STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2020

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

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2020

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OTHER REPORTS ISSUED UNDER A SEPARATE COVER

THE DEPARTMENT OF CHILDREN AND FAMILY SERVICES' COMPLIANCE EXAMINATION FOR THE TWO YEARS ENDED JUNE 30, 2020, WILL BE ISSUED UNDER A SEPARATE COVER.

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2020

AGENCY OFFICIALS

Acting Director	Marc D. Smith (April 15, 2019 – present) Debra Dyer-Webster (February 16, 2019 – April 14, 2019) Beverly J. Walker (June 26, 2017 – February 15, 2019)
Chief Deputy Director	Derek Hobson (April 1, 2020 – present) Derek Hobson (Acting) (January 7, 2020 – March 31, 2020) Vacant (January 1, 2020 – January 6, 2020) Debra Dyer-Webster (September 16, 2017 – December 31, 2019)
Chief of Staff	Jassen Strokosch (July 16, 2020 – present) Vacant (July 1, 2020 – July 15, 2020) Denise Murray (May 6, 2019 – June 30, 2020) Steve Minter (February 26, 2019 – May 5, 2019) Emily Monk (April 16, 2018 – February 25, 2019)
Chief Fiscal Officer	Royce Kirkpatrick (May 16, 2019 – present) Royce Kirkpatrick (Acting) (September 1, 2018 – May 15, 2019) Matt Grady (February 18, 2014 – August 31, 2018)
General Counsel	Amanda Wolfman (June 18, 2019 – present) Vacant (June 15, 2019 – June 17, 2019) LaShawn Eddings (October 23, 2018 – June 14, 2019) Vacant (October 19, 2018 – October 22, 2018) Lise Spacapan (through October 18, 2018)
Chief Internal Auditor	Phillip Dasso (January 4, 2021 – present) Vacant (March 16, 2020 – January 3, 2021) Kenneth Hovey (April 1, 2018 – March 15, 2020)

Administrative offices are located at:

406 East Monroe
Springfield, Illinois 62701

100 West Randolph, Suite 6-100
Chicago, Illinois 60601

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Department of Children and Family Services was performed by CliftonLarsonAllen LLP.

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

SUMMARY OF FINDINGS

The auditors identified five matters involving the Department of Children and Family Services' internal control over financial reporting that they considered to be material weaknesses. Further, the auditors identified two noncompliance matters.

Item No.	Page	Last/First Report	Description	Finding Type
			CURRENT FINDINGS	
2020-001	58	New	Financial Statement Preparation	Material Weakness
2020-002	59	New	Inadequate Controls over Cash	Material Weakness
2020-003	61	New	Inadequate Internal Controls over Census Data	Material Weakness
2020-004	63	2018/2018	Inadequate General Information Technology Controls over IMPACT	Material Weakness
2020-005	66	2018/2018	Insufficient Review and Documentation of Provider Enrollment Determinations and Failure to Execute Interagency Agreements	Material Weakness and Noncompliance

Item No.	Page	Last/First Report	Description	Finding Type
			PRIOR FINDING NOT REPEATED	
A	69	2018/2018	Statewide Failure to Execute Interagency Agreements and Perform Essential Project Management Functions over Provider Enrollment in the Medicaid Program	

EXIT CONFERENCE

The Department waived the exit conference for the financial audit in an email dated May 26, 2021, from Joe McDonald, Associate Deputy Director, Fiscal Accounting. Responses to the findings were provided by Joe McDonald in an email dated June 1, 2021. The Department of Healthcare and Family Services' responses to Findings 2020-004 and 2020-005 were provided by Jamie Nardulli, Chief Internal Auditor, in an email dated May 24, 2021. The Department of Human Services' response to Finding 2020-004 was provided by Amy Macklin, Chief Internal Auditor, in an email dated May 25, 2021.

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Children and Family Services (Department), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Department as of June 30, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements of the Department are intended to present the financial position and changes in financial position of only that portion of the governmental activities, the major fund, 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, 2020, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The combining nonmajor, fiduciary and the agency fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2021, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Restricted Use of this Auditors' Report

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

CliftonLarsonAllen LLP

Peoria, Illinois
June 2, 2021

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2020
(IN THOUSANDS)

	General Fund 0001	Other Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Net Position
ASSETS					
Unexpended Appropriations	$ 89,513	$ -	$ 89,513	$ -	$ 89,513
Cash Equity with State Treasurer	11,422	125,915	137,337	-	137,337
Cash and Cash Equivalents	1,083	1,634	2,717	-	2,717
Due from Other Government - Federal	-	61,166	61,166	-	61,166
Other Receivables, Net	1,627	-	1,627	-	1,627
Due from Other Department Funds	34	911	945	(945)	-
Due from Other State Funds	1,226	231	1,457	-	1,457
Inventories	985	411	1,396	-	1,396
Prepaid Expenses	-	-	-	1,696	1,696
Capital Assets being Depreciated, Net	-	-	-	1,200	1,200
Total Assets	105,890	190,268	296,158	1,951	298,109
DEFERRED OUTFLOWS OF RESOURCES					
Pension	-	-	-	232,814	232,814
OPEB	-	-	-	498,400	498,400
Total Deferred Outflows of Resources	-	-	-	731,214	731,214
Total Assets and Deferred Outflows of Resources	$ 105,890	$ 190,268	$ 296,158	$ 733,165	$ 1,029,323

See accompanying Notes to Financial Statements.

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET (CONTINUED)
JUNE 30, 2020
(IN THOUSANDS)

	General Fund 0001	Other Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Net Position
LIABILITIES					
Accounts Payable and Accrued Liabilities	$ 59,311	$ 91,470	$ 150,781	$ -	$ 150,781
Intergovernmental Payables	1,722	5,530	7,252	-	7,252
Due to Other Department Funds	41	904	945	(945)	-
Due to Other State Funds	24,134	74	24,208	-	24,208
Due to State of Illinois Component Units	5,026	12,380	17,406	-	17,406
Pension Liability	-	-	-	1,786,547	1,786,547
OPEB Liability:					
Due Within One Year	-	-	-	45,435	45,435
Due Subsequent to One Year	-	-	-	1,679,185	1,679,185
Capital Leases:					
Due Within One Year	-	-	-	639	639
Due Subsequent to One Year	-	-	-	451	451
Compensated Absences:					
Due Within One Year	-	-	-	2,097	2,097
Due Subsequent to One Year	-	-	-	18,873	18,873
Total Liabilities	90,234	110,358	200,592	3,532,282	3,732,874
DEFERRED INFLOWS OF RESOURCES					
Pension	-	-	-	55,889	55,889
OPEB	-	-	-	133,809	133,809
Unavailable Revenue	-	36,324	36,324	(36,324)	-
Total Deferred Inflows of Resources	-	36,324	36,324	153,374	189,698
Total Liabilities and Deferred Inflows of Resources	90,234	146,682	236,916	3,685,656	3,922,572

See accompanying Notes to Financial Statements.

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET (CONTINUED)
JUNE 30, 2020
(IN THOUSANDS)

	General Fund 0001	Other Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Net Position
FUND BALANCES / NET POSITION					
Fund Balances:					
Nonspendable	$ 985	$ 411	$ 1,396	$ (1,396)	$ -
Restricted	-	749	749	(749)	-
Committed	-	42,860	42,860	(42,860)	-
Assigned	-	55	55	(55)	-
Unassigned	14,671	(489)	14,182	(14,182)	-
Net Investment in Capital Assets	-	-	-	110	110
Restricted Net Position	-	-	-	749	749
Unrestricted Net Position	-	-	-	(2,894,108)	(2,894,108)
Total Fund Balances / Net Position	15,656	43,586	59,242	$ (2,952,491)	$ (2,893,249)
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 105,890	$ 190,268	$ 296,158		

See accompanying Notes to Financial Statements.

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO STATEMENT OF NET POSITION
JUNE 30, 2020
(IN THOUSANDS)

Total Fund Balances-Governmental Funds	$	59,242
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Prepaid expenses for governmental activities are current uses of financial resources for funds.		1,696
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		1,200
Deferred outflows of resources - Pensions		232,814
Deferred inflows of resources - Pensions		(55,889)
Deferred outflows of resources - OPEB		498,400
Deferred inflows of resources - OPEB		(133,809)
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		36,324
Some liabilities reported in the Statement of Net Position do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. These liabilities consist of:		
Capital Leases		(1,090)
Compensated Absences		(20,970)
Pension Liability		(1,786,547)
OPEB Liability		(1,724,620)
Net Position of Governmental Activities	$	(2,893,249)

See accompanying Notes to Financial Statements.

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
STATEMENT OF ACTIVITIES AND GOVERNMENTAL REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2020
(IN THOUSANDS)

	General Fund 0001	Other Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Activities
EXPENDITURES/EXPENSES					
Health and Social Services	$ 1,000,523	$ 398,197	$ 1,398,720	$ 249,502	$ 1,648,222
Debt Service - Principal	598	-	598	(598)	-
Debt Service - Interest	144	-	144	-	144
Capital Outlays	631	-	631	-	631
Total Expenditures/Expenses	1,001,896	398,197	1,400,093	248,904	1,648,997
PROGRAM REVENUES					
Charges for Services:					
Licenses and Fees	11	357	368	-	368
Other Charges for Services	13,000	6,592	19,592	-	19,592
Total	13,011	6,949	19,960	-	19,960
Operating Grant Revenue:					
Federal	1,221	337,508	338,729	5,266	343,995
Other	-	54	54	-	54
Total Operating Grant Revenue	1,221	337,562	338,783	5,266	344,049
Net Program Revenues (Expense)	(987,664)	(53,686)	(1,041,350)	(243,638)	(1,284,988)
GENERAL REVENUES					
Other	575	1	576	-	576
Total General Revenues	575	1	576	-	576

See accompanying Notes to Financial Statements.

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
STATEMENT OF ACTIVITIES AND GOVERNMENTAL REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)
YEAR ENDED JUNE 30, 2020
(IN THOUSANDS)

	General Fund 0001	Other Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Activities
OTHER SOURCES (USES)					
Appropriations from State Resources	$ 1,031,428	$ -	$ 1,031,428	$ -	$ 1,031,428
Lapsed Appropriations	(31,303)	-	(31,303)	-	(31,303)
Receipts Collected and Transmitted to State Treasury	(8,700)	-	(8,700)	-	(8,700)
Capital Lease Financing	611	-	611	(611)	-
Total Other Sources (Uses)	992,036	-	992,036	(611)	991,425
CHANGE IN FUND BALANCE/NET POSITION	4,947	(53,685)	(48,738)	(244,249)	(292,987)
Fund Balance (Deficit)/Net Position - July 1, 2019	9,724	96,860	106,584	(2,706,846)	(2,600,262)
Change in Inventories	985	411	1,396	(1,396)	-
FUND BALANCE/NET POSITION - JUNE 30, 2020	$ 15,656	$ 43,586	$ 59,242	$ (2,952,491)	$ (2,893,249)

See accompanying Notes to Financial Statements.

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020
(IN THOUSANDS)

Net Change in Fund Balances	$	(48,738)
Change in inventories		1,396
		(47,342)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures while the Statement of report depreciation expense to allocate those expenditures over the life Activities of the assets. This is the difference between capital additions and depreciation in the current period.		(129)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		598
Some capital additions were financed through other financing arrangements. In governmental funds these other financing arrangements are considered a source of financing, but in the Statement of Net Position, the lease obligation is reported as a liability.		(611)
Prepaid expenses in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents the change from the prior year.		853
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in governmental funds. This amount represents the decrease in unavailable revenue over the prior year.		5,266
Pensions:		
Change in deferred outflows of resources		1,220
Change in deferred inflows of resources		30,919
OPEB:		
Change in deferred outflows of resources		(30,078)
Change in deferred inflows of resources		43,123
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. Also some expenditures reported in governmental funds decrease the amount of certain long-term liabilities reported on the Statement of Net Position and are therefore not reported as expenses in the Statement of Activities.		
Increase in net pension liability		(86,515)
Increase in total OPEB liability		(208,118)
Increase in compensated absences obligation		(2,173)
Change in Net Position of Governmental Activities	$	(292,987)

See accompanying Notes to Financial Statements.

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2020
(IN THOUSANDS)

	Private Purpose Trust Funds	Agency Fund Children's Trust Fund 1122
ASSETS		
Cash Equity with State Treasurer	$ -	$ 741
Cash and Cash Equivalents	124	2,887
Investments	666	-
Due from Other Government - Federal	-	508
Total Assets	790	$ 4,136
LIABILITIES		
Other Liabilities	-	$ 4,136
Total Liabilities	-	$ 4,136
NET POSITION		
Restricted for:		
Individuals, Organizations, and Other Governments	790	
Total Net Position	$ 790	

See accompanying Notes to Financial Statements.

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2020
(IN THOUSANDS)

	Private Purpose Trust Funds
ADDITION	
Investment Earnings:	
Interest, Dividends and Other Investment Income (Loss)	$ 42
CHANGE IN NET POSITION	42
Net Position - July 1, 2019	748
NET POSITION - JUNE 30, 2020	$ 790

See accompanying Notes to Financial Statements.

NOTE 1 ORGANIZATION

The Department of Children 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 Office of Comptroller) as defined by the Illinois General Assembly. All funds appropriated to the Department and all other cash received are under the custody and control of the State Treasurer, with the exception of the Bail Bond Fund, the Children and Family Benefit Fund, the Children's Trust Fund, the Katherine Schaffner Bequest Fund, and the Herrick House Children's Center Bequest Fund.

The Department is organized to provide for social services to children and their families in the State through grants and purchase-of-service arrangements with local service agencies. The mission of the Department is to:

- Protect children who are reported to be abused or neglected and to increase their families' capability to safely care for them;
- Provide for the well-being of children in our care;
- Provide appropriate, permanent families as quickly as possible for those children who cannot safely return home;
- Support early intervention and child abuse prevention activities; and
- Work in partnerships with communities to fulfill this mission.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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:

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Continued)

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

Based upon the required criteria, the Department has no component units and is not a component unit of any other entity. However, because the Department is not legally separate from the State of Illinois, the financial statements of the Department are included in the financial statements of the State of Illinois. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the Office of Comptroller, 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 Children and Family Services, are intended to present the financial position and the changes in financial position of only the portion of the governmental activities, each major fund of the State of Illinois, and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2020 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

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

The statement of activities presents a comparison between direct expenses and program revenues for the health and social services function of the Department's governmental activities. Direct expenses are those that are clearly identifiable with the health and social services 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 and fiduciary - are presented. The emphasis of fund financial statements is on the major governmental fund, which is displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

The Department administers the following major governmental fund or portions thereof in the case of shared funds – (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 health and social services. Certain resources obtained from federal grants and used to support general governmental activities are accounted for in the General Fund consistent with applicable legal requirements.

The Department also administers the following fund types:

Governmental Funds:

Special Revenue – These funds account for resources obtained from specific revenue sources that are legally restricted or committed to expenditures for specified purposes. Special revenue funds account for, among other things, federal grant programs, fees for service, and other resources restricted as to purpose.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

Fiduciary Funds:

Private Purpose Trust – These funds account for resources legally held in trust for use by the Herrick House and the Katherine Schaffner Bequest. All resources of these funds, including any earnings on invested resources, may be used to support the Herrick House and the Katherine Schaffner Bequest. There is no requirement that any portion of these resources be preserved as capital.

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.

C. Measurement Focus and Basis of Accounting

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

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

Significant revenue sources which are susceptible to accrual include federal grants and interest. All other revenue sources including licenses and fees and other miscellaneous revenues are considered to be measurable and available only when cash is received.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Shared Fund Presentation

The financial statement presentation for the General Revenue Fund represents only the portion of the shared fund that can be directly attributed to the operations of the Department. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' Comprehensive Annual Financial Report.

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

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

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

Lapsed Appropriations
Lapsed appropriations are the legally adopted appropriations less net warrants issued for the 14 month period from July to August of the following year and re-appropriations to subsequent years according to SAMS records. For fiscal year 2020, the lapse period was extended through September.

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

E. Eliminations

Eliminations have been made in the government-wide statement of net position 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 inter-fund receivables and payables have been eliminated in the government-wide statement of net position. Amounts reported in the governmental funds balance sheet as receivable from or payable to fiduciary funds have been included in the government-wide statement of net position as receivable from and payable to external parties, rather than as internal balances.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 equivalents also include cash on hand and petty cash funds.

G. Investments

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. The Department holds investments pursuant to statutory authority for locally-held funds.

H. Inventories

For governmental funds, the Agency recognizes the costs of inventories as expenditures when purchased. At year end, physical counts were taken of significant inventories consisting of personal protective equipment. Inventories are valued at cost on average cost method. Inventories reported in governmental funds do not reflect current appropriable resources, and therefore, the Agency records an equivalent portion of fund balance as nonspendable.

I. Prepaid Expenses

For governmental funds, prepaid expenses are recognized when paid.

J. Inter-fund Transactions and Transactions with State of Illinois Component Units

The Department has the following types of inter-fund 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. Inter-fund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as inter-fund receivables and payables in the governmental funds balance sheets or the government-wide statements of net position.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Inter-fund Transactions and Transactions with State of Illinois Component Units (Continued)

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.

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

K Capital Assets

Capital assets, which include buildings and equipment, are reported at cost or estimated historical cost based on appraisals. Contributed assets are reported at acquisition 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)
Buildings	$ 100,000	10 – 60
Building Improvements	25,000	10 – 45
Equipment	5,000	3 - 25

L. Compensated Absences

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Compensated Absences (Continued)

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.

M. Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the Department is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in a spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation. Restricted fund balances at June 30, 2020, were restricted for health and social services.

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action of the State legislature and signed into law by the Governor. Those committed amounts cannot be used for any other purpose unless the State legislature and Governor removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Committed fund balances at June 30, 2020, were committed for health and social services.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the Department for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the State legislature. Assigned fund balances at June 30, 2020, were assigned for health and social services.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Fund Balances (Continued)

Unassigned – The unassigned fund balance classification is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

The Department applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

N. Net Position

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

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

***Restricted* –** This consists of the net position that is 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 position that do not meet the definition of "restricted" or "net investment in capital assets."

O. Use of Estimates

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Pensions

In accordance with the Department's adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, the net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense have been recognized in the government-wide financial statements.

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

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

Q. Postemployment Benefits Other Than Pensions (OPEB)

The State provides health, dental, vision and life insurance benefits for certain retirees and their dependents through the State Employees Group Insurance Program (SEGIP). The total OPEB liability, deferred outflows of resources, deferred inflows of resources, expense, and expenditures associated with the program have been determined through an actuarial valuation using certain actuarial assumptions as applicable to the current measurement period. (See Note 11)

The OPEB liabilities, deferred outflows of resources, deferred inflows of resources, and OPEB expense have been recognized in the government-wide financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Adoption of Governmental Accounting Standards Board (GASB) Statements

Effective for the year ended June 30, 2020, the Department adopted the following GASB statements:

Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) and establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The implementation of this statement had no financial impact on the Department's net position or results of operations.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements,* which is intended to improve the information that is disclosed in notes to governmental financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should be included when disclosing information related to debt. The implementation of this statement had no financial impact on the Department's net position or results of operations.

Statement No. 92, *Omnibus 2020*, which is intended to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit OPEB plan, the applicability of Statement No. 73 and Statement No. 74 to reporting assets accumulated for postemployment benefits, the applicability of Statement No. 84 to postemployment benefit arrangements, measurement of liabilities and assets related to asset retirement obligations in a government acquisition, and reference to nonrecurring fair value measurements of assets and liabilities in authoritative literature. The topics within this Statement that were not effective for the Department's fiscal year ended June 30, 2020 were, upon the Department's adoption of GASB Statement No. 95, delayed for the Department until the fiscal year ended June 30, 2022.

Statement 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*, which is intended to (1) increase consistency and comparability related to the reporting of fiduciary component units when a potential component unit does not have a governing board and the primary government performs those duties; (2) mitigate costs associated with reporting; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans. The topics within this Statement that were not effective for the Department's fiscal year ended June 30, 2020 are effective for the Department's fiscal year ended June 30, 2022.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Future Adoption of Governmental Accounting Standards Board (GASB) Pronouncements

Effective for the year ending June 30, 2021, the Department will adopt the following GASB statements:

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

Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*, is intended to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.

Statement No. 93, *Replacement of Interbank Offered Rates*, the primary provision of which is intended to address accounting and financial reporting implications that result from the replacement of an interbank offered rate as an appropriate benchmark interest rate.

Effective for the year ending June 30, 2022, the Department will adopt the following GASB statements:

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

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which is intended to (1) enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

Effective for the year ending June 30, 2023, the Department will adopt the following GASB statements:

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Future Adoption of Governmental Accounting Standards Board (GASB) Pronouncements (Continued)

Statement No. 91, *Conduit Debt Obligations*, which is intended to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

Statement No. 94, *Public-Private and Public-Public Partnerships and Available Payment Arrangements*, which is intended to improve financial reporting by addressing issues related to public-private and public-public partnerships (PPPs). This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs).

Statement No. 96, *Subscription-Based Information Technology Arrangements*, which is intended to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments).

The Department has not yet determined the impact of adopting these statements on its financial statements.

T. Reliance on Outside Information

Due to the nature of relationships between the Department and various other State agencies, information related to Pension and OPEB in these financial statements and related footnotes is provided through the Office of Comptroller by the State Employees Retirement System and the Department of Central Management Services.

Audits of these entities can be found on the website of the Illinois Office of the Auditor General.

NOTE 3 DEPOSITS AND INVESTMENTS

A. Deposits

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

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

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 is available within the State of Illinois' Comprehensive Annual Financial Report.

Deposits for locally-held funds of governmental activities had a carrying amount of $22 thousand and a bank balance of $39 thousand at June 30, 2020. Deposits of locally-held funds of fiduciary funds had a carrying amount and a bank balance of $3,011 thousand at June 30, 2020.

Cash on hand totaled $1,612 thousand at June 30, 2020.

B. Investments

Fair Value of Investments

The Department measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

Level 1 – Quoted prices for identical investments in active markets;

Level 2 – Observable inputs other than quoted market prices; and,

Level 3 – Unobservable inputs.

As of June 30, 2020, the Department had the following investments outside of the State Treasury, which were valued using Level 1 Fair Value Measurements:

	Fair Value (Thousands)	Weighted Average Maturity (Years)
Fiduciary Funds		
Open-Ended Equity Mutual Funds	$ 499	N/A
Open-Ended Debt Mutual Funds	167	8.000
Total Investments	$ 666	

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Fair Value of Investments (Continued)

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 Money Market Mutual Funds, Financial Institution Investment Pool and the Open-ended Debt Mutual Funds were not rated.

Custodial Risk: The Department does not have a formal investment policy which restricts investments to address custodial risk. Custodial credit risk is the risk that, in the event of failure of the counterparty to a transaction, the Department would not be able to recover the value of investment or collateral securities in the possession of an outside party. The Department has no investments subject to custodial risk.

At June 30, 2020, the Department's investments in Open-ended Debt Mutual Funds, totaling $167 thousand, had the following quality ratings: (amounts expressed in thousands)

Quality Ratings	Amounts
AAA	$ 97
AA	7
A	19
BBB	33
BB	7
B	2
Other	2
Total	$ 167

NOTE 4 INTER-FUND BALANCES AND ACTIVITY

A. Balances Due to/from Other Funds

The following balances (amounts expressed in thousands) at June 30, 2020 represent amounts due from other Department and State of Illinois funds.

Fund	Due From: Other Department Funds	Due From: Other State Funds	Description/Purpose
General	$ 34	$ 1,226	Due from other Department and State funds for reimbursement of expenditures incurred and receipt transfers.
Nonmajor Governmental Funds	911	231	Due from other Department and State funds for reimbursement of expenditures incurred and receipt transfers.
Total	$ 945	$ 1,457	

The following balances (amounts expressed in thousands) at June 30, 2020 represent amounts due to other Department and State of Illinois funds.

Fund	Due To: Other Department Funds	Due To: Other State Funds	Description/Purpose
General	$ 41	$ 24,134	Due State internal funds for purchases of services and to Department and other State funds for reimbursement of expenditures incurred and transfers to fund mental health programs for children
Nonmajor Governmental Funds	904	74	Due State internal funds for purchases of services and to other State funds for reimbursement of expenditures incurred and for excess advances received for grant expenditures to be incurred. Due to other Department funds for reimbursement of expenditures incurred and receipt transfers.
Total	$ 945	$ 24,208	

NOTE 4 INTER-FUND BALANCES AND ACTIVITY (CONTINUED)

B. Balances due to State of Illinois Component Units

The following balances (amounts expressed in thousands) at June 30, 2020 represent amounts due to State of Illinois Component Units for reimbursement of expenses Incurred.

	Due to	
Component Unit	General Fund	Nonmajor Governmental Funds
IL State Toll Highway Authority	$ 2	$ -
Chicago State University	-	3
Governors State University	-	1
Western Illinois University	-	45
Illinois State University	-	87
Northern Illinois University	5	2,545
Southern Illinois University	25	194
University of Illinois	4,994	9,505
Total	$ 5,026	$ 12,380

NOTE 5 CAPITAL ASSETS

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2020 was as follows:

	Balance July 1, 2019	Additions	Deletions	Net Transfers	Balance June 30, 2020
Governmental Activities:					
Capital Assets being Depreciated:					
Equipment	$ 6,283	$ 631	$ 926	$ -	$ 5,988
Less: Accumulated Depreciation					
Equipment	4,954	760	926	-	4,788
Governmental Activity Capital Assets, Net	$ 1,329	$ (129)	$ -	$ -	$ 1,200

Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2020 was charged as follows:

Health and Social Services	$ 760

NOTE 6 OTHER RECEIVABLES

Other receivables at June 30, 2020, (expressed in thousands) consisted of the following:

Government Funds

Revenue Source	General Fund
Parental Assessments	$ 39
Overpayments	4,932
Total Other Receivables	4,971
Allowance for Uncollectible Amounts	(3,344)
Other Receivables, Net	$ 1,627

NOTE 7 CAPITAL LEASE OBLIGATIONS

The Department leases equipment with a historical cost and accumulated depreciation (amounts expressed in thousands) of $2,124 and $1,106. Although lease terms vary, certain leases are renewable subject to appropriation by the General Assembly. If renewal is reasonably assured, leases requiring appropriation by the General Assembly are considered non-cancelable leases for financial reporting. Future minimum lease payments (amounts expressed in thousands) at June 30, 2020 were as follows:

Year Ending June 30,	Principal	Interest	Total
2021	$ 639	$ 113	$ 752
2022	281	59	340
2023	71	31	102
2024	71	16	87
2025	28	2	30
Total	$ 1,090	$ 221	$ 1,311

NOTE 8 LONG-TERM OBLIGATIONS

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2020 were as follows:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020	Portion Due in the Next Year
Governmental Activities:					
Compensated Absences	$ 18,797	$ 27,050	$ 24,877	$ 20,970	$ 2,097
Capital Lease	1,077	611	598	1,090	639
OPEB	1,516,502	208,118	-	1,724,620	45,435
Net Pension Liability	1,700,032	86,515	-	1,786,547	-
Total Governmental Activities	$ 3,236,408	$ 322,294	$ 25,475	$ 3,533,227	$ 48,171

Compensated absences will be liquidated in subsequent years by the applicable governmental funds that account for the salaries and wages of the related employees. Net pension liabilities and net OPEB liabilities will be liquidated through the General Fund, and the special revenue funds that report wages.

NOTE 9 DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Department has deferred outflows related to the pension and OPEB plans that meets this criterion. In addition to liabilities, the statement of net position and the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position/fund balance that applies to a future period and so will not be recognized as revenue until then. In the governmental funds balance sheet, the Department has one item that meets the criterion for this category – Unavailable Revenue. In the statement of net position, the Department has deferred inflows related to the pension and OPEB plans that meets this criterion.

NOTE 10 DEFINED BENEFIT PENSION PLAN

Plan Description

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 single-employer defined benefit pension trust fund in the State of Illinois reporting entity. SERS is governed by article 14 of the Illinois Pension Code (40 ILCS 5/1, et al.). The plan consists of two tiers of contribution requirements and benefit levels based on when an employee was hired. Members who first become an employee and participate under any of the State's retirement plans on or after January 1, 2011 are members of Tier 2, while Tier 1 consists of employees hired before January 1, 2011 or those who have service credit prior to January 1, 2011. The provisions below apply to both Tier 1 and 2 members, except where noted. The SERS issues a separate CAFR available at www.srs.illinois.gov or that may be obtained by writing to the SERS, 2101 South Veterans Parkway, PO Box 19255, Springfield, Illinois, 62794-9255.

Benefit Provisions

SERS provides retirement benefits based on the member's final average compensation and the number of years of service credit that have been established. The retirement benefit formula available to general State employees that are covered under the Federal Social Security Act is 1.67% for each year of service and for noncovered employees it is 2.2% for each year of service. The maximum retirement annuity payable is 75% of final average compensation for regular employees and 80% for alternative formula employees. The minimum monthly retirement annuity payable is $15 for each year of covered service and $25 for each year of noncovered service.

NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

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

• Age 60, with 8 years of service credit.
• Any age, when the member’s age (years & whole months) plus years of service credit (years & whole months) equal 85 years (1,020 months) (Rule of 85) with 8 years of credited service.
• Between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60).

The retirement benefit is based on final average compensation and credited service. Final average compensation is the 48 highest consecutive months of service within the last 120 months of service.

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

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

• Age 67, with 10 years of credited service.
• Between ages 62-67 with 10 years of credited service (reduced 1/2 of 1% for each month under age 67).

The retirement benefit is based on final average compensation and credited service. For regular formula employees, final average compensation is the average of the 96 highest consecutive months of service within the last 120 months of service. The retirement benefit is calculated on a maximum salary of $106,800. This amount increases annually by 3% or one-half of the Consumer Price Index, whichever is less.

If the member retires at age 67 or older, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every year on January 1, following the first full year of retirement. The calendar year 2019 rate is $114,952.

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

NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

SERS also provides occupational and nonoccupational (including temporary) disability benefits. To be eligible for nonoccupational (including temporary) disability benefits, an employee must have at least 18 months of credited service with the System. The nonoccupational (including temporary) disability benefit is equal to 50% of the monthly rate of compensation of the employee on the date of removal from the payroll. Occupational disability benefits are provided when the member becomes disabled as a direct result of injuries or diseases arising out of and in the course of State employment. The monthly benefit is equal to 75% of the monthly rate of compensation on the date of removal from the payroll. This benefit amount is reduced by Workers' Compensation or payments under the Occupational Diseases Act.

Occupational and nonoccupational death benefits are also available through the System. Certain nonoccupational death benefits vest after 18 months of credited service. Occupational death benefits are provided from the date of employment.

Contributions

Contribution requirements of active employees and the State are established in accordance with Chapter 40, section 5/14-133 of the Illinois Compiled Statutes. Member contributions are based on fixed percentages of covered payroll ranging between 4.00% and 12.50%. Employee contributions are fully refundable, without interest, upon withdrawal from State employment. Tier 1 members contribute based on total annual compensation. Tier 2 members contribute based on an annual compensation rate not to exceed $106,800 with limitations for future years increased by the lesser of 3% or one-half of the annual percentage increase in the Consumer Price Index. For 2020, this amount was $115,929.

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

NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Contributions (Continued)

For fiscal year 2020, the required employer contributions were computed in accordance with the State's funding plan. This funding legislation provides for a systematic 50-year funding plan with an ultimate goal to achieve 90% funding of the plan's liabilities. In addition, the funding plan provided for a 15-year phase-in period to allow the State to adapt to the increased financial commitment. Since the 15-year phase-in period ended June 30, 2010, the State's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved. For fiscal year 2020, the employer contribution rate was 54.290%. The Department's contribution amount for fiscal year 2020 was $4,540 thousand. In addition, the Department recorded $116.96 million of revenue and expenditures in the General Revenue account of the General Fund to account for payments to SERS for Department employees that were paid from statewide General Revenue Fund appropriations.

Pension Liability, Deferred Outflows of Resources, Deferred Inflows of Resources and Expense Related to Pensions

At June 30, 2020, the Department reported a liability of $1,786.547 million for its proportionate share of the State's net pension liability for SERS on the statement of net position. The net pension liability was measured as of June 30, 2019 (current year measurement date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Department's portion of the net pension liability was based on the Department's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2019. As of the current year measurement date of June 30, 2019, the Department's proportion was 5.3499%, which was an increase of 0.2071% from its proportion measured as of the prior year measurement date of June 30, 2018.

For the year ended June 30, 2020, the Department recognized pension expense of $174.662 million. At June 30, 2020, the Department reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2019, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	$ -	$ 22,339
Changes in Assumptions	49,796	25,790
Net Difference between Projected and Actual Investment Earnings on Pension Plan Investments	-	2,608
Changes in Proportion	61,518	5,152
Department Contributions Subsequent to the Measurement Date	121,500	-
Total	$ 232,814	$ 55,889

NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Liability, Deferred Outflows of Resources, Deferred Inflows of Resources and Expense Related to Pensions (Continued)

$121,500 thousand reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts expressed in thousands):

Year Ended June 30,		
2021	$	33,322
2022		(5,287)
2023		14,291
2024		13,099
Total	$	55,425

Actuarial Methods and Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.25%

Investment Rate of Return: 6.75%, net of pension plan investment expense, including inflation.

Projected salary increases: 2.75% - 7.17%, salary increase rates based on age related productivity and merit rates plus inflation.

Postretirement benefit increases of 3.00%, compounded, for Tier 1 and the lesser of 3.00% or one-half of the annual increase in the Consumer Price Index for Tier 2.

Retirement Age: Experience-based table of rates specific to the type of eligibility condition. Table was last updated for the June 30, 2019 valuation pursuant to an experience study of the period July 1, 2015 – June 2018.

Mortality: Pub-2010 General and Public Safety Healthy Retiree mortality tables, sex distinct, with rates projected to 2018 generational mortality improvement factors were updated to projection scale MP-2018.

NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Methods and Assumptions (Continued)

The actuarial assumptions used to calculate the total pension liability as of the current year measurement date are consistent with the actuarial assumptions used to calculate the total pension liability as of the prior year measurement date except for the following:

The rate of inflation decreased from 2.50% to 2.25%.

The investment rate of return decreased from 7.00% to 6.75%.

The projected salary increase range changed from 3.00% - 7.42% to 2.75% - 7.17%.

The retirement age experience study was updated to July 2015 – June 2018.

The mortality rate was updated from using the 105 percent of the RP 2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added.

The long-term expected real rate of return on pension plan investments is determined using the best estimates of geometric real rates of return for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For each major asset class that is included in the pension plan's target asset allocation, calculated as of the measurement date of June 30, 2019, the best estimates of geometric real rates of return are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	23%	4.8%
Developed Foreign Equity	13%	4.6%
Emerging Market Equity	8%	6.9%
Private Equity	7%	6.8%
Intermediate Investment Grade Bonds	14%	0.7%
Long-term Government Bonds	4%	1.0%
TIPS	4%	0.8%
High Yield and Bank Loans	5%	2.7%
Opportunistic Debt	8%	4.2%
Emerging Market Debt	2%	2.7%
Real Estate	10%	4.4%
Non Core Real Estate	0%	0.0%
Infrastructure	2%	4.1%
Total	100%	

NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Discount Rate

A discount rate of 6.47% was used to measure the total pension liability as of the measurement date of June 30, 2019 as compared to a discount rate of 6.81% used to measure the total pension liability as of the prior year measurement date. The June 30, 2019 single blended discount rate was based on the expected rate of return on pension plan investments of 6.75% and a municipal bond rate of 3.13%, based on an index of 20-year general obligation bonds with an average AA credit rating as published by the Federal Reserve. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions will be made based on the statutorily required rates under Illinois law. Based on these assumptions, the pension plan's fiduciary net position and future contributions will be sufficient to finance the benefit payments through the year 2073. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2073, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The net pension liability for the plan was calculated using the stated discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate as shown below (amounts expressed in thousands):

	1% Decrease 2.13%	Discount Rate 3.13%	1% Increase 4.13%
Department's Proportionate Share of the Net Pension Liability	$ 2,160,615	$ 1,786,547	$ 1,478,994

Payables to the Pension Plan

At June 30, 2020, the Department reported a payable of $3 thousand to SERS for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2020.

NOTE 11 OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The State Employees Group Insurance Act of 1971 (Act), as amended, authorizes the Illinois State Employees Group Insurance Program (SEGIP) to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the Department's full-time employees are members of SEGIP. The eligibility provisions for the retirement system is defined within Note 10.

NOTE 11 OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Plan Description (Continued)

The Department of Central Management Services administers these benefits for annuitants with the assistance of the public retirement systems sponsored by the State (SERS). The State recognizes SEGIP OPEB benefits as a single-employer defined benefit plan. The plan does not issue a stand-alone financial report.

Benefits Provided

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 limitations established in the Act. Therefore, the benefits provided and contribution amounts are subject to periodic change. Coverage through SEGIP becomes secondary to Medicare after Medicare eligibility has been reached. Members must enroll in Medicare Parts A and B to receive the subsidized SEGIP premium available to Medicare eligible participants. 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 Benefit Cost

OPEB offered through SEGIP are financed through a combination of retiree premiums, State contributions and Federal government subsidies from the Medicare Part D program. Contributions are deposited in the Health Insurance Reserve Fund, which covers both active State employees and retirement members. Annuitants may be required to contribute towards health and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute toward health and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health and vision benefits. All annuitants are required to pay for dental benefits regardless of retirement date. The Director of Central Management Services shall, on an annual basis, determine the amount the State shall contribute toward the basic program of group health benefits. State contributions are made primarily from the General Revenue Fund on a pay-as-you-go basis. No assets are accumulated or dedicated to funding the retiree health insurance benefit and a separate trust has not been established for the funding of OPEB.

For fiscal year 2020, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was $11,681.04 ($6,703.92 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and $14,959.44 ($5,592.24 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.

NOTE 11 OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Total OPEB Liability, Deferred Outflows of Resources, Deferred Inflows of Resources and Expense Related to OPEB

The total OPEB liability, as reported at June 30, 2020, was measured as of June 30, 2019, with an actuarial valuation as of June 30, 2018. At June 30, 2020, the Department recorded a liability of $1,724.62 million for its proportionate share of the State's total OPEB liability. The Department's portion of the OPEB liability was based on the Department's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2019. As of the current year measurement date of June 30, 2019, the Department's proportion was 3.9295%, which was an increase of 0.1471% from its proportion measured as of the prior year measurement date of June 30, 2018.

The Department recognized OPEB expense for the year ended June 30, 2020, of $208.249 million. In addition, the Department recorded $45.406 million of on-behalf revenue and expenditures in the General Revenue account of the General Fund to account for payments to SEGIP for Department employees that were paid from statewide General Revenue Fund appropriations.

At June 30, 2020, the Department reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2019, from the following sources (amounts expressed in thousands):

Deferred Outflows of Resources	
Differences between expected and Actual Experience	$ 2,476
Changes in Assumptions	59,959
Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions	390,530
Department Contributions subsequent to the Measurement Date	45,435
Total Deferred Outflows of Recourses	$ 498,400
Deferred Inflows of Resources	
Differences between expected and Actual Experience	$ 26,309
Changes in Assumptions	106,423
Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions	1,077
Total Deferred Outflows of Recourses	$ 133,809

NOTE 11 OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Total OPEB Liability, Deferred Outflows of Resources, Deferred Inflows of Resources and Expense Related to OPEB (Continued)

The amounts reported as deferred outflows of resources related to OPEB resulting from Department contributions subsequent to the measurement date will be recognized as a reduction to the OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (amounts expressed in thousands):

Year Ended June 30,	
2021	$ 90,825
2022	90,825
2023	95,719
2024	37,749
2025	4,038
Total	$ 319,156

Actuarial Methods and Assumptions

The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified. The actuarial valuation for the SEGIP was based on SERS active, inactive, and retiree data as of June 30, 2018, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2018.

NOTE 11 OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions (Continued)

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal
Inflation Rate	2.50%
Projected Salary Increases*	2.75% - 12.25%
Discount Rate	3.13%
Healthcare Cost Trend Rate:	
Medical (Pre-Medicare)	8.00% grading down 0.50% in the first year to 7.50%, then grading down 0.11% in the second year to 7.39%, followed by grading down of 0.50% per year over 5 years to 4.89% in year 7
Medical (Post-Medicare)	9.00% grading down 0.50% per year over 9 years to 4.50%
Dental and Vision	6.00% grading down 0.50% per year over 3 years to 4.50%
Retirees' share of benefit-related costs	Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement. Members who retired before January 1, 1998, are eligible for single coverage at no cost to the member. Members who retire after January 1, 1998, are eligible for single coverage provided they pay a portion of the premium equal to 5 percent for each year of service under 20 years. Eligible dependents receive coverage provided they pay 100 percent of the required dependent premium. Premiums for plan year 2018 and 2019 are based on actual premiums. Premiums after 2019 were projected based on the same healthcare cost trend rates applied to per capita claim costs but excluding the additional trend rate that estimates the impact of the Excise Tax.

* Dependent upon service and participation in the respective retirement systems. Includes inflation rate listed.

NOTE 11 OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions (Continued)

Additionally, the demographic assumptions used in the this OPEB valuation are identical to those used in the June 30, 2018 valuations for SERS as follows:

	Retirement age experience study^	Mortality^^
SERS	July 2012 - June 2015	105 percent of the RP 2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added

^ The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined. A modified experience review was completed for SERS for the 3-year period ending June 30, 2015. Changes were made to the assumptions regarding investment rate of return, projected salary increases, inflation rate, and mortality based on this review. All other assumptions remained unchanged.

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

Discount Rate

Retirees contribute a percentage of the premium rate based on service at retirement. The State contributes additional amounts to cover claims and expenses in excess of retiree contributions. Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. A single discount rate of 3.62% at June 30, 2018, and 3.13% at June 30, 2019, was used to measure the total OPEB liability.

Sensitivity of Total OPEB Liability to Changes in the Single Discount Rate

The following presents the plan's total OPEB liability, calculated using a Single Discount Rate of 3.13%, as well as what the plan's total OPEB liability would be if it were calculated using a Single Discount rate that is one percentage point higher (4.13%) or lower (2.13%) than the current rate (amounts expressed in thousands):

	1% Decrease 2.13%	Discount Rate 3.13%	1% Increase 4.13%
Department's Proportionate Share of the Total OPEB Liability	$ 2,031,193	$ 1,724,620	$ 1,479,390

NOTE 11 OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate (Continued)

The following presents the plans total OPEB liability, calculated using the healthcare cost trend rates as well as what the plan's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point higher or lower, than the current healthcare cost trend rates (amounts in table expressed in thousands). The key trend rates are 8.00% in 2020 decreasing to an ultimate trend rate of 4.89% in 2027, for non-Medicare coverage, and 9.00% decreasing to an ultimate trend rate of 4.50% in 2029 for Medicare coverage.

	1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
Department's Proportionate Share of the Total OPEB Liability	$ 1,446,100	$ 1,724,620	$ 2,085,346

NOTE 12 FUND DEFICITS

The Federal Projects Fund (nonmajor governmental fund) had a deficit fund balance of $489 thousand at June 30, 2020. The deficit will be eliminated by future recognition of earned but unavailable revenues. At June 30, 2020, earned but unavailable revenues for this fund were $489 thousand.

NOTE 13 RISK MANAGEMENT

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; aviation liability; auto liability; workers compensation; and natural disasters. The State retains the risk of loss (i.e. self-insured) for these risks.

NOTE 14 COMMITMENTS AND CONTINGENCIES

A. Operating Leases

The Department leases copiers and other office equipment, under the terms of noncancelable operating lease agreements that require the Department to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was $3,051 thousand for the year ended June 30, 2020.

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

Year Ending June 30,	Amount
2021	$ 846
2022	245
2023	16
Total	$ 1,107

NOTE 14 COMMITMENTS AND CONTINGENCIES (CONTINUED)

B. Commitments Related to Adoptive Parents and Permanent Guardians

The Department enters into agreements with Adoptive Parents and Permanent Guardians of youth in care of the Department. These agreements generally provide monthly subsidies to the parents of guardians of these youth in care until they turn 18 years of age. The table below estimates the Department's future commitment related to these youth as of June 30, 2020:

All Cases			Adoptive Parents			Permanent Guardians		
Current Age	Cases	Amount Committed	Current Age	Cases	Amount Committed	Current Age	Cases	Amount Committed
∞	1	$ 92,190	∞	1	$ 92,190	∞	-	$ -
01	41	4,401,417	01	41	4,401,417	01	-	-
02	189	17,279,893	02	187	17,111,005	02	2	168,888
03	426	38,774,917	03	411	37,251,643	03	15	1,523,274
04	638	51,675,366	04	608	49,236,181	04	30	2,439,185
05	831	62,347,959	05	779	58,525,491	05	52	3,822,468
06	978	70,424,560	06	898	64,818,448	06	80	5,606,112
07	1,102	73,952,263	07	1,013	68,405,033	07	89	5,547,230
08	1,255	76,099,456	08	1,137	69,129,168	08	118	6,970,288
09	1,289	69,107,257	09	1,154	62,199,261	09	135	6,907,996
10	1,491	71,566,600	10	1,311	63,082,174	10	180	8,484,426
11	1,511	64,315,647	11	1,306	55,862,374	11	205	8,453,273
12	1,733	62,631,827	12	1,505	54,162,662	12	228	8,469,165
13	1,709	51,979,394	13	1,490	45,388,291	13	219	6,591,103
14	1,744	41,455,337	14	1,488	35,563,349	14	256	5,891,988
15	1,751	29,398,665	15	1,479	24,600,503	15	272	4,798,162
16	1,777	17,693,931	16	1,502	15,095,280	16	275	2,598,651
17	1,785	5,993,471	17	1,483	4,980,744	17	302	1,012,727
Total	20,251	$ 809,190,150		17,793	$ 729,905,214		2,458	$ 79,284,936

C. Litigation

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

NOTE 15 CORONAVIRUS PANDEMIC IMPLICATIONS

In December 2019, a novel strain of coronavirus surfaced and spread around the world, resulting in business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The United States and the State of Illinois declared a state of emergency in March 2020. The June 30, 2020 financial statements reflect the known financial impact of the COVID-19 outbreak and related stay at home orders for fiscal year 2020. The Department anticipates continued impact to its financial position and continues to monitor and evaluate the situation. The extent to which the coronavirus may impact financial activity will depend on future developments, which are highly uncertain and cannot be predicted. New information continues to emerge concerning the severity of the coronavirus and the actions required to contain or treat it, potentially impacting operations and program management.

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2020
(IN THOUSANDS)

	Special Revenue						
	Children's Services Fund 0220	Federal Projects Fund 0566	Special Purpose Fund 0582	Child Abuse Prevention Fund 0934	Bail Bond Fund 1119	Children and Family Benefit Fund 1121	Total
ASSETS							
Cash Equity with State Treasurer	$ 124,384	$ 774	$ 756	$ 1	$ -	$ -	$ 125,915
Cash and Cash Equivalents	1,612	-	-	-	1	21	1,634
Due from Other Government - Federal	60,410	756	-	-	-	-	61,166
Due from Other Department Funds	856	21	-	-	-	34	911
Due from Other State Funds	74	79	78	-	-	-	231
Inventories	411	-	-	-	-	-	411
Total Assets	$ 187,747	$ 1,630	$ 834	$ 1	$ 1	$ 55	$ 190,268
LIABILITIES							
Accounts Payable and Accrued Liabilities	$ 90,989	$ 413	$ 68	$ -	$ -	$ -	$ 91,470
Intergovernmental Payables	5,354	176	-	-	-	-	5,530
Due to Other Department Funds	30	856	18	-	-	-	904
Due to Other State Funds	66	8	-	-	-	-	74
Due to State of Illinois Component Units	12,203	177	-	-	-	-	12,380
Total Liabilities	108,642	1,630	86	-	-	-	110,358
DEFERRED INFLOW OF RESOURCES							
Unavailable Revenue	35,835	489	-	-	-	-	36,324
Total Deferred Inflow of Resources	35,835	489	-	-	-	-	36,324
Total Liabilities and Deferred Inflows of Resources	144,477	2,119	86	-	-	-	146,682
FUND BALANCES							
Nonspendable	411	-	-	-	-	-	411
Restricted	-	-	748	-	1	-	749
Committed	42,859	-	-	1	-	-	42,860
Assigned	-	-	-	-	-	55	55
Unassigned	-	(489)	-	-	-	-	(489)
Total Fund Balances (Deficits)	43,270	(489)	748	1	1	55	43,586
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 187,747	$ 1,630	$ 834	$ 1	$ 1	$ 55	$ 190,268

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2020
(IN THOUSANDS)

	Special Revenue						
	Children's Services Fund 0220	Federal Projects Fund 0566	Special Purpose Fund 0582	Child Abuse Prevention Fund 0934	Bail Bond Fund 1119	Children and Family Benefit Fund 1121	Total
REVENUES							
Federal Government	$ 334,671	$ 2,317	$ 520	$ -	$ -	$ -	$ 337,508
Licenses and Fees	11	-	346	-	-	-	357
Other Charges for Services	6,592	-	-	-	-	-	6,592
Other Operating Grants	-	-	54	-	-	-	54
Other	-	-	-	1	-	-	1
Total Revenues	341,274	2,317	920	1	-	-	344,512
EXPENDITURES							
Health and Social Services	394,997	2,728	472	-	-	-	398,197
Total Expenditures	394,997	2,728	472	-	-	-	398,197
Excess (deficiency) of revenues over (under) expenditures	(53,723)	(411)	448	1	-	-	(53,685)
NET CHANGE IN FUND BALANCES	(53,723)	(411)	448	1	-	-	(53,685)
Fund Balances (Deficits) - July 1, 2019	96,582	(78)	300	-	1	55	96,860
Change in Inventories	411	-	-	-	-	-	411
FUND BALANCES (DEFICITS) - JUNE 30, 2020	$ 43,270	$ (489)	$ 748	$ 1	$ 1	$ 55	$ 43,586

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
COMBINING STATEMENT OF FIDUCIARY NET POSITION
PRIVATE PURPOSE TRUST FUNDS
JUNE 30, 2020
(IN THOUSANDS)

	Katherine Schaffner Bequest Fund 1117	Herrick House Children's Center Bequest Fund 1207	Total
ASSETS			
Cash and Cash Equivalents	$ 111	$ 13	$ 124
Investments	666	-	666
Total Assets	$ 777	$ 13	$ 790
NET POSITION			
Restricted for:			
Individuals, Organizations, and Other Governments	$ 777	$ 13	$ 790
Total Net Position	$ 777	$ 13	$ 790

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PRIVATE PURPOSE TRUST FUNDS
YEAR ENDED JUNE 30, 2020
(IN THOUSANDS)

	Katherine Schaffner Bequest Fund 1117	Herrick House Children's Center Bequest Fund 1207	Total
ADDITIONS			
Investment Earnings:			
Interest, Dividends and Other Investment Income (Loss)	$ 42	$ -	$ 42
CHANGE IN NET POSITION	42	-	42
Net Position - July 1, 2019	735	13	748
NET POSITION - JUNE 30, 2020	$ 777	$ 13	$ 790

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUND
YEAR ENDED JUNE 30, 2020
(IN THOUSANDS)

	Children's Trust Fund (1122)			
	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020
ASSETS				
Cash Equity with State Treasurer	$ 299	$ 5,679	$ 5,237	$ 741
Cash and Cash Equivalents	3,017	1,358	1,488	2,887
Due from Other Government - Federal	491	1,375	1,358	508
Total Assets	$ 3,807	$ 8,412	$ 8,083	$ 4,136
LIABILITIES				
Due to Other Government - Federal	$ 110	$ 966	$ 1,076	$ -
Amounts Held on Behalf of State Wards	3,697	7,446	7,007	4,136
Total liabilities	$ 3,807	$ 8,412	$ 8,083	$ 4,136

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

Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Children and Family Services (the "Department"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated June 2, 2021.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings as item 2020-005.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2020-001, 2020-002, 2020-003, 2020-004, and 2020-005 that we consider to be material weaknesses.

State of Illinois, Department of Children and Family Services' Response to Findings

The Department's response to the findings identified in our audit is described in the accompanying Schedule of Findings. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

State of Illinois, Department of Healthcare and Family Services' Response to Findings

The State of Illinois, Department of Healthcare and Family Services' response to items 2020-004 and 2020-005 is described in the accompanying Schedule of Findings. The State of Illinois, Department of Healthcare and Family Services' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

The State of Illinois, Department of Human Services' response to item 2020-004 is described in the accompanying Schedule of Findings. The State of Illinois, Department of Human Services' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

CliftonLarsonAllen LLP

Peoria, Illinois
June 2, 2021

2020-001 FINDING (Financial statement preparation)

The Department of Children and Family Services (Department) year-end financial reporting in accordance with generally accepted accounting principles (GAAP) submitted to the Illinois Office of Comptroller (Comptroller) contained a material error.

A material error was identified during the audit of the Department's draft financial statements. The effect of this misstatement in the Department's governmental funds financial statements was an overstatement of revenue and an understatement of beginning fund balance in the amount of $24.005 million. The Department posted an audit adjustment to correct this error in its financial statements as of and for the year ended June 30, 2020.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* states that revenues and other governmental fund financial resources should be recognized in the accounting period in which they become both measurable and available. The Department considers revenue to be available if received within 60 days of fiscal year end.

Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that revenues, expenditures, and transfers of assets, resources or funds applicable to operations are properly recorded and accounted for to permit preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources. Effective internal controls should include procedures to ensure adherence to accounting principles generally accepted in the United State of America and the appropriate presentation of amounts reported in the Department's financial statements.

Officials of the Department indicated they used estimated cash receipts for July and August 2019 for calculating the June 30, 2019 deferred inflow of resources, as opposed to identifying the actual unavailable revenues.

Insufficient and/or ineffective controls over financial reporting can lead to significant reporting inaccuracies in the financial statements. (Finding Code No. 2020-001)

RECOMMENDATION

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

DEPARTMENT RESPONSE

The Department agrees with and has implemented this recommendation. The Department has filled a vacant CPA position and continues to employ a contractor with expertise in completion and review of governmental financial statements.

2020-002 FINDING (Inadequate Controls over Cash)

The Department of Children and Family Services (Department) did not exercise adequate control over its cash receipts and monthly reconciliations.

During testing, we noted the following internal control deficiencies occurred during both Fiscal Year 2019 and Fiscal Year 2020:

- While the Department was generally timely in depositing cash receipts into cash clearing accounts established by the State Treasurer, the Department was not timely preparing Receipts Deposit Transmittal (RDT) to order receipts on deposit within the cash clearing accounts into the proper fund with the State Treasury. At June 30, 2020, we identified the average in-transit receipt had been outstanding in the clearing account and not deposited into the Treasury by over 300 days. As such, the Office of Comptroller (Comptroller) **cannot process any expenditures using this money on deposit in the clearing accounts until the Department actually completes the RDT process**.

  The Statewide Accounting Management System (SAMS) (Procedure 25.20.10) requires the Department prepare a RDT (Form C-64) with a State Treasurer's Draft for receipts in the clearing account to order moneys deposited into the State Treasury. Good internal controls over cash management include expediting the deposit of cash receipts into the State Treasury to speed the payment of State obligations.

- The Department was not timely recording cash receipts within its accounting records.

  The State Officers and Employees Money Disposition Act (30 ILCS 230/2(a)) requires the Department to keep proper books with a detailed itemized accounting of all moneys showing the date of receipt, the payor, purpose and amount, and the date and manner of disbursement. Further, a good system of internal control includes establishing a process to timely record transactions and monitor the deposit of receipts into the State Treasury.

- The Department was not timely performing reconciliations of its cash receipts recorded within its accounting records to the Comptroller's records of deposits of cash receipts within the State Treasury's funds.

  (SAMS) (Procedure 25.40.20) requires the Department to reconcile the Monthly Revenue Status Report (SB04) generated monthly by the Comptroller to its internal accounting records within 60 days of month end, so unreconcilable differences can be identified and corrected within the State's accounting records.

Due to these problems, we noted the following growth in reconciling differences:

General Fund	FY18	FY20	Difference
In-Transit Cash Receipts at June 30	$1,058,000	$11,397,432	$10,339,432
Number of In-Transit Cash Receipts at June 30	1	653	652

Children's Services Fund	FY18	FY20	Difference
In-Transit Cash Receipts at June 30	$336,000	$8,172,550	$7,836,550
Number of In-Transit Cash Receipts at June 30	7	771	764

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance revenues and 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 officials indicated a struggle to timely fill vacancies within the Department's General Accounting Division and staff assigned to complete receipt processing not being properly trained contributed to these problems.

Failure to record receipt transactions and timely submit RDTs to the Comptroller represents noncompliance with the State Officers and Employees Money Disposition Act and reduces the amount of cash available to pay current obligations. Further, failure to timely and properly document reconciliations of the Department's records to the Comptroller's reports hindered the ability of staff to identify and correct errors in the normal course of performing their duties and represents noncompliance with SAMS. Finally, the lack of adequate internal control over receipts creates a significant risk for a potential material misstatement in financial reporting. (Finding Code No. 2020-002)

RECOMMENDATION

We recommend the Department implement controls to record all cash receipt transactions, timely submit RDTs to the Comptroller, and timely and accurately complete reconciliations of receipts in accordance with SAMS.

DEPARTMENT RESPONSE

The Department agrees with and has implemented the auditor recommendations. DCFS has hired a CPA to manage the general accounting division and oversee the receipts processes, reporting and reconciliation processes. Receipts are being entered into SAP and RDTs are being completed timely. Cash receipts reconciliations are caught up and reconciling items are minimal and being corrected in a timely manner.

FINDING 2020-003 (Inadequate Internal Controls over Census Data)

The Department of Children and Family Services (Department) did not develop or retain adequate supporting documentation for its personnel transactions and did not have a reconciliation process to provide assurance census data submitted to its pension and other postemployment benefits (OPEB) plans was complete and accurate.

Census data is demographic data (date of birth, gender, years of service, etc.) of the active, inactive, or retired members of a pension or OPEB plan. The accumulation of inactive or retired members' census data occurs before the current accumulation period of census data used in the plan's actuarial valuation (which eventually flows into each employer's financial statements), meaning the plan is solely responsible for establishing internal controls over these records and transmitting this data to the plan's actuary. In contrast, responsibility for active members' census data during the current accumulation period is split among the plan and each member's current employer(s). Initially, employers must accurately transmit census data elements of their employees to the plan. Then, the plan must record and retain these records for active employees and then transmit this census data to the plan's actuary.

We noted the Department's employees are members of both the State Employees' Retirement System of Illinois (SERS) for their pensions and the State Employees Group Insurance Program sponsored by the State of Illinois, Department of Central Management Services (CMS) for their OPEB. In addition, we noted these plans have characteristics of different types of pension and OPEB plans, including single employer plans and cost-sharing multiple-employer plans.

During testing, we noted the following:

1) The Department had not performed an initial complete reconciliation of its census data recorded by SERS and CMS to its internal records to establish a base year of complete and accurate census data.

2) After establishing a base year, the Department had not developed a process to annually obtain from SERS and CMS the incremental changes recorded by SERS and CMS in their census data records and reconcile these changes back to the Department's internal supporting records.

3) Two of 80 (3%) employees tested did not have documentation supporting the employee's total compensation as determined under the Illinois Pension Code (40 ILCS 5/14-133(a)), as adjustments were posted for bilingual pay and longevity pay which the Department could not substantiate from its own records. We considered the impact of the portion of these employees' total compensation that was unsupported and determined these amounts did not materially impact the Department's financial statements.

For employers where their employees participate in plans with multiple-employer and cost-sharing features, the American Institute of Certified Public Accountants' *Audit and Accounting Guide: State and Local Governments* (AAG-SLG) (§ 13.177 for pensions and § 14.184 for OPEB) notes the determination of net pension/OPEB liability, pension/OPEB expense, and the associated deferred inflows and deferred outflows of resources depends on employer-provided census data reported to the plan being complete and accurate along with the accumulation and maintenance of this data by the plan being complete and accurate. To help mitigate against the risk of a plan's actuary using incomplete or inaccurate census data within similar agent multiple-employer plans, the AAG-SLG (§ 13.181 (A-27) for pensions and § 14.141 for OPEB) recommends an employer annually reconcile its active members' census data to a report from the plan of census data submitted to the plan's actuary, by comparing the current year's census data file to both the prior year's census data file and its underlying records for changes occurring during the current year.

Further, the State Records Act (5 ILCS 160/8) requires the Department make and preserve records containing adequate and proper documentation of its essential transactions to protect the legal and financial rights of the State and of persons directly affected by the Department's activities.

Finally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports.

The Department indicated they were unaware of the requirement to reconcile its information to the information reported by SERS and CMS.

Failure to ensure census data reported to SERS was complete and accurate could have resulted in a material misstatement of the Department's financial statements and reduced the overall accuracy of SERS-related pension liabilities, deferred inflows and outflows of resources, and expense recorded by the State and its agencies. In addition, failure to reconcile active members' census data reported to and held by SERS and CMS to the Department's records could result in each plan's actuary relying on incomplete or inaccurate census data in the calculation of the Department's pension and OPEB balances, which may result in a misstatement of these amounts. (Finding Code No. 2020-003)

RECOMMENDATION

We recommend the Department implement controls to ensure total compensation paid to each employee is fully documented and supported within the Department's records.

Further, we recommend the Department work with SERS and CMS to develop an annual reconciliation process of its active members' census data from its underlying records to a report from each plan of census data submitted to the plan's actuary. After completing an initial full reconciliation, the Department may limit the annual reconciliations to focus on the incremental changes to the census data file from the prior actuarial valuation, provided no risks are identified that incomplete or inaccurate reporting of census data may have occurred during prior periods.

DEPARTMENT RESPONSE

The Department agrees with this finding. The Department will review its procedures regarding maintenance of employee pay records and make any changes necessary to ensure compensation figures are fully supported. The Department will also work with the IOC, SERS and CMS to develop a process to reconcile pension and OPEB census data as recommended.

FINDING 2020-004 (Inadequate general information technology controls over IMPACT)

The Department of Healthcare and Family Services (HFS), the Department of Human Services (DHS), and the Department of Children and Family Services (DCFS) (collectively, the "Departments") failed to establish and maintain adequate general information technology internal controls (general IT controls) over the operation of the State of Illinois' Illinois Medicaid Program Advanced Cloud Technology system (IMPACT).

In calendar year 2012, HFS and the State of Michigan's Department of Community Health entered into an intergovernmental agreement (IGA) for the State of Illinois (State) to utilize Michigan's existing Medicaid Management Information System (MMIS) and its related infrastructure with the goal of replacing the State's MMIS to accommodate the processing of the State's Medicaid provider enrollment determinations and all Medicaid claim payments to such providers. Since 2012, the State has implemented two phases of IMPACT; Electronic Health Record Medicaid Incentive Payment Program (eMIPP) and Provider Enrollment (PE).

An IGA was entered into in 2015 which formally established the Illinois-Michigan Program Alliance for Core Technology. Additionally, the parties agreed to pursue expansion of the Michigan MMIS environment to accommodate the processing of Illinois' Medicaid claims. The IGA required Michigan to extend its current system to utilize cloud architecture that would result in converged infrastructure, maximizing the effectiveness of shared resources, and allowing the shared services to be offered to HFS.

As a result of the Departments not having access to or control over IMPACT and its infrastructure, we requested HFS provide a System and Organization Control (SOC) report which would provide the State and auditors information on the design and effectiveness of internal controls over IMPACT. In response, HFS provided a Security Assessment Report (Report), however, this report did not evaluate the design and implementation of Michigan's internal controls.

Specifically, the Report did not document:

- Timeframe/period in which the Security Assessment Report covers,
- Independent service auditor's report,
- Details of the testing conducted, and
- Details of Michigan's internal controls as they relate to:
    - Control environment,
    - Risk assessment processes,
    - Information and communication,
    - Control activities, and
    - Monitoring activities.

As a result, we were unable to perform adequate procedures to satisfy ourselves that certain general IT controls (changes and access controls (administrators and programmers)) to IMPACT were operating effectively during the audit period.

Change Management
As a result of the Departments' failure to obtain a SOC report, as noted above, or conduct their own timely independent internal control review over changes to IMPACT, data, or the

infrastructure, we were unable to determine if changes made during the audit period were proper and approved.

Departments' management stated they believe the Security Assessment Report adequately assessed the internal controls over IMPACT, data and the infrastructure.

User Access Control
HFS implemented a formalized review process for IMPACT Provider Enrollment Access and Employee Status Report Review during the year ended June 30, 2020. The Department performed and documented the annual IMPACT Provider Enrollment Access Review in accordance with their formalized process. However, the HFS did not timely perform the formalized Employee Status Report Review. Furthermore, the IMPACT Provider Enrollment Access Review did not include a requirement for DHS and DCFS to conduct periodic user access reviews.

During our testing, we obtained a population of all Departments' staff who had access to IMPACT, noting five of five (100%) terminated State staff continued to have access. The access rights were terminated 204 to 250 days after termination of employment.

According to Department management, IMPACT automatically locks accounts after 60 days of non-use. While we do not disagree, the accounts lock after 60 days of inactivity, during the 60 days individuals continue to have access. Further, the 60 day automatic lock is only for non-use. If the individual continues to utilize their account, it remains active.

Further, HFS' management stated the late removal of terminated employees' access to IMPACT was due to a lack of communication between supervisors and the security staff and the Employee Status Report was not always received by the security staff in a timely fashion.

The Code of Federal Regulations (Code) (42 C.F.R §95.621(f)(1)), ADP *System Security Requirement*, requires the Departments to be responsible for the security of all automated data processing (ADP) projects under development, and operational systems involved in the administration of the U.S. Department of Health & Human Services programs. The Departments are required to determine the appropriate security requirements based on recognized industry standards or standards governing security of federal ADP systems and information processing.

The internal control requirements of the *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) within the Code (2 C.F.R. § 200.303) requires the Departments to: (1) establish and maintain effective internal control over the Medicaid Program to provide reasonable assurance the Departments are managing the Medicaid Program in compliance with federal statutes, regulations, and the terms and conditions; and (2) comply with federal statutes, regulations and terms and conditions of the Medicaid Program. These internal controls should be in compliance with guidance in Standards for Internal Control in the Federal Government (otherwise commonly referred to as the Green Book) issued by the Comptroller General of the United States or the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organization of the Treadway Commission (COSO).

The National Institute of Standards and Technology (NIST), Security and Privacy Controls for Information Systems and Organizations, Access Control, Configuration Management, and System and Service Acquisition sections sanctions the development, implementation, and monitoring of internal controls over changes, access, and service providers.

HFS' Employee Status Report review procedure states "Twice a month the Identity Management Unit (IMU) receives an Employee Status Report from the HFS' Division of Personnel. This report lists changes in employee job assignments. The report is reviewed by the IMU to identify accounts that need to be disabled."

Without having obtained and reviewed a SOC report, the Departments do not have assurance the service provider's internal controls over IMPACT, data and the infrastructure are adequate to protect from unauthorized changes and accidental and intentional destruction or alteration. Furthermore, the untimely termination of access rights and periodic review of access leave the Departments exposed to risk of unauthorized access.
(Finding Code No. 2020-004, 2018-002)

RECOMMENDATION
We recommend the Departments work with the service provider to obtain assurance the internal controls over IMPACT, data, and the infrastructure, including change control and user access, are adequate.

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE
The Department of Healthcare and Family Services accepts the recommendation.

DEPARTMENT OF HUMAN SERVICES' RESPONSE
The Illinois Department of Human Services (IDHS) accepts the recommendation. IDHS will work with HFS and the service provider to ensure controls over IMPACT data and the infrastructure are adequate.

DEPARTMENT OF CHILDREN AND FAMILY SERVICES' RESPONSE
DCFS's role in the IMPACT system is limited to one system user who has very limited access to the system in order to assist providers who work with DCFS youth in care with their enrollment into IMPACT and to identify that the provider has an association with DCFS within the system. DCFS will work with HFS and DHS to implement any controls that are established to maintain adequate general information technology controls over the operation of the IMPACT system.

FINDING 2020-005 (Insufficient review and documentation of provider enrollment determinations and failure to execute interagency agreements)

The Department of Children and Family Services (DCFS) failed to execute an interagency agreement (IA) with the Department of Healthcare and Family Services (HFS) establishing adequate internal controls over the operation of the State of Illinois' Illinois Medicaid Program Advanced Cloud Technology system (IMPACT), and failed to sufficiently review and document eligibility requirements either prior to the approval of eligibility, and/or during the required monthly screenings for enrolled providers.

In July 2015, HFS implemented IMPACT's Provider Enrollment module, which was designed by HFS to be the State of Illinois' official book of record for the enrollment of providers offering services for and on behalf of State of Illinois Medicaid recipients.

As set forth in the State of Illinois' State Plan under Title XIX of the *Social Security Act* (State Plan) (Section 1.1), the State's designated agency responsible for administering and supervising the administration of the Medicaid Program is HFS. However, Section 1.1 of the State Plan also allows for HFS to delegate specific functions to other State agencies to assist with the administration of the Medicaid Program, pursuant to a written IA defining each agency's roles and responsibilities.

DCFS provides Medicaid services which utilize IMPACT for enrollment of their providers. DCFS administers the State's child welfare program which includes cooperating in the establishment of Medicaid eligibility for children who are wards of the State.

Interagency Agreement

The auditors noted DCFS did not enter into or have an existing IA with HFS defining each agencies' roles and responsibilities as they related to IMPACT during fiscal years 2019 and 2020.

DCFS management stated they were unable to complete the negotiation of an IGA during the examination period due to the rollout of the new Medicaid managed care plan and the complexities involved in ensuring a smooth transition and defining the roles of both HFS and DCFS, which includes the definition of roles within IMPACT.

Detail Sample Testing of DCFS Providers

During testing, the auditors determined DCFS did not utilize IMPACT as its official book of record or rely on it to verify if their providers met certain Medicaid requirements prior to approving them to provide services to Medicaid recipients. Specifically, in fiscal years 2019 and 2020, DCFS management stated they do not utilize IMPACT as the official book of record for DCFS providers because DCFS contracted directly with those providers for services specific to the needs of its youth in care that were eligible for Medicaid reimbursement. DCFS management further stated it believes its role was to assist DCFS providers, after contracting with them, with enrolling in IMPACT as DCFS management believes HFS is ultimately responsible for determining if the payments were eligible to be claimed for reimbursement from the federal government.

In order to determine if DCFS provider applications were approved in accordance with DCFS program specific federal and State laws/rules/regulations, the auditors requested DCFS to provide them with a population of its approved providers, identified in IMPACT as DCFS providers as of June 30, 2020. In response to the auditors' request, DCFS management stated it was not required to maintain records of enrolled providers, this was the responsibility of HFS. DCFS did not request HFS to provide a population to the auditors.

Due to the conditions noted above, the auditors were unable to conclude DCFS records were sufficiently precise, complete, and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AU-C § 330, AU-C § 530, AT-C § 205).As a result, auditors were unable to conduct detailed testing.

The internal control requirements of the *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) within the Code of Federal Regulations (Code) (2 C.F.R § 200.303) requires HFS and DCFS to: (1) establish and maintain effective internal control over the Medicaid Program to provide reasonable assurance the State of Illinois is managing the Medicaid Program in compliance with federal statutes, regulations, and the terms and conditions of the Federal award; and (2) comply with federal statutes, regulations and terms and conditions of the Medicaid Program. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" (otherwise commonly referred to as the Green Book) issued by the Comptroller General of the United States or the "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Further, the Fiscal Control and Internal Auditing Act (FCIAA) (30 ILCS 10/3001) requires HFS and DCFS to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that: (1) resources are utilized efficiently, effectively, and in compliance with applicable laws; (2) obligations and costs are in compliance with applicable laws; and (3) funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation and funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Failure to execute an IA could expose the State to unnecessary and avoidable litigation. Further, as a result of DCFS' failure to provide or obtain a population of DCFS program specific providers, the auditors were unable to rely on IMPACT with respect to the testing of provider eligibility and related federal compliance requirements over the enrollment of providers and subsequent payments made to approved providers who provide services to recipients of the State's Medicaid Program. (Finding Code No. 2020-005, 2018-003)

RECOMMENDATION

We recommend DCFS management work with HFS to ensure all provider applications are properly reviewed, approved, and documented within IMPACT. In addition, we recommend DCFS work with HFS to execute a detailed interagency agreement which documents specific roles and responsibilities as they relate to IMPACT.

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE

The Department of Healthcare and Family Services (HFS) accepts the recommendation. The IGA with DCFS is complete and awaiting signature.

DEPARTMENT OF CHILDREN AND FAMILY SERVICES' RESPONSE

DCFS partially agrees with the recommendation. DCFS will continue to work with HFS to execute an interagency agreement which documents the specific roles and responsibilities of DCFS as they relate to IMPACT. If those roles include review and approval of provider applications, DCFS will establish procedures to ensure they are documented within IMPACT.

A. Finding: Statewide Failure to Execute Interagency Agreements and Perform Essential Project Management Functions over Provider Enrollment in the Medicaid Program

During the previous engagement, the Department of Healthcare and Family Services (HFS), the Department of Human Services (DHS), the Department of Children and Family Services (DCFS), and the Department on Aging (DoA) (collectively, the "Departments") failed to execute adequate internal controls over the implementation and operation of the State of Illinois' Illinois-Michigan Program Alliance for Core Technology system (IMPACT). Specifically, management of the Departments did not enter into interagency agreements (IA) defining each agency's roles and responsibilities and did not perform essential project management functions over the implementation of IMPACT.

Phase 2 of the IMPACT implementation was completed in FY 2018 and there were no significant project management activities in FY 2020 at DCFS during the audit period. Upon completion of the next significant project management activity, the auditors will review the applicable State agency's development project. The auditors have, however; reported in Finding 2020-005 the Departments have not entered into IAs defining each agency's roles and responsibilities over IMPACT. (Finding Code No. 2018-001)