State of Illinois Department of Children and Family Services

FINANCIAL AUDIT

FOR THE YEAR ENDED
JUNE 30, 2022

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

Roth&Co
BEYOND BUSINESS

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2022

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Other Reports Issued Under a Separate Cover:

The Department of Children and Family Services' *State Compliance Examination* for the two years ended June 30, 2022, will be issued under a separate cover.

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2022

AGENCY OFFICIALS

Director	Marc D. Smith (06/15/21 - present) Marc D. Smith (Acting) (through 06/14/21)
Executive Deputy Director	Tierney Stutz (Acting) (03/06/23 - present) Vacant (01/14/23 - 03/05/23) Meaghan Jorgensen (Acting) (08/16/22 - 01/13/23) Vacant (01/01/22 - 08/15/22) Derek Hobson (through 12/31/21)
Chief of Staff	Jassen Strokosch (07/16/20 - present) Vacant (through 07/15/20)
Chief Financial Officer	Kiersten Neswick (02/16/22 - present) Joe McDonald (Acting) (01/01/22 - 02/15/22) Royce Kirkpatrick (through 12/31/21)
General Counsel	Brian Dougherty (03/13/23 - present) Carol Melton (Acting) (09/22/22 - 03/12/23) Amanda Wolfman (through 09/21/22)
Chief Internal Auditor	Phillip Dasso

AGENCY OFFICES

The Department's primary administrative offices are located at:

406 East Monroe Street
Springfield, Illinois 62701

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

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2022

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Department of Children and Family Services (Department) was performed by Roth & Company, LLP.

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

SUMMARY OF FINDINGS

Number of	Current Report	Prior Report
Findings	3	5
Repeated Findings	2*	2
Prior Recommendations Implemented or Not Repeated	4	1

* Finding 2022-002 was previously reported as a finding in the Department's State Compliance Examination Report for the two years ended June 30, 2020. During the current audit period, this finding has been reclassified to *GAS* findings.

SCHEDULE OF FINDINGS

Item No.	Page	Last/First Reported	Description	Finding Type
			Current Findings	
2022-001	55	2020/2020	Financial Statement Preparation	Material Weakness
2022-002	58	2020/2020	Lack of Adequate Controls over the Review of Internal Controls for Service Providers	Material Weakness
2022-003	61	New	Failure to Maintain Proper Segregation of Duties over Daycare	Material Weakness and Noncompliance
			Prior Findings Not Repeated	
A	63	2020/2020	Inadequate Controls over Cash	
B	63	2020/2020	Inadequate Internal Controls over Census Data	

FINANCIAL STATEMENT REPORT (Continued)

SCHEDULE OF FINDINGS (Continued)

Item No.	Page	Last/First Reported	Description
			Prior Findings Not Repeated (Continued)
C	63	2020/2018	Inadequate General Information Technology Controls over IMPACT
D	64	2020/2018	Insufficient Review and Documentation of Provider Enrollment Determinations and Failure to Execute Interagency Agreements

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with the Department personnel at an exit conference on May 23, 2023.

Attending were:

Department of Children and Family Services
Kiersten Neswick, Chief Financial Officer
James Daugherty, Chief Information Officer
Phillip Dasso, Chief Internal Auditor
Clayton Murphy, Audit Liaison
Joe McDonald, Associate Deputy Director, Budget and Finance
Sarah Tucker, Associate Deputy Director, Budget and Finance
David Riley, Payroll Administrator
Douglas Washington, Deputy Director, Contract Administration
Brian Rhodes, Public Service Administrator - Opt 3

Office of the Auditor General
Janis Van Durme, CPA, Health and Human Services Audit Manager

Roth & Company, LLP
Leilani Rodrigo, CPA, CGMA, Partner
Darlene Dizon, CPA, Manager
Lou Jonathan Cabrera, CISA, Manager

The responses to the recommendations were provided by Clayton Murphy, Audit Liaison, in a correspondence dated May 31, 2023.

Roth&Co

INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on the Audit of the Financial Statements

Opinions

As Special Assistant Auditors for the Auditor General, we have audited 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 (Department), as of and for the year ended June 30, 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying 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, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department, and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 2, the financial statements of the Department are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, the major fund, and the aggregate remaining fund information of the State 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, 2022 and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

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Further, as discussed in Note 2 to the financial statements of the Department, in Fiscal Year 2022 the Department adopted new accounting guidance, GASB Statement No. 87, *Leases*, that resulted in the restatement of beginning net position. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgement and maintain professional skepticism throughout the audit.

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.

- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the 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 financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinions on the financial statements are not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the financial statements. The combining General Fund schedules and nonmajor governmental and fiduciary fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 General Fund schedules and nonmajor governmental and fiduciary fund financial statements are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the agency officials page but does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2023, 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 Auditor's Report

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

SIGNED ORIGINAL ON FILE

Chicago, Illinois
May 31, 2023

BASIC FINANCIAL STATEMENTS

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2022
(Expressed in Thousands)

	General Fund	Other Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Net Position
ASSETS					
Unexpended appropriations	$ 114,559	$ -	$ 114,559	$ -	$ 114,559
Cash equity with State Treasurer	16	332,645	332,661	-	332,661
Cash and cash equivalents	1,083	637	1,720	-	1,720
Securities lending collateral	-	3	3	-	3
Due from other government - federal	-	50,728	50,728	-	50,728
Other receivables, net	1,202	398	1,600	-	1,600
Due from other Department funds	1,626	1,385	3,011	(1,419)	1,592
Due from other State funds	112	326	438	-	438
Prepaid expenses	-	-	-	1,835	1,835
Capital assets being depreciated, net	-	-	-	2,274	2,274
TOTAL ASSETS	118,598	386,122	504,720	2,690	507,410
DEFERRED OUTLOWS OF RESOURCES					
Pension	-	-	-	276,381	276,381
OPEB	-	-	-	120,600	120,600
TOTAL DEFERRED OUTLOWS OF RESOURCES	-	-	-	396,981	396,981
TOTAL ASSETS AND DEFERRED OUTLOWS OF RESOURCES	$ 118,598	$ 386,122	$ 504,720	399,671	904,391

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

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2022
(Expressed in Thousands)

	General Fund	Other Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Net Position
LIABILITIES					
Accounts payable and accrued liabilities	$ 94,565	$ 46,257	$ 140,822	-	140,822
Intergovernmental payables	1,576	1,275	2,851	-	2,851
Due to other Department funds	32	2,979	3,011	(1,419)	1,592
Due to other State funds	13,487	4,037	17,524	-	17,524
Due to State of Illinois component units	5,009	11,021	16,030	-	16,030
Obligations under Securities Lending of State Treasurer	-	3	3	-	3
Pension liability	-	-	-	1,754,150	1,754,150
OPEB liability					
Due within one year	-	-	-	26,162	26,162
Due subsequent to one year	-	-	-	1,189,875	1,189,875
Leases					
Due within one year	-	-	-	718	718
Due subsequent to one year	-	-	-	836	836
Compensated absences					
Due within one year	-	-	-	2,519	2,519
Due subsequent to one year	-	-	-	20,376	20,376
TOTAL LIABILITIES	114,669	65,572	180,241	2,993,217	3,173,458
DEFERRED INFLOWS OF RESOURCES					
Pension	-	-	-	154,509	154,509
OPEB	-	-	-	532,381	532,381
Unavailable revenue	-	32,789	32,789	(32,789)	-
TOTAL DEFERRED INFLOWS OF RESOURCES	-	32,789	32,789	654,101	686,890
FUND BALANCES/NET POSITION					
Fund balances (deficits):					
Restricted	-	2,545	2,545	(2,545)	-
Committed	-	286,683	286,683	(286,683)	-
Assigned	-	55	55	(55)	-
Unassigned	3,929	(1,522)	2,407	(2,407)	-
Net investment in capital assets	-	-	-	720	720
Restricted net position	-	-	-	2,545	2,545
Unrestricted net position	-	-	-	(2,959,222)	(2,959,222)
Total fund balances/Net position	3,929	287,761	291,690	$ (3,247,647)	$ (2,955,957)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 118,598	$ 386,122	$ 504,720		

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

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO STATEMENT OF NET POSITION
June 30, 2022
(Expressed in Thousands)

Total fund balances - governmental funds		$ 291,690
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.		1,835
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		2,274
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		32,789
Some liabilities, deferred outflows of resources, and deferred inflows of resources reported in the Statement of Net Position do not require the use of current financial resources and, therefore, are not reported in governmental funds. These liabilities, deferred outflows of resources, and deferred inflows of resources, consist of:		
Pension liability	$ (1,754,150)	
Deferred outflows of resources - Pensions	276,381	
Deferred inflows of resources - Pensions	(154,509)	
OPEB liability	(1,216,037)	
Deferred outflows of resources - OPEB	120,600	
Deferred inflows of resources - OPEB	(532,381)	
Lease obligations	(1,554)	
Compensated absences	(22,895)	(3,284,545)
Net position of governmental activities		$ (2,955,957)

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

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
STATEMENT OF ACTIVITIES AND GOVERNMENTAL REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2022
(Expressed in Thousands)

	General Fund	Other Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Activities
EXPENDITURES/EXPENSES					
Health and social services	$ 1,292,477	$ 236,022	$ 1,528,499	$ (110,992)	$ 1,417,507
Debt service - principal	727	-	727	(727)	-
Debt service - interest	49	-	49	-	49
Capital outlays	1,580	47	1,627	(1,627)	-
TOTAL EXPENDITURES/EXPENSES	1,294,833	236,069	1,530,902	(113,346)	1,417,556
PROGRAM REVENUES					
Charges for services:					
Licenses and fees	4	680	684	-	684
Other charges for services	13,000	5,782	18,782	-	18,782
Total charges for services	13,004	6,462	19,466	-	19,466
Operating grant revenues:					
Federal	945	370,436	371,381	22,479	393,860
Other	1,592	-	1,592	-	1,592
Total operating grant revenue	2,537	370,436	372,973	22,479	395,452
TOTAL PROGRAM REVENUES	15,541	376,898	392,439	22,479	414,918
NET PROGRAM REVENUES (EXPENSES)	(1,279,292)	140,829	(1,138,463)	135,825	(1,002,638)
GENERAL REVENUE					
Other	16	177	193	-	193
OTHER SOURCES (USES)					
Appropriations from State resources	1,316,878	-	1,316,878	-	1,316,878
Reappropriations to fiscal year 2023	(3,167)	-	(3,167)	-	(3,167)
Lapsed appropriations	(20,564)	-	(20,564)	-	(20,564)
Receipts collected and transmitted to State Treasury	(14,758)	-	(14,758)	-	(14,758)
Lease financing	1,580	-	1,580	(1,580)	-
TOTAL OTHER SOURCES (USES)	1,279,969	-	1,279,969	(1,580)	1,278,389
CHANGE IN FUND BALANCES/NET POSITION	693	141,006	141,699	134,245	275,944
FUND BALANCES/NET POSITION, JULY 1, 2021	3,236	146,755	149,991	(3,381,892)	(3,231,901)
FUND BALANCES/NET POSITION, JUNE 30, 2022	$ 3,929	$ 287,761	$ 291,690	$ (3,247,647)	$ (2,955,957)

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

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
For the Year Ended June 30, 2022
(Expressed in Thousands)

Net change in fund balances - governmental funds		$ 141,699
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures while the Statement of Activities report depreciation expense to allocate those expenditures over the life of the assets. This is the difference between capital additions and depreciation in the current period.		485
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.		727
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.		(1,580)
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.		(1,240)
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.		22,479
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, therefore, are not reported as expenses in the Statement of Activities.		
Increase in net pension liability	$ 94,183	
Change in deferred outflows of resources - pensions	52,744	
Change in deferred inflows of resources - pensions	(120,002)	
Decrease in total OPEB liability	475,804	
Change in deferred outflows of resources - OPEB	(46,302)	
Change in deferred inflows of resources - OPEB	(343,718)	
Increase in compensated absences obligation	665	113,374
Change in net position of governmental activities		$ 275,944

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

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2022
(Expressed in Thousands)

	Private Purpose Trust	Custodial Fund Children's Trust 1122
ASSETS		
Cash and cash equivalents	$ 148	$ 7,055
Investments	710	-
Due from other government - federal	-	1,728
TOTAL ASSETS	858	8,783
LIABILITIES		
Other liabilities	-	116
NET POSITION		
Restricted for:		
Individuals, organizations, and other governments	$ 858	$ 8,667

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

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended June 30, 2022
(Expressed in Thousands)

	Private Purpose Trust	Custodial Fund Children's Trust 1122
ADDITIONS		
Custodial fund deposits received	$ -	$ 3,949
Interest, dividends and other investment income (loss)	(124)	-
TOTAL ADDITIONS	(124)	3,949
DEDUCTIONS		
Custodial funds disbursed	-	5,424
CHANGE IN NET POSITION	(124)	(1,475)
NET POSITION, JULY 1, 2021	982	10,142
NET POSITION, JUNE 30, 2022	$ 858	$ 8,667

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

NOTE 1 ORGANIZATION

The Department of Children and Family Services (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 Illinois 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 the Department's 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)

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, the financial statements of the Department are included in the financial statements of the State. The State's Annual Comprehensive Financial Report (ACFR) may be obtained by accessing the Office of the Comptroller's website - https://illinoiscomptroller.gov/financial-reports-data/find-a-report/comprehensive-reporting/annual-comprehensive-financial-report.

B. BASIS OF PRESENTATION

The financial statements of the Department 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, and the aggregate remaining fund information of the State 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, 2022, and the changes in financial position for the year then ended in conformity with GAAP.

The financial activities of the Department, which consist only of governmental activities, are reported under the health and social services function in the ACFR. 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.

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Major Funds are determined by the Office of Comptroller. All remaining governmental funds are aggregated and reported as nonmajor 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' ACFR:

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

Custodial - This fund accounts 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 and expenditures from leases 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 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 ACFR.

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:

<u>Unexpended Appropriations</u>
This "asset" account represents lapse period transactions processed by the Office of Comptroller after June 30 annually, in accordance with the Statewide Accounting Management System (SAMS) records, plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year and voucher, interfund payment, and mandatory SAMS transfer transactions held by the Office of Comptroller at June 30.

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

<u>Reappropriations to Future Year(s)</u>
This contra revenue account reduces current year appropriations by the amount of the reappropriation to reflect the State's realignment of the budgetary needs to the subsequent year and avoid double counting of a portion of the appropriation in more than one fiscal year.

<u>Lapsed Appropriations</u>
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 2022, the lapse period was expended through August 31, 2022.

<u>Receipts Collected and Transmitted to State Treasury</u>
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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 include cash on hand, cash in banks, cash invested, locally-held funds, cash in transit, 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. PREPAID EXPENSES

Payments made to vendors which benefit periods subsequent to the year ended June 30, 2022 are reported as expenditures in governmental funds and as prepaid expenses in the government-wide statement of net position.

I. INTERFUND TRANSACTIONS AND TRANSACTIONS WITH STATE OF ILLINOIS COMPONENT UNITS

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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.

J. CAPITAL ASSETS

Capital assets, which include buildings and equipment, are reported at cost or estimated historical cost based on appraisals. Capital assets transferred from other State agencies are recorded at their carryover basis. Contributed assets are reported at acquisition value at the time received. Capital assets are depreciated 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

K. LEASES

The Department is a lessee for non-cancellable leases of equipment. The Department recognizes a lease liability and an intangible right-to-use leased asset in the government-wide financial statements. The Department recognizes lease liabilities with an initial, individual value of $25,000 or more. At the commencement of a lease, the Department initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over the shorter of the asset useful life or the lease term.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 at June 30, and includes salary related costs (e.g., Social Security and Medicare taxes).

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

M. 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*, the net pension liability, deferred outflows of resources, deferred inflows of resources, appropriations from State 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. Pension payments made on-behalf of the Department are recognized in governmental funds in accordance with GASB Statement No. 85, *Omnibus 2017*, par 9.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

In the governmental fund financial statements, pension expenditures represent amounts paid to the pension plan and the change between the beginning and ending balances of amounts owed to the plan for contributions.

N. 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.

In the governmental fund financial statements, OPEB expenditures represent amounts paid for OPEB as they become due and payable.

O. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

A deferred outflow/inflow of resources is a consumption/acquisition of net assets that is applicable to a future reporting period. The Department has recorded deferred outflows/inflows of resources in the government-wide financial statements in connection with the net pension liability and total OPEB liability reported and explained in Notes 10 and 11, respectively. In addition, the Department has recorded deferred inflows of resources in the governmental fund financial statements in connection with unavailable revenues, which are considered receivables not "available" to finance the current period.

P. 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:

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2022, 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, 2022, 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, 2022, were assigned for health and social services.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. NET POSITION (DEFICIT)

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 and right-to-use leased assets, net of accumulated depreciation and amortization, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - This consists of 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."

R. 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, 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.

S. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

Effective for the year ended June 30, 2022, the Department adopted the following GASB statements:

- GASB 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. The impact of implementing this statement has been disclosed in Note 8.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- GASB 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) simplify accounting for interest cost incurred before the end of a construction period. The implementation of this statement had no financial impact on the Department's net position or results of operations.

- The portion of GASB 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 related to (a) intra-entity transfers of assets, (b) reporting assets accumulated for defined benefit postemployment benefits provided through plans that are not administered through trusts that meet specified criteria, (c) applicability of certain requirements of Statement No. 84 to postemployment benefit arrangements, (d) exception to acquisition value in a government acquisition and (e) nonrecurring fair value measurements. The implementation of this statement had no financial impact on the Department's net position or results of operations.

- The portion of GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which is intended to remove the London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate. The implementation of this statement had no financial impact on the Department's net position or results of operations.

- The portion of GASB Statement No. 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 enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The implementation of this statement had no financial impact on the Department's net position or results of operations.

- The portion of GASB Statement No. 99, *Omnibus 2022*, related to extending the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions Statement No. 34, as amended, and terminology updates related to Statement No. 53 and Statement No. 63 were effective upon issuance in April 2022. The implementation of this statement had no financial impact on the Department's net position or results of operations.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

- GASB 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. Upon the Agency's adoption of Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, the effective date of the Statement was delayed for the Department until the fiscal year ended June 30, 2023.

- GASB 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).

- GASB 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 portion of GASB Statement No. 99, *Omnibus 2022*, which is intended to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees related to leases, public-private and public-public partnerships, and subscription-based information technology arrangements.

Effective for the year ending June 30, 2024, the Department will adopt the following GASB statements:

- The portion of GASB Statement No. 99, *Omnibus 2022*, related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No 53.

  GASB Statement No. 100, *Accounting Changes and Error Corrections*, which is intended to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Effective for the year ending June 30, 2025, the Department will adopt the following GASB statements:

- GASB Statement No. 101, *Compensated Absences*, which is intended to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

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

Deposits

The State Treasurer is the custodian of the Department's deposits and investments for funds maintained in the State Treasury. Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Department does not own individual securities. Detail on the nature of these deposits and investments is available within the State's ACFR.

The Department independently manages deposits and investments maintained outside the State Treasury. Deposits for locally-held funds of governmental activities had a carrying amount of $31 thousand and a bank balance of $56 thousand at June 30, 2022. Deposits of locally-held funds of fiduciary funds had a carrying amount and a bank balance of $7,203 thousand at June 30, 2022.

Cash on hand totaled $606 thousand at June 30, 2022.

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2022, 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	$ 536	N/A
Open-ended Debt Mutual Funds	174	10.030
Total Investments	$ 710	

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 were rated AAAm, as rated by Standard & Poor and Fitch rating services, and the Open-ended Equity 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, 2022, the Department's investments in Open-ended Debt Mutual Funds, totaling $174 thousand, had the following quality ratings: (amounts expressed in thousands):

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Quality Ratings	Amounts
AAA	$ 77
AA	10
A	15
BBB	36
BB	20
B	7
Below B	2
Other	7
	$ 174

NOTE 4 SECURITIES LENDING TRANSACTIONS

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

During Fiscal Year 2022, Deutsche Bank AG lent U.S. Agency securities and U.S. Treasury securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The State Treasurer did not impose any restrictions during Fiscal Year 2022 on the amount of loans of available, eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. There were no losses during Fiscal Year 2022 resulting from a default of the borrowers or Deutsche Bank AG.

During Fiscal Year 2022, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral received that was invested in repurchase agreements and the fair value of securities on loan for the

NOTE 4 SECURITIES LENDING TRANSACTIONS (CONTINUED)

State Treasurer as of June 30, 2022 were $4,061,655,934 and $3,998,567,638.

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2022 arising from securities lending agreements to the various funds of the State. The total allocated to the Department at June 30, 2022 was $3 thousand.

NOTE 5 OTHER RECEIVABLES

Other receivables at June 30, 2022, (expressed in thousands) consisted of the following:

Revenue Source	General Fund	Nonmajor Governmental Funds
Overpayments	$ 5,160	$ –
Parental Assessment	32	–
Private Grantor	–	398
Total other receivables	5,192	398
Allowance for uncollectible amounts	(3,990)	–
Other receivables, net	$ 1,202	$ 398

NOTE 6 INTERFUND BALANCES AND ACTIVITY

Balances Due to/from Other Funds

The following balances (amounts expressed in thousands) at June 30, 2022 represent amounts due from other Department and State funds.

	Due from		
Fund	Other Department Funds	Other State Funds	Description/Purpose
General	$ 1,626	$ 112	Due from other Department and State funds for reimbursement of expenditures incurred and receipt transfers.
Nonmajor governmental funds	1,385	326	Due from other Department and State funds for reimbursement of expenditures incurred and receipt transfers.
Total	$ 3,011	$ 438	

NOTE 6 INTERFUND BALANCES AND ACTIVITY (CONTINUED)

The following balances (amounts expressed in thousands) at June 30, 2022 represent amounts due to other Department and State funds.

Fund	Due to: Other Department Funds	Due to: Other State Funds	Description/Purpose
General	$ 32	$ 13,487	Due to State internal service 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	2,979	4,037	Due to State internal service 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	$ 3,011	$ 17,524	

Balances Due to State of Illinois Component Units

The following balances (amounts expressed in thousands) at June 30, 2022 represent amounts due to State of Illinois Component Units for reimbursement of expenses incurred.

Component Unit	Due to: General Fund	Due to: Nonmajor Governmental Funds
Illinois State Toll Highway Authority	$ 2	$ –
Chicago State University	–	1
Eastern Illinois University	–	2
Governors State University	–	1
Western Illinois University	–	84
Illinois State University	–	10
Northern Illinois University	2,391	488
Southern Illinois University	–	94
University of Illinois	2,616	10,341
	$ 5,009	$ 11,021

NOTE 7 CAPITAL ASSETS

Capital asset activities (amounts expressed in thousands) for the year ended June 30, 2022 was as follows:

	Balance July 1, 2021	Additions	Deletions	Balance June 30, 2022
Governmental activities:				
Capital assets being depreciated:				
Equipment	$ 4,965	$ 47	$ –	$ 5,012
Right-to-use leased equipment	701	1,580	–	2,281
Total assets being depreciated	5,666	1,627	–	7,293
Less: Accumulated depreciation:				
Equipment	3,877	397	–	4,274
Right-to-use leased equipment	–	745	–	745
Total accumulated depreciation	3,877	1,142	–	5,019
Governmental activities capital assets, net	$ 1,789	$ 485	$ –	$ 2,274

Depreciation/amortization expense for governmental activities of $1,142 (amounts expressed in thousands) for the year ended June 30, 2022 was charged to Health and Social Services in the Statement of Activities.

NOTE 8 LEASES

The Department has entered into various leases for office equipment with remaining lease terms ranging from less than one year to three years. Although lease terms vary, certain leases are renewable subject to appropriation by the General Assembly. If renewals are reasonably assured, leases requiring appropriation by the General Assembly are considered noncancelable leases for financial reporting purposes. The renewal and termination options are not included in the right-to-use asset or lease liability balance until they are reasonably certain of exercise.

At June 30, 2022, right-to-use assets under leases (amounts expressed in thousands) are as follows:

	Balance June 30, 2022
Equipment	$ 2,281
Less: Accumulated depreciation	(745)
Total	$ 1,536

NOTE 8 LEASES (CONTINUED)

Future minimum commitments for non-cancellable leases (amounts expressed in thousands) as of June 30, 2022, are as follows:

Years Ending June 30	Principal	Interest	Total
2023	$ 718	$ 36	$ 754
2024	716	15	731
2025	120	1	121
Total	$ 1,554	$ 52	$ 1,606

NOTE 9 LONG-TERM OBLIGATIONS

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2022 were as follows:

	Balance July 1, 2021	Additions	Deletions	Balance June 30, 2022	Amounts Due Within One Year
Governmental activities:					
Compensated absences	$ 23,560	$ 29,443	$ 30,108	$ 22,895	$ 2,519
Leases	701	1,580	727	1,554	718
OPEB	1,691,841	–	475,804	1,216,037	26,162
Net pension liability	1,848,333	–	94,183	1,754,150	–
Total governmental activities	$ 3,564,435	$ 31,023	$600,822	$ 2,994,636	$ 29,399

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. Lease liability will be liquidated through the general fund.

NOTE 10 PENSION

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

NOTE 10 PENSION (CONTINUED)

provisions below apply to both Tier 1 and 2 members, except where noted. The SERS issues a separate Annual Comprehensive Financial Report 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.

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.

Regular Formula Tier 1	Regular Formula Tier 2
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	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

NOTE 10 PENSION (CONTINUED)

Regular Formula Tier 1	Regular Formula Tier 2
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.	Index for the preceding calendar year, whichever is less, every year on January 1, following the first full year of retirement. The calendar year 2021 rate is $116,740. 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.

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 (ILCS). Member contributions are based on fixed percentages of covered payroll ranging between 4.00% and 12.50%. Employee contributions are fully refundable, without

NOTE 10 PENSION (CONTINUED)

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 2022, this amount was $119,892.

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

For Fiscal Year 2022, 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 2022, the employer contribution rate was 56.169%. The Department's contribution amount for Fiscal Year 2021 was $5.564 million. In addition, the Department recorded $144.712 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, 2022, the Department reported a liability of $1,754.150 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, 2021 (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, 2021. As of the current year measurement date of June 30, 2021, the Department's proportion was 5.2994%, which was a decrease of .0014% from its proportion measured as of the prior year measurement date of June 30, 2020.

For the year ended June 30, 2022, the Department recognized pension expense of $126.863 million. At June 30, 2022, the Department reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2021, from the following sources (amounts expressed in thousands):

NOTE 10 PENSION (CONTINUED)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 27,522	$ 1,530
Changes of assumptions	68,282	1,995
Net difference between projected and actual investment earnings on pension plan investments	–	135,207
Changes in proportion	30,301	15,777
Department contributions subsequent to the measurement date	150,276	–
Total	$ 276,381	$ 154,509

$150,276 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, 2023. 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):

Years Ended June 30, 2022	Net Deferred Outflows (Inflows) of Resources
2023	$ 6,070
2024	4,847
2025	(11,457)
2026	(27,864)
Total	$ (28,404)

Actuarial methods and assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2021, 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.
- Post-retirement 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.

NOTE 10 PENSION (CONTINUED)

- 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.

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.

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, 2021, 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%	5.3%
Emerging Market Equity	8%	6.5%
Private Equity	7%	6.8%
Intermediate Investment Grade Bonds	14%	0.4%
Long-term Government Bonds	4%	0.6%
TIPS	4%	0.3%
High Yield and Bank Loans	5%	2.5%
Emerging Market Debt	2%	2.2%
Real Estate	10%	5.6%
Infrastructure	2%	6.5%
Total	**100%**	

Discount rate. A single discount rate of 6.20% was used to measure the total pension liability as of the measurement date of June 30, 2021 as compared to a discount rate of 6.35% used to measure the total pension liability as of the prior year measurement date. The June 30, 2021 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 1.92% 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 employer contributions will be made at rates equal to the difference between the statutory contributions and the member rate. 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 2076. As a result, the long-term expected rate of return

NOTE 10 PENSION (CONTINUED)

on pension plan investments was applied to projected benefit payments through the year 2076, 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 5.20%	Discount Rate 6.20%	1% Increase 7.20%
Department's Proportionate Share of the Net Pension Liability	$ 2,164,534	$ 1,754,150	$ 1,417,343

Payables to the pension plan. At June 30, 2022, the Department reported a payable of $288 thousand to SERS for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2022.

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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.

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.

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

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 2022, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was $11,363.04 ($6,290.40 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and $13,619.28 ($5,623.44 if Medicare eligible) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

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, 2022, was measured as of June 30, 2021, with an actuarial valuation as of June 30, 2020. At June 30, 2022, the Department recorded a liability of $1,216,037 thousand 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, 2021. As of the current year measurement date of June 30, 2021, the Department's proportion was 3.5274%, which was a decrease of 0.5163% from its proportion measured as of the prior year measurement date of June 30, 2020.

The Department recognized a reduction to OPEB expense for the year ended June 30, 2022 of $58,289 thousand related to the Departments change in proportion. In addition, the Department recorded $26,089 thousand of on-behalf revenue and expenditures in the General Revenue account of the General Fund to account for payments to SEGIP for

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Department employees that were paid from statewide General Revenue Fund appropriations.

At June 30, 2022, the Department reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2021, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 8,882	$ 8,460
Changes of assumptions	27,506	334,672
Changes in proportion and differences between employer contributions and proportionate share of contributions	58,049	189,249
Department contributions subsequent to the measurement date	26,163	–
Total	$ 120,600	$ 532,381

$26,163 thousand 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, 2023. 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):

Years Ended June 30,	Net Deferred Inflows of Resources
2023	$ (114,948)
2024	(89,571)
2025	(109,868)
2026	(104,230)
2027	(19,327)
Total	$ (437,944)

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, 2020, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2020.

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Valuation Date	June 30, 2020
Measurement Date	June 30, 2021
Actuarial Cost Method	Entry Age Normal
Actuarial assumptions:	
Inflation Rate	2.25%
Projected Salary Increases*	2.50% - 12.25%
Healthcare Cost Trend Rate:	
Medical and Rx (Pre-Medicare & Post-Medicare)	8.00% grading down 0.25% per year over 15 years to 4.25% in year 2038. There is no additional trend rate adjustment due to the repeal of the Excise Tax.
Dental and Vision	3.75% grading up 0.25% in the first year to 4.00% through 2038.
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 2021 and 2022 are based on actual premiums. Premiums after 2022 were projected based on the same healthcare cost trend rates applied to per capita claim costs.

Note: the above actuarial assumptions were used to calculate the OPEB liability as of the current year measurement date and are consistent with the actuarial assumptions used to calculate the OPEB liability as of the prior year measurement date except for the following:

Healthcare Cost Trend Rate:	
Medical and Rx (Pre-Medicare & Post-Medicare)	8.25% grading down 0.25% per year over 16 years to an ultimate trend of 4.25% in the year 2037. There is no additional trend rate adjustment due to the repeal of the Excise Tax.
Dental and Vision	4.00% grading up 0.25% in the first year to 4.25% through 2037.

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

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Additionally, the demographic assumptions used in the this OPEB valuation are identical to those used in the June 30, 2020 valuations for SERS as follows:

Demographic assumptions used in OPEB valuation are identical to those used in the June 30, 2020 valuations for pensions. Thus, for SERS, the 2020 valuation information for pensions is presented in the Fiscal Year 2021 State's ACFR Note 17.

	Retirement age experience study^	Mortality^^
SERS	July 2015 - June 2018	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

^ *The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined.*

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

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 2.45% at June 30, 2020 and 1.92% at June 30, 2021 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 1.92%, 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 (2.92%) or lower (0.92%) than the current rate (amounts expressed in thousands):

	1% Decrease (0.92%)	Current Single Discount Rate Assumption (1.92%)	1% Increase (2.92%)
Department's proportionate share of the total OPEB liability	$ 1,436,131	$ 1,216,037	$1,041,896

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate. 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 2023 decreasing to an ultimate trend rate of 4.25% in 2038.

	1% Decrease	Current Healthcare Cost Trend Rates Assumption	1% Increase
Department's proportionate share of the total OPEB liability	$1,014,745	$ 1,216,037	$1,482,397

A one percentage point decrease in healthcare trend rates are 7.00% in plan year end 2023 decreasing to an ultimate trend rate of 3.25% in plan year end 2038.

A one percentage point increase in healthcare trend rates are 9.00% in plan year end 2023 decreasing to an ultimate trend rate of 5.25% in plan year 2038.

NOTE 12 FUND DEFICITS

The Federal Projects Fund (nonmajor governmental fund) had a deficit fund balance of $1,522 thousand at June 30, 2022. The deficit will be eliminated by future recognition of earned but unavailable revenues. At June 30, 2022, earned but unavailable revenues for this fund were $1,522 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. The Department's risk management activities for employees health claims, workers' compensation claims and auto liability claims are financed through appropriations to the Illinois Department of Central Management Services (CMS). Other claims costs could be charged back to the Department upon settlement; however, the Department is not able to estimate those amounts and does not expect them to be material.

The Department's risk management activities for self-insurance, unemployment insurance and workers' compensation are financed through appropriations to CMS and are accounted for in the General Fund of the State. The claims are not considered to be a liability of the Department, and accordingly, have not been reported in the Department's financial statements for the year ended June 30, 2022.

NOTE 14 COMMITMENTS AND CONTINGENCIES

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, 2022:

All Cases			Adoptive Parents			Permanent Guardians		
Current Age	Cases	Amount Committed	Current Age	Cases	Amount Committed	Current Age	Cases	Amount Committed
0	1	$ 114,240	0	1	$ 114,240	0	-	$ -
1	31	3,570,376	1	31	3,570,376	1	-	-
2	194	21,393,346	2	192	21,203,626	2	2	189,720
3	380	36,749,505	3	368	35,613,215	3	12	1,136,290
4	646	59,296,771	4	631	57,898,850	4	15	1,397,921
5	846	71,693,070	5	806	67,859,102	5	40	3,833,969
6	993	75,841,149	6	921	69,956,321	6	72	5,884,828
7	1,104	75,487,361	7	1,019	69,916,838	7	85	5,570,523
8	1,239	77,882,346	8	1,130	70,935,937	8	109	6,946,409
9	1,335	77,123,875	9	1,203	69,284,973	9	132	7,838,902
10	1,440	72,907,444	10	1,284	64,806,818	10	156	8,100,626
11	1,477	64,496,191	11	1,328	58,358,096	11	149	6,138,095
12	1,648	61,480,975	12	1,435	53,567,374	12	213	7,913,601
13	1,652	50,201,686	13	1,409	42,787,181	13	243	7,414,506
14	1,833	43,699,782	14	1,566	37,171,251	14	267	6,528,531
15	1,762	30,577,279	15	1,513	26,011,379	15	249	4,565,900
16	1,824	19,315,461	16	1,525	16,053,220	16	299	3,262,241
17	1,808	6,288,123	17	1,514	5,213,770	17	294	1,074,353
Total	20,213	$ 848,118,980		17,876	$ 770,322,567		2,337	$ 77,796,415

Litigation

A lawsuit existed at June 30, 2022. The plaintiff is alleging constitutional violations in several child abuse and neglect investigations that were unfounded prior to the death of a youth in Illinois. As of the date of the financial statements, an estimate of the possible loss cannot be determined.

In addition, 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, except the matter discussed above, 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.

SUPPLEMENTARY INFORMATION

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
COMBINING SCHEDULE OF ACCOUNTS - GENERAL FUND
June 30, 2022
(Expressed in Thousands)

	General Revenue 0001	State Coronavirus Urgent Remediation Emergency 0324	Total
ASSETS			
Unexpended appropriations	$ 114,559	$ -	$ 114,559
Cash equity with State Treasurer	16	-	16
Cash and cash equivalents	1,083	-	1,083
Other receivables, net	1,202	-	1,202
Due from other Department funds	1,626	-	1,626
Due from other State funds	-	112	112
TOTAL ASSETS	$ 118,486	$ 112	$ 118,598
LIABILITIES			
Accounts payable and accrued liabilities	$ 94,453	$ 112	$ 94,565
Intergovernmental payables	1,576	-	1,576
Due to other Department funds	32	-	32
Due to other State funds	13,487	-	13,487
Due to State of Illinois component units	5,009	-	5,009
TOTAL LIABILITIES	114,557	112	114,669
FUND BALANCES			
Unassigned	3,929	-	3,929
TOTAL LIABILITIES AND FUND BALANCES	$ 118,486	$ 112	$ 118,598

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GENERAL FUND
For the Year Ended June 30, 2022
(Expressed in Thousands)

	General Revenue 0001	State Coronavirus Urgent Remediation Emergency 0324	Total
REVENUES			
Federal operating grants	$ -	$ 945	$ 945
Other operating grants	1,592		1,592
Licenses and fees	4	-	4
Other charges for services	13,000	-	13,000
Other	16	-	16
TOTAL REVENUES	14,612	945	15,557
EXPENDITURES			
Health and social services	1,291,532	945	1,292,477
Debt service principal	727	-	727
Debt service interest	49	-	49
Capital outlays	1,580	-	1,580
TOTAL EXPENDITURES	1,293,888	945	1,294,833
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(1,279,276)	-	(1,279,276)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES			
Appropriations from State resources	1,312,878	4,000	1,316,878
Reappropriations to fiscal year 2023	-	(3,167)	(3,167)
Lapsed appropriations	(20,564)	-	(20,564)
Receipts collected and transmitted to State Treasury	(13,925)	(833)	(14,758)
Lease financing	1,580	-	1,580
NET OTHER SOURCES OF FINANCIAL RESOURCES	1,279,969	-	1,279,969
NET CHANGE IN FUND BALANCES	693	-	693
FUND BALANCES, JULY 1, 2021	3,236	-	3,236
FUND BALANCES, JUNE 30, 2022	$ 3,929	$ -	$ 3,929

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2022
(Expressed in Thousands)

	Special Revenue						
	Children's Services 0220	Federal Projects 0566	Special Purpose 0582	Child Abuse Prevention 0934	Bail Bond 1119	Children and Family Benefit 1121	Total
ASSETS							
Cash equity with State Treasurer	$ 328,894	$ 576	$ 3,155	$ 20	$ -	$ -	$ 332,645
Cash and cash equivalents	606	-	-	-	1	30	637
Securities lending collateral	-	-	-	3	-	-	3
Other receivables, net	-	-	398	-	-	-	398
Due from other government - federal	48,855	1,873	-	-	-	-	50,728
Due from other Department funds	856	7	497	-	-	25	1,385
Due from other State funds	87	79	160	-	-	-	326
TOTAL ASSETS	$ 379,298	$ 2,535	$ 4,210	$ 23	$ 1	$ 55	$ 386,122
LIABILITIES							
Accounts payable and accrued liabilities	$ 45,624	$ 578	$ 55	$ -	$ -	$ -	$ 46,257
Intergovernmental payables	185	1,089	1	-	-	-	1,275
Due to other Department funds	527	856	1,596	-	-	-	2,979
Due to other State funds	4,011	12	14	-	-	-	4,037
Due to State of Illinois component units	11,021	-	-	-	-	-	11,021
Obligations under securities lending of State Treasurer	-	-	-	3	-	-	3
TOTAL LIABILITIES	61,368	2,535	1,666	3	-	-	65,572
DEFERRED INFLOW OF RESOURCES							
Unavailable revenue	31,267	1,522	-	-	-	-	32,789
FUND BALANCES (DEFICITS)							
Restricted	-	-	2,544	-	1	-	2,545
Committed	286,663	-	-	20	-	-	286,683
Assigned	-	-	-	-	-	55	55
Unassigned	-	(1,522)	-	-	-	-	(1,522)
TOTAL FUND BALANCES (DEFICITS)	286,663	(1,522)	2,544	20	1	55	287,761
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES (DEFICITS)	$ 379,298	$ 2,535	$ 4,210	$ 23	$ 1	$ 55	$ 386,122

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICITS) -
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2022
(Expressed in Thousands)

	Special Revenue						
	Children's Services 0220	Federal Projects 0566	Special Purpose 0582	Child Abuse Prevention 0934	Bail Bond 1119	Children and Family Benefit 1121	Total
REVENUES							
Federal operating grants	$ 366,578	$ 3,153	$ 705	$ -	$ -	$ -	$ 370,436
Licenses and fees	644	-	36	-	-	-	680
Other charges for services	5,782	-	-	-	-	-	5,782
Other	-	-	171	6	-	-	177
TOTAL REVENUES	373,004	3,153	912	6	-	-	377,075
EXPENDITURES							
Health and social services	232,047	3,317	658	-	-	-	236,022
Capital outlay	47	-	-	-	-	-	47
TOTAL EXPENDITURES	232,094	3,317	658	-	-	-	236,069
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	140,910	(164)	254	6	-	-	141,006
FUND BALANCES (DEFICITS), JULY 1, 2021	145,753	(1,358)	2,290	14	1	55	146,755
FUND BALANCES (DEFICITS), JUNE 30, 2022	$ 286,663	$ (1,522)	$ 2,544	$ 20	$ 1	$ 55	$ 287,761

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
COMBINING STATEMENT OF FIDUCIARY NET POSITION -
PRIVATE PURPOSE TRUST FUNDS
June 30, 2022
(Expressed in Thousands)

	Katherine Schaffner Bequest 1117	Herrick House Children's Center Bequest 1207	Total
ASSETS			
Cash and cash equivalents	$ 135	$ 13	$ 148
Investments	710	-	710
TOTAL ASSETS	845	13	858
NET POSITION			
Restricted for:			
Individuals, organizations, and other governments	$ 845	$ 13	$ 858

STATE OF ILLINOIS
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - PRIVATE PURPOSE TRUST FUNDS
For the Year Ended June 30, 2022
(Expressed in Thousands)

	Katherine Schaffner Bequest 1117	Herrick House Children's Center Bequest 1207	Total
ADDITIONS:			
Investment earnings:			
Interest, dividends and other investment income (loss)	$ (124)	$ -	$ (124)
CHANGE IN NET POSITION	(124)	-	(124)
NET POSITION, JULY 1, 2021	969	13	982
NET POSITION, JUNE 30, 2022	$ 845	$ 13	$ 858

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

Honorable Frank J. Mautino
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Children and Family Services (Department), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and we have issued our report thereon dated May 31, 2023.

Report on Internal Control Over Financial Reporting

Management of the Department is responsible for establishing and maintaining effective internal control over financial reporting (internal control).

In planning and performing our audit of the financial statements, we considered the Department's 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 were not identified. We identified a certain deficiency in internal

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control, described in the accompanying Schedule of Findings as items 2022-001 through 2022-003 that we consider to be material weaknesses.

Report on 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 matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings as item 2022-003.

Department's Responses to the Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Department's responses to the findings identified in our audit and described in the accompanying Schedule of Findings. The Department's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Restricted Use of this 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 the Department's management and is not intended to be and should not be used by anyone other than these specified parties.

SIGNED ORIGINAL ON FILE

Chicago, Illinois
May 31, 2023

2022-001 **FINDING** Financial Statement Preparation

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

During the audit of the Department's financial statements, we noted the following:

- Receipts from a private organization's grant (totaling $1,592,000) were deposited in the Special Revenue Fund - Special Purpose Fund 0582 (Fund 0582), while expenditures related to this grant were paid from and recorded in the General Revenue Fund 0001 (Fund 0001). The error resulted in an understatement of General Revenue Fund revenues and overstatement of Special Revenue Fund revenues by $1,592,000. An adjustment to correct the error was recorded by Department management.

  Department management stated it had planned to expend the grant funds from Fund 0582, which was supported by its appropriations. However, an accounting system limitation ultimately prevented the Department from using its automated processes on this fund, so expenditures were shifted to the Fund 0001.

- Two health and social services expenditures (totaling $1,084,744) pertaining to fiscal year 2021 were recorded as expenses in fiscal year 2022. The error resulted in an overstatement of beginning net position and an understatement in current year expenditures. The error in Fund 0001 was deemed immaterial by the Department and was not corrected.

  Department management stated failure to report the expenditures in fiscal year 2021 was due to a staff failure to follow established protocols when using current year appropriations for expired year expenditures related to pay for State revolving fund invoices.

- Three fiscal year 2022 expenditures payable to a State of Illinois component unit (totaling $894,805) were recorded as accounts payable and accrued liabilities. The error in Fund 0001 was deemed immaterial by the Department and was not corrected.

  Department management indicated the payables were misclassified due to employee error.

2022-001 **FINDING** Financial Statement Preparation (Continued)

- Financial statement Note 14, *Commitments and Contingencies,* pertaining to a significant litigation case was not originally disclosed in the Department's draft financial statement footnote disclosures. An adjustment to correct the error was recorded by Department management.

  Department management indicated the footnote was not originally drafted due to employee error.

GASB Codification Sections 1300 and 1700: *Fund Accounting* and *Budget and Budgetary Accounting*, respectively, requires that when funds are expended by the Department for allowable operating purposes, corresponding revenue generated from those expenditures should be recognized in the same fund.

GASB Codification Section 1500: *Reporting Liabilities*, requires the Department to accrue a governmental fund liability and expenditure for expenditures and transfers in the period in which the government incurs the liability. It also requires the Department to disclose in its notes to the financial statement significant contingent liabilities not requiring accrual.

In addition, 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, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Effective internal controls should include procedures to ensure adherence to GAAP and to ensure the appropriate presentation of financial statement amounts (which includes having transactions be reported in the correct account and in the correct period in which they were incurred).

GAAP financial reporting errors occurred that materially misstated the Department's draft financial statements. In addition, accurate and timely financial statements of the Department's financial information for GAAP reporting purposes is important due to the impact adjustments could have on the Statewide financial statements. (Finding Code No. 2022-001, 2020-001)

2022-001 **FINDING** Financial Statement Preparation (Continued)

RECOMMENDATION

We recommend the Department implement internal control procedures to ensure accurate financial statement preparation.

DEPARTMENT RESPONSE

The Department agrees with the recommendation and has implemented a corrective action plan. Due to unprecedented vacancies in the Division of Budget and Finance, review procedures in place were not able to be followed to catch the misstatements identified in the auditor's review of the financial statements. The Department uses a consulting firm to assist with compiling our financial statements and has since been able to fill its CPA position. To further ensure the accuracy of future financial statements, the Department added senior management positions to its approved headcount to provide duplicity and support to be better able to manage the ebbs and flows of staffing levels and add expertise to ensure the accuracy of the Department's financial statements.

2022-002 **FINDING** Lack of Adequate Controls over the Review of Internal Controls for Service Providers

The Department of Children and Family Services (Department) had not implemented adequate internal control reviews over its service providers.

The Department entered into agreements with various service providers to assist in processes to operate effectively and efficiently such as: (1) information technology hosting, (2) payroll processing, (3) providing maintenance of information and reporting of putative father registry, (4) and processing of Supplemental Security Income (SSI) eligibility.

We requested the Department provide a population of service providers utilized during the audit period to determine if the Department had reviewed the internal controls over the service providers. In response to the request, the Department provided a listing of service providers; however, it did not provide documentation demonstrating the population was complete and accurate.

Due to these conditions, we were unable to conclude the Department's population records were sufficiently precise and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AU-C § 330.27-.29 and AT-C § 205.36).

Even given the population limitations noted above, we performed testing of three out of four service providers identified by the Department. During our testing, we noted the Department had not:

- Developed a process for identifying service providers.
- Obtained System and Organization Control (SOC) reports or conducted independent internal control reviews of the three (100%) service providers.
- Conducted an analysis to determine the impact of noted deviations within the SOC report.
- Monitored and documented the operation of the Complementary User Entity Controls (CUECs) related to the Department's operations.
- Obtained and reviewed SOC reports for subservice providers or performed alternative procedures to determine the impact on its internal control environment.

2022-002 **FINDING** Lack of Adequate Controls over the Review of Internal Controls for Service Providers (Continued)

- Developed procedures for monitoring service providers' performance.

In addition, we noted the contract between the Department and one (33%) service provider did not contain a requirement for an independent review to be completed.

The *Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology (NIST), Maintenance and System and Service Acquisition sections, requires entities outsourcing their information technology environment or operations to obtain assurance over the entities' internal controls related to the services provided. Such assurance may be obtained via System and Organization Control reports or independent reviews.

In addition, 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 administrative controls, to provide assurance revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports to maintain accountability over the State's resources.

Department management indicated the lack of resources and dependence on standard language in State of Illinois contracts resulted in the weaknesses.

Without having obtained and timely reviewed SOC reports, or another form of independent internal control reviews, the Department does not have assurance the service providers' internal controls are adequate. In addition, failure to review compliance of service providers with contractual terms could result in obligations and services not being met. (Finding Code No. 2022-002, 2020-028)

RECOMMENDATION

We recommend the Department:

- Develop a process for identifying service providers and maintain documentation of such.

- Obtain SOC reports or conduct independent internal control reviews of the service providers.

2022-002 **FINDING** Lack of Adequate Controls over the Review of Internal Controls for Service Providers (Continued)

- Conduct an analysis to determine the impact of noted deviations within the SOC report.
- Monitor and document the operation of the CUECs related to the Department's operations.
- Obtain and review SOC reports for subservice providers or perform alternative procedures to determine the impact on its internal control environment.
- Develop procedures for monitoring service providers' performance.
- Review contracts with service providers to ensure applicable requirements over the independent review of internal controls are included.

DEPARTMENT RESPONSE

The Department agrees with the auditor's recommendations. The Department, through collaboration with DoIT@DCFS, will review and update its procedures related to contracting with service providers. This review and update will address the following components:

- Identification and documentation of 3rd party service providers,
- Including appropriate language in Department contract boiler plate language to ensure applicable requirements over the independent review of internal controls are included,
- Ensuring SOC reports are obtained from service providers and subservice providers to be reviewed and analyzed to determine any impact and actions necessary based on the contents of the SOC report or conduct an internal review of the service providers on an established frequency, and
- Ensuring procedures for monitoring and documentation of CUECs related to Department's operations and service providers' performance are adequate.

2022-003 **FINDING** Failure to Maintain Proper Segregation of Duties over Daycare

The Department of Children and Family Services (Department) failed to maintain proper segregation of duties over access to the Department's daycare providers' licensing information, child care information and billing system.

The Department maintains data related to entities who provide daycare services to the children in the State's care and specific data related to the children themselves. As a result of these services, the Department makes payment to these entities. During the audit period, the Department expended $34,778,402 related to daycare services.

We conducted testing of the users' access right to daycare providers' licensing information, child care information and billing system to determine if proper segregation of duties had been implemented. Individuals should not have the ability to establish a daycare provider, a child-in-care, and to submit and approve billings and payments. Our testing results noted 45 of 2,348 (2%) users had rights to enter, modify and delete daycare providers' information, child information and billing information. As a result, the Department failed to maintain proper segregation of duties.

We also reviewed the Department's user access review reports to the daycare providers' licensing information, child care information and billing system for three months, noting three of seven (43%) monthly reports had not been reviewed.

The *Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology, Access Control section, requires entities to implement internal controls to ensure proper segregation of duties and review of users' access rights.

The Department's Mainframe Account Review-Work Procedures stated the Department's Data Stewards are to review user access review reports within 30 days of receipt.

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

Department management indicated the weaknesses were due to oversight and lack of resources.

2022-003 **FINDING** Failure to Maintain Proper Segregation of Duties over Daycare (Continued)

Failure to maintain proper segregation of duties over access to the Department's daycare providers' licensing information, child care information and billing system and data could result in improper manipulation of data and payments. (Finding Code No. 2022-003)

RECOMMENDATION

We recommend the Department implement proper segregation of duties and ensure no one individual has the rights to enter, modify, and delete daycare providers' information, child information and billing information. Additionally, we recommend the Department complete the monthly user access reviews.

DEPARTMENT RESPONSE

The Department agrees with the auditor's recommendation. The Department has begun the process of conducting an extensive review of its daycare processes and will make all necessary changes to ensure appropriate segregation of duties are in place over the Daycare system. The Department will also review its procedures over access rights review to ensure they are up to appropriate standards.

A. **FINDING** (Inadequate Controls over Cash)

During the prior engagement, the Department of Children and Family Services (Department) did not exercise adequate controls over cash receipts and monthly reconciliations.

During the current engagement, our sample testing indicated the Department significantly improved its internal controls over cash. Exceptions were noted relating to the Department's timeliness of performing its cash reconciliations; however, they had no financial statement impact. As a result, this finding has been reported as not repeated for financial statement audit purposes, but will be reported in the Department's State Compliance Examination Report. (Finding Code No. 2020-002)

B. **FINDING** (Inadequate Internal Controls over Census Data)

During the prior engagement, the 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.

During the current engagement, exceptions were noted during our sample testing of the Department's reconciliation process. However, while instances of noncompliance were noted, they had no financial statement impact. As a result, this finding has been reported as not repeated for financial statement audit report purposes, but will be reported in the Department's State Compliance Examination Report. (Finding Code No. 2020-003)

C. **FINDING** (Inadequate General Information Technology Controls over IMPACT)

During the prior engagement, the Department of Healthcare and Family Services (HFS), the Department of Human Services (DHS), and the Department (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).

During the current engagement, the Department executed an interagency agreement with HFS documenting specific roles and responsibilities relating to IMPACT. As outlined in the interagency agreement, HFS is responsible for maintaining adequate general information technology internal controls over IMPACT. (Finding Code No. 2020-004, 2018-002)

D. **FINDING** (Insufficient Review and Documentation of Provider Enrollment Determinations and Failure to Execute Interagency Agreements)

During the prior engagement, the Department failed to execute an interagency agreement with the Department of Healthcare and Family Services (HFS) establishing adequate internal controls over the operation of the State of Illinois' Illinois Medicaid Program Advances Count 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.

During the current engagement, the Department executed an interagency agreement with HFS documenting specific roles and responsibilities relating to IMPACT. During our testing over the Department's assigned responsibilities defined in the interagency agreement, we noted no exceptions. (Finding Code No. 2020-005, 2018-003)