

**STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES**

**FINANCIAL AUDIT  
For the Year Ended June 30, 2011**

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
FINANCIAL AUDIT  
For the Year Ended June 30, 2011

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STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
FINANCIAL AUDIT  
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**AGENCY OFFICIALS**

Director	Julie Hamos
Assistant Director	Sharron Matthews
Deputy Directors	
Community Outreach	Peter F. Vina
Administrative Operations	Carolyn Williams Meza
Human Resources	Richard Foxman
Policy	Michael Koetting (7/10/10 – Current)
General Counsel	Jeanette Badrov
Inspector General	John C. Allen
Strategic Sourcing/Procurement Officer	Tom Sestak (Acting) (7/1/10 – 1/15/11)
Chief Administrative Officer	Carolyn Williams Meza (7/1/10 – 6/15/11)
Administrators	
Division of Child Support Services	Pamela Lowry
Division of Finance	Michael Moss (7/1/10 – 5/15/11)
Division of Medical Programs	Theresa Eagleson
Division of Personnel and Administrative Services	Theresa Bietsch
Chiefs	
Office of Legislative Affairs	Emily Coultas (7/1/10 – 7/31/10) Selma D’Souza (2/28/11 – Current)
Office of Fiscal Management	Jack Dodds
Office of Healthcare Purchasing	Pat Frueh (Acting) (7/1/10 – 5/31/11)
Office of Information Services	Ivan Handler (7/1/10 – 3/31/11)

Department of Healthcare and Family Services offices are located at:

201 South Grand Avenue East  
Springfield, IL 62763

2200 Churchill Road  
Springfield, IL 62702

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
FINANCIAL AUDIT  
For the Year Ended June 30, 2011

**FINANCIAL STATEMENT REPORT**

**SUMMARY**

The audit of the accompanying financial statements of the Illinois Department of Healthcare and Family Services was performed by the Office of the Auditor General.

Based on their audit, the auditors expressed unqualified opinions on the Department's financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

**SUMMARY OF FINDINGS**

The auditors identified matters involving the Department's internal control over financial reporting that they considered to be material weaknesses or significant deficiencies. The material weaknesses are described in the accompanying Schedule of Findings on pages 55-59 of this report, as finding 11-1, (Financial statement preparation), and finding 11-2 (Insufficient controls over the University of Illinois Hospital Services Fund). The significant deficiencies are described in the accompanying Schedule of Findings on pages 60-63 of this report, as finding 11-3, (Lack of written rate-setting methodology), and finding 11-4, (Inadequate controls of County Hospital Services Fund).

**EXIT CONFERENCE**

The Department waived an exit conference in correspondence dated March 27, 2012.

The responses to the recommendations were provided by Julie Hamos, Director, in a letter dated April 10, 2012.

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OFFICE OF THE AUDITOR GENERAL  
WILLIAM G. HOLLAND

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland  
Auditor General  
State of Illinois

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Healthcare and Family Services, as of and for the year ended June 30, 2011, which collectively comprise the State of Illinois, Department of Healthcare and Family Services' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Illinois, Department of Healthcare and Family 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 Healthcare and Family Services are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the governmental activities, the business-type 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 Healthcare and Family Services. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2011, and its changes in its 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, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Healthcare and Family Services, as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 10, 2012 on our consideration of the State of Illinois, Department of Healthcare and Family Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Defined Benefit Other Postemployment Benefit Plans – Schedule of Funding Progress on page 38 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

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



Bruce L. Bullard, CPA

Director of Financial and Compliance Audits

April 10, 2012

*State of Illinois*  
*Department of Healthcare and Family Services*

**Statement of Net Assets**

June 30, 2011 (Expressed in Thousands)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Unexpended appropriations	\$ 673,275	\$ -	\$ 673,275
Cash equity with State Treasurer	572,320	4,610	576,930
Cash and cash equivalents	27,141	778	27,919
Securities lending collateral equity with State Treasurer	128,318	1,267	129,585
Due from other government - federal	842,317	26	842,343
Due from other government - local	57,899	129	58,028
Taxes receivable, net	5,265	-	5,265
Other receivables, net	429,828	222	430,050
Internal balances	6	(6)	-
Due from other Department fiduciary funds	10	-	10
Due from other State funds	6,385	-	6,385
Due from State of Illinois component units	33,294	-	33,294
Prepaid expenses	14,184	-	14,184
Capital assets being depreciated, net	1,115	-	1,115
<b>Total assets</b>	<u>2,791,357</u>	<u>7,026</u>	<u>2,798,383</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	2,395,833	7,247	2,403,080
Due to other government - federal	7,452	2	7,454
Due to other government - local	194,047	-	194,047
Due to other State fiduciary funds	880	8	888
Due to other Department fiduciary funds	1,000	-	1,000
Due to other State funds	72,298	34	72,332
Due to State of Illinois component units	52,404	-	52,404
Unearned revenue	-	43	43
Obligations under securities lending of State Treasurer	128,318	1,267	129,585
Long term obligations:			
Due within one year	840	-	840
Due subsequent to one year	5,728,525	95	5,728,620
<b>Total liabilities</b>	<u>8,581,597</u>	<u>8,696</u>	<u>8,590,293</u>
<b>NET ASSETS</b>			
Invested in capital assets	1,115	-	1,115
Restricted for health and social services	1,210	-	1,210
Unrestricted	(5,792,565)	(1,670)	(5,794,235)
<b>Total net assets</b>	<u>\$ (5,790,240)</u>	<u>\$ (1,670)</u>	<u>\$ (5,791,910)</u>

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

*State of Illinois*  
*Department of Healthcare and Family Services*

**Statement of Activities**

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

Functions/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
	Expenses	Operating Grants and Contributions	Charges for Services	Governmental Activities	Business-type Activities	Total
Primary government						
Governmental activities						
Health and social services	\$ 15,981,622	\$ 9,377,206	\$ 2,233,897	\$ (4,370,519)	\$	\$ (4,370,519)
Education	1,227,763	-	-	(1,227,763)		(1,227,763)
Employment and economic development	68,920	-	-	(68,920)		(68,920)
General government	312,291	-	-	(312,291)		(312,291)
Transportation	328,621	-	-	(328,621)		(328,621)
Public protection and justice	735,827	-	-	(735,827)		(735,827)
Environment and business regulation	106,848	-	-	(106,848)		(106,848)
Total governmental activities	<u>18,761,892</u>	<u>9,377,206</u>	<u>2,233,897</u>	<u>(7,150,789)</u>		<u>(7,150,789)</u>
Business-type activities						
Insurance program	54,793	-	52,596		\$ (2,197)	(2,197)
Total business-type activities	<u>54,793</u>	<u>-</u>	<u>52,596</u>		<u>(2,197)</u>	<u>(2,197)</u>
<b>Total primary government</b>	<u>\$ 18,816,685</u>	<u>\$ 9,377,206</u>	<u>\$ 2,286,493</u>			<u>(7,152,986)</u>
<b>General revenues</b>						
Appropriations from State resources				8,570,206	-	8,570,206
Lapsed appropriations				(465,742)	-	(465,742)
Receipts collected and transmitted to State Treasury				(5,371,041)	-	(5,371,041)
Other taxes				1,134,627	-	1,134,627
Interest and investment income				1,916	16	1,932
Other revenues				282,756	120	282,876
Capital transfers to other State agencies				(11)	-	(11)
Amount of SAMS transfers-in				(90,122)	-	(90,122)
Amount of SAMS transfers-out				410,000	-	410,000
Transfers-in				12,295	-	12,295
Transfers-out				(20,000)	-	(20,000)
Total general revenues and transfers				<u>4,464,884</u>	<u>136</u>	<u>4,465,020</u>
Change in net assets				(2,685,905)	(2,061)	(2,687,966)
Net assets July 1, 2010, as restated				(3,104,335)	391	(3,103,944)
Net assets June 30, 2011				<u>\$ (5,790,240)</u>	<u>\$ (1,670)</u>	<u>\$ (5,791,910)</u>

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

State of Illinois

Department of Healthcare and Family Services

**Governmental Funds Balance Sheet**

June 30, 2011 (Expressed in Thousands)

	<u>General Fund</u>	<u>Road Fund</u>	<u>Other Nonmajor Funds</u>	<u>Total</u>
<b>ASSETS</b>				
Unexpended appropriations	\$ 672,630	\$ -	\$ 645	\$ 673,275
Cash equity with State Treasurer	494,984	-	31,063	526,047
Cash and cash equivalents	176	-	-	176
Securities lending collateral equity with State Treasurer	109,196	-	77	109,273
Due from other government - federal	812,292	-	20,978	833,270
Due from other government - local	57,899	-	-	57,899
Taxes receivable, net	5,265	-	-	5,265
Other receivables, net	399,676	-	11,100	410,776
Due from other Department funds	-	-	28,439	28,439
Due from other State funds	5,299	-	747	6,046
<b>Total assets</b>	<u>\$ 2,557,417</u>	<u>\$ -</u>	<u>\$ 93,049</u>	<u>\$ 2,650,466</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 1,007,485	\$ -	\$ 13,272	\$ 1,020,757
Due to other government - federal	359	-	7,083	7,442
Due to other government - local	183,253	-	10,794	194,047
Due to other State fiduciary funds	132	-	709	841
Due to other Department fiduciary funds	1,000	-	-	1,000
Due to other Department funds	1,215,296	54,244	689	1,270,229
Due to other State funds	61,037	-	10,141	71,178
Due to State of Illinois component units	52,095	-	309	52,404
Unavailable revenues	516,504	-	2,968	519,472
Obligations under securities lending of State Treasurer	109,196	-	77	109,273
<b>Total liabilities</b>	<u>3,146,357</u>	<u>54,244</u>	<u>46,042</u>	<u>3,246,643</u>
<b>FUND BALANCES (DEFICITS)</b>				
Nonspendable	-	-	-	-
Restricted - Health and Welfare	1,210	-	-	1,210
Committed - Health and Welfare	501,147	-	52,971	554,118
Assigned	-	-	-	-
Unassigned	(1,091,297)	(54,244)	(5,964)	(1,151,505)
<b>Total fund balances (deficits)</b>	<u>(588,940)</u>	<u>(54,244)</u>	<u>47,007</u>	<u>(596,177)</u>
<b>Total liabilities and fund balances</b>	<u>\$ 2,557,417</u>	<u>\$ -</u>	<u>\$ 93,049</u>	<u>\$ 2,650,466</u>

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

**State of Illinois**  
**Department of Healthcare and Family Services**  
**Reconciliation of Governmental Funds Balance Sheet**  
**to Statement of Net Assets**  
**June 30, 2011**  
**(Expressed in Thousands)**

<b>Total fund balances-governmental funds</b>		\$ (596,177)
<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.		1,105
Prepaid expenses for governmental activities are current uses of financial resources for funds.		14,184
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		519,472
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	(12,467)	
Net other postemployment benefit obligations	<u>(5,716,357)</u>	<u>(5,728,824)</u>
<b>Net assets of governmental activities</b>		<u><u>\$ (5,790,240)</u></u>

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

State of Illinois

Department of Healthcare and Family Services

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

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

	<u>General Fund</u>	<u>Road Fund</u>	<u>Other Nonmajor Funds</u>	<u>Total</u>
<b>REVENUES</b>				
Operating grants - federal	\$ 8,333,726	\$ -	\$ 446,378	\$ 8,780,104
Other operating grants	697,678	-	-	697,678
Licenses and fees	20,418	-	1,210	21,628
Other charges for services	-	-	15,041	15,041
Interest and other investment income	1,600	-	2	1,602
Other taxes	1,135,453	-	-	1,135,453
Other	247,217	-	15	247,232
<b>Total revenues</b>	<u>10,436,092</u>	<u>-</u>	<u>462,646</u>	<u>10,898,738</u>
<b>EXPENDITURES</b>				
Health and social services	12,647,490	-	769,135	13,416,625
Education	497,636	-	-	497,636
Employment and economic development	23,204	-	-	23,204
General government	145,613	-	-	145,613
Transportation	10,483	185,990	-	196,473
Public protection and justice	382,247	-	-	382,247
Environment and business regulation	35,651	-	-	35,651
Capital outlays	238	-	11	249
<b>Total expenditures</b>	<u>13,742,562</u>	<u>185,990</u>	<u>769,146</u>	<u>14,697,698</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(3,306,470)</u>	<u>(185,990)</u>	<u>(306,500)</u>	<u>(3,798,960)</u>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>				
Appropriations from State resources	7,659,721	159,963	750,522	8,570,206
Lapsed appropriations	(318,076)	-	(147,666)	(465,742)
Receipts collected and transmitted to State Treasury	(5,047,589)	-	(323,452)	(5,371,041)
Amount of SAMS transfers-in	(90,122)	-	-	(90,122)
Amount of SAMS transfers-out	410,000	-	-	410,000
Transfers-in	22,815	-	29,939	52,754
Transfers-out	(49,939)	-	(10,520)	(60,459)
<b>Net other sources (uses) of financial resources</b>	<u>2,586,810</u>	<u>159,963</u>	<u>298,823</u>	<u>3,045,596</u>
<b>Net change in fund balances</b>	(719,660)	(26,027)	(7,677)	(753,364)
Fund balances (deficits), July 1, 2010, as restated	<u>130,720</u>	<u>(28,217)</u>	<u>54,684</u>	<u>157,187</u>
<b>FUND BALANCES (DEFICITS), JUNE 30, 2011</b>	<u>\$ (588,940)</u>	<u>\$ (54,244)</u>	<u>\$ 47,007</u>	<u>\$ (596,177)</u>

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

**State of Illinois**  
**Department of Healthcare and Family Services**  
**Reconciliation of Statement of Revenues, Expenditures and Changes in**  
**Fund Balances of Governmental Funds to Statement of Activities**  
**For the Year Ended June 30, 2011**  
**(Expressed in Thousands)**

**Net change in fund balances** \$ (753,364)

Amounts reported for governmental activities in the Statement of  
 Activities are different because:

Governmental funds report capital outlays as expenditures while  
 governmental activities report depreciation expense to allocate those  
 expenditures over the life of the assets. This is the amount by which  
 depreciation in the current period exceeded capital outlays. (585)

Prepaid expenses in the Statement of Activities are not reported as  
 expenses in governmental funds. This amount represents the  
 increase in prepaid expenses over the prior year. 6,896

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. (101,427)

Some capital assets were transferred out to other State agencies and,  
 therefore, no proceeds were received for the capital asset's value. (11)

Loss from disposal of capital assets. This is the book value of capital assets,  
 which were disposed of. -

Some expenses reported in the Statement of Activities do not  
 require the use of current financial resources and therefore are  
 not reported as expenditures in governmental funds.

Below are such activities.

Increase in compensated absences obligation	151		
Increase in net other postemployment benefit obligations	(1,837,565)		(1,837,414)

**Change in net assets of governmental activities** **\$ (2,685,905)**

*State of Illinois*  
*Department of Healthcare and Family Services*

**Statement of Net Assets -  
Proprietary Funds**  
June 30, 2011 (Expressed in Thousands)

	<b>Business-Type Activities - Nonmajor Enterprise Fund</b>	<b>Governmental Activities - Internal Service Fund</b>
	<b>Local Government Health Insurance Reserve Fund</b>	<b>Health Insurance Reserve Fund</b>
<b>ASSETS</b>		
Cash equity with State Treasurer	\$ 4,610	\$ 46,273
Cash and cash equivalents	778	26,965
Securities lending collateral equity with State Treasurer	1,267	19,045
Due from other government - federal	26	9,047
Due from other government - local	129	-
Other receivables, net	222	19,052
Due from other Department fiduciary funds	-	10
Due from other Department funds	-	1,241,796
Due from other State funds	-	339
Due from State of Illinois component units	-	33,294
<b>Total current assets</b>	<b>7,032</b>	<b>1,395,821</b>
Capital assets being depreciated, net	-	10
<b>Total assets</b>	<b>7,032</b>	<b>1,395,831</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	7,247	1,375,076
Due to other government - federal	2	10
Due to other State fiduciary funds	8	39
Due to other Department funds	6	-
Due to other State funds	34	1,120
Unearned Revenue	43	-
Obligations under securities lending of State Treasurer	1,267	19,045
Current portion of long-term obligations	-	180
<b>Total current liabilities</b>	<b>8,607</b>	<b>1,395,470</b>
Noncurrent portion of long-term obligations	95	361
<b>Total liabilities</b>	<b>8,702</b>	<b>1,395,831</b>
<b>NET ASSETS</b>		
Invested in capital assets	-	10
Unrestricted	(1,670)	(10)
<b>Total net assets</b>	<b>\$ (1,670)</b>	<b>\$ -</b>

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

*State of Illinois*

*Department of Healthcare and Family Services*

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

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

	<b>Business-Type Activities - Nonmajor Enterprise Fund</b>	<b>Governmental Activities - Internal Service Fund</b>
	<b>Local Government Health Insurance Reserve Fund</b>	<b>Health Insurance Reserve Fund</b>
<b>OPERATING REVENUES</b>		
Charges for sales and services	\$ 52,596	\$ 2,228,816
<b>Total operating revenues</b>	<u>52,596</u>	<u>2,228,816</u>
<b>OPERATING EXPENSES</b>		
Benefit payments and refunds	52,789	2,117,304
Interest expense	109	74,687
General and administrative	1,895	72,670
Depreciation	-	4
<b>Total operating expenses</b>	<u>54,793</u>	<u>2,264,665</u>
<b>Operating income (loss)</b>	(2,197)	(35,849)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest and investment income	16	314
Other revenues	120	35,535
<b>Changes in net assets</b>	(2,061)	-
Net assets, July 1, 2010	391	-
<b>NET ASSETS, JUNE 30, 2011</b>	<u>\$ (1,670)</u>	<u>\$ -</u>

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

*State of Illinois*  
*Department of Healthcare and Family Services*

**Statement of Cash Flows -  
Proprietary Funds**

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

	<b>Business-Type Activities - Nonmajor Enterprise Fund Local Government Health Insurance Reserve Fund</b>	<b>Governmental Activities - Internal Service Fund Health Insurance Reserve Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from sales and services	\$ 52,507	\$ 152,321
Cash received from transactions with other funds	-	1,708,381
Cash payments to suppliers for goods and services	(50,638)	(1,933,254)
Cash payments to employees for services	(995)	(4,802)
Cash receipts from other operating activities	710	46,875
Net cash provided (used) by operating activities	<u>1,584</u>	<u>(30,479)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Operating grants received	128	36,535
Net cash provided (used) by noncapital financing activities	<u>128</u>	<u>36,535</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	-	-
Net cash (used) by capital and related financing activities	<u>-</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and dividends on investments	17	335
Net cash provided (used) by investing activities	<u>17</u>	<u>335</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,729</b>	<b>6,391</b>
Cash and cash equivalents, July 1, 2010	<u>3,659</u>	<u>66,847</u>
<b>CASH AND CASH EQUIVALENTS, JUNE 30, 2011</b>	<b>\$ 5,388</b>	<b>\$ 73,238</b>
<b>Reconciliation of cash and cash equivalents to the Statement of Net Assets:</b>		
Total cash and cash equivalents per the Statement of Net Assets	\$ 778	\$ 26,965
Add: cash equity with State Treasurer	4,610	46,273
<b>CASH AND CASH EQUIVALENTS, JUNE 30, 2011</b>	<b>\$ 5,388</b>	<b>\$ 73,238</b>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
<b>OPERATING INCOME (LOSS)</b>	<b>\$ (2,197)</b>	<b>\$ (35,849)</b>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	-	4
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	114	6,805
(Increase) decrease in intergovernmental receivables	(63)	-
(Increase) decrease in due from other funds	-	(360,174)
(Increase) decrease in due from State of Illinois component units	-	(7,939)
Increase (decrease) in accounts payable and accrued liabilities	3,751	366,338
Increase (decrease) in intergovernmental payables	9	1
Increase (decrease) in due to other funds	-	307
Increase (decrease) in deferred revenues	(51)	(11)
Increase (decrease) in other liabilities	21	39
Total adjustments	<u>3,781</u>	<u>5,370</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 1,584</b>	<b>\$ (30,479)</b>

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

*State of Illinois*  
*Department of Healthcare and Family Services*

**Statement of Fiduciary Net Assets -  
 Fiduciary Funds**

June 30, 2011 (Expressed in Thousands)

	<b>Pension (and Other Employee Benefit) Trust Funds</b>	<b>Agency Funds</b>
	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>		
Cash equity with State Treasurer	\$ 35,182	\$ 15,801
Cash and cash equivalents	8,097	1,573
Securities lending collateral equity with State Treasurer	12,748	-
Receivables, net:		
Federal government	6,552	-
Employee	4,992	-
Employer	3,795	-
Interest and investment income	15	-
Other	8,929	222,999
Due from other Department funds	1,000	-
<b>Total assets</b>	<u>81,310</u>	<u>\$ 240,373</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	80,760	\$ 18,474
Intergovernmental payables	4	-
Due to other State fiduciary funds	14	-
Due to other Department funds	10	-
Due to other State funds	203	-
Obligations under securities lending of State Treasurer	12,748	-
Other liabilities	-	221,899
Long term obligations:		
Due subsequent to one year	103	-
<b>Total liabilities</b>	<u>93,842</u>	<u>\$ 240,373</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION AND OTHER EMPLOYEE BENEFITS</b>	<u>\$ (12,532)</u>	

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

*State of Illinois*

*Department of Healthcare and Family Services*

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**Statement of Changes in Fiduciary Net Assets -**

**Fiduciary Funds**

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

	<b>Pension (and Other Employee Benefit) Trust Funds</b>
	<hr/>
<b>ADDITIONS</b>	
Contributions:	
Employer	\$ 74,660
State	91,190
Plan members:	
Active	98,266
Retiree	176,695
Terminated employees (COBRA)	88
Federal Medicare Part D	25,641
Total contributions	<hr/> 466,540 <hr/>
Investment Income:	
Interest and other investment income	182
Net investment income	<hr/> 182 <hr/>
<b>Total additions</b>	<hr/> 466,722 <hr/>
<b>DEDUCTIONS</b>	
Benefit payments and refunds	507,479
General and administration	4,310
<b>Total deductions</b>	<hr/> 511,789 <hr/>
<b>Net additions (deductions)</b>	(45,067)
Net assets held in trust for pension and other employee benefits, July 1, 2010	<hr/> 32,535 <hr/>
<b>NET ASSETS HELD IN TRUST FOR PENSION AND OTHER EMPLOYEE BENEFITS, June 30, 2011</b>	<hr/> <b>\$ (12,532)</b> <hr/>

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

**STATE OF ILLINOIS**  
**DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES**

Notes to the Financial Statements

June 30, 2011

**(1) Organization**

The Department of Healthcare and Family Services (the Department) is a part of the executive branch of government of the State of Illinois (State) and operates under the authority of and review by the Illinois General Assembly. The Department operates under a budget approved by the General Assembly in which resources primarily from the State's General Revenue Fund are appropriated for the use of the Department. Activities of the Department are subject to the authority of the Office of the Governor, the State's chief executive officer, and other departments of the executive and legislative branches of government (such as the Department of Central Management Services, the Governor's Office of Management and Budget, the State Treasurer's Office, and the State Comptroller's Office) as defined by the Illinois General Assembly. All funds appropriated to the Department and all other cash received are under the custody and control of the State Treasurer, with the exception of various locally-held portions of health insurance funds and the Child Support Enforcement Trust Fund – SDU.

The Department is organized to provide for the improvement of the lives of Illinois' families through healthcare coverage, child support enforcement and employees of the State of Illinois and other local governments and schools through group insurance plan administration.

**(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 dependence on the primary government.

Based upon the required criteria, the Department has no component units and is not a component unit of any other entity. However, because the Department is not legally separate from the State of Illinois, the financial statements of the Department are included in the financial statements of the State of Illinois. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871.

**(b) Basis of Presentation**

The financial statements of the State of Illinois, Department of Healthcare and Family Services, are intended to present the financial position, the changes in financial position, and the cash flows of only that portion of the governmental and business-type activities, by each major fund of the State of Illinois, and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2011, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**STATE OF ILLINOIS**  
**DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES**

Notes to the Financial Statements

June 30, 2011

**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. These statements distinguish between the *governmental* and *business-type* activities of the Department. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of net assets presents the assets and liabilities of the Department's governmental and business-type 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 business-type activity of the Department and for the functions of the Department's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements.** The fund financial statements provide information about the Department's funds, including fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis on fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise 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. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The Department administers the following major governmental fund (or portions thereof in the case of shared funds – see note 2 (d)) of the State:

**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, promoting access to quality healthcare and child support. Certain resources obtained from federal grants and used to support general governmental activities are accounted for in the General Fund consistent with applicable legal requirements. The Department's portion of the General Fund is composed of seven primary sub-accounts (General Revenue, U of I Hospital Services, County Hospital Services, Long-Term Care Provider, Hospital Provider, Drug Rebate and Healthcare Provider Relief) and eleven secondary sub-accounts.

**Road** – This fund accounts for the activities of the Department for payment to the Health Insurance Reserve Fund for allocated costs associated with providing medical and dental benefits for State employees paid from the Road Fund.

**STATE OF ILLINOIS**  
**DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES**

Notes to the Financial Statements

June 30, 2011

Additionally, the Department reports the following fund types:

**Governmental Fund Types:**

**Special Revenue** – These funds account for transactions related to resources obtained from specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects.

**Proprietary Fund Types:**

**Enterprise** – This fund accounts for operations where the intent of the Department is that the cost of providing goods or services for health insurance programs on a continuing basis be financed or recovered primarily through user charges.

**Internal Service** – This fund accounts for medical and dental benefits for State employees provided to agencies of the State on a reimbursement basis.

**Fiduciary Fund Types:**

**Agency** – These funds account for transactions related to assets collected by the Department, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

**Pension (and other Employee Benefit) Trust** – These funds account for resources that are required to be held in trust for payment of postemployment benefits on-behalf of beneficiaries.

**(c) Measurement Focus and Basis of Accounting**

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

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected 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 the 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 the nursing home assessment, federal matching revenues, drug rebates, intergovernmental transfer agreement revenues, insurance charges, and child support. Other miscellaneous revenue sources are considered to be measurable and available only when cash is received.

**STATE OF ILLINOIS**  
**DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES**

Notes to the Financial Statements

June 30, 2011

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. The State also has the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance as it relates to the Department's operations.

**(d) Shared Fund Presentation**

The financial statement presentation for the General Revenue, Care Provider Fund for Persons with Developmental Disabilities, and Trauma Center Accounts of the General Fund, the Road Fund, the Department of Corrections Reimbursement Fund, the FY09 Budget Relief Fund and the Tobacco Settlement Recovery Fund, nonmajor governmental funds, represent only the portion of the shared fund that can be directly attributed to the operations of the Department. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' Comprehensive Annual Financial Report.

In presenting these financial statements, certain unique accounts are used for the presentation of shared funds. The following accounts are used in these financial statements to present the Department's portion of shared funds:

Unexpended Appropriations

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

Appropriations from State Resources

The "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.

Receipts Collected and Transmitted to State Treasury

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

Amount of SAMS Transfers-In

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

**STATE OF ILLINOIS**  
**DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES**

Notes to the Financial Statements

June 30, 2011

Amount of SAMS Transfers-Out

This “other financing source” account represents cash transfers made by the Office of the Comptroller in accordance with statutory provision from the corresponding fund during the fiscal year per SAMS records in which a legally adopted appropriation was not charged.

**(e) Eliminations**

Eliminations have been made in the government-wide statement of net assets to minimize the “grossing-up” effect on assets and liabilities within the governmental activities column of the Department. As a result, amounts reported in the governmental funds balance sheet as interdepartmental interfund receivables and payables have been eliminated in the government-wide statement of net assets. Amounts reported in the governmental funds balance sheet and proprietary funds 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 less than 90 days at the time of purchase. Cash and cash equivalents include cash on hand and cash in banks for locally held funds.

**(g) Investments**

Investments are reported at fair value.

**(h) Interfund Transactions and Transactions with State of Illinois Component Units**

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 and the proprietary and government-wide statement 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 non-operating revenues and expenses.

The Department also has activity with the University of Illinois, a State of Illinois component unit, for medical programs and intergovernmental transfer agreements administered by the University and with various component units of the State of Illinois for on-behalf employee benefits paid.

**STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES**

Notes to the Financial Statements

June 30, 2011

**(i) Capital Assets**

Capital assets, which includes property, plant, and equipment, 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.

Capitalization thresholds and the estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life (in Years)
Equipment	\$5,000	3-10 years

**(j) Compensated Absences**

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

***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.

**STATE OF ILLINOIS**  
**DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES**

Notes to the Financial Statements

June 30, 2011

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

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

In the general fund, it is the Department's policy to consider restricted resources to have been spent first when an expenditure is incurred for which both restricted and unrestricted (i.e. committed, assigned or unassigned) fund balances are available, followed by committed and then assigned fund balances. Unassigned amounts are used only after the other resources have been used.

In other governmental funds (special revenue), it is the Department's policy to consider restricted resources to have been spent last. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the Department first utilizes any assigned amounts, followed by committed and then restricted amounts.

**(l) Net Assets**

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

**Invested in Capital Assets** – This consists of capital assets, net of accumulated depreciation.

**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."

**(m) Use of Estimates**

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

**(n) Health Benefits Claims Processing**

By State statute, the Department is responsible for administering the State's health benefit programs. The Department contracts with third party administrators to process health, dental and prescription claims submitted by healthcare service providers relating to the applicable self-insured portions of the health benefit programs accounted for in the Local Government Health Insurance Reserve Fund, Teacher Health Insurance Security Fund, Community College Health Insurance Security Fund and Health Insurance Reserve Fund. It is the Department's policy to recognize claims expense and accrue any unpaid liability relating to claims incurred but not reported (IBNR) based on actuarial projections and reports of processed claims provided by the third-party administrators.

**STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES**

Notes to the Financial Statements

June 30, 2011

**(o) New Accounting Pronouncements**

Effective for the year ending June 30, 2011, the Department adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes five classifications for fund balances, establishing a hierarchy that is based on the extent to which spending constraints restrict how a government can use the funds.

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

Cash on deposit for locally held funds of governmental activities, business-type activities, and fiduciary activities had carrying amounts and bank balances of \$3,048 thousand, \$55 thousand, and \$53 thousand, respectively, at June 30, 2011.

**(b) Investments**

Section 2 of the Public Funds Investment Act limits the State's investments outside the State Treasury to securities of the U.S. government or its agencies, short-term obligations of domestic corporations exceeding \$500 million in assets that are rated in the three highest categories by at least two nationally recognized statistical ratings organizations not to exceed ten percent of the domestic corporations outstanding obligations, money market mutual funds invested in the U.S. government and/or its agencies, and repurchase agreements securities of the U.S. government or its agencies or money market mutual funds invested in the U.S. government or its agencies. Investments of public funds in a Public Treasurers' Investment Pool created under Section 17 of the State Treasurer Act are also permitted.

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

	<b>Fair Value (Thousands)</b>	<b>Weighted Average Maturity (Years)</b>
<b><i>Governmental and Business-Type Activities</i></b>		
Illinois Public Treasurer's Investment Pool	\$ 24,816	0.117
Total fixed income investments	\$ 24,816	
<b><i>Fiduciary Funds</i></b>		
Repurchase agreements	\$ 10,417	0.003
Illinois Public Treasurer's Investment Pool	8,044	0.117
Total fixed income investments	\$ 18,461	

**STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES**

Notes to the Financial Statements

June 30, 2011

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 Illinois Public Treasurers' Investment Pool were rated AAAM by Standard & Poor's.

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

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

<i>Governmental and Business-Type Activities</i>	<u>Deposits</u>	<u>Investments</u>
Amount Per Note	\$ 3,103	\$ 24,816
Cash Equivalents	24,816	(24,816)
<b>Amounts Per Statement of Net Assets</b>	<u>\$ 27,919</u>	<u>\$ -</u>
<i>Fiduciary Funds</i>	<u>Deposits</u>	<u>Investments</u>
Amount Per Note	\$ 53	\$ 18,461
Cash Equivalents	18,461	(18,461)
Outstanding checks	(8,844)	-
<b>Amounts Per Statement of Fiduciary Net Assets</b>	<u>\$ 9,670</u>	<u>\$ -</u>

**(4) Accounts Receivable**

**(a) Taxes Receivable**

Taxes receivable (amounts expressed in thousands) at June 30, 2011 are as follows:

	<u>General Fund</u>
Taxes receivable	\$ 9,848
Less: allowance for uncollectible taxes	(4,583)
<b>Taxes receivable, net</b>	<u>\$ 5,265</u>

**STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES**

Notes to the Financial Statements

June 30, 2011

**(b) Other Receivables**

Other receivables (amounts expressed in thousands) at June 30, 2011 are as follows:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Nonmajor Proprietary Fund</u>	<u>Internal Service Fund</u>	<u>Fiduciary Funds</u>
Other receivables	\$ 458,371	\$ 709,234	\$ 222	\$ 19,052	\$ 3,865,975
Less: allowance for uncollectible accounts	(58,695)	(698,134)	-	-	(3,634,047)
<b>Other receivables, net</b>	<u>\$ 399,676</u>	<u>\$ 11,100</u>	<u>\$ 222</u>	<u>\$ 19,052</u>	<u>\$ 231,928</u>

**(5) Interfund Balances and Activity**

**(a) Balances due to/from Other Funds**

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

<u>Due from</u>				
<u>Fund</u>	<u>Other Department Funds</u>	<u>Other State Funds</u>	<u>Other Department Fiduciary Funds</u>	<u>Description/Purpose</u>
General	\$ -	\$ 5,299	\$ -	Due from other State funds for subgrants received.
Nonmajor governmental funds	28,439	747	-	Due from other State funds for unexpended subgrants made.
Internal service fund	1,241,796	339	10	Due from other funds for insurance benefits.
Fiduciary funds	1,000	-	-	Due from other funds for insurance benefits.
	<u>\$ 1,271,235</u>	<u>\$ 6,385</u>	<u>\$ 10</u>	

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The following balances (amounts expressed in thousands) at June 30, 2011 represent amounts due to the Department's internal service fund for insurance benefits, to other State of Illinois funds for purchases of services, and to pension (and other employee benefit) trust funds for post-employment benefits.

<b>Fund</b>	<b>Due to</b>			
	<b>Other Department Funds</b>	<b>Other State Funds</b>	<b>Other Department Fiduciary Funds</b>	<b>Other State Fiduciary Funds</b>
General	\$ 1,215,296	\$ 61,037	\$ 1,000	\$ 132
Road fund	54,244	-	-	-
Nonmajor governmental funds	689	10,141	-	709
Nonmajor proprietary fund	6	34	-	8
Internal service fund	-	1,120	-	39
Fiduciary funds	10	203	-	14
	\$ 1,270,245	\$ 72,535	\$ 1,000	\$ 902

**(b) Transfers to/from Other Funds**

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

<b>Fund</b>	<b>Transfers in from</b>		<b>Description/Purpose</b>
	<b>Other Department Funds</b>	<b>Other State Funds</b>	
General	\$ 10,520	\$ 12,295	Transfers from the Tobacco Settlement Fund.
Nonmajor governmental funds	29,939	-	Transfer from General Fund per State appropriation.
	\$ 40,459	\$ 12,295	

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

<u>Transfers out to</u>			
<u>Fund</u>	<u>Other Department Funds</u>	<u>Other State Funds</u>	<u>Description/Purpose</u>
General	\$ 29,939	\$ 20,000	Transfers to Department nonmajor governmental funds per State appropriation.
Nonmajor governmental funds	10,520	-	Transfer to General Fund for Medicaid programs.
	<u>\$ 40,459</u>	<u>\$ 20,000</u>	

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

The following balances (amounts expressed in thousands) at June 30, 2011 represent amounts due from State of Illinois Component Units to the General Fund for intergovernmental agreement reimbursements and to the internal service fund for health insurance charges.

<u>Fund</u>	<u>Due from Internal Service Fund</u>
Il State Toll Highway Authority	\$ 3,190
Chicago State University	58
Eastern Illinois University	26
Governors State University	53
Northeastern Illinois University	520
Western Illinois University	439
Illinois State University	136
Northern Illinois University	3,438
Southern Illinois University	1,206
University of Illinois	24,228
	<u>\$ 33,294</u>

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The following balances (amounts expressed in thousands) at June 30, 2011 represent amounts due to State of Illinois Component Units for medical reimbursements.

	<b>Due to</b>	
<b>Fund</b>	<b>General Fund</b>	<b>Nonmajor Governmental Funds</b>
Southern Illinois University	\$ 54	\$ -
University of Illinois	52,041	309
	\$ 52,095	\$ 309

**(6) Capital Assets**

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

	<b>Balance July 1, 2010</b>	<b>Additions</b>	<b>Deletions</b>	<b>Net Transfers</b>	<b>Balance June 30, 2011</b>
<b>Governmental Activities:</b>					
Capital assets being depreciated:					
Equipment	\$ 7,919	\$ 249	\$ 365	\$ (738)	\$ 7,065
Non-internally generated software	-	25	-	-	25
Less accumulated depreciation:					
Equipment	6,204	838	365	(727)	5,950
Non-internally generated software	-	25	-	-	25
Total capital assets being depreciated, net	1,715	(589)	-	(11)	1,115
Governmental activity capital assets, net	\$ 1,715	\$ (589)	\$ -	\$ (11)	\$ 1,115

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

Health and social services	\$ 863
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	<b>Balance July 1, 2010</b>	<b>Additions</b>	<b>Deletions</b>	<b>Net Transfers</b>	<b>Balance June 30, 2011</b>
<b>Business-type Activities:</b>					
Capital assets being					
depreciated: Equipment	\$ 9	\$ -	\$ -	\$ -	\$ 9
Less accumulated					
depreciation: Equipment	9	-	-	-	9
Business-type activity capital assets, net	\$ -	\$ -	\$ -	\$ -	\$ -

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**(7) Long-Term Obligations**

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

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2011</u>	<u>Amounts Due Within One Year</u>
<b>Governmental Activities:</b>					
Compensated Absences	\$ 12,999	\$ 12,197	\$ 12,359	\$ 12,837	\$ 669
Worker's Compensation	132	14,941	14,902	171	171
Net Other Postemployment					
Benefit Obligations	<u>3,878,792</u>	<u>1,837,565</u>	<u>-</u>	<u>5,716,357</u>	<u>-</u>
<b>Total governmental activities</b>	<u>\$ 3,891,923</u>	<u>\$ 1,864,703</u>	<u>\$ 27,261</u>	<u>\$ 5,729,365</u>	<u>\$ 840</u>
<b>Business-type Activities:</b>					
Compensated Absences	<u>\$ 74</u>	<u>\$ 54</u>	<u>\$ 33</u>	<u>\$ 95</u>	<u>\$ -</u>
<b>Total business-type activities</b>	<u>\$ 74</u>	<u>\$ 54</u>	<u>\$ 33</u>	<u>\$ 95</u>	<u>\$ -</u>
<b>Fiduciary Funds</b>					
Compensated Absences	<u>\$ 104</u>	<u>\$ 78</u>	<u>\$ 79</u>	<u>\$ 103</u>	<u>\$ -</u>
<b>Total fiduciary funds</b>	<u>\$ 104</u>	<u>\$ 78</u>	<u>\$ 79</u>	<u>\$ 103</u>	<u>\$ -</u>

Compensated absences have been liquidated by the applicable governmental funds that account for the salaries and wages of the related employees. Workers' compensation liabilities have been liquidated by the Health Insurance Reserve Fund, an internal service fund.

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

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

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

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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) Postemployment Benefits**

Plan Description: The State Employees Group Insurance Act of 1971 ("Act"), as amended, authorizes the State to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all State and university component unit employees become eligible for these other postemployment benefits ("OPEB") if they eventually become annuitants of one of the State sponsored pension plans. The Department of Healthcare and Family Services and the Department of Central Management Services administer these benefits for annuitants with the assistance of the public retirement systems sponsored by the State (General Assembly Retirement System, Judges Retirement System, State Employees Retirement System, Teachers Retirement System, and the State Universities Retirement System). The portions of the Act related to other postemployment benefits establishes a cost-sharing multiple-employer defined benefit OPEB plan with a special funding situation for employees of the State's component unit universities. The plan does not issue a stand-alone financial report.

The health, dental, and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and the various unions representing the State's and the university component units' employees in accordance with the limitations established in the Act. Therefore, the benefits provided and contribution amounts are subject to periodic change. The Act requires the State to provide life insurance benefits for annuitants equal to their annual salary as of the last day of employment until age 60, at which time the benefit amount becomes \$5,000.

Funding Policy and Annual Other Postemployment Benefits Cost: In accordance with the Act, the State contributes toward the cost of an annuitant's coverage under the basic program of group health, dental, and vision benefits an amount equal to five percent of that cost for each full year of creditable service up to a maximum of one hundred percent for an annuitant with twenty or more years of creditable service. For fiscal year 2011, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was \$7,538.40 (\$3,948.72 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and \$10,697.04 (\$4,483.44 if Medicare eligible) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

For current employees, contributions are dependent upon annual salary and whether or not the employee chooses to receive benefits through a health maintenance organization. Current employee contribution rates to the plan are as follows:

<u>Employee Annual Salary</u>	<b>Annual Employee Health, Dental, and Vision Contribution Requirements</b>	
	<b>Benefits Through a Health Maintenance Organization</b>	<b>Benefits Provided Through Other Than a Health Maintenance Organization</b>
	<u>Maintenance Organization</u>	<u>Maintenance Organization</u>
\$29,800 and below	\$696	\$996
\$29,801 - \$45,000	\$756	\$1,056
\$45,001 - \$59,900	\$786	\$1,086
\$59,901 - \$74,900	\$816	\$1,116
\$74,901 and above	\$846	\$1,146

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The State's lack of funding requirement differs significantly from the annual OPEB cost ("AOPEBC") as pay-as-you-go does not conform to the GASB Statement No. 45 accounting parameters. The State's AOPEBC for the current year and related information (amounts expressed in thousands) are as follows:

Actuarially required contribution ("ARC")	\$ 2,293,526
Plus: interest on net other postemployment benefit obligation ("NOPEBO")	174,546
Adjustment to the ARC	<u>(129,293)</u>
Annual other postemployment benefits cost	2,338,779
Benefits paid during the year	<u>501,214</u>
Increase in NOPEBO	1,837,565
NOPEBO at June 30, 2010	<u>3,878,792</u>
NOPEBO at June 30, 2011	<u><u>\$ 5,716,357</u></u>

The AOPEBC, the percentage of AOPEBC contributed for the year, and the NOPEBO at the end of the current fiscal year and the two preceding fiscal years (amounts expressed in thousands) are as follows:

	<b>6/30/2011</b>
<b>Annual Other Postemployment Benefit Cost</b>	
6/30/2009	\$ 1,839,728
6/30/2010	\$ 1,936,287
6/30/2011	\$ 2,338,779
<b>% of AOPEBC Contributed</b>	
6/30/2009	32.81%
6/30/2010	27.46%
6/30/2011	21.43%
<b>Net Other Postemployment Benefit Obligation</b>	
6/30/2009	\$ 2,474,254
6/30/2010	\$ 3,878,792
6/30/2011	\$ 5,716,357

Funded Status and Funding Progress: The funded status and funding progress of the State's OPEB plan (amounts expressed in thousands) are as follows:

	(a)	(b)	(c)	(d)	(e)	(f)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL") Projected Unit Credit	Unfunded AAL ("UAAL") (b-a)	Funded Ratio (a/b)	Covered Payroll	UAAL as a Percentage of Covered Payroll (c/e)
6/30/2011	\$ -	\$ 33,295,354	\$ 33,295,354	0.0%	\$ 7,375,559	451.43%

**Actuarial Methods and Assumptions.** Actual valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress of the State's OPEB plan, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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Projections of benefits for financial reporting purposes are based on the types of benefits provided at the time of each valuation and do not include the potential effects of legal or contractual funding limitations on the pattern of cost sharing between employer and plan members in the future. Information about actuarial methods and assumptions used in the actuarial valuation of the plan are as follows:

Actuarial valuation date of the actuarial required contribution	6/30/2011
Actuarial valuation date of the unfunded actuarial accrued liability	6/30/2011
Actuarial cost method	Proj. Unit Credit
Amortization method	Level % of pay
Remaining amortization period	30 years. Open
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return*	4.5%
Projected salary increases*	4.5%
Inflation Rate	3.0%
Healthcare cost trend rate:	
Medical	9.0% grading down .5% per year over 6 years to 6.0% and grading down to 5.6% in year 7 and 8
Dental	8.0% grading down .5% per year over 6 years to 5.0%
Vision	6.0% for next year with 3.0% used for subsequent years

\*Includes inflation rate listed

**(10) Fund Deficits**

The General Fund, the Tobacco Settlement Recovery Fund, the Community College Health Insurance Security Fund, the Local Government Health Insurance Reserve Fund, and the Road Fund had deficit fund balances at June 30, 2011 of \$588.940 million, \$5.964 million, \$19.657 million, \$1.670 million and \$54.244 million, respectively. The General Fund and the Tobacco Settlement Recovery Fund deficits result from the liabilities of the Medicaid program recognized at June 30, 2011 which will be paid from future year appropriations and from the allocation of the State's health insurance claims incurred but not received. The deficit is expected to be eliminated through both future federal and other revenue sources of the State and the future recognition of unavailable revenue. The Community College Health Insurance Security Fund and the Local Government Health Insurance Reserve Fund results from benefit payments exceeding contributions due to funding based on a pay-as-you-go basis. The Road Fund deficit results from the allocation of the State's health insurance claims incurred but not received. The deficit is expected to be eliminated through future revenues.

**(11) Risk Management**

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation and natural disasters. The State retains the risk of loss (i.e. self insured) for these risks except computer equipment insurance purchased by the Department.

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 administers the State of Illinois' risk management for employee health and dental insurance benefit programs of the State. The Health Insurance Reserve Fund, an internal service fund, is used to account for these benefit programs, which are partially self-funded. Employees of the State may obtain health care services through

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participation in the State's group health insurance plan or through membership in one of eight health maintenance organization plans under contract with the State. The State maintains the risk of insurance for employees who participate in the State's group health insurance plan. Expenses and liabilities for claims, which include incurred but not reported or not processed benefit claims, have been recorded as liabilities in the amount of \$618.791 million. Payments to the Health Insurance Reserve Fund are based on estimates of amounts needed to pay prior year unprocessed and current year claims.

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

<u>Year Ended June 30</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Decreases</u>	<u>Ending Balance</u>
2010	\$ 283,089	\$ 742,282	\$ 539,070	\$ 486,301
2011	\$ 486,301	\$ 694,125	\$ 561,635	\$ 618,791

**(12) Local Government Health Insurance Reserve Fund Risk Pool Disclosure**

The Local Government Health Insurance Reserve Fund (LGHIRF) was established to provide health and dental insurance to participating local governmental entities. Financial statements for the LGHIRF may be obtained from the Department. As of June 30, 2011, there were 393 local governmental entities participating with approximately 4,151 employees, 2,719 dependents and 271 retirees covered. Each participating local governmental unit is required to enter into a written agreement with the Department of Central Management Services (DCMS). The agreement sets forth the responsibilities of both parties. The Department issues a publicly available financial report that includes financial statements and required supplementary information for LGHIRF. The financial report may be obtained from the Department of Healthcare and Family Services, 201 South Grand Avenue, Springfield, Illinois, 62763.

The responsibilities required of the DCMS are:

- Setting and adjusting premium rates
- Billing and collection of monthly premiums from local governmental units
- Enrollment and termination of members and dependents after notification by the local governmental unit
- Establishment of a Local Government Health Plan Advisory Board, consisting of seven advisors from the participating local governmental units

The responsibilities required of the Department are:

- Establishment of the Local Government Health Insurance Reserve Fund
- Processing and payment of authorized claims

The responsibilities required of the local governmental units are:

- Enrollment of all employees and dependents that meet eligibility guidelines and who elect to participate
- Collection and transmission of monthly member and dependent premiums
- Designation of a Health Plan Representative
- Participation in the program for a minimum of two years

The LGHIRF had previously contracted with third-party reinsurers for reinsurance coverage. However, no such coverage was in place for the year ended June 30, 2011.

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The basis used in calculating the estimated liability for future claims is based on claims reported but not paid during the fiscal year plus an estimate of claims incurred but not reported (IBNR). The estimate for claims incurred but not reported was calculated using a factor based on historical experience stated as a percentage of claims reported vs. total claims incurred during the policy cycle. For the year ended June 30, 2011, all claims are paid on a two-year claim cycle.

Based on the above method, the liability for future claims (amounts expressed in thousands) at June 30, 2011 is as follows:

Claims incurred and reported but not paid as of June 30	\$ 5,539
Estimated liability for claims incurred but not reported	<u>1,611</u>
Total estimated liability for future claims	<u><u>\$ 7,150</u></u>

A reconciliation of total benefit claim payments and refunds including claims adjustment expense is as follows (amounts expressed in thousands):

Payments made for benefit claims	\$ 49,074
Less: Liability for unpaid claims, beginning of year	<u>3,435</u>
Subtotal	45,639
Add: Liability for unpaid claims, end of year	<u>7,150</u>
Total benefit claim payments and refunds	<u><u>\$ 52,789</u></u>

**(13) Other Post-Employment Benefit Plans**

The Department administers, along with the retirement systems listed below, two funds which account for cost-sharing, multiple-employer defined benefit postemployment benefit plans (other than pension plans) for non-State employees.

For both plans, plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and when the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The Department issues a publicly available financial report that includes financial statements and required supplementary information for each plan. The financial reports may be obtained from the Department of Healthcare and Family Services, 201 South Grand Avenue, Springfield, Illinois, 62763.

**(a) Teacher Retirement Insurance Plan (TRIP)**

The TRIP is accounted for in the Teacher Health Insurance Security Fund which was established to provide health insurance for the Illinois Teachers' Retirement System (TRS) annuitants and dependent beneficiaries. As of June 30, 2011, there were 1,007 school districts participating with approximately 59,358 annuitants and 10,080 dependents covered. The Department works in conjunction with the Illinois Teachers' Retirement System to administer the TRIP.

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The responsibilities required of the Department are:

- Setting and adjusting premium rates
- Establishment of the Teacher Health Insurance Security Fund
- Processing and payment of authorized claims
- Other matters noted in the administration of the fund

The responsibilities required of the TRS are:

- Enrollment of annuitants and dependents that meet eligibility guidelines and who elect to participate
- Termination of membership for annuitants and dependents
- Collection and transmission of monthly annuitant and dependent premiums
- Collection and transmission of 0.88 percent contribution from active teachers and 0.66 percent contributions from school districts for program funding purposes

**(b) Community College Insurance Plan (CCIP)**

The CCIP is accounted for in the Community College Health Insurance Security Fund which was established to provide health and dental insurance for the Illinois community college retirees and dependent beneficiaries. As of June 30, 2011, there were 38 community colleges and 1 community college association participating with approximately 5,240 annuitants and 843 dependents covered. The Department works in conjunction with the State Universities Retirement System (SURS) to administer the CCIP.

The responsibilities required of the Department are:

- Setting and adjusting premium rates
- Establishment of the Community College Health Insurance Security Fund
- Processing and payment of authorized claims
- Other matters noted in the administration of the fund

The responsibilities required of SURS are:

- Enrollment of annuitants and dependents that meet eligibility guidelines and who elect to participate
- Termination of membership for annuitants and dependents
- Collection and transmission of monthly annuitant and dependent premiums
- Collection and transmission of 0.5 percent contributions from active community college employees and community college districts for program funding purposes

**(14) Commitments and Contingencies**

**(a) Operating Leases**

The Department leases equipment, buildings and office space under terms of noncancelable operating lease agreements not extending past the end of the fiscal year, 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 \$5.474 million for the year ended June 30, 2011.

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**(b) Federal Funding**

The Department receives federal grants which are subject to review and audit by federal grantor agencies. Certain costs could be questioned as not being an eligible expenditure under the terms of the grants. At June 30, 2011, there were no material questioned costs that have not been resolved with the federal awarding agencies. However, questioned costs could still be identified during audits to be conducted in the future. Management of the Department believes there will be no material adjustments to the federal grants and, accordingly, has not recorded a provision for possible repayment.

**(c) Litigation**

A class action lawsuit existed at June 30, 2011, consisting of all past, present, and future participants in the Medically Fragile and Technology Dependant (MFTD) Medicaid Waiver for Children. The suit seeks to not have the individual's services reduced solely because the individual "ages-out" of the waiver at 21 upon being referred to a program with different service levels than the MFTD.

A class action lawsuit remains pending on June 30, 2011. This is a class action brought on behalf of Medicaid-eligible individuals with disabilities who desire to live in the community, but who are allegedly required to reside in skilled nursing facilities in Cook County as a condition of receiving services. On September 29, 2008, the Court certified that all Medicaid-eligible adults with disabilities in Cook County, Illinois, who are being, or may in the future be, unnecessarily confined to nursing facilities and who, with appropriate supports and services, may be able to live in a community setting. HFS administers medical assistance services provided through institutional settings. If relief is granted that results in the class receiving services in the community, that program is administered by DHS with federal claiming implications for HFS.

Adverse judgments in these matters generally could result in injunctive relief coupled with prospective changes in patient care that could require substantial increased financing of the litigated programs in the future. Because of the prospective nature of these matters and undeterminable exposure of loss, no provision for this potential exposure has been made in the accompanying basic financial statements.

**(15) Securities Lending Transactions**

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

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

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

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During the fiscal year, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank Group and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral invested in repurchase agreements and the value of securities on loan for the State Treasurer as of June 30, 2011 were \$3,456,373,500 and \$3,446,138,800, respectively. The total collateral held and the value of securities on loan for the State Treasurer as of June 30, 2010 was \$3,107,545,325 and \$3,095,533,634, respectively. Securities on loan are reported at market value with the exception of US Treasury Bills and US Agency Discount notes which are reported at amortized cost.

In accordance with GASB Statement No. 28, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2011 arising from securities lending agreements to the various funds of the State. The total allocated to the Department at June 30, 2011 was \$129,585 thousand for governmental and business type activities and \$12,748 thousand for fiduciary funds.

**(16) General Obligation Bonds**

Pursuant to Public Act 96-0885, the State was authorized to issue \$250 million of general obligation bonds only during fiscal year 2010 for the making of deposits into the Healthcare Provider Relief Fund for the exclusive purpose of funding Medicaid services subject to the enhanced federal participation due to expire on December 31, 2010. On April 12, 2010, the State issued \$246.095 million of general obligation bonds, which matured on March 13, 2011 with an interest rate of 2.5%. Proceeds from the bonds were deposited into the Healthcare Provider Relief Fund (a sub-account of the General Fund). This bond was fully amortized and paid on March 13, 2011.

**(17) Restatement**

The Department's financial statements have been restated as of July 1, 2010. The General Fund was restated as a result of an underreported estimate of a receivable (amounts expressed in thousands).

	<b>General Fund</b>	<b>Governmental Activities</b>	
Fund Balance/Net Assets, June 30, 2010, as previously reported	\$ (195,058)	\$ (3,430,113)	
Understatement of receivables	325,778	325,778	
Fund Balance/Net Assets, June 30, 2010, as restated	\$ 130,720	\$ (3,104,335)	

**STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES**

**Required Supplementary Information**

June 30, 2011

**Defined Benefit Other Postemployment Benefit Plans  
Schedule of Funding Progress  
(Unaudited)**

The following schedule of funding progress (dollar amounts in thousands) for the State of Illinois' other postemployment retirement benefits (health, dental, vision, and life insurance) is provided for the three most recent actuarial valuations.

	(a)	(b)	(c)	(d)	(e)	(f)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL") Projected Unit Credit	Unfunded AAL ("UAAL") (b-a)	Funded Ratio (a/b)	Covered Payroll	UAAL as a Percentage of Covered Payroll (c/e)
6/30/2007	\$ -	\$23,890,383	\$23,890,383	0.0%	\$6,872,740	347.6%
6/30/2009	\$ -	\$27,124,061	\$27,124,061	0.0%	\$7,091,656	382.5%
6/30/2011	\$ -	\$33,295,354	\$33,295,354	0.0%	\$7,375,559	451.4%

State of Illinois  
Department of Healthcare and Family Services

Combining Schedule of Accounts -  
General Fund

June 30, 2011 (Expressed in Thousands)

	General Revenue Account 0001	U of I Hospital Services 0136	County Hospital Services 0329	Care Provider for Persons with DD 0344	Long-Term Care Provider 0345	Hospital Provider 0346	Special Education Medicaid Matching 0355
<b>ASSETS</b>							
Unexpended appropriations	\$ 669,300	\$ -	\$ -	\$ 4	\$ -	\$ -	\$ -
Cash equity with State Treasurer	613	41,812	1,245	1	39,063	130,741	4,583
Cash and cash equivalents	176	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	1,044	-	6,685	47,752	-
Due from other government - federal	523,168	21,608	38,240	872	97	-	67,364
Due from other government - local	-	-	39,196	-	18,676	-	27
Taxes receivable, net	-	-	-	408	4,253	604	-
Other receivables, net	2,145	-	1	-	8	54	-
Due from other Department funds	239,180	-	-	-	-	-	-
Due from other State funds	43	-	-	-	27	-	-
<b>Total assets</b>	<b>\$ 1,434,625</b>	<b>\$ 63,420</b>	<b>\$ 79,726</b>	<b>\$ 1,285</b>	<b>\$ 68,809</b>	<b>\$ 179,151</b>	<b>\$ 71,974</b>
<b>LIABILITIES</b>							
Accounts payable and accrued liabilities	\$ 901,112	\$ -	\$ 42	\$ 3	\$ 143	\$ 378	\$ -
Due to other government - federal	247	-	3	-	2	-	-
Due to other government - local	8,613	-	78,615	-	19,228	-	71,974
Due to other State fiduciary funds	1	-	12	1	9	-	-
Due to other Department fiduciary funds	1,000	-	-	-	-	-	-
Due to other Department funds	1,234,712	-	10	1	9	-	-
Due to other State funds	60,125	-	-	-	1	-	-
Due to State of Illinois component units	14,272	37,333	-	-	-	-	-
Unavailable revenues	366,480	9,514	60,538	971	19,500	604	9,941
Obligations under securities lending of State Treasurer	-	-	1,044	-	6,685	47,752	-
<b>Total liabilities</b>	<b>2,586,562</b>	<b>46,847</b>	<b>140,264</b>	<b>976</b>	<b>45,577</b>	<b>48,734</b>	<b>81,915</b>
<b>FUND BALANCES (DEFICITS)</b>							
Nonspendable	-	-	-	-	-	-	-
Restricted - Health and Welfare	-	-	-	-	-	-	-
Committed - Health and Welfare	-	16,573	-	309	23,232	-	-
Assigned	-	-	-	-	-	-	-
Unassigned	(1,151,937)	-	(60,538)	-	-	130,417	(9,941)
<b>Total fund balances (deficits)</b>	<b>(1,151,937)</b>	<b>16,573</b>	<b>(60,538)</b>	<b>309</b>	<b>23,232</b>	<b>130,417</b>	<b>(9,941)</b>
<b>Total liabilities and fund balances (deficits)</b>	<b>\$ 1,434,625</b>	<b>\$ 63,420</b>	<b>\$ 79,726</b>	<b>\$ 1,285</b>	<b>\$ 68,809</b>	<b>\$ 179,151</b>	<b>\$ 71,974</b>

State of Illinois  
Department of Healthcare and Family Services

Combining Schedule of Accounts -  
General Fund

June 30, 2011 (Expressed in Thousands)

	Trauma Center 0397	Public Assistance Recoveries Trust 0421	Medical Research and Development 0486	Post- Tertiary Clinical Services 0487	Juvenile Rehab Services Medicaid Matching 0575	Family Care 0720	Drug Rebate 0728
\$	3,326	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	-	86,702	2	2	63	2,227	136,023
	-	-	-	-	-	-	-
	-	-	-	-	-	985	48,014
	1,605	2,130	-	-	572	68	32,523
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	395,854	-	-	-	1	1,291
	-	-	-	-	-	10,309	225,747
	-	-	-	-	-	4,458	-
<b>Total assets</b>	<b>4,931</b>	<b>484,686</b>	<b>2</b>	<b>2</b>	<b>635</b>	<b>18,048</b>	<b>443,598</b>

**LIABILITIES**

\$	3,326	2,731	\$ -	\$ -	\$ -	5,845	72,858
	-	26	-	-	-	-	-
	-	4,222	-	-	601	-	-
	-	99	-	-	-	-	-
	-	-	-	-	-	-	-
	-	476,770	-	-	34	-	-
	-	834	-	-	-	75	-
	-	4	-	-	-	135	297
	-	384	-	-	523	-	4,010
	-	-	-	-	-	985	48,014
<b>Total liabilities</b>	<b>3,326</b>	<b>485,070</b>	<b>-</b>	<b>-</b>	<b>1,158</b>	<b>7,040</b>	<b>125,179</b>

**FUND BALANCES (DEFICITS)**

	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	11,008	318,419
	-	-	-	-	-	-	-
	1,605	(384)	2	2	(523)	-	-
<b>Total fund balances (deficits)</b>	<b>1,605</b>	<b>(384)</b>	<b>2</b>	<b>2</b>	<b>(523)</b>	<b>11,008</b>	<b>318,419</b>
<b>Total liabilities and fund balances (deficits)</b>	<b>4,931</b>	<b>484,686</b>	<b>2</b>	<b>2</b>	<b>635</b>	<b>18,048</b>	<b>443,598</b>

*State of Illinois*  
*Department of Healthcare and Family Services*

**Combining Schedule of Accounts -  
General Fund**

June 30, 2011 (Expressed in Thousands)

	Independent Academic Medical Center 0735	Medicaid Buy-in Program Revolving 0740	Healthcare Provider Relief 0793	Medical Special Purpose Trust 0808	Eliminations	Total
<b>ASSETS</b>						
Unexpended appropriations	\$ -	\$ -	\$ -	-	-	\$ 672,630
Cash equity with State Treasurer	-	301	38,026	13,580	-	494,984
Cash and cash equivalents	-	-	-	-	-	176
Securities lending collateral equity with State Treasurer	-	99	4,617	-	-	109,196
Due from other government - federal	-	-	122,450	1,595	-	812,292
Due from other government - local	-	-	-	-	-	57,899
Taxes receivable, net	-	-	-	-	-	5,265
Other receivables, net	-	71	173	78	-	399,676
Due from other Department funds	-	-	20,919	93	\$ (496,248)	-
Due from other State funds	-	761	-	10	-	5,299
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 1,232</b>	<b>\$ 186,185</b>	<b>\$ 15,356</b>	<b>\$ (496,248)</b>	<b>\$ 2,557,417</b>
<b>LIABILITIES</b>						
Accounts payable and accrued liabilities	\$ -	\$ 11	\$ 20,321	\$ 715	-	\$ 1,007,485
Due to other government - federal	-	1	-	80	-	359
Due to other government - local	-	-	-	-	-	183,253
Due to other State fiduciary funds	-	2	-	8	-	132
Due to other Department fiduciary funds	-	-	-	-	-	1,000
Due to other Department funds	-	3	-	5	\$ (496,248)	1,215,296
Due to other State funds	-	-	-	2	-	61,037
Due to State of Illinois component units	-	-	-	54	-	52,095
Unavailable revenues	-	5	44,034	-	-	516,504
Obligations under securities lending of State Treasurer	-	99	4,617	-	-	109,196
<b>Total liabilities</b>	<b>-</b>	<b>121</b>	<b>68,972</b>	<b>864</b>	<b>(496,248)</b>	<b>3,146,357</b>
<b>FUND BALANCES (DEFICITS)</b>						
Nonspendable	-	-	-	-	-	-
Restricted - Health and Welfare	-	-	-	1,210	-	1,210
Committed - Health and Welfare	-	1,111	117,213	13,282	-	501,147
Assigned	-	-	-	-	-	-
Unassigned	-	-	-	-	-	(1,091,297)
<b>Total fund balances (deficits)</b>	<b>-</b>	<b>1,111</b>	<b>117,213</b>	<b>14,492</b>	<b>-</b>	<b>(588,940)</b>
<b>Total liabilities and fund balances (deficits)</b>	<b>\$ -</b>	<b>\$ 1,232</b>	<b>\$ 186,185</b>	<b>\$ 15,356</b>	<b>\$ (496,248)</b>	<b>\$ 2,557,417</b>

State of Illinois  
Department of Healthcare and Family Services

Combining Schedule of Revenues,  
Expenditures and Changes in Fund Balance -  
General Fund

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

	General Revenue Account 0001	U of I Hospital Services 0136	County Hospital Services 0329	Care Provider for Persons with DD 0344	Long-Term Care Provider 0345	Hospital Provider 0346	Special Education Medicaid Matching 0355
<b>REVENUES</b>							
Operating grants - federal	\$ 4,072,465	\$ 188,482	\$ 693,396	\$ 21,287	\$ 342,504	\$ 1,202,513	\$ 194,403
Other operating grants	-	45,000	651,955	-	-	-	-
Licenses and fees	19,676	-	-	-	-	-	-
Other charges for services	-	-	-	-	-	-	-
Interest and other investment income	19	-	15	-	203	598	-
Other taxes	-	-	-	19,087	225,624	890,742	-
Other	247,216	-	-	-	-	-	-
<b>Total revenues</b>	<b>4,339,376</b>	<b>233,482</b>	<b>1,345,366</b>	<b>40,374</b>	<b>568,331</b>	<b>2,093,853</b>	<b>194,403</b>
<b>EXPENDITURES</b>							
Health and social services	6,427,264	233,576	1,336,028	120	543,776	1,925,000	194,403
Education	497,636	-	-	-	-	-	-
Employment and economic development	23,204	-	-	-	-	-	-
General government	145,613	-	-	-	-	-	-
Transportation	10,483	-	-	-	-	-	-
Public protection and justice	382,247	-	-	-	-	-	-
Environment and business regulation	35,651	-	-	-	-	-	-
Capital outlays	238	-	-	-	-	-	-
<b>Total expenditures</b>	<b>7,522,336</b>	<b>233,576</b>	<b>1,336,028</b>	<b>120</b>	<b>543,776</b>	<b>1,925,000</b>	<b>194,403</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(3,182,960)</b>	<b>(94)</b>	<b>9,338</b>	<b>40,254</b>	<b>24,555</b>	<b>168,853</b>	<b>-</b>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>							
Appropriations from State resources	7,640,586	-	-	1,135	-	-	-
Lapsed appropriations	(314,849)	-	-	(1,015)	-	-	-
Receipts collected and transmitted to State Treasury	(5,000,166)	-	-	(40,364)	-	-	-
Amount of SAMS transfers-in	(90,122)	-	-	-	-	-	-
Amount of SAMS transfers-out	410,000	-	-	-	-	-	-
Transfers-in	80,000	45,000	-	-	30,000	-	-
Transfers-out	(465,917)	-	-	-	-	(190,000)	-
<b>Net other sources (uses) of financial resources</b>	<b>2,259,532</b>	<b>45,000</b>	<b>-</b>	<b>(40,244)</b>	<b>30,000</b>	<b>(190,000)</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(923,428)</b>	<b>44,906</b>	<b>9,338</b>	<b>10</b>	<b>54,555</b>	<b>(21,147)</b>	<b>-</b>
Fund balances (deficits), July 1, 2010, as restated	(228,509)	(28,333)	(69,876)	299	(31,323)	151,564	(9,941)
<b>FUND BALANCES (DEFICITS), JUNE 30, 2011</b>	<b>\$ (1,151,937)</b>	<b>\$ 16,573</b>	<b>\$ (60,538)</b>	<b>\$ 309</b>	<b>\$ 23,232</b>	<b>\$ 130,417</b>	<b>\$ (9,941)</b>

State of Illinois  
Department of Healthcare and Family Services

Combining Schedule of Revenues,  
Expenditures and Changes in Fund Balance -  
General Fund

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

	Trauma Center 0397	Public Assistance Recoveries Trust 0421	Medical Research and Development 0486	Post- Tertiary Clinical Services 0487	Juvenile Rehab Services Medicaid Matching 0575	Family Care 0720	Drug Rebate 0728
<b>REVENUES</b>							
Operating grants - federal	\$ 8,664	\$ 44,131	\$ 7,921	\$ 7,921	\$ 691	\$ 240	\$ 328,203
Other operating grants	-	-	-	-	-	-	-
Licenses and fees	-	-	-	-	-	-	-
Other charges for services	-	28,925	-	-	-	-	-
Interest and other investment income	-	-	-	-	-	7	430
Other taxes	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
<b>Total revenues</b>	<b>8,664</b>	<b>73,056</b>	<b>7,921</b>	<b>7,921</b>	<b>691</b>	<b>247</b>	<b>328,633</b>
<b>EXPENDITURES</b>							
Health and social services	12,844	74,986	12,801	12,801	(116)	36,168	237,604
Education	-	-	-	-	-	-	-
Employment and economic development	-	-	-	-	-	-	-
General government	-	-	-	-	-	-	-
Transportation	-	-	-	-	-	-	-
Public protection and justice	-	-	-	-	-	-	-
Environment and business regulation	-	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-	-
<b>Total expenditures</b>	<b>12,844</b>	<b>74,986</b>	<b>12,801</b>	<b>12,801</b>	<b>(116)</b>	<b>36,168</b>	<b>237,604</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(4,180)</b>	<b>(1,930)</b>	<b>(4,880)</b>	<b>(4,880)</b>	<b>807</b>	<b>(35,921)</b>	<b>91,029</b>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>							
Appropriations from State resources	18,000	-	-	-	-	-	-
Lapsed appropriations	(2,212)	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	(7,059)	-	-	-	-	-	-
Amount of SAMS transfers-in	-	-	-	-	-	-	-
Amount of SAMS transfers-out	-	2,233	4,879	4,879	-	34,040	-
Transfers-in	-	(500)	(762)	(762)	-	-	-
Transfers-out	-	-	-	-	-	-	-
<b>Net other sources (uses) of financial resources</b>	<b>8,729</b>	<b>1,733</b>	<b>4,117</b>	<b>4,117</b>	<b>-</b>	<b>34,040</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>4,549</b>	<b>(197)</b>	<b>(763)</b>	<b>(763)</b>	<b>807</b>	<b>(1,881)</b>	<b>91,029</b>
Fund balances (deficits), July 1, 2010, as restated	(2,944)	(187)	765	765	(1,330)	12,889	227,390
<b>FUND BALANCES (DEFICITS), JUNE 30, 2011</b>	<b>\$ 1,605</b>	<b>\$ (384)</b>	<b>\$ 2</b>	<b>\$ 2</b>	<b>\$ (523)</b>	<b>\$ 11,008</b>	<b>\$ 318,419</b>

State of Illinois  
Department of Healthcare and Family Services

Combining Schedule of Revenues,  
Expenditures and Changes in Fund Balance -  
General Fund

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

	Independent Academic Medical Center 0735	Medicaid Buy-in Program Revolving 0740	Healthcare Provider Relief 0793	Medical Special Purpose Trust 0808	Eliminations	Total
<b>REVENUES</b>						
Operating grants - federal	\$ 1,238	\$ -	\$ 1,205,440	\$ 14,227	\$ -	\$ 8,333,726
Other operating grants	-	-	-	723	-	697,678
Licenses and fees	-	742	-	-	-	20,418
Other charges for services	-	-	-	-	\$ (28,925)	-
Interest and other investment income	-	2	326	-	-	1,600
Other taxes	-	-	-	-	-	1,135,453
Other	-	-	-	1	-	247,217
<b>Total revenues</b>	<b>1,238</b>	<b>744</b>	<b>1,205,766</b>	<b>14,951</b>	<b>(28,925)</b>	<b>10,436,092</b>
<b>EXPENDITURES</b>						
Health and social services	2,000	304	1,620,942	5,914	(28,925)	12,647,490
Education	-	-	-	-	-	497,636
Employment and economic development	-	-	-	-	-	23,204
General government	-	-	-	-	-	145,613
Transportation	-	-	-	-	-	10,483
Public protection and justice	-	-	-	-	-	382,247
Environment and business regulation	-	-	-	-	-	35,651
Capital outlays	-	-	-	-	-	238
<b>Total expenditures</b>	<b>2,000</b>	<b>304</b>	<b>1,620,942</b>	<b>5,914</b>	<b>(28,925)</b>	<b>13,742,562</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(762)</b>	<b>440</b>	<b>(415,176)</b>	<b>9,037</b>	<b>-</b>	<b>(3,306,470)</b>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>						
Appropriations from State resources	-	-	-	-	-	7,659,721
Lapsed appropriations	-	-	-	-	-	(318,076)
Receipts collected and transmitted to State Treasury	-	-	-	-	-	(5,047,589)
Amount of SAMS transfers-in	-	-	-	-	-	(90,122)
Amount of SAMS transfers-out	-	-	-	-	-	410,000
Transfers-in	762	-	425,000	4,024	(608,002)	22,815
Transfers-out	-	-	-	-	608,002	(49,939)
<b>Net other sources (uses) of financial resources</b>	<b>762</b>	<b>-</b>	<b>425,000</b>	<b>4,024</b>	<b>-</b>	<b>2,586,810</b>
<b>Net change in fund balances</b>	<b>-</b>	<b>440</b>	<b>9,824</b>	<b>13,061</b>	<b>-</b>	<b>(719,660)</b>
Fund balances (deficits), July 1, 2010, as restated	-	671	107,389	1,431	-	130,720
<b>FUND BALANCES (DEFICITS), JUNE 30, 2011</b>	<b>\$ -</b>	<b>\$ 1,111</b>	<b>\$ 117,213</b>	<b>\$ 14,492</b>	<b>\$ -</b>	<b>\$ (588,940)</b>

*State of Illinois*  
*Department of Healthcare and Family Services*

**Combining Balance Sheet -  
Nonmajor Governmental Funds**

June 30, 2011 (Expressed in Thousands)

	Special Revenue				FY09 Budget Relief 0678
	Illinois Prescription Drug Discount Program 0316	Provider Inquiry Trust 0341	Money Follows the Person Budget Transfer 0522	Department of Corrections Reimbursement and Education 0523	
\$	-	-	-	-	-
1	720	146	-	-	-
-	-	77	-	-	-
-	-	429	26	-	-
-	113	-	-	-	-
-	-	-	-	-	-
256	491	-	-	-	-
<b>\$ 257</b>	<b>\$ 1,324</b>	<b>\$ 652</b>	<b>\$ 26</b>	<b>\$ -</b>	<b>\$ -</b>
<b>ASSETS</b>					
Unexpended appropriations					
Cash equity with State Treasurer					
Securities lending collateral equity with State Treasurer					
Due from other government - federal					
Other receivables, net					
Due from other Department funds					
Due from other State funds					
<b>Total assets</b>					
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities					
Due to other government - federal					
Due to other government - local					
Due to other State fiduciary funds					
Due to other Department funds					
Due to other State funds		58			
Due to State of Illinois component units			309		
Unavailable revenue			155	17	
Obligations under securities lending of State Treasurer			77		
<b>Total liabilities</b>		<b>58</b>	<b>541</b>	<b>17</b>	
<b>FUND BALANCES</b>					
Nonspendable					
Restricted - Health and Welfare					
Committed - Health and Welfare	257	1,266	111	9	
Assigned					
Unassigned					
<b>Total fund balances</b>	<b>257</b>	<b>1,266</b>	<b>111</b>	<b>9</b>	
<b>Total liabilities and fund balances</b>	<b>\$ 257</b>	<b>\$ 1,324</b>	<b>\$ 652</b>	<b>\$ 26</b>	<b>\$ -</b>

*State of Illinois*  
*Department of Healthcare and Family Services*

**Combining Balance Sheet -  
 Nonmajor Governmental Funds**

June 30, 2011 (Expressed in Thousands)

	<u>Special Revenue</u>			
	<u>Tobacco Settlement Recovery 0733</u>	<u>Child Support Administration 0757</u>	<u>Total</u>	
<b>ASSETS</b>				
Unexpended appropriations	\$ 645	\$ -	\$ 645	
Cash equity with State Treasurer	-	30,196	31,063	
Securities lending collateral equity with State Treasurer	-	-	77	
Due from other government - federal	3,026	17,497	20,978	
Other receivables, net	95	10,892	11,100	
Due from other Department funds	-	28,439	28,439	
Due from other State funds	-	-	747	
<b>Total assets</b>	<b>\$ 3,766</b>	<b>\$ 87,024</b>	<b>\$ 93,049</b>	
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 6,992	\$ 6,280	\$ 13,272	
Due to other government - federal	-	7,083	7,083	
Due to other government - local	-	10,794	10,794	
Due to other State fiduciary funds	-	709	709	
Due to other Department funds	-	689	689	
Due to other State funds	-	10,083	10,141	
Due to State of Illinois component units	-	-	309	
Unavailable revenue	2,738	58	2,968	
Obligations under securities lending of State Treasurer	-	-	77	
<b>Total liabilities</b>	<b>9,730</b>	<b>35,696</b>	<b>46,042</b>	
<b>FUND BALANCES</b>				
Nonspendable	-	-	-	
Restricted - Health and Welfare	-	-	-	
Committed - Health and Welfare	-	51,328	52,971	
Assigned	-	-	-	
Unassigned	(5,964)	-	(5,964)	
<b>Total fund balances</b>	<b>(5,964)</b>	<b>51,328</b>	<b>47,007</b>	
<b>Total liabilities and fund balances</b>	<b>\$ 3,766</b>	<b>\$ 87,024</b>	<b>\$ 93,049</b>	

*State of Illinois*  
*Department of Healthcare and Family Services*

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

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

	Illinois Prescription Drug Discount Program 0316	Provider Inquiry Trust 0341	Special Revenue			FY09 Budget Relief 0678
			Money Follows the Person Budget Transfer 0522	Department of Corrections Reimbursement and Education 0523		
<b>REVENUES</b>						
Operating grants - federal	\$ -	\$ -	\$ 640	\$ 287	\$ -	-
Licenses and fees	-	1,210	-	-	-	-
Other charges for services	-	-	-	-	-	-
Interest and other investment income	-	-	2	-	-	-
Other revenues, net	2	-	-	-	-	13
<b>Total revenues</b>	<b>2</b>	<b>1,210</b>	<b>642</b>	<b>287</b>	<b>13</b>	<b>13</b>
<b>EXPENDITURES</b>						
Health and social services	1	751	1,005	-	-	-
Capital outlay	-	-	-	-	-	-
<b>Total expenditures</b>	<b>1</b>	<b>751</b>	<b>1,005</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>1</b>	<b>459</b>	<b>(363)</b>	<b>287</b>	<b>13</b>	<b>13</b>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>						
Appropriations from State resources	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	(278)	(13)	(13)
Transfers-in	-	-	-	-	-	-
Transfers-out	-	-	-	-	-	-
<b>Net other sources (uses) of financial resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(278)</b>	<b>(13)</b>	<b>(13)</b>
<b>Net change in fund balances</b>	<b>1</b>	<b>459</b>	<b>(363)</b>	<b>9</b>	<b>-</b>	<b>-</b>
Fund balances, July 1, 2010	256	807	474	-	-	-
<b>FUND BALANCES, JUNE 30, 2011</b>	<b>\$ 257</b>	<b>\$ 1,266</b>	<b>\$ 111</b>	<b>\$ 9</b>	<b>\$ -</b>	<b>-</b>

*State of Illinois*  
*Department of Healthcare and Family Services*

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

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

	Special Revenue			
	Tobacco Settlement Recovery 0733	Child Support Administration 0757	Total	
<b>REVENUES</b>				
Operating grants - federal	\$ 320,468	\$ 124,983	\$ 446,378	
Licenses and fees	-	-	1,210	
Other charges for services	-	15,041	15,041	
Interest and other investment income	-	-	2	
Other revenues, net	-	-	15	
<b>Total revenues</b>	<b>320,468</b>	<b>140,024</b>	<b>462,646</b>	
<b>EXPENDITURES</b>				
Health and social services	593,964	173,414	769,135	
Capital outlay	-	11	11	
<b>Total expenditures</b>	<b>593,964</b>	<b>173,425</b>	<b>769,146</b>	
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(273,496)</b>	<b>(33,401)</b>	<b>(306,500)</b>	
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>				
Appropriations from State resources	750,522	-	750,522	
Lapsed appropriations	(147,666)	-	(147,666)	
Receipts collected and transmitted to State Treasury	(323,161)	-	(323,452)	
Transfers-in	-	29,939	29,939	
Transfers-out	(10,520)	-	(10,520)	
<b>Net other sources (uses) of financial resources</b>	<b>269,175</b>	<b>29,939</b>	<b>298,823</b>	
<b>Net change in fund balances</b>	<b>(4,321)</b>	<b>(3,462)</b>	<b>(7,677)</b>	
Fund balances, July 1, 2010	(1,643)	54,790	54,684	
<b>FUND BALANCES, JUNE 30, 2011</b>	<b>\$ (5,964)</b>	<b>\$ 51,328</b>	<b>\$ 47,007</b>	

*State of Illinois*

*Department of Healthcare and Family Services*

**Combining Statement of Fiduciary Net Assets -  
Pension (and Other Employee Benefit) Trust Funds**

June 30, 2011 (Expressed in Thousands)

	<b>Teacher Health Insurance Security 0203</b>	<b>Community College Health Insurance Security 0577</b>	<b>Total</b>
<b>ASSETS</b>			
Cash equity with State Treasurer	\$ 34,053	\$ 1,129	\$ 35,182
Cash and cash equivalents	7,364	733	8,097
Securities lending collateral equity with State Treasurer	12,003	745	12,748
Receivables, net:			
Federal government	5,994	558	6,552
Employee	4,787	205	4,992
Employer	3,590	205	3,795
Interest and investment income	14	1	15
Other	8,111	818	8,929
Due from other Department funds	-	1,000	1,000
<b>Total assets</b>	<b>75,916</b>	<b>5,394</b>	<b>81,310</b>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	56,487	24,273	80,760
Intergovernmental payables	3	1	4
Due to other State fiduciary funds	11	3	14
Due to other Department funds	8	2	10
Due to other State funds	182	21	203
Obligations under securities lending of State Treasurer	12,003	745	12,748
Long term obligations:			
Due subsequent to one year	97	6	103
<b>Total liabilities</b>	<b>68,791</b>	<b>25,051</b>	<b>93,842</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION AND OTHER EMPLOYEE BENEFITS</b>	<b>\$ 7,125</b>	<b>\$ (19,657)</b>	<b>\$ (12,532)</b>

State of Illinois

Department of Healthcare and Family Services

**Combining Statement of Changes in Fiduciary Net Assets -  
Pension (and Other Employee Benefit) Trust Funds**

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

	<b>Teacher Health Insurance Security 0203</b>	<b>Community College Health Insurance Security 0577</b>	<b>Total</b>
<b>ADDITIONS</b>			
Contributions:			
Employer	\$ 70,570	\$ 4,090	\$ 74,660
State	85,953	5,237	91,190
Plan members:			
Active	94,176	4,090	98,266
Retiree	162,586	14,109	176,695
Terminated employees (COBRA)	88	-	88
Federal Medicare Part D	23,422	2,219	25,641
Total contributions	<u>436,795</u>	<u>29,745</u>	<u>466,540</u>
Investment Income:			
Interest and other investment income	173	9	182
Net investment income	<u>173</u>	<u>9</u>	<u>182</u>
<b>Total additions</b>	<u>436,968</u>	<u>29,754</u>	<u>466,722</u>
<b>DEDUCTIONS</b>			
Benefit payments and refunds	466,310	41,169	507,479
General and administration	2,756	1,554	4,310
<b>Total deductions</b>	<u>469,066</u>	<u>42,723</u>	<u>511,789</u>
<b>Net additions (deductions)</b>	(32,098)	(12,969)	(45,067)
Net assets held in trust for pension and other employee benefits, July 1, 2010	<u>39,223</u>	<u>(6,688)</u>	<u>32,535</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION AND OTHER EMPLOYEE BENEFITS, June 30, 2011</b>	<u>\$ 7,125</u>	<u>\$ (19,657)</u>	<u>\$ (12,532)</u>

*State of Illinois*

*Department of Healthcare and Family Services*

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**Combining Statement of Fiduciary Net Assets -**

**Agency Funds**

June 30, 2011 (Expressed in Thousands)

	<b>Child Support Enforcement Trust 0957</b>	<b>Child Support Enforcement Trust - SDU 2957</b>	<b>Total</b>
<b>ASSETS</b>			
Cash equity with State Treasurer	\$ 15,801	\$ -	\$ 15,801
Cash and cash equivalents	133	1,440	1,573
Other receivables, net	222,962	37	222,999
<b>Total assets</b>	<b>\$ 238,896</b>	<b>\$ 1,477</b>	<b>\$ 240,373</b>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 16,997	\$ 1,477	\$ 18,474
Other liabilities	221,899	-	221,899
<b>Total liabilities</b>	<b>\$ 238,896</b>	<b>\$ 1,477</b>	<b>\$ 240,373</b>

*State of Illinois*

*Department of Healthcare and Family Services*

**Combining Statement of Changes in Assets and Liabilities -  
Agency Funds**

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

	Balance at July 1, 2010	Additions	Deletions	Balance at June 30, 2011
<b>Child Support Enforcement Trust (0957)</b>				
<b>ASSETS</b>				
Cash equity with State Treasurer	\$ 15,683	\$ 212,536	\$ 212,418	\$ 15,801
Cash and cash equivalents	156	66,023	66,046	133
Other receivables, net	216,276	219,219	212,533	222,962
Due from other State funds	1	2	3	-
<b>Total assets</b>	<b>\$ 232,116</b>	<b>\$ 497,780</b>	<b>\$ 491,000</b>	<b>\$ 238,896</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 18,684	\$ 51,509	\$ 53,196	\$ 16,997
Other liabilities	213,432	233,735	225,268	221,899
<b>Total liabilities</b>	<b>\$ 232,116</b>	<b>\$ 285,244</b>	<b>\$ 278,464</b>	<b>\$ 238,896</b>
<b>Child Support Enforcement Trust - SDU (2957)</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,038	\$ 1,067,472	\$ 1,067,070	\$ 1,440
Other receivables, net	311	588	862	37
<b>Total assets</b>	<b>\$ 1,349</b>	<b>\$ 1,068,060</b>	<b>\$ 1,067,932</b>	<b>\$ 1,477</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 1,349	\$ 1,067,198	\$ 1,067,070	\$ 1,477
<b>Total liabilities</b>	<b>\$ 1,349</b>	<b>\$ 1,067,198</b>	<b>\$ 1,067,070</b>	<b>\$ 1,477</b>
<b>Total</b>				
<b>ASSETS</b>				
Cash equity with State Treasurer	\$ 15,683	\$ 212,536	\$ 212,418	\$ 15,801
Cash and cash equivalents	1,194	1,133,495	1,133,116	1,573
Other receivables, net	216,587	219,807	213,395	222,999
Due from other State funds	1	2	3	-
<b>Total assets</b>	<b>\$ 233,465</b>	<b>\$ 1,565,840</b>	<b>\$ 1,558,932</b>	<b>\$ 240,373</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 20,033	\$ 1,118,707	\$ 1,120,266	\$ 18,474
Other liabilities	213,432	233,735	225,268	221,899
<b>Total liabilities</b>	<b>\$ 233,465</b>	<b>\$ 1,352,442</b>	<b>\$ 1,345,534</b>	<b>\$ 240,373</b>

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OFFICE OF THE AUDITOR GENERAL  
WILLIAM G. HOLLAND

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Healthcare and Family Services, as of and for the year ended June 30, 2011, which collectively comprise the State of Illinois, Department of Healthcare and Family Services' basic financial statements, and have issued our report thereon dated April 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the State of Illinois, Department of Healthcare and Family 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 Healthcare and Family 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 Healthcare and Family Services' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Department of Healthcare and Family Services' internal control over financial reporting.

Our consideration of the 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 certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in findings 11-1 and 11-2 in the accompanying schedule of findings to be material weaknesses.

A *significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in findings 11-3 and 11-4 in the accompanying schedule of findings to be significant deficiencies.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Department of Healthcare and Family 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 11-1.

We noted certain matters that we reported to management of the State of Illinois, Department of Healthcare and Family Services in a separate letter dated April 10, 2012.

The State of Illinois, Department of Healthcare and Family 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 Healthcare and Family Services' responses and, accordingly, we express no opinion on them.

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



Bruce L. Bullard, CPA  
Director of Financial and Compliance Audits

April 10, 2012

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS**  
For the Year Ended June 30, 2011

11-1. **FINDING** (Financial statement preparation)

The Illinois Department of Healthcare and Family Services' (Department) year-end financial reporting in accordance with generally accepted accounting principles (GAAP) to the Illinois Office of the Comptroller (Comptroller) contained weaknesses and inaccuracies. In addition, financial reporting was not timely.

Several errors were identified during the audit of the Department's draft financial statements. The Department's financial statements were adjusted for the following reporting errors:

- An adjustment identified by management totaling \$325.778 million was made to restate receivables as of July 1, 2010 due to an inaccurate estimate of the Department's drug rebate receivable.
- The Department classified \$33.451 million of intergovernmental payments as expenditures instead of transfers-out.
- The Department did not correctly compute the allocation amount for the Health Insurance Reserve Fund Liability. As a result, \$9.970 million was incorrectly allocated to the Road Fund instead of the General Revenue Fund.
- Liabilities related to medical accrual were incorrectly calculated resulting in accounts payable and health and social service expenditures to be understated by \$25.518 million.
- The Department incorrectly classified Fund Balance as Unassigned instead of Committed in two funds totaling \$39.805 million and as Restricted instead of Committed in one fund totaling \$117.213 million.
- Accounts payable totaling \$1.613 million was overstated due to the Department recording vouchers that were in transit to the Office of the Comptroller twice.

Also, a complete set of the Department's financial statements were not provided to the auditors until February 6, 2012, seven months after the year end. To complete the Department's financial statements, the Department was required to obtain and include in the Department's financial statements actuarial valuations for purposes of complying with the requirements of Statement No. 45 of the Governmental Accounting Standards Board. The draft actuarial valuation was not available to the auditors until January 27, 2012 and the final actuarial valuation was not provided until February 27, 2012.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS**  
For the Year Ended June 30, 2011

The Comptroller requires State agencies to prepare GAAP Reporting Packages 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 Manual (Chapter 27). The Comptroller also sets due dates for the financial information to be submitted in order for the Statewide and Department's financial statements to be prepared and audited within a specified timeline to provide the financial statements to users in a timely manner.

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

Department management stated the complexity of the Department's financial statements was a contributing factor in the lack of accuracy in the presentation of the GAAP financial statements and notes. The implementation of new accounting procedures and evolving guidance during the implementation resulted in the Agency interpreting the application without defined guidance. The Department has also experienced a loss of seasoned staff, an increase in time to replace staff, the addition of new and inexperienced staff, and the related loss of institutional knowledge in the financial reporting area.

The completed notes to the financial statements were not timely due to the inclusion of the GASB 45 valuation disclosures. The GASB 45 valuation was not completed until January 27, 2012 due to the conjunctive efforts needed by the Department, three retirement systems and the contracted actuary. Once this data was submitted to the actuarial firm, the first drafts of the valuations were completed within 8 weeks. Upon completion, the valuations were reviewed, variances were calculated and explained, and random sampling was completed to attain a level of reasonableness at the data level.

Failure to implement appropriate internal controls and provide timely financial information could lead to future misstatements of the Statewide and the Department's financial statements. (Finding Code No. 11-1, 10-1, 09-2)

**RECOMMENDATION**

We recommend the Department implement additional internal control procedures to ensure GAAP Reporting Packages are prepared in an accurate and timely manner.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS**  
For the Year Ended June 30, 2011

**DEPARTMENT RESPONSE**

The Department accepts the recommendation. The Department is continually assessing the financial reporting process and implementing procedures to improve upon timeliness and accuracy.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS**  
For the Year Ended June 30, 2011

11-2. **FINDING** (Insufficient controls over the University of Illinois Hospital Services Fund)

The Illinois Department of Healthcare and Family Services (Department) did not have adequate controls for hospital rates that are reimbursed to the University of Illinois Hospital and Clinics (Hospital) for services provided to individuals.

During our review of the University of Illinois Hospital Services Fund, which included a review of the Interagency Agreement between the Board of Trustees of the University of Illinois and the Department and testing of reimbursement rates that are determined by the Department, we noted the following:

- The Department did not calculate the Fiscal Year 2011 inpatient and outpatient rates in a timely manner. The Department did not notify the Hospital of the rates until October 1, 2010, three months after the beginning of the Fiscal Year. Thus, the Department was forced to utilize the Fiscal Year 2010 inpatient and outpatient rates for the first three months of Fiscal Year 2011.
- The Department did not make an adjustment to re-price the Fiscal Year 2011 inpatient and outpatient claims from Fiscal Year 2010 rates to Fiscal Year 2011 rates in a timely manner.
- The Department's calculation of the Fiscal Year 2011 inpatient rate was incorrect. Two of the amounts used by the Department to calculate the rate did not agree with the data provided by the Hospital. The Fiscal Year 2011 inpatient rate calculated by the Department was approximately \$140 less than what the rate should have been.

The Department did not make these adjustments until February 2012 which is eight months after the fiscal year end. Due to the errors noted above, the Hospital was underpaid a total of \$5.053 million.

The Department and the Board of Trustees of the University of Illinois entered into an Interagency Agreement (Agreement) that requires the Department to reimburse the Hospital for services provided by the Hospital. The Department utilizes an inpatient rate and outpatient rates to reimburse the Hospital. These reimbursable rates are to be recalculated annually for each Fiscal Year in accordance with the Illinois Medicaid State Plan.

Department management stated that inadequate procedures, staffing allocation, and lengthy rate negotiations contributed to the errors and untimely rate calculations and adjustments.

Failure to timely calculate inpatient and outpatient rates and calculate an accurate inpatient rate is noncompliance with the Agreement and results in significant adjustments that need to be made. (Finding Code No. 11-2)

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS**  
For the Year Ended June 30, 2011

**RECOMMENDATION**

We recommend the Department timely calculate inpatient and outpatient rates, timely make necessary adjustments, and use correct data to calculate inpatient rates.

**DEPARTMENT RESPONSE**

The Department accepts the recommendation. The Department has streamlined the process for calculating rates for the U of I. Effective July 1, 2012, the Division of Finance, Bureau of Rate Development and Analysis will have a complete procedures manual which will include timelines and calculations as they pertain to the respective Administrative Rules.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS**  
For the Year Ended June 30, 2011

11-3. **FINDING** (Lack of written rate-setting methodology)

The Illinois Department of Healthcare and Family Services (Department) did not have a documented written rate-setting methodology to calculate the insurance rates that are used to determine the premium rates charged to participants for the Teachers' Retirement Insurance Program (TRIP).

During our testing we noted the following:

- Only one individual is involved in calculating the insurance rates and there was no written rate-setting methodology of how this individual calculates the TRIP insurance rates. Additionally, there was no formal process for a documented review of the insurance rate calculation.
- During fiscal year 2011, the Department did not provide any information relating to the health care premiums, historical and projected data on enrollment, utilization, and costs; or a rate-setting methodology to the Teachers' Retirement System of the State of Illinois. The information and methodology were due by April 15<sup>th</sup>.

The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.5(e)) requires the Director of the Department of Central Management Services to determine the insurance rates and premiums for Teachers' Retirement System benefit recipients and dependent beneficiaries, and present to the Teachers' Retirement System of the State of Illinois, by April 15<sup>th</sup> of each calendar year, the rate-setting methodology (including but not limited to utilization levels and costs) used to determine the amount of the health care premiums.

Executive Order 2005-3, *Executive Order to Reorganize Agencies by the Transfer of Certain Healthcare Procurement and Administrative Functions Primarily of the Department of Central Management Services to the Department of Healthcare and Family Services* issued by the Governor on April 1, 2005 transferred the respective powers, duties, rights and responsibilities related to State Healthcare Purchasing from various departments, including CMS, to the Department of Healthcare and Family Services. The Executive Order states the statutory powers, duties, rights and responsibilities of the various agencies, including CMS, derive from various statutes including 5 ILCS 375 *et seq.* The functions associated with State Healthcare Purchasing intended to be transferred included rate development.

Good internal controls would require that no one individual should control a key aspect of a transaction or event. The Statewide Accounting Management Systems Manual (Procedure 2.50.10) requires duties and responsibilities be assigned systematically to a number of individuals to ensure that effective checks and balances are in place and routinely practiced.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS**  
For the Year Ended June 30, 2011

Department management stated that the rate setting calculations are performed via formulas retained in electronic spreadsheets and staff resources have not been available to convert the electronic methodology into written procedures.

Without a formal written rate-setting methodology, the Department cannot ensure that the insurance rates are being calculated consistently and correct premium rates being charged for TRIP are in accordance with State statutory requirements. In addition, over reliance on one individual for the calculation of TRIP insurance rates without a proper written rate-setting methodology subjects the State to potential disruption in the event that there are changes to that individual's employment status. Also, failure to submit the required information to the Teachers' Retirement System by April 15<sup>th</sup> is noncompliance with the State Employees Group Insurance Act. (Finding Code No. 11-3, 10-2)

**RECOMMENDATION**

We recommend the Department develop a formal written rate-setting methodology as required by the State Employees Group Insurance Act. We also recommend the Department comply with all submission requirements of the State Employees Group Insurance Act.

**DEPARTMENT RESPONSE**

The Department accepts the recommendation. The Department will develop a formal written rate-setting methodology and comply with all submission requirements as required by the State Employees Group Insurance Act.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
**SCHEDULE OF FINDINGS**  
For the Year Ended June 30, 2011

11-4. **FINDING** (Inadequate controls over County Hospital Services Fund)

The Illinois Department of Healthcare and Family Services (Department) did not have adequate controls over the County Hospital Services Fund.

During our review of the County Hospital Services Fund, which included a review of the Interagency Agreement between the Cook County Health and Hospitals System, the Cook County Board of Commissioners and the Department and testing of reimbursement rates that are determined by the Department, we noted the following:

- The Department's calculations of the Fiscal Year 2011 outpatient rates for two Cook County hospitals were incorrect. The incorrect outpatient rates were the result of the Department using the incorrect "Medicare Adjustment Factor" when determining the outpatient rates for these two hospitals. When calculating the outpatient rates for these hospitals, the same "Medicare Adjustment Factor" was used for all three hospitals instead of different "Medicare Adjustment Factors" for each hospital. The Department entered into an Interagency Agreement with the Cook County Health and Hospitals System and the Cook County Board of Commissioners (Cook County) that requires the Department to reimburse Cook County for outpatient services provided by Cook County hospitals. These reimbursable rates are to be recalculated annually for each Fiscal Year in accordance with the Illinois Medicaid State Plan.
- The Department was unable to provide documentation to support its calculation of the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 Disproportionate Share Hospital Adjustment Payments (BIPA DSH) for Fiscal Year 2011. Furthermore, based on the auditor's calculation of the Fiscal Year 2011 BIPA DSH payment allocation to the Cook County hospitals, it appears the Department used the total Medicaid inpatient days from Fiscal Year 2004 instead of the total Medicaid inpatient days from Fiscal Year 2008, which would be the appropriate determination year for Fiscal Year 2011. Due to the Department's failure to provide the total Medicaid inpatient days from Fiscal Year 2008, the proper allocation of the BIPA DSH payments could not be determined. Amendment No. 3 to the Interagency Agreement between the Department and the Cook County Board of Commissioners (Amendment) defines "total Medicaid inpatient days" as hospital inpatient days subsequently adjudicated by the Department through the last day of June preceding the DSH determination year and contained within the Department's paid claims database. Further, the Amendment defines "DSH determination year" as the twelve month period beginning on October 1 of the second year preceding the DSH rate year (October 1<sup>st</sup> through September 30<sup>th</sup>) and ending September 30<sup>th</sup> of the following year. As a result, the Department should have used the total Medicaid inpatient days from Fiscal Year 2008 to determine the BIPA DSH payment allocation to

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the Cook County hospitals instead of the total Medicaid inpatient days from Fiscal Year 2004.

The Department did not make these adjustments until February 2012 which is eight months after the fiscal year end. Due to the errors noted above, Cook County Hospitals were underpaid a total of \$40,783.

In addition, we noted 1 of 4 (25%) Secondary Disproportionate Share Hospital Transfer Payments (Secondary Transfer Payment) was made for an incorrect amount. The Department made the Fiscal Year 2011 2<sup>nd</sup> quarter Secondary Transfer Payment in the amount of \$56,250,000, which was \$50,000 more than the required payment amount. Section 3.40(F) of the Amendment states the Secondary Transfer Payments for the annual rate period coinciding with federal fiscal year 2007 and each annual rate period thereafter shall be \$56,200,000 in the first quarter (Note: the federal fiscal year runs October 1 - September 30; therefore, the federal fiscal year's 1<sup>st</sup> quarter is the state fiscal year's 2<sup>nd</sup> quarter).

Department management stated that these discrepancies were caused by inadequate procedures and human error.

Failure to calculate accurate outpatient rates and BIPA DSH payments, maintain documentation to support the BIPA DSH calculations, and make correct Secondary Transfer Payments is noncompliance with the Interagency Agreement. (Finding Code No. 11-4)

**RECOMMENDATION**

We recommend the Department use correct data to calculate outpatient rates and BIPA DSH payments, maintain documentation to support the BIPA DSH calculations, and ensure the Secondary Transfer Payments are made for the required amounts.

**DEPARTMENT RESPONSE**

The Department accepts the recommendation. The Department will develop procedures which will identify the correct rates and payments to use when calculating Fiscal Year 2013 Cook County Bureau of Health Services rates. The Department will also work with Cook County to ensure the necessary documentation needed to support these rates and payments is maintained.