending of State Treasurer	4,937	36,512	37,217	4,232
Total liabilities	\$ 14,008	\$ 89,885	\$ 91,012	\$ 12,881
Total				
ASSETS				
Cash equity with State Treasurer	\$ 10,587	\$ 84,605	\$ 86,267	\$ 8,925
Cash and cash equivalents	4,070	31,638	30,981	4,727
Other receivables, net	-	735	-	735
Securities lending collateral equity of State Treasurer	4,937	36,512	37,217	4,232
Total assets	\$ 19,594	\$ 153,490	\$ 154,465	\$ 18,619
LIABILITIES				
Accounts payable and accrued liabilities	\$ 14,642	\$ 84,972	\$ 85,240	\$ 14,374
Intergovernmental payables	15	368	370	13
Obligations under securities lending of State Treasurer	4,937	36,512	37,217	4,232
Total liabilities	\$ 19,594	\$ 121,852	\$ 122,827	\$ 18,619



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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, 2012, which collectively comprise the State of Illinois, Department of Central Management Services' basic financial statements and have issued our report thereon dated February 5, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the 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 the accompanying schedule of findings as item 12-1 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 the accompanying schedule of findings as item 12-2 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 12-1.

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.

Sikich LLP

Springfield, Illinois
February 5, 2013

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

**CURRENT FINDINGS –
GOVERNMENT AUDITING STANDARDS**

FOR THE YEAR ENDED JUNE 30, 2012

12-1 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, 2012 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, including pension-type or lifetime awards. The Department made mathematical errors in the calculation of the total estimated liability for pension-type awards resulting in an overstatement of the liability of \$16,859,181. In addition, the Department did not use the correct life expectancy table, used inaccurate data (incorrect date of birth and incorrect monthly award amount) for the calculation and was unable to provide documentation supporting the date of death for a deceased beneficiary. These additional errors resulted in an understatement of the liability of \$1,873,181. In total, the liability was overstated by \$14,986,000. Furthermore, the Department continues to estimate the liability using historical information rather than an actuarially calculated liability 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 which may result in an overstatement or understatement of the liability. Department officials have stated the errors are the result of inadequate time devoted to performing the calculation and

inadequate review of the calculation. They further stated determination of a liability on an individual case basis is not feasible given competing priorities and staffing issues. The Department has adjusted the financial statements to correct the liability.

- The Department obtained legal title to the Thomson Correctional Center from the Illinois Department of Corrections (DOC) in August 2010, but failed to report the asset on their financial statements. Department officials stated the oversight was the result of unexpected delays in the sale of the facility and a misapplication of surplus property rules based on a negotiated operating agreement with DOC. The Department's June 30, 2012 financial statements have been adjusted to report the \$100 million facility.
- The Department did not perform an adequate review of amounts due from other State agencies that were outstanding for more than one year in determining the allowance for doubtful accounts. The Department reported a net reduction of balances due from other State agencies totaling \$3,085,822. Of this, the Department has represented only \$825,471 relates to disputes over amounts previously billed. The remainder of the allowance is comprised of virtually all prior year unpaid balances from other State agencies. The Department has not adequately supported that these balances are uncollectible.
- We noted 18 State agencies with net overpayments in excess of \$1,000 from prior year receivables totaling \$860,769. In addition, we noted 3 local government entities with overpayments in excess of \$1,000 from prior year receivables totaling \$7,833 and numerous other overpayments of less than \$1,000. These net overpayments have been included in the allowance for doubtful accounts, resulting in an understatement of receivables at June 30, 2012 of \$868,602. Department personnel stated the net overpayments are available to the State agencies and other entities to be applied against current year billings. Department personnel also stated the review of the allowance for doubtful accounts was not sufficiently detailed to distinguish net overpayment balances from amounts owed to adequately determine the actual uncollectible balance.
- The Department did not perform an adequate review of lapse period transactions. As a result, the Department overstated accounts payable totaling \$6,953,000. The overstatements included improperly reporting a voucher processed in July to remit money to the Deferred Compensation plan as a liability, resulting in the overstatement of accounts payable of \$1,694,000. In addition, the Department reported liabilities for goods received after June 30, 2012 of \$5,259,000. Department personnel stated the review of lapse period expenditures was not sufficiently detailed to determine that the service date utilized for identifying fiscal year 2012 Accounts Payable was accurate.
- 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" 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, 2012. Department officials have stated that the Department completes GAAP packages in accordance with deadlines established by the IOC. The identified items were not material to the Department's financial statements; however, the Department did update the lease information reported in the financial statements.

In the prior audit, we noted 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. Physical counts of commodities inventories and inventory valuations were properly performed for June 30, 2012.

As a result of these deficiencies, the Department's financial information was inaccurate. (Finding Code No. 12-1, 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 recommendation. The Department is continually assessing the financial reporting process and implementing procedures to improve upon accuracy.

12-2 **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. Since January 2005, twelve agencies have consolidated their IT infrastructure 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, and
- 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.

The Department stated the standard 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, patches or other changes. Many legacy agency applications were designed and developed to run on systems that have since become obsolete and updating the applications, which is the responsibility of the user agencies, is an expensive and time-

consuming process. These older systems running on data center servers cannot be updated until agencies upgrade their applications.

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. 12-2, 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 agrees with the recommendation and will continue to strive toward standardization and maturity in the midrange environment. The Department has implemented numerous policies, standards, tools and procedures to help address these issues. Due to the size and disparate nature of the environment, many of the legacy agency legacy environments do not fully meet the standards. We are working with the agencies to improve these environments and to update applications where needed.

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

PRIOR FINDINGS NOT REPEATED

None