STATE OF OHIO

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2005

Auditor of State
Betty Montgomery

STATE OF OHIO

SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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SINGLE AUDIT REPORT
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NOTE:

The State of Ohio *Comprehensive Annual Financial Report* for fiscal year ended June 30, 2005, has been issued in a separate report by the Ohio Office of Budget and Management. This report can be viewed at the following website: www.state.oh.us/obm/

Auditor of State
Betty Montgomery

EXECUTIVE SUMMARY
2005 STATE OF OHIO SINGLE AUDIT

AUDIT OF BASIC FINANCIAL STATEMENTS

There are 12 separate opinion units included in the basic financial statements of the State of Ohio for the fiscal year ended June 30, 2005. Four of the 12 opinion units are audited entirely or primarily by independent accounting firms under contract with the Auditor of State. The remaining eight opinion unit audits are performed by audit staff of the Auditor of State. This division of responsibility is described in our Independent Accountants' Report on page 1.

We audited the basic financial statements of the State of Ohio as of and for the period ended June 30, 2005, following generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the Single Audit Act Amendments of 1996, and the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The objective of our audit was to express our opinion concerning whether the financial statements present fairly, in all material respects, the financial position of the State of Ohio, and the results of its operations, and cash flows of the proprietary and similar trust funds, in conformity with accounting principles generally accepted in the United States of America. We issued an unqualified opinion on 10 opinion units and a disclaimer on two opinion units, as described below.

As described on page 2, we did not express an opinion on the Workers' Compensation Enterprise Fund and the business-type activities opinion units. The financial statements of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio (BWC) were not audited. This audit was commenced but not completed by independent public accountants under contract with the Auditor of State. The BWC comprises the Workers' Compensation opinion unit, a major enterprise fund, and represents 87 percent and 44 percent of the total assets and total revenue, respectively, of the business-type activities financial statements.

In addition to our opinions on the basic financial statements, we issued an Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by Government Auditing Standards. This letter is commonly referred to as the yellow book letter. The letter for the fiscal year ended June 30, 2005, included two reportable conditions. These two internal control weaknesses are described on the third page of this Executive Summary.

AUDIT RESPONSIBILITIES AND REPORTING UNDER CIRCULAR A-133

The Single Audit Act requires an annual audit of the State's federal financial assistance programs. The specific audit and reporting requirements are set forth in U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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The Schedule of Expenditures of Federal Awards (the Schedule) reports federal expenditures for each federal financial assistance program by federal agency, as identified by the Catalog of Federal Domestic Assistance (CFDA) number. As detailed on pages 131 through 139, the State administered 325 federal programs with total federal expenditures of $16.4 billion in fiscal year 2005, received from 22 Federal agencies.

The Schedule is used for identifying Type A and Type B programs. For fiscal year 2005, Type A federal programs for the State of Ohio were those programs with annual federal expenditures exceeding $30 million. There were 36 programs at or above this amount. The remaining 289 programs were classified as Type B programs. The identification of Type A and B programs is used to determine which federal programs will be tested in detail for compliance with federal laws and regulations. Under Circular A-133, the auditor uses a risk-based approach to testing. Once programs are classified as Type A or B, they are then assessed as either high or low risk programs. All high-risk Type A programs are considered major programs and are tested in detail for compliance with federal regulations. One high-risk Type B program is then selected for testing to replace each low-risk Type A program. The State of Ohio had 32 high-risk Type A programs and four high-risk Type B programs selected for testing as major programs in fiscal year 2005.

With the approval of our federal cognizant agent, the Auditor of State includes the Department of Job and Family Services programs administered at the county level as part of State Single Audit even though county financial information is not otherwise incorporated into the State's financial statements. We selected six of the 88 counties in fiscal year 2005 and performed testing related to the Department of Job and Family Services' major programs. The results of our county level audit procedures are included in the Schedule of Findings and Questioned Costs.

In accordance with A-133, we issued an Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133. Our report on compliance includes our opinion on compliance with the 36 major federal financial assistance programs and describes instances of noncompliance with Federal requirements we detected that require reporting per Circular A-133. This report also describes any reportable conditions we identified related to controls used to administer Federal financial assistance programs, and any reportable conditions we determined to be material weaknesses.

As described on pages 151 and 152, we identified four federal programs where compliance objectives were not met. The compliance requirement for subrecipient monitoring was not achieved for the Department of Education's Charter Schools program and the Department of Public Safety's State Domestic Preparedness Equipment Support program. Additionally, the earmarking requirement for the Department of Job and Family Services' Social Service Block Grant program and the federal reporting requirement for the Department of Job and Family Services' Unemployment Insurance program were not met.

SUMMARY OF FINDINGS AND QUESTIONED COSTS

The fiscal year 2005 Schedule of Findings and Questioned Costs, beginning on page 162, contains 62 findings related to seven state agencies. Of these findings, 20 resulted in questioned costs, 12 were noncompliance, four were identified as material weaknesses, and 26 were reportable conditions. The findings with questioned costs over $1 million are summarized as follows:

- The Department of Public Safety had questioned costs of $61,893,834 related to the State Domestic Preparedness program. This program provides monies from the U.S. Department of Homeland Security through the Department to state and local governments for preparedness equipment support. This was a new federal program and the Department did not have an effective system to monitor its subrecipients. They performed limited site visits but did not maintain adequate documentation. Although their subrecipients were state and local governments, the Department had no established procedures for tracking A-133 audits completed by their auditors. The finding and related client corrective action plan are included on page 299.

- The Department of Education had questioned costs of $20,027,966 related to the Charter Schools program. The Department lacked effective subrecipient monitoring. Although there are a number of potential monitoring tools (such as site visit reports, community school sponsors, annual performance reviews, and monitoring of A-133 audits), the Department did not effectively utilize these monitoring controls. The finding and related client corrective action plan are included on page 167.

- The Department of Job and Family Services had questioned costs of $10,840,460 related to the Social Service Block Grant (SSBG) program. The Department is permitted by federal law to transfer a portion of TANF monies to the Social Service Block Grant (SSBG) program to be earmarked to provide assistance for needy families with children. The questioned costs represent SSBG funds earmarked for needy families with children used for adult protective services which are predominately for the elderly. These services are not allowable under TANF requirements. The finding and related client corrective action plan are included on page 183.

- The Department of Job and Family Services had questioned costs of $2,478,148 related to the Medicaid program. Every provider of Medicaid services must be an "eligible provider" who is licensed by the State. Utilizing audit software, we determined that 669 providers were inactive or not currently licensed with the Ohio Medical Board. The Department paid $2,478,148 to these 669 providers in fiscal year 2005. The finding and related client corrective action plan are included on page 185.

In addition, the 2004 State of Ohio Single Audit included an undetermined questioned cost related to the Hamilton County Department of Job and Family Services. The Auditor of State is near completion of a special audit of Hamilton County which will provide more information concerning potential federal questioned costs. The 2005 Schedule of Findings and Questioned Costs included $638,993 in questioned costs for Hamilton County related to similar issues. This finding and related client corrective action plan are included on page 187.

Of the four material weaknesses in internal control identified in the Schedule of Findings and Questioned Costs, two were also noted as reportable conditions in the Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*. The comments are summarized below:

- The Department of Job and Family Services has not remedied a long-standing weakness in internal controls related to manual overrides of the Client Registry Information System-Enhanced (CRIS-E) system. The Department utilizes CRIS-E at the county level to determine eligibility for various public assistance programs such as Food Stamps, TANF, and Medicaid. County level caseworkers notify the Department of necessary program changes to the system. At the end of fiscal year 2005, there were 527 open program change requests. In these situations, county level caseworkers are required to make manual overrides to CRIS-E in order to complete transactions. This increases the risk of inconsistent application, a great deal of judgment by supervisors, and potential benefit errors to recipients. The finding and related client corrective action plan are included on page 240.

- In August 2004, the Department of Job and Family Services began a new computer application, the Ohio Job Insurance (OJI) program, to replace the Benefits System used to determine benefits and issue payments for the Unemployment Insurance program. We noted six instances where multiple payments were made in error. There were 19 instances where duplicate warrants with the same warrant number were mailed. These transactions were subsequently corrected by the Department. In November 2004, the OJI system erroneously produced 191 refund warrants for $93,351 which resulted in questioned costs. There were over 3,000 programming corrections made to OJI in fiscal year 2005. The finding and related client corrective action plan are included on page 233.

The schedule below identifies the number of reportable conditions included in the State of Ohio Single Audit from fiscal year 2001 through this report. The schedule is divided by state agency and does include findings which were repeated over a number of years.

State Agency	2005	2004	2003	2002	2001
Department of Job & Family Services	47	57	62	70	69
Department of Education	3	6	6	14	14
Department of Health	6	6	3	2	4
Department of Mental Retardation	3	5	4	3	3
Office of Criminal Justice Services	0	2	2	1	3
Other State Agencies	3	3	1	5	6
Total	**62**	**79**	**78**	**95**	**99**

In addition to the reportable conditions included in this report, each state agency receives a management letter which includes internal control comments and legal citations that do not rise to the level of a reportable condition. These state agency management letters are not part of this report.

FINANCIAL SECTION

Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

The Honorable Bob Taft, Governor
State of Ohio
Columbus, Ohio

We have audited the accompanying financial statements of the governmental activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Ohio (the State) as of and for the year ended June 30, 2005, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following organizations:

Primary Government: Office of the Auditor of State; Office of Financial Incentives; State Treasury Asset Reserve of Ohio; Treasurer of State Lease Revenue Bonds; and Variable College Savings Plan.

Blended Component Units: Ohio Building Authority and State Highway Patrol Retirement System.

Discretely Presented Component Units: Bowling Green State University; Central State University, Cleveland State University; Kent State University; Miami University; Ohio State University; Ohio University; Shawnee State University; University of Akron; University of Cincinnati; University of Toledo; Wright State University; Youngstown State University; Cincinnati State Community College; Clark State Community College; Columbus State Community College; Edison State Community College; Northwest State Community College; Owens State Community College; Southern State Community College; Terra State Community College; Washington State Community College; Medical University of Ohio; and Ohio Water Development Authority.

In addition, we did not audit the financial statements of the Public Employees Retirement System, Police and Fire Pension Fund, State Teachers Retirement System, and School Employees Retirement System, whose assets are held by the Treasurer of State and are included as part of the State's Aggregate Remaining Fund Information. These financial statements reflect the following percentages of total assets and revenues or additions of the indicated opinion units:

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Revenues / Additions
Governmental Activities	2%	1%
Business-Type Activities	0%	1%
Aggregate Discretely Presented Component Units	97%	96%
Aggregate Remaining Fund Information	96%	23%

Those financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these independently audited organizations is based on the reports of the other auditors.

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

The financial statements of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio have not been audited. This audit was commenced but not completed by other auditors. The Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio comprise the Workers' Compensation Enterprise Fund, a major fund for the State of Ohio, and represent 87 percent and 44 percent of the total assets and total revenue, respectively, of the business-type activities financial statements. Because the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio's financial statements have not been audited, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements of Workers' Compensation Enterprise Fund and the business-type activities financial statements for the year ended June 30, 2005.

In our opinion, except as we are unable to express, and we do not express an opinion upon the Workers' Compensation Enterprise Fund and upon the business-type activities financial statements, as described in the preceding paragraph, based upon our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Ohio as of June 30, 2005, and respective changes in financial position and respective budgetary comparisons for the general and major special revenue funds thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, during the fiscal year ended June 30, 2005, the State of Ohio adopted Governmental Accounting Standard Board's Statement No. 40, *Deposit and Investment Risk Disclosures.*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2006, on our consideration of the Government's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

The Management's Discussion and Analysis and Infrastructure Assets Accounted for Using the Modified Approach, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Honorable Bob Taft, Governor

We conducted our audit to opine on the financial statements that collectively comprise the State's basic financial statements. The accompanying Supplementary Schedule of Expenditures of Federal Awards Summarized by Federal Agency and Supplementary Schedule of Expenditures of Federal Awards by Federal Agency and Federal Program (schedules) are presented for additional information and are not a required part of the basic financial statements. We subjected the schedules to the auditing procedures applied in the audit of the basic financial statements. In our opinion, based on our audit, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. We did not subject the schedules to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Betty Montgomery

Betty Montgomery
Auditor of State

April 7, 2006

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State of Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Introduction
This section of the State of Ohio's annual financial report presents management's discussion and analysis of the State's financial performance during the fiscal year ended June 30, 2005. The management's discussion and analysis section should be read in conjunction with the preceding transmittal letter and the State's financial statements, which follow.

Financial Highlights
Government-wide Financial Statements
Net assets of the State's primary government reported in the amount of $19.83 billion, as of June 30, 2005, increased $761.3 million since the previous year. Net assets of the State's component units reported in the amount of $11.47 billion, as of June 30, 2005, increased $624.3 million since the end of last fiscal year.

Fund Financial Statements
Governmental funds reported combined ending fund balances of $5.23 billion that was comprised of $298.2 million reserved for specific purposes, such as for debt service, state and local highway construction, and federal programs; $6.52 billion reserved for nonappropriable items, such as encumbrances, noncurrent loans receivable, noncurrent interfund receivables, loan commitments, and inventories; $718.4 million in designations for budget stabilization and other purposes; and a $2.31 billion deficit.

As of June 30, 2005, the General Fund's fund balance was approximately $1.35 billion, including $43.4 million reserved for "other" specific purposes, as detailed in NOTE 17; $584 million reserved for nonappropriable items; and $718.4 million in designations for budget stabilization and other purposes. The General Fund's fund balance increased by $580.3 million (exclusive of a $1.1 million decrease in inventories) or 75.6 percent during fiscal year 2005. Due to greater-than-expected personal income tax revenue for fiscal year 2005 and executive-ordered and other spending reductions, the General Fund ended the year with an overall positive fund balance. Various transfers-in from other funds provided additional resources to cover anticipated spending in the General Fund during fiscal year 2005.

Proprietary funds reported net assets of $1.36 billion, as of June 30, 2005, a decrease of $209.5 million since June 30, 2004. Most of the net decline was due to the $145.1 million and $139.1 million net losses reported for the Unemployment Compensation and Workers' Compensation enterprise funds, respectively, which offset increases in net assets of $47.2 million and $28.6 million in the Tuition Trust Authority and Lottery Commission enterprise funds, respectively. The loss for the Unemployment Compensation Enterprise Fund is attributable to benefits and claims expenses of $1.19 billion that exceeded total operating and nonoperating revenues by approximately $105.2 million, and by transfers to the Job and Family Services agency of $35.8 million. For the Workers' Compensation Enterprise Fund, the decline is mainly due to a decline in investment income of $261.5 million and an increase in claims payments of $398.1 million, which more than offset a decrease in premium dividend reductions and refunds of $182.7 million for fiscal year 2005. The Tuition Trust Authority's increase in net assets resulted from an $89.4 million reduction in tuition benefit expenses in fiscal year 2005 as compared to fiscal year 2004, which more than offset decreases in investment income and tuition unit sales of $38.9 million and $32.1 million, respectively. The Lottery Commission Enterprise Fund's increase in net assets resulted from increases in investment income of $102.8 million in fiscal year 2005.

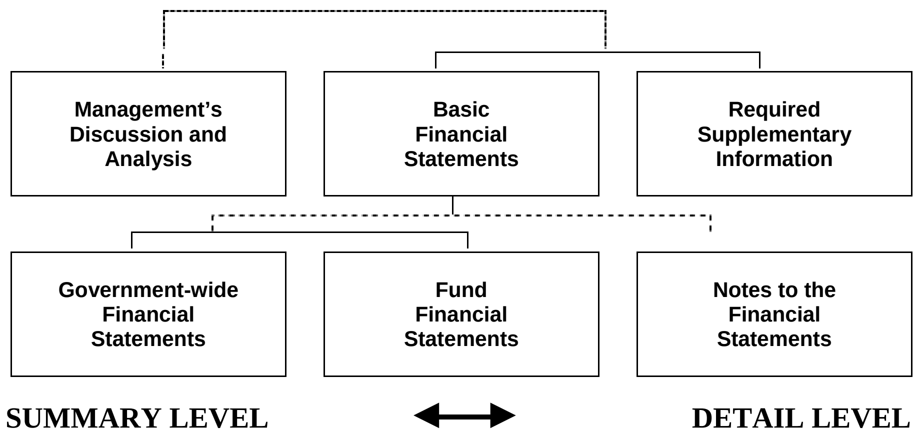
Long-Term Debt — Bonds and Notes Payable and Certificates of Participation Obligations
Overall, the carrying amount of total long-term debt for the State's primary government increased $466.3 million or 4.6 percent during fiscal year 2005 to end the fiscal year with a reported balance of $10.57 billion in long-term debt. During the year, the State issued at par $1.09 billion in general obligation bonds, of which $105.8 million were refunding bonds, $50 million in revenue bonds, and $834.1 million in special obligation bonds, of which $601 million were refunding bonds. Changes in the primary government's long-term debt for fiscal year 2005 can be found in NOTE 15.

Overview of the Financial Statements

This annual report consists of management's discussion and analysis, basic financial statements, including the accompanying notes to the financial statements, required supplementary information, and combining statements for the nonmajor governmental funds, nonmajor proprietary funds, fiduciary funds, and nonmajor discretely presented component unit funds. The basic financial statements are comprised of the government-wide financial statements and fund financial statements.

Figure 1 below illustrates how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, as explained later, this report includes an optional section that contains combining statements that provide details about the State's nonmajor governmental and proprietary funds.

Figure 1
Required Components of the
State of Ohio's Annual Financial Report



The *Government-wide Financial Statements* provide financial information about the State as a whole, including its component units.

The *Fund Financial Statements* focus on the State's operations in more detail than the government-wide financial statements. The financial statements presented for governmental funds report on the State's general government services. Proprietary fund statements report on the activities that the State operates like private-sector businesses. Fiduciary fund statements provide information about the financial relationships in which the State acts solely as a trustee or agent for the benefit of others outside of the government, to whom the resources belong.

Following the fund financial statements, the State includes financial statements for its major component units within the basic financial statements section. Nonmajor component units are also presented in aggregation under a single column in the component unit financial statements.

The basic financial statements section includes notes that more fully explain the information in the government-wide and fund financial statements; the notes provide more detailed data that are essential to a full understanding of the data presented in the financial statements. The notes to the financial statements can be found on pages 54 through 125 of this report.

In addition to the basic financial statements and accompanying notes, a section of required supplementary information further discusses the assessed condition and estimated and actual maintenance and preservation costs of the state's highway and bridge infrastructure assets that are reported using the modified approach. Limited in application to a government's infrastructure assets, the modified approach provides an alternative to the traditional recognition of depreciation expense. Required supplementary information can be found on pages 126 through 128 of this report.

Figure 2 on the following page summarizes the major features of the State's financial statements.

Figure 2
Major Features of the State of Ohio's Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements: Governmental Funds	Fund Statements: Proprietary Funds	Fund Statements: Fiduciary Funds
Scope	Entire State government (except fiduciary funds) and the State's component units	The activities of the State that are not proprietary or fiduciary, such as general government, transportation, justice and public protection, etc.	Activities the State operates similar to private businesses, such as the workers' compensation insurance program, lottery, tuition credit program	Instances in which the State is the trustee or agent for someone else's resources
Required Financial Statements	• Statement of Net Assets • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balance	• Statement of Net Assets • Statement of Revenues, Expenses and Changes in Fund Net Assets • Statement of Cash Flows	• Statement of Fiduciary Net Assets • Statement of Changes in Fiduciary Net Assets
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

Government-wide Financial Statements

The government-wide financial statements consist of the Statement of Net Assets and the Statement of Activities. For these statements, the State applies accounting methods similar to those used by private-sector companies; that is, the State follows the accrual basis of accounting and the economic resources focus when preparing the government-wide financial statements. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of the timing of related cash inflows or outflows.

The two government-wide financial statements report the State's net assets and how they have changed. Net assets — the difference between the State's assets and liabilities — is one way to measure the State's financial health, or position. Over time, increases or decreases in the State's net assets indicate whether its financial health has improved or deteriorated, respectively. However, a reader should consider additional nonfinancial factors such as changes in the State's economic indicators and the condition of the State's highway system when assessing the State's overall financial status.

The State's government-wide financial statements, which can be found on pages 21 through 24 of this report, are divided into three categories as follows.

Governmental Activities — Most of the State's basic services are reported under this category, such as primary, secondary and other education, higher education support, public assistance and Medicaid, health and human services, justice and public protection, environmental protection and natural resources, transportation, general government, and community and economic development. Taxes, federal grants, charges for services, including license, permit, and other fee income, fines, and forfeitures, and restricted investment income finance most of these activities.

Business-type Activities — The State charges fees to customers to help cover the costs of certain services it provides. The State reports the following programs and activities as business-type: workers' compensation insurance program, lottery operations, unemployment compensation program, the leasing and maintenance operations of the Ohio Building Authority, guaranteed college tuition credit program, liquor control operations, underground parking garage operations at the statehouse, and the Auditor of State's governmental auditing and accounting services.

Component Units — The State presents the financial activities of the School Facilities Commission, Cultural Facilities Commission, SchoolNet Commission, Ohio Water Development Authority, Ohio Air Quality Development Authority, and 23 state-assisted colleges and universities as discretely presented component units under a separate column in the government-wide financial statements. The Ohio Building Authority is presented as a blended component unit with its activities blended and included under governmental and business-type activities. Although legally separate, the State is financially accountable for its component units, as is further explained in NOTE 1A. to the financial statements.

Fund Financial Statements

The fund financial statements provide more detailed information about the State's most significant funds — not the State as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. State law and bond covenants mandate the use of some funds. The Ohio General Assembly establishes other funds to control and manage money for particular purposes or to show that the State is properly using certain taxes and grants. The State employs fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The State has three kinds of funds — governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds — Most of the State's basic services are included in governmental funds, which focus on how cash and other financial assets that can readily be converted to cash flow in and out (i.e., near-term inflows and outflows of spendable resources) and the balances remaining at year-end that are available for spending (i.e., balances of spendable resources). Consequently, the governmental fund financial statements provide a detailed short-term view that helps the financial statement reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs. The State prepares the governmental fund financial statements applying the modified accrual basis of accounting and a current financial resources focus. Because this information does not encompass the additional long-term focus of the government-wide statements, a reconciliation schedule, which follows each of the governmental fund financial statements, explains the relationship (or differences) between them.

The State's governmental funds include the General Fund and 15 special revenue funds, 23 debt service funds, and 11 capital projects funds. Under separate columns, information is presented in the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund and the Job, Family and Other Human Services, Education, Highway Operating, and Revenue Distribution special revenue funds, all of which are considered major funds. Data from the other 45 governmental funds, which are classified as nonmajor funds, are combined into a single, aggregated presentation under a single column on the basic governmental fund financial statements. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

For budgeted governmental funds, the State also presents budgetary comparison statements and schedules in the basic financial statements and combining statements, respectively, to demonstrate compliance with the appropriated budget. The State's budgetary process is explained further in NOTE 1D. to the financial statements.

The basic governmental fund financial statements can be found on pages 25 through 36 of this report while the combining fund statements and schedules can be found on pages 146 through 205 of the State's CAFR.

Proprietary Funds — Services for which the State charges customers a fee are generally reported in proprietary funds. Financial statements for the proprietary funds, which are classified as enterprise funds, provide both long- and short-term financial information. Like the government-wide financial statements, the State prepares the proprietary fund financial statements for its eight enterprise funds applying the accrual basis of accounting and an economic resources focus.

Under separate columns, information is presented in the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Fund Net Assets, and Statement of Cash Flows for the Workers' Compensation, Lottery Commission, and Unemployment Compensation enterprise funds, all of which are considered to be major funds. Data from the other five enterprise funds, which are classified as nonmajor funds, are combined into a single, aggregated presentation under a single column on the basic proprietary fund financial statements. Individual fund data for each of these nonmajor proprietary funds is provided in the form of combining statements elsewhere in this report.

The enterprise funds are the same as the State's business-type activities reported in the government-wide financial statements, but the proprietary fund financial statements provide more detail and additional information, such as information on cash flows. The basic proprietary fund financial statements can be found on pages 37 through 44 of this report while the combining fund statements can be found on pages 208 through 215 of the State's CAFR.

Fiduciary Funds — The State is the trustee, or fiduciary, for assets that — because of a trust arrangement — can only be used for the trust beneficiaries. The State is responsible for ensuring the assets reported in these funds are used for their intended purposes. All of the State's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. The State excludes the State Highway Patrol Retirement System Pension Trust Fund, Variable College Savings Plan Private-Purpose Trust Fund, STAR Ohio Investment Trust Fund, and the agency funds from its government-wide financial statements because the State cannot use these assets to finance its operations. The basic fiduciary fund financial statements can be found on pages 45 through 48 of this report.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Assets. During fiscal year 2005, as shown in the table below, the combined net assets of the State's primary government increased $761.3 million or 4.0 percent. Net assets reported for governmental activities increased $970.9 million or 5.6 percent and business-type activities decreased $209.5 million or 13.4 percent. Condensed financial information derived from the Statement of Net Assets for the primary government follows.

Primary Government
Statement of Net Assets
As of June 30, 2005
With Comparatives as of June 30, 2004
(dollars in thousands)

	As of June 30, 2005			As of June 30, 2004 (as restated)		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Assets:						
Current and Other Noncurrent Assets	$14,890,239	$24,230,062	$39,120,301	$12,326,064	$23,832,701	$36,158,765
Capital Assets	23,471,857	155,175	23,627,032	23,020,145	183,801	23,203,946
Total Assets	38,362,096	24,385,237	62,747,333	35,346,209	24,016,502	59,362,711
Liabilities:						
Current and Other Liabilities	8,859,254	3,510,741	12,369,995	7,348,367	3,452,725	10,801,092
Noncurrent Liabilities	11,033,381	19,514,347	30,547,728	10,499,232	18,994,111	29,493,343
Total Liabilities	19,892,635	23,025,088	42,917,723	17,847,599	22,446,836	40,294,435
Net Assets:						
Invested in Capital Assets, Net of Related Debt	20,454,447	(1,839)	20,452,608	19,941,259	5,873	19,947,132
Restricted	1,908,583	1,528,376	3,436,959	1,888,728	1,787,404	3,676,132
Unrestricted (Deficits)	(3,893,569)	(166,388)	(4,059,957)	(4,331,377)	(223,611)	(4,554,988)
Total Net Assets	$18,469,461	$ 1,360,149	$19,829,610	$17,498,610	$ 1,569,666	$19,068,276

As of June 30, 2005, the primary government's investment in capital assets (i.e., land, buildings, land improvements, machinery and equipment, vehicles, infrastructure, and construction-in-progress), less related outstanding debt, was $20.45 billion. Restricted net assets were approximately $3.44 billion, resulting in a $4.06 billion deficit. Net assets are restricted when constraints on their use are 1.) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2.) legally imposed through constitutional or enabling legislation. Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The government-wide Statement of Net Assets reflects a $3.89 billion deficit for governmental activities. The State of Ohio, like many other state governments, issues general and special obligation debt, the proceeds of which benefit local governments and component units. The proceeds are used to build facilities for public-assisted colleges and universities and local school districts and finance infrastructure improvements for local governments. The policy of selling general obligation and special obligation bonds for these purposes has been the practice for many years. Of the $9.74 billion of outstanding general obligation and special obligation debt at June 30, 2005, $6.39 billion is attributable to debt issued for state assistance to component units (School Facilities Commission and the colleges and universities) and local governments. The balance sheets of component unit and local government recipients reflect ownership of the related constructed capital assets without the burden of recording the debt. Unspent proceeds related to these bond issuances are included on the Statement of Net Assets as restricted net assets. By issuing such debt, the State is left to reflect significant liabilities without the benefit of recording the capital assets constructed with the proceeds from the debt issuances.

Additionally, as of June 30, 2005, the State's governmental activities have significant unfunded liabilities for compensated absences in the amount of $397.6 million (see NOTE 14A.) and a $783.2 million interfund payable due to the workers' compensation component of business-type activities for the State's workers' compensation liability (see NOTE 7A.). These unfunded liabilities also contribute to the reported deficit for governmental activities.

Condensed financial information derived from the Statement of Activities, which reports how the net assets of the State's primary government changed during fiscal years 2005 and 2004, follows.

Primary Government
Statement of Activities
For the Fiscal Year Ended June 30, 2005
With Comparatives for the Fiscal Year Ended June 30, 2004
(dollars in thousands)

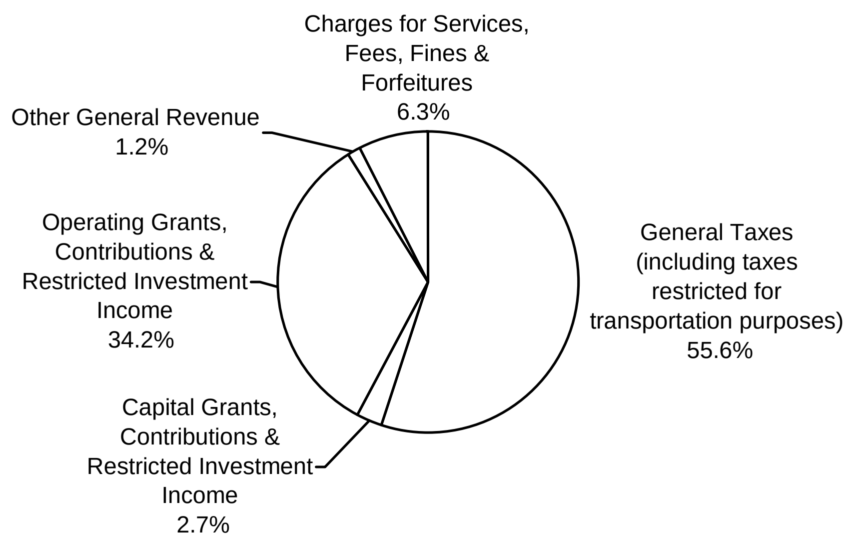
	Fiscal Year 2005			Fiscal Year 2004 (as restated)		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Program Revenues:						
Charges for Services, Fees, Fines and Forfeitures	$ 2,555,031	$4,986,916	$ 7,541,947	$ 2,529,150	$4,997,160	$ 7,526,310
Operating Grants, Contributions and Restricted Investment Income/(Loss)	13,774,602	2,107,953	15,882,555	12,979,579	2,455,783	15,435,362
Capital Grants, Contributions and Restricted Investment Income/(Loss)	1,088,146	—	1,088,146	890,444	332	890,776
Total Program Revenues	17,417,779	7,094,869	24,512,648	16,399,173	7,453,275	23,852,448
General Revenues:						
General Taxes	20,653,898	—	20,653,898	19,396,617	—	19,396,617
Taxes Restricted for Transportation	1,753,390	—	1,753,390	1,631,631	—	1,631,631
Tobacco Settlement	321,335	—	321,335	316,799	—	316,799
Escheat Property	91,867	—	91,867	74,268	—	74,268
Unrestricted Investment Income	46,797	70,609	117,406	18,159	622	18,781
Federal	—	—	—	193,033	12	193,045
Other	287	5,837	6,124	1,940	—	1,940
Total General Revenues	22,867,574	76,446	22,944,020	21,632,447	634	21,633,081
Total Revenues	40,285,353	7,171,315	47,456,668	38,031,620	7,453,909	45,485,529
Expenses:						
Primary, Secondary and Other Education	10,500,951	—	10,500,951	10,234,524	—	10,234,524
Higher Education Support	2,477,856	—	2,477,856	2,494,828	—	2,494,828
Public Assistance and Medicaid	14,245,026	—	14,245,026	13,557,787	—	13,557,787
Health and Human Services	3,336,010	—	3,336,010	2,950,880	—	2,950,880
Justice and Public Protection	2,973,118	—	2,973,118	2,809,295	—	2,809,295
Environmental Protection and Natural Resources	397,924	—	397,924	397,884	—	397,884
Transportation	1,900,507	—	1,900,507	1,433,439	—	1,433,439
General Government	670,317	—	670,317	607,376	—	607,376
Community and Economic Development	3,444,746	—	3,444,746	3,493,357	—	3,493,357
Interest on Long-Term Debt (excludes interest charged as program expense)	175,700	—	175,700	189,583	—	189,583
Workers' Compensation	—	3,263,118	3,263,118	—	3,072,477	3,072,477
Lottery Commission	—	1,581,100	1,581,100	—	1,575,279	1,575,279
Unemployment Compensation	—	1,194,040	1,194,040	—	1,639,014	1,639,014
Ohio Building Authority	—	27,327	27,327	—	27,524	27,524
Tuition Trust Authority	—	30,214	30,214	—	118,834	118,834
Liquor Control	—	401,187	401,187	—	374,507	374,507
Underground Parking Garage	—	2,692	2,692	—	2,199	2,199
Office of Auditor of State	—	73,501	73,501	—	75,758	75,758
Total Expenses	40,122,155	6,573,179	46,695,334	38,168,953	6,885,592	45,054,545
Surplus/(Deficiency) Before Transfers	163,198	598,136	761,334	(137,333)	568,317	430,984
Transfers-Internal Activities	807,653	(807,653)	—	781,149	(781,149)	—
Change in Net Assets	970,851	(209,517)	761,334	643,816	(212,832)	430,984
Net Assets, July 1 (as restated)	17,498,610	1,569,666	19,068,276	16,854,794	1,782,498	18,637,292
Net Assets, June 30	$18,469,461	$1,360,149	$19,829,610	$17,498,610	$1,569,666	$19,068,276

Governmental Activities

For fiscal year 2005, revenues slightly outpaced expenses, and when combined with transfers from the State's business-type activities, an increase of $970.9 million in net assets resulted for governmental activities. Revenues for fiscal year 2005 in the amount of $40.29 billion were 5.9 percent higher than those reported for fiscal year 2004. This increase in revenues can, in part, be attributed to strong personal income tax and corporation franchise tax collections. Expenses followed the trend as the reported $40.12 billion in spending represented a 5.1 percent increase over fiscal year 2004. Net transfers for fiscal year 2005 also increased to $807.7 million, or by 3.4 percent, when compared to fiscal year 2004.

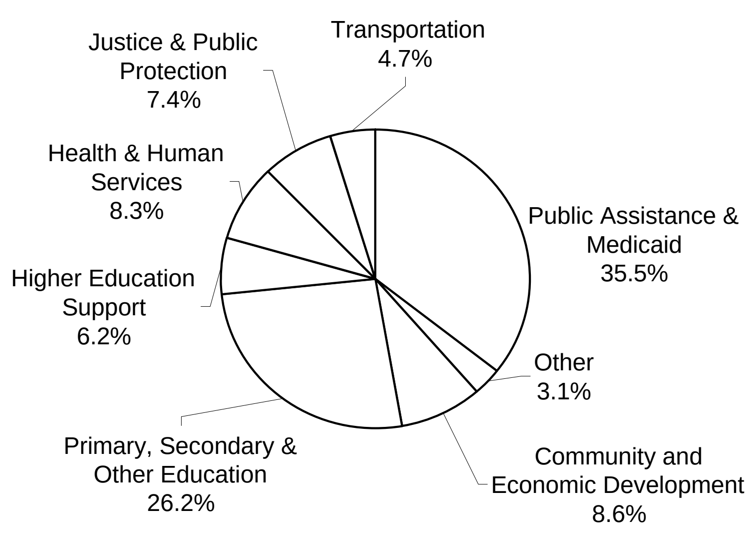
The following charts illustrate revenue by sources and expenses by program of governmental activities as percentages of total revenues and program expenses, respectively, reported for the fiscal year ended June 30, 2005.

Governmental Activities — Sources of Revenue
Fiscal Year 2005



Total FY 05 Revenue for Governmental Activities = $40.29 Billion

Governmental Activities — Expenses by Program
Fiscal Year 2005



Total FY 05 Program Expenses for Governmental Activities = $40.12 Billion

The following tables present the total expenses and net cost of each of the State's governmental programs for the fiscal years ended June 30, 2005 and 2004. The net cost (total program expenses less revenues generated by the program) represents the financial burden that was placed on the State's taxpayers by each of these programs; costs not covered by program revenues are essentially funded with the State's general revenues, which are primarily comprised of taxes, tobacco settlement revenue, escheat property, unrestricted investment income, and unrestricted federal revenue.

Program Expenses and Net Costs of Governmental Activities by Program
For the Fiscal Year Ended June 30, 2005
With Comparatives for the Fiscal Year Ended June 30, 2004
(dollars in thousands)

	For the Fiscal Year Ended June 30, 2005			
Program	**Program Expenses**	**Net Cost of Program**	**Net Cost as Percentage of Total Expenses for Program**	**Net Cost as Percentage of Total Expenses — All Programs**
Primary, Secondary and Other Education	$10,500,951	$ 8,868,083	84.5%	22.1%
Higher Education Support	2,477,856	2,460,966	99.3	6.1
Public Assistance and Medicaid	14,245,026	4,369,852	30.7	10.9
Health and Human Services	3,336,010	1,223,053	36.7	3.1
Justice and Public Protection	2,973,118	1,812,244	61.0	4.5
Environmental Protection and Natural Resources	397,924	138,967	34.9	.4
Transportation	1,900,507	739,342	38.9	1.8
General Government	670,317	147,505	22.0	.4
Community and Economic Development	3,444,746	2,768,664	80.4	6.9
Interest on Long-Term Debt	175,700	175,700	100.0	.4
Total Governmental Activities	$40,122,155	$22,704,376	56.6	56.6%

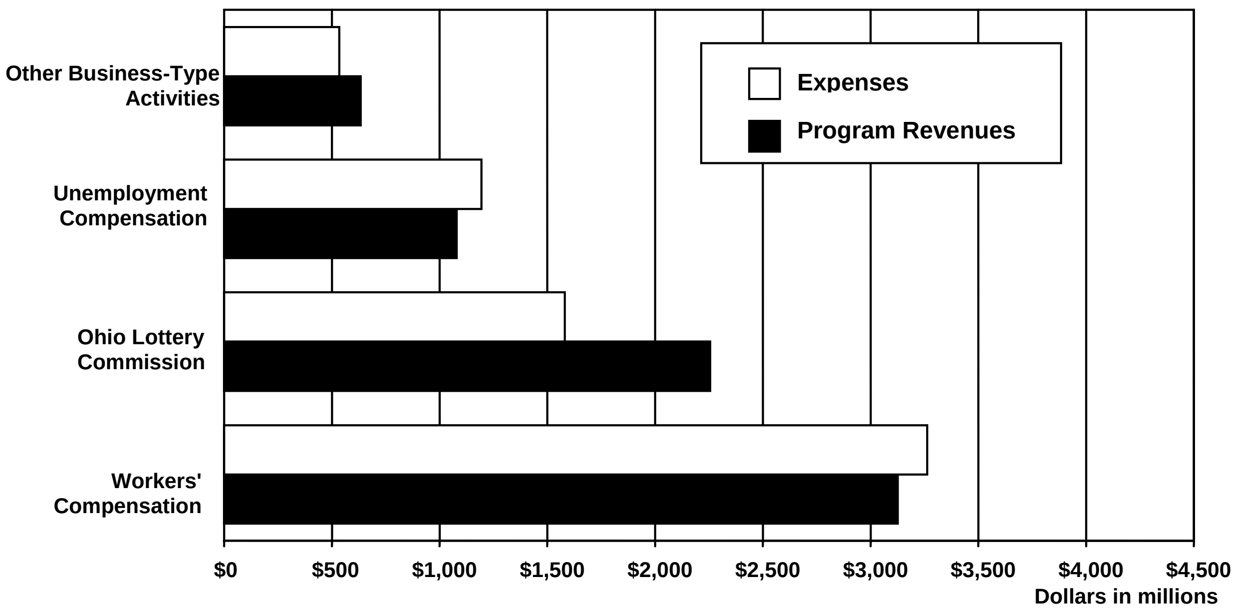
	For the Fiscal Year Ended June 30, 2004 (as restated)			
Program	**Program Expenses**	**Net Cost of Program**	**Net Cost as Percentage of Total Expenses for Program**	**Net Cost as Percentage of Total Expenses — All Programs**
Primary, Secondary and Other Education	$10,234,524	$ 8,782,431	85.8%	23.0%
Higher Education Support	2,494,828	2,475,095	99.2	6.5
Public Assistance and Medicaid	13,557,787	3,887,353	28.7	10.2
Health and Human Services	2,950,880	968,730	32.8	2.5
Justice and Public Protection	2,809,295	1,771,570	63.1	4.6
Environmental Protection and Natural Resources	397,884	144,959	36.4	0.4
Transportation	1,433,439	478,953	33.4	1.3
General Government	607,376	191,605	31.5	0.5
Community and Economic Development	3,493,357	2,879,501	82.4	7.5
Interest on Long-Term Debt	189,583	189,583	100.0	0.5
Total Governmental Activities	$38,168,953	$21,769,780	57.0	57.0%

Business-Type Activities

The State's enterprise funds reported net assets of $1.36 billion, as of June 30, 2005, as compared to $1.57 billion in net assets, as of June 30, 2004. Contributing to the overall decline in business-type activities was the Unemployment Compensation Fund, which reported net assets of $663.9 million, as of June 30, 2005, as compared to $809 million, a 17.9 percent decrease since June 30, 2004. The Workers' Compensation Fund posted a $139.1 million or 16.2 percent reduction in net assets during fiscal year 2005 when the fund reported net assets of

$721.7 million, as of June 30, 2005. The Tuition Trust Authority Fund, however, reported net assets of $(242.1) million, as of June 30, 2005, as compared to $(289.4) million in net assets, as of June 30, 2004, a 16.3 percent increase, while the Lottery Commission Fund reported $152.1 million in net assets as of June 30, 2005 compared to $123.5 million in net assets as of June 30, 2004, a 23.1 percent increase. The chart below compares program expenses and program revenues for business-type activities.

Business-Type Activities — Expenses and Program Revenues
Fiscal Year 2005



FINANCIAL ANALYSIS OF THE STATE'S FUNDS

The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

Governmental funds reported the following results, as of and for the fiscal years ended June 30, 2005 and June 30, 2004 (dollars in thousands).

	As of and for the Fiscal Year Ended June 30, 2005			
	General Fund	Other Major Funds	Nonmajor Governmental Funds	Total Governmental Funds
Unreserved/Undesignated Fund Balance (Deficit)	$ —	$ (3,169,537)	$ 859,841	$ (2,309,696)
Designated Fund Balance	718,377	—	—	718,377
Total Fund Balance	1,345,772	659,052	3,225,776	5,230,600
Total Revenues	25,452,628	10,986,081	3,802,370	40,241,079
Total Expenditures	24,442,117	11,126,257	5,891,171	41,459,545

	As of and for the Fiscal Year Ended June 30, 2004 (as restated)			
	General Fund	Other Major Funds	Nonmajor Governmental Funds	Total Governmental Funds
Unreserved/Undesignated Fund Balance (Deficit)	$ —	$ (2,235,976)	$ 443,440	$ (1,792,536)
Designated Fund Balance	105,333	—	—	105,333
Total Fund Balance	766,571	639,037	2,808,572	4,214,180
Total Revenues	24,218,668	10,300,523	3,354,568	37,873,759
Total Expenditures	23,696,836	10,488,917	5,408,157	39,593,910

General Fund
Fund balance for the General Fund, the main operating fund of the State, increased by $580.3 million (exclusive of a $1.1 million decrease in inventories) or 75.6 percent during the current fiscal year. Key factors for most of the increase were strong personal income tax and corporate franchise tax revenue resulting from an expansion in the economy. These increases in revenues outpaced mandated spending increases in the Public Assistance and Medicaid function and in the Primary, Secondary and Other Education function.

General Fund Budgetary Highlights
The State ended the second year of its biennial budget period on June 30, 2005 with a General Fund budgetary fund balance (i.e., cash less encumbrances) of $1.23 billion. Total budgetary sources for the General Fund (including $751.3 million in transfers from other funds) in the amount of $27.3 billion were above final estimates by $538.1 million or 2.0 percent during fiscal year 2005, while total tax receipts were above final estimates by $625.4 million or 3.4 percent. During fiscal year 2005, it was not necessary to use any of the $180.7 million that had been designated for budget stabilization purposes at June 30, 2004.

Total budgetary uses for the General Fund (including $583.9 million in transfers to other funds) in the amount of $27.5 billion were below final estimates by $367.8 million or 1.3 percent for fiscal year 2005.

The appropriations act (Act) for the 2004-05 biennium for the General Revenue Fund (GRF), the largest, non-GAAP, budgetary-basis operating fund included in the State's General Fund, was passed by the General Assembly and signed (with selective vetoes) by the Governor in June 2003. The Act provided for total GRF biennial revenue of approximately $48.95 billion and total GRF biennial expenditures of approximately $48.79 billion.

Among other expenditure controls, the Act included Medicaid cost-containment measures, including pharmacy cost-management initiatives, limited expenditure growth for institutional services and implementation of managed care for higher-cost populations; continued phase-out of certain tangible personal property tax relief payments to local governments; the closing by consolidation of three institutional facilities during the biennium; adjustments in eligibility guidelines for subsidized child care from 185 percent to 150 percent of the federal poverty level and freezing certain reimbursement rates; no compensation increases for most State employees in fiscal year 2004 and limited one-time increases in fiscal year 2005; and continued limitation on local government assistance fund distributions to most subdivisions and local libraries to the lesser of the equivalent monthly payments in fiscal year 2003 or the amount that would have been distributed under the standard formula.

The GRF expenditure authorizations for the 2004-05 biennium reflected and were supported by revenue enhancement actions contained in the Act including:

- A one-cent increase in the State sales tax (to six percent) for the biennium (expiring June 30, 2005).
- Expansion of the sales tax base to include dry-cleaning/laundry services, towing, personal care and other services, and satellite television. (The inclusion of satellite television in the sales tax base is subject to an ongoing legal challenge.)
- Moving local telephone companies from the public utility tax base to the corporate franchise and sales tax.
- Elimination of the sales tax exemption for WATS and 800 telecom services coupled with the enactment of a more limited exemption for call centers.
- Adjustments in the corporate franchise tax through the adoption of the Uniform Division of Income for Tax Purposes Act (UDITPA) for apportionment of business income among states, and an increase in the corporate alternative minimum tax.

The Act also authorized a transfer of $234.7 million of proceeds received from the national tobacco settlement into the GRF on June 30, 2004. In addition, the Act authorized the draw down during the biennium of federal block grant and Medicaid assistance aid made available to the State under a federal law effective May 28, 2003. OBM drew down $211.6 million and $316.8 million of those federal monies in fiscal years 2004 and 2005, respectively.

Based on regular monitoring of revenues and expenditures, OBM in March 2004 announced revised GRF revenue projections for fiscal years 2004 and 2005 based primarily on reduced revenue collections from personal income taxes. In response to OBM reducing its GRF revenue projection by $247.1 million, or one percent, for fiscal year 2004 and by $372.7 million, or 1.5 percent for fiscal year 2005, the Governor ordered fiscal year 2004 expenditure reductions of approximately $100 million. The State ended fiscal year 2004 with a GRF fund balance of approximately $157.5 million. On July 1, 2004, the Governor ordered additional fiscal year 2005 expenditure cuts of approximately $118 million and a reduction of $50 million in state spending on Medicaid reflecting an increased federal share of certain Medicaid services. Expressly excluded from those reductions were debt service and lease rental payments relating to state obligations, state basic aid to elementary and secondary education, instructional subsidies and scholarships for public higher education, in-home care for seniors, and certain job creation programs. The balance of reductions in revenue projections were offset by GRF expenditure lapses and, for fiscal year 2005, elimination of an additional $100 million year-end set-aside for budget stabilization purposes, while maintaining a one-half percent year-end GRF fund balance.

Improving economic conditions had a positive effect on revenue in fiscal year 2005. Actual GRF budgetary sources, including transfers from other funds, were above estimates for fiscal year 2005 by $538.1 million. With fiscal year 2005 spending close to original estimates, the State made the following fiscal year-end designations that resulted in cash transfers-out from the GRF in early fiscal year 2006: $60 million to address a prior-year liability in the Temporary Assistance for Needy Families Program; $40 million to a disaster services contingency fund; $50 million to the State's share of the school facilities construction program; and $394.2 million for budget stabilization.

Other Major Governmental Funds

Fund balance for the *Job, Family and Other Human Services Fund*, as of June 30, 2005, was a deficit in the amount of $114.5 million, a decrease in the deficit of $13.8 million since June 30, 2004. Expenditures exceeded revenues by $18.2 million, and all of the deficiency of revenues under expenditures was offset by net transfers-in received from other funds in the amount of $32 million.

Fund balance for the *Education Fund*, as of June 30, 2005, totaled $66.8 million, an increase of $18.5 million since June 30, 2004. Fiscal year 2005 net transfers-in for the fund in the amount of $624.8 million was more than enough to cover the excess of expenditures over revenues reported for the fund in the amount of $606.3 million.

Fund balance for the *Highway Operating Fund*, as of June 30, 2005, totaled $592.2 million, a decrease of $8.1 million (including a $231 thousand increase in inventories) since June 30, 2004. The decline was in spite of an increase in the fund's revenues to $1.81 billion in fiscal year 2005 from $1.52 billion in fiscal year 2004. The revenue increase for this fund was due in part to a two-cent increase in the motor vehicle fuel tax rate from 24 cents a gallon to 26 cents a gallon, effective July 1, 2004. Expenditures in the amount of $2.05 billion increased significantly during fiscal year 2005 when compared to the $1.78 billion in expenditures reported for fiscal year 2004. There was a slight increase in transfers-out for fiscal year 2005 of $7.3 million when compared to fiscal year 2004 results.

Fund balance for the *Revenue Distribution Fund*, as of June 30, 2005, totaled $114.6 million, a decrease of $4.2 million since June 30, 2004. Fiscal year 2005 net transfers-out to other governmental funds of $731.3 million were greater than the $727.1 million excess of revenues over expenditures, thus contributing to the decrease in fund balance.

Major Proprietary Funds

The State's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

For the *Workers' Compensation Fund*, the $139.1 million decrease in net assets was primarily due to a decrease in investment income of approximately $261.5 million, and an increase in operating expenses of $190.6 million, to $3.26 billion in fiscal year 2005 from $3.07 billion in fiscal year 2004. The Bureau of Workers' Compensation experienced net investment income of $988.4 million, compared to net investment income of $1.25 billion reported in the previous fiscal year. The decrease in net investment income was primarily attributable to an increase of $488 million in the fair value of the investment portfolio in fiscal year 2005 compared to the $791 million increase in fair value during fiscal year 2004.

Workers' compensation benefits and claims expenses exceeded premium and assessment income by $820.8 million in fiscal year 2005 as compared with $422.4 million in fiscal year 2004.

Net assets were reduced by premium dividend reductions and refunds expenses of $232.8 million during fiscal year 2005 as compared to a $415.5 million reduction in fiscal year 2004. The Workers' Compensation Oversight Commission approved a one-time, 20-percent premium reduction for Ohio private employers for the policy period, July 1, 2004 through December 31, 2004.

Workers' compensation benefits and claims expense were $2.95 billion in fiscal year 2005 as compared to $2.55 billion in fiscal year 2004. The increase in workers' compensation benefits is due largely to a decrease in the discount rate from 5.5 percent at June 30, 2004 to 5.25 percent at June 30, 2005. This .25 percent decrease in the discount rate resulted in reserves for compensation and compensation adjustment expenses increasing by $402 million. Medical costs in fiscal year 2005 were lower than expected by approximately $32.6 million.

For fiscal year 2005, the *Lottery Commission Fund* reported $674.3 million in income before transfers of $645.1 million and $536 thousand to the Education and General funds, respectively, posting a $28.6 million increase in the fund's net assets. For fiscal year 2004, the Lottery Commission Fund reported approximately $578.9 million in income before transfers of $655.6 million and $623 thousand to the Education and General funds, respectively, posting a $77.3 million reduction in the fund's net assets. The increase in the Lottery Commission fund's net assets is primarily due to investment income of $90.5 million in fiscal year 2005, as opposed to a $12.3 million investment loss in fiscal year 2004.

Unemployment benefits and claims expenses of $1.19 billion exceeded total operating and nonoperating revenues by approximately $105.2 million for the *Unemployment Compensation Fund* which contributed to the decline in the fund's net assets of $145.1 million for fiscal year 2005. As a result of the decline in the asset balance on deposit with the federal government relative to employer contributions during fiscal year 2005, investment income for the fund was $34.1 million, down $19.2 million or 36 percent from fiscal year 2004. As of June 30, 2005, the deposit with federal government was reported at $612.7 million, as compared with $711 million, as of June 30, 2004, a 13.8 percent decline. Premium and assessment income reported for fiscal year 2005 in the amount of $994.6 million increased by $146.9 million, while federal government revenue in the amount of $21.3 million decreased by $203.1 million when compared to fiscal year 2004. For calendar years 2004 and 2005, Ohio's annualized average unemployment rate was 6.1 percent, according to the U.S. Department of Labor.

Nonmajor Proprietary Funds
For fiscal year 2005, the *Tuition Trust Authority* Fund reduced its deficit by $47.2 million or 16.3 percent. The deficit reduction was primarily due to a decrease in benefits and claims expenses of $89.4 million, which more than offset a decrease in investment income of $38.9 million. The investment income for the Authority was $70.1 million in fiscal year 2005 as compared to $109 million in fiscal year 2004. The decrease in investment income was primarily attributable to more modest returns on the Authority's securities, as compared to those experienced in fiscal year 2004. Tuition benefit expense was $21.6 million in fiscal year 2005, as compared to $111 million in fiscal year 2004. The decrease in the tuition benefits expense was a result of more modest growth in tuition increases during fiscal year 2005 and the slower estimated increase in the projected future tuition growth due to the suspension of sales in the Guaranteed Savings Program. While the reduction in the benefits claims expenses contributed to the reduction in the Authority's deficit for fiscal year 2005, charges for sales and services decreased by $32.1 million or 81.5 percent. This reduction is due to the complete suspension of tuition unit sales in the Guaranteed Savings Program during fiscal year 2005 compared to tuition unit sales occurring over a six-month period in fiscal year 2004.

The *Liquor Control* Fund reported a net gain of $431 thousand after transferring $120 million to the General Fund and $34.6 million to other governmental funds.

In fiscal year 2005, transfers from proprietary funds to governmental funds totaled $867.5 million, up $37.2 million or 4.5 percent when compared to the $830.3 million in transfers-out reported in fiscal year 2004.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2005 and June 30, 2004, the State had invested $23.63 billion and $23.2 billion (as restated), net of accumulated depreciation of $2.13 billion and $2.02 billion (as restated), respectively, in a broad range of capital assets, as detailed in the table below.

Capital Assets, Net of Accumulated Depreciation
As of June 30, 2005
With Comparatives as of June 30, 2004
(dollars in thousands)

	As of June 30, 2005			As of June 30, 2004 (as restated)		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Land	$ 1,635,516	$ 11,994	$ 1,647,510	$ 1,594,965	$ 12,631	$ 1,607,596
Buildings	1,988,843	113,831	2,102,674	2,032,556	133,763	2,166,319
Land Improvements	170,386	16	170,402	145,303	17	145,320
Machinery and Equipment	171,234	27,332	198,566	159,160	34,928	194,088
Vehicles	130,050	1,931	131,981	126,615	2,462	129,077
Infrastructure:						
Highway Network:						
General Subsystem	8,340,132	—	8,340,132	8,232,748	—	8,232,748
Priority Subsystem	6,831,667	—	6,831,667	6,707,733	—	6,707,733
Bridge Network	2,333,692	—	2,333,692	2,287,175	—	2,287,175
Parks, Recreation, and Natural Resources System	31,329	—	31,329	23,402	—	23,402
	21,632,849	155,104	21,787,953	21,309,657	183,801	21,493,458
Construction-in-Progress	1,839,008	71	1,839,079	1,710,488	—	1,710,488
Total Capital Assets, Net	$23,471,857	$155,175	$23,627,032	$23,020,145	$183,801	$23,203,946

During fiscal year 2005, the State recognized $212.7 million in annual depreciation expense relative to its general governmental capital assets as compared with $209 million in depreciation expense recognized in fiscal year 2004 (as restated).

Additionally, the State completed construction on a variety of projects at various state facilities during fiscal year 2005 totaling approximately $388.4 million, as compared with $615.6 million in the previous fiscal year. The total increase in the State's capital assets, net of accumulated depreciation, for the current fiscal year was 1.8 percent (about a two percent increase for governmental activities and a 15.6 percent decrease for business-type activities). As is further detailed in NOTE 19C. of the notes to the financial statements, the State had $159.2 million in major construction commitments (unrelated to infrastructure), as of June 30, 2005, as compared with the $226.2 million balance reported for June 30, 2004.

Modified Approach

For reporting its highway and bridge infrastructure assets, the State has adopted the use of the modified approach. The modified approach allows a government *not to report depreciation expense* for eligible infrastructure assets if the government manages the eligible infrastructure assets using an asset management system that possesses certain characteristics and the government can document that the eligible infrastructure assets are being preserved approximately at (or above) a condition level it sets (and discloses). Under the modified approach, the State is required to expense all spending (i.e., preservation and maintenance costs) on infrastructure assets except for additions and improvements. Infrastructure assets accounted for using the modified approach include approximately 42,562 in lane miles of highway (12,355 in lane miles for the priority highway subsystem and 30,207 in lane miles for the general highway subsystem) and approximately 82.7 million square feet of deck area that comprises more than 12,500 bridges for which the State has the responsibility for ongoing maintenance.

Ohio accounts for its pavement network in two subsystems: *Priority*, which comprises interstate highways, freeways, and multi-lane portions of the National Highway System, and *General*, which comprises two-lane routes outside of cities. It is the State's goal to allow no more than 25 percent of the total lane-miles reported for each of the priority and general subsystems, respectively, to be classified with a "poor" condition rating. The most recent condition assessment, completed by the Ohio Department of Transportation for calendar year 2004, indicates that only 4.5 percent and 2.2 percent of the priority and general subsystems, respectively, were assigned a "poor" condition rating. For calendar year 2003, only 3.9 percent and 1.1 percent of the priority and general subsystems, respectively, were assigned a “poor” condition rating.

For the bridge network, it is the State’s intention to allow no more than 15 percent of the total number of square feet of deck area to be in “fair” or “poor” condition. The most recent condition assessment, completed by the Ohio Department of Transportation for calendar year 2004, indicates that only 2.8 percent and .02 percent of the number of square feet of bridge deck area were considered to be in “fair” and “poor” conditions, respectively. For calendar year 2003, only 2.7 percent and .02 percent of the number of square feet of bridge deck area were considered to be in “fair” and “poor” conditions, respectively.

For fiscal year 2005, total actual maintenance and preservation costs for the priority and general subsystems were $341 million and $301.6 million, respectively, compared to estimated costs of $327.6 million for the priority system and $206.9 million for the general system, while total actual maintenance and preservation costs for the bridge network was $231.9 million compared to estimated costs of $241.7 million. For the previous fiscal year, total actual maintenance and preservation costs for the priority and general subsystems were $273.3 million and $227.4 million respectively, compared to estimated costs of $195.3 million for the priority system and $133.2 million for the general system, while total actual maintenance and preservation costs for the bridge network was $208.4 million compared to estimated costs of $147.8 million.

More detailed information on the State’s capital assets can be found in NOTE 8 to the financial statements and in the Required Supplementary Information section of the report.

Debt — Bonds and Notes Payable and Certificates of Participation Obligations

As of June 30, 2005 and June 30, 2004, the State had total debt of approximately $10.57 billion and $10.11 billion, respectively, as shown in the table below.

Bonds and Notes Payable and Certificates of Participation
As of June 30, 2005
With Comparatives as of June 30, 2004
(dollars in thousands)

	As of June 30, 2005			As of June 30, 2004 (as restated)		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Bonds and Notes Payable:						
General Obligation Bonds	$ 6,039,203	$ —	$ 6,039,203	$5,420,711	$ —	$ 5,420,711
Revenue Bonds and Notes	591,888	151,063	742,951	607,958	158,578	766,536
Special Obligation Bonds	3,699,936	—	3,699,936	3,914,168	—	3,914,168
Certificates of Participation	92,142	—	92,142	6,480	—	6,480
Total Debt	$10,423,169	$151,063	$10,574,232	$9,949,317	$158,578	$10,107,895

The State’s general obligation bonds are backed by its full faith and credit. Revenue bonds issued by the State, including the Ohio Building Authority (OBA), a blended component unit of the State, are secured with revenues pledged for the retirement of debt principal and the payment of interest. Special obligation bonds issued by the State and the OBA are supported with lease payments from tenants of facilities constructed with the proceeds from the bond issuances. Under certificate of participation (COPs) financing arrangements, the State is required to make rental payments (subject to appropriations) that approximate interest and principal payments made by trustees to certificate holders.

During fiscal year 2005, the State issued at par $1.09 billion in general obligation bonds, $50 million in revenue bonds, and $834.1 million in special obligation bonds. Of the general obligation bonds and special obligation bonds issued at par, $105.8 million and $601 million, respectively, were refunding bonds. The total increase in the State’s debt obligations for the current fiscal year, as based on carrying amount, was 4.6 percent (a 4.8 percent increase for governmental activities and a 4.7 percent decrease for business-type activities).

Credit Ratings

Ohio’s credit ratings for general obligation debt are Aa1 by Moody’s Investors Service, Inc. (Moody’s) and AA+ by Fitch Inc. (Fitch). Standard & Poor’s Ratings Services (S&P) rates the State’s general obligation debt as AA+, except for Highway Capital Improvement Obligations, which are rated AAA.

For special obligation bonds, which the Ohio Building Authority and the Treasurer of State issue and General Revenue Fund appropriations secure, Moody's rating is Aa2 while S&P and Fitch rate these bonds AA.

The State's revenue bonds are rated as follows:

Revenue Bonds	Fitch	Moody's	S&P	Source of State Payment
Governmental Activities:				
Treasurer of State:				
Economic Development	A+	Aa3	AA-	Net Liquor Profits
State Infrastructure Bank	AA-	Aa2	AA	Federal Transportation Grants
Revitalization Projects	A+	A1	A+	Net Liquor Profits
Business-Type Activities:				
Bureau of Workers' Compensation	AA	Aa3	AA	Workers' Compensation Enterprise Fund
Ohio Building Authority	AA	Aa2	AA	Lease-Rental Receipts

Limitations on Debt

Section 17 of Article VIII of the Ohio Constitution, approved by Ohio voters in November 1999, establishes an annual debt service "cap" applicable to future issuances of direct obligations payable from the General Revenue Fund (GRF) or net state lottery proceeds. Generally, new obligations may not be issued if debt service for any future fiscal year on those new and the then outstanding bonds of those categories would exceed five percent of the total of estimated GRF revenues plus net state lottery proceeds for the fiscal year of issuance.

Those direct obligations of the State include general obligation and special obligation bonds that are paid from the State's GRF, but exclude general obligation bonds payable from non-GRF funds (such as highway bonds that are paid from highway user receipts). Pursuant to the implementing legislation, the Governor has designated the Director of the Ohio Office of Budget and Management as the state official responsible for making the five-percent determinations and certifications. Application of the five-percent cap may be waived in a particular instance by a three-fifths vote of each house of the Ohio General Assembly, and that cap does not apply to bonds issued to retire bond anticipation notes for which the requirements were met as to the bonds anticipated at the time of note issuance, or to debt issued to defend the State in time of war.

More detailed information on the State's long-term debt, including changes during the year, can be found in NOTES 10 through 13 and NOTE 15 of the financial statements.

Conditions Expected to Affect Future Operations

Economic Factors

Several economic measures weakened in February 2006, as the mild January was followed by more seasonable weather, but the larger picture was one of sustained momentum. The consensus for first-quarter economic growth is approximately 4.5 percent, led by a strong rebound in personal consumption expenditures, business fixed investment, and government purchases. U.S. employment growth remained steady in March, with payrolls rising by more than 200,000 jobs for the second month in a row. Labor markets have remained weaker in the Midwest, where Ohio employment declined for the third consecutive month. Housing activity continued to slow from a very fast pace, and is expected to subtract from overall growth this year.

Ohio personal income increased 5.8 percent annualized in the fourth quarter of 2005, compared with a 9.4 percent increase for the nation. The U.S. figure includes the regional third quarter bounce-back from the hurricanes. Ohio personal income increased 4.4 percent for the year, ranking 44th among the states. On a per capita basis, Ohio personal income increased 4.2 percent, ranking 37th. Income growth in all states in the Great Lakes region ranked low nationally. U.S. personal income increased 5.5 percent for the entire year. Higher population gains account for the growth differential between the U.S. and the Great Lakes Region. The spread between growth in Ohio personal income and U.S. personal income narrowed somewhat last year, as growth in U.S. personal income slowed modestly while growth in Ohio personal income edged higher.

Ohio employment fell for the third consecutive month in February 2006 by 2,000 jobs. Employment has declined by 15,000 jobs since November 2005. Two-thirds of the decline during the three months occurred in Manufacturing and in Professional and Business Services. Employment fell during the three months in all major categories except Financial Activities, which added 3,700 jobs across Ohio.

General Revenue Fund

The Ohio Constitution prohibits the State from borrowing money to fund operating expenditures in the General Revenue Fund (GRF). Therefore, by law, the GRF's budget must be balanced so that appropriations do not exceed available cash receipts and cash balances for the current fiscal year.

Through March 2006, year-to-date budgetary revenues for the GRF were over estimate for fiscal year 2006 by $152.5 million, or .8 percent because tax sources for the GRF were $204.3 million, or 1.5 percent, above estimate. In comparison with the same point in time in fiscal year 2005, total GRF receipts for fiscal year 2006 have grown $666 million, or 3.8 percent, and GRF tax sources have grown $519.9 million, or 3.9 percent. Growth rates were affected the most by the rate increase in the cigarette tax, the new commercial activity tax and by the rate cuts in the sales, personal income, and corporate franchise taxes. Also, through the third quarter of fiscal year 2006, year-to-date expenditures for the GRF were $426.4 million, or 2.1 percent, under estimate.

Consistent with State law, the Governor's Executive Budget for the 2006-07 biennium was released in February 2005 and introduced in the General Assembly. After extended hearings and review, the GRF appropriations Act for the 2006-07 biennium was passed by the General Assembly and signed (with selective vetoes) by the Governor on June 30, 2005. That Act provides for total GRF biennial revenue of approximately $51.5 billion (a 3.8 percent increase over the 2004-05 biennial revenue) and total GRF biennial appropriations of approximately $51.3 billion (a five percent increase over the 2004-05 biennial expenditures). Spending increases for major program categories over the 2004-05 actual expenditures are: 5.8 percent for Medicaid (the Act also included a number of Medicaid reform and cost-containment initiatives); 3.4 percent for higher education; 4.2 percent for elementary and secondary education; 5.5 percent for corrections and youth services; and 4.8 percent for mental health and mental retardation. The Executive Budget, the GRF appropriations Act, and the separate appropriations acts for the biennium included all necessary debt service and lease rental payments related to State obligations.

The GRF expenditure authorizations for the 2006-07 biennium reflect and are supported by a significant restructuring of major state taxes, including:

- A 21-percent reduction in state personal income tax rates phased in at 4.2 percent a year over the 2005 through 2009 tax years.
- Phased elimination of the state corporate franchise tax at a rate of approximately 20 percent a year over the 2006 through 2010 tax years (except for its continuing application to financial institutions and certain affiliates of insurance companies and financial institutions).
- Implementation of a new commercial activity tax (CAT) on gross receipts from doing business in Ohio that will be phased in over the 2005 through 2009 tax years. When fully phased-in, the CAT will be levied at a rate of 0.26 percent on gross receipts in excess of $1 million.
- A 5.5-percent state sales and use tax (decreased from the six-percent rate for the 2004-05 biennium).
- An increase in the cigarette tax rate from 55 cents a pack (of 20 cigarettes) to $1.25 a pack.

Contacting the Ohio Office of Budget and Management

This financial report is designed to provide the State's citizens, taxpayers, customers, and investors and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. Questions regarding any of the information provided in this report or requests for additional financial information should be addressed to the Ohio Office of Budget and Management, Financial Reporting Section, 30 East Broad Street, 34th Floor, Columbus, Ohio 43215-3457 or by e-mail at obm@obm.state.oh.us.

BASIC FINANCIAL STATEMENTS

STATE OF OHIO
STATEMENT OF NET ASSETS
JUNE 30, 2005
(dollars in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS:				
Cash Equity with Treasurer	$ 5,902,053	$ 80,271	$ 5,982,324	$ 415,057
Cash and Cash Equivalents	94,269	1,297,468	1,391,737	690,134
Investments	934,536	15,561,651	16,496,187	5,428,701
Collateral on Lent Securities	3,514,417	1,767,597	5,282,014	237,116
Deposit with Federal Government	—	612,728	612,728	—
Taxes Receivable	1,156,822	—	1,156,822	—
Intergovernmental Receivable	1,589,274	3,345	1,592,619	41,454
Premiums and				
Assessments Receivable	—	1,573,029	1,573,029	—
Investment Trade Receivable	—	770,993	770,993	—
Loans Receivable, Net	933,143	—	933,143	250,344
Receivable from Primary Government	—	—	—	47,204
Other Receivables	649,453	311,997	961,450	876,229
Inventories	42,251	35,071	77,322	52,520
Other Assets	74,021	13,953	87,974	429,651
Restricted Assets:				
Cash Equity with Treasurer	—	62,752	62,752	—
Cash and Cash Equivalents	—	1,675	1,675	549,786
Investments	—	1,695,507	1,695,507	1,621,779
Collateral on Lent Securities	—	439,250	439,250	—
Loans Receivable, Net	—	—	—	2,909,515
Other Receivables	—	2,775	2,775	—
Capital Assets Being Depreciated, Net	2,431,777	143,110	2,574,887	6,489,574
Capital Assets Not Being Depreciated	21,040,080	12,065	21,052,145	1,366,636
TOTAL ASSETS	**38,362,096**	**24,385,237**	**62,747,333**	**21,405,700**
LIABILITIES:				
Accounts Payable	703,215	50,836	754,051	367,833
Accrued Liabilities	294,720	4,577	299,297	473,201
Medicaid Claims Payable	953,273	—	953,273	—
Obligations Under Securities Lending	3,514,417	2,206,847	5,721,264	237,116
Investment Trade Payable	—	1,933,453	1,933,453	—
Intergovernmental Payable	1,262,910	461	1,263,371	540
Internal Balances	792,474	(792,474)	—	—
Payable to Component Units	47,204	—	47,204	—
Unearned Revenue	429,935	1,720	431,655	190,330
Benefits Payable	—	755	755	—
Refund and Other Liabilities	861,106	104,566	965,672	105,740
Noncurrent Liabilities:				
Bonds and Notes Payable:				
Due in One Year	944,405	15,237	959,642	699,178
Due in More Than One Year	9,386,622	135,826	9,522,448	4,689,841
Certificates of Participation:				
Due in One Year	1,005	—	1,005	525
Due in More Than One Year	91,137	—	91,137	27,925
Other Noncurrent Liabilities:				
Due in One Year	112,656	2,459,736	2,572,392	1,005,199
Due in More Than One Year	497,556	16,903,548	17,401,104	2,142,484
TOTAL LIABILITIES	**19,892,635**	**23,025,088**	**42,917,723**	**9,939,912**

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

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
NET ASSETS:				
Invested in Capital Assets,				
Net of Related Debt..................................	20,454,447	(1,839)	20,452,608	4,998,649
Restricted for:				
Primary, Secondary and Other Education	8,200	—	8,200	—
Transportation and Highway Safety..........	744,913	—	744,913	—
State and Local				
Highway Construction...........................	129,299	—	129,299	—
Federal Programs....................................	38,656	—	38,656	19
Coal Research				
and Development Program...................	—	—	—	13,079
Clean Ohio Program.................................	41,673	—	41,673	—
Debt Service...	—	—	—	2,124,820
Community and Economic Development				
and Capital Purposes............................	935,842	—	935,842	—
Enterprise Bond Program..........................	10,000	—	10,000	—
Workers' Compensation............................	—	734,845	734,845	—
Deferred Lottery Prizes............................	—	102,614	102,614	—
Unemployment Compensation.................	—	663,921	663,921	—
Ohio Building Authority.............................	—	26,996	26,996	—
Nonexpendable for				
Colleges and Universities.....................	—	—	—	2,754,932
Expendable for				
Colleges and Universities.....................	—	—	—	1,647,530
Unrestricted (Deficits)...................................	(3,893,569)	(166,388)	(4,059,957)	(73,241)
TOTAL NET ASSETS...............................	**$ 18,469,461**	**$ 1,360,149**	**$ 19,829,610**	**$ 11,465,788**

STATE OF OHIO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(dollars in thousands)

		PROGRAM REVENUES			
FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES, FEES, FINES AND FORFEITURES	OPERATING GRANTS, CONTRIBUTIONS AND RESTRICTED INVESTMENT INCOME/(LOSS)	CAPITAL GRANTS, CONTRIBUTIONS AND RESTRICTED INVESTMENT INCOME/(LOSS)	NET (EXPENSE) REVENUE
PRIMARY GOVERNMENT:					
GOVERNMENTAL ACTIVITIES:					
Primary, Secondary and Other Education	$ 10,500,951	$ 35,475	$ 1,597,393	$ —	$ (8,868,083)
Higher Education Support	2,477,856	4,174	12,716	—	(2,460,966)
Public Assistance and Medicaid	14,245,026	613,227	9,261,947	—	(4,369,852)
Health and Human Services	3,336,010	144,589	1,967,928	440	(1,223,053)
Justice and Public Protection	2,973,118	850,032	309,988	854	(1,812,244)
Environmental Protection and Natural Resources	397,924	178,226	80,127	604	(138,967)
Transportation	1,900,507	9,779	66,405	1,084,981	(739,342)
General Government	670,317	405,805	115,740	1,267	(147,505)
Community and Economic Development	3,444,746	313,724	362,358	—	(2,768,664)
Interest on Long-Term Debt (excludes interest charged as program expense)	175,700	—	—	—	(175,700)
TOTAL GOVERNMENTAL ACTIVITIES	**40,122,155**	**2,555,031**	**13,774,602**	**1,088,146**	**(22,704,376)**
BUSINESS-TYPE ACTIVITIES:					
Workers' Compensation	3,263,118	2,138,490	988,440	—	(136,188)
Lottery Commission	1,581,100	2,164,857	90,493	—	674,250
Unemployment Compensation	1,194,040	49,942	1,028,500	—	(115,598)
Ohio Building Authority	27,327	26,853	404	—	(70)
Tuition Trust Authority	30,214	7,311	—	—	(22,903)
Liquor Control	401,187	556,213	—	—	155,026
Underground Parking Garage	2,692	2,638	37	—	(17)
Office of Auditor of State	73,501	40,612	79	—	(32,810)
TOTAL BUSINESS-TYPE ACTIVITIES	**6,573,179**	**4,986,916**	**2,107,953**	**—**	**521,690**
TOTAL PRIMARY GOVERNMENT	**$ 46,695,334**	**$ 7,541,947**	**$ 15,882,555**	**$ 1,088,146**	**$ (22,182,686)**
COMPONENT UNITS:					
School Facilities Commission	$ 875,526	$ 1,167	$ 6,150	$ —	$ (868,209)
Ohio Water Development Authority	118,157	129,865	141,288	—	152,996
Ohio State University	3,049,675	2,049,465	600,152	16,638	(383,420)
University of Cincinnati	901,203	352,666	360,632	12,026	(175,879)
Other Component Units	3,980,487	2,407,238	562,991	44,239	(966,019)
TOTAL COMPONENT UNITS	**$ 8,925,048**	**$ 4,940,401**	**$ 1,671,213**	**$ 72,903**	**$ (2,240,531)**

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

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
CHANGES IN NET ASSETS:				
Net (Expense) Revenue...........................	$ (22,704,376)	$ 521,690	$ (22,182,686)	$ (2,240,531)
General Revenues:				
Taxes:				
Income...	9,450,119	—	9,450,119	—
Sales..	8,135,552	—	8,135,552	—
Corporate and Public Utility	1,838,882	—	1,838,882	—
Cigarette...	577,699	—	577,699	—
Other..	651,646	—	651,646	—
Restricted for Transportation Purposes:				
Motor Vehicle Fuel Taxes....................	1,753,390	—	1,753,390	—
Total Taxes...................................	22,407,288	—	22,407,288	—
Tobacco Settlement.................................	321,335	—	321,335	—
Escheat Property.....................................	91,867	—	91,867	—
Unrestricted Investment Income...............	46,797	70,609	117,406	270,108
State Assistance	—	—	—	2,462,824
Other..	287	5,837	6,124	41,664
Contributions...	—	—	—	91,620
Special Items..	—	—	—	(1,357)
Transfers-Internal Activities.....................	807,653	(807,653)	—	—
TOTAL GENERAL REVENUES, CONTRIBUTIONS, AND TRANSFERS...	**23,675,227**	**(731,207)**	**22,944,020**	**2,864,859**
CHANGE IN NET ASSETS..................	**970,851**	**(209,517)**	**761,334**	**624,328**
NET ASSETS, JULY 1 (as restated)..	17,498,610	1,569,666	19,068,276	10,841,460
NET ASSETS, JUNE 30.......................	**$ 18,469,461**	**$ 1,360,149**	**$ 19,829,610**	**$ 11,465,788**

STATE OF OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005
(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	JOB, FAMILY AND OTHER HUMAN SERVICES	EDUCATION
ASSETS:			
Cash Equity with Treasurer	$ 2,033,345	$ 223,436	$ 84,025
Cash and Cash Equivalents	12,139	1,906	555
Investments	346,784	8,898	2,359
Collateral on Lent Securities	1,215,908	132,810	49,919
Taxes Receivable	868,701	—	—
Intergovernmental Receivable	579,220	503,846	106,542
Loans Receivable, Net	39,233	—	8,653
Interfund Receivable	256,651	3	—
Other Receivables	417,180	38,417	302
Inventories	18,617	—	—
Other Assets	10,726	1,357	5,530
TOTAL ASSETS	**$ 5,798,504**	**$ 910,673**	**$ 257,885**
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts Payable	$ 181,783	$ 53,878	$ 9,238
Accrued Liabilities	106,619	13,560	1,492
Medicaid Claims Payable	953,273	—	—
Obligations Under Securities Lending	1,215,908	132,810	49,919
Intergovernmental Payable	333,207	264,685	70,371
Interfund Payable	571,330	16,435	2,121
Payable to Component Units	15,160	431	268
Deferred Revenue	292,131	298,536	8,448
Unearned Revenue	153	234,472	49,191
Refund and Other Liabilities	773,305	10,374	—
Liability for Escheat Property	9,863	—	—
TOTAL LIABILITIES	4,452,732	1,025,181	191,048
FUND BALANCES:			
Reserved for:			
Debt Service	—	—	—
Encumbrances	277,521	2,011,363	21,396
Noncurrent Portion of Loans Receivable	36,200	—	8,369
Noncurrent Portion of Interfund Receivable	251,653	—	—
Loan Commitments	—	—	—
Inventories	18,617	—	—
State and Local Highway Construction	—	—	—
Federal Programs	—	303	8,040
Other	43,404	4,982	450
Unreserved/Designated	718,377	—	—
Unreserved/Undesignated (Deficits):			
Special Revenue Funds	—	(2,131,156)	28,582
Capital Projects Funds	—	—	—
TOTAL FUND BALANCES (DEFICITS)	1,345,772	(114,508)	66,837
TOTAL LIABILITIES AND FUND BALANCES	**$ 5,798,504**	**$ 910,673**	**$ 257,885**

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

HIGHWAY OPERATING	REVENUE DISTRIBUTION	NONMAJOR GOVERNMENTAL FUNDS	TOTAL
$ 617,663	$ 354,800	$ 2,588,784	$ 5,902,053
1,236	13,179	65,254	94,269
—	—	576,495	934,536
366,484	210,524	1,538,772	3,514,417
59,765	223,396	4,960	1,156,822
112,084	—	287,582	1,589,274
71,369	—	813,888	933,143
1	—	3,364	260,019
1,600	—	191,954	649,453
23,634	—	—	42,251
2,294	—	6,341	26,248
$ 1,256,130	**$ 801,899**	**$ 6,077,394**	**$ 15,102,485**
$ 166,723	$ —	$ 291,593	$ 703,215
20,550	—	39,370	181,591
—	—	—	953,273
366,484	210,524	1,538,772	3,514,417
795	376,430	217,422	1,262,910
95,309	396	366,902	1,052,493
406	—	30,939	47,204
10,574	21,658	227,671	859,018
3,129	7,939	135,051	429,935
—	70,389	3,898	857,966
—	—	—	9,863
663,970	687,336	2,851,618	9,871,885
—	—	61,298	61,298
1,542,872	—	1,359,136	5,212,288
70,462	—	797,448	912,479
—	—	—	251,653
—	—	105,069	105,069
23,634	—	—	42,251
—	129,299	—	129,299
—	—	15,245	23,588
7,419	—	27,739	83,994
—	—	—	718,377
(1,052,227)	(14,736)	826,702	(2,342,835)
—	—	33,139	33,139
592,160	114,563	3,225,776	5,230,600
$ 1,256,130	**$ 801,899**	**$ 6,077,394**	**$ 15,102,485**

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STATE OF OHIO
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005
(dollars in thousands)

Total Fund Balances for Governmental Funds	**$ 5,230,600**
Total net assets reported for governmental activities in the Statement of Net Assets is different because:	
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds. Those assets consist of:	
Infrastructure, net of $2,003 accumulated depreciation	*17,536,820*
Land	*1,635,516*
Buildings and Improvements, net of $1,299,226 accumulated depreciation	*1,988,843*
Land Improvements, net of $137,080 accumulated depreciation	*170,386*
Machinery and Equipment, net of $352,199 accumulated depreciation	*171,234*
Vehicles, net of $113,613 accumulated depreciation	*130,050*
Construction-in-Progress	*1,839,008*
	23,471,857
Some of the State's revenues are collected after year-end but are not available soon enough to pay for the current period's (within 60 days of year-end) expenditures, and therefore, are deferred in the funds.	
Taxes Receivable	*206,270*
Intergovernmental Receivable	*462,162*
Other Receivables	*182,704*
Other Assets	*7,882*
	859,018
Unamortized bond issue costs are not financial resources, and therefore, are not reported in the funds.	*47,773*
The following liabilities are not due and payable in the current period, and therefore, are not reported in the funds.	
Accrued Liabilities:	
Interest Payable	*(113,129)*
Refund and Other Liabilities	*(3,140)*
Bonds and Notes Payable:	
General Obligation Bonds	*(6,039,203)*
Revenue Bonds	*(591,888)*
Special Obligation Bonds	*(3,699,936)*
Certificates of Participation	*(92,142)*
Other Noncurrent Liabilities:	
Compensated Absences	*(397,617)*
Capital Leases Payable	*(2,471)*
Estimated Claims Payable	*(6,623)*
Liability for Escheat Property	*(193,638)*
	(11,139,787)
Total Net Assets of Governmental Activities	**$ 18,469,461**

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

STATE OF OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	JOB, FAMILY AND OTHER HUMAN SERVICES	EDUCATION
REVENUES:			
Income Taxes	$ 8,563,376	$ —	$ —
Sales Taxes	7,816,395	—	—
Corporate and Public Utility Taxes	1,468,576	—	—
Motor Vehicle Fuel Taxes	—	—	—
Cigarette Taxes	577,671	—	—
Other Taxes	591,998	4,029	—
Licenses, Permits and Fees	148,877	415,273	901
Sales, Services and Charges	41,911	—	274
Federal Government	5,724,597	4,091,566	1,547,006
Tobacco Settlement	—	—	—
Escheat Property	118,719	—	—
Investment Income	140,891	10,739	2,385
Other	259,617	116,070	20,903
TOTAL REVENUES	25,452,628	4,637,677	1,571,469
EXPENDITURES:			
CURRENT OPERATING:			
Primary, Secondary and Other Education	7,946,313	43,396	2,138,117
Higher Education Support	2,101,582	451	19,107
Public Assistance and Medicaid	10,164,502	4,073,566	—
Health and Human Services	1,154,597	507,000	938
Justice and Public Protection	1,878,139	27,634	19,604
Environmental Protection and Natural Resources	110,631	—	—
Transportation	30,702	—	—
General Government	417,719	2,711	—
Community and Economic Development	637,389	593	—
CAPITAL OUTLAY	—	569	—
DEBT SERVICE	543	—	—
TOTAL EXPENDITURES	24,442,117	4,655,920	2,177,766
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,010,511	(18,243)	(606,297)
OTHER FINANCING SOURCES (USES):			
Bonds and Certificates of Participation Issued	419,349	—	—
Refunding Bonds Issued	—	—	—
Payment to Refunded Bond Escrow Agents	—	—	—
Premiums	26	—	—
Discounts	—	—	—
Capital Leases	122	—	—
Transfers-in	366,376	135,479	656,714
Transfers-out	(1,216,051)	(103,450)	(31,886)
TOTAL OTHER FINANCING SOURCES (USES)	(430,178)	32,029	624,828
NET CHANGE IN FUND BALANCES	580,333	13,786	18,531
FUND BALANCES (DEFICITS), JULY 1 (as restated)	766,571	(128,294)	48,306
Increase (Decrease) for Changes in Inventories	(1,132)	—	—
FUND BALANCES (DEFICITS), JUNE 30	$ 1,345,772	$ (114,508)	$ 66,837

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

HIGHWAY OPERATING	REVENUE DISTRIBUTION	NONMAJOR GOVERNMENTAL FUNDS	TOTAL
$ —	$ 829,300	$ 6,303	$ 9,398,979
—	301,264	17,893	8,135,552
—	357,765	12,542	1,838,883
594,817	1,135,887	22,685	1,753,389
—	—	27	577,698
—	13,623	41,997	651,647
70,303	332,900	883,485	1,851,739
2,634	—	39,027	83,846
1,122,072	—	2,155,476	14,640,717
—	—	321,050	321,050
—	—	—	118,719
12,358	975	60,838	228,186
2,948	89	241,047	640,674
1,805,132	**2,971,803**	**3,802,370**	**40,241,079**
—	116,063	134,003	10,377,892
—	—	250,714	2,371,854
—	—	299	14,238,367
—	3,666	1,612,401	3,278,602
—	294,100	684,036	2,903,513
—	—	268,714	379,345
2,047,852	—	364	2,078,918
—	—	164,902	585,332
—	1,830,890	893,707	3,362,579
—	—	466,344	466,913
—	—	1,415,687	1,416,230
2,047,852	**2,244,719**	**5,891,171**	**41,459,545**
(242,720)	**727,084**	**(2,088,801)**	**(1,218,466)**
—	—	927,936	1,347,285
—	—	706,835	706,835
—	—	(768,952)	(768,952)
—	—	142,900	142,926
—	—	(94)	(94)
213	—	—	335
519,319	100,318	1,545,044	3,323,250
(285,104)	(831,643)	(47,463)	(2,515,597)
234,428	**(731,325)**	**2,506,206**	**2,235,988**
(8,292)	**(4,241)**	**417,405**	**1,017,522**
600,221	118,804	2,808,572	4,214,180
231	—	(201)	(1,102)
$ 592,160	**$ 114,563**	**$ 3,225,776**	**$ 5,230,600**

STATE OF OHIO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(dollars in thousands)

Net Change in Fund Balances -- Total Governmental Funds............................		***$ 1,017,522***
Change in Inventories..		*(1,102)*
		1,016,420
The change in net assets reported for governmental activities in the Statement of Activities is different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital Outlay Expenditures...	*664,374*	
Depreciation Expense...	*(212,662)*	
Excess of Capital Outlay Over Depreciation Expense...................................		*451,712*
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. In the current period, proceeds were received from:		
General Obligation Bonds...	*(985,000)*	
Revenue Bonds...	*(50,000)*	
Special Obligation Bonds...	*(233,100)*	
Refunding Bonds, including Bond Premium/Discount, Net...............................	*(775,318)*	
Certificates of Participation..	*(79,185)*	
Premiums and Discounts, Net:		
General Obligation Bonds..	*(51,651)*	
Revenue Bonds...	*(784)*	
Special Obligation Bonds...	*(14,493)*	
Certificates of Participation..	*(7,422)*	
Deferred Refunding Loss..	*55,024*	
Capital Leases..	*(334)*	
Total Debt Proceeds..		*(2,142,263)*
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 Assets. In the current year, these amounts consist of:		
Debt Principal Retirement and Defeasements:		
General Obligation Bonds..	*523,016*	
Revenue Bonds...	*62,175*	
Special Obligation Bonds...	*1,069,239*	
Certificates of Participation..	*945*	
Capital Lease Payments...	*1,323*	
Total Long-Term Debt Repayment...		*1,656,698*
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the governmental funds. Deferred revenues increased by this amount this year.		*11,740*

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

Some expenses reported in the Statement of Activities are not reported as expenditures in the governmental funds. Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the changes in the following balances:

Increase in Bond Issue Costs Included in Other Assets	*12,282*	
Increase in Accrued Interest and Other Accrued Liabilities	*(8,538)*	
Amortization of Bond Premiums/Accretion of Bond Discount, Net	*35,988*	
Amortization of Deferred Refunding Loss	*(23,286)*	
Increase in Compensated Absences	*(15,409)*	
Decrease in Refund and Other Liabilities	*2,430*	
Increase in Estimated Claims Payable	*(71)*	
Increase in Liability for Escheat Property	*(26,852)*	
Total additional expenditures		*(23,456)*
Change in Net Assets of Governmental Activities		***$ 970,851***

STATE OF OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -- BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(dollars in thousands)

	GENERAL			
	BUDGET			VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES:				
Income Taxes	$ 8,103,200	$ 8,103,200	$ 8,598,865	$ 495,665
Sales Taxes	7,865,700	7,865,700	7,827,130	(38,570)
Corporate and Public Utility Taxes	1,347,700	1,347,700	1,495,539	147,839
Motor Vehicle Fuel Taxes	—	—	—	—
Cigarette Taxes	551,000	551,000	577,671	26,671
Other Taxes	597,053	597,053	590,849	(6,204)
Licenses, Permits and Fees	157,335	157,335	165,541	8,206
Sales, Services and Charges	47,984	47,984	48,512	528
Federal Government	5,843,287	5,843,287	5,716,295	(126,992)
Investment Income	25,942	25,942	36,928	10,986
Other	1,443,752	1,443,752	1,454,702	10,950
TOTAL REVENUES	**25,982,953**	**25,982,953**	**26,512,032**	**529,079**
BUDGETARY EXPENDITURES:				
CURRENT OPERATING:				
Primary, Secondary and Other Education	7,518,627	7,669,530	7,648,388	21,142
Higher Education Support	2,148,977	2,154,333	2,151,290	3,043
Public Assistance and Medicaid	10,966,263	11,201,710	11,111,586	90,124
Health and Human Services	1,359,215	1,343,822	1,321,884	21,938
Justice and Public Protection	2,088,364	2,081,112	2,044,268	36,844
Environmental Protection and Natural Resources	155,327	152,842	146,048	6,794
Transportation	51,898	50,434	50,282	152
General Government	690,007	737,165	642,603	94,562
Community and Economic Development	709,881	743,912	729,599	14,313
CAPITAL OUTLAY	—	—	—	—
DEBT SERVICE	1,131,635	1,131,587	1,033,059	98,528
TOTAL BUDGETARY EXPENDITURES	**26,820,194**	**27,266,447**	**26,879,007**	**387,440**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES	**(837,241)**	**(1,283,494)**	**(366,975)**	**916,519**
OTHER FINANCING SOURCES (USES):				
Transfers-in	592,321	742,321	751,315	8,994
Transfers-out	(564,301)	(564,301)	(583,936)	(19,635)
TOTAL OTHER FINANCING SOURCES (USES)	**28,020**	**178,020**	**167,379**	**(10,641)**
NET CHANGE IN FUND BALANCES	**$ (809,221)**	**$ (1,105,474)**	**(199,596)**	**$ 905,878**
BUDGETARY FUND BALANCES (DEFICITS), JULY 1			934,290	
Outstanding Encumbrances at Beginning of Fiscal Year			496,211	
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30			**$ 1,230,905**	

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

JOB, FAMILY AND OTHER HUMAN SERVICES				***EDUCATION***			
BUDGET			***VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)***	***BUDGET***			***VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)***
ORIGINAL	***FINAL***	***ACTUAL***		***ORIGINAL***	***FINAL***	***ACTUAL***	
		$ —				*$ —*	
		—				*—*	
		—				*—*	
		—				*—*	
		—				*—*	
		4,029				*—*	
		450,549				*901*	
		—				*274*	
		3,189,332				*1,565,394*	
		10,495				*2,249*	
		177,228				*32,005*	
		3,831,633				***1,600,823***	
$ 118,092	*$ 118,262*	*116,558*	*$ 1,704*	*$ 2,190,615*	*$ 2,364,766*	*2,210,971*	*$ 153,795*
1,791	*5,137*	*4,388*	*749*	*25,852*	*32,177*	*15,204*	*16,973*
5,520,340	*5,857,393*	*5,490,262*	*367,131*	*—*	*—*	*—*	*—*
599,696	*606,965*	*578,965*	*28,000*	*383*	*1,743*	*972*	*771*
60,870	*60,870*	*31,466*	*29,404*	*28,346*	*31,673*	*22,684*	*8,989*
—	*—*	*—*	*—*	*—*	*—*	*—*	*—*
—	*—*	*—*	*—*	*—*	*—*	*—*	*—*
2,245	*2,350*	*2,181*	*169*	*—*	*—*	*—*	*—*
1,339	*1,339*	*1,120*	*219*	*—*	*—*	*—*	*—*
17,199	*21,268*	*1,077*	*20,191*	*—*	*—*	*—*	*—*
—	*—*	*—*	*—*	*—*	*—*	*—*	*—*
$ 6,321,572	***$ 6,673,584***	***6,226,017***	***$ 447,567***	***$ 2,245,196***	***$ 2,430,359***	***2,249,831***	***$ 180,528***
		(2,394,384)				***(649,008)***	
		136,293				*662,086*	
		(129,012)				*(16,801)*	
		7,281				***645,285***	
		(2,387,103)				***(3,723)***	
		(1,442,146)				*(4,004)*	
		1,655,834				*60,849*	
		$ (2,173,415)				***$ 53,122***	

(continued)

STATE OF OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -- BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(dollars in thousands)
(continued)

	HIGHWAY OPERATING			
	BUDGET			VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES:				
Income Taxes			$ —	
Sales Taxes			—	
Corporate and Public Utility Taxes			—	
Motor Vehicle Fuel Taxes			589,076	
Cigarette Taxes			—	
Other Taxes			—	
Licenses, Permits and Fees			69,198	
Sales, Services and Charges			2,634	
Federal Government			1,073,936	
Investment Income			11,125	
Other			75,924	
TOTAL REVENUES			**1,821,893**	
BUDGETARY EXPENDITURES:				
CURRENT OPERATING:				
Primary, Secondary and Other Education	$ —	$ —	—	$ —
Higher Education Support	—	—	—	—
Public Assistance and Medicaid	—	—	—	—
Health and Human Services	—	—	—	—
Justice and Public Protection	—	—	—	—
Environmental Protection and Natural Resources	—	—	—	—
Transportation	3,604,512	4,708,622	3,811,919	896,703
General Government	—	—	—	—
Community and Economic Development	—	—	—	—
CAPITAL OUTLAY	—	—	—	—
DEBT SERVICE	92,092	80,674	79,986	688
TOTAL BUDGETARY EXPENDITURES	**$ 3,696,604**	**$ 4,789,296**	**3,891,905**	**$ 897,391**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES			**(2,070,012)**	
OTHER FINANCING SOURCES (USES):				
Transfers-in			518,557	
Transfers-out			(203,680)	
TOTAL OTHER FINANCING SOURCES (USES)			**314,877**	
NET CHANGE IN FUND BALANCES			**(1,755,135)**	
BUDGETARY FUND BALANCES (DEFICITS), JULY 1			(821,578)	
Outstanding Encumbrances at Beginning of Fiscal Year			1,480,923	
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30			**$ (1,095,790)**	

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

REVENUE DISTRIBUTION			
BUDGET			VARIANCE WITH FINAL BUDGET
ORIGINAL	FINAL	ACTUAL	POSITIVE/ (NEGATIVE)
		$ 829,300	
		301,264	
		357,417	
		1,130,850	
		—	
		13,623	
		489,917	
		—	
		—	
		975	
		87	
		3,123,433	
$ 115,912	$ 116,648	116,521	$ 127
—	—	—	—
—	—	—	—
1,850	1,850	1,545	305
546,875	546,875	477,102	69,773
—	—	—	—
—	—	—	—
—	—	—	—
1,718,051	1,884,314	1,817,659	66,655
—	—	—	—
—	—	—	—
$ 2,382,688	**$ 2,549,687**	**2,412,827**	**$ 136,860**
		710,606	
		100,318	
		(807,833)	
		(707,515)	
		3,091	
		347,747	
		—	
		$ 350,838	

STATE OF OHIO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS -- ENTERPRISE
JUNE 30, 2005
(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION (Unaudited)	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer	$ 6,804	$ 48,807	$ —
Cash and Cash Equivalents	1,275,837	11,921	1,912
Investments	—	—	15,500
Collateral on Lent Securities	1,727,955	28,960	404
Restricted Assets:			
Cash Equity with Treasurer	—	62,752	—
Investments	—	82,875	—
Collateral on Lent Securities	—	439,250	—
Other Receivables	—	2,775	—
Deposit with Federal Government	—	—	612,728
Intergovernmental Receivable	—	—	3,315
Premiums and Assessments Receivable	1,049,059	—	12,575
Investment Trade Receivable	770,993	—	—
Interfund Receivable	67,170	—	—
Other Receivables	244,015	34,958	9,791
Inventories	—	—	—
Other Assets	2,142	3,619	7,202
TOTAL CURRENT ASSETS	**5,143,975**	**715,917**	**663,427**
NONCURRENT ASSETS:			
Restricted Assets:			
Cash and Cash Equivalents	1,675	—	—
Investments	—	797,630	—
Investments	15,471,879	—	—
Premiums and Assessments Receivable	501,139	—	10,256
Interfund Receivable	722,380	—	—
Other Receivables	—	—	—
Other Assets	—	—	—
Capital Assets Being Depreciated, Net	116,075	16,335	—
Capital Assets Not Being Depreciated	11,994	—	—
TOTAL NONCURRENT ASSETS	**16,825,142**	**813,965**	**10,256**
TOTAL ASSETS	**21,969,117**	**1,529,882**	**673,683**
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts Payable	10,688	8,388	—
Accrued Liabilities	—	—	—
Obligations Under Securities Lending	1,727,955	468,210	404
Investment Trade Payable	1,933,453	—	—
Intergovermental Payable	—	—	47
Deferred Prize Awards Payable	—	148,402	—
Interfund Payable	—	495	—
Unearned Revenue	17,181	1,710	—
Benefits Payable	1,746,891	—	755
Refund and Other Liabilities	520,727	50,159	8,556
Bonds and Notes Payable	13,190	—	—
TOTAL CURRENT LIABILITIES	**5,970,085**	**677,364**	**9,762**
NONCURRENT LIABILITIES:			
Deferred Prize Awards Payable	—	695,016	—
Interfund Payable	—	2,979	—
Unearned Revenue	372,151	—	—
Benefits Payable	13,369,123	—	—
Refund and Other Liabilities	1,407,044	2,471	—
Bonds and Notes Payable	129,012	—	—
TOTAL NONCURRENT LIABILITIES	**15,277,330**	**700,466**	**—**
TOTAL LIABILITIES	**21,247,415**	**1,377,830**	**9,762**
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	(13,143)	739	—
Restricted for Deferred Lottery Prizes	—	102,614	—
Unrestricted (Deficits)	734,845	48,699	663,921
TOTAL NET ASSETS (DEFICITS)	**$ 721,702**	**$ 152,052**	**$ 663,921**

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 24,660	$ 80,271
7,798	1,297,468
—	15,500
10,278	1,767,597
—	62,752
93,418	176,293
—	439,250
—	2,775
—	612,728
30	3,345
—	1,061,634
—	770,993
2,996	70,166
14,238	303,002
35,071	35,071
968	13,931
189,457	**6,712,776**
—	1,675
721,584	1,519,214
74,272	15,546,151
—	511,395
8,989	731,369
8,995	8,995
22	22
10,700	143,110
71	12,065
824,633	**18,473,996**
1,014,090	**25,186,772**
31,760	50,836
4,577	4,577
10,278	2,206,847
—	1,933,453
414	461
—	148,402
2,950	3,445
10	18,901
67,300	1,814,946
5,087	584,529
2,047	15,237
124,423	**6,781,634**
—	695,016
2,637	5,616
—	372,151
1,039,500	14,408,623
18,242	1,427,757
6,814	135,826
1,067,193	**17,044,989**
1,191,616	**23,826,623**
10,565	(1,839)
—	102,614
(188,091)	1,259,374
$ (177,526)	**$ 1,360,149**

STATE OF OHIO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION (Unaudited)	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
OPERATING REVENUES:			
Charges for Sales and Services	$ —	$ 2,159,129	$ 13,552
Premium and Assessment Income	2,126,503	—	994,558
Federal Government	—	—	21,349
Investment Income	—	—	33,613
Other	11,987	5,728	15,370
TOTAL OPERATING REVENUES	**2,138,490**	**2,164,857**	**1,078,442**
OPERATING EXPENSES:			
Costs of Sales and Services	—	—	—
Administration	67,759	82,502	—
Premium Dividend Reductions and Refunds	232,836	—	—
Bonuses and Commissions	—	133,841	—
Prizes	—	1,280,787	—
Benefits and Claims	2,947,286	—	1,185,295
Depreciation	3,472	14,646	—
Other	11,765	26	8,745
TOTAL OPERATING EXPENSES	**3,263,118**	**1,511,802**	**1,194,040**
OPERATING INCOME (LOSS)	**(1,124,628)**	**653,055**	**(115,598)**
NONOPERATING REVENUES (EXPENSES):			
Investment Income (Loss)	988,440	90,493	493
Interest Expense	—	(13,834)	—
Federal Grants	—	—	—
Other	4,688	(55,464)	1,140
TOTAL NONOPERATING REVENUES (EXPENSES)	**993,128**	**21,195**	**1,633**
INCOME (LOSS) BEFORE TRANSFERS	**(131,500)**	**674,250**	**(113,965)**
TRANSFERS:			
Transfers-in	—	—	4,639
Transfers-out	(7,568)	(645,673)	(35,790)
TOTAL TRANSFERS	**(7,568)**	**(645,673)**	**(31,151)**
NET INCOME (LOSS)	**(139,068)**	**28,577**	**(145,116)**
NET ASSETS (DEFICITS), JULY 1	860,770	123,475	809,037
NET ASSETS (DEFICITS), JUNE 30	**$ 721,702**	**$ 152,052**	**$ 663,921**

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 630,019	$ 2,802,700
—	3,121,061
—	21,349
70,116	103,729
3,608	36,693
703,743	**6,085,532**
431,076	431,076
76,591	226,852
—	232,836
—	133,841
—	1,280,787
21,634	4,154,215
2,554	20,672
2,287	22,823
534,142	**6,503,102**
169,601	**(417,570)**
441	1,079,867
(779)	(14,613)
79	79
9	(49,627)
(250)	**1,015,706**
169,351	**598,136**
55,247	59,886
(178,508)	(867,539)
(123,261)	**(807,653)**
46,090	**(209,517)**
(223,616)	1,569,666
$ (177,526)	**$ 1,360,149**

STATE OF OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION (Unaudited)	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	$ —	$ 2,161,101	$ 36,057
Cash Received from Premiums and Assessments	1,827,086	—	992,331
Cash Received from Multi-State Lottery for Grand Prize Winner	—	87,897	—
Cash Received from Interfund Services Provided	52,848	506	—
Cash Received from the Federal Government for Extended Benefits	—	—	329
Other Operating Cash Receipts	20,219	5,221	7,640
Cash Payments to Suppliers for Goods and Services	(61,984)	(56,413)	—
Cash Payments to Employees for Services	(236,290)	(22,571)	—
Cash Payments for Benefits and Claims	(2,149,666)	—	(1,186,815)
Cash Payments for Lottery Prizes	—	(1,436,009)	—
Cash Payments for Bonuses and Commissions	—	(133,934)	—
Cash Payments for Premium Reductions and Refunds	(84,847)	—	—
Cash Payments for Interfund Services Used	(13,944)	(2,634)	—
Other Operating Cash Payments	—	(26)	(10,566)
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	**(646,578)**	**603,138**	**(161,024)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers-in	—	—	4,639
Transfers-out	(7,568)	(645,673)	(35,790)
Federal Grants	—	—	—
NET CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	**(7,568)**	**(645,673)**	**(31,151)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal Payments on Bonds and Capital Leases	(5,300)	(14,690)	—
Interest Paid	(6,578)	(1,418)	—
Acquisition and Construction of Capital Assets	(3,955)	(497)	—
Principal Receipts on Capital Leases Receivable	—	—	—
Proceeds from Sales of Capital Assets	19,144	59	1,140
NET CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	**3,311**	**(16,546)**	**1,140**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of Investments	(34,843,384)	(2,874,007)	(9,181,729)
Proceeds from the Sales and Maturities of Investments	34,657,155	2,995,973	9,299,644
Investment Income Received	590,785	25,128	—
Borrower Rebates and Agent Fees	(89,080)	(12,530)	—
NET CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES	**315,476**	**134,564**	**117,915**
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	**(335,359)**	**75,483**	**(73,120)**
CASH AND CASH EQUIVALENTS, JULY 1	1,619,675	47,997	75,032
CASH AND CASH EQUIVALENTS, JUNE 30	**$ 1,284,316**	**$ 123,480**	**$ 1,912**

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 615,788	$ 2,812,946
—	2,819,417
—	87,897
9,528	62,882
—	329
20,506	53,586
(412,061)	(530,458)
(88,428)	(347,289)
—	(3,336,481)
—	(1,436,009)
—	(133,934)
—	(84,847)
(2,057)	(18,635)
(67,669)	(78,261)
75,607	**(128,857)**
52,394	57,033
(178,508)	(867,539)
49	49
(126,065)	**(810,457)**
(1,736)	(21,726)
(421)	(8,417)
(1,017)	(5,469)
1,691	1,691
66	20,409
(1,417)	**(13,512)**
(329,324)	(47,228,444)
362,570	47,315,342
25,101	641,014
—	(101,610)
58,347	**626,302**
6,472	**(326,524)**
25,986	1,768,690
$ 32,458	**$ 1,442,166**

(continued)

STATE OF OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(dollars in thousands)
(continued)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION (Unaudited)	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss)	$ (1,124,628)	$ 653,055	$ (115,598)
Adjustments to Reconcile Operating Income (Loss) to			
Net Cash Provided (Used) by Operating Activities:			
Investment Income	—	—	(33,613)
Depreciation	3,472	14,646	—
Provision for Uncollectible Accounts	68,070	—	—
Amortization of Premiums and Discounts	(888)	—	—
Interest on Bonds, Notes and Capital Leases	6,578	—	—
Decrease (Increase) in Assets:			
Intergovernmental Receivable	—	—	1,485
Premiums and Assessments Receivable	(151,066)	—	(11,304)
Interfund Receivable	13,302	—	—
Other Receivables	(75,595)	3,075	656
Inventories	—	—	—
Other Assets	517	363	(475)
Increase (Decrease) in Liabilities:			
Accounts Payable	2,874	1,666	—
Accrued Liabilities	—	—	—
Intergovernmental Payable	—	—	(390)
Deferred Prize Awards Payable	—	(68,836)	—
Interfund Payable	—	(976)	—
Unearned Revenue	(4,987)	(1,103)	—
Benefits Payable	496,141	—	(1,535)
Refund and Other Liabilities	119,632	1,248	(250)
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	**$ (646,578)**	**$ 603,138**	**$ (161,024)**
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Change in Fair Value of Investments	$ 501,672	$ 22,798	$ —
Contributions of Capital Assets from Other Funds	—	—	—
Capital Assets Acquired under Capital Leases	—	—	—

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 169,601	$ (417,570)
(70,116)	(103,729)
2,554	20,672
26	68,096
1,084	196
—	6,578
—	1,485
—	(162,370)
2	13,304
2,825	(69,039)
(1,767)	(1,767)
266	671
6,178	10,718
278	278
14	(376)
—	(68,836)
301	(675)
—	(6,090)
(34,900)	459,706
(739)	119,891
$ 75,607	**$ (128,857)**
$ 7,861	$ 532,331
1,039	1,039
168	168

STATE OF OHIO
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005
(dollars in thousands)

	PENSION TRUST	PRIVATE-PURPOSE TRUST	INVESTMENT TRUST
	STATE HIGHWAY PATROL RETIREMENT SYSTEM (as of 12/31/04)	VARIABLE COLLEGE SAVINGS PLAN	STAR OHIO
ASSETS:			
Cash Equity with Treasurer	$ —	$ —	$ —
Cash and Cash Equivalents	10,837	295,867	—
Investments (at fair value):			
U.S. Government and Agency Obligations	57,553	—	2,506,495
Common and Preferred Stock	373,351	—	—
Corporate Bonds and Notes	28,945	—	—
Foreign Stocks and Bonds	101,343	—	—
Commercial Paper	—	—	572,090
Repurchase Agreements	—	—	11,892
Mutual Funds	35,219	3,435,568	—
Real Estate	53,090	—	—
Venture Capital	—	—	—
Direct Mortgage Loans	21,673	—	—
Investment Contracts	—	—	—
State Treasury Asset Reserve of Ohio (STAR Ohio)	—	—	—
Collateral on Lent Securities	207,010	—	80,448
Employer Contributions Receivable	776	—	—
Employee Contributions Receivable	936	—	—
Investment Trade Receivable	—	3,581	—
Other Receivables	2,865	—	330
Other Assets	6	—	—
Capital Assets, Net	31	—	—
TOTAL ASSETS	**893,635**	**3,735,016**	**3,171,255**
LIABILITIES:			
Accounts Payable	1,168	—	—
Accrued Liabilities	841	5,509	—
Obligations Under Securities Lending	207,010	—	80,448
Investment Trade Payable	—	4,975	—
Intergovernmental Payable	—	—	—
Refund and Other Liabilities	47	—	2,990
TOTAL LIABILITIES	**209,066**	**10,484**	**83,438**
NET ASSETS:			
Held in Trust for:			
Employees' Pension Benefits	587,932	—	—
Employees' Postemployment Healthcare Benefits	96,637	—	—
Individuals, Organizations and Other Governments	—	3,724,532	—
Pool Participants	—	—	3,087,817
TOTAL NET ASSETS	**$ 684,569**	**$ 3,724,532**	**$ 3,087,817**

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

AGENCY
$ 221,427
105,088
9,042,537
62,296,101
10,546,280
30,920,809
3,082,560
98,790
5,805,202
10,042,297
2,270,024
9,884,955
6,018
28,720
142,489
—
—
—
9,187
434,194
—
144,936,678
—
—
142,489
—
86,670
144,707,519
144,936,678
—
—
—
—
$ —

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STATE OF OHIO
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(dollars in thousands)

	PENSION TRUST	PRIVATE-PURPOSE TRUST	INVESTMENT TRUST
	STATE HIGHWAY PATROL RETIREMENT SYSTEM (for the fiscal year ended 12/31/04)	VARIABLE COLLEGE SAVINGS PLAN	STAR OHIO
ADDITIONS:			
Contributions from:			
Employer	$ 20,073	$ —	$ —
Employees	8,193	—	—
Plan Participants	—	857,839	—
Other	856	—	—
Total Contributions	29,122	857,839	—
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	61,335	203,393	—
Interest, Dividends and Other	19,323	62,516	75,875
Total Investment Income	80,658	265,909	75,875
Less: Investment Expense	5,699	26,561	3,756
Net Investment Income	74,959	239,348	72,119
Capital Share and Individual Account Transactions:			
Shares Sold	—	—	13,837,751
Reinvested Distributions	—	—	72,119
Shares Redeemed	—	—	(14,812,225)
Net Capital Share and Individual Account Transactions	—	—	(902,355)
TOTAL ADDITIONS	**104,081**	**1,097,187**	**(830,236)**
DEDUCTIONS:			
Pension Benefits Paid to Participants or Beneficiaries	35,187	—	—
Healthcare Benefits Paid to Participants or Beneficiaries	6,949	—	—
Refunds of Employee Contributions	156	—	—
Administrative Expense	605	—	—
Transfers to Other Retirement Systems	602	—	—
Distributions to Shareholders and Plan Participants	—	429,493	72,119
TOTAL DEDUCTIONS	**43,499**	**429,493**	**72,119**
CHANGE IN NET ASSETS HELD FOR:			
Employees' Pension Benefits	52,697	—	—
Employees' Postemployment Healthcare Benefits	7,885	—	—
Individuals, Organizations and Other Governments	—	667,694	—
Pool Participants	—	—	(902,355)
TOTAL CHANGE IN NET ASSETS	60,582	667,694	(902,355)
NET ASSETS, JULY 1	623,987	3,056,838	3,990,172
NET ASSETS, JUNE 30	**$ 684,569**	**$ 3,724,532**	**$ 3,087,817**

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

STATE OF OHIO
COMBINING STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
JUNE 30, 2005
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY (as of 12/31/04)	OHIO STATE UNIVERSITY
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer	$ 384,443	$ —	$ —
Cash and Cash Equivalents	—	22,860	74,872
Investments	—	78,215	508,933
Collateral on Lent Securities	228,112	—	—
Intergovernmental Receivable	621	683	2,540
Loans Receivable, Net	54	1,452	9,108
Receivable from Primary Government	—	—	19,272
Other Receivables	—	13	387,451
Inventories	—	—	20,898
Other Assets	16	—	31,501
TOTAL CURRENT ASSETS	**613,246**	**103,223**	**1,054,575**
NONCURRENT ASSETS:			
Restricted Assets:			
Cash and Cash Equivalents	—	442,439	50,203
Investments	—	1,036,644	—
Loans Receivable, Net	—	2,909,515	—
Investments	—	14,434	1,721,226
Loans Receivable, Net	262	17,402	62,946
Other Receivables	—	4,449	22,482
Other Assets	—	31,710	—
Capital Assets Being Depreciated, Net	49	1,683	2,054,007
Capital Assets Not Being Depreciated	—	539	414,769
TOTAL NONCURRENT ASSETS	**311**	**4,458,815**	**4,325,633**
TOTAL ASSETS	**613,557**	**4,562,038**	**5,380,208**
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts Payable	8,853	37,756	137,049
Accrued Liabilities	210	8,867	231,078
Obligations Under Securities Lending	228,112	—	—
Intergovernmental Payable	784,640	533	—
Unearned Revenue	—	—	96,670
Refund and Other Liabilities	245	20	74,380
Bonds and Notes Payable	—	111,554	473,739
Certificates of Participation	—	—	355
TOTAL CURRENT LIABILITIES	**1,022,060**	**158,730**	**1,013,271**
NONCURRENT LIABILITIES:			
Intergovernmental Payable	1,556,787	—	—
Unearned Revenue	—	—	4,000
Refund and Other Liabilities	462	141	195,868
Bonds and Notes Payable	—	2,132,395	382,163
Certificates of Participation	—	—	5,825
TOTAL NONCURRENT LIABILITIES	**1,557,249**	**2,132,536**	**587,856**
TOTAL LIABILITIES	**2,579,309**	**2,291,266**	**1,601,127**
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	49	2,222	1,590,235
Restricted for:			
Federal Programs	—	—	—
Coal Research and Development Program	—	—	—
Debt Service	—	2,124,820	—
Nonexpendable:			
Scholarships and Fellowships	—	—	—
Research	—	—	—
Endowments and Quasi-Endowments	—	—	1,050,685
Loans, Grants and Other College and University Purposes	—	—	—
Expendable:			
Scholarships and Fellowships	—	—	—
Research	—	—	—
Instructional Department Uses	—	—	—
Student and Public Services	—	—	41,033
Academic Support	—	—	—
Debt Service	—	—	—
Capital Purposes	—	—	16,708
Endowments and Quasi-Endowments	—	—	139,399
Current Operations	—	—	265,434
Loans, Grants and Other College and University Purposes	—	—	—
Unrestricted (Deficits)	(1,965,801)	143,730	675,587
TOTAL NET ASSETS (DEFICITS)	**$ (1,965,752)**	**$ 2,270,772**	**$ 3,779,081**

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
$ —	$ 30,614	$ 415,057
80,446	511,956	690,134
43,586	919,406	1,550,140
—	9,004	237,116
—	37,610	41,454
3,224	27,637	41,475
889	27,043	47,204
81,549	251,469	720,482
4,294	27,328	52,520
15,788	46,110	93,415
229,776	**1,888,177**	**3,888,997**
—	57,144	549,786
—	585,135	1,621,779
—	—	2,909,515
1,106,320	1,036,581	3,878,561
30,295	97,964	208,869
33,740	95,076	155,747
274,629	29,897	336,236
1,009,438	3,424,397	6,489,574
321,399	629,929	1,366,636
2,775,821	**5,956,123**	**17,516,703**
3,005,597	**7,844,300**	**21,405,700**
42,649	141,526	367,833
72,034	161,012	473,201
—	9,004	237,116
—	7	785,180
19,644	188,272	304,586
41,286	96,112	212,043
44,951	68,934	699,178
30	140	525
220,594	**665,007**	**3,079,662**
—	9,051	1,565,838
—	5,709	9,709
186,607	183,859	566,937
705,054	1,470,229	4,689,841
240	21,860	27,925
891,901	**1,690,708**	**6,860,250**
1,112,495	**2,355,715**	**9,939,912**
541,870	2,864,273	4,998,649
—	19	19
—	13,079	13,079
—	—	2,124,820
119,456	98,022	217,478
78,434	4,563	82,997
570,776	495,999	2,117,460
257,050	79,947	336,997
39,139	115,228	154,367
106,700	16,498	123,198
33,308	101,784	135,092
23,967	8,506	73,506
32,378	85,157	117,535
65	4,341	4,406
62,293	70,041	149,042
133,567	48,187	321,153
7,498	110,923	383,855
662	184,714	185,376
(114,061)	1,187,304	(73,241)
$ 1,893,102	**$ 5,488,585**	**$ 11,465,788**

STATE OF OHIO
COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY (for the year ended 12/31/04)	OHIO STATE UNIVERSITY
EXPENSES:			
Primary, Secondary and Other Education	$ 875,502	$ —	$ —
Community and Economic Development	—	—	—
Cost of Services	—	103,066	—
Administration	—	10,288	—
Education and General:			
Instruction and Departmental Research	—	—	617,890
Separately Budgeted Research	—	—	333,554
Public Service	—	—	95,737
Academic Support	—	—	108,489
Student Services	—	—	70,020
Institutional Support	—	—	93,472
Operation and Maintenance of Plant	—	—	84,288
Scholarships and Fellowships	—	—	54,448
Auxiliary Enterprises	—	—	174,206
Hospitals	—	—	1,240,767
Interest on Long-Term Debt	—	—	29,168
Depreciation	24	234	145,976
Other	—	4,569	1,660
TOTAL EXPENSES	**875,526**	**118,157**	**3,049,675**
PROGRAM REVENUES:			
Charges for Services, Fees, Fines and Forfeitures	1,167	129,865	2,049,465
Operating Grants, Contributions and Restricted Investment Income	6,150	141,288	600,152
Capital Grants, Contributions and Restricted Investment Income	—	—	16,638
TOTAL PROGRAM REVENUES	**7,317**	**271,153**	**2,666,255**
NET PROGRAM (EXPENSE) REVENUE	**(868,209)**	**152,996**	**(383,420)**
GENERAL REVENUES:			
Unrestricted Investment Income	—	1,406	154,289
State Assistance	525,738	—	525,804
Other	—	—	933
TOTAL GENERAL REVENUES	**525,738**	**1,406**	**681,026**
CONTRIBUTIONS TO ENDOWMENTS AND PERMANENT FUND PRINCIPAL	**—**	**—**	**54,723**
SPECIAL ITEMS	**—**	**—**	**—**
CHANGE IN NET ASSETS	**(342,471)**	**154,402**	**352,329**
NET ASSETS (DEFICITS), JULY 1 (as restated)	(1,623,281)	2,116,370	3,426,752
NET ASSETS (DEFICITS), JUNE 30	**$ (1,965,752)**	**$ 2,270,772**	**$ 3,779,081**

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
$ —	$ 31,161	$ 906,663
—	24,659	24,659
—	—	103,066
—	—	10,288
264,736	1,311,681	2,194,307
143,848	160,634	638,036
52,656	127,793	276,186
63,165	343,667	515,321
36,577	198,963	305,560
66,759	370,250	530,481
56,156	244,163	384,607
20,114	151,012	225,574
83,167	534,509	791,882
—	180,746	1,421,513
25,115	52,212	106,495
72,003	224,721	442,958
16,907	24,316	47,452
901,203	**3,980,487**	**8,925,048**
352,666	2,407,238	4,940,401
360,632	562,991	1,671,213
12,026	44,239	72,903
725,324	**3,014,468**	**6,684,517**
(175,879)	**(966,019)**	**(2,240,531)**
—	114,413	270,108
223,031	1,188,251	2,462,824
3,639	37,092	41,664
226,670	**1,339,756**	**2,774,596**
15,203	**21,694**	**91,620**
—	**(1,357)**	**(1,357)**
65,994	**394,074**	**624,328**
1,827,108	5,094,511	10,841,460
$ 1,893,102	**$ 5,488,585**	**$ 11,465,788**

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Ohio, as of June 30, 2005, and for the year then ended, conform with generally accepted accounting principles (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are included in the GASB's *Codification of Governmental Accounting and Financial Reporting Standards*. The State's significant accounting policies are as follows.

A. Financial Reporting Entity

The State of Ohio's primary government includes all funds, elected officials, departments and agencies, bureaus, boards, commissions, and authorities that make up the State's legal entity. Component units, legally separate organizations for which the State's elected officials are financially accountable, also comprise, in part, the State's reporting entity. Additionally, other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete should be included in a government's financial reporting entity.

GASB Statement No. 14 (GASB 14), *The Financial Reporting Entity*, defines financial accountability. The criteria for determining financial accountability include the following circumstances:

- appointment of a voting majority of an organization's governing authority and the ability of the primary government to either impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government, or
- an organization is fiscally dependent on the primary government.

1. Blended Component Units

The Ohio Building Authority and the State Highway Patrol Retirement System are legally separate organizations that provide services entirely, or almost entirely, to the State or otherwise exclusively, or almost exclusively, benefit the State. Therefore, the State reports these organizations' balances and transactions as though they were part of the primary government using the blending method.

2. Discretely Presented Component Units

The component units' columns in the basic financial statements include the financial data of another 28 organizations. The separate discrete column labeled, "Component Units," emphasizes these organizations' separateness from the State's primary government. Officials of the primary government appoint a voting majority of each organization's governing board.

The primary government has the ability to impose its will on the following organizations by modifying or approving their respective budgets.

School Facilities Commission
Cultural Facilities Commission
SchoolNet Commission
Ohio Air Quality Development Authority

The following organizations impose or potentially impose financial burdens on the primary government.

Ohio Water Development Authority
Ohio State University
University of Cincinnati
Ohio University
Miami University
University of Akron
Bowling Green State University
Kent State University
University of Toledo
Cleveland State University
Youngstown State University
Wright State University
Shawnee State University
Central State University
Medical University of Ohio
Terra State Community College
Columbus State Community College
Clark State Community College
Edison State Community College
Southern State Community College
Washington State Community College
Cincinnati State Community College
Northwest State Community College
Owens State Community College

The School Facilities Commission, Cultural Facilities Commission, and SchoolNet Commission, which are governmental component units that use special revenue fund reporting, do not issue separately audited financial reports.

Information on how to obtain financial statements for the State's component units that do issue their own separately audited financial reports is available from the Ohio Office of Budget and Management.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Joint Ventures and Related Organizations
As discussed in more detail in NOTE 18, the State participates in several joint ventures and has related organizations. The State does not include the financial activities of these organizations in its financial statements, in conformity with GASB 14.

B. Basis of Presentation
Government-wide Statements — The Statement of Net Assets and the Statement of Activities display information about the primary government (the State) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Fiduciary funds of the primary government and component units that are fiduciary in nature are reported only in the statements of fiduciary net assets and changes in fiduciary net assets.

For the government-wide financial statements, eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the State. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole, or in part, by fees charged to external parties for goods or services.

The Statement of Net Assets reports all financial and capital resources using the economic resources measurement focus and the accrual basis of accounting. The State presents the statement in a format that displays *assets less liabilities equal net assets*. *Net assets* section is displayed in three components:

- The *Invested in Capital Assets, Net of Related Debt* component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The portion of debt attributable to significant unspent related debt proceeds at year-end is not included in the calculation of this net assets component.

- The *Restricted Net Assets* component represents net assets with constraints placed on their use that are either 1.) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2.) imposed by law through constitutional provisions or enabling legislation. For component units with permanent endowments, restricted net assets are displayed in two additional components — expendable and nonexpendable. Nonexpendable net assets are those that are required to be retained in perpetuity.

- The *Unrestricted Net Assets* component consists of net assets that do not meet the definition of the preceding two components.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the State's governmental activities and for the different business-type activities of the State. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular program or function. Centralized expenses have been included in direct expenses. Indirect expenses have not been allocated to the programs or functions reported in the Statement of Activities.

Generally, the State does not incur expenses for which it has the option of first applying restricted or unrestricted resources for their payment.

Program revenues include licenses, permits and other fees, fines, forfeitures, charges paid by the recipients of goods or services offered by the programs, and grants, contributions, and investment earnings that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all tax, tobacco settlement, escheat property revenues, unrestricted investment income, and state assistance, are presented as general revenues.

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

Governmental fund types include the General, special revenue, debt service, and capital projects funds. The proprietary funds consist of enterprise funds. Fiduciary fund types include pension trust, private-purpose trust, investment trust, and agency funds.

Operating revenues for the State's proprietary funds mainly consist of charges for sales and services and

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

premium and assessment income since these revenues result from exchange transactions associated with the principal activity of the respective enterprise fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Investment income and revenue from the federal government for extended unemployment benefits are also reported as operating revenues for the Unemployment Compensation Fund, since these sources provide significant funding for the payment of unemployment benefits – the fund's principal activity. Investment income for the Tuition Trust Authority Fund is also reported as operating revenue, since this source provides significant funding for the payment of tuition benefits. Nonoperating revenues for the proprietary funds result from nonexchange transactions or ancillary activities; nonoperating revenues are primarily comprised of investment income and federal operating grants.

Proprietary fund operating expenses principally consist of expenses for the cost of sales and services, administration, premium dividend reductions and refunds, bonuses and commissions, prizes, benefits and claims, and depreciation. Nonoperating expenses principally consist of interest expense on debt and the amortization of discount on deferred lottery prize liabilities, which is reported under "Other" nonoperating expenses.

The State reports the following major governmental funds:

General — The General Fund, the State's primary operating fund, accounts for resources of the general government, except those required to be accounted for in another fund.

Job, Family and Other Human Services Special Revenue Fund — This fund accounts for public assistance programs primarily administered by the Department of Job and Family Services, which provides financial assistance, services, and job training to those individuals and families who do not have sufficient resources to meet their basic needs.

Education Special Revenue Fund — This fund accounts for programs administered by the Department of Education, the Ohio Board of Regents, and other various state agencies, which prescribe the State's minimum educational requirements and which provide funding and assistance to local school districts for basic instruction and vocation and technical job training, and to the State's colleges and universities for post-secondary education.

Highway Operating Special Revenue Fund — This fund accounts for programs administered by the Department of Transportation, which is responsible for the planning and design, construction, and maintenance of Ohio's highways, roads, and bridges and for Ohio's public transportation programs.

Revenue Distribution Special Revenue Fund — This fund accounts for tax relief and aid to local government programs, which derive funding from tax and other revenues levied, collected, and designated by the State for these purposes.

The State reports the following major proprietary funds:

Workers' Compensation Enterprise Fund — This fund accounts for the operations of the Ohio Bureau of Workers' Compensation and the Ohio Industrial Commission, which provide workers' compensation insurance services. The financial statements presented for this enterprise fund are unaudited. The Bureau's audit was commenced but not completed by the Bureau's independent auditing firm.

Lottery Commission Enterprise Fund — This fund accounts for the State's lottery operations.

Unemployment Compensation Enterprise Fund — This fund, which is administered by the Ohio Department of Job and Family Services, accounts for unemployment compensation benefit claims.

The State reports the following fiduciary fund types:

Pension Trust Fund — The State Highway Patrol Retirement System Pension Trust Fund accounts for resources that are required to be held in trust for members and beneficiaries of the defined benefit plan. The financial statements for the State Highway Patrol Retirement System Pension Trust Fund are presented for the fiscal year ended December 31, 2004.

Private-Purpose Trust Fund — The Private-Purpose Trust Fund accounts for trust arrangements under which principal and income benefit participants in the Variable College Savings Plan, which is administered by the Tuition Trust Authority.

Investment Trust Fund — The STAR Ohio Investment Trust Fund accounts for the state-sponsored external investment pool, which the Treasurer of State administers for local government participants.

Agency Funds — These funds account for the receipt, temporary investment, and remittance of fiduciary resources held on behalf of individuals, private organizations, and other governments.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The State reports the following major component unit funds:

The *School Facilities Commission* accounts for grants that provide assistance to local school districts for the construction of school buildings.

The *Ohio Water Development Authority*, *Ohio State University*, and *University of Cincinnati* funds are business-type activities that use proprietary fund reporting. The financial statements for the Ohio Water Development Authority, which provides financial assistance to local governments for the construction of wastewater and sewage facilities, are presented for the fiscal year ended December 31, 2004. The Ohio State University Fund accounts for the university's operations, including its health system, supercomputer center, agricultural research and development center, and other legally separate entities subject to the control of the university's board. The University of Cincinnati Fund accounts for the university's operations, including its related foundation.

C. Measurement Focus and Basis of Accounting
Government-wide, Enterprise Fund, and Fiduciary Fund Financial Statements — The State reports the government-wide financial statements and the proprietary fund and fiduciary fund financial statements 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 flows take place.

The State recognizes revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions when the exchange takes place. When resources are received in advance of the exchange, the State reports the unearned revenue as a liability.

Nonexchange transactions, in which the State gives (or receives) value without directly receiving (or giving) equal value in exchange, include derived taxes, grants, and entitlements. The revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions.*

Under the accrual basis, the State recognizes assets from derived tax revenues (e.g., personal income, sales, motor vehicle fuel taxes) in the fiscal year when the exchange transaction on which the tax is imposed occurs or when the resources are received, whichever occurs first. The State recognizes derived tax revenues, net of estimated refunds and estimated uncollectible amounts, in the same period that the assets are recognized, provided that the underlying exchange transaction has occurred.

Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Resources transmitted in advance of the State meeting eligibility requirements are reported as unearned revenue.

Investment income includes the net increase (decrease) in the fair value of investments.

As permitted by GAAP, all governmental and business-type activities and enterprise funds have elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989.

Governmental Fund Financial Statements — The State reports governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The State considers revenues reported in the governmental funds to be available when the revenues are collectible within 60 days after year-end or soon enough thereafter to be used to pay liabilities of the current period.

Significant revenue sources susceptible to accrual under the modified accrual basis of accounting include:

- Personal income taxes
- Sales and use taxes
- Motor vehicle fuel taxes
- Charges for goods and services
- Federal government grants
- Tobacco settlement
- Investment income

The State recognizes assets from derived tax revenues (e.g., personal income, sales, motor vehicle fuel taxes) in the fiscal year when the exchange transaction on which the tax is imposed occurs or when the resources are received, whichever occurs first. The State recognizes derived tax revenues, net of estimated refunds and estimated uncollectible amounts, in the same period that the assets are recognized, provided that the underlying exchange transaction has occurred and the revenues are collected during the availability period.

For revenue arising from exchange transactions (i.e., charges for goods and services), the State defers

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

revenue recognition when resources earned from the exchange are not received during the availability period and reports unearned revenue when resources are received in advance of the exchange.

The governmental funds recognize federal government revenue in the period when all applicable eligibility requirements have been met and resources are available. Resources transmitted in advance of the State meeting eligibility requirements are reported as unearned revenue. The State defers revenue recognition for reimbursement-type grant programs if the reimbursement is not received during the availability period.

Investment income includes the net increase (decrease) in the fair value of investments.

Licenses, permits, fees, and certain other miscellaneous revenues are not susceptible to accrual because generally they are not measurable until received in cash. The "Other" revenue account is comprised of refunds, reimbursements, recoveries, and other miscellaneous income.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, capital lease obligations, compensated absences, and claims and judgments. The governmental funds recognize expenditures for these liabilities to the extent they have matured or will be liquidated with expendable, available financial resources.

General capital asset acquisitions are reported as expenditures in the governmental funds. Proceeds from general long-term debt issuances, including refunding bond proceeds, premiums, and acquisitions under capital leases are reported as other financing sources while discounts and payments to refunded bond escrow agents are reported as other financing uses.

D. Budgetary Process

As the Ohio Revised Code requires, the Governor submits biennial operating and capital budgets to the General Assembly.

The General Assembly approves operating appropriations in annual amounts and capital appropriations in two-year amounts.

The General Assembly enacts the budget through passage of specific departmental line-item appropriations, the legal level of budgetary control. Line-item appropriations are established within funds by program or major object of expenditure. The Governor may veto any item in an appropriation bill. Such vetoes are subject to legislative override.

The State's Controlling Board can transfer or increase a line-item appropriation within the limitations set under Sections 127.14 and 131.35, Ohio Revised Code.

All governmental funds are budgeted except the following activities within the debt service and capital projects fund types:

Improvements General Obligations
Highway Improvements General Obligations
Development General Obligations
Public Improvements General Obligations
Vietnam Conflict Compensation
  General Obligations
Economic Development Revenue Bonds
Infrastructure Bank Revenue Bonds
Revitalization Project Revenue Bonds
Higher Education Facilities Special Obligations
Mental Health Facilities Special Obligations
Parks and Recreation Facilities Special Obligations
School Building Program Special Obligations
Ohio Building Authority Special Obligations
Transportation Certificates of Participation
OAKS Certificates of Participation
OAKS Project

For budgeted funds, the State's Central Accounting System controls expenditures by appropriation line-item, so at no time can expenditures exceed appropriations and financial-related legal compliance is assured. The State uses the modified cash basis of accounting for budgetary purposes.

The *Detailed Appropriation Summary by Fund Report*, which is available for public inspection at the Ohio Office of Budget and Management and its web site, www.obm.ohio.gov, provides a more comprehensive accounting of activity on the budgetary basis at the legal level of budgetary control.

In the *Statement of Revenues, Expenditures and Changes in Fund Balances — Budget and Actual (Non-GAAP Budgetary Basis) — General Fund and Major Special Revenue Funds*, the State reports estimated revenues and other financing sources and uses for the General Fund only; the State does not estimate revenue and other financing sources and uses for the major special revenue funds or its budgeted nonmajor governmental funds.

Additionally, in the non-GAAP budgetary basis financial statement, "actual" budgetary expenditures include cash disbursements and outstanding encumbrances, as of June 30.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The State Highway Patrol Retirement System Pension Trust Fund, the Variable College Savings Plan Private-Purpose Trust Fund, and the STAR Ohio Investment Trust Fund are not legally required to adopt budgets. For budgeted proprietary funds, the State is not legally required to report budgetary data and comparisons for these funds. Also, the State does not present budgetary data for its discretely presented component units.

Because the State budgets on a modified cash basis of accounting, which differs from GAAP, NOTE 3 presents a reconciliation of the differences between the GAAP basis and non-GAAP budgetary basis of reporting.

E. Cash Equity with Treasurer and Cash and Cash Equivalents

Cash equity with Treasurer consists of pooled demand deposits and investments carried at fair value. The State's cash pool under the Treasurer of State's administration has the general characteristics of a demand deposit account whereby additional cash can be deposited at any time and can also be effectively withdrawn at any time, within certain budgetary limitations, without prior notice or penalty.

Cash and cash equivalents include amounts on deposit with financial institutions and cash on hand. The cash and cash equivalents account also includes investments with original maturities of three months or less from the date of acquisition for the Bureau of Workers' Compensation Enterprise Fund.

Cash equity with Treasurer and cash and cash equivalents, including the portions reported under "Restricted Assets," are considered to be cash equivalents, as defined in GASB Statement No. 9, for purposes of the Statement of Cash Flows.

Additional disclosures on the State's deposits can be found in NOTE 4.

F. Investments

Investments include long-term investments that may be restricted by law or other legal instruments. With the exception of certain money market investments, which have remaining maturities at the time of purchase of one year or less and are carried at amortized cost, and holdings in the State Treasury Asset Reserve of Ohio (STAR Ohio) investment pool, the State reports investments at fair value based on quoted market prices. STAR Ohio operates in a manner consistent with Rule 2a7 of the Investment Company Act of 1940; investments in the 2a7-like pool are reported at amortized cost (which approximates fair value).

The colleges and universities report investments received as gifts at their fair value on the donation date.

The primary government does not manage or provide investment services for investments reported in the Agency Fund that are owned by other, legally separate entities that are not part of the State of Ohio's reporting entity.

Additional disclosures on the State's investments can be found in NOTE 4.

G. Taxes Receivable

Taxes receivable represent amounts due to the State at June 30, which will be collected sometime in the future. In the government-wide financial statements, revenue has been recognized for the receivable. In the fund financial statements only the portion of the receivable collected during the 60-day availability period has been recognized as revenue while the remainder is recorded as deferred revenue. Additional disclosures on taxes receivable can be found in NOTE 5A.

H. Intergovernmental Receivable

The intergovernmental receivable balance is primarily comprised of amounts due from the federal government for reimbursement-type grant programs. Advances of resources to recipient local governments before eligibility requirements have been met under government-mandated and voluntary nonexchange programs and amounts due for exchanges of State goods and services with other governments are also reported as intergovernmental receivables. Additional details on the intergovernmental receivable balance can be found in NOTE 5B.

I. Inventories

Inventories are valued at cost. Principal inventory cost methods applied include first-in/first-out, average cost, moving-average, and retail.

In the governmental fund financial statements, the State recognizes the costs of material inventories as expenditures when purchased. Inventories do not reflect current appropriable resources in the governmental fund financial statements, and therefore, the State reserves an equivalent portion of fund balance.

J. Restricted Assets

The primary government reports assets restricted for the payment of deferred lottery prize awards, revenue bonds, and tuition benefits in the enterprise funds.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Generally, the component unit funds hold assets in trust under bond covenants or other financing arrangements that legally restrict the use of these assets.

K. Capital Assets

Primary Government

The State reports capital assets purchased with governmental fund resources in the government-wide financial statements at historical cost, or at estimated historical cost when no historical records exist. Donated capital assets are valued at their estimated fair value on the donation date. The State does not report capital assets purchased with governmental fund resources in the fund financial statements. Governmental capital assets are reported net of accumulated depreciation, except for land, construction-in-progress, transportation infrastructure assets, and individual works of art and historical treasures, including historical land improvements and buildings. Transportation infrastructure assets are reported using the "modified approach," as discussed below, and therefore are not depreciable. Individual works of art and historical treasures, including historical land improvements and buildings, are considered to be inexhaustible, and therefore, are not depreciable.

The State reports capital assets purchased with enterprise fund resources and fiduciary fund resources in the government-wide and the fund financial statements at historical cost, or at estimated historical cost when no historical records exist. Donated capital assets are valued at their estimated fair value on the donation date. Capital assets, except for land and construction-in-progress, are reported net of accumulated depreciation.

The State has elected to capitalize its transportation infrastructure assets, defined as bridges, general highways, and priority highways, using the modified approach. Under this approach, the infrastructure assets are not depreciated because the State has committed itself to maintaining the assets at a condition level that the Ohio Department of Transportation (ODOT) has determined to be adequate to meet the needs of the citizenry. Costs of maintaining the bridge and highway infrastructure are not capitalized. New construction that represents additional lane-miles of highway or additional square-footage of bridge deck area and improvements that add to the capacity or efficiency of an asset are capitalized.

ODOT maintains an inventory of its transportation infrastructure capital assets, and conducts annual condition assessments to establish that the condition level that the State has committed itself to maintaining is, in fact, being achieved. ODOT also estimates the amount that must be spent annually to maintain the assets at the desired condition level.

For its other types of capital assets, the State does not capitalize the costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life. Costs of major improvements are capitalized. Interest costs associated with the acquisition of capital assets purchased using governmental fund resources are not capitalized, while those associated with acquisitions purchased using enterprise and fiduciary fund resources are capitalized.

The State does not capitalize collections of works of art or historical treasures that can be found at the Governor's residence, Malabar Farm (i.e., Louis Bromfield estate), which the Ohio Department of Natural Resources operates, the Ohio Arts Council, the State Library of Ohio, and the Capitol Square Review and Advisory Board for the following reasons:

- the collection is held for public exhibition, education, or research in furtherance of public service rather than for financial gain.
- the collection is protected, kept unencumbered, cared for, and preserved.
- the collection is subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

The State has established the following capitalization thresholds:

Buildings	$ 15,000
Building Improvements	100,000
Land	All, regardless of cost
Land Improvements	15,000
Machinery and Equipment	15,000
Vehicles	15,000
Infrastructure:	
Highway Network	500,000
Bridge Network	500,000
Park and Natural Resources Network	All, regardless of cost

For depreciable capital assets, the State applies the straight-line method over the following estimated useful lives:

Buildings	20-45 years
Land Improvements	10-25 years
Machinery and Equipment	2-15 years
Vehicles	5-15 years
Park and Natural Resources Infrastructure Network	10-50 years

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NOTE 8 contains additional disclosures about the primary government's capital assets.

Discretely Presented Component Unit Funds
The discretely presented component unit funds value all capital assets at cost and donated fixed assets at estimated fair value on the donation date. Capital assets are depreciated using the straight-line method. Additional disclosures about the discretely presented component unit funds' capital assets can be found in NOTE 8.

L. Medicaid Claims Payable
The Medicaid claims liability, which has an average maturity of one year or less, includes an estimate for incurred, but not reported claims.

M. Noncurrent Liabilities
Government-wide Financial Statements — Liabilities whose average maturities are greater than one year are reported in two components — the amount due in one year and the amount due in more than one year. Additional disclosures as to the specific liabilities included in noncurrent liabilities can be found in NOTES 10 through 15.

Fund Financial Statements — Governmental funds recognize noncurrent liabilities to the extent they have matured or will be liquidated with expendable, available financial resources.

The proprietary funds and component unit funds report noncurrent liabilities expected to be financed from their operations.

N. Compensated Absences
Employees of the State's primary government earn vacation leave, sick leave, and personal leave at various rates within limits specified under collective bargaining agreements or under law. Generally, employees accrue vacation leave at a rate of 3.1 hours every two weeks for the first five years of employment, up to a maximum rate of 9.2 hours every two weeks after 25 years of employment. Employees may accrue a maximum of three years vacation leave credit. At termination or retirement, the State pays employees, at their full rate, 100 percent of unused vacation leave, personal leave, and, in certain cases, compensatory time and 50 to 55 percent of unused sick leave.

Such leave is liquidated in cash, under certain restrictions, either annually in December, or at the time of termination from employment.

For the governmental funds, the State reports the compensated absences liability as a fund liability (included in the "Accrued Liabilities" account as a component of wages payable) to the extent it will be liquidated with expendable, available financial resources. For the primary government's proprietary funds and its discretely presented component unit funds, the State reports the compensated absences liability as a fund liability included in the "Refund and Other Liabilities" account.

The State's primary government accrues vacation, compensatory time, and personal leaves as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as at termination or retirement.

Sick leave time that has been earned, but is unavailable for use as paid time off or as some other form of compensation because an employee has not met a minimum service time requirement, is accrued to the extent that it is considered to be probable that the conditions for compensation will be met in the future.

The State's primary government accrues sick leave using the vesting method. Under this method, the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments, as of the balance sheet date, and on leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments.

Included in the compensated absences liability is an amount accrued for salary-related payments directly and incrementally associated with the payment of compensated absences upon termination. Such payments include the primary government's share of Medicare taxes.

For the colleges and universities, vacation and sick leave policies vary by institution.

O. Fund Balance
Fund balance reported in the governmental fund financial statements is classified as follows:

Reserved
Reservations represent balances that are not appropriable or are legally restricted for a specific purpose. Additional details on "Reserved for Other" balances are disclosed in NOTE 17.

Unreserved/Designated
Designations represent balances available for tentative management plans that are subject to change

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unreserved/Undesignated
Unreserved/undesignated fund balances are available for appropriation for the general purpose of the fund.

P. Risk Management
The State's primary government is self-insured for claims under its traditional healthcare plans and for vehicle liability while it has placed public official fidelity bonding with a private insurer. The State self-funds tort liability and most property losses on a pay-as-you-go basis; however, selected state agencies have acquired private insurance for their property losses. While not the predominant participants, the State's primary government and its discretely presented component units participate in a public entity risk pool, which is accounted for in the Workers' Compensation Enterprise Fund, for the financing of their respective workers' compensation liabilities. These liabilities are reported in the governmental funds under the "Interfund Payable" account. (See NOTE 7).

Q. Interfund Balances and Activities
Interfund transactions and balances have been eliminated from the government-wide financial statements to the extent that they occur within either the governmental or business-type activities. Balances between governmental and business-type activities are presented as internal balances and are eliminated in the total column. Revenues and expenses associated with reciprocal transactions within governmental or within business-type activities have not been eliminated.

In the fund financial statements, interfund activity within and among the three fund categories (governmental, proprietary, and fiduciary) is classified and reported as follows:

Reciprocal interfund activity is the internal counterpart to exchange and exchange-like transactions. This activity includes:

Interfund Loans — Amounts provided with a requirement for repayment, which are reported as interfund receivables in lender funds and interfund payables in borrower funds. When interfund loan repayments are not expected within a reasonable time, the interfund balances are reduced and the amount that is not expected to be repaid is reported as a transfer from the fund that made the loan to the fund that received the loan.

Interfund 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 as expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund balance sheets or fund statements of net assets.

Nonreciprocal interfund activity is the internal counterpart to nonexchange transactions. This activity includes:

Interfund Transfers — Flows of assets 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.

Interfund Reimbursements — Repayments from funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are not displayed in the financial statements.

Details on interfund balances and transfers are disclosed in NOTE 7.

R. Intra-Entity Balances and Activities
Balances due between the primary government and its discretely presented component units are reported as receivables from component units or primary government and payables to component units or primary government. For each major component unit, the nature and amount of significant transactions with the primary government are disclosed in NOTE 7.

Resource flows between the primary government and its discretely presented component units are reported like external transactions (i.e., revenues and expenses).

S. Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

NOTE 2 RESTATEMENTS AND CHANGES IN ACCOUNTING PRINCIPLES AND STANDARDS

A. Restatements

Restatements of net assets/fund balances, as of June 30, 2004, for the primary government and component units that resulted from prior period adjustments for corrections of errors, from changes in accounting principle, and from changes in the reporting entity are presented in the following table (dollars in thousands).

Government-wide Financial Statements:

	Governmental Activities
Net Assets, as of June 30, 2004, As Previously Reported	$17,323,935
Prior Period Adjustments that Increased/(Decreased) Net Assets:	
Intergovernmental Receivable	152,953
Loans Receivable	380
Capital Assets Being Depreciated, Net	36,665
Capital Assets Not Being Depreciated	36,516
Intergovernmental Payable	(51,839)
Net Assets, July 1, 2004, As Restated	$17,498,610

Governmental Fund Financial Statements:

	General	Job, Family and Other Human Services	Other Major Governmental Funds	Nonmajor Governmental Funds	Total
Fund Balance, as of June 30, 2004, As Previously Reported	$ 735,836	$ (76,455)	$767,331	$2,805,192	$4,231,904
Prior Period Adjustments that Increased/(Decreased) Fund Balance:					
Intergovernmental Receivable	152,953	—	—	—	152,953
Loans Receivable	—	—	—	3,380	3,380
Intergovernmental Payable	—	(51,839)	—	—	(51,839)
Deferred Revenue	(122,218)	—	—	—	(122,218)
Fund Balance, July 1, 2004, As Restated	$ 766,571	$(128,294)	$767,331	$2,808,572	$4,214,180

Discretely Presented Component Unit Funds:

	Major Component Unit Funds	Nonmajor Component Unit Funds	Total
Net Assets, as of June 30, 2004, As Previously Reported	$5,745,221	$5,106,134	$10,851,355
Prior Period Adjustments that Increased/(Decreased) Net Assets:			
Cash and Cash Equivalents-Central State University	—	(2,000)	
Restricted Cash and Cash Equivalents-Central State University	—	2,970	
Loans Receivable-Central State University	—	(4,059)	
Other Receivables-Ohio Air Quality Development Authority	—	43	
Other Receivables-Central State University	—	4,364	
Other Receivables-Northwest State Community College	—	35	
Other Assets-Central State University	—	4	
Capital Assets Being Depreciated, Net-Central State University	—	8,773	
Capital Assets Not Being Depreciated-Central State University	—	8,482	
Accounts Payable-Central State University	—	205	
Accrued Liabilities-Central State University	—	1,577	
Intergovernmental Payable-School Facilities Commission	1,728	—	
Unearned Revenue-Central State University	—	(331)	
Refund and Other Liabilities-Central State University	—	(748)	
Bonds Payable-Central State University	—	(20,511)	
Total Corrections, Net	1,728	(1,196)	532
Change in Accounting Principle:			
Capital Assets-University of Akron	—	(11,833)	(11,833)
Change in Reporting Entity:			
Net Assets of Medical Faculty, Inc-Component Unit of Medical University of Ohio	—	3,963	
Net Assets of Medical Center, Inc-Component Unit of Ohio University	—	(2,557)	
Total Change in Reporting Entity, Net	—	1,406	1,406
Net Assets, July 1, 2004, As Restated	$5,746,949	$5,094,511	$10,841,460

NOTE 2 RESTATEMENTS AND CHANGES IN ACCOUNTING PRINCIPLES AND STANDARDS (Continued)

B. Implementation of Recently Issued Accounting Pronouncements

For the fiscal year ended June 30, 2005, the State implemented the provisions of

- Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3,*
- GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, and
- GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit [OPEB] Expenditures/Expense and Liabilities by Cost-Sharing Employers* (only those provisions applicable to pension transactions were implemented).

GASB 40 establishes accounting and financial reporting standards for disclosure of common deposit and investment risks related to credit risk, custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

GASB 44 amends portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, that guide the preparation of the statistical section.

GASB Technical Bulletin No. 2004-2 clarifies the application of requirements regarding accounting for employers' contractually required contributions to cost-sharing pension and OPEB plans issued in GASB 27, *Accounting for Pensions by State and Local Governmental Employers,* and GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* respectively. This Technical Bulletin's provisions became effective for financial statements for periods ending after December 15, 2004, with respect to pension transactions, and are to be applied simultaneously with the implementation of GASB 45 with respect to OPEB transactions. GASB 45 provisions are further explained in the next section on recently issued GASB pronouncements.

C. Recently Issued GASB Pronouncements

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries. This Statement's provisions are effective for financial statements for periods beginning after December 15, 2004.

In April 2004, the GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans and supersedes guidance included in GASB 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*. The standards in this Statement apply for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties that administer them. The requirements of this Statement are effective *one year prior* to the effective date of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the employer (single-employer plan) or for the largest participating employer in the plan (multiple-employer plan). The effective dates by which governments are to implement the provisions of GASB 45 are discussed below.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. This Statement is effective for periods beginning after December 15, 2006, for *phase 1 governments* (those with total annual revenues of $100 million or more in the first fiscal year ending after June 15, 1999); after December 15, 2007, for *phase 2 governments* (those with total annual revenues of $10 million or more but less than $100 million in the first fiscal year ending after June 15, 1999); and after December 15, 2008, for *phase 3 governments* (those with total annual revenues of less than $10 million in the first fiscal year ending after June 15, 1999).

In December 2004, the GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation — an amendment of GASB Statement No. 34*. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government — such as citizens, public interest groups, or the judiciary — can compel a government to honor. This Statement's provisions are

NOTE 2 RESTATEMENTS AND CHANGES IN ACCOUNTING PRINCIPLES AND STANDARDS (Continued)

effective for financial statements for periods beginning after June 15, 2005.

In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*. GASB 47 provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees that are involuntarily terminated. The Statement requires that similar forms of termination benefits be accounted for in the same manner. In general, GASB 47 is effective for financial statements for periods beginning after June 15, 2005. However, for termination benefits that affect defined benefit postemployment benefits other than pensions, governments should implement GASB 47 simultaneously with GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

Management has not yet determined the impact that the new GASB pronouncements will have on the State's financial statements.

NOTE 3 GAAP versus NON-GAAP BUDGETARY BASIS

In the accompanying *Statement of Revenues, Expenditures and Changes in Fund Balances — Budget and Actual (Non-GAAP Budgetary Basis) — General Fund and Major Special Revenue Funds*, *actual* revenues, transfers-in, expenditures, encumbrances, and transfers-out reported on the non-GAAP budgetary basis do not equal those reported on the GAAP basis in the *Statement of Revenues, Expenditures and Changes in Fund Balances — Major Governmental Funds*.

This inequality results primarily from basis differences in the recognition of accruals, deferred revenue, interfund transactions, and loan transactions, and from timing differences in the budgetary basis of accounting for encumbrances. On the non-GAAP budgetary basis, the State recognizes encumbrances as expenditures in the year encumbered, while on the modified accrual basis, the State recognizes expenditures when goods or services are received regardless of the year encumbered.

Original budget amounts in the accompanying budgetary statements have been taken from the first complete appropriated budget for fiscal year 2005.
An appropriated budget is the expenditure authority created by appropriation bills that are signed into law and related estimated revenues. The original budget also includes actual appropriation amounts automatically carried over from prior years by law, including the automatic rolling forward of appropriations to cover prior-year encumbrances.

Final budget amounts represent original appropriations modified by authorized transfers, supplemental and amended appropriations, and other legally authorized legislative and executive changes applicable to fiscal year 2005, whenever signed into law or otherwise legally authorized.

For fiscal year 2005, no excess of expenditures over appropriations were reported in individual funds.

A reconciliation of the fund balances reported under the GAAP basis and budgetary basis for the General Fund and the major special revenue funds is presented on the following page.

NOTE 3 GAAP versus NON-GAAP BUDGETARY BASIS (Continued)

Primary Government
Reconciliation of GAAP Basis Fund Balances to Non-GAAP Budgetary Basis Fund Balances
For the General Fund and Major Special Revenue Funds
As of June 30, 2005
(dollars in thousands)

		Major Special Revenue Funds			
	General	Job, Family, and Other Human Services	Education	Highway Operating	Revenue Distribution
Total Fund Balances - GAAP Basis	$1,345,772	$ (114,508)	$66,837	$ 592,160	$114,563
Less: Reserved Fund Balances	(627,395)	(2,016,648)	(38,255)	(1,644,387)	(129,299)
Less: Designated Fund Balances	(718,377)	—	—	—	—
Unreserved/Undesignated Fund Balances — GAAP Basis	—	(2,131,156)	28,582	(1,052,227)	(14,736)
BASIS DIFFERENCES					
Revenue Accruals/Adjustments:					
Cash Equity with Treasurer	(83,835)	(2,466)	—	(1,530)	(3,960)
Taxes Receivable	(868,701)	—	—	(59,765)	(223,396)
Intergovernmental Receivable	(330,159)	(503,846)	(106,542)	(112,084)	—
Loans Receivable, Net	(39,233)	—	(8,653)	(71,369)	—
Interfund Receivable	(256,651)	(3)	—	(1)	—
Other Receivables	(417,180)	(38,417)	(302)	(1,600)	—
Deferred Revenue	190,322	298,536	8,448	10,574	21,658
Unearned Revenue	153	234,472	49,191	3,129	7,939
Total Revenue Accruals/Adjustments	(1,805,284)	(11,724)	(57,858)	(232,646)	(197,759)
Expenditure Accruals/Adjustments:					
Cash Equity with Treasurer	(75,128)	(9,593)	(813)	(15,211)	—
Inventories	(18,617)	—	—	(23,634)	—
Other Assets	(10,726)	(1,357)	(5,530)	(2,294)	—
Accounts Payable	181,783	53,878	9,238	166,723	—
Accrued Liabilities	106,619	13,560	1,492	20,550	—
Medicaid Claims Payable	951,241	—	—	—	—
Intergovernmental Payable	333,207	264,685	70,371	795	376,430
Interfund Payable	571,330	16,435	2,121	95,309	396
Payable to Component Units	15,160	431	268	406	—
Refund and Other Liabilities	773,305	10,374	—	—	70,389
Liability for Escheat Property	9,863	—	—	—	—
Total Expenditure Accruals/Adjustments	2,838,037	348,413	77,147	242,644	447,215
Other Adjustments:					
Fund Balance Reclassifications:					
From Unreserved (Non-GAAP Budgetary Basis) to Reserved for:					
Noncurrent Portion of Loans Receivable	36,200	—	8,369	70,462	—
Noncurrent Portion of Interfund Receivable	251,653	—	—	—	—
Inventories	18,617	—	—	23,634	—
State and Local Highway Construction	—	—	—	—	129,299
Federal Programs	—	303	8,040	—	—
Other	43,404	4,982	450	7,419	—
From Undesignated (Non-GAAP Budgetary Basis) to Designated	573,157	—	—	—	—
Cash and Investments Held Outside of State Treasury	(358,923)	(10,804)	(2,914)	(1,236)	(13,179)
Other	(1)	1	—	—	(2)
Total Other Adjustments	564,107	(5,518)	13,945	100,279	116,118
Total Basis Differences	1,596,860	331,171	33,234	110,277	365,574
TIMING DIFFERENCES					
Encumbrances	(365,955)	(373,430)	(8,694)	(153,840)	—
Budgetary Fund Balances (Deficits) — Non-GAAP Basis	$1,230,905	$(2,173,415)	$53,122	$(1,095,790)	$350,838

NOTE 4 DEPOSITS AND INVESTMENTS

A. Legal Requirements

The deposit and investment policies of the Treasurer of State and the State Board of Deposit are governed by the Uniform Depository Act, Chapter 135, Ohio Revised Code, which requires state moneys to be maintained in one of the following three classifications:

Active Deposits — Moneys required to be kept in a cash or near-cash status to meet current demands. Such moneys must be maintained either as cash in the State's treasury or in one of the following: a commercial account that is payable or withdrawable, in whole or in part, on demand, a negotiable order of withdrawal account, a money market deposit account, or a designated warrant clearance account.

Inactive Deposits — Those moneys not required for use within the current two-year period of designation of depositories. Inactive moneys may be deposited or invested only in certificates of deposit maturing not later than the end of the current period of designation of depositories.

Interim Deposits — Those moneys not required for immediate use, but needed before the end of the current period of designation of depositories. Interim deposits may be deposited or invested in the following instruments:

- U.S. treasury bills, notes, bonds, or other obligations or securities issued by or guaranteed as to principal and interest by the United States;
- Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality;
- Bonds and other direct obligations of the State of Ohio issued by the Treasurer of State and of the Ohio Public Facilities Commission, the Ohio Building Authority, and the Ohio Housing Finance Agency;
- Commercial paper issued by any corporation that is incorporated under the laws of the United States or a state, and rated at the time of purchase in the two highest rating categories by two nationally recognized rating agencies;
- Written repurchase agreements with any eligible Ohio financial institution that is a member of the Federal Reserve System or Federal Home Loan Bank, or any recognized U.S. government securities dealer in the securities enumerated above;
- No-load money market mutual funds consisting exclusively of securities and repurchase agreements enumerated above;
- Securities lending agreements with any eligible financial institution that is a member of the Federal Reserve System or Federal Home Loan Bank, or any recognized U.S. government securities dealer;
- Bankers' acceptances maturing in 270 days or less;
- Certificates of deposit in the eligible institutions applying for interim moneys, including linked deposits, as authorized under Sections 135.61 to 135.67, Ohio Revised Code; agricultural linked deposits, as authorized under Sections 135.71 to 135.76, Ohio Revised Code; and housing linked deposits, as authorized under Sections 135.81 to 135.87, Ohio Revised Code;
- The Treasurer of State's investment pool, as authorized under Section 135.45, Ohio Revised Code;
- Debt interests, other than commercial paper as enumerated above, of corporations incorporated under the laws of the United States or a state, of foreign nations diplomatically recognized by the United States, or any instrument based on, derived from, or related to such interests that are rated at the time of purchase in the three highest categories by two nationally recognized rating agencies, and denominated and payable in U.S. funds; and
- Obligations of a board of education, as authorized under Sections 133.10 or 133.301, Ohio Revised Code.

The reporting entity's deposits must be held in insured depositories approved by the State Board of Deposit and must be fully collateralized. However, in the case of foundations and other component units of the colleges and universities, deposits of these entities are not subject to the legal requirements for deposits of governmental entities.

Deposit and investment policies of certain individual funds and component units are established by Ohio Revised Code provisions other than the Uniform Depository Act and by bond trust agreements. In accordance with applicable statutory authority, the State Highway Patrol Retirement System Pension Trust Fund, the Tuition Trust Authority Enterprise Fund, the Workers' Compensation Enterprise Fund, the Retirement Systems Agency Fund, and the

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

higher education institutions may also invest in common and preferred stocks, domestic and foreign corporate and government bonds and notes, mortgage loans, limited partnerships, venture capital, real estate, and other investments.

B. State-Sponsored Investment Pool
The Treasurer of State is the investment advisor and administrator of the State Treasury Asset Reserve of Ohio (STAR Ohio), a statewide external investment pool authorized under Section 135.45, Ohio Revised Code. STAR Ohio issues a stand-alone financial report, copies of which may be obtained by making a written request to: Director of Investments, Treasurer of State, 30 East Broad Street, 9th Floor, Columbus, Ohio 43215, by calling (614) 466-2160, or by accessing the Treasurer of State's website at www.ohiotreasurer.org.

C. Deposit and Investment Risks
Although risks exposures are minimized by complying with the legal requirements explained above and internal policies adopted by the Treasurer of State and the investment departments at the various state agencies, the State's deposits and investments are exposed to risks that may lead to losses of value.

The following risk disclosures report investments by type. The "U.S. Agency Obligations" category includes securities issued by federal government agencies and instrumentalities, including government-sponsored enterprises.

1. Custodial Credit Risk
Custodial credit risk for deposits exists when a government is unable to recover deposits or recover collateral securities that are in the possession of an outside party in the event of a failure of a depository financial institution.

Deposits of the primary government and its component units are exposed to custodial credit risk if they are not covered by depository insurance, and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

In Ohio, legal requirements for depositor-governments are met when deposits are collateralized with securities held by the pledging financial institution, or by the pledging financial institution's trust department or agent but not in the government's name.

Custodial credit risk for investments exists when a government is unable to recover the value of investment or collateral securities that are in the possession of an outside party in the event of a failure of a counterparty to a transaction.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department but not in the government's name.

In addition to existing legal requirements, the State's reporting entity has not established specific policies for managing custodial credit risk exposure for deposits and investments.

The following table reports the carrying amount of deposits held by the primary government and its component units, as of June 30, 2005, and the extent of exposure to custodial credit risk.

Primary Government (including Fiduciary Activities) and Component Units
Deposits—Custodial Credit Risk
As of June 30, 2005
(dollars in thousands)

			Uninsured Portion of Reported Bank Balance		
	Carrying Amount	Bank Balance	Uncollateralized*	Collateralized with Securities Held by the Pledging Institution's Trust Department or Agent but not in the Depositor-Government's Name	Collateralized with Securities Held by the Pledging Institution
Primary Government	$ 521,127	$ 614,251	$ —	$131,220	$ —
Component Units	515,389	593,478	77,509	463,239	12,907
Total Deposits — Reporting Entity	$1,036,516	$1,207,729	$77,509	$594,459	$12,907

*Uncollateralized deposits are reported for the foundations and other component units of the colleges and universities.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The following tables report the fair value of investments for the primary government and its component units by type, as of June 30, 2005, and the extent of exposure to custodial credit risk (dollars in thousands).

Investments for the Primary Government (including Fiduciary Activities), as of June 30, 2005	Total Fair Value	Uninsured, Unregistered, and Held by the Counterparty's Trust Department or Agent but not in the State's Name
Investments Subject to Custodial Credit Risk Exposure:		
U.S. Government Obligations:		
Not on Securities Loan	$ 9,481,057	$153,773
On Securities Loan	17,287	6,948
U.S. Government Obligations—Strips	397,591	—
U.S. Agency Obligations:		
Not on Securities Loan	9,268,170	27,143
On Securities Loan	66,772	—
U.S. Agency Obligations—Strips	331,836	—
Common and Preferred Stock	66,187,782	—
Corporate Bonds and Notes:		
Not on Securities Loan	13,773,430	893
On Securities Loan	131,838	131,838
Corporate Bonds and Notes—Strips	905	—
Commercial Paper	5,117,994	—
Repurchase Agreements	113,907	349
Mortgage and Asset-Backed Securities	6,106,339	—
International Investments:		
Foreign Stocks	30,543,137	—
Foreign Bonds:		
Not on Securities Loan	1,670,791	—
On Securities Loan	4,794	4,794
High-Yield and Emerging Markets Fixed Income	388,767	—
Securities Lending Collateral:		
Negotiable Certificates of Deposit	149,490	—
Repurchase Agreements	2,186,112	—
Commercial Paper	94,632	—
Corporate Bonds and Notes	3,251,817	—
Time Deposits	125,710	—
Master Notes	590,847	—
		$325,738
Investments Not Subject to Custodial Credit Risk Exposure:		
Investments Held by Broker-Dealers under Securities Loans with Cash Collateral:		
U.S. Government Obligations	2,581,245	
U.S. Government Obligations—Strips	47,967	
U.S. Agency Obligations	4,258,367	
U.S. Agency Obligations—Strips	297,612	
Common and Preferred Stock	1,109,245	
Corporate Bonds and Notes	231,702	
Mortgage and Asset-Backed Securities	1,265	
International Investments:		
Foreign Stocks	923,278	
Foreign Bonds	23,014	
High-Yield and Emerging Markets Fixed Income	99,217	
International Investments-Commingled Equity Funds	614,931	
Equity Mutual Funds	8,076,424	
Bond Mutual Funds	2,769,410	
Real Estate	10,095,386	
Venture Capital	2,270,024	
Limited Partnerships	940,083	
Investment Contracts	942	
Deposit with Federal Government	612,728	
Component Units' Equity in State Treasurer's Cash and Investment Pool	(652,173)	
Component Units' Equity in the State Treasury Asset Reserve of Ohio	(476,122)	
Total Investments — Primary Government	$183,825,550	

(Continued)

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Investments for Component Units, as of June 30, 2005	Total Fair Value	Uninsured, Unregistered, and Held by the Counterparty's Trust Department or Agent but not in the Component Unit's Name	Uninsured, Unregistered, and Held by the Counterparty but not in the Component Unit's Name
Investments Subject to Custodial Credit Risk Exposure:			
U.S. Government Obligations	$ 296,350	$ 47,247	$ 131,400
U.S. Government Obligations—Strips	18,273	9,700	—
U.S. Agency Obligations	953,048	353,661	292,599
Common and Preferred Stock	1,553,610	390,390	656,665
Corporate Bonds and Notes	309,214	110,193	135,165
Commercial Paper	19,923	4,875	—
Repurchase Agreements	346,832	225,340	82,730
Mortgage and Asset-Backed Securities	13,041	—	—
Negotiable Certificates of Deposit	299	200	—
Municipal Obligations	2,996	637	2,020
Other Investments	45,401	319	25,456
		$1,142,562	$1,326,035
Investments Not Subject to Custodial Credit Risk Exposure:			
Equity Mutual Funds	1,751,946		
Bond Mutual Funds	872,802		
Absolute Return Funds	30,888		
Real Estate	151,519		
Direct Mortgages	75,251		
Life Insurance	3,065		
Investment Contracts	690,904		
Charitable Remainder Trusts	5,435		
Partnerships and Hedge Funds	156,811		
Investment in State Treasurer's Cash and Investment Pool	652,173		
Investment in the State Treasury Asset Reserve of Ohio (STAR Ohio)	476,122		
Total Investments — Component Units	8,425,903		
Total Investments — Reporting Entity	$192,251,453		

The total carrying amount of deposits and investments, as of June 30, 2005, reported for the primary government and its component units is (dollars in thousands) $193,191,425. The total of the carrying amounts of both deposits in the amount of $1,036,516 and investments in the amount of $192,251,453 that has been categorized and disclosed in this note is $193,287,969. A reconciliation of the difference is presented in the table below.

Reconciliation of Deposit and Investments Disclosures with Financial Statements
As of June 30, 2005
(dollars in thousands)

	Government-Wide Statement of Net Assets				
	Governmental Activities	Business-Type Activities	Component Units	Fiduciary Funds Statement of Net Assets	Total
Cash Equity with Treasurer	$ 5,902,053	$ 80,271	$ 415,057	$ 221,427	$ 6,618,808
Cash and Cash Equivalents	94,269	1,297,468	690,134	411,792	2,493,663
Investments	934,536	15,561,651	5,428,701	151,221,512	173,146,400
Collateral on Lent Securities	3,514,417	1,767,597	237,116	429,947	5,949,077
Deposit with Federal Government	—	612,728	—	—	612,728
Restricted Assets:					
Cash Equity with Treasurer	—	62,752	—	—	62,752
Cash and Cash Equivalents	—	1,675	549,786	—	551,461
Investments	—	1,695,507	1,621,779	—	3,317,286
Collateral on Lent Securities	—	439,250	—	—	439,250
Total Reporting Entity	$10,445,275	$21,518,899	$8,942,573	$152,284,678	$193,191,425

Total Carrying Amount of Deposits and Investments per Financial Statements	$193,191,425
Outstanding Warrants and Other Reconciling Items	178,625
Differences Resulting from Component Units with December 31 Year-Ends	(82,081)
Total Carrying Amount of Deposits and Investments Disclosed in Note 4	$193,287,969

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

2. Credit Risk
The risk that an investment's issuer or counterparty will not satisfy its obligation is called credit risk. The exposure to this risk has been minimized through the laws and policies adopted by the State.

For investments that are included in the treasury's cash and investment pool and reported as "Cash Equity with Treasurer" and other investment securities managed by the Treasurer of State's Office, Chapter 135, Ohio Revised Code, requires such investments to carry certain credit ratings at the time of purchase as follows:

- Commercial paper must carry ratings in the two highest categories by two nationally recognized rating agencies;
- Debt interests (other than commercial paper) must carry ratings in the three highest categories by two nationally recognized rating agencies. This requirement is met when either the debt interest or the issuer of the debt interest carries this rating.

Investment policies of the Treasurer of State's Office further define required credit ratings as follows:

- Commercial paper must have a short-term debt rating of at least "A1" or equivalent by all agencies that rate the issuer, with at least two agencies rating the issuer,
- Banker acceptances must carry a minimum of "AA" for long-term debt ("AAA" for foreign issuers) by a majority of the agencies rating the issuer. For short-term debt, the rating must be "A1" or equivalent by all agencies that rate the issuer, with at least two agencies rating the issuer,
- Corporate notes must be rated at a minimum of "Aa" by Moody's Investors Service and a minimum of "AA" by Standard & Poor's for long-term debt,
- Foreign debt must be guaranteed as to principal and interest by the United States or carry a minimum of "Aa" by Moody's Investors Service and a minimum of "AA" by Standard & Poor's for long-term debt,
- For Registered Investment Companies (Mutual Funds), no-load money market mutual funds must carry a rating of "AAm", "AAm-G", or better by Standard & Poor's or the equivalent rating of another agency.

Investment policies regarding credit risk that are in addition to Ohio Revised Code requirements and are specific to the following significant entities reported for the State's reporting entity are as follows:

Workers' Compensation Enterprise Fund
The Fund requires an average credit quality no lower than an "A" rating for fixed income securities.

State Highway Patrol Retirement System Pension Trust Fund
Commercial paper must be rated "A-1" and must be issued by U.S. corporations. Bond investments must be rated within the four highest classifications of at least two rating agencies when purchased.

STAR Ohio Investment Trust Fund
Investment policies governing the STAR Ohio external investment pool require that all securities must be rated the equivalent of "A-1", and at least 50 percent of the total average portfolio must be rated "A-1+" or better.

Retirement Systems Agency Fund
For the Ohio Public Employees Retirement System, non-investment grade securities are limited to 15 percent of the total Global Bond portfolio.

For the Ohio Police and Fire Pension Fund,

- Securities in the core fixed income portfolio shall be rated "BBB-" or better by two standard rating agencies at the time of purchase,
- Securities in the high yield fixed income portfolio are high yield bonds issued by US corporations with a minimum rating of "CCC" or equivalent,
- Investment managers may purchase securities that are "Not Rated" as long as they deem these securities to be at least equivalent to the minimum ratings,
- Commercial paper must be rated within the two highest classifications established by two standard rating agencies,
- Investment managers may hold no more than 15 percent of their entire portfolio in convertible bonds with no minimum credit rating specified.

Ohio Water Development Authority Component Unit Fund
The Authority's policy authorizes the acquisition of repurchase agreements from financial institutions with a Moody's or Standard & Poor's rating of "A" and the entering into investment agreements with financial institutions rated in the highest short-term categories or one of the top three long-term categories by Moody's and/or Standard & Poor's.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

University of Cincinnati Component Unit Fund
The policy governing the university's temporary investment pool permits investments in securities rated "A" or higher at the time of purchase. Endowment investment-grade bonds are limited to those in the first four grades of any rating system. Below-investment grade, high-yield bond investments and certain unrated investments having strategic value to the university are permitted.

All investments, as categorized by credit ratings in the following tables, meet the requirements of the State's laws and policies, when applicable.

Descriptions of the investment credit ratings shown in the tables are as follows:

Rating	General Description of Credit Rating
AAA/Aaa	Extremely strong
AA/Aa	Very strong
A/A-1	Strong
BBB/Baa	Adequate
BB/Ba	Less vulnerable
B	More vulnerable
CCC/Caa	Currently vulnerable to nonpayment
CC/Ca	Currently highly vulnerable to nonpayment
C	Currently highly vulnerable to nonpayment due to certain conditions (e.g., filing of bankruptcy petition or similar action by issuer)

Primary Government (including Fiduciary Activities)
Investment Credit Ratings
As of June 30, 2005
(dollars in thousands)

	Credit Rating					
Investment Type	AAA/Aaa	AA/Aa	A/A-1	BBB/Baa	BB/Ba	B
U.S. Agency Obligations	$ 9,451,412	$ 52,472	$ 24,598	$ —	$ —	$ —
U.S. Agency Obligations—Strips	411,196	1,986	—	—	—	—
Corporate Bonds and Notes	2,068,920	1,916,628	4,845,755	2,302,952	1,168,506	1,158,779
Corporate Bonds and Notes—Strips	905	—	—	—	—	—
Commercial Paper	217,796	—	3,969,951	—	—	—
Repurchase Agreements	—	—	113,502	—	—	—
Mortgage and Asset-Backed Securities	1,637,749	51,781	77,148	112,949	2,181	—
Foreign Bonds	5,186	37,685	71,495	105,832	125,747	733,655
High-Yield & Emerging Markets Fixed Income	—	—	2,278	120,129	198,867	111,626
Bond Mutual Funds	454,297	52,753	15,491	—	107,128	2,337
Investment Contracts	—	—	—	—	—	—
Securities Lending Collateral:						
Negotiable Certificates of Deposit	—	—	149,490	—	—	—
Repurchase Agreements	—	22,007	254,263	—	—	—
Commercial Paper	—	—	94,632	—	—	—
Corporate Bonds and Notes	835,179	371,842	1,834,830	—	—	—
Time Deposits	—	—	125,000	—	—	—
Master Notes	—	—	410,378	—	—	—
Total	$15,082,640	$2,507,154	$11,988,811	$ 2,641,862	$ 1,602,429	$2,006,397

	Credit Rating				
Investment Type	CCC/Caa	CC/Ca	C	Unrated	Total
U.S. Agency Obligations	$ —	$ —	$ —	$ 4,064,827	$13,593,309
U.S. Agency Obligations—Strips	—	—	—	216,266	629,448
Corporate Bonds and Notes	147,946	3,429	78,300	445,755	14,136,970
Corporate Bonds and Notes—Strips	—	—	—	—	905
Commercial Paper	—	—	—	930,247	5,117,994
Repurchase Agreements	—	—	—	405	113,907
Mortgage and Asset-Backed Securities	—	—	—	4,225,796	6,107,604
Foreign Bonds	1,935	—	34,698	582,366	1,698,599
High-Yield & Emerging Markets Fixed Income	16,241	—	—	38,843	487,984
Bond Mutual Funds	—	—	—	2,137,404	2,769,410
Investment Contracts	—	—	—	942	942
Securities Lending Collateral:					
Negotiable Certificates of Deposit	—	—	—	—	149,490
Repurchase Agreements	—	—	—	1,909,842	2,186,112
Commercial Paper	—	—	—	—	94,632
Corporate Bonds and Notes	—	—	—	209,966	3,251,817
Time Deposits	—	—	—	710	125,710
Master Notes	—	—	—	180,469	590,847
Total	$ 166,122	$ 3,429	$ 112,998	$14,943,838	$51,055,680

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Component Units
Investment Credit Ratings
As of June 30, 2005
(dollars in thousands)

Investment Type	Credit Rating AAA/Aaa	AA/Aa	A/A-1	BBB/Baa	BB/Ba	B
U.S. Agency Obligations	$ 918,503	$ —	$ 101	$ —	$ —	$ —
Corporate Bonds and Notes	81,977	47,808	118,357	43,632	14,687	162
Commercial Paper	993	—	14,340	1,099	—	—
Repurchase Agreements	82,730	—	—	—	—	—
Mortgage and Asset-Backed Securities	12,435	548	—	—	54	—
Negotiable Certificates of Deposit	—	—	—	—	—	—
Municipal Obligations	2,174	501	21	—	—	—
Bond Mutual Funds	627,330	42,227	74,300	58,449	4,759	21,430
Direct Mortgages	—	—	—	—	—	—
Investment Contracts	—	—	—	—	—	—
Other Investments	560	46	—	275	—	—
Total	$1,726,702	$ 91,130	$ 207,119	$103,455	$19,500	$21,592

Investment Type	Credit Rating CCC/Caa	Unrated	Total
U.S. Agency Obligations	$ —	$ 34,444	$ 953,048
Corporate Bonds and Notes	—	2,591	309,214
Commercial Paper	—	3,491	19,923
Repurchase Agreements	—	264,102	346,832
Mortgage and Asset-Backed Securities	—	4	13,041
Negotiable Certificates of Deposit	—	299	299
Municipal Obligations	—	300	2,996
Bond Mutual Funds	7,099	37,208	872,802
Direct Mortgages	—	75,251	75,251
Investment Contracts	—	690,904	690,904
Other Investments	—	18,745	19,626
Total	$ 7,099	$1,127,339	$3,303,936

3. Concentration of Credit Risk

The potential for loss of value increases when investments are not diversified. The State has imposed limits on the types of authorized investments to prevent this type of loss.

For investments that are included in the treasury's cash and investment pool and reported as "Cash Equity with Treasurer" and other investment securities managed by the Treasurer of State's Office, Chapter 135, Ohio Revised Code, requires the following:

- Investments in commercial paper may not exceed 25 percent of the State's total average portfolio,
- Bankers acceptances cannot exceed 10 percent of the State's total average portfolio,
- Debt interests cannot exceed 25 percent of the State's total average portfolio,
- Debt interests in foreign nations may not exceed one percent of the State's total average portfolio,
- Debt interests of a single issuer may not exceed one-half of one percent of the State's total average portfolio.

Investment policies of the Treasurer of State further restrict concentrations of investments. Maximum concentrations are as follows:

Investment Type	Maximum % of Total Average Portfolio
U.S. Treasury	100
Federal Agency (fixed rate)	100
Federal Agency (callable)	55
Federal Agency (variable rate)	10
Repurchase Agreements	25
Bankers' Acceptances	10
Commercial Paper	10
Corporate Notes	5
Foreign Notes	1
Interim Deposits	20
Municipal Obligations	10
STAR Ohio	25
Mutual Funds	25

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The investment policies of the Treasurer of State's Office also specify that commercial paper is limited to no more than five percent of the issuing corporation's total outstanding commercial paper, and investments in a single issuer are further limited to no more than two percent of the total average portfolio except for U.S. government obligations, limited at 100 percent; repurchase agreement counterparties, limited at the lesser of five percent or $250 million; bankers' acceptances, limited at five percent; corporate notes and foreign debt, limited at one-half of one percent; and mutual funds, limited at 10 percent.

For large capitalization equity securities acquired for the Workers' Compensation Enterprise Fund, no single holding is to be more than five percent of the entire portfolio at market, or 9.9 percent of the outstanding equity securities of any one corporation.

For the Lottery Commission Enterprise Fund, no more than two percent of the total average portfolio may be invested in the securities of any single issuer with the following exceptions: U.S. government obligations, 100 percent maximum; repurchase agreements, limited at the lesser of five percent or $250 million; and mutual funds, 10 percent maximum.

The State Highway Patrol Retirement System Pension Trust Fund's policy does not allow more than 10 percent of its fixed income portfolio to be invested in securities of any one issuer with the exception of U.S. government securities, or more than five percent of the Fund's total investments in any one issuer with the exception of U.S. government securities.

For the STAR Ohio Investment Trust Fund, investments in a single issuer are further limited to no more than two percent of the total average portfolio except for U.S. Treasury obligations, limited at 100 percent; U.S. Agency obligations, limited at 33 percent; repurchase agreement counterparties, limited at the lesser of 10 percent or $500 million; and mutual funds, limited at 10 percent.

As of June 30, 2005, all investments meet the requirements of the State's laws and policies, when applicable. However, investments in certain issuers are greater than five percent of investment balances, as follows (dollars in thousands):

Issuer	Amount	Percentage of Investment Balance
Governmental and Business-Type Activities:		
Federal National Mortgage Association	$2,965,368	10%
Federal Home Loan Bank	1,750,937	6%
Federal Home Loan Mortgage Corporation	2,113,323	7%
STAR Ohio Investment Trust Fund:		
Federal National Mortgage Association	834,429	21%
Federal Home Loan Bank	741,714	19%
Federal Home Loan Mortgage Corporation	803,524	20%
School Facilities Commission Component Unit Fund:		
Federal National Mortgage Association	76,954	13%
Federal Home Loan Bank	96,495	16%
Federal Home Loan Mortgage Corporation	93,987	16%
Ohio Water Development Authority Component Unit Fund (12/31//04):		
Federal Home Loan Bank	84,612	7%
Bear Stearns	61,693	5%
Citigroup	481,996	40%
Morgan Stanley	61,693	5%
Transamerica	118,542	10%

4. Interest Rate Risk

Certain of the State's investments are exposed to interest rate risk. This risk exists when changes to interest rates will negatively impact the fair value of an investment. The State has adopted policies to mitigate this risk.

Investment policies governing the treasury's cash and investment pool, which is reported as "Cash Equity with Treasurer" and is managed by the Treasurer of State's Office, limit maturities of short-term investments to no more than 12 months with a weighted average maturity not to exceed 90 days. For long-term investments, maturities are limited to five years or less except for those that are matched to a specific obligation or debt of the State. A duration target of three years or less has been established for long-term investments.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Variable rate notes are permitted if they meet the following criteria:

- the note has an ultimate maturity of less than three years,
- the rate resets frequently to follow money market rates,
- the note is indexed to a money market rate that correlates (by at least 95 percent) with overall money market rate changes, even during wide swings in interest rates, e.g., federal funds, 3-month treasury bill, LIBOR, and
- any cap on the interest rate is at least 15 percent (1500 basis points) higher than the coupon at purchase.

The Lottery Commission Enterprise Fund's investments are required to have maturities of 30 years or less. In no case may the maturity of an investment exceed the expected date of disbursement of those funds.

For the State Highway Patrol Retirement System Pension Trust Fund, investment policies require that commercial paper matures within 95 days. In addition, the Fund's fixed income portfolio is required to have an average maturity of 10 years or less.

Investment policies governing the STAR Ohio Investment Trust Fund limit maturities of investments to a final stated maturity of 397 days or less. The weighted average maturity of each portfolio is limited to 60 days or less.

All investments of the Ohio Water Development Authority Component Unit Fund must mature within five years unless the investment is matched to a specific obligation or debt of the Authority.

The policy of the University of Cincinnati Component Unit Fund stipulates that the weighted average maturity in the Temporary Investment Pool shall be no longer than five years. The weighted average of the fixed income maturities in the university's endowment portfolio shall not exceed 20 years.

As of June 30, 2005, several investments reported as "Cash Equity with Treasurer" have terms that make their fair values highly sensitive to interest rate changes. The U.S. agency obligations investment type includes $272.5 million of investments with call dates during fiscal year 2006. These investments have scheduled maturities between fiscal year 2007 and fiscal year 2009 and are reported in the table on the following page as maturing in one to five years.

As of June 30, 2005, the Workers' Compensation Enterprise Fund held approximately $1.5 billion in certain mortgage and asset-backed securities (primarily classified under the "Corporate Bonds and Notes" investment type), which the fund classified as derivatives. The overall return or yield on mortgage and asset-backed securities depends on the interest amount collected over the life of the security and the change in the fair value. Although the Bureau will receive the full principal amount, if prepaid, the interest income that would have been collected during the remaining period to maturity is lost. Accordingly, the yields and maturities of mortgage and asset-backed securities generally depend on when the underlying loan principal and interest are repaid. If the market rates fall below a loan's contractual rate, it is generally to the borrower's advantage to repay the existing loan and obtain new, lower interest rate financing.

The Lottery Commission Enterprise Fund has $30.5 million of U.S. government obligations—strips and $6.8 million of U.S. agency obligations with call dates. The U.S. government obligations—strips are callable in fiscal year 2006 and have a scheduled maturity in fiscal year 2011. This investment is reported as maturing in six to 10 years in the table on the following page. The U.S. agency obligations investment type has $3.7 million callable in fiscal year 2007 with a scheduled maturity during fiscal year 2012 and $3.1 million callable in fiscal year 2007 with a scheduled maturity during fiscal year 2022. These investments are reported as maturing in six to 10 years and in over 10 years, respectively, in the table on the following page.

The State Highway Patrol Retirement System Pension Trust Fund also has investments with terms that make the fair values highly sensitive to interest rate changes. Within the mortgage and asset-backed securities investment type are investments of $4.8 million that include floating interest rates and adjustable coupons. The corporate bonds and notes investment type also include $2.3 million of investments with floating interest rates and adjustable coupons. The mortgage and asset-backed securities and corporate bonds and notes investment types contain call provisions of $1.3 million and $2.5 million, respectively. The investments with call provisions are listed in the table on the following page based on these terms.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Also during fiscal year 2005, the Treasurer of State acted as the custodian of the Retirement Systems Agency Fund's investments. These investments contain terms that make their fair values highly sensitive to interest rate changes. Specific information on the nature of the investments and their terms can be found in each respective system's Comprehensive Annual Financial Report.

The following table lists the investment maturities of the State's investments. All investments at June 30, 2005, meet the requirements of the State's laws and policies, when applicable.

Primary Government (including Fiduciary Activities)
Investments Subject to Interest Rate Risk
As of June 30, 2005
(dollars in thousands)

	Investment Maturities (in years)				
Investment Type	Less than 1	1-5	6-10	More than 10	Total
U.S. Government Obligations	$ 1,024,598	$ 3,597,195	$1,927,933	$ 5,529,863	$12,079,589
U.S. Government Obligations—Strips	24,904	36,057	92,296	292,301	445,558
U.S. Agency Obligations	7,757,536	2,288,325	571,876	2,975,572	13,593,309
U.S. Agency Obligations—Strips	51,757	273,553	167,380	136,758	629,448
Corporate Bonds and Notes	1,235,691	5,590,352	4,057,107	3,253,820	14,136,970
Corporate Bonds and Notes—Strips	—	—	—	905	905
Commercial Paper	5,117,994	—	—	—	5,117,994
Repurchase Agreements	113,851	—	—	56	113,907
Mortgage and Asset-Backed Securities	256	1,646,373	321,622	4,139,353	6,107,604
Foreign Bonds	15,860	400,949	462,362	819,428	1,698,599
High-Yield & Emerging Markets Fixed Income	31,803	57,336	211,959	186,886	487,984
Bond Mutual Funds	2,510,355	157,399	50,705	50,951	2,769,410
Investment Contracts	—	—	942	—	942
Securities Lending Collateral:					
Negotiable Certificates of Deposit	2,999	146,491	—	—	149,490
Repurchase Agreements	2,186,112	—	—	—	2,186,112
Commercial Paper	94,632	—	—	—	94,632
Corporate Bonds and Notes	2,647,392	604,425	—	—	3,251,817
Time Deposits	125,000	710	—	—	125,710
Master Notes	590,847	—	—	—	590,847
Total Primary Government	$23,531,587	$14,799,165	$7,864,182	$17,385,893	$63,580,827

Component Units
Investments Subject to Interest Rate Risk
As of June 30, 2005
(dollars in thousands)

	Investment Maturities (in years)				
Investment Type	Less than 1	1-5	6-10	More than 10	Total
U.S. Government Obligations	$ 85,561	$ 132,572	$ 48,733	$ 29,484	$ 296,350
U.S. Government Obligations—Strips	3,669	8,735	4,052	1,817	18,273
U.S. Agency Obligations	403,031	390,680	64,950	94,387	953,048
Corporate Bonds and Notes	78,441	114,872	52,619	63,282	309,214
Commercial Paper	19,923	—	—	—	19,923
Repurchase Agreements	346,832	—	—	—	346,832
Mortgage and Asset-Backed Securities	52	1,565	1,705	9,719	13,041
Negotiable Certificates of Deposit	299	—	—	—	299
Municipal Obligations	1,252	647	104	993	2,996
Bond Mutual Funds	248,401	348,179	177,616	98,606	872,802
Direct Mortgages	—	540	—	74,711	75,251
Investment Contracts	17,062	633,764	—	40,078	690,904
Other Investments	12,501	5,180	1,652	293	19,626
Total Component Units	$1,217,024	$1,636,734	$351,431	$413,370	$3,618,559

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

5. Foreign Currency Risk
Investments in stocks and bonds denominated in foreign currencies are affected by foreign currency risk which arises from changes in currency exchange rates. The State's laws and investment policies include provisions to limit the exposure to this type of risk.

According to Chapter 135, Ohio Revised Code, investments reported as "Cash Equity with Treasurer" and managed by the Treasurer of State's Office are limited to the debt of nations diplomatically recognized by the United States that are backed by the full faith and credit of that foreign nation.

Investment policies of the Treasurer of State's Office further limit the types of authorized investments. These requirements include maturity limitations of five years at the date of purchase and denomination of principal and interest in United States funds. Other limitations are noted in the previous sections of this note that discuss credit risk and concentration of credit risk.

Investment policies regarding foreign currency risk have also been adopted for the following significant entities reported in the primary government and are specific to those entities:

Workers' Compensation Enterprise Fund
The Fund's investment policy requires that

- equity securities of any one international company shall not exceed 10 percent of the total value of all the investments in international equity securities,
- equity holdings of international equity securities shall not exceed 25 percent of the total value of all investments in international equity securities,
- no more than 40 percent of the total value of all investments in international equity securities shall be invested in any one country.

Retirement Systems Agency Fund
For the Ohio Public Employees Retirement System, non-U.S. dollar-based securities are limited to five percent of the total Global Bond portfolio. Additionally, no more than 25 percent of the Global Bond portfolio assets may be from non-U.S. issuers.

Through the use of international money managers, the Bureau of Workers' Compensation enters into various foreign currency exchange contracts to manage exposure to changes in foreign currency exchange rates on its international securities holdings. A foreign currency exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risk associated with such contracts includes movement in the value of foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. The fair value of the forward currency contracts receivable for the Bureau was $259 thousand, as of June 30, 2005.

As of June 30, 2005, investments denominated in the currency of foreign nations, as detailed in the tables appearing on the next two pages for the primary government and its discretely presented component units, meet the requirements of the State's laws and policies, when applicable. Balances reported for the business-type activities exclusively pertain to the Workers' Compensation Enterprise Fund.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Primary Government
International Investments—Foreign Currency Risk
As of June 30, 2005
(dollars in thousands)

Currency	Business-Type Activities — Stocks	Fiduciary Activities: Stocks	Fiduciary Activities: Bonds	Fiduciary Activities: High-Yield & Emerging Markets Fixed Income	Total
Argentinean Peso	$ —	$ 8,087	$ —	$ 6,895	$ 14,982
Australian Dollar	27,581	260,963	—	—	288,544
Bahamian Dollar	—	26	—	—	26
Belize Dollar	—	2	—	—	2
Bermudian Dollar	—	264	—	—	264
Brazilian Real	—	263,229	—	—	263,229
British Pound	288,925	1,892,855	21	—	2,181,801
Bulgarian Lev	—	17	—	—	17
Canadian Dollar	166,954	412,122	656,139	—	1,235,215
Caymanian Dollar	—	39	—	—	39
Chilean Peso	—	3,724	—	—	3,724
Chinese Yuan	—	26,661	—	—	26,661
Colombian Peso	—	165	9,819	1,024	11,008
Czech Koruna	—	29,945	—	—	29,945
Danish Krone	21,298	77,665	—	—	98,963
Egyptian Pound	—	58,633	—	1,492	60,125
Euro	675,394	2,767,827	8,245	407	3,451,873
Hong Kong Dollar	50,830	438,505	—	—	489,335
Hungarian Forint	—	79,805	2,072	—	81,877
Icelandic Krona	—	2	—	—	2
Indian Rupee	—	160,419	—	—	160,419
Indonesian Rupiah	—	106,245	—	539	106,784
Israeli Shekel	—	114,271	—	1,049	115,320
Japanese Yen	418,069	1,983,092	8,877	1	2,410,039
Jordanian Dollar	—	1	—	—	1
Lithuanian Litas	—	34	—	—	34
Malaysian Ringgit	—	150,149	299	1,229	151,677
Mexican Peso	2,173	189,535	22,165	1,438	215,311
Netherlands Antilles Guilder	—	2	—	—	2
New Zealand Dollar	631	33,149	1,604	—	35,384
Norwegian Kroner	10,273	104,862	—	—	115,135
Pakistani Rupee	—	8,100	—	—	8,100
Panamanian Balboa	—	5	—	—	5
Peruvian New Sol	—	1,412	—	992	2,404
Philippines Peso	—	29,803	—	—	29,803
Polish Zloty	—	34,431	4,098	—	38,529
Romanian Leu	—	1,329	—	—	1,329
Russian Ruble	—	10,859	—	—	10,859
Singapore Dollar	11,011	145,854	—	—	156,865
South African Rand	1,477	431,865	—	—	433,342
South Korean Won	—	851,565	—	—	851,565
Sri Lankan Rupee	—	15,251	—	—	15,251
Swedish Krona	28,408	134,417	—	—	162,825
Swiss Franc	153,466	496,498	492	—	650,456
Taiwan Dollar	—	472,307	—	—	472,307
Thailand Baht	3,789	155,681	—	—	159,470
Turkish Lira	—	219,622	48,246	3,398	271,266
Uruguayan Peso	—	—	395	972	1,367
Venezuelan Bolivar	—	9	—	—	9
Zimbabwean Dollar	—	2,402	—	—	2,402
Emerging Markets (various currencies)	—	2,382	—	—	2,382
Investments Held in Foreign Currency	$1,860,279	$12,176,087	$762,472	$19,436	14,818,274
Foreign Investments Held in U.S. Dollars					19,449,655
Total Foreign Investments-Primary Government, including Fiduciary Activities					$34,267,929

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Component Units
International Investments—Foreign Currency Risk
As of June 30, 2005
(dollars in thousands)

Ohio State University:

Currency	Included in the Investment Balances Reported for: Common & Preferred Stock	Corporate Bonds	Equity Mutual Funds	Bond Mutual Funds	Total
Australian Dollar	$ 417	$ —	$ 7,061	$ 156	$ 7,634
British Pound	5,829	—	32,570	2,753	41,152
Canadian Dollar	740	—	8,982	987	10,709
Euro	7,707	234	43,109	21,298	72,348
Hong Kong Dollar	539	—	2,002	—	2,541
Japanese Yen	5,176	—	26,337	14,909	46,422
South Korean Won	—	—	3,443	—	3,443
Swedish Krona	300	—	2,171	—	2,471
Swiss Franc	2,243	—	6,217	—	8,460
Taiwan Dollar	—	—	2,875	—	2,875
Other (various currencies)	719	—	13,738	831	15,288
Total Foreign Investments	$23,670	$234	$148,505	$40,934	$213,343

Wright State University:

Currency	Included in the Balance Reported for Corporate Bonds
Brazilian Real	$162
Canadian Dollar	65
Columbian Peso	18
Japanese Yen	290
Norwegian Kroner	66
Panama Balboa	82
Total Foreign Investments	$683

D. Securities Lending Transactions
The Treasurer of State, Bureau of Workers' Compensation (BWC), and the State Highway Patrol Retirement System (SHPRS) participate in securities lending programs for securities included in the "Cash Equity with Treasurer" and "Investments" accounts and the STAR Ohio Program. Each lending program is administered by a custodial agent bank, whereby certain securities are transferred to an independent broker-dealer (borrower) in exchange for collateral.

At the time of the loan, the Treasurer of State requires its custodial agents to ensure that the State's lent securities are collateralized at no less than 102 percent of fair value. At no point in time can the value of the collateral be less than 100 percent of the underlying securities. For the STAR Ohio Program, in the case of discount securities, such as U.S. Treasury bills or similar agency issues, where the market functions so as to not allow the sale of securities at a price greater than par, the borrower must pledge 102 percent of the value of the loaned securities, unless a profitable transaction requires that some lesser amount, which is not to be less than the par value of the loaned security, be accepted.

The BWC and SHPRS also require custodial agents to ensure that lent securities are collateralized at 102 percent of fair value. SHPRS requires its custodial agents to provide additional collateral when the fair value of the collateral held falls below 102 percent of the fair value of securities lent.

Consequently, as of June 30, 2005, the State had no credit exposure since the amount the State owed to borrowers at least equaled or exceeded the amount borrowers owed the State.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

For loan contracts the Treasurer executes for the State's cash and investment pool, which is reported in the financial statements as "Cash Equity with Treasurer," and for the Ohio Lottery Commission's Structured Investment Portfolio, which is reported as "Restricted Investments," the lending agent may not lend more than 75 percent of the total average portfolio. For the STAR Ohio program, no more than 25 percent of the current investment portfolio may be lent.

The State invests cash collateral in short-term obligations, which have a weighted average maturity of 45 days or less and generally match the maturities of securities loans.

The State cannot sell securities received as collateral unless the borrower defaults. Consequently, these amounts are not reflected in the financial statements.

According to the lending contracts the Treasurer of State executes for the State's cash and investment pool and for the Ohio Lottery Commission, the securities lending agent is to indemnify the Treasurer of State for any losses resulting from either the default of a borrower or any violations of the security lending policy.

The security lending agent for the STAR Ohio Program is to indemnify the Treasurer for losses resulting from the failure of the borrower to return the loaned securities in accordance with the terms of the loan agreement, provided, however, that the agent's obligation to indemnify the Treasurer under the agreement is to be limited to an indemnification amount equal to the difference between the market value of the lent securities on the date that such lent securities should have been returned to the agent (the "default date") and the greater of

- the cash collateral received from the borrower, or

- the value of investments of collateral—the greater of (i) the value of the collateral on the default date or (ii) the value of the collateral when it was received from the borrower. In the case of collateral consisting of a letter of credit, the value of the collateral is to be the face amount of the letter of credit.

Loan contracts for the Bureau of Workers' Compensation do not provide any loss indemnification by securities lending agents in cases of borrower default.

During fiscal year 2005, the State had not experienced any losses due to credit or market risk on securities lending activities.

In fiscal year 2005, the Treasurer and the STAR Ohio Program lent U.S. government and agency obligations in exchange for collateral consisting of cash. The BWC lent fixed maturities and equity securities in exchange for cash, broker-provided, and letters of credit collateral while the State Highway Patrol Retirement System also lent a mix of fixed maturities and equity securities in exchange for cash collateral.

NOTE 5 RECEIVABLES

A. Taxes Receivables — Primary Government
Current taxes receivable are expected to be collected in the next fiscal year while noncurrent taxes receivable are not expected to be collected until more than one year from the balance sheet date. As of June 30, 2005, approximately $206.3 million of the net taxes receivable balance is also reported as deferred revenue on the governmental funds' balance sheet, of which $184.6 million is reported in the General Fund and $21.7 million is reported in the Revenue Distribution Special Revenue Fund.

Refund liabilities for income, corporation franchise, and sales taxes, totaling approximately $841.5 million, are reported for governmental activities as "Refunds and Other Liabilities" on the Statement of Net Assets, of which, $771.1 million is reported in the General Fund and $70.4 million is reported in the Revenue Distribution Special Revenue Fund on the governmental funds' balance sheet.

The following table summarizes taxes receivable for the primary government (dollars in thousands).

	Governmental Activities				
	Major Governmental Funds				
	General	Highway Operating	Revenue Distribution	Nonmajor Govern-mental Funds	Total Primary Government
Current-Due Within One Year:					
Sales Taxes	$413,886	$ —	$ 28,655	$ 661	$ 443,202
Income Taxes	325,503	—	51,643	162	377,308
Motor Vehicle Fuel Taxes	—	59,765	105,402	2,196	167,363
Public Utility Taxes	73,411	—	31,138	—	104,549
Severance Taxes	—	—	—	1,941	1,941
	812,800	59,765	216,838	4,960	1,094,363
Noncurrent-Due in More Than One Year:					
Income Taxes	55,901	—	6,558	—	62,459
Taxes Receivable, Net	$868,701	$59,765	$223,396	$4,960	$1,156,822

B. Intergovernmental Receivable — Primary Government
The intergovernmental receivable balance reported for the primary government, all of which is expected to be collected within the next fiscal year, consists of the following, as of June 30, 2005 (dollars in thousands).

	From Nonexchange Programs		From Sales of Goods and Services		
	Federal Government	Local Government	Other State Governments	Local Government	Total Primary Government
Governmental Activities:					
Major Governmental Funds:					
General	$ 562,811	$ 10,525	$ —	$ 5,884	$ 579,220
Job, Family and Other Human Services	417,003	86,843	—	—	503,846
Education	37,692	68,850	—	—	106,542
Highway Operating	112,084	—	—	—	112,084
Nonmajor Governmental Funds	255,098	13,112	—	19,372	287,582
Total Governmental Activities	1,384,688	179,330	—	25,256	1,589,274
Business-Type Activities:					
Major Proprietary Funds:					
Unemployment Compensation	—	—	3,315	—	3,315
Nonmajor Proprietary Funds	30	—	—	—	30
Total Business-Type Activities	30	—	3,315	—	3,345
Intergovernmental Receivable	$1,384,718	$179,330	$3,315	$25,256	$1,592,619

NOTE 5 RECEIVABLES (Continued)

C. Loans Receivable

Loans receivable for the primary government and its discretely presented major component units, as of June 30, 2005, are detailed in the following tables (dollars in thousands).

Primary Government — Loans Receivable

	Governmental Activities				
	Major Governmental Funds				
Loan Program	General	Education	Highway Operating	Nonmajor Govern-mental Funds	Total Primary Government
Economic Development					
Office of Financial Incentives	$ —	$ —	$ —	$294,607	$294,607
Local Infrastructure Improvements	—	—	—	272,490	272,490
Ohio Housing Finance Agency	—	—	—	253,642	253,642
Highway, Transit, & Aviation Infrastructure Bank	—	—	71,369	—	71,369
School District Solvency Assistance	26,258	—	—	—	26,258
Vocational School Assistance	—	8,622	—	—	8,622
State Workforce Development	5,120	—	—	—	5,120
Wayne Trace Local School District	4,504	—	—	—	4,504
Rail Development	—	—	—	3,898	3,898
Office of Minority Financial Incentives	1,275	—	—	—	1,275
Columbiana County Economic Stabilization	1,184	—	—	—	1,184
Professional Development	1,040	—	—	—	1,040
Higher Education Research Investment Loans	—	—	—	566	566
Small Government Fire Departments	480	—	—	—	480
Natural Resources	—	—	—	110	110
Nurses Education Assistance	—	31	—	—	31
Loans Receivable, Gross	39,861	8,653	71,369	825,313	945,196
Estimated Uncollectible	(628)	—	—	(11,425)	(12,053)
Loans Receivable, Net	$39,233	$8,653	$71,369	$813,888	$933,143
Current-Due Within One Year	$22,967	$1,293	$ 4,420	$ 86,951	$115,631
Noncurrent-Due in More Than One Year	16,266	7,360	66,949	726,937	817,512
Loans Receivable, Net	$39,233	$8,653	$71,369	$813,888	$933,143

Major Component Units — Loans Receivable

Loan Program	Ohio Water Development Authority (12/31/04)	Ohio State University	University of Cincinnati
Water and Wastewater Treatment			
(including restricted portion)	$2,928,369	$ —	$ —
Student	—	84,459	37,249
Other	—	—	677
Loans Receivable, Gross	2,928,369	84,459	37,926
Estimated Uncollectible	—	(12,405)	(4,407)
Loans Receivable, Net	$2,928,369	$72,054	$33,519
Current-Due Within One Year	$ 1,452	$ 9,108	$ 3,224
Noncurrent-Due in More Than One Year	2,926,917	62,946	30,295
Loans Receivable, Net	$2,928,369	$72,054	$33,519

NOTE 5 RECEIVABLES (Continued)

D. Other Receivables

The other receivables balances reported for the primary government and its discretely presented major component units reporting significant balances, as of June 30, 2005, consist of the following (dollars in thousands).

Primary Government — Other Receivables

	Governmental Activities					
	Major Governmental Funds					
Type of Receivable	General	Job, Family & Other Human Services	Education	Highway Operating	Nonmajor Govern-mental Funds	Total
Manufacturers' Rebates	$384,841	$ —	$ —	$ —	$ 13,039	$397,880
Tobacco Settlement	—	—	—	—	158,923	158,923
Health Facility Bed Assessments	—	36,250	—	—	—	36,250
Interest	9,706	—	—	924	3,047	13,677
Accounts	4,213	—	302	676	6,837	12,028
Environmental Legal Settlements	—	—	—	—	10,108	10,108
Miscellaneous	18,420	2,167	—	—	—	20,587
Other Receivables, Net-Due Within One Year	$417,180	$38,417	$302	$1,600	$191,954	$649,453

	Business-Type Activities				
	Major Proprietary Funds				
Type of Receivable	Workers' Compen-sation	Lottery Com-mission	Unemploy-ment Compen-sation	Nonmajor Proprietary Funds	Total
Accounts	$991,529	$ —	$83,229	$12,000	$1,086,758
Interest and Dividends (including restricted portion)	72,094	2,775	—	271	75,140
Leases	—	—	—	11,042	11,042
Lottery Sales Agents	—	34,979	—	—	34,979
Other Receivables, Gross	1,063,623	37,754	83,229	23,313	1,207,919
Estimated Uncollectible	(819,608)	(21)	(73,438)	(80)	(893,147)
Other Receivables, Net	$244,015	$37,733	$ 9,791	$23,233	$ 314,772
Current-Due Within One Year	$244,015	$37,733	$ 9,791	$14,238	$ 305,777
Noncurrent-Due in More Than One Year	—	—	—	8,995	8,995
Other Receivables, Net	$244,015	$37,733	$ 9,791	$23,233	$ 314,772
Total Primary Government					$ 964,225

Major Component Units — Other Receivables

Type of Receivable	Ohio State University	University of Cincinnati
Accounts	$678,564	$ 27,856
Interest	19,641	10,949
Pledges	48,318	65,897
Unbilled Charges	—	22,229
Other Receivables, Gross	746,523	126,931
Estimated Uncollectible	(336,590)	(11,642)
Other Receivables, Net	$409,933	$115,289
Current-Due Within One Year	$387,451	$ 81,549
Noncurrent-Due in More Than One Year	22,482	33,740
Other Receivables, Net	$409,933	$115,289

NOTE 5 RECEIVABLES (Continued)

The “Other Receivables” balance reported in the fiduciary funds as of June 30, 2005, is comprised of interest due of $2.8 million and miscellaneous receivables of $9.6 million.

Under long-term direct financing leases with local governments for office space, the Ohio Building Authority, a blended component unit reported in the proprietary funds, charges a pro-rata share of the buildings’ debt service and operating costs based on square-footage occupied.

As of June 30, 2005, future lease payments included under “Other Receivables” in business-type activities, net of executory costs, (dollars in thousands) were as follows:

Year Ending June 30,	Business-Type Activities
2006	$ 2,345
2007	4,802
2008	2,716
Total Minimum Lease Payments	9,863
Amount for interest	(477)
Present Value of Net Minimum Lease Payments	9,386
Unearned Income	1,656
Net Leases Receivable	$11,042

NOTE 6 PAYABLES

A. Accrued Liabilities

Details on accrued liabilities for the primary government and its discretely presented major component units reporting significant balances, as of June 30, 2005, follow (dollars in thousands).

Primary Government — Accrued Liabilities

	Wages	Accrued Interest	Total Accrued Liabilities
Governmental Activities:			
Major Governmental Funds:			
General	$106,619	$ —	$106,619
Job, Family and Other Human Services	13,560	—	13,560
Education	1,492	—	1,492
Highway Operating	20,550	—	20,550
Nonmajor Governmental Funds	39,334	36	39,370
	181,555	36	181,591
Reconciliation of balances in fund financial statements to government-wide financial statements due to basis differences	—	113,129	113,129
Total Governmental Activities	181,555	113,165	294,720
Business-Type Activities:			
Nonmajor Proprietary Funds	4,487	90	4,577
Total Business-Type Activities	4,487	90	4,577
Total Primary Government	$186,042	$113,255	$299,297

	Wages	Health Benefit Claims	Management and Administrative Expenses	Total Accrued Liabilities
Fiduciary Activities:				
State Highway Patrol Retirement System Pension Trust (12/31/04)	$142	$699	$ —	$ 841
Variable College Savings Plan Private-Purpose Trust	—	—	5,509	5,509
Total Fiduciary Activities	$142	$699	$5,509	$6,350

NOTE 6 PAYABLES (Continued)

Major Component Units — Accrued Liabilities

	Wages & Employee Benefits	Accrued Interest	Other	Total Accrued Liabilities
Ohio State University	$198,813	$2,863	$29,402	$231,078
University of Cincinnati	59,176	3,396	9,462	72,034

B. Intergovernmental Payable

The intergovernmental payable balances for the primary government, as of June 30, 2005, are comprised of the following (dollars in thousands).

Primary Government

	Local Government				
	Shared Revenue and Local Permissive Taxes	Subsidies and Other	Federal Government	Other States	Total
Governmental Activities:					
Major Governmental Funds:					
General	$244,279	$ 88,928	$ —	$ —	$ 333,207
Job, Family and Other Human Services	—	264,685	—	—	264,685
Education	—	69,859	512	—	70,371
Highway Operating	—	795	—	—	795
Revenue Distribution	372,489	—	—	3,941	376,430
Nonmajor Governmental Funds	—	217,422	—	—	217,422
Total Governmental Activities	616,768	641,689	512	3,941	1,262,910
Business-Type Activities:					
Major Proprietary Funds:					
Unemployment Compensation	—	—	47	—	47
Nonmajor Proprietary Funds	414	—	—	—	414
Total Business-Type Activities	414	—	47	—	461
Total Primary Government	$617,182	$641,689	$ 559	$3,941	$1,263,371
Fiduciary Activities:					
Holding and Distribution Agency Fund	$ —	$ —	$3,085	$3,993	$ 7,078
Payroll Withholding and Fringe Benefits Agency Fund	—	357	—	—	357
Other Agency Fund	72,600	6,635	—	—	79,235
Total Fiduciary Activities	$ 72,600	$ 6,992	$3,085	$3,993	$ 86,670

As of June 30, 2005, the School Facilities Commission Component Unit Fund reported an intergovernmental payable balance totaling approximately $2.34 billion for long-term funding contracts the-Commission has with local school districts. In the government-wide Statement of Net Assets, the intergovernmental payable balance for the Commission is included with “Other Noncurrent Liabilities.”

The contracts commit the State to cover the costs of construction of facilities of the school districts once the districts have met certain eligibility requirements.

C. Refund and Other Liabilities

Refund and other liabilities for the primary government and its discretely presented major component units reporting significant balances, as of June 30, 2005, consist of the balances reported on the tables presented on the following page (dollars in thousands).

NOTE 6 PAYABLES (Continued)

Primary Government — Refund and Other Liabilities

Governmental Activities:	Estimated Tax Refund Claims: Personal Income Tax	Estimated Tax Refund Claims: Corporation Franchise Tax	Estimated Tax Refund Claims: Total Tax Refund Liabilities	Interest on Lawyers' Trust Accounts	Other	Total
Major Governmental Funds:						
General	$567,021	$204,128	$771,149	$ —	$ 2,156	$773,305
Job, Family and Other Human Services	—	—	—	8,269	2,105	10,374
Revenue Distribution	64,766	5,623	70,389	—	—	70,389
Nonmajor Governmental Funds	—	—	—	—	3,898	3,898
	631,787	209,751	841,538	8,269	8,159	857,966
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the government-wide financial statements	—	—	—	—	3,140	3,140
Total Governmental Activities	$631,787	$209,751	$841,538	$8,269	$11,299	$861,106

Business-Type Activities:	Reserve for Compen-sation Adjustment	Refund & Security Deposits	Compensated Absences	Capital Leases	Other	Total
Major Proprietary Funds:						
Workers' Compensation	$1,707,720	$86,992	$22,766	$ —	$110,293	$1,927,771
Lottery Commission	—	—	2,662	—	49,968	52,630
Unemployment Compensation	—	8,556	—	—	—	8,556
Nonmajor Proprietary Funds	—	50	10,539	205	12,535	23,329
	1,707,720	95,598	35,967	205	172,796	2,012,286
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the government-wide financial statements	(1,707,720)	(86,992)	(35,683)	(205)	(77,120)	(1,907,720)
Total Business-Type Activities	$ —	$ 8,606	$ 284	$ —	$ 95,676	$ 104,566
Total Primary Government						$ 965,672

Fiduciary Activities:	Child Support Collections	Refund & Security Deposits	Payroll Withholdings	Retirement Systems' Assets	Other	Total
State Highway Patrol Retirement System Pension Trust (12/31/04)	$ —	$ —	$ —	$ —	$ 47	$ 47
STAR Ohio Investment Trust	—	—	—	—	2,990	2,990
Agency Funds:						
Holding and Distribution	—	16,328	—	—	—	16,328
Centralized Child Support Collections	90,477	—	—	—	—	90,477
Retirement Systems	—	—	—	143,995,483	—	143,995,483
Payroll Withholding and Fringe Benefits	—	—	121,112	—	—	121,112
Other	—	390,713	—	—	93,406	484,119
Total Fiduciary Activities	$90,477	$407,041	$121,112	$143,995,483	$96,443	$144,710,556

Major Component Units — Refund and Other Liabilities

	Refund & Security Deposits	Compensated Absences	Capital Leases	Obligations Under Annuity Life Agreements	Other	Total
Ohio State University	$57,754	$78,752	$ 15,458	$50,860	$67,424	$270,248
University of Cincinnati	4,768	65,289	126,800	—	31,036	227,893

NOTE 7 INTERFUND BALANCES AND TRANSFERS AND SIGNIFICANT TRANSACTIONS WITH COMPONENT UNITS

A. Interfund Balances

Interfund balances, as of June 30, 2005, consist of the following (dollars in thousands):

	Due to				
	Governmental Activities				
	Major Governmental Funds				
Due from	General	Job, Family and Other Human Services	Highway Operating	Nonmajor Governmental Funds	Total
Major Governmental Funds:					
General	$ —	$3	$1	$2,618	$ 2,622
Job, Family and Other Human Services	—	—	—	—	—
Education	—	—	—	—	—
Highway Operating	—	—	—	—	—
Revenue Distribution	—	—	—	396	396
Nonmajor Governmental Funds	253,891	—	—	350	254,241
Total Governmental Activities	253,891	3	1	3,364	257,259
Nonmajor Proprietary Funds	2,760	—	—	—	2,760
Total Business-Type Activities	2,760	—	—	—	2,760
Total Primary Government	$256,651	$3	$1	$3,364	$260,019

	Business-Type Activities			
	Major Proprietary Fund			
	Workers' Compensation	Nonmajor Proprietary Funds	Total	Total Primary Government
Major Governmental Funds:				
General	$556,723	$11,985	$568,708	$ 571,330
Job, Family and Other Human Services	16,435	—	16,435	16,435
Education	2,121	—	2,121	2,121
Highway Operating	95,309	—	95,309	95,309
Revenue Distribution	—	—	—	396
Nonmajor Governmental Funds	112,661	—	112,661	366,902
Total Governmental Activities	783,249	11,985	795,234	1,052,493
Major Proprietary Funds:				
Lottery Commission	3,474	—	3,474	3,474
Nonmajor Proprietary Funds	2,827	—	2,827	5,587
Total Business-Type Activities	6,301	—	6,301	9,061
Total Primary Government	$789,550	$11,985	$801,535	$1,061,554

Interfund balances result from the time lag between dates that 1.) interfund goods and services are provided or reimbursable expenditures/expenses occur, 2.) transactions are recorded in the accounting system, and 3.) payments between funds are made.

Included in the interfund balances above is $253.6 million due to the General Fund from the nonmajor governmental funds for interfund loans made to support housing programs at the Ohio Housing Finance Agency, which is accounted for in the Community and Economic Development Special Revenue Fund. Of the total interfund loan balance, approximately $251.7 million is not expected to be collected in the subsequent fiscal year.

Additionally, the State's primary government is permitted to pay its workers' compensation liability on a terminal-funding (pay-as-you-go) basis. As a result, the Workers' Compensation Enterprise Fund recognized $789.6 million as an interfund receivable for the unbilled premium due for the primary government's share of the Bureau's actuarially determined liability for compensation. In the Statement of Net Assets, the State includes the liability totaling $783.2 million in the internal balance reported for governmental activities.

NOTE 7 INTERFUND BALANCES AND TRANSFERS AND SIGNIFICANT TRANSACTIONS WITH COMPONENT UNITS (Continued)

B. Interfund Transfers

Interfund transfers, for the year ended of June 30, 2005, consist of the following (dollars in thousands):

	Transferred to						
	Governmental Activities						
	Major Governmental Funds						
Transferred from	General	Job, Family and Other Human Services	Education	Highway Operating	Revenue Distribution	Nonmajor Govern-mental Funds	Total
Major Governmental Funds:							
General	$ —	$ 92,119	$ 9,961	$ 77	$ 4,695	$1,053,952	$1,160,804
Job, Family and Other Human Services	97,311	—	1,500	—	—	—	98,811
Education	31,886	—	—	—	—	—	31,886
Highway Operating	934	—	—	—	95,623	188,547	285,104
Revenue Distribution	88,149	—	—	518,557	—	224,937	831,643
Nonmajor Governmental Funds	24,981	7,570	116	685	—	14,111	47,463
Total Governmental Activities	243,261	99,689	11,577	519,319	100,318	1,481,547	2,455,711
Major Proprietary Funds:							
Workers' Compensation	7,568	—	—	—	—	—	7,568
Lottery Commission	536	—	645,137	—	—	—	645,673
Unemployment Compensation	—	35,790	—	—	—	—	35,790
Nonmajor Proprietary Funds	115,011	—	—	—	—	63,497	178,508
Total Business-Type Activities	123,115	35,790	645,137	—	—	63,497	867,539
Total Primary Government	$366,376	$135,479	$656,714	$519,319	$100,318	$1,545,044	$3,323,250

	Business-Type Activities			
	Major Proprietary Fund			
	Unemploy-ment Compen-sation	Nonmajor Proprietary Funds	Total	Total Primary Government
Major Governmental Funds:				
General	$ —	$55,247	$55,247	$1,216,051
Job, Family and Other Human Services	4,639	—	4,639	103,450
Education	—	—	—	31,886
Highway Operating	—	—	—	285,104
Revenue Distribution	—	—	—	831,643
Nonmajor Governmental Funds	—	—	—	47,463
Total Governmental Activities	4,639	55,247	59,886	2,515,597
Major Proprietary Funds:				
Workers' Compensation	—	—	—	7,568
Lottery Commission	—	—	—	645,673
Unemployment Compensation	—	—	—	35,790
Nonmajor Proprietary Funds	—	—	—	178,508
Total Business-Type Activities	—	—	—	867,539
Total Primary Government	$4,639	$55,247	$59,886	$3,383,136

Transfers are used to 1.) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, 2.) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and 3.) utilize unrestricted revenues collected in one fund to finance various programs accounted for in other funds in accordance with budget authorizations.

NOTE 7 INTERFUND BALANCES AND TRANSFERS AND SIGNIFICANT TRANSACTIONS WITH COMPONENT UNITS (Continued)

C. Component Units

For fiscal year 2005, the component units reported $2.46 billion in state assistance revenue from the primary government in the Statement of Activities.

Included in "Primary, Secondary and Other Education" expenses reported for governmental activities, is funding that the primary government provided to the School Facilities Commission for capital construction at local school districts and the SchoolNet Commission for the acquisition of computers to benefit local schools.

Additionally, the primary government provided financial support to the colleges and universities in the form of state appropriations for instructional and non-instructional purposes and capital appropriations for construction. This assistance is included in "Higher Education Support" expenses reported for governmental activities.

Details of balances and activity reported in the government-wide financial statements between the primary government and its discretely presented component units are summarized below.

Primary Government
(dollars in thousands)

		Program Expenses for State Assistance to Component Units			
	Payable to the Component Units	Primary, Secondary and Other Education Function	Higher Education Support Function	Community And Economic Development Function	Total State Assistance to the Component Units
Major Governmental Funds:					
General	$15,160	$417,686	$1,665,252	$20,026	$2,102,964
Job, Family and Other Human Services	431	—	—	—	—
Education	268	—	—	—	—
Highway Operating	406	—	—	—	—
Nonmajor Governmental Funds	30,939	133,942	225,918	—	359,860
Total Primary Government	$47,204	$551,628	$1,891,170	$20,026	$2,462,824

Component Units
(dollars in thousands)

	Receivable from the Primary Government	Total State Assistance from the Primary Government
Major Component Units:		
School Facilities Commission	$ —	$ 525,738
Ohio State University	19,272	525,804
University of Cincinnati	889	223,031
Nonmajor Component Units	27,043	1,188,251
Total Component Units	$47,204	$2,462,824

NOTE 8 CAPITAL ASSETS

A. Primary Government

Capital asset activity, for the year ended June 30, 2005, reported for the primary government was as follows (dollars in thousands):

	Primary Government			
	Balance July 1, 2004 *(as restated)*	Increases	Decreases	Balance June 30, 2005
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Buildings	$ 54,602	$ 4,533	$ —	$ 59,135
Land	1,594,965	42,869	(2,318)	1,635,516
Land Improvements	930	—	—	930
Construction-in-Progress	1,710,488	516,943	(388,423)	1,839,008
Infrastructure:				
Highway Network:				
General Subsystem	8,232,748	107,384	—	8,340,132
Priority Subsystem	6,707,733	123,934	—	6,831,667
Bridge Network	2,287,175	46,517	—	2,333,692
Total Capital Assets Not Being Depreciated	20,588,641	842,180	(390,741)	21,040,080
Other Capital Assets:				
Buildings	3,190,147	59,283	(20,496)	3,228,934
Land Improvements	272,869	39,180	(5,513)	306,536
Machinery and Equipment	481,051	70,258	(27,876)	523,433
Vehicles	234,734	29,690	(20,761)	243,663
Infrastructure:				
Parks, Recreation and Natural Resources Network	24,517	8,816	(1)	33,332
Total Other Capital Assets at historical cost	4,203,318	207,227	(74,647)	4,335,898
Less Accumulated Depreciation for:				
Buildings	1,212,193	95,551	(8,518)	1,299,226
Land Improvements	128,496	12,449	(3,865)	137,080
Machinery and Equipment	321,891	55,834	(25,526)	352,199
Vehicles	108,119	20,629	(15,135)	113,613
Infrastructure:				
Parks, Recreation and Natural Resources Network	1,115	888	—	2,003
Total Accumulated Depreciation	1,771,814	185,351	(53,044)	1,904,121
Other Capital Assets, Net	2,431,504	21,876	(21,603)	2,431,777
Governmental Activities-Capital Assets, Net	$23,020,145	$864,056	$(412,344)	$23,471,857

For fiscal year 2005, the State charged depreciation expense to the following governmental functions:

Governmental Activities:	
Primary, Secondary and Other Education	$ 1,926
Higher Education Support	6
Public Assistance and Medicaid	9,765
Health and Human Services	21,902
Justice and Public Protection	62,220
Environmental Protection and Natural Resources	13,735
Transportation	28,010
General Government	71,858
Community and Economic Development	3,240
Total Depreciation Expense for Governmental Activities	212,662
Losses on Capital Asset Disposals Included in Depreciation	(27,311)
Fiscal Year 2005 Increases to Accumulated Depreciation	$185,351

NOTE 8 CAPITAL ASSETS (Continued)

	Primary Government *(Continued)*			
	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Business-Type Activities:				
Capital Assets Not Being Depreciated:				
Land	$ 12,631	$ —	$ (637)	$ 11,994
Construction-in-Progress	—	71	—	71
Total Capital Assets Not Being Depreciated	12,631	71	(637)	12,065
Other Capital Assets:				
Buildings	257,854	156	(35,972)	222,038
Land Improvements	66	—	—	66
Machinery and Equipment	152,104	6,279	(13,207)	145,176
Vehicles	4,538	108	(359)	4,287
Total Other Capital Assets at historical cost	414,562	6,543	(49,538)	371,567
Less Accumulated Depreciation for:				
Buildings	124,091	8,008	(23,892)	108,207
Land Improvements	49	1	—	50
Machinery and Equipment	117,176	12,073	(11,405)	117,844
Vehicles	2,076	559	(279)	2,356
Total Accumulated Depreciation	243,392	20,641	(35,576)	228,457
Other Capital Assets, Net	171,170	(14,098)	(13,962)	143,110
Business-Type Activities-Capital Assets, Net	$183,801	$(14,027)	$(14,599)	$155,175

For fiscal year 2005, the State charged depreciation expense to the following business-type functions:

Business-Type Activities:	
Workers' Compensation	$ 3,472
Lottery Commission	14,646
Tuition Trust Authority	25
Liquor Control	309
Underground Parking Garage	564
Office of Auditor of State	1,656
Total Depreciation Expense for Business-Type Activities	20,672
Losses on Capital Asset Disposals Included in Depreciation	(31)
Fiscal Year 2005 Increases to Accumulated Depreciation	$20,641

NOTE 8 CAPITAL ASSETS (Continued)

B. Major Component Units

Capital asset activity, for the year ended June 30, 2005, reported for discretely presented major component unit funds with significant capital asset balances was as follows (dollars in thousands):

	Major Component Units			
Ohio State University:	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Capital Assets Not Being Depreciated:				
Land	$ 42,202	$ 4,934	$ (3,120)	$ 44,016
Construction-in-Progress	377,423	—	(6,670)	370,753
Total Capital Assets Not Being Depreciated	419,625	4,934	(9,790)	414,769
Other Capital Assets:				
Buildings	2,281,483	396,167	(7,237)	2,670,413
Land Improvements	193,563	25,925	(1,647)	217,841
Machinery, Equipment and Vehicles	685,915	114,322	(51,854)	748,383
Library Books and Publications	160,540	2,816	(2,313)	161,043
Total Other Capital Assets at historical cost	3,321,501	539,230	(63,051)	3,797,680
Less Accumulated Depreciation for:				
Buildings	930,906	70,456	(3,008)	998,354
Land Improvements	112,482	8,059	(1,647)	118,894
Machinery, Equipment and Vehicles	474,835	64,215	(50,109)	488,941
Library Books and Publications	134,238	3,246	—	137,484
Total Accumulated Depreciation	1,652,461	145,976	(54,764)	1,743,673
Other Capital Assets, Net	1,669,040	393,254	(8,287)	2,054,007
Total Capital Assets, Net	$2,088,665	$398,188	$(18,077)	$2,468,776
University of Cincinnati:				
Capital Assets Not Being Depreciated:				
Land	$ 19,976	$ 1,329	$ —	$ 21,305
Construction-in-Progress	199,798	146,482	(50,655)	295,625
Collections of Works of Art and Historical Treasures	4,408	61	—	4,469
Total Capital Assets Not Being Depreciated	224,182	147,872	(50,655)	321,399
Other Capital Assets:				
Buildings	1,276,828	37,570	—	1,314,398
Land Improvements	27,926	6,826	—	34,752
Machinery, Equipment and Vehicles	146,601	16,857	(9,429)	154,029
Library Books and Publications	125,588	9,931	(1,801)	133,718
Infrastructure	76,801	1,598	—	78,399
Total Other Capital Assets at historical cost	1,653,744	72,782	(11,230)	1,715,296
Less Accumulated Depreciation for:				
Buildings	437,157	48,491	(16,045)	469,603
Land Improvements	6,603	1,490	(53)	8,040
Machinery, Equipment and Vehicles	97,883	12,026	(8,804)	101,105
Library Books and Publications	80,576	6,881	(1,801)	85,656
Infrastructure	38,339	3,115	—	41,454
Total Accumulated Depreciation	660,558	72,003	(26,703)	705,858
Other Capital Assets, Net	993,186	779	15,473	1,009,438
Total Capital Assets, Net	$1,217,368	$148,651	$(35,182)	$1,330,837

For fiscal year 2005, Ohio State University and the University of Cincinnati reported approximately $146 million and $72 million in depreciation expense, respectively.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

All part-time and full-time employees and elected officials of the State, including its component units, are eligible to be covered by one of the following retirement plans:

- Ohio Public Employees Retirement System
- State Teachers Retirement System of Ohio
- State Highway Patrol Retirement System
- Alternative Retirement Plan

A. Ohio Public Employees Retirement System (OPERS)

Pension Benefits
OPERS is a cost-sharing, multiple-employer public employee retirement system that administers three separate pension plans — a defined benefit plan, a defined contribution plan, and a combined plan with features of both the defined benefit plan and the defined contribution plan.

As established under Chapter 145, Ohio Revised Code, OPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries enrolled in the defined benefit and combined plans.

Most employees who are members of OPERS and who have fewer than five years of total service credit as of December 31, 2002, and new employees hired on or after January 1, 2003, are eligible to select one of the OPERS retirement plans, as listed above, in which they wish to participate. Members not eligible to select a plan include law enforcement officers (who must participate in the defined benefit plan), college and university employees who choose to participate in one of their university's alternative retirement plans (see NOTE 9D.), and re-employed OPERS retirees. Participants may change their selection once prior to attaining five years of service credit, once after attaining five years of service credit and prior to attaining ten years of service credit, and once after attaining ten years of service credit.

Regular employees who participate in the defined benefit plan or the combined plan may retire after 30 years of credited service regardless of age, or at or after age 55 with 25 years of credited service, or at or after age 60 with five years of credited service. Regular employees retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit amounts.

Law enforcement employees may retire at age 48 with 25 or more years of credited service.

The retirement allowance for the defined benefit plan is based on years of credited service and the final average salary, which is the average of the member's three highest salary years. The annual allowance for regular employees is determined by multiplying the final average salary by 2.2 percent for each year of Ohio contributing service up to 30 years and by 2.5 percent for all other years in excess of 30 years of credited service. The annual allowance for law enforcement employees is determined by multiplying the final average salary by 2.5 percent for the first 25 years of Ohio contributing service, and by 2.1 percent for each year of service over 25 years. Retirement benefits increase three percent annually regardless of changes in the Consumer Price Index.

The retirement allowance for the defined benefit portion of the combined plan is based on years of credited service and the final average salary, which is the average of the member's three highest salary years. The annual allowance for regular employees is determined by multiplying the final average salary by 1.0 percent for each year of Ohio contributing service up to 30 years and by 1.25 percent for all other years in excess of 30 years of credited service. Retirement benefits for the defined benefit portion of the plan increase three percent annually regardless of changes in the Consumer Price Index. Additionally, retirees receive the proceeds of their individual retirement plans in a manner similar to retirees in the defined contribution plan, as discussed below.

Regular employees who participate in the defined contribution plan may retire after they reach the age of 55. The retirement allowance for the defined contribution plan is based entirely on the total member and vested employer contributions to the plan, plus or minus any investment gains or losses. Employer contributions vest at a rate of 20 percent per year over a five-year vesting period. Retirees may choose from various payment options including monthly annuities, partial lump-sum payments, payments for a guaranteed period, or various combinations of these options. Participants direct the investment of their accounts by selecting from nine professionally managed investment options.

Retirees covered under any one of the three OPERS plan options may also choose to take part of their retirement benefit in a Partial Lump-Sum Option Plan (PLOP). Under this option, the amount of the monthly pension benefit paid to the retiree is actuarially reduced to offset the amount received initially under the PLOP. The amount payable under the PLOP is limited to a minimum of six months and maximum of 36 months worth of the original

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

unreduced monthly pension benefit, and is capped at no more than 50 percent of the retirement benefit amount.

Employer and employee required contributions to OPERS are established under the Ohio Revised Code and are based on percentages of covered employees' gross salaries, which are calculated annually by the retirement system's actuaries. Contribution rates for fiscal year 2005, which are the same for the defined benefit, defined contribution, and combined plans, were as follows:

	Contribution Rates	
	Employee Share	Employer Share
Regular Employees	8.50%	13.31%
Law Enforcement Employees	10.10%	16.70%

Employer rates for regular employees and law enforcement employees are scheduled to increase to 13.54 percent and 16.93 percent, respectively, beginning January 1, 2006. Employee rates for regular employees are scheduled to increase to nine percent, beginning January 1, 2006.

In the combined plan, the employer's share finances the defined benefit portion of the plan, while the employee's share finances the defined contribution portion of the plan. In the defined contribution plan, both the employee and employer share of the costs are used to finance the plan.

Employer contributions required and made for the last three years for the defined benefit and combined plans follow (dollars in thousands):

	2005	2004	2003
Primary Government:			
Regular Employees	$248,032	$235,634	$224,267
Law Enforcement Employees	3,946	3,763	3,596
Total	$251,978	$239,397	$227,863
Major Component Units:			
School Facilities Commission	$ 283	$ 346	$ 298
Ohio Water Development Authority	83	83	72
Ohio State University	63,044	54,280	51,968
University of Cincinnati	14,070	12,596	11,339

Employer and employee contributions required and made for the last two fiscal years for the defined contribution plan and the defined contribution part of the combined plan follow (dollars in thousands):

	2005	2004	2003
Primary Government:			
Employer Contributions	$2,054	$1,593	$ 530
Employee Contributions	4,375	3,322	1,137
Major Component Units:			
Ohio State University:			
Employer Contributions	1,002	720	188
Employee Contributions	2,032	1,437	392
University of Cincinnati:			
Employer Contributions	200	150	39
Employee Contributions	403	291	83

OPERS issues a stand-alone financial report, copies of which may be obtained by making a written request to: Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-6705 or 1-800-222-7377.

Other Postemployment Benefits

Members of the defined contribution plan may access a Retiree Medical Account upon retirement. During fiscal year 2005, employers paid 4.81 percent of their share into members' accounts. An employee's interest in the medical account for qualifying healthcare expenses vests on the basis of length of service, with 100.0 percent vesting attained after 10 years of service credit. Employers make no further contributions to a member's medical account after retirement, nor do employers have any further obligation to provide postemployment healthcare benefits.

Employer contributions, for the fiscal year ended June 30, 2005, were as follows (dollars in thousands):

	2005
Primary Government	$1,162
Major Component Units:	
Ohio State University	567
University of Cincinnati	113

All age and service retirees who are members of the defined benefit or combined plans with 10 or more years of service credit qualify for healthcare coverage under OPERS. Members hired after January 1, 2003 with no prior service credit vest according to length of service. Members with 10 years of service credit have a 25-percent vested interest. Vested interest increases with service credit until members attain a 100.0 percent vested interest after reaching 30 years of service credit. Members hired after January 1, 2003 can also choose various coverage options.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Healthcare coverage for disability recipients and primary survivor recipients is also available to members of the defined benefit and combined plans. Chapter 145, Ohio Revised Code, provides the statutory authority for employer contributions. For law enforcement and regular employees, the portion of the employer rate used to fund healthcare was four percent of covered payroll during fiscal year 2005. Employees do not fund any portion of healthcare costs.

Benefits in the defined benefit and combined plans are advance-funded using the entry-age, normal cost method. Significant actuarial assumptions, based on the latest actuarial review performed as of December 31, 2003 (the latest information available), include a rate of return on investments of eight percent, an annual increase in total payroll for active employees of four percent compounded annually for inflation (assuming no change in the number of active employees), and an additional increase in total payroll of between .5 percent and four percent based on additional annual pay increases. Healthcare costs were assumed to increase between five percent and 10 percent annually from 2004 through 2012, and at an annual rate of four percent thereafter.

Net assets available for payment of benefits at December 31, 2003 were $10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were $26.9 billion and $16.4 billion, respectively. All investments are carried at market value.

For the actuarial valuation of net assets available for future healthcare benefits, OPERS applies the smoothed market approach. Under this approach, assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investments.

For fiscal year 2005, the State's actuarially required and actual contributions for the defined benefit plan and the defined benefit portion of the combined plan were as follows (dollars in thousands):

	2005
Primary Government:	
Regular Employees	$106,566
Law Enforcement Employees	1,243
Total	$107,809
Major Component Units:	
School Facilities Commission	$ 122
Ohio Water Development Authority	35
Ohio State University	27,086
University of Cincinnati	6,045

The number of active contributing participants for the primary government was 59,154, as of June 30, 2005.

B. State Teachers Retirement System of Ohio (STRS)

Pension Benefits

STRS is a cost-sharing, multiple-employer public employee retirement system that administers three separate pension plans — a defined benefit plan, a defined contribution plan, and a combined plan with features of both the defined benefit plan and the defined contribution plan.

Participants in the defined benefit plan may retire after 30 years of credited service regardless of age, or at or after age 55 with 25 years of credited service, or at or after age 60 with five years of credited service. Members retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit amounts. Retirees are entitled to a maximum annual retirement benefit, payable in monthly installments for life, equal to the greater of the "formula benefit" calculation, the "money-purchase benefit" calculation, or the "partial lump-sum option plan."

Under the "formula benefit" calculation, the retirement allowance is based on years of credited service and the final average salary, which is the average of the member's three highest salary years. The annual allowance is determined by multiplying the final average salary by 2.5 percent for each year of Ohio contributing service in excess of 30 years and by 2.2 percent for all other years of credited service up to a maximum annual allowance of 100 percent of final average salary. Each year over 30 years is increased incrementally by .1 percent starting at 2.5 percent for the 31st year of Ohio service. For teachers with 35 or more years of earned service, the annual allowance is determined by multiplying the final average salary by 2.5 percent for the first 31 years of service, and each year over 30 years is increased incrementally by .1 percent starting at 2.6 percent for the 32nd year of Ohio service.

Under the "money-purchase benefit" calculation, a member's lifetime contributions, plus interest at specified rates, are matched by an equal amount from contributed employer funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance. Retirement benefits increase three percent annually regardless of changes in the Consumer Price Index.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Retirees can also choose a “partial lump-sum” option plan. Under this option, retirees may take a lump-sum payment that equals from six to 36 times their monthly service retirement benefit. Subsequent monthly benefits are reduced proportionally.

Employees hired after July 1, 2001, and those with less than five years of service credit at that date, may choose to participate in the combined plan or the defined contribution plan, in lieu of participation in the defined benefit plan. Participants in the defined contribution plan are eligible to retire at age 50.

Employee and employer contributions are placed into individual member accounts, and members direct the investment of their accounts by selecting from nine professionally managed investment options. Retirees may choose to receive either a lump-sum distribution or a monthly annuity for life. Employer contributions become vested after one year of service.

Participants in the combined plan may start to collect the defined benefit portion of the plan at age 60. The annual allowance is determined by multiplying the final average salary by 1.0 percent for each year of Ohio contributing service credit. Participants in the combined plan may also participate in the partial lump-sum option plan, as described previously, for the portion of their retirement benefit that is provided through the defined benefit portion of the plan. The defined contribution portion of the plan may be taken as a lump sum or as a lifetime monthly annuity at age 50.

A retiree of STRS or any other Ohio public retirement system is eligible for re-employment as a teacher after two months from the date of retirement. Members and the employer make contributions during the period of re-employment. Upon termination or the retiree reaches the age of 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

STRS also provides death, survivors’, disability, healthcare, and supplemental benefits to members in the defined benefit and combined plans. STRS benefits are established under Chapter 3307, Ohio Revised Code.

Employer and employee required contributions to STRS are established by the Board and limited under the Ohio Revised Code to employer and employee rates of 14.0 percent and 10.0 percent, respectively, and are based on percentages of covered employees’ gross salaries, which are calculated annually by the retirement system’s actuary.

Contribution rates for fiscal year 2005 were 14 percent for employers and 10 percent for employees for the defined benefit, defined contribution, and combined plans. For the defined benefit and combined plans, 13 percent of the employer rate is used to fund pension obligations. The difference between the total employer rate and the share used to fund pension obligations is the percentage used to fund the STRS healthcare program. For the defined contribution plan, 10.5 percent of the employer’s share is deposited into individual employee accounts, while 3.5 percent is paid to the defined benefit plan.

Employer contributions required and made for the last three years for the defined benefit and combined plans follow (dollars in thousands):

	2005	2004	2003
Primary Government	$ 6,893	$ 6,966	$ 7,248
Major Component Units:			
Ohio State University	33,075	31,995	31,181
University of Cincinnati	13,551	13,043	12,536

Contribution amounts shown for fiscal year 2003 apply to the defined benefit plan, since the combined plan was not in effect until fiscal year 2004.

Employer and employee contributions required and made for the last three fiscal years for the defined contribution plan and the defined contribution part of the combined plan follow (dollars in thousands):

	2005	2004	2003
Primary Government:			
Employer Contributions	$ 129	$111	$ 96
Employee Contributions	184	161	138
Major Component Units:			
Ohio State University:			
Employer Contributions	1,018	634	418
Employee Contributions	1,283	819	517
University of Cincinnati:			
Employer Contributions	651	480	384
Employee Contributions	770	547	400

STRS issues a stand-alone financial report, copies of which may be obtained by making a written request to: State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling 1-888-227-7877.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Other Postemployment Benefits
The STRS plan provides comprehensive healthcare benefits to retirees and their dependents that are enrolled in the defined benefit and combined plans. Retirees are required to make healthcare premium payments at amounts that vary according to each retiree's years of credited service and choice of healthcare provider. Retirees must pay additional premiums for covered spouses and dependents. Chapter 3307, Ohio Revised Code, gives the STRS board discretionary authority over how much, if any, of associated healthcare costs are absorbed by the plan. Currently, employer contributions equal to 1.0 percent of covered payroll are allocated to pay for healthcare benefits. Retirees enrolled in the defined contribution plan receive no postemployment healthcare benefits.

The employer contribution is financed on a pay-as-you-go basis. As of June 30, 2004 (the most recent information available), net assets available for future healthcare benefits were $3.1 billion. Net healthcare costs paid by the primary government and its discretely presented major component units, for the year ended June 30, 2005, were as follows (dollars in thousands):

	2005
Primary Government	$ 530
Major Component Units:	
Ohio State University	2,544
University of Cincinnati	1,042

The number of eligible benefit recipients for STRS as a whole was 147,545, as of June 30, 2004; a breakout of the number of eligible recipients for the primary government and its component units, as of June 30, 2005, is unavailable.

C. State Highway Patrol Retirement System (SHPRS)

Pension Benefits
SHPRS, a component unit of the State, was established in 1944 by the General Assembly as a single-employer, defined benefit pension plan and is administered by the State.

The plan issues a stand-alone financial report that includes financial statements and required supplementary information, and the State reports the plan as a pension trust fund. Copies of the financial report may be obtained by writing to the Ohio State Highway Patrol Retirement System, 6161 Busch Boulevard, Suite 119, Columbus, Ohio 43229-2553, or by calling (614) 431-0781 or 1-800-860-2268.

SHPRS is authorized under Chapter 5505, Ohio Revised Code, to provide retirement and disability benefits to retired members and survivor benefits to qualified dependents of deceased members of the Ohio State Highway Patrol. Chapter 5505, Ohio Revised Code, also requires contributions by active members and the Ohio State Highway Patrol. The employee contribution rate is established by the General Assembly, and any change in the rate requires legislative action. The SHPRS Retirement Board establishes and certifies the employer contribution rate to the State of Ohio every two years. By law, the employer rate may not exceed three times the employee contribution rate nor be less than the employee's contribution rate.

Contribution rates, as of December 31, 2004, were as follows:

Contribution Rates	
Employee Share	Employer Share
10.0%	24.50%

The employer's share is scheduled to increase to 25.5 percent on July 1, 2005.

During calendar year 2004, all of the employees' contributions funded pension benefits while 21 percent of the employer's contributions funded pension benefits. The difference in the total employer rates charged and the employer rates applicable to the funding of pension benefits is applied to the funding of postemployment healthcare benefits.

SHPRS' financial statements are prepared using the accrual basis of accounting, under which expenses are recorded when the liability is incurred and revenues are recorded when they are earned and become measurable.

All investments are reported at fair value. Fair value is, "the amount that the plan can reasonably expect to receive for an investment in a current sale, between a willing buyer and a willing seller – that is, other than in a forced or liquidation sale." Short-term investments are reported at cost, which approximates fair value. Corporate bonds are valued at the median price by the brokerage firms.

Securities traded on a national exchange are valued at the last reported sales price at the current exchange rate. The fair value of real estate investments is based on independent appraisals. For actuarial purposes, assets are valued with a method that amortizes each year's investment gain or loss over a closed, four-year period.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

SHPRS Schedule of Funding Progress
Last Three Calendar Years
(dollars in thousands)

(A) Valuation Year	(B) Actuarial Accrued Liability (AAL)	(C) Valuation Assets	(D) Unfunded Actuarial Accrued Liability (UAAL) (B) – (C)	(E) Ratio of Assets to AAL (C)/(B)	(F) Active Member Payroll	(G) UAAL as Percentage of Active Member Payroll (D)/(F)
2004 (a)	$734,464	$569,858	$164,606	77.6%	$81,758	201.3%
2004	737,867	569,858	168,009	77.2	81,758	205.5
2003	702,799	545,982	156,817	77.7	81,738	191.9
2002 (b)	663,070	527,604	135,466	79.6	78,997	171.5
2002	668,606	492,431	176,175	73.7	78,997	223.0

(a) Plan Amendment
(b) Change in assumption or method.

The employer's annual pension costs for the last three calendar years were as follows (dollars in thousands):

For the Year Ended December 31,	Primary Government	Percentage of Employer's Annual Pension Cost Contributed
2004	$17,870	100%
2003	16,307	100%
2002	15,393	100%

SHPRS used the entry-age, normal actuarial cost method for the Schedule of Funding Progress for the actuarial valuation, dated December 31, 2004. Assumptions used in preparing the Schedule of Funding Progress and in determining the annual required contribution include: an eight-percent rate of return on investments; projected salary increase of four percent attributable to inflation and additional projected salary increases ranging from .3 percent to 3.7 percent a year attributable to seniority and merit; price inflation was assumed to be at least four percent a year; and postretirement increases each year equal to three percent after the retiree reaches age 53.

The unfunded actuarial accrued liability is being amortized using the level-percentage of projected payroll method over a closed period of 34 years.

The Schedule of Funding Progress for the last three years is presented in the table at the top of the page. Amounts reported do not include assets or liabilities for postemployment healthcare benefits.

Other Postemployment Benefits
In addition to providing pension benefits, SHPRS pays health insurance claims on behalf of all persons receiving a monthly pension or survivor benefit and Medicare Part B basic premiums for those eligible benefit recipients upon proof of coverage. The number of active contributing plan participants, as of December 31, 2004, was 1,562. The cost of retiree healthcare benefits is recognized as claims are incurred and premiums are paid. The calendar year 2004 expense was $7.4 million.

Healthcare benefits are established in Chapter 5505, Ohio Revised Code, and are advance funded by the employer on the same actuarially determined basis (using the same assumptions) as are the SHPRS pension benefits, as previously discussed. In addition, the assumption that projected healthcare costs would increase at a rate of four percent, compounded annually, due to inflation, was also used in the valuation. Net assets available for benefits allocated to healthcare costs at December 31, 2004 were $93.7 million, and included investments carried at fair value, as previously described.

As of December 31, 2004, the unfunded actuarial accrued liability for healthcare benefits, the portion of the present value of plan promises to pay benefits in the future that are not covered by future normal cost contributions, was $162.6 million; the actuarial accrued liability for healthcare benefits at that date was $256.3 million.

Employer contributions are made in accordance with actuarially determined requirements. For calendar year 2004, the employer contribution requirement was approximately $3 million or 3.5 percent of active member payroll.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

D. Alternative Retirement Plan (ARP)

Pension Benefits

The ARP is a defined contribution retirement plan that is authorized under Section 3305.02, Ohio Revised Code. The ARP provides at least three or more alternative retirement plans for academic and administrative employees of Ohio's institutions of higher education, who otherwise would be covered by STRS or OPERS. Classified civil service employees are not eligible to participate in the ARP.

The Board of Trustees of each public institution of higher education enters into contracts with each approved retirement plan provider. Once established, full-time faculty and unclassified employees who are hired subsequent to the establishment of the ARP, or who had less than five years of service credit under the existing retirement plans, may choose to enroll in the ARP. The choice is irrevocable for as long as the employee remains continuously employed in a position for which the ARP is available. For those employees that choose to join the ARP, any prior employee contributions that had been made to STRS or OPERS would be transferred to the ARP. The Ohio Department of Insurance has designated eight companies as being eligible to serve as plan providers for the ARP.

Ohio law requires that employee contributions be made to the ARP in an amount equal to those that would otherwise have been required by the retirement system that applies to the employee's position. Therefore, employees who would have otherwise been enrolled in STRS or OPERS would contribute 10.0 percent or 8.5 percent of their gross salaries, respectively. Employees may also voluntarily make additional contributions to the ARP.

Ohio law also requires each public institution of higher education contribute 3.5 percent of a participating employee's gross salary, for the year ended June 30, 2005, to STRS in cases when the employee would have otherwise been enrolled in STRS.

For the year ended June 30, 2005, employers were not required to contribute to the ARP on behalf of employees that would otherwise have been enrolled in OPERS.

The employer contribution amount is subject to actuarial review every third year to determine if the rate needs to be adjusted to mitigate any negative financial impact that the loss of contributions may have on STRS and OPERS. The Board of Trustees of each public institution of higher education may also make additional payments to the ARP based on the gross salaries of employees multiplied by a percentage the respective Board of Trustees approves.

The ARP provides full and immediate vesting of all contributions made on behalf of participants. The contributions are directed to one of the eight investment management companies as chosen by the participants. The ARP does not provide disability benefits, annual cost-of-living adjustments, postretirement health care benefits, or death benefits. Benefits are entirely dependent on the sum of the contributions and related investment income generated by each participant's choice of investment options.

For the State's discretely presented major component units, employer and employee contributions required and made for the year ended June 30, 2005, for the ARP follow (dollars in thousands):

	Fiscal Year 2005	
	OPERS	STRS
Major Component Units:		
Ohio State University:		
Employer Contributions	$16,147	$10,946
Employee Contributions	10,312	10,425
University of Cincinnati:		
Employer Contributions	5,751	5,085
Employee Contributions	3,673	4,843

NOTE 10 GENERAL OBLIGATION BONDS

The State has pledged its full faith and credit for the payment of principal and interest on general obligation bonds.

At various times since 1921, Ohio voters, by 17 constitutional amendments (the last adopted in November 2000 for land conservation purposes), have authorized the incurrence of general obligation debt for the construction and improvement of common school and higher education facilities, highways, local infrastructure improvements, research and development of coal technology, and natural resources. In practice, general obligation bonds are retired over periods of 10 to 25 years.

A 1999 constitutional amendment provided for the issuance of Common Schools Capital Facilities Bonds and Higher Education Capital Facilities Bonds. As of June 30, 2005, the General Assembly had authorized the issuance of $3.04 billion in Common Schools Capital Facilities Bonds, of which $2.19 billion had been issued. As of June 30, 2005, the General Assembly had also authorized the issuance of $2.33 billion in Higher Education Capital Facilities Bonds, of which $1.55 billion had been issued.

Through approval of the November 1995 amendment, voters authorized the issuance of Highway Capital Improvements Bonds in amounts up to $220 million in any fiscal year (plus any prior fiscal years' principal amounts not issued under the new authorization), with no more than $1.2 billion outstanding at any time. As of June 30, 2005, the General Assembly had authorized the issuance of approximately $2.13 billion in Highway Capital Improvements Bonds, of which $1.44 billion had been issued.

Constitutional amendments in 1987 and 1995 allowed for the issuance of $2.4 billion of general obligation bonds for infrastructure improvements (Infrastructure Bonds), of which no more than $120 million may be issued in any fiscal year. As of June 30, 2005, the General Assembly had authorized $2.28 billion of these bonds to be sold (excluding any amounts for unaccreted discount on capital appreciation bonds at issuance), of which $2.04 billion had been issued (net of $214 million in unaccreted discounts at issuance).

A 1968 constitutional amendment authorized the issuance of Highway Obligations in amounts up to $100 million in any calendar year, with no more than $500 million in principal amount outstanding at any one time. The aggregate of General Assembly authorizations, as of June 30, 2005, for Highway Obligations, was approximately $1.75 billion, all of which had been issued.

Coal Research and Development Bonds and Parks, Recreation, and Natural Resources Bonds may be issued as long as the outstanding principal amounts do not exceed $100 and $200 million, respectively. As of June 30, 2005, the General Assembly had authorized the issuance of $165 million in Coal Research and Development Bonds, of which $150 million had been issued. Legislative authorizations for the issuance of Natural Resources Capital Facilities Bonds totaled $301 million, as of June 30, 2005 of which $265 million had been issued.

The State may issue Conservation Projects Bonds up to $200 million. No more than $50 million may be issued during a fiscal year. As of June 30, 2005, the General Assembly had authorized the issuance of approximately $150 million in Conservation Projects Bonds of which $100 million had been issued.

General obligation bonds outstanding and future general obligation debt service requirements, as of June 30, 2005, are presented in the table on the following page.

For the year ended June 30, 2005, NOTE 15 summarizes changes in general obligation bonds.

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

Primary Government-Governmental Activities
Summary of General Obligation Bonds
and Future Funding Requirements
As of June 30, 2005
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Common Schools Capital Facilities	2000-05	3.2%-5.4%	2025	$2,075,129	$ 845,000
Higher Education Capital Facilities	2000-05	3.6%-5.4%	2025	1,420,237	777,000
Highway Capital Improvements	1997-05	3.0%-5.0%	2015	822,488	695,000
Infrastructure Improvements	1990-05	2.0%-7.6%	2024	1,408,528	240,014
Coal Research and Development	1996-04	2.4%-5.0%	2013	41,643	15,000
Natural Resources Capital Facilities	1995-05	3.0%-5.2%	2020	179,281	36,000
Conservation Projects	2002-04	3.5%-4.3%	2019	91,897	50,000
Total General Obligation Bonds				$6,039,203	$2,658,014

Future Funding of Current Interest and Capital Appreciation Bonds:

Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2006	$ 413,290	$ 240,869	$ (52)	$ 654,107
2007	412,695	225,768	(42)	638,421
2008	408,990	209,016	(32)	617,974
2009	398,800	191,341	(22)	590,119
2010	388,185	173,717	(11)	561,891
2011-2015	1,656,120	626,942	—	2,283,062
2016-2020	1,076,155	310,584	—	1,386,739
2021-2025	644,225	65,503	—	709,728
Total Current Interest and Capital Appreciation Bonds	$5,398,460	$2,043,740	$(159)	$7,442,041

Future Funding of Variable-Rate Bonds:

Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2006	$ 8,975	$ 13,720	$ 5,879	$ 28,574
2007	9,030	13,703	5,870	28,603
2008	9,095	13,669	5,805	28,569
2009	9,195	13,631	5,562	28,388
2010	11,145	13,374	5,233	29,752
2011-2015	102,790	61,992	22,658	187,440
2016-2020	242,900	37,322	15,178	295,400
2021-2025	158,110	10,442	4,211	172,763
Total Variable-Rate Bonds	551,240	$177,853	$70,396	$799,489
Total General Obligation Bonds	5,949,700			
Unamortized Discount/ (Premium), Net	150,548			
Deferred Refunding Loss	(61,045)			
Total Carrying Amount	$6,039,203			

For the variable-rate bonds, using the assumption that current interest rates remain the same over their term, the above interest and net swap payment amounts are based on rates, as of June 30, 2005. As rates vary, variable-rate bond interest payments and net swap payments vary.

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

Interest Rate Swaps

As of June 30, 2005, approximately $576.6 million of issued Infrastructure Improvement Bonds and Common Schools Bonds include associated interest-rate swaps. The State has also entered into $200 million of forward-starting interest-rate swaps for bonds currently scheduled to be issued during fiscal year 2006. Terms of the swap agreements are provided below. Fair value has been estimated using quoted market value. Rates marked with an (*) indicate a weighted-average rate based on payment dates.

Primary Government-Governmental Activities
Interest Rate Swaps
As of June 30, 2005
(dollars in thousands)

Issue	Type of Swap	Original Notional Amount	Underlying Index	Counterparty's Swap Rate at 06/30/05	State's Swap Rate at 06/30/05	Effective Date	Termination (Maturity) Date	Fair Value
Infrastructure Improvements, Series 2001B	Floating to fixed knock-out	$63,900	BMA Index	*2.33%	4.63%	11/29/01	08/01/21	$(8,551)
Credit Quality Ratings of Counterparties: 50% Aaa/AAA Bear Stearns Financial Products; 50% Aa3/A+ Morgan Stanley Capital Services								
Infrastructure Improvements, Refunding Series 2003B	Floating to fixed	$104,315	Actual Bond Rate	2.62%	2.96%	02/26/03	08/01/08	$(165)
Credit Quality Ratings of Counterparty: Aa3/A+ Morgan Stanley Capital Services								
Infrastructure Improvements, Refunding Series 2003D	Floating to fixed	$58,085	Actual Bond Rate	2.62%	3.04%	03/20/03	02/01/10	$(12)
Credit Quality Ratings of Counterparty: Aa3/A+ Morgan Stanley Capital Services								
Infrastructure Improvements, Series 2003F	Fixed to floating	$30,115	BMA Index	2.54%	*2.33%	12/04/03	02/01/10	$(284)
Credit Quality Ratings of Counterparty: Aa3/AA- JP Morgan Chase								
Infrastructure Improvements, Refunding Series 2004A	Floating to fixed Enhanced LIBOR	$58,725	LIBOR (see terms below)	2.14%	3.51%	03/03/04	02/01/23	$(3,187)
Credit Quality Ratings of Counterparty: Aa3/A+ Morgan Stanley Capital Services Terms: 68% of LIBOR (1-month LIBOR > 5.0%) or 63% of LIBOR + 25 basis points (1-month LIBOR < 5.0%)								
Common Schools, Series 2003D	Fixed to floating	$67,000	BMA Index	2.67%	*2.42%	12/15/03	09/01/07	$(378)
Credit Quality Ratings of Counterparties: 50% Aa3/AA- JP Morgan Chase; 50% Aa3/A+ Morgan Stanley Capital Services								
Common Schools, Series 2005A	Floating to fixed	$100,000	BMA Index	*2.42%	4.08%	04/01/05	03/15/25	$(4,646)
Credit Quality Ratings of Counterparties: 50% Aaa/AAA Bear Stearns Financial Products; 50% Aa3/AA- JP Morgan Chase								
Common Schools, Series 2005B	Floating to fixed	$100,000	BMA Index	*2.42%	4.08%	04/01/05	03/15/25	$(4,646)
Credit Quality Ratings of Counterparties: 50% Aaa/AAA Bear Stearns Financial Products; 50% Aa3/AA- JP Morgan Chase								
Common Schools, 2006-Series to be determined	Floating to fixed LIBOR	$100,000	LIBOR (see terms below)	N/A	N/A	06/15/06	06/15/26	$(418)
Credit Quality Ratings of Counterparties: 50% Aa2/AA+ UBS AG; 50% Aa2/AA- Royal Bank of Canada; Terms: 65% of 1-month LIBOR + 25 basis points								
Common Schools, 2006-Series to be determined	Floating to fixed LIBOR	$100,000	LIBOR (see terms below)	N/A	N/A	06/15/06	06/15/26	$(418)
Credit Quality Ratings of Counterparties: 50% Aa2/AA+ UBS AG; 50% Aa2/AA- Royal Bank of Canada Terms: 65% of 1-month LIBOR + 25 basis points								

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

Each swap counterparty is required to post collateral to a third party when their respective credit rating, as determined by specified nationally recognized credit rating agencies, falls below the trigger level defined in the swap agreement. This arrangement protects the State by mitigating the credit risk, and therefore termination risk, inherent in the swap. Collateral on all swaps must be in the form of cash or U.S. government securities held by a third-party custodian. Net payments are made on the same date, as specified in the agreements.

The State retains the right to terminate any swap agreement at the market value prior to maturity. The State has termination risk under the contracts, particularly upon the occurrence of an additional termination event (ATE), as defined in the swap agreements. An ATE occurs if either the credit rating of the bonds associated with a specific swap or the credit rating of the swap counterparty falls below a threshold defined in each swap agreement. If the swap was terminated, the variable-rate bonds would no longer carry a synthetic interest rate. Also, if at the time of the termination the swap has a negative fair value, the State would be liable to the counterparty for a payment at the swap's fair value. Other termination events include failure to pay, bankruptcy, merger without assumption, and illegality. No such credit events have occurred.

Interest rate risk, rollover risk, basis risk, and credit risk vary for each interest rate swap. Discussion of these risks is included below, when applicable to the swap.

Infrastructure Improvements-Series 2001B
The State entered into an interest rate swap to convert the Series 2001B variable-rate bonds into a synthetic fixed rate to minimize interest expense. The combination of the variable-rate bonds and a floating-to-fixed swap creates a low-cost, long-term synthetic fixed rate debt that protects the State from rising interest rates. This structure produced expected present value savings of approximately $2 million versus a traditional fixed-rate bond structure.

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2005. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

In addition, the swap has a knock-out option. In the event the 180-day average of the BMA index rate exceeds seven percent, the counterparty can knock-out (cancel) the swap. If the counterparty exercises its option to cancel, the State would be exposed to higher floating rates.

The swap exposes the State to basis risk or a mismatch (shortfall) between the floating rate received on the swap and the variable rate paid on the underlying variable-rate bonds. A mismatch (shortfall) would effectively raise the fixed rate that the State pays on the swap. BMA is a proxy for the State's variable-rate debt.

Infrastructure Improvements-
Refunding Series 2003B
The State entered into an interest rate swap to convert the Series 2003B variable-rate refunding bonds into a synthetic fixed rate through the escrow period to protect the State from rising interest rates. The combination of variable-rate bonds and a floating-to-fixed swap creates a low-cost, synthetic fixed-rate debt during the escrow period without incurring negative arbitrage, increases the State's variable-rate exposure after the call date, and generates expected present value savings of $8.4 million.

The swap matures on August 1, 2008, and the Series 2003 variable-rate bonds mature on August 1, 2017. This mismatch in terms allows the State to increase its variable rate exposure after August 1, 2008, which is consistent with its long-term asset/liability management policy objective.

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2005. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

Infrastructure Improvements-
Refunding Series 2003D
The State entered into an interest rate swap to convert the Series 2003D variable-rate refunding bonds into a synthetic fixed rate through the escrow period that protects the State from rising interest rates. The combination of variable-rate bonds and a floating-to-fixed swap creates a low-cost, synthetic fixed-rate debt during the escrow period without incurring negative arbitrage, increases the State's variable-rate exposure after the call date, and generates expected present value savings of $4.9 million.

The swap matures on February 1, 2010, and the Series 2003 variable-rate bonds mature on February 1, 2019. This mismatch in terms allows the State to increase its variable rate exposure after February 1, 2010, which is consistent with its long-term asset/liability management policy objective.

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2005. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

Infrastructure Improvements-Series 2003F
The State entered into an interest rate swap to convert a portion of the Series 2003F fixed-rate bonds into a synthetic variable rate. The combination of fixed-rate bonds and a fixed-to-floating swap creates synthetic variable-rate debt that is exposed to changing interest rates. The borrowing cost is less than the traditional variable borrowing cost for an expected present value savings of $.2 million.

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2005. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

Infrastructure Improvements-Refunding Series 2004A
The State entered into an interest rate swap to convert the Series 2004A variable-rate bonds into a synthetic fixed rate to minimize interest expense. The combination of the variable-rate bonds and a floating-to-fixed swap creates a low-cost, long-term synthetic fixed rate debt that protects the State from rising interest rates.

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2005. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

The swap exposes the State to basis risk or a mismatch (shortfall) between the floating rate received on the swap and the variable rate paid on the underlying variable-rate bonds. A mismatch (shortfall) would effectively make the fixed rate the State pays on the swap higher. Given that the variable swap receipt is based on a taxable index (LIBOR), the State assumes the risk of reductions in marginal federal tax rates or elimination of the tax preference for municipal securities. Those changes would increase the interest rates on the underlying variable rate debt but would not impact the variable rate swap receipt based on the LIBOR index.

The swap has an embedded floor. When the one-month LIBOR rate falls below five percent, the State will receive a pay off of the swap from the counterparty. This floor reduces the basis risk when rates are below five percent.

Common Schools-Series 2003D
The State entered into an interest rate swap to convert its Common Schools, Series 2003D fixed-rate bonds into a synthetic variable rate. Through the swap, the State achieves variable rate exposure synthetically at a rate equal to the BMA index less 21.5 basis points.

The swap matures on September 1, 2007, and the Common Schools, Series 2003D bonds mature March 15, 2024. Upon expiration of the swap, the bonds are expected to change from a synthetic variable rate to a natural variable rate.

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2005. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

Common Schools-Series 2005A
The State entered into an interest rate swap to convert its Common Schools, Series 2005A variable-rate bonds into a synthetic fixed rate. The combination of the variable-rate bonds and a floating-to-fixed swap creates a low-cost, long-term synthetic fixed rate debt that protects the State from rising interest rates.

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2005. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

The swap exposes the State to basis risk or a mismatch (shortfall) between the floating rate received on the swap and the variable rate paid on the underlying variable-rate bonds. A mismatch (shortfall) would effectively make the fixed rate the State pays on the swap higher. BMA is a proxy for the State's variable-rate debt.

Common Schools-Series 2005B
The State entered into an interest rate swap to convert its Common Schools, Series 2005B variable-rate bonds into a synthetic fixed rate. The combination of the variable-rate bonds and a floating-to-fixed swap creates a low-cost, long-term synthetic fixed rate debt that protects the State from rising interest rates.

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2005. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

The swap exposes the State to basis risk or a mismatch (shortfall) between the floating rate received on the swap and the variable rate paid on the underlying variable-rate bonds. A mismatch (shortfall) would effectively make the fixed rate the State pays on the swap higher. BMA is a proxy for the State's variable-rate debt.

Common Schools-2006 Series to be determined
The State entered into two forward-starting interest rate swaps to convert two series of future Common Schools variable-rate bonds into synthetic fixed rates. The combination of the variable-rate bonds and a floating-to-fixed swap creates a low-cost, long-term synthetic fixed rate debt that protects the State from rising interest rates.

The State was not exposed to credit risk because both swaps had a negative fair value at June 30, 2005. However, should interest rates change and the fair value of the swaps becomes positive, the State would be exposed to credit risk in the amount of the fair value of the derivatives.

These swaps expose the State to basis risk or a mismatch (shortfall) between the floating rate received on the swaps and the variable rate paid on the underlying variable-rate bonds. A mismatch (shortfall) would effectively make the fixed rate the State pays on the swaps higher. Given that the variable swap receipt is based on a taxable index (LIBOR), the State assumes the risk of reductions in marginal federal tax rates or elimination of the tax preference for municipal securities. Those changes would increase the interest rates on the underlying variable rate debt but would not impact the variable rate swap receipt based on the LIBOR index.

Advance Refundings
During fiscal year 2005, there were three advance refundings of general obligation bonds as follows:

The State issued approximately $39.5 million in Infrastructure Improvements refunding bonds (Series 2004C) with a true interest cost rate of 3.4 percent to defease approximately $40.5 million (in substance). Net refunding bond proceeds of $43.4 million (after payment of underwriting fees and bond issue costs) were deposited with escrow agents to provide for all future principal and interest payments on the old bonds. As a result of the refunding, the State's debt service payments will be reduced by $2.5 million over the next 11 years. The net economic gain from the refunding was $1.6 million.

The State issued approximately $18.9 million in Common Schools refunding bonds (Series 2004C) with a true interest cost rate of 3.4 percent to defease approximately $20 million (in substance). Net refunding bond proceeds of $20.9 million were deposited with escrow agents to provide for all future principal and interest payments on the old bonds. As a result of the refunding, the State's debt service payments will be reduced by $1.7 million over the next 11 years. The net economic gain from the refunding was $1 million.

The State issued approximately $47.4 million in Natural Resources refunding bonds (Series J) with a true interest cost rate of 3.3 percent to defease approximately $45.2 million (in substance). Net refunding bond proceeds of $48.8 million were deposited with escrow agents to provide for all future principal and interest payments on the old bonds. As a result of the refunding, the State's debt service payments will be reduced by $3.3 million over the next 11 years. The net economic gain from the refunding was $2.1 million.

Proceeds of the new bonds are placed in irrevocable trusts to provide for all future debt service payments of the old bonds. These amounts are considered defeased and no longer outstanding. The various trust accounts' assets and liabilities for the defeased bonds are not included in the State's financial statements.

In addition to the general obligation bonds defeased during fiscal year 2005, the Treasurer of State has defeased other Infrastructure Improvement Bonds, Natural Resources Bonds, Common Schools Bonds, and Higher Education Bonds in prior years and placed the proceeds in irrevocable trusts. As of June 30, 2005, the balances in these trusts for bonds defeased in prior years were $442.2 million for Infrastructure Improvement Bonds, $8.4 million for Natural Resources Bonds, $57.6 million for Common Schools Bonds, and $56.2 million for Higher Education Bonds.

NOTE 11 REVENUE BONDS AND NOTES

The State Constitution permits state agencies and authorities to issue bonds that are not supported by the full faith and credit of the State. These bonds pledge income derived from user fees and rentals on the acquired or constructed assets to pay the debt service. Issuers for the primary government include the Ohio Building Authority (OBA), which has issued revenue bonds on its own behalf and for the Ohio Bureau of Workers' Compensation, the Treasurer of State for the Ohio Department of Development's Office of Financial Incentives, and the Ohio Department of Transportation. Major issuers for the State's component units include the Ohio Water Development Authority, the Ohio State University, and the University of Cincinnati.

A. Primary Government

Economic Development bonds, issued by the Treasurer of State for the Office of Financial Incentive's Direct Loan Program, provide financing for loans and loan guarantees to businesses within the State for economic development projects that create or retain jobs in the State. The taxable bonds are backed with profits derived from the sale of spirituous liquor by the Division of Liquor Control and pledged moneys and related investment earnings held in reserve under a trust agreement with a financial institution. During fiscal year 2005, the Treasurer of State issued $50 million in Economic Development bonds.

Revitalization Project revenue bonds provide financing to enable the remediation or clean up of contaminated publicly or privately owned lands to allow for their environmentally safe and productive development. The Revitalization Project bonds are also backed with profits derived from the sale of spirituous liquor by the Division of Liquor Control.

Since fiscal year 1998, the Treasurer of State has issued a total of $439 million in State Infrastructure Bank Bonds for various highway construction projects sponsored by the Department of Transportation. The State has pledged federal highway receipts as the primary source of moneys for meeting the principal and interest requirements on the bonds.

Revenue bonds accounted for in business-type activities finance the costs of the William Green Building, which houses the main operations of the Ohio Bureau of Workers' Compensation in Columbus and other office buildings and related facilities constructed by the OBA for shared use by local governments. The principal and interest requirements on the OBA bonds are paid from rentals received under the long-term lease agreements discussed in NOTE 5D.

Revenue bonds outstanding for the primary government, as of June 30, 2005, are presented in the table below.

For the year ended June 30, 2005, NOTE 15 summarizes changes in revenue bonds.

Future bond service requirements for revenue bonds of the primary government, as of June 30, 2005, are presented in the table at the top of the following page.

In December 1998, the Treasurer of State entered into a forward purchase refunding agreement to advance refund approximately $102 million in Series

Primary Government
Revenue Bonds
As of June 30, 2005
(dollars in thousands)

	Fiscal Year Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
Governmental Activities:				
Treasurer of State:				
Economic Development	1997-05	3.8%-7.8%	2025	$278,974
State Infrastructure Bank	1998-04	2.0%-5.0%	2011	264,375
Revitalization Project	2003	3.0%-5.0%	2018	48,539
Total Governmental Activities				591,888
Business-Type Activities:				
Bureau of Workers' Compensation	2003	1.6%-4.0%	2014	142,202
Ohio Building Authority	1997-04	2.0%-6.0%	2008	8,861
Total Business-Type Activities				151,063
Total Revenue Bonds				$742,951

NOTE 11 REVENUE BONDS AND NOTES (Continued)

Primary Government
Future Funding Requirements for Revenue Bonds
As of June 30, 2005
(dollars in thousands)

	Governmental Activities			Business-Type Activities			Total		
Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2006	$ 64,460	$ 31,462	$ 95,922	$ 15,237	$ 6,770	$ 22,007	$ 79,697	$ 38,232	$ 117,929
2007	65,605	28,325	93,930	18,803	6,050	24,853	84,408	34,375	118,783
2008	66,830	25,062	91,892	17,741	5,337	23,078	84,571	30,399	114,970
2009	59,310	21,861	81,171	16,005	4,606	20,611	75,315	26,467	101,782
2010	45,015	18,923	63,938	15,930	3,867	19,797	60,945	22,790	83,735
2011-2015	98,085	70,291	168,376	62,870	7,730	70,600	160,955	78,021	238,976
2016-2020	104,020	40,192	144,212	—	—	—	104,020	40,192	144,212
2021-2025	72,235	8,685	80,920	—	—	—	72,235	8,685	80,920
	575,560	244,801	820,361	146,586	34,360	180,946	722,146	279,161	1,001,307
Net Unamortized Premium/(Discount)	16,328	—	16,328	8,480	—	8,480	24,808	—	24,808
Deferred Refunding Loss	—	—	—	(4,003)	—	(4,003)	(4,003)	—	(4,003)
Total	$591,888	$244,801	$836,689	$151,063	$34,360	$185,423	$742,951	$279,161	$1,022,112

1996 Taxable Development Assistance Bonds on October 1, 2006. Under the terms of the bond purchase agreement, the underwriter has agreed to purchase approximately $102 million in Series 1998 Taxable Development Assistance Refunding Bonds and deliver to the escrow agent on or before August 25, 2006 cash and/or direct U.S. government obligations sufficient to provide for the redemption of the refunded bonds on October 1, 2006. Because the State has not taken delivery of the proceeds from the issuance of the Series 1998 Taxable Development Assistance Refunding Bonds, as of June 30, 2005, no obligation for the refunding bonds has been included in the financial statements.

In prior years, the OBA defeased certain bond issues by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the various trust accounts' assets and liabilities for the defeased bonds are not included in the State's financial statements. As of June 30, 2005, $826 thousand of OBA revenue bonds are considered defeased and no longer outstanding.

B. Component Units

Ohio Water Development Authority (OWDA) bonds and notes provide financing to local government authorities (LGA) in the State of Ohio for the acquisition, construction, maintenance, repair, and operation of water development projects and solid waste projects, including the construction of sewage and related water treatment facilities. The principal and interest requirements on OWDA obligations are generally paid from investment earnings, federal funds and/or repayments of loan principal and interest thereon from the LGAs.

A portion of OWDA's outstanding bonds has been issued for the Water Pollution Control Loan Program, which provides low-cost financing to LGAs for the construction of wastewater treatment facilities. In the event pledged program revenues, which consist of interest payments from the LGAs as reimbursement for construction costs, are not sufficient to meet debt service requirements for the bonds, the General Assembly may appropriate moneys for the full replenishment of a bond reserve. As of December 31, 2004, approximately $1.2 billion in bonds were outstanding for this program.

Future bond service requirements for the Water Pollution Control Loan Program revenue bonds, as of December 31, 2004, were as follows (dollars in thousands):

Year Ending December 31,	Principal	Interest	Total
2005	$ 42,240	$ 60,658	$ 102,898
2006	49,560	58,335	107,895
2007	52,920	55,945	108,865
2008	61,080	53,606	114,686
2009	61,260	47,426	108,686
2010-2014	356,000	185,607	541,607
2015-2019	332,080	97,812	429,892
2020-2024	201,705	25,250	226,955
2025-2029	8,940	223	9,163
	1,165,785	584,862	1,750,647
Net Unamortized Premium/(Discount)	66,766	—	66,766
Deferred Refunding Loss	(23,200)	—	(23,200)
Total	$1,209,351	$584,862	$1,794,213

Generally, bonds and notes issued by the state universities and state community colleges are payable

NOTE 11 REVENUE BONDS AND NOTES (Continued)

Major Component Units
Future Funding Requirements for Revenue Bonds
As of June 30, 2005
(dollars in thousands)

	Ohio Water Development Authority (12/31/04)			Ohio State University			University of Cincinnati		
Year Ending December 31 or June 30,	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2005	$ 111,700	$ 108,592	$220,292						
2006	144,350	102,801	247,151	$473,739	$ 24,139	$ 497,878	$ 44,611	$ 32,033	$ 76,644
2007	142,885	97,050	239,935	17,552	17,686	35,238	26,885	30,181	57,066
2008	96,060	91,445	187,505	19,588	17,118	36,706	32,420	29,061	61,481
2009	118,320	83,477	201,797	18,659	16,470	35,129	27,270	27,839	55,109
2010	—	—	—	19,145	15,762	34,907	27,540	26,742	54,282
2010-2014	621,150	385,313	1,006,463	—	—	—	—	—	—
2011-2015	—	—	—	96,208	66,627	162,835	150,225	115,326	265,551
2015-2019	536,130	190,759	726,889	—	—	—	—	—	—
2016-2020	—	—	—	78,865	45,889	124,754	173,120	78,993	252,113
2020-2024	353,195	59,658	412,853	—	—	—	—	—	—
2021-2025	—	—	—	60,585	26,216	86,801	142,070	42,758	184,828
2025-2029	55,350	9,837	65,187	—	—	—	—	—	—
2026-2030	—	—	—	49,565	12,800	62,365	106,235	15,114	121,349
2030-2034	17,800	2,107	19,907	—	—	—	—	—	—
2031-2035	—	—	—	21,996	1,810	23,806	17,825	652	18,477
	2,196,940	1,131,039	3,327,979	855,902	244,517	1,100,419	748,201	398,699	1,146,900
Net Unamortized Premium/(Discount)	86,141	—	86,141	—	—	—	1,804	—	1,804
Deferred Refunding Loss	(39,132)	—	(39,132)	—	—	—	—	—	—
Total	$2,243,949	$1,131,039	$3,374,988	$855,902	$244,517	$1,100,419	$750,005	$398,699	$1,148,704

from the institutions' available receipts, including student fees, rental income, and gifts and donations, as may be provided for in the respective bond proceedings, for the construction of educational and student residence facilities and auxiliary facilities such as dining halls, hospitals, parking facilities, bookstores, and athletic facilities.

Except as previously discussed with respect to OWDA's Water Pollution Control Loan Program bonds, the State is not obligated in any manner for the debt of its component units.

Of the outstanding revenue bonds and notes reported for the OWDA component unit fund, approximately $140.3 million in bonds had adjustable interest rates that are reset weekly at rates determined by the remarketing agency. As of December 31, 2004, the rate for the variable-rate bonds was 2 percent.

Future bond service requirements for revenue bonds and notes reported for the discretely presented major component units, as of June 30, 2005, are presented in the above table.

NOTE 12 SPECIAL OBLIGATION BONDS

The Ohio Building Authority (OBA) and the Treasurer of State issue special obligation bonds reported in governmental activities.

OBA bonds finance the capital costs of categories of facilities including correctional facilities and office buildings for state departments and agencies and, in some cases, related facilities for local governments.
Under the authority of Chapter 154, Ohio Revised Code, the Treasurer of State is the issuer of special obligation bonds that finance the cost of capital facilities for state-supported institutions of higher education, mental health and retardation institutions, and parks and recreation. Prior to September 14, 2000, when House Bill 640 became effective and reassigned the issuing authority for these obligations to the Treasurer of State, the Ohio Public Facilities Commission issued the Chapter 154 bonds.

Elementary and Secondary Education Bonds, which the Treasurer of State issued for the Department of Education, finance the construction costs of capital facilities for local school districts.

NOTE 12 SPECIAL OBLIGATION BONDS (Continued)

Primary Government-Governmental Activities
Special Obligation Bonds
As of June 30, 2005
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Ohio Building Authority	1986-05	2.0%-9.8%	2025	$2,266,563	$261,910
Treasurer of State:					
Chapter 154 Bonds:					
Higher Education Facilities	1996-05	3.2%-5.6%	2014	964,186	—
Mental Health Facilities	1996-05	3.1%-5.3%	2019	255,059	72,915
Parks and Recreation Facilities	1998-05	2.5%-5.5%	2020	134,363	22,000
Elementary and Secondary Education	1997-99	3.5%-5.6%	2008	79,765	—
Total Special Obligation Bonds				$3,699,936	$356,825

The State reports OBA bonds issued for capital projects that benefit state agencies as special obligation bonds, while OBA bonds issued to finance the costs of local government facilities are reported as revenue bonds (See NOTE 11).

Pledges of lease rental payments from appropriations made to the General Fund, Highway Safety and Highway Operating Special Revenue funds, and Underground Parking Garage Enterprise Fund, moneys held by trustees pursuant to related trust agreements, and other receipts, as required by the respective bond documents, secure the special obligation bonds. The lease rental payments are reported in the fund financial statements as interfund transfers.

Special obligation bonds outstanding and bonds authorized but unissued, as of June 30, 2005, are presented in above table.

Future special obligation debt service requirements, as of June 30, 2005, were as follows (dollars in thousands):

Year Ending June 30,	Principal	Interest	Total
2006	$ 453,779	$ 176,517	$ 630,296
2007	451,957	149,961	601,918
2008	440,594	128,522	569,116
2009	332,565	108,778	441,343
2010	321,340	92,140	413,480
2011-2015	1,064,875	266,149	1,331,024
2016-2020	430,295	87,877	518,172
2021-2025	144,780	17,090	161,870
	3,640,185	1,027,034	4,667,219
Net Unamortized Premium/ (Discount)	150,232	—	150,232
Deferred Refunding Loss	(90,481)	—	(90,481)
Total	$3,699,936	$1,027,034	$4,726,970

For the year ended June 30, 2005, NOTE 15 summarizes changes in special obligation bonds.

During fiscal year 2005, the OBA defeased a number of special obligation bond issues *in substance* when the net proceeds of refunding bonds (after payment of underwriting fees and bond issue costs) were deposited with escrow agents to provide for all future principal and interest payments on the old bonds. A resulting economic gain/(loss) from an advance refunding represents the difference between the present values of the debt service payments on the old and new debt. Details on the advance refundings for fiscal year 2005 are presented in the table on the following page.

In prior years, the OBA and the Treasurer of State defeased certain bond issues by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the various trust accounts' assets and liabilities for the defeased bonds are not included in the State's financial statements. As of June 30, 2005, $135 million and $351.7 million of OBA and Chapter 154 special obligation bonds, respectively, are considered defeased and no longer outstanding.

NOTE 12 SPECIAL OBLIGATION BONDS (Continued)

Primary Government — Governmental Activities
Special Obligation Bonds
Details of Advance Refundings
For the Year Ended June 30, 2005
(dollars in thousands)

Refunding Bond Issue	Date of Refunding	Amount of Refunding Bonds Issued	True Interest Cost Rates of Refunding Bonds	Carrying Amount of Bonds Refunded *(in substance)*	Refunding Bond Proceeds Placed in Escrow	Reduction in Debt Service Payments	Economic Gain Resulting from Refunding
Ohio Building Authority:							
State Facilities (Administrative Building), Series 2004B	10/21/04	$130,750	3.6%	$132,412	$142,615	$4,278 over next 15 years	$ 3,655
State Facilities (Adult Correctional Building), Series 2004C	10/21/04	225,350	3.6%	228,152	248,592	$11,232 over next 15 years	8,179
State Facilities (Administrative Building), Series 2005B	3/30/05	29,150	3.5%	29,644	31,172	$997 over next 7 years	895
Treasurer of State Chapter 154:							
Higher Education Facilities, Series II-2004A	10/5/04	173,975	3.5%	177,000	189,488	$9,913 over next 9 years	5,230
Mental Health Facilities, Series II- 2004A	10/5/04	30,035	3.5%	30,415	32,455	$1,808 over next 8 years	946
Parks and Recreation Facilities, Series II-2004B	10/5/04	11,740	3.5%	10,640	11,592	$693 over next 10 years	484
Total		$601,000		$608,263	$655,914		$19,389

NOTE 13 CERTIFICATES OF PARTICIPATION

As of June 30, 2005, approximately $92.1 million in certificate of participation (COP) obligations were reported in governmental activities.

In fiscal year 1992, the Ohio Department of Transportation participated in the issuance of $8.7 million of COP obligations to finance the acquisition of the Panhandle Rail Line Project. During fiscal year 1996, the Department also participated in the issuance of $10.2 million in COP obligations to provide assistance to the Rickenbacker Port Authority for facility improvements at the Rickenbacker International Airport in Franklin and Pickaway counties. In fiscal year 2005, the Ohio Department of Administrative Services participated in the issuance of $79.2 million of COP obligations to finance the acquisition of the Ohio Administrative Knowledge System (OAKS), a statewide Enterprise Resource Planning (ERP) system.

Under the COP financing arrangements, the State is required to make rental payments from the Transportation Certificates of Participation Debt Service Fund, the OAKS Certificates of Participation Debt Service Fund, and the General Fund (subject to biennial appropriations) that approximate the interest and principal payments made by trustees to certificate holders.

Obligations outstanding for the primary government under COP financing arrangements, as of June 30, 2005, are presented in the table at the top of the following page.

As of June 30, 2005, the primary government's future commitments under the COP financing arrangements were as follows (dollars in thousands):

Year Ending June 30,	Principal	Interest	Total
2006	$ 1,005	$ 3,265	$ 4,270
2007	800	4,291	5,091
2008	6,780	4,101	10,881
2009	7,125	3,758	10,883
2010	7,495	3,387	10,882
2011-2015	42,300	10,597	52,897
2016-2017	19,215	1,022	20,237
	84,720	30,421	115,141
Net Unamortized Premium	7,422	—	7,422
Total	$92,142	$30,421	$122,563

NOTE 13 CERTIFICATES OF PARTICIPATION (Continued)

Primary Government — Governmental Activities
Certificate of Participation Obligations
As of June 30, 2005
(dollars in thousands)

	Fiscal Year Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
Department of Transportation:				
Panhandle Rail Line Project	1992	6.5%	2012	$ 4,675
Rickenbacker Port Authority Improvements	1996	6.1%	2007	860
Department of Administrative Services:				
Ohio Administrative Knowledge System (OAKS)	2005	3.8%	2017	86,607
Total Certificates of Participation				$92,142

For the year ended June 30, 2005, NOTE 15 summarizes changes in COP obligations.

For the State's component units, approximately $28.5 million in COP obligations are reported in the component unit funds. The obligations finance building construction costs at The Ohio State University, the University of Cincinnati, and the University of Akron.

As of June 30, 2005, future commitments under the COP financing arrangements for the State's component units are detailed in the table below.

Component Units
Future Funding Requirements for Certificate of Participation Obligations
As of June 30, 2005
(dollars in thousands)

	Ohio State University			University of Cincinnati		
Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total
2006	$ 355	$ 294	$ 649	$ 30	$15	$ 45
2007	360	277	637	30	14	44
2008	390	260	650	35	11	46
2009	405	242	647	35	10	45
2010	425	222	647	35	7	42
2011-2015	2,455	773	3,228	105	11	116
2016-2020	1,790	136	1,926	—	—	—
2021-2025	—	—	—	—	—	—
2026-2030	—	—	—	—	—	—
2031-2035	—	—	—	—	—	—
Total	$6,180	$2,204	$8,384	$270	$68	$338

	University of Akron			Total Component Units		
Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total
2006	$ 140	$ 1,585	$ 1,725	$ 525	$ 1,894	$ 2,419
2007	275	1,450	1,725	665	1,741	2,406
2008	295	1,430	1,725	720	1,701	2,421
2009	315	1,410	1,725	755	1,662	2,417
2010	340	1,385	1,725	800	1,614	2,414
2011-2015	2,095	6,530	8,625	4,655	7,314	11,969
2016-2020	2,960	5,665	8,625	4,750	5,801	10,551
2021-2025	4,090	4,535	8,625	4,090	4,535	8,625
2026-2030	5,580	3,045	8,625	5,580	3,045	8,625
2031-2035	5,910	990	6,900	5,910	990	6,900
Total	$22,000	$28,025	$50,025	$28,450	$30,297	$58,747

NOTE 14 OTHER NONCURRENT LIABILITIES

As of June 30, 2005, in addition to bonds and certificates of participation obligations discussed in NOTES 10 through 13, the State reports the following noncurrent liabilities in its financial statements (dollars in thousands):

Governmental Activities:	
Compensated Absences	$ 397,617
Capital Leases Payable	2,471
Estimated Claims Payable	6,623
Liability for Escheat Property	203,501
Total Governmental Activities	610,212
Business-Type Activities:	
Compensated Absences	35,683
Capital Leases Payable	205
Workers' Compensation:	
Unearned Revenue	389,332
Benefits Payable	15,116,014
Other	1,862,304
Deferred Prize Awards Payable	843,418
Tuition Benefits Payable	1,106,800
Workers Compensation Claims-Auditor of State's Office	9,528
Total Business-Type Activities	19,363,284
Total Primary Government	$19,973,496

For the year ended June 30, 2005, NOTE 15 summarizes the changes in other noncurrent liabilities. Explanations of certain significant noncurrent liability balances reported in the financial statements follow.

A. Compensated Absences

For the primary government, the compensated absences liability, as of June 30, 2005, was $433.3 million, of which $397.6 million is allocable to governmental activities and $35.7 million is allocable to business-type activities.

As of June 30, 2005, discretely presented major component units reported a total of $144.8 million in compensated absences liabilities, as detailed by major component unit in NOTE 15.

B. Lease Agreements

The State's primary government leases office buildings and office and computer equipment. Although the lease terms vary, most leases are renewable subject to biennial appropriations by the General Assembly. If the likelihood of the exercise of a fiscal funding clause in the lease agreement is, in the management's judgment, remote, then the lease is considered noncancelable for financial reporting purposes and is reported as a fund expenditure/expense for operating leases or as a liability for capital leases.

Assets acquired through capital leasing are valued at the lower of fair value or the present value of the future minimum lease payments at the lease's inception.

Operating leases (leases on assets not recorded in the Statement of Net Assets) contain various renewal options as well as some purchase options.

Any escalation clauses, sublease rentals, and contingent rents are considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures or expenses of the related funds when paid or incurred.

The primary government's total operating lease expenditures/expenses for fiscal year 2005 were approximately $83.7 million.

Future minimum lease commitments for operating leases and capital leases judged to be noncancelable, as of June 30, 2005, were as follows (dollars in thousands):

Primary Government

Year Ending June 30,	Operating Leases
2006	$ 6,033
2007	2,518
2008	1,114
2009	970
2010	73
Total minimum lease payments	$10,708

	Capital Leases		
Year Ending June 30,	Governmental Activities	Business-Type Activities	Total
2006	$1,338	$ 82	$1,420
2007	877	81	958
2008	494	58	552
2009	64	10	74
2010	5	2	7
Total Minimum Lease Payments	2,778	233	3,011
Amount for interest	(307)	(28)	(335)
Present Value of Net Minimum Lease Payments	$2,471	$205	$2,676

NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

As of June 30, 2005, the primary government had the following capital assets under capital leases (dollars in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Equipment	$5,572	$168	$5,740

Amortization expense for the proprietary funds within the Statement of Activities is included with depreciation expense.

Capital leases are reported under the "Refund and Other Liabilities" account in the proprietary and component unit funds.

Future minimum lease commitments for capital leases judged to be noncancelable and capital assets under capital leases for the discretely presented major component unit funds, as of June 30, 2005, are presented in the table below.

Major Component Units

	Capital Leases	
Year Ending June 30,	Ohio State University	University of Cincinnati
2006	$ 6,919	$ 11,042
2007	4,892	11,491
2008	2,146	11,694
2009	842	12,725
2010	650	12,551
2011-2015	1,006	52,521
2016-2020	—	42,012
2021-2025	—	34,414
2026-2030	—	9,380
Total Minimum Lease Payments	16,455	197,830
Amount for interest	(997)	(71,030)
Present Value of Net Minimum Lease Payments	$15,458	$126,800
Equipment & Vehicles.................	$46,955	$ —
Buildings................	—	141,909
Total	$46,955	$141,909

C. Estimated Claims Payable
For governmental activities, the State recognized $3.4 million in estimated claims liabilities, as of June 30, 2005, for damaged state vehicles covered under the State's self-insured program, which was established in the General Fund for this purpose at the Department of Administrative Services.

Additionally, the State reported $3.2 million in estimated claims for defaulted loans under the Ohio Enterprise Bond Program at the Ohio Department of Development, as of June 30, 2005. The program is included in governmental activities and is accounted for in the Community and Economic Development Special Revenue Fund.

D. Liability for Escheat Property
The State records a liability for escheat property to the extent that it is probable that the escheat property will be reclaimed and paid to claimants. As of June 30, 2005, this liability totaled approximately $203.5 million.

E. Workers' Compensation

Unearned Revenue
Unearned revenue in the amount of $389.3 million is reported as a noncurrent liability in the Workers' Compensation Enterprise Fund. This balance represents employer assessments for disabled workers benefits and for self-insuring employers guaranty deposits received or in the course of collection, but not yet recognized.

Benefits Payable
As discussed in NOTE 20A, the Workers' Compensation Enterprise Fund provides benefits to employees for losses sustained from job-related injury, disease, or death. The Bureau has computed a reserve for compensation, as of June 30, 2005, in the amount of approximately $15.12 billion. The reserve, which includes estimates for reported claims and claims incurred but not reported, is included in the "Benefits Payable" balance reported for the enterprise fund.

F. Deferred Prize Awards Payable
The deferred prize awards payable in installments over future years totaling approximately $843.4 million, as of June 30, 2005, is reported at present value based upon interest rates the Treasurer of State provides the Lottery Commission Enterprise Fund. The interest rates, ranging from four to 11.69 percent, represent the expected long-term rate of return on the assets restricted for the payment of deferred prize awards. Once established for a particular deferred prize award, the interest rate does

NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

not fluctuate with changes in the expected long-term rate of return. The difference between the present value and gross amount of the obligations is amortized into income over the terms of the obligations using the interest method.

Future payments of prize awards, stated at present value, as of June 30, 2005, follow (dollars in thousands):

Year Ending June 30,	
2006	$197,646
2007	116,373
2008	100,875
2009	85,453
2010	68,452
2011-2015	327,561
2016-2020	250,950
2021-2025	104,402
	1,251,712
Unamortized Discount	(408,294)
Net Prize Liability	$843,418

The State reduces prize liabilities by an estimate of the amount of prizes that will ultimately be unclaimed.

G. Tuition Benefits Payable

The actuarial present value of future tuition benefits payable from the Tuition Trust Authority Enterprise Fund were approximately $1.11 billion, as of June 30, 2005. The valuation method reflects the present value of estimated tuition benefits that will be paid in future years and is adjusted for the effects of projected tuition increases at state universities and state community colleges and termination of participant contracts under the plan.

The following assumptions were used in the actuarial determination of tuition benefits payable: seven percent rate of return, compounded annually, on the investment of current and future assets; a projected annual tuition increase of eight percent for Fall 2006 and 10 percent thereafter; and a 2.5 percent Consumer Price Index inflation rate. The effect of changes due to experience and actuarial assumption changes follow (dollars in millions):

Actuarial Deficit, as of June 30, 2004	$(294.6)
Interest on the Deficit at 7.0 Percent	(20.6)
Investment Gain	11.0
Lower-Than-Assumed Tuition Increase	37.7
More Units/Credits Redeemed Than Expected	0.7
Lower-Than-Expected Credit Payouts	0.1
Interest Gain on Late Tuition Payouts	0.5
Change in Assumptions	19.0
Change in Credit Bias	.6
Other	(4.4)
	(250.0)
Value of Future Contingent Payments for Variable Investment Options	48.8
Actuarial Deficit, as of June 30, 2005	$(201.2)

As of June 30, 2005, the market value of actuarial net assets available for payment of the tuition benefits payable was $856.8 million.

H. Other Liabilities

The Workers' Compensation Enterprise Fund reports approximately $1.86 billion in other noncurrent liabilities, as of June 30, 2005, of which 1.) $1.71 billion is comprised of the compensation adjustment expenses liability for estimated future expenses to be incurred in the settlement of claims, as discussed further in NOTE 20A., 2.) $87 million represents premium payment security deposits collected in advance from private employers to reduce credit risk for premiums collected in subsequent periods, and 3.) $67.6 million consists of other miscellaneous liabilities.

Additionally, the Office of the Auditor of State Enterprise Fund reports $9.5 million in other liabilities for estimated workers' compensation claims payable. For the payment of the claims, the General Fund transfers resources to the Office of the Auditor of State Enterprise Fund. As claims expenses are incurred, transfers from the General Fund are accrued.

Accordingly, the General Fund reported an interfund payable to the Bureau of Workers' Compensation Enterprise Fund in an amount equal to the workers' compensation claims payable reported in the Office of Auditor of State Enterprise Fund, as of June 30, 2005 (See NOTE 7A.).

NOTE 15 CHANGES IN NONCURRENT LIABILITIES

Primary Government

Changes in noncurrent liabilities, for the year ended June 30, 2005, are presented for the primary government in the following table.

Primary Government
Changes in Noncurrent Liabilities
For the Fiscal Year Ended June 30, 2005
(dollars in thousands)

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Amount Due Within One Year
Governmental Activities:					
Bonds and Notes Payable:					
General Obligation Bonds (NOTE 10)	$ 5,420,711	$1,171,222	$ (552,730)	$ 6,039,203	$ 422,591
Revenue Bonds (NOTE 11)	607,958	50,784	(66,854)	591,888	65,124
Special Obligation Bonds (NOTE 12)	3,914,168	925,544	(1,139,776)	3,699,936	456,690
Total Bonds and Notes Payable	9,942,837	2,147,550	(1,759,360)	10,331,027	944,405
Certificates of Participation (NOTE 13)	6,480	86,607	(945)	92,142	1,005
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences	382,208	347,668	(332,259)	397,617	44,433
Capital Leases Payable	3,460	334	(1,323)	2,471	1,199
Estimated Claims Payable	6,552	1,391	(1,320)	6,623	1,578
Liability for Escheat Property	173,935	77,843	(48,277)	203,501	65,446
Total Other Noncurrent Liabilities	566,155	427,236	(383,179)	610,212	112,656
Noncurrent Liabilities	10,515,472	$2,661,393	$(2,143,484)	$11,033,381	$1,058,066
Prior Period Adjustment::					
Estimated Claims Payable (NOTE 2)	(3,000)				
Account Reclassifications:					
Special Obligation Bonds Payable	(9,688)				
Estimated Claims Payable	(3,552)				
Noncurrent Liabilities, as previously reported for June 30, 2004	$10,499,232				
Business-Type Activities:					
Bonds and Notes Payable:					
Revenue Bonds (NOTE 11)	$ 158,578	$ 1,326	$ (8,841)	$ 151,063	$ 15,237
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences	34,563	30,780	(29,660)	35,683	1,331
Capital Leases Payable	30,368	168	(30,331)	205	66
Workers' Compensation:					
Unearned Revenue	394,319	11,348	(16,335)	389,332	17,181
Benefits Payable	14,619,873	2,582,141	(2,086,000)	15,116,014	1,746,891
Other:					
Adjustment Expenses Liability	1,647,199	314,521	(254,000)	1,707,720	466,520
Premium Payment Security Deposits	85,679	3,516	(2,203)	86,992	—
Miscellaneous	17,142	70,786	(20,336)	67,592	11,506
Deferred Prize Awards Payable	856,903	159,730	(173,215)	843,418	148,402
Tuition Benefits Payable	1,141,700	21,633	(56,533)	1,106,800	67,300
Workers' Compensation Claims-Auditor of State's Office	7,828	1,700	—	9,528	539
Total Other Noncurrent Liabilities	18,835,574	3,196,323	(2,668,613)	19,363,284	2,459,736
Noncurrent Liabilities	18,994,152	$3,197,649	$(2,677,454)	$19,514,347	$2,474,973
Account Reclassifications:					
Revenue Bonds Payable	(41)				
Noncurrent Liabilities, as previously reported for June 30, 2004	$18,994,111				

NOTE 15 CHANGES IN NONCURRENT LIABILITIES (Continued)

The State makes payments on bonds and notes payable and certificate of participation obligations that pertain to its governmental activities from the debt service funds. The General Fund and the major special revenue funds will primarily liquidate the other noncurrent liabilities balance attributable to governmental activities.

For fiscal year 2005, the State's primary government included interest expense on its debt issues in the following governmental functions rather than reporting it separately as interest expense. The related borrowings are essential to the creation or continuing existence of the programs they finance. The various state subsidy programs supported by the borrowings provide direct state assistance to local governments for their respective capital construction or research projects. None of the financing provided under these programs benefits the general operations of the primary government, and accordingly, such expense is not reported separately on the Statement of Activities under the expense category for interest on long-term debt.

	(in 000s)
Governmental Activities:	
Primary, Secondary and Other Education	$102,667
Higher Education Support	120,240
Environmental Protection and Natural Resources	597
Transportation	4
Community and Economic Development	112,609
Total Interest Expense Charged to Governmental Functions	$336,117

Component Units

Changes in noncurrent liabilities, for the year ended June 30, 2005 (December 31, 2004 for the Ohio Water Development Authority), are presented in the following table for the State's discretely presented major component units.

Major Component Units
Changes in Noncurrent Liabilities
For the Fiscal Year Ended June 30, 2005
(dollars in thousands)

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Amount Due Within One Year
School Facilities Commission:					
Intergovernmental Payable	$1,990,909	$ 816,408	$ (465,890)	$2,341,427	$784,640
Compensated Absences*	523	473	(441)	555	93
Total	$1,991,432	$ 816,881	$ (466,331)	$2,341,982	$784,733
Ohio Water Development Authority:					
Revenue Bonds & Notes Payable (NOTE 11)	$1,560,981	$ 886,347	$ (203,379)	$2,243,949	$111,554
Compensated Absences*	142	19	—	161	20
Total	$1,561,123	$ 886,366	$ (203,379)	$2,244,110	$111,574
Ohio State University:					
Unearned Revenue	$ 93,954	$1,694,584	$(1,687,868)	$ 100,670	$ 96,670
Compensated Absences*	70,518	13,802	(5,568)	78,752	5,568
Capital Leases Payable*	15,010	6,784	(6,336)	15,458	6,486
Other Liabilities*	115,969	7,696	(5,381)	118,284	4,572
Revenue Bonds & Notes Payable (NOTE 11)	792,696	163,403	(100,197)	855,902	473,739
Certificates of Participation (NOTE 13)	6,900	—	(720)	6,180	355
Total	$1,095,047	$1,886,269	$(1,806,070)	$1,175,246	$587,390
University of Cincinnati:					
Compensated Absences*	$ 62,471	$ 2,928	$ (110)	$ 65,289	$ 35,550
Capital Leases Payable*	131,151	52,816	(57,167)	126,800	4,659
Other Liabilities*	33,050	83,189	(80,435)	35,804	1,077
Revenue Bonds & Notes Payable (NOTE 11)	761,070	149,886	(160,951)	750,005	44,951
Certificates of Participation (NOTE 13)	840	—	(570)	270	30
Total	$ 988,582	$ 288,819	$ (299,233)	$ 978,168	$ 86,267

*Liability is reported under the "Refund and Other Liabilities" account.

NOTE 16 NO COMMITMENT DEBT

The State of Ohio, by action of the General Assembly, created various financing authorities for the expressed purpose of making available to non-profit and, in some cases, for profit private entities lower cost sources of capital financing for facilities and projects found to be for a public purpose. Fees are assessed to recover related processing and application costs incurred.

The authorities' debt instruments represent limited obligations payable solely from payments made by the borrowing entities. Most of the bonds are secured by the property financed. Upon repayment of the bonds, ownership of acquired property transfers to the entity served by the bond issuance. This debt is not deemed to constitute debt of the State or a pledge of the faith and credit of the State. Accordingly, these bonds are not reflected in the accompanying financial statements.

As of June 30, 2005 (December 31, 2004 for component units), revenue bonds and notes outstanding that represent "no commitment" debt for the State were as follows (dollars in thousands):

	Outstanding Amount
Primary Government:	
Ohio Department of Development:	
Ohio Housing Finance Agency	$1,620,158
Ohio Enterprise Bond Program	163,560
Hospital Facilities Bonds	11,140
Total Primary Government	$1,794,858
Component Units (12/31/04):	
Ohio Water Development Authority	$2,132,300
Ohio Air Quality Development Authority	1,200,000
Total Component Units	$3,332,300

NOTE 17 FUND DEFICITS, "OTHER" RESERVES, AND DESIGNATIONS

A. Fund Deficits

The following individual funds reported deficits that are reflected in the State's basic financial statements, as of June 30, 2005 (dollars in thousands):

Primary Government:	
Major Governmental Funds:	
Job, Family and Other Human Services	$(114,508)
Nonmajor Governmental Funds:	
Mental Health and Retardation Special Revenue Fund	(9,119)
Total Governmental Funds	$(123,627)
Primary Government (Continued):	
Nonmajor Proprietary Funds:	
Tuition Trust Authority Enterprise Fund	$ (242,141)
Component Units:	
School Facilities Commission Fund	$(1,965,752)

B. "Other" Fund Balance Reserves and Designations

Details on the "Reserved for Other" account reported for the governmental funds, as of June 30, 2005, are presented below.

Primary Government
Governmental Funds — Reserved for Other
As of June 30, 2005
(dollars in thousands)

	General Fund	Job, Family and Other Human Services	Education	Highway Operating	Nonmajor Governmental Funds	Total Governmental Funds
Compensated Absences	$27,865	$3,625	$343	$5,125	$ 9,422	$46,380
Prepaids (included in "Other Assets")	10,726	1,357	107	2,294	3,776	18,260
Advances to Local Governments	4,729	—	—	—	—	4,729
Ohio Enterprise Bond Program	—	—	—	—	10,000	10,000
Loan Guarantee Programs	84	—	—	—	3,675	3,759
Assets in Excess of Debt Service Requirements	—	—	—	—	866	866
Total Reserved for Other	$43,404	$4,982	$450	$7,419	$27,739	$83,994

NOTE 17 FUND DEFICITS, "OTHER" RESERVES, AND DESIGNATIONS (Continued)

The unreserved fund balance for the General Fund, as of June 30, 2005, had been designated as follows, (dollars in thousands):

General Fund	
Budget Stabilization	$568,377
Public Assistance Reconciliation-	
Payment for Portion of Questioned Costs-Federal Temporary Assistance for Needy Families Program	60,000
Disaster Services	40,000
Public School Building Program	50,000
Total General Fund	$718,377

NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS

A. Joint Ventures

Great Lakes Protection Fund (GLPF)
The Great Lakes Protection Fund is an Illinois non-profit organization that was formed to further federal and state commitments to the restoration and maintenance of the Great Lakes Basin's ecosystem. The governors of seven of the eight states that border on the Great Lakes comprise the GLPF's membership. Under the GLPF's articles of incorporation, each state is required to make a financial contribution. Income earned on the contributions provides grants to projects that advance the goals of the Great Lakes Toxic Substances Control Agreement and the binational Great Lakes Water Quality Agreement.

Each governor nominates two individuals to the GLPF's board of directors who serve staggered two-year terms. All budgetary and financial decisions rest with the board except when restricted by the GLPF's articles of incorporation.

Annually, one-third of the GLPF's net earnings is allocated and paid to member states in proportion to their respective cash contributions to the GLPF. The allocation is based on the amount and period of time the states' contributions were invested. GLPF earnings distributions are to be used by the states to finance projects that are compatible with the GLPF's objectives. Ohio has applied its distribution (approximately $63 thousand for the year ended December 31, 2004) to the operations of its own protection program, known as the Lake Erie Protection Program, which is modeled after the GLPF.

Required contributions and contributions received from the states, which border the Great Lakes, as of December 31, 2004 (the GLPF's year-end), were as follows (dollars in thousands):

	Contribution Required	Contribution Received	Contribution Percentage
Michigan	$25,000	$25,000	30.9%
Indiana*	16,000	—	—
Illinois	15,000	15,000	18.4
Ohio	14,000	14,000	17.3
New York	12,000	12,000	14.8
Wisconsin	12,000	12,000	14.8
Minnesota	1,500	1,500	1.9
Pennsylvania	1,500	1,500	1.9
Total	$97,000	$81,000	100.0%

*The State of Indiana has not yet elected to join the Great Lakes Protection Fund.

Summary financial information for the GLPF, for the fiscal year ended December 31, 2004, was as follows (dollars in thousands):

Cash and Investments	$119,641
Other Assets	258
Total Assets	$119,899
Total Liabilities	$ 695
Total Net Assets	119,204
Total Liabilities and Net Assets	$119,899
Total Revenues and Other Additions	$ 12,419
Total Expenditures	(4,094)
Net Increase in Net Assets	$ 8,325

In the event of the Fund's dissolution, the State of Ohio would receive a residual portion of the Fund's assets equal to the lesser of the amount of such assets multiplied by the ratio of its required contribution to the required contributions of all member states, or the amount of its required contribution.

Local Community and Technical Colleges
The State's primary government has an ongoing financial responsibility for the funding of six local community colleges and eight technical colleges. With respect to the local community colleges, State of Ohio officials appoint three members of each college's respective nine-member board of trustees; county officials appoint the remaining six members.

NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

The governing boards of the technical colleges consist of either seven or nine trustees, of which state officials appoint two and three members, respectively; the remaining members are appointed by the local school boards located in the respective technical college district.

The Ohio General Assembly appropriates moneys to these institutions from the General Fund to subsidize operations so that higher education can become more financially accessible to Ohio residents. The primary government also provides financing for the construction of these institutions' capital facilities by meeting the debt service requirements for the Higher Education Capital Facilities general obligation bonds issued by the Ohio Public Facilities Commission (OPFC) and Higher Education Facilities special obligation bonds, previously issued by the OPFC, for these purposes. The bonds provide funding for capital appropriations in the Special Revenue Fund, which are available to the local community and technical colleges for spending on capital construction.

Fiscal year 2005 expenses that were included in the "Higher Education Support" function under governmental activities in the Statement of Activities for state assistance to the local community and technical colleges are presented below (dollars in thousands).

	Operating Subsidies	Capital Subsidies	Total
Local Community Colleges:			
Cuyahoga	$ 53,104	$ 3,468	$ 56,572
Jefferson	3,976	383	4,359
Lakeland	16,805	1,045	17,850
Lorain County	25,219	798	26,017
Rio Grande	4,647	82	4,729
Sinclair	48,355	1,385	49,740
Total Local Community Colleges	152,106	7,161	159,267
Technical Colleges:			
Belmont	5,382	80	5,462
Central Ohio	6,266	82	6,348
Hocking	16,026	521	16,547
James A. Rhodes	7,958	1,142	9,100
Marion	4,773	162	4,935
Zane	5,019	—	5,019
North Central	8,017	—	8,017
Stark	13,853	1,119	14,972
Total Technical Colleges	67,294	3,106	70,400
Total	$219,400	$10,267	$229,667

Information for obtaining complete financial statements for each of the primary government's joint ventures is available from the Ohio Office of Budget and Management.

B. Related Organizations

Officials of the State's primary government appoint a voting majority of the governing boards of the Ohio Turnpike Commission, the Petroleum Underground Storage Tank Release Compensation Board, the Higher Education Facility Commission, and the Ohio Legal Assistance Foundation. However, the primary government's accountability for these organizations does not extend beyond making the appointments.

During fiscal year 2005, the State had the following related-party transactions with its related organizations:

- In December 2004, the Ohio Turnpike Commission received a one-time payment of $23.4 million from the Highway Operating Fund at the Ohio Department of Transportation (ODOT) to help offset lost revenue expected to result from temporary toll rate reductions. As authorized under House Bill 406, the reductions apply to commercial trucks in certain weight classes (23,000 lbs to 90,000 lbs) for an 18-month period, which began January 1, 2005. Also, the Commission was refunded approximately $1.2 million from the Highway Operating Fund as a settlement for the difference between the estimated costs funded by the Commission for turnpike projects undertaken and completed by ODOT and the actual costs of the projects. Finally, the Ohio Department of Taxation paid the Commission $2.5 million from the Revenue Distribution Fund for the Commission's share of the State's motor vehicle fuel excise tax allocation.

- Separate funds, established for the Petroleum Underground Storage Tank Release Compensation Board and the Higher Education Facility Commission, were accounted for on the primary government's Central Accounting System. The primary purpose of the funds is to streamline payroll and other administrative disbursement processing for these organizations. The financial activities of the funds, which do not receive any funding support from the primary government, have been included in the agency funds.

- From the Job, Family and Other Human Services Fund, the Public Defender's Office paid the Ohio Legal Assistance Foundation approximately $680 thousand in compensation for administrative services performed under contract for the distribution of state funding to nonprofit legal aid societies and $692 thousand in state assistance.

NOTE 19 CONTINGENCIES AND COMMITMENTS

A. Litigation

The State, its units, and employees are parties to numerous legal proceedings, which normally occur in governmental operations.

Litigation is pending in the Cuyahoga County Court of Appeals relating to the transfer to the GRF and use in Fiscal Year 2002 for general state purposes of $60 million in earned federal reimbursement on Title XX (Social Services Block Grant) expenditures. Plaintiff Cuyahoga County filed an action contesting this transfer and use of those monies for general state purposes, and the trial court ordered the State to return the monies to its Department of Job and Family Services. The State appealed the trial court's decision and order. In June 2005, the Court of Appeals upheld the trial court's decision. The State has appealed the Court of Appeals decision to the Ohio Supreme Court and that appeal is currently pending. No liability has been reported in the financial statements for this matter.

A class action complaint pending in the Eight District Court of Appeals contends that subrogation allowed under Section 4123.931, Ohio Revised Code, is unconstitutional. The Ohio Supreme Court in Holeton v. Crouse Cartage declared the subrogation statute unconstitutional. The trial court certified the class, granted summary judgment to the plaintiffs, and awarded attorney fees. The Ohio Bureau of Workers' Compensation and the Ohio Industrial Commission have appealed the decision, and the appeal is currently pending. For this matter, a liability in the amount of $50 million, as of June 30, 2005, has been included in the "Other Noncurrent Liabilities-Due in More Than One Year" account for business-type activities in the government-wide Statement of Net Assets and in the "Refund and Other Liabilities" account for the Workers' Compensation Enterprise Fund in the proprietary fund financial statements.

All other legal proceedings are not, in the opinion of management after consultation with the Attorney General, likely to have a material adverse effect on the State's financial position.

B. Federal Awards

The State of Ohio receives significant awards from the federal government in the form of grants and entitlements, including certain non-cash programs. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the spending of resources for eligible purposes. Substantially all grants are subject to either the Federal Single Audit or to financial compliance audits by the grantor agencies of the federal government or their designees. Disallowances and sanctions as a result of these audits may become liabilities to the State.

As a result of the fiscal year 2004 State of Ohio Single Audit (completed in 2005), $155.6 million of federal expenditures, of which $129.5 million applied to the Temporary Assistance to Need Families (TANF) Program (CFDA# 93.558), were in question as not being appropriate under the terms of the respective grants.

For the TANF Program, corrective action was taken in August 2005 when the Ohio Department of Job and Family Services returned $38.5 million to the federal government and reduced its requests of funds from the federal government by $91 million for eligible TANF costs incurred. The reduction in the TANF draw requests allowed the Department to properly claim $91 million in administrative costs that were eligible for reimbursement under the Child Care Development Fund (CCDF) Program Cluster (CFDA# 93.575 and CFDA# 93.596); previously, these costs had been erroneously charged to the TANF Program. Consequently, the State has reflected the $129.5 million liability for the TANF Program in the unearned revenue account and the $91 million balance due for the CCDF Program Cluster in the intergovernmental receivable balance reported for governmental funds, as of June 30, 2005.

For the remaining $26.1 million balance of questioned costs reported in the fiscal year 2004 Single Audit Report, no provision for any liability or adjustments has been recognized in the State's financial statements, for the fiscal year ended June 30, 2005.

NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

C. Construction Commitments

As of June 30, 2005, the Ohio Department of Transportation had total contractual commitments of approximately $1.84 billion for highway construction projects. Funding for future projects is expected to be provided from federal, primary government, general obligation and revenue bonds, and local government sources in amounts of $1.21 billion, $298.8 million, $268.9 million, and $58.3 million, respectively.

As of June 30, 2005, other major non-highway construction commitments for the primary government's budgeted capital projects funds were as follows (dollars in thousands):

Primary Government	
Mental Health/Mental Retardation Facilities Improvements	$ 33,851
Parks and Recreation Improvements	9,347
Administrative Services Building Improvements	39,562
Youth Services Building Improvements	20,212
Adult Correctional Building Improvements	43,378
Highway Safety Building Improvements	1,880
Ohio Parks and Natural Resources	10,949
Total	$159,179

As of June 30, 2005, construction commitments for the State's discretely presented major component units were as follows (dollars in thousands):

Major Component Units	
Ohio State University	$209,674
University of Cincinnati	266,237

D. Tobacco Settlement

In November 1998, the Attorneys General of 46 states, five U.S. territories, and the District of Columbia signed the Master Settlement Agreement (MSA) with the nation's largest tobacco manufacturers. This signaled the end of litigation brought by the Attorneys General against the manufacturers in 1996 for state health care expenses attributed to smoking–related claims. The remaining four states (Florida, Minnesota, Mississippi, and Texas) settled separately.

According to the MSA, participating tobacco manufacturers are required to adhere to a variety of new marketing and lobbying restrictions and provide payments to the states in perpetuity.

While Ohio's share of the total base payments to the states through 2025 will not change over time, the amount of the annual payment is subject to a number of adjustments, including an inflation adjustment and a volume adjustment. Some of these adjustments (for example, inflation) should contribute to an increase in the payments and others (for example, domestic cigarette sales volume) may decrease the payments. But the net effect of these adjustment factors on future payments is very uncertain, which makes it difficult to speculate on how different Ohio's real payments will be from the pre-adjusted base payment amounts.

In addition to the base payments, Ohio will receive payments from the Strategic Contribution Fund. The Strategic Contribution Fund was established to reward states that played leadership roles in the tobacco litigation and settlement negotiations. Allocations from the fund are based on a state's contribution to the litigation and settlement with the tobacco companies. These payments are also subject to the adjustment factors outlined in the MSA.

A schedule of pre-adjusted base payments and payments from the Strategic Contribution Fund for the State of Ohio in future years follows (dollars in thousands):

Year Ending June 30,	Pre-adjusted MSA Base Payments	Pre-adjusted Payments From the Strategic Contribution Fund	Total
2006	$ 352,827	$ —	$ 352,827
2007	352,827	—	352,827
2008	359,829	23,950	383,779
2009	359,829	23,950	383,779
2010	359,829	23,950	383,779
2011-2015	1,799,147	119,750	1,918,897
2016-2020	1,929,265	47,900	1,977,165
2021-2025	2,016,011	—	2,016,011
Total	$7,529,564	$239,500	$7,769,064

During fiscal year 2005, Ohio received $321.1 million, which was approximately $31.7 million or nine percent less than the pre-adjusted base payment for the year. For the last six fiscal years, with fiscal year 2000 being the first year when base payments were made to the states under the settlement, the State has received a total of about $2.1 billion, which is approximately $232 million or 9.9 percent less than the total of the pre-adjusted base payments established for the last six fiscal years.

The moneys provide funding for the construction of elementary and secondary school capital facilities, new programs for smoking cessation and other health-related purposes, biomedical research and technology, and assistance to the tobacco-growing areas in Ohio.

NOTE 20 RISK FINANCING

A. Workers' Compensation Benefits
The Ohio Workers' Compensation System, which the Bureau of Workers' Compensation and the Industrial Commission administer, is the exclusive provider of workers' compensation insurance to private and public employers in Ohio who are not self-insured. The Workers' Compensation Enterprise Fund provides benefits to employees for losses sustained from job-related injury, disease, or death.

The "Benefits Payable" account balance reported in the Workers' Compensation Enterprise Fund, as of June 30, 2005, in the amount of approximately $15.12 billion includes reserves for indemnity and medical claims resulting from work-related injuries or illnesses, including actuarial estimates for both reported claims and claims incurred but not reported. The liability is based on the estimated ultimate cost of settling claims, including the effects of inflation and other societal and economic factors and projections as to future events, including claims frequency, severity, persistency, and inflationary trends for medical claims reserves. The compensation adjustment expenses liability, which is included in "Other Liabilities" in the amount of approximately $1.71 billion, is an estimate of future expenses to be incurred in the settlement of claims. The estimate for this liability is based on projected claim-related expenses, estimated costs of the managed care Health Partnership Program, and the reserve for compensation.

Management of the Ohio Bureau of Workers' Compensation and the Industrial Commission of Ohio believes that the recorded reserves for compensation and compensation adjustment expenses make for a reasonable and appropriate provision for expected future losses. While management uses available information to estimate the reserves for compensation and compensation adjustment expenses, future changes to the reserves for compensation and compensation adjustment expenses may be necessary based on claims experience and changing claims frequency and severity conditions. The methods of making such estimates and for establishing the resulting liabilities are reviewed quarterly and updated based on current circumstances. Any adjustments resulting from changes in estimates are recognized in the current period.

Benefits payable and the compensation adjustment expenses liability have been discounted at 5.25 percent to reflect the present value of future benefit payments. The selected discount rate approximates an average yield on United States government securities with durations similar to the expected claims underlying the Fund's reserves. The undiscounted reserves for the benefits and compensation adjustment expenses totaled $33.3 billion, as of June 30, 2005, and $33.1 billion, as of June 30, 2004. For additional information, refer to the Fund's separate audited financial report, for the fiscal year ended June 30, 2005.

Changes in the balance of benefits payable and the compensation adjustment expenses liability for the Workers' Compensation Program during the past two fiscal years are presented in the table below.

B. State Employee Healthcare Plans
Employees of the primary government have the option of participating in the Ohio Med Health Plan or the United Healthcare Plan, which are fully self-insured health benefit plans. Ohio Med, a preferred provider organization, was established July 1, 1989, while United Healthcare, a health maintenance organization, became a self-insured healthcare plan of the State on July 1, 2002. Medical Mutual of Ohio administers the Ohio Med plan under a claims administration contract with the primary government.

Primary Government
Changes in Workers' Compensation Benefits Payable
and Compensation Adjustment Expenses Liability
Last Two Fiscal Years
(dollars in millions)

	Fiscal Year 2005	Fiscal Year 2004
Benefits Payable and Compensation Adjustment Expenses Liability, as of July 1	$16,267	$15,981
Incurred Compensation and Compensation Adjustment Benefits	2,947	2,549
Incurred Compensation and Compensation Adjustment Benefit Payments and Other Adjustments	(2,390)	(2,263)
Benefits Payable and Compensation Adjustment Expenses Liability, as of June 30	$16,824	$16,267

NOTE 20 RISK FINANCING (Continued)

The United Healthcare Plan has a similar contract with the primary government to serve as claims administrator. Benefits offered under the United Healthcare Plan under the State's administration are essentially the same as the benefits offered before the plan became a self-insured arrangement for the State.

When it is probable that a loss has occurred and the amount of the loss can be reasonably estimated, the primary government reports liabilities for the governmental and proprietary funds. Liabilities include an amount for claims that have been incurred but not reported. The plans' actuaries calculate estimated claims liabilities based on prior claims data, employee enrollment figures, medical trends, and experience.

Governmental and proprietary funds pay a share of the costs for claims settlement based on the number of employees opting for plan participation and the type of coverage selected by participants. The payments are reported in the Payroll Withholding and Fringe Benefits Agency Fund until such time that the primary government pays the accumulated resources to Medical Mutual of Ohio or United Healthcare for claims settlement.

For governmental funds, the primary government recognizes claims as expenditures to the extent that the amounts are payable with expendable available financial resources. For governmental and business-type activities, claims are recognized in the Statement of Activities as expenses when incurred.

As of June 30, 2005, approximately $138 million in total assets was available in the Agency Fund and on deposit with Medical Mutual to cover claims. Changes in the balance of Ohio Med health claims liabilities during the past two fiscal years were as follows (dollars in thousands):

Ohio Med Health Plan

	Fiscal Year 2005	Fiscal Year 2004
Claims Liabilities, as of July 1	$ 40,917	$ 39,449
Incurred Claims	232,337	275,399
Claims Payments	(231,762)	(273,931)
Claims Liabilities, as of June 30	$ 41,492	$ 40,917

As of June 30, 2005, the resources on deposit in the Payroll Withholding and Fringe Benefits Agency Fund and on deposit with Medical Mutual of Ohio for the payment of claims under the Ohio Med Plan exceeded the estimated claims liability by approximately $96.5 million, thereby resulting in a funding surplus. Ninety percent or $86.9 million of the surplus, representing the employer share, was reallocated back to the governmental and proprietary funds, with a resulting reduction in expenditures/expenses.

As of June 30, 2005, approximately $634 thousand in total assets was available in the Agency Fund and on deposit with United Healthcare to cover claims incurred by June 30. Changes in the balance of United Healthcare claims liabilities during the past fiscal year were as follows (dollars in thousands):

United Healthcare Plan

	Fiscal Year 2005	Fiscal Year 2004
Claims Liabilities, as of July 1	$ 7,544	$ 13,637
Incurred Claims	101,231	46,921
Claims Payments	(101,806)	(53,014)
Claims Liabilities, as of June 30	$ 6,969	$ 7,544

As of June 30, 2005, the estimated claims liability of the United Healthcare Plan did not significantly exceed the resources on deposit in the Payroll Withholding and Fringe Benefits Agency Fund for the payment of claims. Therefore, no net claims liability balance for the funding deficit was reported in the governmental and proprietary funds.

C. Other Risk Financing Programs

The primary government has established programs to advance fund potential losses for vehicular liability and theft in office. The potential amount of loss arising from these risks, however, is not considered material in relation to the State's financial position.

NOTE 21 SUBSEQUENT EVENTS

A. Bond Issuances

Subsequent to June 30, 2005 (December 31, 2004 for the Ohio Water Development Authority), the State issued major debt as detailed in the table below.

Debt Issuances
Subsequent to June 30, 2005
(dollars in thousands)

	Date Issued	Net Interest Rate or True Interest Cost	Amount
Primary Government:			
Ohio Public Facilities Commission-General Obligation Bonds:			
Common Schools Capital Facilities, Series 2005C	07/27/05	4.20%	$ 200,000
Common Schools Capital Facilities Refunding, Series 2005D	07/28/05	3.93%	71,900
Higher Education Facilities, Series 2005B	09/08/05	4.14%	150,000
Higher Education Facilities Refunding, Series 2005C	09/13/05	3.65%	49,495
Conservation Projects, Series 2005A	10/13/05	4.24%	50,000
Infrastructure Improvements, Series 2005A	11/16/05	4.42%	120,000
Common Schools Capital Facilities, Series 2006A	01/18/06	4.09%	200,000
Higher Education Facilities, Series 2006A	04/05/06	4.43%	150,000
Treasurer of State-General Obligation Bonds:			
Highway Capital Improvement, Series J	02/27/06	3.78%	180,000
Total General Obligation Bonds			1,171,395
Treasurer of State-Revenue Bonds:			
Research & Development (Taxable), Series 2005A	10/19/05	5.45%	50,000
State Infrastructure Bank, Series 2005-1	12/14/05	3.96%	99,270
Total Revenue Bonds			149,270
Treasurer of State-Special Obligation Bonds:			
Mental Health Capital Facilities, Series II-2005A	08/17/05	3.99%	30,000
Cultural Facilities, Series 2005A	08/23/05	4.08%	30,000
Ohio Building Authority-Special Obligation Bonds:			
State Facilities (Juvenile Correctional Building), Series 2005A	09/27/05	3.70%	15,000
State Facilities Refunding (Juvenile Correctional Building), Series 2005B	09/27/05	4.01%	27,445
State Facilities Refunding (Transportation Building), Series 2005A	09/27/05	3.56%	7,400
Total Special Obligation Bonds			109,845
Total Primary Government			$1,430,510
Major Component Units:			
Ohio Water Development Authority Bonds:			
Fresh Water Refunding, Series 2005	04/05/05	3.00-5.50%*	$105,220
Water Pollution Control Loan Fund:			
Water Quality Refunding, Series 2005	04/14/05	3.00-5.50%*	219,580
Refunding State Match, Series 2005	05/19/05	3.00-5.25%*	18,670
Drinking Water Assistance Refunding, Leverage Series 2005	07/19/05	3.00-5.25%*	36,825
Community Assistance Refunding, Series 2005	07/21/05	3.00-5.25%*	37,355
Water Quality, Series 2005B	08/25/05	4.00-5.00%*	449,593
Drinking Water Assistance, Leverage Series 2005B	10/27/05	3.00-5.00%*	61,135
Total Ohio Water Development Authority			$928,378
Ohio State University Bonds:			
General Receipts, Series 2005A	08/10/05	3.25-5.25%*	$279,050
Variable Rate Demand General Receipts, Series 2005B	08/10/05	Variable	129,990
Total Ohio State University			$409,040

*Interest Coupon Rate

(Continued)

NOTE 21 SUBSEQUENT EVENTS (Continued)

Debt Issuances
Subsequent to June 30, 2005
(Continued)
(dollars in thousands)

	Date Issued	Net Interest Rate or True Interest Cost	Amount
Major Component Units *(Continued)*:			
University of Cincinnati Bonds:			
Bond Anticipation Notes, Series 2006B	01/26/06	3.30%	$ 40,000
General Receipts, Series 2006A	02/08/06	4.33%	54,870
Bond Anticipation Notes, Series 2006C	03/28/06	3.54%	41,065
Total University of Cincinnati			$135,935

B. State Issue 1
On November 8, 2005, Ohio voters approved State Issue 1, a constitutional amendment that authorizes the State to issue $2 billion in general obligation bonds to improve local government infrastructure, support research and development applicable to high-tech business, and enhance business site development.

For local government infrastructure improvements, the amendment limits bond issuance to $1.35 billion with no more than $120 million in each of the first five fiscal years and no more than $150 million in each of the next five fiscal years.

For research and development in support of Ohio industry, commerce, and business, including research and product innovation, development, and commercialization as provided for by law, the amendment limits bond issuances to $500 million with no more than $100 million in each of the first three fiscal years and no more than $50 million in any other fiscal year. It also authorizes state-supported and state-assisted institutions of higher education to issue obligations to pay costs of research and development.

For the development of sites and facilities (Job-Ready Sites) in Ohio for and in support of industry, commerce, distribution, and research and development, the amendment limits bond issuances to $150 million with no more than $30 million in each of the first three fiscal years and no more than $15 million in any other fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

Infrastructure Assets Accounted for Using the Modified Approach

Pavement Network

The Ohio Department of Transportation conducts annual condition assessments of its Pavement Network. The State manages its pavement system by means of annual, visual inspections by trained pavement technicians. Technicians rate the pavement using a scale of 1 (minimum) to 100 (maximum) based on a Pavement Condition Rating (PCR). This rating examines items such as cracking, potholes, deterioration of the pavement, and other factors. It does not include a detailed analysis of the pavement's subsurface conditions.

Ohio accounts for its pavement network in two subsystems: *Priority*, which comprises interstate highways, freeways, and multi-lane portions of the National Highway System, and *General*, which comprises two-lane routes outside of cities.

For the Priority Subsystem, it is the State's intention to maintain at least 75 percent of the pavement at a PCR level of at least 65, and to allow no more than 25 percent of the pavement to fall below a 65 PCR level. For the General Subsystem, it is the State's intention to maintain at least 75 percent of the pavement at a PCR level of at least 55, and to allow no more than 25 percent of the pavement to fall below a 55 PCR level.

Pavement Network
Condition Assessment Data

Priority Subsystem

	Pavement Condition Ratings (PCR)									
	Excellent PCR = 85-100		Good PCR = 75-84		Fair PCR = 65-74		Poor PCR = Below 65		Total	
Calendar Year	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%
2004	8,110	65.64	2,140	17.32	1,544	12.50	561	4.54	12,355	100.00
2003	7,679	62.81	2,451	20.05	1,618	13.24	477	3.90	12,225	100.00
2002	7,483	61.29	2,498	20.46	1,849	15.14	380	3.11	12,210	100.00
2001	6,753	55.74	2,688	22.19	2,162	17.85	511	4.22	12,114	100.00

General Subsystem

	Pavement Condition Ratings (PCR)									
	Excellent PCR = 85-100		Good PCR = 75-84		Fair PCR = 55-74		Poor PCR = Below 55		Total	
Calendar Year	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%
2004	13,570	44.92	6,550	21.68	9,423	31.20	664	2.20	30,207	100.00
2003	12,634	41.77	6,378	21.09	10,910	36.07	324	1.07	30,246	100.00
2002	11,997	39.57	6,496	21.43	11,278	37.20	546	1.80	30,317	100.00
2001	10,635	34.89	6,547	21.47	12,393	40.65	912	2.99	30,487	100.00

Infrastructure Assets Accounted for Using the Modified Approach (Continued)

Pavement Network
Comparison of Estimated-to-Actual Maintenance and Preservation Costs
(dollars in thousands)

Priority Subsystem

Fiscal Year	Estimated	Actual
2005	$327,646	$341,027
2004	195,333	273,318
2003	243,722	273,834
2002	251,216	319,518

General Subsystem

Fiscal Year	Estimated	Actual
2005	$206,894	$301,644
2004	133,236	227,437
2003	135,149	209,530
2002	110,956	151,978

Bridge Network

The Ohio Department of Transportation conducts annual inspections of all bridges in the State's Bridge Network. The inspections cover major structural items such as piers and abutments, and assign a General Appraisal Condition Rating (GACR) from 0 (minimum) to nine (maximum) based on a composite measure of these major structural items.

It is the State's intention to maintain at least 85 percent of the square feet of deck area at a general appraisal condition rating level of at least five, and to allow no more than 15 percent of the number of square feet of deck area to fall below a general appraisal condition rating level of five.

Bridge Network
Condition Assessment Data
(square feet in thousands)

	General Appraisal Condition Ratings (GACR)									
	Excellent GACR = 7-9		Good GACR = 5-6		Fair GACR = 3-4		Poor GACR = 0-2		Total	
Calendar Year	Sq Ft Deck Area	%	Sq Ft Deck Area	%	Sq Ft Deck Area	%	Sq Ft Deck Area	%	Sq Ft Deck Area	%
2004	45,895	55.50	34,459	41.68	2,317	2.80	13	.02	82,684	100.00
2003	47,046	57.19	32,972	40.08	2,224	2.71	18	.02	82,260	100.00
2002	45,144	56.01	33,067	41.02	2,388	2.96	9	.01	80,608	100.00
2001	43,395	53.56	34,899	43.08	2,688	3.32	30	.04	81,012	100.00

Infrastructure Assets Accounted for Using the Modified Approach (Continued)

Bridge Network
Comparison of Estimated-to-Actual Maintenance and Preservation Costs
(dollars in thousands)

Fiscal Year	Estimated	Actual
2005	$241,701	$231,864
2004	147,779	208,381
2003	180,358	229,077
2002	192,105	210,084

SUPPLEMENTARY SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SUMMARIZED BY FEDERAL AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL AGENCY	
U.S. Department of Health and Human Services	$9,576,454,380
U.S. Department of Agriculture	1,869,437,896
U.S. Department of Labor	1,542,466,547
U.S. Department of Education	1,321,756,535
U.S. Department of Transportation	1,077,863,997
U.S. Environmental Protection Agency	462,322,869
U.S. Department of Housing and Urban Development	142,686,590
U.S. Department of Homeland Security	142,208,126
Social Security Administration	86,420,743
U.S. Department of Justice	66,431,057
U.S. Department of Defense	38,223,011
U.S. Department of the Interior	28,082,074
U.S. Department of Energy	20,986,184
U.S. Appalachian Regional Commission	19,081,467
U.S. Department of Veterans Affairs	13,958,517
U.S. General Services Administration	8,072,740
Corporation for National and Community Service	6,727,067
U.S. Department of Commerce	6,137,249
National Foundation on the Arts and the Humanities	6,031,220
U.S. Small Business Administration	4,268,624
U.S. Equal Employment Opportunity Commission	2,290,720
U.S. Department of Treasury	3,683
TOTAL EXPENDITURES	**$16,441,911,296**

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STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Agriculture		
Food Stamp Cluster:		
10.551	Food Stamps	$1,124,275,631
10.561	State Administrative Matching Grants for Food Stamp Program	139,141,581
	Total Food Stamp Cluster	1,263,417,212
Child Nutrition Cluster:		
10.553	School Breakfast Program	51,446,170
10.555	National School Lunch Program	209,471,211
10.556	Special Milk Program for Children	852,080
10.559	Summer Food Service Program for Children	5,248,932
	Total Child Nutrition Cluster	267,018,393
10.025	Plant and Animal Disease, Pest Control, and Animal Care	10,715,531
10.156	Federal-State Marketing Improvement Program	98,680
10.163	Market Protection and Promotion	1,707,251
10.304	Homeland Security -- Agricultural	143,681
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	5,032,355
10.550	Food Donation	36,416,953
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	211,526,484
10.558	Child and Adult Care Food Program	61,477,187
10.560	State Administrative Expenses for Child Nutrition	4,152,687
10.565	Commodity Supplemental Food Program	908,565
10.568	Emergency Food Assistance Program (Administrative Costs)	2,072,724
10.572	WIC Farmers' Market Nutrition Program (FMNP)	514,066
10.574	Team Nutrition Grants	178
10.576	Senior Farmers Market Nutrition Program	1,242,380
10.664	Cooperative Forestry Assistance	1,665,070
10.665	School and Roads -- Grants to States	104,186
10.769	Rural Business Enterprise Grants	43,880
10.902	Soil and Water Conservation	24,590
10.913	Farm and Ranch Protection Program	1,155,843
	Total U.S. Department of Agriculture	**$1,869,437,896**
U.S. Department of Commerce		
11.307	Economic Adjustment Assistance	$275,800
11.407	* Interjurisdictional Fisheries Act of 1986	12,173
11.419	Coastal Zone Management Administration Awards	2,542,720
11.420	Coastal Zone Management Estuarine Research Reserves	184,294
11.420	* Coastal Zone Management Estuarine Research Reserves	61,381
11.611	Manufacturing Extension Partnership	3,060,881
	Total U.S. Department of Commerce	**$6,137,249**
U.S. Department of Defense		
12	FUSRAP Oversight: Diamond Magnesium Site and Luckey Beryllim Site	$38,854
12.002	Procurement Technical Assistance for Business Firms	421,724
12.005	Donation of Federal Surplus Property	1,997,674
12.112	Payments to States in Lieu of Real Estate Taxes	334,454
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	695,532
12.400	Military Construction, National Guard	10,962,961
12.401	National Guard Military Operations and Maintenance (O&M) Projects	23,766,549
12.630	Basic, Applied, and Advanced Research in Science and Engineering	5,263
	Total U.S. Department of Defense	**$38,223,011**

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE			
U.S. Department of Housing and Urban Development			
14.195		Section 8 Housing Assistance Payment Program -- Special Allocations	$46,885,511
14.228		Community Development Block Grants\State's Program	58,291,542
14.231		Emergency Shelter Grants Program	3,065,551
14.235		Supportive Housing Program	161,233
14.238		Shelter Plus Care	119,692
14.239		HOME Investment Partnerships Program	32,000,703
14.241		Housing Opportunities for Persons with AIDS	1,063,361
14.401		Fair Housing Assistance Program -- State and Local	1,098,997
		Total U.S. Department of Housing and Urban Development	**$142,686,590**
U.S. Department of the Interior			
Fish and Wildlife Cluster:			
15.605		Sport Fish Restoration	$5,426,023
15.611		Wildlife Restoration	5,491,604
		Total Fish and Wildlife Cluster	10,917,627
15.250		Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	3,202,973
15.252		Abandoned Mine Land Reclamation (AMLR) Program	9,654,827
15.616		Clean Vessel Act	393,073
15.633		Landowner Incentive	30,000
15.634		State Wildlife Grants	1,338,674
15.808	*	U.S. Geological Survey -- Research and Data Acquisition Collection	142,527
15.809		National Spatial Data Infrastructure Cooperative Agreements Program	4,276
15.810		National Cooperative Geologic Mapping Program	265,792
15.916		Outdoor Recreation Acquisition, Development and Planning	2,132,305
		Total U.S. Department of the Interior	**$28,082,074**
U.S. Department of Justice			
16.03-208	*	Survivability Rate of Latent Fingerprints on EID Components	$9,585
16.2004-89		Domestic Canibis Eradication Program	358,859
16.202		Offender Reentry Program	744,530
16.303		Law Enforcement Assistance - FBI Fingerprint Identification	136,660
16.523		Juvenile Accountability Incentive Block Grants	4,353,674
16.540		Juvenile Justice and Delinquency Prevention -- Allocation to States	2,115,224
16.541		Developing, Testing and Demonstrating Promising New Programs	256,796
16.548		Title V -- Delinquency Prevention Program	453,142
16.549		Part E -- State Challenge Activities	365,714
16.550		State Justice Statistics Program for Statistical Analysis Centers	45,706
16.554		National Criminal History Improvement Program (NCHIP)	721,389
16.560		National Institute of Justice Research, Evaluation, and Development Project Grants	244,794
16.561		National Institute of Justice Visiting Fellowships	243,605
16.564		Crime Laboratory Improvement -- Combined Offender DNA Index System Backlog Reduction	2,565,735
16.575		Crime Victim Assistance	12,703,879
16.576		Crime Victim Compensation	7,780,000
16.579		Byrne Formula Grant Program	14,621,237
16.579	*	Byrne Formula Grant Program	1,576,368
16.582		Crime Victim Assistance/Discretionary Grants	196,101
16.585		Drug Court Discretionary Grant Program	11,332
16.586		Violent Offender Incarceration and Truth in Sentencing Incentive Grants	3,964,569

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Justice (Continued)		
16.588	Violence Against Women Formula Grants	4,722,306
16.589	Rural Domestic Violence and Child Victimization Enforcement Grant Program	11,954
16.592	Local Law Enforcement Block Grants Program	887,538
16.593	Residential Substance Abuse Treatment for State Prisoners	2,275,630
16.595	Community Capacity Development Office	12,007
16.606	State Criminal Alien Assistance Program	1,457,607
16.607	Bulletproof Vest Partnership Program	63,111
16.609	Community Prosecution and Project Safe Neighborhoods	1,324,109
16.710	Public Safety Partnership and Community Policing Grants	1,901,423
16.727	Enforcing Underage Drinking Laws Program	281,473
16.735	Protecting Inmates and Safeguarding Communities Discretionary Grant Program	25,000
	Total U.S. Department of Justice	**$66,431,057**
U.S. Department of Labor		
Employment Service Cluster:		
17.207	Employment Service	$27,140,908
17.801	Disabled Veterans' Outreach Program (DVOP)	3,981,914
17.804	Local Veterans' Employment Representative Program	2,289,299
	Total Employment Service Cluster	33,412,121
WIA Cluster:		
17.258	WIA Adult Program	47,245,639
17.259	WIA Youth Activities	43,859,694
17.260	WIA Dislocated Workers	36,097,915
	Total WIA Cluster	127,203,248
17.002	Labor Force Statistics	2,804,410
17.005	Compensation and Working Conditions	44,202
17.203	Labor Certification for Alien Workers	164,321
17.225	Unemployment Insurance	1,333,960,646
17.235	Senior Community Service Employment Program	3,904,061
17.245	Trade Adjustment Assistance -- Workers	37,746,916
17.261	Employment and Training Administration Pilots, Demonstrations, and Research Projects	1,267,064
17.504	Consultation Agreements	1,423,415
17.600	Mine Health and Safety Grants	262,855
17.601	Mine Health and Safety Counseling and Technical Assistance	41,628
17.720	Disability Employment Policy Development	231,660
	Total U.S. Department of Labor	**$1,542,466,547**
U.S. Department of Transportation		
*Highway Planning and Construction Cluster:***		
20.205	Highway Planning and Construction	$1,020,428,948
20.205	* Highway Planning and Construction	2,917,686
23.003	Appalachian Development Highway System	18,150,423
	Total Highway Planning and Construction Cluster	1,041,497,057
Federal Transit Cluster:		
20.500	Federal Transit -- Capital Investment Grants	2,309,120
20.507	Federal Transit -- Formula Grants	4,270,815
	Total Federal Transit Cluster	6,579,935
20.106	Airport Improvement Program	216,296
20.218	National Motor Carrier Safety	6,619,779
20.219	Recreational Trails Program	652,895

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Transportation (Continued)		
20.505	Federal Transit -- Metropolitan Planning Grants	10,889,757
20.509	Formula Grants for Other Than Urbanized Areas	11,882,316
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	1,828,841
20.600	State and Community Highway Safety	14,934,258
20.700	Pipeline Safety	454,859
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	458,427
	Total U.S. Department of Transportation	**$1,096,014,420**
U.S. Department of Treasury		
21.000	Counter Drug Asset Forfeiture Program	$3,683
	Total U.S. Department of Treasury	**$3,683**
U.S. Appalachian Regional Commission		
23.008	Appalachian Local Access Roads	$446,431
23.009	Appalachian Local Development District Assistance	46,710
23.011	Appalachian Research, Technical Assistance, and Demonstration Projects	437,903
	Total U.S. Appalachian Regional Commission	**$931,044**
U.S. Equal Employment Opportunity Commission		
30.002	Employment Discrimination -- State and Local Fair Employment Practices Agency Contracts	$2,290,720
	Total U.S. Equal Employment Opportunity Commission	**$2,290,720**
General Services Administration		
39.003	Donation of Federal Surplus Personal Property	$439,587
39.011	Election Reform Payments	7,633,153
	Total General Services Administration	**$8,072,740**
National Foundation on the Arts and the Humanities		
45.025	Promotion of the Arts -- Partnership Agreements	$224,200
45.027	Promotion of the Arts -- Challenge America	90,100
45.310	State Library Program	5,716,920
	Total National Foundation on the Arts and the Humanities	**$6,031,220**
U.S. Small Business Administration		
59.037	Small Business Development Center	$4,268,624
	Total U.S. Small Business Administration	**$4,268,624**
U.S. Department of Veterans Affairs		
64.014	Veterans State Domiciliary Care	$1,964,360
64.015	Veterans State Nursing Home Care	11,453,838
64.124	All-Volunteer Force Educational Assistance	540,319
	Total U.S. Department of Veterans Affairs	**$13,958,517**
U.S. Environmental Protection Agency		
66.001	Air Pollution Control Program Support	$3,174,819
66.032	State Indoor Radon Grants	429,594
66.419	Water Pollution Control State and Interstate Program Support	4,829,028
66.432	State Public Water System Supervision	2,604,325
66.433	State Underground Water Source Protection	345,219
66.454	Water Quality Management Planning	821,103

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Environmental Protection Agency (Continued)		
66.458	Capitalization Grants for Clean Water State Revolving Funds	345,697,631
66.460	Nonpoint Source Implementation Grants	5,726,600
66.461	Wetland Program Development Grants	304,059
66.463	Water Quality Cooperative Agreements	338,227
66.467	Wastewater Operator Training Grant Program (Technical Assistance)	80,094
66.468	Capitalization Grants for Drinking Water State Revolving Funds	82,911,092
66.469	Great Lakes Program	15,815
66.471	State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	6,478
66.472	Beach Monitoring and Notification Program Implementation Grants	150,397
66.474	Water Protection Grants to States	127,456
66.500	Environmental Protection - Consolidated Research	569,733
66.605	Performance Partnership Grants	347,578
66.606	Surveys, Studies, Investigations and Special Purpose Grants	1,575,406
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	256,333
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	535,218
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	432,404
66.801	Hazardous Waste Management State Program Support	6,089,753
66.802	Superfund State, Political Subdivision, and Indian Tribe Site -- Specific Cooperative Agreements	1,172,681
66.804	State and Tribal Underground Storage Tanks Program	186,800
66.805	Leaking Underground Storage Tank Trust Fund Program	1,564,634
66.808	Solid Waste Management Assistance Grants	22,483
66.811	Brownfield Pilots Cooperative Agreements	739,240
66.817	State and Tribal Response Program Grants	1,268,669
	Total U.S. Environmental Protection Agency	**$462,322,869**
U.S. Department of Energy		
81	Cost Recovery Grants: Environmental Research	$2,020,842
81	Petroleum Violation Escrow Funds	3,072,798
81	Agreement in Principle/COS	60,999
81.041	State Energy Program	1,567,325
81.042	Weatherization Assistance for Low-Income Persons	12,883,146
81.079	* Regional Biomass Energy Program	36,925
81.086	* Conservation Research and Development	470,768
81.089	* Fossil Energy Research and Development	134,803
81.104	Office of Environmental Cleanup and Acceleration	135,694
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	32,500
81.119	State Energy Program Special Projects	570,384
	Total U.S. Department of Energy	**$20,986,184**
U.S. Department of Education		
Special Education Cluster:		
84.027	Special Education -- Grants to States	$411,319,160
84.173	Special Education -- Preschool Grants	14,556,491
	Total Special Education Cluster	425,875,651
84.002	Adult Education -- State Grant Program	17,742,546
84.010	Title I Grants to Local Educational Agencies	387,807,160
84.011	Migrant Education -- State Grant Program	2,332,679
84.013	Title I Program for Neglected and Delinquent Children	2,879,665
84.026	Media and Captioning Services for Individuals with Disabilities	2,163

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE

U.S. Department of Education (Continued)		
84.048	Vocational Education -- Basic Grants to States	47,161,263
84.069	Leveraging Educational Assistance Partnership	3,096,158
84.126	Rehabilitation Services -- Vocational Rehabilitation Grants to States	110,221,037
84.161	Rehabilitation Services -- Client Assistance Program	418,266
84.169	Independent Living -- State Grants	663,687
84.177	Rehabilitation Services -- Independent Living Services for Older Individuals Who Are Blind	1,321,457
84.181	Special Education -- Grants for Infants and Families with Disabilities	15,495,884
84.184	Safe and Drug-Free Schools and Communities -- National Programs	534,437
84.185	Byrd Honors Scholarships	1,620,073
84.186	Safe and Drug-Free Schools and Communities -- State Grants	15,622,783
84.187	Supported Employment Services for Individuals with Severe Disabilities	1,305,128
84.196	Education for Homeless Children and Youth	1,803,203
84.213	Even Start -- State Educational Agencies	7,316,770
84.215	Fund for the Improvement of Education	1,978,671
84.215	* Fund for the Improvement of Education	78,617
84.240	Program of Protection and Advocacy of Individual Rights	581,446
84.243	Tech-Prep Education	4,720,401
84.265	Rehabilitation Training - State Vocational Rehabilitation Unit In-service Training	126,762
84.276	Goals 2000 -- State and Local Education Systemic Improvement Grant	223,164
84.282	Charter Schools	20,629,989
84.287	Twenty-First Century Community Learning Centers	29,450,686
84.298	State Grants for Innovative Programs	13,423,951
84.318	Education Technology State Grants	20,908,618
84.323	Special Education -- State Personnel Development	779,363
84.324	Research in Special Education	686,106
84.330	Advanced Placement Program	358,847
84.331	Grants to States for Incarcerated Youth Offenders	854,098
84.332	Comprehensive School Reform Demonstration	7,400,642
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	2,401,003
84.334	* Gaining Early Awareness and Readiness for Undergraduate Programs	45,000
84.342	Preparing Tomorrow's Teachers to Use Technology	190,796
84.343	Assistive Technology -- State Grants for Protection and Advocacy	154,743
84.346	Vocational Education -- Occupational and Employment Information State Grants	245,012
84.352	School Renovation Grants	4,856,308
84.357	Reading First State Grants	32,280,848
84.358	Rural Education	1,534,316
84.365	English Language Acquisition Grants	7,190,497
84.366	Mathematics and Science Partnerships	2,417,155
84.367	Improving Teacher Quality State Grants	106,968,968
84.369	Grants for State Assessments and Related Activities	18,050,518
	Total U.S. Department of Education	**$1,321,756,535**
U.S. Department of Health and Human Services		
Aging Cluster:		
93.044	Special Programs for the Aging -- Title III, Part B -- Grants for Supportive Services and Senior Centers	$15,444,358
93.045	Special Programs for the Aging -- Title III, Part C -- Nutrition Services	23,509,826
93.053	Nutrition Services Incentive Program	5,115,344
	Total Aging Cluster	44,069,528
CCDF Cluster:		
93.575	Child Care and Development Block Grant	32,068,245
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	137,509,273
	Total Child Care Cluster	169,577,518

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Health and Human Services (Continued)		
Medicaid Cluster:		
93.775	State Medicaid Fraud Control Units	2,456,175
93.777	State Survey and Certification of Health Care Providers and Suppliers	22,127,399
93.778	Medical Assistance Program (Medicaid)	7,468,507,040
93.778	* Medical Assistance Program (Medicaid)	3,133
	Total Medicaid Cluster	7,493,093,747
93	Medicated Feed	27,389
93	Food Sanitation Inspection Contract	390,408
93	Behavioral Risk Factor Surveillance - Older Adults	376
93	Tissue Residue Contract	8,603
93.003	Public Health and Social Services Emergency Fund	10,968,431
93.006	State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	172,706
93.041	Special Programs for the Aging -- Title VII, Chapter 3 -- Programs for Prevention of Elder Abuse, Neglect, and Exploitation	226,110
93.042	Special Programs for the Aging -- Title VII, Chapter 2 -- Long Term Care Ombudsman Services for Older Individuals	508,781
93.043	Special Programs for the Aging -- Title III, Part D -- Disease Prevention and Health Promotion Services	872,525
93.048	Special Programs for the Aging -- Title IV and Title II-- Discretionary Projects	93,822
93.05-0205-OH-5002	Clinical Laboratory Improvement Amendment	129,759
93.05-0305-OH-5002	Clinical Laboratory Improvement Amendment	330,768
93.052	National Family Caregiver Support Program	6,483,528
93.110	Maternal and Child Health Federal Consolidated Programs	377,171
93.118	Acquired Immunodeficiency Syndrome (AIDS) Activity	1,114,234
93.127	Emergency Medical Services for Children	4,323,720
93.130	Primary Care Services -- Resource Coordination and Development	284,623
93.136	Injury Prevention and Control Research and State and Community Based Programs	1,613,999
93.138	Protection and Advocacy for Individuals with Mental Illness	1,032,422
93.150	Projects for Assistance in Transition from Homelessness (PATH)	1,381,161
93.162	National Health Service Corps Loan Repayment Program	432,887
93.197	Childhood Lead Poisoning Prevention Projects -- State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	1,477,777
93.2000-07236	Health Statistics	148,845
93.200-98-7265	National Death Index	3,855
93.217	Family Planning -- Services	4,767,807
93.223-03-4434	Mammography Quality Standard Act Inspection	319,962
93.230	Consolidated Knowledge Development Application (KD&A) Program	1,347,506
93.234	Traumatic Brain Injury -- State Demonstration Grant Program	141,639
93.235	Abstinence Education Program	1,723,091
93.240	State Capacity Building	259,105
93.241	State Rural Hospital Flexibility Program	567,706
93.243	Substance Abuse and Mental Health Services -- Projects of Regional and National Significance	3,428,876
93.251	Universal Newborn Hearing Screening	131,542
93.252	Healthy Community Access Program	153,535
93.259	Rural Access to Emergency Devices Grant	216,570
93.268	Immunization Grants	5,355,327
93.283	Centers for Disease Control and Prevention -- Investigations and Technical Assistance	44,955,155
93.301	Small Rural Hospital Improvement Grant Program	242,000

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE

U.S. Department of Health and Human Services (Continued)

93.556	Promoting Safe and Stable Families	7,090,791
93.558	Temporary Assistance for Needy Families	534,794,854
93.563	Child Support Enforcement	193,675,407
93.564	* Child Support Enforcement Research	16,500
93.566	Refugee and Entrant Assistance -- State Administered Programs	5,502,200
93.568	Low-Income Home Energy Assistance	112,818,244
93.569	Community Services Block Grant	24,797,744
93.571	Community Services Block Grant Formula and Discretionary Awards Community Food and Nutrition Programs	101,494
93.576	Refugee and Entrant Assistance -- Discretionary Grants	760,516
93.584	Refugee and Entrant Assistance -- Targeted Assistance Grants	399,305
93.585	Empowerment Zones Program	468,271
93.586	State Court Improvement Program	315,764
93.590	Community-Based Child Abuse Prevention Grants	22,090
93.595	* Welfare Reform Research, Evaluations and National Studies	414,610
93.597	Grants to States for Access and Visitation Programs	288,244
93.599	Chafee Education and Training Vouchers Program (ETV)	1,758,678
93.600	Head Start	401,989
93.603	Adoption Incentive Payments	2,414,148
93.618	Voting Access for Individuals with Disabilities -- Grants for Protection and Advocacy Systems	103,938
93.630	Developmental Disabilities Basic Support and Advocacy Grants	4,561,476
93.631	Developmental Disabilities Projects of National Significance	54,584
93.643	Children's Justice Grants to States	786,928
93.645	Child Welfare Services -- State Grants	7,623,413
93.647	* Social Services Research and Demonstration	452,313
93.658	Foster Care -- Title IV-E	229,320,708
93.659	Adoption Assistance	150,930,705
93.667	Social Services Block Grant	162,140,304
93.669	Child Abuse and Neglect State Grants	907,359
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters -- Grants to States and Indian Tribes	2,646,500
93.674	Chafee Foster Care Independence Program	5,934,557
93.767	State Children's Insurance Program	163,924,883
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	1,251,454
93.779	* Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	517,872
93.888	* Specially Selected Health Projects	169,425
93.889	National Bioterrorism Hospital Preparedness Program	8,874,677
93.913	Grants to States for Operation of Offices of Rural Health	82,941
93.917	HIV Care Formula Grants	20,418,816
93.940	HIV Prevention Activities -- Health Department Based	4,947,825
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	677,514
93.945	Assistance Programs for Chronic Disease Prevention and Control	184,545
93.958	Block Grants for Community Mental Health Services	15,932,308
93.959	Block Grants for Prevention and Treatment of Substance Abuse	70,736,296
93.965	Coal Miners Respiratory Impairment Treatment Clinics and Services	470,913
93.977	Preventive Health Services -- Sexually Transmitted Diseases Control Grants	4,070,430
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	774,177
93.991	Preventative Health and Health Services Block Grant	5,514,839
93.994	Maternal and Child Health Services Block Grant to the States	23,647,317
	Total U.S. Department of Health and Human Services	**$9,576,454,380**

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
Corporation for National and Community Service		
94.002	Retired and Senior Volunteer Program	$465,643
94.003	State Commissions	583,713
94.004	Learn and Serve America -- School and Community Based Programs	766,407
94.006	AmeriCorps	4,209,958
94.007	Planning and Program Development Grants	30,095
94.009	Training and Technical Assistance	111,065
94.011	Foster Grandparent Program	560,186
	Total Corporation for National and Community Service	**$6,727,067**
Social Security Administration		
96	Program Income for Rehabilitating Recipients of Social Security Income and Supplemental Security Income -- Vocational Rehabilitation Program (CFDA# 84.126)	$12,872,259
96.0600-01-60051	Social Security Contract	1,983
96.0600-03-60054	Social Security Contract	92,686
96.001	Social Security -- Disability Insurance	73,259,500
96.007	Social Security -- Research and Demonstration	21,058
96.008	Social Security -- Benefits Planning, Assistance, and Outreach Program	173,257
	Total Social Security Administration	**$86,420,743**
U.S. Department of Homeland Security		
97.004	State Domestic Preparedness Equipment Support Program	$75,971,477
97.012	Boating Safety Financial Assistance	1,860,024
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	1,855,924
97.021	Hazardous Material Assistance Program	2,000
97.023	Community Assistance Program State Support Services Element	371,862
97.029	Flood Mitigation Assistance	70,398
97.032	Crisis Counseling	68,252
97.034	Disaster Unemployment Assistance	146,105
97.036	Public Assistance Grants	56,727,666
97.039	Hazard Mitigation Grant	686,560
97.041	National Dam Safety Program	69,887
97.042	Emergency Management Performance Grants	1,697,939
97.042	* Emergency Management Performance Grants	20,000
97.047	Pre-Disaster Mitigation	295,688
97.051	State and Local All Hazards Emergency Operations Planning	194,146
97.052	Emergency Operations Centers	95,202
97.054	Community Emergency Response Teams	333,196
97.073	State Homeland Security Program	566,885
97.074	Law Enforcement Terrorism Prevention Program	1,174,915
	Total U.S. Department of Homeland Security	**$142,208,126**
	TOTAL EXPENDITURES	**$16,441,911,296**

* These programs are a part of the Research and Development Cluster, as defined by OMB Circular A-133. See Note 7 to the Supplementary Schedule of Expenditures of Federal Awards.

** This cluster encompasses two different federal agency programs, the U.S. Department of Transportation's federal program CFDA# 20.205 and the U.S. Appalachian Regional Commission's federal program CFDA# 23.003. In accordance with OMB Circular A-133, CFDA# 23.003 has been included as part of the U.S. Department of Transportation's programs and excluded from the U.S. Appalachian Regional Commission's programs.

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Office of Management and Budget (OMB) Circular A-133, *Audits of States*, *Local Governments*, *and Non-Profit Organizations*, revised June 27, 2003, requires a Supplementary Schedule of Expenditures of Federal Awards (Supplementary Schedule). The State of Ohio reports this information using the following presentations:

- Supplementary Schedule of Expenditures of Federal Awards Summarized by Federal Agency

- Supplementary Schedule of Expenditures of Federal Awards by Federal Agency and Federal Program

The schedules must report total disbursements for each federal financial assistance program, as listed in the *Catalog of Federal Domestic Assistance* (CFDA). The State of Ohio reports each federal financial assistance program not officially assigned CFDA numbers with a two-digit number that identifies the federal grantor agency or with a two-digit federal grantor agency number followed by a federal contract number, when applicable.

A. Reporting Entity

The Supplementary Schedules include all federal programs the State of Ohio has administered for the fiscal year ended June 30, 2005. The State's financial reporting entity includes the primary government and its component units.

The State of Ohio's primary government includes all funds, account groups, elected officials, departments and agencies, bureaus, boards, commissions, and authorities that make up the State's legal entity. Component units, legally separate organizations for which the State's elected officials are financially accountable, also comprise, in part, the State's reporting entity. Additionally, other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete should be included in a government's financial reporting entity.

GASB Statement No. 14, *The Financial Reporting Entity*, defines financial accountability. The criteria for determining financial accountability include the following circumstances:

- appointment of a voting majority of an organization's governing authority and the ability of the primary government to either impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government, or

- an organization is fiscally dependent on the primary government.

The State has excluded federal financial assistance reported in the Discretely Presented Component Units —College and University Funds from the Supplementary Schedules. The respective schedules of expenditures of federal awards for the following organizations, which constitute component units of the State since they impose or potentially impose financial burdens on the primary government, are subject to separate audits under OMB Circular A-133.

Colleges and Universities:

State Universities*:*
Bowling Green State University
Central State University
Cleveland State University
Kent State University
Miami University
Ohio State University
Ohio University
Shawnee State University
University of Akron
University of Cincinnati
University of Toledo
Wright State University
Youngstown State University

State Community Colleges:
Cincinnati State Community College
Clark State Community College
Columbus State Community College

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

State Community Colleges (Continued):
Edison State Community College
Northwest State Community College
Owens State Community College
Southern State Community College
Terra State Community College
Washington State Community College

Medical College:
Medical University of Ohio

Additionally, for Single Audit purposes only, the State includes certain federal programs administered by the 88 county departments of Job and Family Services in the Supplementary Schedules. Although, the counties are not included in the State's reporting entity, the counties received funding from the following federal programs, the expenditures of which are included in the Supplementary Schedules. This arrangement is in accordance with an agreement the State has with the U.S. Department of Health and Human Services.

CFDA #10.551/10.561 – Food Stamp Cluster
CFDA # 93.558 – Temporary Assistance for Needy Families
CFDA # 93.563 – Child Support Enforcement
CFDA # 93.575/93.596 – Child Care Cluster
CFDA # 93.658 – Foster Care Title -- IV-E
CFDA # 93.659 – Adoption Assistance
CFDA # 93.667 – Social Services Block Grant
CFDA # 93.767 – State Children's Insurance Program
CFDA # 93.778/93.775/93.777 – Medicaid Cluster

B. Basis of Accounting

The State prepares the Supplementary Schedules on the cash basis of accounting; therefore, the State recognizes expenditures when paid rather than when it incurs obligations.

C. Transfers of Federal Funds between State Agencies

The State excludes interagency disbursements of federal moneys among State agencies to avoid the overstatement of federal financial assistance reported on the Supplementary Schedules.

D. Indirect Costs

Indirect costs benefit more than one federal program and are not directly allocable to the programs receiving the benefits. The State recovers these costs from the federal government by applying federally approved indirect cost rates or by allocating the indirect costs among benefiting programs in accordance with federally approved plans. The State recognizes indirect costs as disbursements in the Supplementary Schedules.

E. Valuation of Non-Cash Federal Assistance

The State reports the following non-cash federal assistance programs on the Supplementary Schedules.

- *Food Donation (CFDA# 10.550)*
  Federal assistance for this program represents the value of food the State distributes to subrecipients during the fiscal year. The U.S. Department of Agriculture assigns the prices at which the State values donated food commodities.

- *Food Stamps (CFDA# 10.551)*
  Federal assistance for this program represents the value of food stamp benefits the State and its agents distribute to eligible recipients during the fiscal year. Distribution occurs when beneficiaries receive food stamp coupons or, in the case of electronic benefits transfer (EBT), when the State credits the value of program benefits to beneficiaries' smart cards. The State values food stamp coupons at their face amount.

- *Donation of Federal Surplus Personal Property (CFDA# 39.003)*
  Federal assistance for this program represents the fair market value of federal surplus personal property the State distributes to subrecipients during the fiscal year. The State calculates fair value at 23.3 percent of the property's original acquisition cost, in conformity with guidelines the U.S. General Services Administration establishes.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *Donation of Federal Surplus Property (CFDA# 12.005)*

Federal assistance for this program represents the fair market value of donated federal surplus property the State distributes to subrecipients during the fiscal year. The State calculates fair value at 23.7 percent of the property's original costs, in conformity with guidelines the U.S. Department of Defense establishes.

As of June 30, 2005, there was no outstanding inventory balances for this program.

Year-end balances of the State's non-cash federal assistance programs can be found in NOTE 3.

NOTE 2 CAPITALIZATION GRANTS FOR REVOLVING LOAN FUNDS

In fiscal year 2005, the capitalization grants for revolving loan funds comprised the Clean Water Revolving Fund (CFDA# 66.458) and the Drinking Water Revolving Fund (CFDA# 66.468) programs. As of June 30, 2005, outstanding loans for the Capitalization Grants for Revolving Loan Funds programs totaled approximately $952 million.

The calculation of federal assistance for the loan programs includes the following elements.

Capitalization Grant Loan Balance, as of 6/30/04	$871,473,275
Loans without Compliance Requirements	(526,492,584)
Net Loan Balance (Loans with Compliance Requirements)	344,980,691
New Loans Disbursed in FY 2005	94,675,573
Net Principal Repayments Received in FY 2005	(16,063,061)
Capitalized Interest Earned in FY 2005	2,312,936
Current Loan Activity	80,925,448
Ending Loan Balance (Loans with Compliance Requirements)	425,906,139
Administrative Costs in FY 2005	953,395
Administrative Trustee Fee	208
Loan Account Trustee Fee	635
Source Water Account Trustee Fee	1
Small System Technical Assistant	383,041
Small System Technical Assistant Trustee Fee	717
Wellhead Costs	1,378,786
Wellhead Trustee Fee	227
Administrative Interest Earned	(5,317)
Loan Account Interest Earned	(4,798)
Source Water Account Interest Earned	(11)
Small System Technical Assistant Interest Earned	(3,276)
Wellhead Interest Earned	(1,024)
Total Federal Assistance for FY 2005	$428,608,723

The total federal assistance for fiscal year 2005, as reported by the Ohio Environmental Protection Agency, for the Clean Water Revolving Fund and the Drinking Water Revolving Fund were $345,697,631 and $82,911,092 respectively.

NOTE 3 INVENTORY BALANCES FOR NON-CASH FEDERAL ASSISTANCE PROGRAMS

As of June 30, 2005, the outstanding inventory balances for the non-cash federal assistance programs are as follows:

CFDA#	Non-Cash Program	Outstanding Balance, as of 6/30/05
10.550	Food Donation	$5,422,953
10.551	Food Stamps	615,243
12.005	Donation of Federal Surplus Property	7,038,035
	Total	$13,076,231

NOTE 4 FEDERAL MORTGAGE INSURANCE AND GUARANTEES

Certain mortgage loans of the State are insured by the Federal Housing Administration (FHA) or guaranteed by the Veterans' Administration (VA).

As of June 30, 2005, outstanding FHA-insured loans approximated $9.0 thousand and mortgage loans guaranteed by the VA approximated $ 121 thousand.

NOTE 5 FEDERAL TAX CREDIT PROGRAMS

The State administers the following federal tax credit programs.

A. Federal Low-Income Housing Tax Credits Program

The Federal Low-Income Housing Tax Credit Program allocates federal tax credits to the owners of qualified low-income rental housing units to be used over a 10-year period. For the allocation year ending December 31, 2005, OHFA allocated approximately $22.4 million of federal tax credits under this program.

B. Federal Mortgage Credit Certificate Program

The Federal Mortgage Credit Certificate Program allocates tax credits to qualifying homebuyers purchasing qualifying homes to be applied against their federal income tax liability in the year of purchase (if any) and/or carried forward for use in the subsequent three years. In the year ended June 30, 2005, OHFA issued/committed approximately $4.2 million in federal tax credits under this program.

NOTE 6 RESEARCH AND DEVELOPMENT CLUSTER

The State has reported the following federal programs under the Research and Development Cluster on the Supplementary Schedule of Expenditures of Federal Awards by Federal Agency and Federal Program.

CFDA#	Program	Amount
11.407	Interjurisdictional Fisheries Act of 1986	$ 12,173
11.420	Coastal Zone Management Estuarine Research Reserves	61,381
15.808	U.S. Geological Survey -- Research and Data Acquisition	142,527
16.03-208	Survivability rate of Latent Fingerprints on EID Components	9,585
16.579	Byrne Formula Grant Program	1,576,368
20.205	Highway Planning and Construction	2,917,686
81.079	Regional Biomass Energy Program	36,925
81.086	Conservation Research and Development	470,768
81.089	Fossil Energy Research and Development	134,803
84.215	Fund for the Improvement of Education	78,617
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	45,000
93.564	Child Support Enforcement Research	16,500
93.595	Welfare Reform Research, Evaluations and National Studies	414,610
93.647	Social Services Research and Demonstration	452,313
93.778	Medical Assistance Program	3,133
93.779	Center for Medicare and Medicaid Services (CMS) Research, Demonstrations, and Evaluations	517,872
93.888	Specially Selected Health Projects	169,425
97.042	Emergency Management Performance Grants	20,000
	Total Research and Development Cluster	**$ 7,079,686**

NOTE 7 TRANSFERS BETWEEN FEDERAL PROGRAMS

During fiscal year 2005, the State made allowable transfers of approximately $82.5 million from the Temporary Assistance for Needy Families (93.558) program to the Social Services Block Grant (93.667) program. The Supplementary Schedule shows the State spent approximately $534.8 million on the Temporary Assistance for Needy Families program. The amount reported for the Temporary Assistance for Needy Families program on the Supplementary Schedule excludes the amount transferred to the Social Services Block Grant program. The amount transferred to the Social Services Block Grant program is included in the federal program expenditures for these programs. The following table shows the gross amount drawn for the Temporary Assistance for Needy Families program during fiscal year 2005 and the amount transferred to the Social Services Block Grant program.

Temporary Assistance for Needy Families	$ 617,272,401
Social Services Block Grant	(82,477,547)
Total Temporary Assistance for Needy Families	**$ 534,794,854**

NOTE 8 TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF) RESTITUTION

The Ohio Department of Job and Family Services (ODJFS or Department) advances federal funds to the County Departments of Job and Family Services (CDJFS) to carry out the purposes of the TANF program along with various other federal programs. During state fiscal years 2000 through 2004, ODJFS advanced federal dollars to the CDJFS using a consolidated funding approach. Under the consolidated funding approach, ODJFS had the capability via the Central Office Reporting System (CORe) of drawing funds from one program/funding source with available money, and crediting those funds to another program/funding source when that program/funding source's allotted budget had been exceeded.

At the conclusion of state fiscal year 2004, the Department performed a reconciliation of the consolidated funding programs. The reconciliation performed by ODJFS revealed that it had advanced $133 million in TANF federal funds to cover overspending in various programs during fiscal years 2000 through 2003 and $129 million during fiscal year 2004.

On March 7, 2005, ODJFS returned to the U.S. Department of Health and Human Services $133 million related to inappropriate expenditures for the TANF program covering the period of July 1, 2000 through June 30, 2003. Also on March 7, 2005, ODJFS made adjustments to the federal Smartlink system to transfer $90,997,998 of the $129 million related to inappropriate expenditures for fiscal year 2004 from the TANF program to the Child Care Cluster. This amount represents costs for services which were allowable for the Child Care program. The balance of the restitution for the $129 million ($38, 537,926) is to be made during fiscal year 2006.

The $133 million payment to the U.S. Department of Health and Human Services restored the federal funds to the TANF program. This transaction did not, however, have any impact on the Supplementary Schedule for state fiscal year 2005 since the funds were repaid from non-federal sources. The $90 million adjustment had no impact on the fiscal year 2005 Supplementary Schedule since these amounts were previously reported and did not impact current activity.

INDEPENDENT ACCOUNTANTS' REPORTS ON COMPLIANCE AND INTERNAL CONTROLS

Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

The Honorable Bob Taft, Governor
State of Ohio
Columbus, Ohio

We have audited the accompanying financial statements of the governmental activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Ohio (the State) as of and for the year ended June 30, 2005, which collectively comprise the State's basic financial statements, and have issued our report thereon dated April 7, 2006, wherein we noted the State of Ohio adopted GASB 40. We also noted that the audit of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio, which comprises the Workers' Compensation Enterprise Fund, was commenced but not completed as of and for the fiscal year ended June 30, 2005. This fund is a major enterprise fund and represents 87 percent and 44 percent of the total assets and total revenue, respectively, of the business-type activities financial statements. Therefore, the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the financial statements of the Workers' Compensation Enterprise Fund and the business-type activities. We did not audit the financial statements of the following organizations:

Primary Government: Office of the Auditor of State; Office of Financial Incentives; State Treasury Asset Reserve of Ohio; Treasurer of State Lease Revenue Bonds; and Variable College Savings Plan.

Blended Component Units: Ohio Building Authority and State Highway Patrol Retirement System.

Discretely Presented Component Units: Bowling Green State University; Central State University, Cleveland State University; Kent State University; Miami University; Ohio State University; Ohio University; Shawnee State University; University of Akron; University of Cincinnati; University of Toledo; Wright State University; Youngstown State University; Cincinnati State Community College; Clark State Community College; Columbus State Community College; Edison State Community College; Northwest State Community College; Owens State Community College; Southern State Community College; Terra State Community College; Washington State Community College; Medical University of Ohio; and Ohio Water Development Authority.

In addition, we did not audit the financial statements of the Public Employees Retirement System, Police and Fire Pension Fund, State Teachers Retirement System, and School Employees Retirement System, whose assets are held by the Treasurer of State and are included as part of the State's Aggregate Remaining Fund Information. These financial statements reflect the following percentages of total assets and revenues or additions of the indicated opinion units:

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Revenues / Additions
Governmental Activities	2%	1%
Business-Type Activities	0%	1%
Aggregate Discretely Presented Component Units	97%	96%
Aggregate Remaining Fund Information	96%	23%

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Those financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these independently audited organizations is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Ohio's internal control over financial reporting, except for those entities identified above which were performed by other auditors, to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Ohio's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. These two reportable conditions are identified in the schedule of findings and questioned costs on page 163.

Other auditors performed procedures to obtain an understanding of the internal controls of the organizations listed above. There were no comments related to these organizations which were considered reportable for the State of Ohio.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses.

We noted other matters involving the internal control over financial reporting which we did not deem reportable conditions that we have reported to the management of the State of Ohio in separate management letters issued at various times during the year.

Compliance and Other Matters

As part of reasonably assuring whether the State of Ohio's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Other auditors performed tests of noncompliance related to the organizations listed above and the results of those tests are reported separately in the audit reports of those entities. There was no noncompliance related to these organizations which was considered reportable for the State of Ohio.

We noted certain immaterial instances of noncompliance that we have reported to the management of the State of Ohio in separate management letters issued at various times during the year.

We intend this report solely for the information and use of the audit committee, management, the State Legislature, and the federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.

Betty Montgomery
Auditor of State

April 7, 2006

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Honorable Bob Taft, Governor
State of Ohio
Columbus, Ohio

Compliance

We have audited the compliance of the State of Ohio with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the State of Ohio's major federal programs. The State of Ohio's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to each major federal program. Our responsibility is to express an opinion on the State of Ohio's compliance based on our audit.

The State of Ohio's basic financial statements include the operations of State College and Universities which received federal awards that are not included in the Schedule of Federal Awards for the year ended June 30, 2005. Our audit of federal awards, described below, did not include the operations of State College and Universities because these component units engaged other auditors to audit their Federal award programs in accordance with OMB Circular A-133

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the State of Ohio's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on State of Ohio's compliance with those requirements.

As described in items 2005-EDU01-002 and 2005-DHS01-062 in the accompanying schedule of findings and questioned costs on pages 167 and 299, the State of Ohio's Departments of Education and Public Safety did not comply with the requirements regarding subrecipient monitoring applying to its Charter Schools and State Domestic Preparedness Equipment Support programs. Compliance with those requirements is necessary, in our opinion, for the State of Ohio to comply with requirements applicable to those programs.

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As described in 2005-JFS01-011 in the accompanying schedule of findings and questioned costs on page 183, the State of Ohio's Department of Job & Family Services did not comply with the requirements regarding Earmarking applying to its Social Services Block Grant program. Compliance with those requirements is necessary, in our opinion, for the State of Ohio to comply with requirements applicable to this program.

As described in 2005-JFS24-034 in the accompanying schedule of findings and questioned costs on page 231 the State of Ohio's Department of Job & Family Services did not comply with the requirements regarding reporting applying to its Unemployment Insurance program. Compliance with those requirements is necessary, in our opinion, for the State of Ohio to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the three preceding paragraphs, the State of Ohio complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that OMB Circular A-133 requires us to report, which are identified in the summary of findings and questioned costs on pages 162 through 163 and described in the accompanying schedule of findings and questioned costs.

In separate letters to the State of Ohio's management issued at various times during the year, we reported other matters related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

The State of Ohio's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the State of Ohio's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Ohio's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are identified in the summary of findings and questioned costs on 162 through 163 and described in the accompanying schedule of findings and questioned costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected by employees when performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider certain items identified in the summary of findings and questioned costs on 162 through 163 and described in the accompanying schedule of findings and questioned costs to be material weaknesses.

We also noted other matters involving the internal control over federal compliance not requiring inclusion in this report that we reported to the management of the State of Ohio in separate management letters issued at various times during the year.

We intend this report solely for the information and use of the audit committee, management, the State Legislature, federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

July 25, 2006

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STATE OF OHIO
JULY 1, 2004 THROUGH JUNE 30, 2005
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OMB CIRCULAR A-133 § .505

1. SUMMARY OF AUDITORS' RESULTS		
(d)(1)(i)	*Type of Financial Statement Opinion*	Unqualified and Disclaimed – see *
(d)(1)(ii)	*Were there any material control weakness conditions reported at the financial statement level (GAGAS)?*	No
(d)(1)(ii)	*Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?*	Yes
(d)(1)(iii)	*Was there any reported material noncompliance at the financial statement level (GAGAS)?*	No
(d)(1)(iv)	*Were there any material internal control weakness conditions reported for major federal programs?*	Yes
(d)(1)(iv)	*Were there any other reportable internal control weakness conditions reported for major federal programs?*	Yes
(d)(1)(v)	*Type of Major Programs' Compliance Opinion*	Unqualified and Qualified – see **
(d)(1)(vi)	*Are there any other reportable findings under §.510?*	Yes
(d)(1)(vii)	*Major Programs (list):*	See pages 157 through 161
(d)(1)(viii)	*Dollar threshold for Type A and B Programs?*	A: >$30,000,000 B: all others
(d)(1)(ix)	*Low Risk Auditee?*	No

* We disclaimed an opinion on the financial statements of the Workers' Compensation Enterprise Fund and the business-type activities financial statements for the year ended June 30, 2005.

** We qualified our opinion on subrecipient monitoring for the Departments of Education's Charter Schools program and Public Safety's State Domestic Preparedness Equipment Support program; earmarking for Department of Job & Family Services' Social Services Block Grant program; and reporting for the Department of Job & Family Services' Unemployment Insurance program.

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding Number	2005-JFS25-035

INTERNAL CONTROL – REPORTABLE CONDITION

See federal finding # 2005-JFS25-035 on page 233; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2005-JFS28-038

INTERNAL CONTROL – REPORTABLE CONDITION

See federal finding # 2005-JFS28-038 on page 240; this finding is also required to be reported in accordance with GAGAS.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

The findings and questioned costs are summarized by state agency and type on pages 162 through 163.

The questioned costs are summarized by federal agency, program, and amount on page 164.

The findings and questioned costs are detailed by state agency on pages 165 through 300.

STATE OF OHIO
JULY 1, 2004 THROUGH JUNE 30, 2005
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL AWARDS PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
U.S. Department of Agriculture			
10.550	Food Donation		
	Ohio Department of Education	$36,416,953	
	Total CFDA # 10.550	$36,416,953	0.22%
Food Stamp Cluster			
10.551/10.561			
	Ohio Department of Job & Family Services	$1,262,437,601	
	Other Agencies (Not Tested as a Major Program)	979,611	
	Total Food Stamp Cluster	$1,263,417,212	7.68%
Child Nutrition Cluster			
10.553/10.555/10.556/10.559			
	Ohio Department of Education	$263,747,544	
	Other Agencies (Not Tested as a Major Program)	3,270,849	
	Total Child Nutrition Cluster	$267,018,393	1.62%
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children		
	Ohio Department of Health	$211,526,484	
	Total CFDA # 10.557	$211,526,484	1.29%
10.558	Child and Adult Care Food Program		
	Ohio Department of Education	$61,477,187	
	Total CFDA # 10.558	$61,477,187	0.37%
U.S. Department of Housing and Urban Development			
14.195	Section 8 Housing Assistance Payment Program		
	Ohio Department of Development	$46,885,511	
	Total CFDA # 14.195	$46,885,511	0.29%
14.228	Community Development Block Grant\State's Program		
	Ohio Department of Development	$58,291,542	
	Total CFDA # 14.228	$58,291,542	0.35%
14.239	HOME Investment Partnerships Program		
	Ohio Department of Development	$32,000,703	
	Total CFDA # 14.239	$32,000,703	0.19%
U.S. Department of Justice			
16.579	Byrne Formula Grant Program		
	Ohio Office of the Attorney General	$320,922	
	Ohio Office of Criminal Justice Services	14,931,756	
	Other Agencies (Not Tested as a Major Program)	944,927	
	Total CFDA # 16.579	$16,197,605	0.10%

STATE OF OHIO
JULY 1, 2004 THROUGH JUNE 30, 2005
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL AWARDS PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
U.S. Department of Labor			
Employment Services Cluster			
17.207/17.801/17.804			
	Ohio Department of Job & Family Services	$33,412,121	
	Total Employment Services Cluster	$33,412,121	0.20%
17.225	Unemployment Insurance		
	Ohio Department of Job & Family Services	$1,333,960,646	
	Total CFDA # 17.225	$1,333,960,646	8.11%
17.245	Trade Adjustment Assistance – Workers		
	Ohio Department of Job & Family Services	$37,746,916	
	Total CFDA # 17.245	$37,746,916	0.23%
Workforce Investment Act (WIA) Cluster			
17.258/17.259/17.260			
	Ohio Department of Job & Family Services	$124,668,206	
	Other Agencies (Not Tested as a Major Program)	2,535,042	
	Total WIA Cluster	$127,203,248	0.77%
U.S. Department of Transportation			
Highway Planning and Construction Cluster			
20.205/23.003			
	Ohio Department of Transportation	$1,041,497,057	
	Total Highway Planning and Construction Cluster	$1,041,497,057	6.33%
U.S. Department of Education			
84.010	Title I Grants to Local Educational Agencies		
	Ohio Department of Education	$387,807,160	
	Total CFDA # 84.010	$387,807,160	2.36%
Special Education Cluster			
84.027/84.173			
	Ohio Department of Education	$422,578,781	
	Other Agencies (Not Tested as a Major Program)	3,296,870	
	Total Special Education Cluster	$425,875,651	2.59%
84.048	Vocational Education - Basic Grants to States		
	Ohio Department of Education	$46,857,113	
	Other Agencies (Not Tested as a Major Program)	304,150	
	Total CFDA # 84.048	$47,161,263	0.29%

MAJOR FEDERAL AWARDS PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States		
	Rehabilitation Services Commission	$110,221,037	
	Total CFDA # 84.126	$110,221,037	0.67%
84.282	Charter Schools		
	Ohio Department of Education	$20,629,989	
	Total CFDA # 84.282	$20,629,989	0.13%
84.357	Reading First State Grants		
	Ohio Department of Education	$32,280,848	
	Total CFDA # 84.357	$32,280,848	0.20%
84.367	Improving Teacher Quality State Grants		
	Ohio Department of Education	$104,473,575	
	Other Agencies (Not Tested as a Major Program)	2,495,393	
	Total CFDA # 84.367	$106,968,968	0.65%
U.S. Department of Health and Human Services			
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance		
	Ohio Department of Health	$44,955,155	
	Total CFDA # 93.283	$44,955,155	0.27%
93.558	Temporary Assistance for Needy Families		
	Ohio Department of Job & Family Services	$484,911,758	
	Ohio Department of Education	47,088,931	
	Other Agencies (Not Tested as a Major Program)	2,794,165	
	Total CFDA # 93.558	$534,794,854	3.25%
93.563	Child Support Enforcement		
	Ohio Department of Job & Family Services	$193,675,407	
	Total CFDA # 93.563	$193,675,407	1.18%
93.568	Low-Income Home Energy Assistance		
	Ohio Department of Development	$112,522,926	
	Other Agencies (Not Tested as a Major Program)	295,318	
	Total CFDA # 93.568	$112,818,244	0.69%
Child Care Cluster			
93.575/93.596			
	Ohio Department of Job & Family Services	$169,236,289	
	Other Agencies (Not Tested as a Major Program)	341,229	
	Total Child Care Cluster	$169,577,518	1.03%

STATE OF OHIO
JULY 1, 2004 THROUGH JUNE 30, 2005
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL AWARDS PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
93.658	Foster Care - Title IV-E		
	Ohio Department of Job & Family Services	$227,117,069	
	Other Agencies (Not Tested as a Major Program)	2,203,639	
	Total CFDA # 93.658	$229,320,708	1.39%
93.659	Adoption Assistance		
	Ohio Department of Job & Family Services	$150,930,705	
	Total CFDA # 93.659	$150,930,705	0.92%
93.667	Social Services Block Grant		
	Ohio Department of Job & Family Services	$143,920,563	
	Ohio Department of Mental Retardation and Developmental Disabilities	9,746,091	
	Ohio Department of Mental Health	8,473,650	
	Total CFDA # 93.667	$162,140,304	0.99%
93.767	State Children's Insurance Program		
	Ohio Department of Job & Family Services	$136,091,222	
	Ohio Department of Mental Health	18,143,601	
	Ohio Department of Mental Retardation and Developmental Disabilities	3,991,154	
	Other Agencies (Not Tested as a Major Program)	5,698,906	
	Total CFDA # 93.767	$163,924,883	1.00%
Medicaid Cluster			
93.775/93.777/93.778			
	Ohio Department of Job & Family Services	$6,318,864,321	
	Ohio Department of Mental Retardation and Developmental Disabilities	691,875,840	
	Ohio Department of Mental Health	255,554,674	
	Other Agencies (Not Tested as a Major Program)	226,798,912	
	Total Medicaid Cluster	$7,493,093,747	45.57%
93.917	HIV Care Formula Grants		
	Ohio Department of Health	$20,418,816	
	Total CFDA # 93.917	$20,418,816	0.12%
93.994	Maternal and Child Health Services Block Grant to the States		
	Ohio Department of Health	$23,647,317	
	Total CFDA # 93.994	$23,647,317	0.14%

MAJOR FEDERAL AWARDS PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
Social Security Administration			
96.001	Social Security - Disability Insurance		
	Rehabilitation Services Commission	$73,259,500	
	Total CFDA # 96.001	$73,259,500	0.45%
U.S. Department of Homeland Security			
97.004	State Domestic Preparedness Equipment Support Program		
	Ohio Department of Public Safety	$74,086,753	
	Other Agencies (Not Tested as a Major Program)	1,884,724	
	Total CFDA # 97.004	$75,971,477	0.46%
97.036	Public Assistance Grants		
	Ohio Department of Public Safety	$56,519,481	
	Other Agencies (Not Tested as a Major Program)	208,185	
	Total CFDA # 97.004	$56,727,666	0.35%
Total Major Federal Programs		$15,203,252,795	92.47%
Other Federal Programs		1,238,658,501	7.53%
Total Federal Awards Expenditures		$16,441,911,296	100.00%

STATE OF OHIO
JULY 1, 2004 THROUGH JUNE 30, 2005
SUMMARY OF FINDINGS AND QUESTIONED COSTS

The findings listed below represent items which are being reported in the Independent Accountants' Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control Over Compliance In Accordance with OMB Circular A-133.

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE REFERENCE
Ohio Department of Development (DEV)			
1. Home Investment Partnerships Program - Matching	2005-DEV01-001	Reportable Condition	165
Ohio Department of Education (EDU)			
1. Charter Schools - Monitoring of Subrecipients	2005-EDU01-002	Questioned Costs	167
2. Reading First - Monitoring of Subrecipients	2005-EDU02-003	Noncompliance	169
3. DP - Application Development & Maintenance	2005-EDU03-004	Reportable Condition	171
Ohio Department of Health (DOH)			
1. WIC - Unsupported Food Instrument Costs	2005-DOH01-005	Questioned Costs	173
2. Subrecipient Monitoring	2005-DOH02-006	Noncompliance	174
3. WIC - Early Redemption of Food Instruments	2005-DOH03-007	Noncompliance	177
4. Federal Reporting	2005-DOH04-008	Noncompliance	178
5. MCH Grant - Lack of Earmarking Controls	2005-DOH05-009	Reportable Condition	179
6. DP - Program Change Controls	2005-DOH06-010	Reportable Condition	180
Ohio Department of Job & Family Services (JFS)			
1. SSBG - Earmarking of TANF Transfer	2005-JFS01-011	Questioned Costs	183
2. Medicaid/SCHIP - Unlicensed Providers	2005-JFS02-012	Questioned Costs	185
3. Direct Costs Charged to Indirect Cost Pools - Hamilton Co.	2005-JFS03-013	Questioned Costs	187
4. Foster Care - Duplicate Payments	2005-JFS04-014	Questioned Costs	190
5. Unemployment Insurance - Overpayment of Benefits	2005-JFS05-015	Questioned Costs	192
6. Medicaid/FS/TANF-Undocumented Eligibility -Cuyahoga Co	2005-JFS06-016	Questioned Costs	195
7. TANF - Lack of Supporting Documentation - Paulding Co	2005-JFS07-017	Questioned Costs	200
8. TANF - Refuse to Work/Child Under 6 - Lucas County	2005-JFS08-018	Questioned Costs	201
9. TANF - Refusal to Work Sanction -Lucas County	2005-JFS09-019	Questioned Costs	203
10. SCHIP - Undocumented Eligibility - Cuyahoga County	2005-JFS10-020	Questioned Costs	204
11. Medicaid - Undocumented Eligibility - Cuyahoga County	2005-JFS11-021	Questioned Costs	206
12. Medicaid - Tranportation Claim Overpayment	2005-JFS12-022	Questioned Costs	208
13. Medicaid - Ineligible Recipients	2005-JFS13-023	Questioned Costs	211
14. TANF - Missing Documentation - Hamilton County	2005-JFS14-024	Questioned Costs	212
15. TANF - Undocumented Eligibility - Cuyahoga County	2005-JFS15-025	Questioned Costs	214
16. TANF - Refusal to Work - Trumbull County	2005-JFS16-026	Questioned Costs	216
17. TANF - Unallowable Expenditure - Paulding County	2005-JFS17-027	Questioned Costs	217
18. Adoption Assistance – Cost Allocation Coding Errors	2005-JFS18-028	Noncompliance	218
19. IEVS - Third Party Match	2005-JFS19-029	Noncompliance	220
20. IEVS - Due Dates	2005-JFS20-030	Noncompliance	222
21. IEVS - Inadequate Documentation	2005-JFS21-031	Noncompliance	224
22. Medicaid/SCHIP - Subrecipient Monitoring	2005-JFS22-032	Noncompliance	226
23. Employment Services - Earmarking Requirement	2005-JFS23-033	Noncompliance	229
24. Unemployment Insurance - Federal Reports	2005-JFS24-034	Noncompliance	231
25. Unemployment Insurance - Processing of OJI Transactions	2005-JFS25-035	Material Weakness	233

STATE OF OHIO
JULY 1, 2004 THROUGH JUNE 30, 2005
SUMMARY OF FINDINGS AND QUESTIONED COSTS

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE REFERENCE
Ohio Department of Job & Family Services (JFS)			
26. Internal Testing of Automated Controls	2005-JFS26-036	Material Weakness	236
27. DP - CORe Advance Calculation	2005-JFS27-037	Material Weakness	238
28. DP - Manual Overrides of CRIS-E	2005-JFS28-038	Material Weakness	240
29. Adoption Assistance - Payment Limits	2005-JFS29-039	Reportable Condition	241
30. Medicaid/SCHIP - Third-party Liabilitiy	2005-JFS30-040	Reportable Condition	243
31. Medicaid/SCHIP - Drug Rebate Payments	2005-JFS31-041	Reportable Condition	246
32. Employment Services - Federal Reporting	2005-JFS32-042	Reportable Condition	248
33. Unemployment Insurance - Internal Controls	2005-JFS33-043	Reportable Condition	249
34. WIA - Guidance to Subrecipients	2005-JFS34-044	Reportable Condition	251
35. Trade Adjustment Assistance - Federal Reports	2005-JFS35-045	Reportable Condition	254
36. SSBG - Incomplete Monitoring	2005-JFS36-046	Reportable Condition	256
37. Missing Documentation - Various Counties	2005-JFS37-047	Reportable Condition	258
38. DP - CORe Reporting of Accruals and Obligations	2005-JFS38-048	Reportable Condition	269
39. DP - Recertification of MMIS Providers	2005-JFS39-049	Reportable Condition	270
40. DP - Missing Program Change Request Forms	2005-JFS40-050	Reportable Condition	272
41. DP - Unavailable Program Change Documentation	2005-JFS41-051	Reportable Condition	274
42. DP - OJI Programmer Access to Production	2005-JFS42-052	Reportable Condition	277
43. DP - Level of Access to Production Environments	2005-JFS43-053	Reportable Condition	278
44. DP - Unauthorized Access to SCOTI & OJI Profiles	2005-JFS44-054	Reportable Condition	282
45. DP - Data Entry Errors in MMIS Provider Master File	2005-JFS45-055	Reportable Condition	284
46. DP - Controls over Application Changes	2005-JFS46-056	Reportable Condition	285
47. DP - Unauthorized Access to Subsystems	2005-JFS47-057	Reportable Condition	289
Ohio Department of Mental Health (DMH)			
1. Medicaid/SCHIP/SSBG - Subrecipient Monitoring	2005-DMH01-058	Noncompliance	291
Ohio Department of Mental Retardation/DD (DMR)			
1. Medicaid/SCHIP - Supporting Documentation	2005-DMR01-059	Reportable Condition	295
2. DP - Network Operating System	2005-DMR02-060	Reportable Condition	296
3. DP - Transfer to Live Environment (MBS)	2005-DMR03-061	Reportable Condition	297
Ohio Department of Public Safety (DHS)			
1. State Domestic Preparedness Program - Monitoring of Subs	2005-DHS01-062	Questioned Costs	299

The findings listed below are also reported in the Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE REFERENCE
25. Unemployment Insurance - Processing of OJI Transactions	2005-JFS25-035	Reportable Condition	233
28. DP - Manual Overrides of CRIS-E	2005-JFS28-038	Reportable Condition	240

STATE OF OHIO
JULY 1, 2004 THROUGH JUNE 30, 2005
SUMMARY OF QUESTIONED COSTS BY FEDERAL AGENCY AND PROGRAM

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE	PAGE NUMBER(S)	QUESTIONED COSTS
U.S. DEPARTMENT OF AGRICULTURE		
10.551/10.561 – Food Stamp Cluster	195	$26,789
10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children	173	42
Total U.S. Department of Agriculture		$26,831
U.S. DEPARTMENT OF LABOR		
17.225 – Unemployment Insurance	192	$93,351
Total U.S. Department of Labor		$93,351
U.S. DEPARTMENT OF EDUCATION		
84.282 – Charter Schools	167	$20,027,966
Total U.S. Department of Education		$20,027,966
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
93.558 – Temporary Assistance for Needy Families	187,195,200,201,203, 212,214,216,217	$598,572
93.658 – Foster Care	187,190	332,214
93.667 – Social Services Block Grant	183	10,840,460
93.767 – State Children's Insurance Program	204	14,667
93.775/93.777/93.778 – Medicaid Cluster	185,195,206,208,211	2,557,430
Total U.S. Department of Health and Human Services		14,343,343
U.S. DEPARTMENT OF HOMELAND SECURITY		
97.004 – State Domestic Preparedness Equipment Support Program	299	$61,893,834
Total U.S. Department of Homeland Security		$61,893,834
TOTAL QUESTIONED COSTS - STATE OF OHIO		**$96,385,325**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF DEVELOPMENT

1. HOME INVESTMENT PARTNERSHIPS PROGRAM – MATCHING

Finding Number	2005-DEV01-001
CFDA Number and Title	CFDA #14.239 – Home Investment Partnerships Program
Federal Agency	Department of Housing and Urban Development

<u>INTERNAL CONTROL – REPORTABLE CONDITION</u>

24 CFR 92.218 (a) and (c) require each participating jurisdiction to make contributions to housing that qualify as affordable housing under the HOME program. The contributions must total not less than 25 percent of the funds drawn from the jurisdiction's HOME Investment Trust Fund Treasury account in that fiscal year, excluding funds drawn for administrative and planning costs.

24 CFR 92.221(a)(1) further indicates matching "Contributions are credited on a fiscal year basis at the time the contribution is made… A cash contribution is considered credited when the funds are expended."

In accordance with 24 CFR 92.508 (a) (2) (ix), each participating jurisdiction is required to establish and maintain sufficient records to enable HUD to determine whether the participating jurisdiction has met the requirements of this part. At a minimum, records demonstrating compliance with the matching requirements include a running log and project records documenting the type and amount of match contributions by project, as needed. It is management's responsibility to develop and implement a system to monitor the match liability incurred and match contributions made to reasonably ensure compliance with applicable laws and regulations.

During state fiscal year 2005, the Ohio Department of Development administered the Federal Home Investment Partnerships Program (HOME) to provide funding for three activities: Community Housing Improvement Program (CHIP), Housing Development Assistance Program (HDAP), and Community Housing Development Office Program (CHDO). HDAP projects funded through the Ohio Housing Trust Fund (Trust Fund), a non-federal funding source, were used to meet the matching requirements of the HOME program. Annually, the Department prepares and submits to HUD a HOME match report identifying the State's match liability for the HOME program and a detailed listing of the Trust Fund monies used to meet the HOME match liability. However, all amounts listed on the report are based on funds awarded and not on actual disbursements for HOME and Trust Fund projects. Although the Department maintains a database that contains the actual disbursements made to all HOME and Trust Fund projects, this information is not being utilized to prepare the HOME match report or monitor the matching requirements of the HOME program. We did not identify any noncompliance with the matching requirements based on our review of the actual disbursement activity in these records.

Without monitoring the actual HOME and Trust Fund expenditures, the Department cannot be reasonably assured it is in compliance with the HOME matching requirements. Noncompliance with program regulations could result in reductions in future funding or the Department having to repay the federal government if the required match is not met. Management indicated they were unaware the HOME match was required to be based on actual disbursements, nor had they realized the match credit is based on fiscal year contributions.

We recommend the Department develop and implement procedures to determine the amount of match liability incurred and match contributions made based on actual HOME and qualifying HDAP trust fund expenditures. Since the Department maintains a grant database which currently tracks all grant activity, the Department should utilize the database to create an electronic log of match liability incurred and match contributions made as HOME and HDAP trust fund expenditures are processed in the database.

1. HOME INVESTMENT PARTNERSHIPS PROGRAM – MATCHING (Continued)

The Department should also develop and implement policies and procedures to periodically monitor the log of match liability incurred and match contributions made to determine if the Department was in compliance with the HOME match requirements. This monitoring tool should be documented so management can be assured the process is operating as intended. We also recommend the Department seek clarification from HUD to determine if the match report submitted should also be revised to reflect this actual activity.

Corrective Action Plan

The Department agrees with the recommendation and will take the following actions to implement the recommendation: The Office of Housing and Community Partnerships (OHCP) will develop and implement procedures to determine the amount of match liability incurred and match contributions made based on actual HOME and qualifying HDAP trust fund expenditures. To do this, OHCP will use its current database to create an electronic log of match liability incurred and match contributions made as HOME and HDAP trust fund expenditures are processed in the database.

In addition, OHCP will develop and implement policies and procedures to periodically (semi-annually) monitor the log of match liability incurred and match contributions made to determine if OHCP is in compliance with the HOME match requirements. This monitoring tool will be used by OHCP Management to ensure the process is operating as intended. HUD monitors OHCP annually and has determined that the match report as currently submitted is acceptable.

Anticipated Completion Date for Corrective Action

The Department will have the corrective action in place and operating by 5/1/06.

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF EDUCATION

1. CHARTER SCHOOLS – MONITORING OF SUBRECIPIENTS

Finding Number	2005-EDU01-002
CFDA Number and Title	84.282 - Charter Schools
Federal Agency	Department of Education

QUESTIONED COSTS $20,027,966

OMB Circular A-133, Subpart D, §___.400 (d), states, in part, that a pass-through entity shall perform the following for the Federal awards it makes:

. . .

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

31 USC 7502 Section (f) (2) (B) states in part:

. . .

Each pass-through entity shall -

Monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means;

The Ohio Department of Education (EDU) competed for and received a three-year federal Public Charter Schools grant. During State Fiscal Year (SFY) 2005, EDU disbursed $20 million to qualified community schools in the form of start-up (planning and design) and implementation sub-grants. EDU's Office of Community Schools (OCS) is responsible for monitoring the use of the federal Charter Schools funds by the community schools. However, OCS did not have an effective system in place to determine whether subrecipients were using these federal funds in accordance with applicable laws and regulations.

OCS does have a number of potential monitoring tools in place, such as required site visit reports and other monitoring procedures performed by community school sponsors, reviews of Annual Performance Reviews (APRs) and Final Expenditure Reports (FERs), and the monitoring of A-133 audits performed on the schools. However, none of these procedures provided for adequate subrecipient monitoring during SFY 2005. OCS does not have procedures in place to ensure that community school sponsors are performing their required compliance monitoring. Furthermore, the majority of these schools did not expend $500,000 or more in federal money during SFY 2004, and therefore were not required to have an A-133 audit. Of the 130 community school subrecipients that received funding during SFY 2005, only 68 submitted an A-133 audit for SFY 2004.

Finally, the APRs and FERs do address these federal funds, but do not provide a level of detail which would allow the Department to determine whether subrecipients are complying with applicable federal regulations. In addition, we noted:

- Eight out of 20 instances where the FER and/or the APR was either not approved in a timely manner (i.e. within 30 days) or at all. In four of these instances, the community school received future funding prior to the approval of the FER and/or APR from the previous grant;
- Seven out of 20 instances where the FER was approved even though it apparently violated the Department's "10% rule" which prohibits more than a 10 percent increase over the approved budget for expenditures reported by object code;
- Two out of 20 instances where the budget was revised after the last draw down even though all budget revisions are required to be approved prior to spending the funds.

1. CHARTER SCHOOLS – MONITORING OF SUBRECIPIENTS (Continued)

Therefore, because the Department did not have an adequate subrecipient monitoring system in place for the federal Charter Schools program, we are questioning the $20,027,966 in payments made to 130 Charter School grant subrecipients.

Without proper monitoring procedures in place during the period of the grant award to specifically ensure that community schools are in compliance with applicable federal rules and regulations, the Office of Community Schools may not be able to adequately ensure that the funds are being used as they are intended or determine that the community school is using the funds as they reported in the budgets and the FERs. In addition, the community school may receive the funds from the next grant and continue to use them incorrectly. Based on discussions with various OCS personnel, it appears they relied on the various monitoring procedures discussed above, despite the fact that they did not provide adequate coverage or monitoring of federal Charter School program funds. It was also noted that there was only one employee assigned full time to the federal Charter Schools program who was responsible for a majority of these monitoring procedures, and during SFY 2005 she was also heavily involved in OCS' switch from a paper application process to the CCIP application process. As such, she did not have time to develop and perform an on-site review process during the year.

We recommend that the Office of Community Schools implement on-site monitoring procedures which specifically address the compliance requirements of the program for the community schools receiving funding through the federal Charter Schools program. These procedures should include, at a minimum, verifying the subrecipient did not request more cash than was needed to pay the expenses, funds were used to pay for allowable expenses, and the funds were used in accordance with their budget. The monitoring procedures should also include ensuring the amounts reported on the final expenditure report agree to the subrecipient's financial records.

We also recommend the Office of Community Schools ensure they have received and approved an Annual Performance Report and Final Expenditure Report for all community schools receiving funding through the federal Charter Schools program prior to approving the next application from the community school, verify the amounts reported by object category on the FER did not exceed the amounts reported on the last approved budget by more than 10 percent, and not approve budget revisions after the last draw down has occurred. Finally, due to the increasing amount of funding the Ohio Department of Education receives for this program, we recommend the Department provide for additional employees to assist with on-site monitoring procedures and continue developing an effective process for ensuring that community school sponsors are performing their required compliance monitoring activities.

Corrective Action Plan

The Office of Community Schools will begin the subrecipient monitoring process on April 1 with the assistance of the Grants Coordinator II, to be hired in the near future, and two fiscal representatives from the Franklin County Education Service Center. These individuals will monitor six schools each month for the Public Charter School Program (PCSP) to ensure compliance with the guidelines of the federal statutes. They will use the Self Assessment Questionnaire Form for documentation. The reports such as the Initial Budget, Revision Reports, Final Expenditure Reports, and Cash Request Forms will be analyzed. Any expenditures for equipment will be analyzed for accuracy. Vouchers will be pulled at random to check for accurate use of Uniform School Accounting System (USAS) coding purposes. If the sub-recipient is out of compliance, a corrective action plan will be requested by the Office of Community Schools.

Anticipated Completion Date for Corrective Action

As these processes are completed, a management letter with recommendations or findings will be issued by the individuals conducting the subrecipient monitoring. The letter will be sent to the schools and the date of the letter will determine the beginning of 60 days for a corrective action plan to be completed by the school.

1. CHARTER SCHOOLS – MONITORING OF SUBRECIPIENTS (Continued)

Contact Person Responsible for Corrective Action

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2. READING FIRST – MONITORING OF SUBRECIPIENTS

Finding Number	2005-EDU02-003
CFDA Number and Title	84.357 – Reading First
Federal Agency	Department of Education

NONCOMPLIANCE

OMB Circular A-133, Subpart D, §___.400 (d), states, in part, that a pass-through entity shall perform the following for the Federal awards it makes:

> . . .
>
> (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

31 USC 7502 Section (f) (2) (B) states in part:

> . . .
>
> Each pass-through entity shall -
>
> Monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means;

In 2003, the Department received a six-year federal Reading First grant totaling $176 million. During SFY 2005, EDU disbursed almost $26 million to 18 school districts as part of the Reading First program. EDU is responsible for monitoring the use of federal Reading First funds by the school districts. However, our review found the Department did not have an adequate system in place for performing on-site reviews to determine whether Reading First subrecipients were using these federal funds in accordance with applicable laws and regulations.

EDU has contracted with a consortium of three universities to provide technical assistance, professional development, and program monitoring for the Reading First program. During SFY 2005, the consortium completed three sets of program monitoring reviews over the Reading First funded districts through the completion of Program Monitoring Reports and submitted these completed reports to the Department. However, the monitoring reviews do not include procedures which would allow the Department to determine whether subrecipients are complying with applicable federal regulations. Furthermore, there is no evidence the Department reviewed the Program Monitoring Reports, nor is there any evidence that EDU performed any monitoring procedures over the activities of the consortium.

We noted the Department does have several after the award monitoring procedures in place, primarily through its review of subrecipient A-133 audit reports. Of the 18 districts which received federal Reading First funding during SFY 2005, 15 submitted an A-133 single audit report to the Department, while the three remaining districts received approval for an extension. Additionally, the federal Reading First program was tested as a major program for at least 10 of the 18 Reading First federal funded districts during state fiscal year 2005.

2. READING FIRST – MONITORING OF SUBRECIPIENTS (Continued)

Without proper internal monitoring procedures in place during the period of the grant award to provide adequate assurance that Reading First funded districts are in compliance with applicable federal rules and regulations, the Department may not be able to adequately ensure the funds are being used as they are intended, determine whether Reading First funded districts are using the funds as they reported in their budgets and FERs, or that they are meeting the compliance requirements of the Reading First program. In addition, the consortium may not be properly performing monitoring procedures over the Reading First funded districts, which could affect decisions made by the Department on their determination of continued eligibility of a Reading First funded district and, consequently, the future funding to be received by that district. Based on discussions with various Department Reading First personnel, it appears the Department attempted to perform several on-site visits of subrecipients during SFY 2005. However, these visits were performed inconsistently and incompletely, and due to a variety of reasons were discontinued, with a decision made to rely solely on the Program Monitoring Reports prepared by the consortium.

We recommend the Department implement procedures to ensure the adequacy of the reviews performed by the consortium and to provide evidence the Program Monitoring Reports prepared by the consortium have been reviewed and evaluated. We also recommend the Department develop procedures for on-site reviews of Reading First subrecipients which provide added assurance that subrecipients are complying with all applicable requirements and regulations of the federal Reading First program. These reviews, which could be performed either by EDU personnel or as part of the consortium's on-site visits, should include at a minimum verifying the subrecipient did not request more cash than was needed to pay the expenses, funds were used to pay for allowable expenses, and the funds were used in accordance with their budget. The monitoring procedures should also include ensuring the amounts reported on the final expenditure report agree to the subrecipient's financial records.

Corrective Action Plan

The Office of Reading Improvement will examine the Reading First program process. The Progress Monitoring Tool is designed to determine the level at which districts are implementing the program with fidelity. The Office of Grants Managements conducts random reviews of grant projects for cash requests for all programs in the Comprehensive Continuous Improvement Planning (CCIP) application; compares the last Project Cash Requests to the final reports and performs desk audits for all CCIP programs in accordance with the Cash Management Improvement Act. The Office of Reading Improvement will work closely with the Office of Grants Management and request periodic reports of their reviews of Reading First subrecipeints as a way of closely monitoring grant activities. The Office of Reading First is also considering exploring the Program Audit and Compliance Tracking System (PACTS). The PACTS is a four-tiered compliance monitoring system established by the Ohio Department of Education to assist districts and schools in determining whether they are compliant with all the requirements of Federal entitlement and competitive programs for which they receive funding.

Anticipated Completion Date for Corrective Action

The procedures designed to ensure fiscal and program compliance are projected to be in place by June 30, 2006.

Contact Person Responsible for Corrective Action

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3. DATA PROCESSING - APPLICATION DEVELOPMENT AND MAINTENANCE

Finding Number	2005-EDU03-004
CFDA Number and Title	All Programs Administered by the Department
Federal Agency	Department of Agriculture Department of Education

INTERNAL CONTROL - REPORTABLE CONDITION

The use of formal, well documented procedures for computer application maintenance is vital for communicating management's operational goals and intentions to programming personnel as well as training new staff. Such procedures help ensure that computer applications modified by the Department's programming staff are accurate, efficient, and meet management's requirements and deadlines. The procedures should cover such areas as programming standards, naming conventions, schedules and budgets, design standards, testing standards, approval procedures for users, approval procedures for data processing management, implementation standards and documentation standards. Controls must also restrict programmer access to the production environment and require tested and approved program changes to be moved into the live environment by individuals other than those responsible for making changes.

The Department's program change process is informal. Documentation of key control points is not required. In addition, programmers have access to the production environment and move their own changes into the production environment. Formal written procedures are not in place to track, monitor, remediate, test, implement and document all key program change life cycle phases for significant EDU applications. The Department has formed an application standards team to create and document standards which will then be presented to the Director of ISM for formal acceptance. Once accepted, the standards will be utilized by the application developers.

Without formal program change control procedures in operation, critical data processing applications could be improperly modified, resulting in erroneous transaction processing. This could affect demographic, employment, course and financial data related to students and staff compiled in the Education Management Information System (EMIS) application. Federal funding for school meal reimbursements, as processed and reported by the Claims Reimbursement Reporting System (CRRS) could be affected. Finally, the integrity of school spending and payments processed by School Foundation could be affected.

Management of the Information Technology Office indicated time and cost constraints have prevented the Department from developing and implementing formal standards for the various stages of the application program change process. Instead, the procedures are maintained informally.

We recommend the Department continue their efforts to develop and formalize standards and controls for the entire life cycle of the program change request process. Each phase of the program change process should be planned, controlled, and monitored. The changed programs should be remediated, tested, migrated, documented, and appropriately approved according to departmental standards and guidelines at appropriate intervals during the life cycle.

3. DATA PROCESSING - APPLICATION DEVELOPMENT AND MAINTENANCE (Continued)

Corrective Action Plan

Standardization of Practice:

Standardization of practice applies to all offices in ISM including the Application Development team. In the long term (June 2008), we want to adopt the Control Objectives for Information and related Technology (CobIT) framework for information technology governance. Each office will adopt the industry standard best practices that are applicable to its areas of operation. For example, Project Management Office (PMO) will adopt PMI methodology, Application Development (AD) Office will adopt CMMI methodology and Infrastructure Office will adopt the IT Infrastructure Library (ITIL) framework. The Data Services Office will adopt both Capability Maturity Model Integration (CMMI) and ITIL framework due to the dual responsibilities (both Development and Support) it discharges.

To achieve this long term goal of process standardization, ISM will adopt the following tactical approaches:

- *Project Management, Application Development and Infrastructure teams will be developing a set of consistent project management processes, project management artifacts, technical artifacts and software development processes according to the industry best practices.*
- *Additionally, the teams will be developing formal Change Management, Release Management, Software Configuration Management (SCM), and Software Quality Assurance (SQA) processes.*
- *Software tools will be acquired, installed and implemented as needed to support the corresponding processes.*
- *Staff training and development will be undertaken to develop the right expertise in processes that are being proposed above and the tools that are acquired.*

Anticipated Completion Date for Corrective Action

- *The management team from ISM will undergo ITIL training in April 2006.*
- *Expected completion of artifact and change management proposal is June, 2006. Adoption of these artifacts and/or other processes within ISM operation groups will take place in phased approach, based on application priority (determined by funding, accountability, etc.), by June 2007. The adoption and integration of various methodologies across various departments will be done by June 2008.*

Contact Person Responsible for Corrective Action

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Sanjay Konar, Application Development Manager, 25 South Front Street, Columbus OH 43215, Phone: (614) 752-1225, e-mail: Sanjay.Konar@ode.state.oh.us

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

1. WIC – UNSUPPORTED FOOD INSTRUMENT COSTS

Finding Number	2005-DOH01-005
CFDA Number and Title	10.557 – Special Supplemental Food Program for Women, Infants and Children
Federal Agency	Department of Agriculture

QUESTIONED COSTS $42

7 CFR 246.12 (h) describes the retail food delivery system used by grantees, including the Department, in administering the Women, Infants and Children (WIC) program. Under this system, participants obtain authorized supplemental foods by submitting food instruments (FI) to approved vendors. Part (viii) of this CFR section states "The vendor must submit food instruments for redemption in accordance with the redemption procedures described in the vendor agreement."

Based on a test of 60 items, we noted two instances where the redeemed FI could not be located by the Department. The FIs were supposed to be processed by an external contractor and imaged; but the images could not be found on the system. The redeemed value of these two food instruments was $42 and projects to over $10,000 compared to the program's total costs of $211,526,484. Thus, the $42 is being questioned as a valid program expense without appropriate documentation.

If the Department fails to detect and identify invalid WIC food transactions, the state's WIC program will incur food costs that should not be allowed and payments could be made to ineligible participants. Noncompliance by the Department could result in federal funding being reduced or taken away, or sanctions imposed by the federal grantor agency. Noncompliance could also result in the Department having to repay part or all of the grant awards to the federal government. The WIC Vendor Specialist Supervisor said the Department was having some problems with the external contractor who was not imaging all the coupons that they should be.

We recommend the Department evaluate the adequacy of the controls associated with the WIC program and strengthen the controls where vulnerabilities are noted. In addition, if the external vendor is not performing to expectations, we recommend the Department discuss the deficiencies with the contractor and seek resolution, including negotiating this service from a different entity.

Corrective Action Plan

The Bureau of Nutrition Services (BNS) took action in its Vendor Management System to match each imaged coupon to the text file to identify if an image is missing for follow-up with the external vendor. There is also a physical backup means for obtaining the physical coupon by records retention request from the State Records Center in Mansfield, Ohio. BNS and OMIS staff conducted an on-site review of the external vendor, determined findings, and, along with Office of Financial Affairs, met with the vendor. Based on the deficiencies found and discussion with ODAS contracting and the Ohio Industry of Handicap, a state-use committee waiver has been obtained and the processing contract will be competitively bid with an effective date in the vicinity of October 1, 2006.

Anticipated Completion Date for Corrective Action

Systems changes and a backup are in place now; the change in vendors will occur on or immediately after October 1, 2006.

Contact Person Responsible for Corrective Action

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2. SUBRECIPIENT MONITORING

Finding Number	2005-DOH02-006
CFDA Number and Title	10.557 – Special Supplemental Food Program for Women, Infants and Children 93.283 – Centers for Disease Control and Prevention – Investigations and Technical Assistance 93.917 – HIV Care Formula Grants 93.994 – Maternal and Child Health Services Block Grant to the States
Federal Agency	Departments of Agriculture and Health and Human Services

NONCOMPLIANCE

The Ohio Department of Health is responsible for monitoring their subrecipients' activities to provide reasonable assurance that subrecipients are aware of federal requirements imposed on them and that subrecipients administer federal awards in compliance with those requirements. These regulations are defined in Office of Management and Budget's Circular A-133, which states, in part:

Subpart C--Auditees
§___.320 Report submission.

(a) **General**. The audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. …

Subpart D--Federal Agencies and Pass-Through Entities
§__.400 Responsibilities.

…

(d) **Pass-through entity responsibilities**. A pass-through entity shall perform the following for the federal awards it makes:

…

3. Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

4. Ensure that subrecipients expending $300,000 *($500,000 for fiscal years ending after December 31, 2003)* or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

5. Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

6. Consider whether subrecipient audits necessitate adjustments of the pass-through entity's own records.

2. SUBRECIPIENT MONITORING (Continued)

§___.405 Management Decision.

...

(d) **Time requirements**. The entity responsible for making the management decision shall do so within six months of receipt of the audit report. Corrective action should be initiated within six months after receipt of the audit report and proceed as rapidly as possible.

The Department has established the audit requirement for all local agencies (subrecipients) that receive federal assistance, including WIC, MCH, CDC, and HIV grants, from it regardless of whether they are required to have a single audit or a financial statement audit. We selected 60 of 443 local agencies that received an award for related grant years 2003 or 2004 and noted the following conditions:

- We examined the Department's audit report desk review files to determine if the Department complied with Federal subrecipient monitoring requirements. Of the 60 subrecipients, 29 did not submit their audit report to the Department within the required time. The reports were late from four to 390 days, with the average being 86 days.

- The Department did not issue timely a management decision on the subrecipient's audit findings for one subrecipient tested. The management decision was late 206 days.

- Sixteen subrecipients did not take timely corrective action on deficiencies noted in the audit reports, as of the time of our test. The corrective actions were late from 22 to 508 days, with the average being 309 days.

If the Department does not receive subrecipients' audit reports and conduct managerial reviews in a timely fashion, there is a risk that instances of subrecipient noncompliance will not be identified in a timely manner by the Department, and corrective action may not be initiated within a reasonable period of time. Furthermore, if subrecipients do not respond to the Department's findings and/or initiate appropriate corrective action in a timely manner, the Department is at risk for not complying with Federal subrecipient monitoring requirements. If the Department is not in compliance, federal funding could be reduced or taken away, or sanctions imposed by the federal grantor agency. Noncompliance could also result in the Department having to repay part or all of the grant awards to the federal government, although we questioned no related costs during this period.

The Chief of the Grants Administration Unit stated subrecipients continue to submit their audit reports late, which often delays the Department's review of audit findings and subsequent corrective actions. Often, when management decisions are sent to subrecipients, requiring them to take corrective action, the subrecipients are late in responding and carrying out corrective actions. Many subrecipient personnel are not familiar with the administrative and audit requirements associated with federal programs, in spite of training and education provided by the Department.

Another contributing factor to the conditions noted is the Department was developing a new system, the revised automated desk review process, which will enable subrecipients and the Department to conduct business completely on-line, using the Grants Management Information System (GMIS). Using GMIS, subrecipients will be able to perform all administrative functions on-line, including submission of audit reports and responding to Department findings. This will enable the Department to maintain records, documentation, and subrecipient statistics in a central electronic repository. The Department expects this system to facilitate timely reviews and communication. The new system was implemented and operational during the fiscal year but the Department has to catch up on the audits during the audit period.

2. SUBRECIPIENT MONITORING (Continued)

We recommend the Department continue to review, develop, and improve its subrecipient monitoring policies and procedures to help ensure: 1) all audit reports are received from subrecipients by the required deadline; 2) all management decisions are performed in a timely manner; 3) subrecipients submit their corrective action responses to the Department within six months after the date of the audit report; and 4) the Department considers the effects of subrecipient noncompliance on the Department and documents such in its records. We also recommend the Department consider withholding future awards to subrecipients who are not in compliance with the federal audit provisions.

Corrective Action Plan

The Ohio Department of Health (ODH) subgrantees are informed of the requirements to have completed and timely submit an independent audit through the Grants Administrative Policy and Procedure (GAPP), bulletin board messages, group and regional ODH trainings and in each individually issued ODH Request for Proposal (RFP).

Policies and procedures regarding the desk review of subgrantee audit reports are in place. The Audit staff reviews the audit reports in accordance with OBM Circular A-133 for internal control and compliance for any material weakness in subgrantee accounting system.

This review in turn generates an appropriate letter to the subgrantee, acknowledging the receipt of the audit report indicating there were specific findings, or there were no findings.

Once subgrantee response is received, and issues are resolved, a second letter is sent to the subgrantee indicating all findings have been satisfactorily addressed. Pending files are reviewed periodically for delinquent response and an additional contact either is made by telephone call or in writing a warning letter indicating that file would be refer to subgrantee Compliance Committee.

According to policy subgrantees who fail to response will have a special condition placed on any current grant awards. The special condition holds payments on current grants until the previous audit issue(s) are satisfied. Individual entries are made in the GMIS system indicating that a subgrantee has failed to satisfy an audit issue.

Anticipated Completion Date for Corrective Action

All corrective actions described above are in place and have been functioning in ODH in Audit Unit since August 1, 2006.

Contact Person Responsible for Corrective Action

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3. WIC – EARLY REDEMPTION OF FOOD INSTRUMENTS

Finding Number	2005-DOH03-007
CFDA Number and Title	10.557 – Special Supplemental Food Program for Women, Infants and Children
Federal Agency	Departments of Agriculture

<u>NONCOMPLIANCE</u>

7 CFR 246.12 contains regulations concerning the food delivery systems allowed in the WIC federal program. Paragraph f of the regulation states "State agencies using retail food delivery systems must use food instruments that comply with the requirements of paragraph (f)(2) of this section." One of the requirements is that the food instrument (FI) must be printed with the first date on which the food instrument may be used to obtain supplemental foods and the redemption period, defined as "The date by which the vendor must submit the food instrument for redemption. This date must be no more than 90 days from the first date on which the food instrument may be used." 7 CFR 246.12 (h)(3)(iv) relates to time periods for transacting FIs and states "The vendor may accept a food instrument only within the specified time period."

While testing the FIs valid redemption period, we noted the Department's internal report, Food Instrument Resolution (WICP5001), showed the redemption of FIs prior to the month for which they were issued. The report listed a total of $304 of FIs redeemed prior to the first day of use. Although the total amount is relatively small in relation to the total WIC disbursements, the condition suggests a systemic deficiency since the condition occurred in six of the twelve months in the fiscal year.

This condition indicates that the Department has not complied with the cited federal requirement. Furthermore, the state's WIC program has incurred food costs that could be determined to be unallowable. If so, the Department could be subject to having to repay part or all of the grant awards to the federal government, future federal funding could be reduced or taken away, or sanctions imposed by the federal grantor agency. The Vendor Specialist Supervisor and Programmer Analyst said that the coupons were accepted by the vendor and entered into the system, which has a "seven-day +/- fudge factor for paying a coupon." The Department recognized the problem with the system in June, 2005 and started to implement a remedy.

We recommend the Department investigate the early redemption of FIs and determine the reason for this condition happening. Once this is determined the Department should establish controls or procedures to comply with the federal regulation and prevent the early redemption of the FIs. This investigation may entail a review of the current FI redemption process (both manual and automated) and making revisions to this process. If the +/- seven-day allowance is the problem, then we recommend this allowance be removed from the computerized program so the system shows the actual day of redemption for the FI.

Corrective Action Plan

In June 2005, ODH recognized a problem in the mainframe operations systems. Upon discovery of the problem, ODH (OMIS and WIC staff) established controls to prevent payment for coupons redeemed prior to or after the valid period to redeem. OMIS staff changed the date parameters in the system to ensure coupons redeemed prior to or after the valid period to redeem will reject for State staff to manually review. State staff will then enter payment for coupons if determined appropriate.

Anticipated Completion Date for Corrective Action

Corrective action systems programming took place with testing and placement for production on June 20, 2005 and changes became effective with first payment run on July 11, 2005 when payment processing began after annual state cutoff.

3. EARLY REDEMPTION OF FOOD INSTRUMENTS (Continued)

Contact Person Responsible for Corrective Action

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4. FEDERAL REPORTING

Finding Number	2005-DOH04-008
CFDA Number and Title	93.283 – Centers for Disease Control and Prevention – Investigations and Technical Assistance 93.917 – HIV Care Formula Grants 93.994 – Maternal and Child Health Services Block Grant to the States
Federal Agency	Department of Health and Human Services

NONCOMPLIANCE

45 CFR 92.41 contains financial reporting requirements for programs funded by the Department of Health and Human Services. One of the required reports is the Financial Status Report (SF-269). Section (b)(4) of the CFR states: "When reports are required on a quarterly or semiannual basis, they will be due 30 days after the reporting period. When required on an annual basis, they will be due 90 days after the grant year. Final reports will be due 90 days after the expiration or termination of grant support." The Department currently administers a number of federal programs and is therefore responsible for ensuring that the related reports submitted are reliable, accurate, and timely.

The Department did not submit timely the final Financial Status Report for three of the programs tested. Each report consists of an annual report which is due 90 days after the end of the budget period.

- The report for the CDC program was due November 30, 2004; interim reports were submitted on November 30, 2004 and March 30, 2005 with the final report not being submitted until November 17, 2005.
- The report for the HIV program was due June 30, 2005; an interim report was submitted on June 28, 2005 with the final report not being submitted until November 4, 2005.
- The final report for the October, 2002 – September, 2004 MCH program was due December 31, 2004; the report was submitted on January 12, 2005. The interim report for the October, 2003 – September, 2005 MCH program was due December 31, 2004; the report was submitted on June 22, 2005.

In addition, we noted that one of the controls associated with two of the SF-269 reports tested for the HIV Care program was not applied consistently. There was no evidence of a review performed by the Federal Reporting and Control Unit Chief to help ensure completeness and accuracy of the report before it was submitted.

Without appropriate internal controls, management cannot reasonably assure the accuracy or timing of financial information. The Federal Reporting Chief said the Department had not requested an extension and some of the subrecipients were slow in reporting to the Department, thus causing the Department a delay in preparing the annual reports and submitting them by the due dates.

We recommend the Department devise and implement the appropriate internal controls to help ensure that federal reports are submitted timely. Part of these controls could entail determining the specific reasons why the subrecipients' reports were not received timely and establishing effective measures to resolve these issues in the future.

4. FEDERAL REPORTING (Continued)

Corrective Action Plan

The Office of Financial Affairs (OFA) will review the current process and GAPP policies applicable to Federal Reporting activities to identify potential bottlenecks that prevent the Ohio Department of Health (ODH) from meeting the 90 days reporting requirement. It is worth noting that ODH had significant staff turnover in the Federal Reporting Unit just prior to this review period. As a result, some reports were not as timely as they normally would be.

In the interim, cases where a Final FSR cannot be submitted within the 90 days following the end of the grant period, ODH will continue to submit an Interim FSR, and will follow-up with the Final FSR once all necessary steps are completed in order to do so.

Regarding the lack of signoff on one FSR by the Chief of Federal Reporting, this was an oversight, and considered an isolated incident. Please note that for the report in question (signed in August 2004), the Chief of Federal Reporting had just started in this capacity, and was becoming familiar with the routing and approval processes of the unit's various reports and activities. Further, although the actual report did not contain his initials, the supporting documentation attached did in fact contain the appropriate signoff of the individuals responsible for the review and approval of the report at the time of completion.

Anticipated Completion Date for Corrective Action

Review of GAPP policies and overall reporting process should be completed by February 2007 and any changes identified will be implemented by May 2007.

Contact Person Responsible for Corrective Action

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5. MCH – LACK OF EARMARKING CONTROLS

Finding Number	2005-DOH06-009
CFDA Number and Title	93.994 – Maternal and Child Health Services Block Grant to the States
Federal Agency	Department of Health and Human Services

<u>REPORTABLE CONDITION</u>

Sections 42 USC 704 (d), 42 USC 705 (a)(3)(A), and 42 USC 705 (a)(3)(B) contain specific earmarking requirements for the MCH Block Grant. These requirements state that no more than 10 percent of allotted grant funds may be used for administrative costs, at least 30 percent must be used for preventative and primary care services for children, and at least 30 percent must be used for services for children with special health care needs. 42 USC 705(a)(4) contains a maintenance of effort requirement whereby funds provided solely by the grantee for maternal and child health programs must be maintained at a designated level.

The Department has not established or consistently applied specific internal control procedures to determine whether it has met the requirements for maintenance of effort and earmarking in the MCH program. The Department has the capacity to verify if it meets these requirements through its Agency Reporting Database (ARDB) system (a direct download of multiple-year data from the state Central Accounting System that allows users to view information from both the current and previous years).

5. NO MCH EARMARKING CONTROLS (Continued)

However, the Department does not utilize the ARDB system unless a need arises to access the information. Historically, the Department has not monitored whether the appropriate funds have been spent on the maintenance of effort and earmarking requirements. Based on our tests, the Department had complied with the maintenance of effort and earmarking requirements.

Without appropriate internal controls and using them on a consistent basis, management cannot reasonably be assured that the maintenance of effort and earmarking requirements are met. The Federal Reporting Chief and Administrator of Operational Support Department indicated that the capacity to verify if the requirements are met is available and information to determine compliance is accessible. The Department believes there is little risk of not meeting the program requirement because it almost always significantly exceeds the maintenance of effort and earmarking requirements.

We recommend the Department devise and implement the appropriate internal controls and utilize these controls on a consistent basis to help ensure compliance with the maintenance of effort and earmarking requirements. One way to do so would be to track the MCH program disbursements and periodically compare them to the established limits. This procedure could then be reviewed and approved by an employee other than the person performing the tracking and comparison.

Corrective Action Plan

Budget unit will develop quarterly MCHB grant spending report, comparing year to date spending with specific grant earmarking requirements. The YTD spending data will come from ARDB and will be compared with spending requirements for respective grant award.

Anticipated Completion Date for Corrective Action

First report for third quarter of SFY 06 should be available for programs review by June 10th. Subsequent reports should be available to program 2 weeks after end of each quarter.

Contact Person Responsible for Corrective Action

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6. DATA PROCESSING - PROGRAM CHANGE CONTROLS

Finding Number	2005-DOH07-010
CFDA Number and Title	10.557 – Special Supplemental Food Program for Women, Infants and Children 93.283 – Centers for Disease Control and Prevention – Investigations and Technical Assistance 93.917 – HIV Care Formula Grants 93.994 – Maternal and Child Health Services Block Grant to the States
Federal Agency	Departments of Agriculture and Health and Human Services

INTERNAL CONTROL - REPORTABLE CONDITION

The use of formal, well documented procedures for computer application maintenance is vital for communicating management's operational goals and intentions to programming personnel as well as training new staff. Such written procedures can help ensure that computer applications modified by the Department's programming staff perform accurately, efficiently, and meet management's requirements. The procedures typically cover such areas as request guidelines, programming standards, naming

6. DATA PROCESSING - PROGRAM CHANGE CONTROLS (Continued)

conventions, schedules and budgets, design standards, approval procedures for users, approval procedures for data processing management, and testing standards. The procedures are also used to communicate and define a proper segregation of duties within the application change process. The functions of modifying computer code, testing the changes, and placing them into production, should be appropriately delegated and segregated among personnel.

The Department did not have formal written procedures to track, monitor, remediate, test, implement, and document all mainframe or server-based program changes. In addition, the application programmer for the Women, Infants and Children (WIC) program had the access authorities to modify the application code, complete the testing of the changes, and also migrate the changed program(s) into the production environment. Lastly, the Department has not formally defined control procedures for emergency changes or correction of minor program errors. The Department did not require formal authorization or documentation for those relatively minor changes which were deemed “bug fixes.”

We also noted the following during our audit:

- The Data Service Request (DSR) form and/or HelpSTAR tracking software was not used for five of the eight server-based WIC program changes made during the audit period.
- No testing documentation was maintained for one of the three WIC mainframe program changes and seven of the eight server-based WIC program changes made during the audit period.

Without formal program change control procedures in operation, critical data processing applications could be improperly modified, resulting in erroneous and unauthorized transaction processing. Without proper segregation of duties or controls that restrict access to key programs or data, either could be changed without the knowledge and/or consent of management or the user community.

The Office of Management Information Systems (OMIS) programming management indicated staffing restraints prevented the implementation of program change procedures. In the past, due to the size of the Department, verbal communication has been the standard. Missing support for changes other than “bug fixes” was an oversight.

We recommend the Department develop, formalize, and approve standards for the entire life cycle of the program change request process. Each phase of the life cycle should be planned and monitored, comply with the developed standards, be adequately documented, be staffed by competent personnel, and have appropriate project checkpoints and approvals. OMIS should either implement the procedures for all changes, including minor fixes and emergency changes, or develop additional controls to ensure infrequent changes which do not follow the normal process are authorized and properly documented.

We also recommend segregation of duties be implemented by upgrading the logical access controls of all the Department personnel who have access to the WIC program and data. Application programmers should have access only to the programs they are assigned for authorized project maintenance. The migration of the programs into the production environment should be performed by someone without program modification capabilities.

Corrective Action Plan

The Department has formed several work groups to address the need to follow standard procedures for implementing changes to applications. These work groups will provide recommendations to OMIS leadership on procedures to be followed to better track, monitor, remediate, test, implement and document changes to these systems. Recommendations from these work groups will be available by September 30, 2006. Training of staff on the recommendations will occur between October 1, 2006 and December 31, 2006. Departmental implementation will commence on January 1, 2007.

6. DATA PROCESSING - PROGRAM CHANGE CONTROLS (Continued)

The application programmer supporting the Ohio WIC program is required to have the current access authorities in the system to perform the functions of this position. All production mainframe code changes are reported on a mainframe change log maintained and reviewed by the application development manager for the WIC System.

ODH has been working toward implementing formal change management over the past year. These procedures address all approved changes to production including emergency changes and "bug fixes". Testing procedures will be reviewed, improved where possible with existing staff and documented by December 29, 2006.

Anticipated Completion Date for Corrective Action

December 29, 2006. Please note, the extent to which a separation of duties can be achieved for WIC mainframe based applications given the existing application and staffing is dependent on the results of further study.

Contact Person Responsible for Corrective Action

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1. SSBG – EARMARKING OF TANF TRANSFER

Finding Number	2005-JFS01-011
CFDA Number and Title	93.667 – Social Services Block Grant
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $10,840,460

42 USC Sec. 604(d)(3) states:

(A) In general

Except as provided in subparagraph (B) of this paragraph, any amount paid to a State under this part that is used to carry out a State program pursuant to a provision of law specified in paragraph (1) shall not be subject to the requirements of this part, but shall be subject to the requirements that apply to Federal funds provided directly under the provision of law to carry out the program, and the expenditure of any amount so used shall not be considered to be an expenditure under this part.

(B) Exception relating to subchapter XX programs

All amounts paid to a State under this part that are used to carry out State programs pursuant to subchapter XX of this chapter shall be used only for programs and services to children or their families whose income is less than 200 percent of the income official poverty line (as defined by the Office of Management and Budget, and revised annually in accordance with section 9902(2) of this title) applicable to a family of the size involved.

The Department is required to ensure funds transferred into the Social Services Block Grant (SSBG or Title XX) from the Temporary Assistance for Needy Families (TANF) program are spent in accordance with these provisions. Management must implement internal controls that reasonably ensure amounts paid from these earmarked funds are accurate, complete, and only to individuals who meet the eligibility requirements. Documentation is necessary to provide management assurance that compliance is being achieved and the controls are being performed timely and consistently.

Each year, ODJFS transfers more than $75 million into SSBG from TANF, which is combined with other SSBG funds and used by the 88 counties or the sister state agencies to provide services to recipients. Each county develops their own plan for the SSBG program, including the specific eligibility criteria. The Department reports these funds to the federal government on the annual Title XX Post-Expenditure Report. However, ODJFS does not track this activity separately, but instead uses an allocation formula to distribute the transferred funds to each line item of the report. In order to substantiate the funds were used for allowable/eligible purposes, the Department prepared an analysis which utilized the coding of the activities reported by the counties, along with percentages of their cases related to Title IV-E and other programs involving children where the percentage of poverty was at or below 200%. Although not precise, these assumptions appeared reasonable for the majority of the line items reported, and did include administrative costs. However, the $13,777,457 coded to adult protective services activities did not appear to meet the earmarking requirements of the funds since these services are predominately for the elderly. Therefore, we are questioning $10,840,460 which represents the amount coded as adult protective services, netted against the amounts which appeared to have met the earmarking requirements. No information was available to assess the activities of the sister state agencies. In addition, there are no procedures in place to monitor the activities of the counties to verify the funds are being used only for allowable costs to or on behalf of eligible individuals (also see comment 2005-JFS36-046).

1. SSBG – EARMARKING OF TANF TRANSFER (Continued)

Without appropriate tracking and monitoring procedures in place, the Department cannot be reasonably assured the amounts transferred into SSBG from the TANF program are being spent in accordance with the earmarking requirements. Under these circumstances, there is an increased risk that funds intended for low-income families with children are being used for other purposes. Failure to comply with these requirements could result in additional questioned costs or fines and penalties which would reduce program funding.

Department management indicated this is a program report and they believed they were completing the report in the manner requested by the federal government, based on communications with their representative. Management did not realize the need to provide any additional tracking of these funds.

We recommend ODJFS devise a process to more accurately track costs charged to the funds transferred to SSBG from TANF and to reasonably ensure these activities meet the earmarking requirements noted above. This may require additional/refined coding and/or requirements for the county agencies and additional training for the counties to communicate this information. This may also require the Department to seek clarification from the federal government to verify administrative costs are an acceptable use of these funds. In addition, ODJFS should clearly identify for the sister state agencies any federal assistance passed to them from the earmarked funds and emphasize the requirements which must be met regarding the eligibility of individuals served with these funds. We also recommend the Department implement appropriate procedures to monitor the activities of both the counties and sister state agencies to verify compliance with the SSBG earmarking requirements.

Corrective Action Plan

The department was not able to provide immediate evidence that the full TANF transfer amount was spent during state fiscal year (SFY) 2004 for recipients which met the TANF transfer criteria. The department will continue to conduct more in-depth research in order to provide the data necessary to support its expenditures of the full TANF transfer amount during SFY 2004.

Title XX allows two years to spend the transfer funding. If the department is not able to provide such justification for its expenditures during SFY 2004, the department will use up to $10 M of its expenditures recorded during SFY 2005 as needed to complete expenditures of the SFY 2004 TANF transfer amount for the eligible recipient group.

In SFY 2006, the department established new coding and allocations to the counties which will provide immediate tracking of the TANF transfer expenditures in the future.

See 2005-JFS36-046 SSBG-Incomplete Monitoring, for corrective actions related to monitoring

Anticipated Completion Date for Corrective Action

New coding and allocations have already been established effective July 2006 for state fiscal year 2006.

Contact Person Responsible for Corrective Action

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2. MEDICAID/SCHIP – UNLICENSED PROVIDERS REIMBURSED

Finding Number	2005-JFS02-012
CFDA Number and Title	93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $2,478,148

42 CFR 431.108 states:

> … this section applies to Medicaid provider agreements with entities that, as a basis for participation in Medicaid –
>
> (i) Are subject to survey and certification by CMS or the State survey agency; or
>
> (ii) Are deemed to meet Federal requirements on the basis of accreditation by an accrediting organization whose program has CMS approval at the time of accreditation survey and accreditation decision.

The Ohio Administrative Code 5101:3-1-17 also states the following about Medicaid providers:

> An "eligible provider" is any individual, group, corporation, or institution licensed or approved by a standard-setting or regulatory agency, and approved for participation in the Medicaid program by the Ohio Department of Job and Family Services…

To satisfy this compliance requirement, it is necessary to have internal controls that reasonably ensure amounts claimed for federal reimbursement are accurate, complete, and allowable. Documentation is necessary to provide management assurance the controls are being performed timely and consistently.

The Medicaid Management Information System (MMIS) provides Medicaid reimbursement to medical providers and managed care entities for services rendered to eligible recipients. When a provider enrolls in the Medicaid program, the provider's licensure and accreditation is confirmed and entered into the MMIS provider master file with an active status.

For each of the 12 months in fiscal year 2005, a computerized comparison between the MMIS provider master file and the Ohio Medical Board file was performed for all active physicians, osteopaths, and podiatrists. The error reports from the comparison contain active physicians, osteopaths, and podiatrists on the provider master file that had invalid license types, invalid license types compared to provider types, duplicate license numbers, providers that could not be matched to a valid provider on the Medical Board file, and providers that had their license terminated by the Medical Board for more than 120 days. These exceptions were not appropriately reviewed and timely adjustments were not made to the provider master file by Provider Enrollment management.

We obtained the May 2005 error reports from the match and worked with the Department to quantify the results. Of the initial 1,236 provider errors, we determined that 669 providers were listed as active on the provider master file but inactive or not found on the Medical Board file. When the 669 providers were compared to the total claims submitted in fiscal year 2005, 41,082 claims for a total of $2,478,148 were reimbursed to providers that did not have an active status on the date of service or could not be located in the Medical Board file. As a result, we are questioning costs in the amount of $2,478,148 as those costs were unallowable since they were paid to ineligible providers. The breakout of these costs could not be readily determined, therefore, the entire amount is being questioned for the Medicaid Cluster.

2. MEDICAID/SCHIP – UNLICENSED PROVIDERS REIMBURSED (Continued)

In the absence of internal controls to monitor reimbursement requests and ensure the appropriate spending of Federal awards, the risk is greatly increased that program objectives will not be achieved and that amounts claimed for federal reimbursement are misstated. Misstating or falsely reimbursing federal claims could subject the Department to possible federal sanctions, limiting the amount of funding available for program activities. In addition, future questioned costs may arise and program funding may be adversely affected.

The Bureau Chief of Ohio Health Plan Operations indicated the update process of comparing the MMIS providers to the Medical Board file was new in fiscal year 2005 and although the process was occurring, the error reports from the update had not been cleared on a timely basis.

We recommend the Department take the necessary steps to recover Medicaid money that was inappropriately paid for services that were rendered by providers who were not eligible to receive Medicaid reimbursement. In addition, we recommend the error reports from the most recent Medical Board update be researched and resolved. All of the providers with a terminated license status with the Medical Board for more than 120 days should be immediately notified and their status immediately changed to inactive on the provider master file. In addition, the Department should periodically monitor their newly-implemented internal control of reviewing the error reports to ascertain that the control is functioning as intended by management.

Corrective Action Plan

In July of 2005, the Bureau of Plan Operations hired a management analyst position to perform quality assurance on operations in the Provider Network Management (PNM) Section. This position's primary focus is:

- *To analyze the work processes and functions of the Provider Assistance and Provider Enrollment Units within PNM.*
- *To identify program deficiencies and recommend alternatives based on research and analysis.*
- *To develop new operational functions in order to increase agency efficiency and effectiveness.*
- *To conduct routine quality assurance controls and checks on the work functions and processes in the Provider Assistance and Provider Enrollment Units within PNM.*

This position routinely monitors the 13 reports produced as a result of the computerized comparison of the MMIS PMF and the Ohio State Medical Board database. The monitoring activities include, but are not limited to:

- *Checking to see that the reports are worked and that ongoing work involving the reports is kept up to date and necessary changes are entered into the PMF (inactivating providers without current licensure) in a timely fashion.*
- *Checking to make sure that letters terminating providers who fail to renew their license are mailed each month.*
- *Reviewing and reporting on changes made to the PMF during the month to assure accuracy of the information being entered into the PMF.*

In order to determine that the questioned costs are as accurate as possible, ODJFS will request specific information from the Auditor of State regarding the 669 physicians that represent the finding. After we are able to definitively determine what money is owed to Medicaid, ODJFS will engage its auditing arm to perform reviews and/or certify overpayments to the Attorney General

2. MEDICAID/SCHIP – UNLICENSED PROVIDERS REIMBURSED (Continued)

Anticipated Completion Date for Corrective Action

The duties and responsibilities of the management analyst identified above are ongoing.

Contact Person Responsible for Corrective Action

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3. DIRECT COSTS CHARGED TO INDIRECT COST POOLS – HAMILTON COUNTY

Finding Number	2005-JFS03-0013
CFDA Number and Title	CFDA 93.558 – Temporary Assistance for Needy Families CFDA 93.658 – Foster Care Title IV-E
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $638,993

2 CFR 225.45, Attachment A (formerly OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments", Attachment A, subsection C) states, in part:. . .

B. 10. "Cost objective" means a function, organizational subdivision, contract, grant, or other activity for which cost data are needed and for which costs are incurred.

E. Direct Costs

1. General. Direct costs are those that can be identified specifically with a particular final cost objective.

2. Application. Typical direct costs chargeable to Federal awards are:
   (a) Compensation of employees for the time devoted and identified specifically to the performance of those awards.
   (b) Cost of materials acquired, consumed, or expended specifically for the purpose of those awards.
   (c) Equipment and other approved capital expenditures.
   (d) Travel expenses incurred specifically to carry out the award.

F. Indirect Costs

1. General. Indirect costs are those: Incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. . . . Indirect cost pools should be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

ODJFS' Cost Allocation Plan, Section V " Cost Allocation for County Level Organizations and Programs" states that "Section V provides a comprehensive description of county level organizations and programs and the cost allocation methodologies and procedures used to allocate county administrative costs to the appropriate federal, state, and county programs".

3. DIRECT COSTS CHARGED TO INDIRECT COST POOLS – HAMILTON COUNTY (Continued)

Section V-B-1 provides definitions and examples of direct costs for the various programs including those for the IM and SS Cost Pools. Section V-B-2 discusses the allocation of the costs utilizing RMS and identifies Income Maintenance administrative costs. "These costs are defined as salary, related compensation and operational costs of all employees assigned to IM program areas; and may include administrative contracts related to all IM program areas." "Workers classified in the IM combined administrative costs area must complete the Income Maintenance Random Moment Sample (IMRMS) Observation Form…".

Section V-B-3 discusses the allocation of the costs utilizing RMS and identifies Social Services administrative costs. "These costs are defined as salary, related compensation and operational costs inclusive of rent, leases, utilities, supplies, etc.., for all employees assigned to a social service/child welfare program areas; and may include administrative contracts related to all SS program areas." "Workers identified to the SS administrative costs area must complete the ODJFS 2714 & 2714A- Social Services Random Moment Sample Observation form if it is a combined agency (CDJFS/PCSA) or stand alone CDJFS; and the ODJFS 2715 – Social Services Random Moment Sample form if the agency is a stand alone PCSA".

Hamilton County Department of Job & Family Services (HCDJFS) coded and submitted on its monthly reports the following expenses in the Income Maintenance [5020] and Social Services [5030] indirect cost pools:

- **Talbert House** - $108,852 [Charged to the 5020 – Income Maintenance indirect cost pool] – This payment relates to contracted transportation service for the Temporary Assistance for Needy Families (TANF) program. This amount does not appear to meet the definition of an indirect cost as direct services were provided exclusively to TANF recipients.

- **Family Services of Cincinnati -** $366,692 – These costs relate to contracted services for individual and group outreach and mentoring ($365,701 charged to the 5020 – Income Maintenance indirect cost pool) and pay for performance ($991 charged to the 5030 – Social Services indirect cost pool). The stated purpose of the contract was for mentoring services to provide children with support and opportunities to assist them in growing to be self-sufficient, responsible adults. These direct services appear to relate to TANF since self-sufficiency is a primary objective of that program; or possibly to Social Service Block Grant or other public assistance programs. However, we were not presented with any documentation to indicate these contract costs benefited all the programs in the income maintenance / social service indirect cost pools. Since the amounts inappropriately charged to the various programs included in these cost pools were not readily available and TANF eligibility was a significant criterion for this contract, we will question all costs to the TANF program.

- **Magellan** - $163,449 [charged to the 5030 – Social Services indirect cost pool] – These charges relate to Magellan's employee payroll taxes and benefit costs for contracted services ($104,443) and pay for performance ($59,006). The contract was for operation of a management services organization to oversee "Child Welfare, Mental Health Services" for consumers of HCDJFS. In June 2004, HCDJFS made an adjustment to move $26,282,317 in program charges related to this contract with Magellan from the indirect cost pool to Foster Care; however, the administrative charges related to these services were not adjusted. Because all costs, including administrative charges, related to this contract should have been charged to Foster Care, and the amounts inappropriately charged to the various programs included in the cost pool were not readily available, we will question the entire amount to the Foster Care program.

The effect of charging costs directly associated with a federal program to the indirect cost pool could be inappropriately charging portions of cost to various federal programs which derived no ascertainable benefit there from. Based upon our discussions with county management, HCDJFS felt the costs in question were appropriate administrative costs for the indirect cost pools. It also appears these issues occurred because the contracts in question did not properly identify or designate the cost objectives/federal programs served by the contracts or the funding streams to be used to pay them.

3. DIRECT COSTS CHARGED TO INDIRECT COST POOLS (Continued)

We recommend HCDJFS review the ODJFS cost allocation plan regarding allowable expenditures for each cost pool to determine the type of expenditures to be charged to each cost pool. Prior to including expenses in the indirect cost pools for services performed by outside agencies or contractors, we recommend HCDJFS obtain clarification from ODJFS whether such expenditures are permissible cost pool administration expenses. Any direct costs should be charged to the specific program or programs these services benefit and should not be part of the indirect cost pools spread to all the programs in that indirect cost pool.

We also recommend HCDJFS review all direct service contracts and determine an equitable method to allocate these costs to the appropriate federal programs. Allocation of charges could be accomplished by tracking the number of recipients served under each program and then charging these programs directly based on this percentage. Each contract should also specifically state the programs which will benefit from the services provided so the funding stream can be clearly identified. For those direct service contracts where eligibility is determined by the contractor, HCDJFS should determine if a subrecipient relationship exists and subrecipient monitoring procedures would be applicable. Finally, we recommend management review its current policies and procedures for coding of expenditures to ensure such policies and procedures are in conformity with established cost principles and program requirements.

Corrective Action Plan

(a) *45 CFR 95.7 permits a claim for payment to be made for an expenditure within two (2) years after the calendar quarter in which the expenditure was made. Ohio Administrative Code Section 5101:9-10-29 provides in pertinent part, "…Requests for adjustments must be submitted to ODJFS one quarter before the one or two year report deadline…." ODJFS will work with the HCDJFS to implement an appropriate correction by means of a current period adjustment in SFY 2006. In addition, ODJFS will supplement guidance previously provided to HCDJFS on the appropriate use of cost pools with regard to administrative costs*

(b) *Hamilton County submitted supplemental evidence to the Auditor of State on July 24, 2006, to support the fact that additional social service programs, other than foster care, benefited from this contract. This evidence has been reviewed by the Auditor of State, who has discussed the matter with the United States Department of Health and Human Services. The Auditor of State determined that the questioned costs should not be changed on the basis of the supplemental evidence. ODJFS will work with HCDJFS to make an appropriate correction, including the possibility of a current period adjustment for SFY 2006, or, if that is not possible, a repayment*

(c) *Hamilton County submitted supplemental evidence to the Auditor of State on July 24, 2006, to support the placement of these costs in the cost pool. This evidence has been reviewed by the Auditor of State, who has discussed the matter with the United States Department of Health and Human Services. The Auditor of State determined that the questioned costs should not be changed on the basis of the supplemental evidence. ODJFS will work with HCDJFS to make an appropriate correction, including the possibility of a current period adjustment for SFY 2006, or, if that is not possible, a repayment.*

Anticipated Completion Date for Corrective Action

ODJFS is currently working with HCJFS to implement the above Corrective Action Plans.

Contact Person Responsible for Corrective Action

Robert Ferguson, Chief Inspector, Ohio Department of Job and Family Services, 30 East Broad Street, Columbus, Ohio 43216, Phone: (614) 387-0553, e-mail: fergub@odjfs.state.oh.us

4. FOSTER CARE – DUPLICATE PAYMENTS

Finding Number	2005-JFS04-014
CFDA Number and Title	93.658 – Foster Care
Federal Agency	Department of Health and Human Services

<u>QUESTIONED COSTS</u> $168,765

42 USC Sec. 675 (4)(A) states:

> The term “foster care maintenance payments” means payments to cover the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, a child’s personal incidentals, liability insurance with respect to a child, and reasonable travel to the child’s home for visitation. In the case of institutional care, such term shall include the reasonable cost of administration and operation of such institution as are necessarily required to provide the items described in the preceding sentence.

2 CFR 225 (formerly OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments", Attachment A, subsection C) states, in part:

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

   (e) Be necessary and reasonable for proper and efficient performance and administration of Federal awards.

Sound accounting practices require management to devise and implement an adequate internal control structure capable of providing them with reasonable assurance their objectives are being achieved. For the Department’s federal programs, this must include internal controls that reasonably ensure amounts claimed for federal reimbursement are processed accurately, completely, and in compliance with federal laws and regulations; and are adequately documented to provide management with some assurance they are being performed timely and consistently.

Throughout each month, the Department receives requests for Title IV-E reimbursement from county Public Children Services Agencies (PCSAs) related to costs for Foster Care (via the ODJFS 1925 and 1659 online upload requests) and Adoption Assistance (via the ODJFS 1659). These costs, which represent charges for foster care maintenance, partial-month benefit payments, and other allowable expenses (such as clothing, graduation, legal expenses, etc.) for both foster care and adoption assistance, are processed through the Family and Children Services Information System (FACSIS), which verifies expenditure allowability and calculates the reimbursement amount. The Department did not have adequate procedures in place to track or monitor the receipt of monthly reports from each county to avoid duplicate submissions.

As part of our testing, the auditor performed an electronic data match on state fiscal year 2005 Foster Care expenditures, as reported in the IV-E Disbursement Journals and the ODJFS history database, to determine if any duplicate payments were made. Duplicate payments were defined by ODJFS as being more than one payment for the same recipient ID, same benefit type, and same dates of service. In addition, the auditor also obtained the IV-E Disbursement Journals and history database records for July, August, and September of 2005 to reasonably identify adjustments to duplicate payments subsequent to fiscal year end.

4. FOSTER CARE – DUPLICATE PAYMENTS (Continued)

Several of the items identified included multiple reimbursements for the same child, same time period of service, and same benefit type, with one child's charges for one month being reimbursed several times from the same request. Although the data in our total match file included the original allowed amount, we were unable to efficiently determine the actual overpayment amount (with the exception of the payments with the exact amounts being duplicated) because several items were paid more than twice. Also, it was found during the audit procedures that some payments were paid that appeared as duplicates on the database but in the IV-E Disbursement Journal were actually paid for two different recipients that were assigned the same recipient number.

During fiscal year 2005 (including subsequent adjustments), there were 146,170 transactions which totaled $79,197,319. Our testing identified 783 transactions in the amount of $168,765 where potential duplicate payments were made. Therefore, we question the total amount of the files identifying potential duplicate payments ($168,765) for the Foster Care Program.

In the absence of internal controls to monitor reimbursement requests, ensure the update of federal rates, or prevent duplicate payment processing, the risk that amounts claimed for federal reimbursement are misstated is greatly increased. Misstating federal claims could subject the Department to possible federal sanctions, limiting the amount of funding available for program activities.

Management indicated that FACSIS did not originally retain historical data to prevent duplicates. During the audit period, the Department attempted to capture historical data and add edits into the application to prohibit duplicate payments; however, the edits did not catch the duplicates as expected.

We recommend ODJFS take the necessary steps to recover amounts overpaid to counties, and devise and implement internal control procedures that provide reasonable assurance that future federal Title IV-E reimbursements are made only for allowable program costs, paid only once, and are within the limits established for each type of cost. This could be achieved by maintaining historical payment information within FACSIS, by beneficiary, that could be compared to current reimbursement requests. We also recommend ODJFS implement the use of a tracking log or other tool to provide reasonable assurance that each county's ODJFS 1925 and 1659 request uploads are received only once. Programmed FACSIS edits could be enhanced to help ensure proper payment reimbursement requests are coded completely and accurately for added assurance duplicate payments will not be processed. We also recommend the Department develop and implement policies and procedures to reasonably ensure data maintained in the Title IV-E Disbursement Journal is accurate.

Corrective Action Plan

(d) For State Fiscal Year 2005, ODJFS will take the necessary steps to recover amounts overpaid to counties. Those steps are (1) ODJFS will issue notices to each county identifying the questioned cost associated with their county; (2) counties will be asked to review their records and certify to ODJFS those questioned costs that are indeed duplicates; (3) counties will be required to refund the overpayments; and (4) ask counties to develop internal accounting control procedures to provide reasonable assurance that future Title IV-E reimbursement are made only for allowable program costs, paid only once, and are within the limits established for each type of costs.

(e) Edits in the FACSIS/benefits issuance system were developed and implemented in June 2003. As a result, many duplicate billings submitted by county agencies were identified and rejected. This is evidenced by the reduction of in questioned cost from previous years. We originally believed that the edits developed and implemented in June 2003, would identify all potential duplicates and reject them. However, the audit revealed that this was not the case. FACSIS/SIS staff reviewed the edits and found an additional hole in the system which allowed duplicate payments to process. As of February 28, 2006, this hole will be closed by an adjustment to the edits in the system.

4. FOSTER CARE – DUPLICATE PAYMENTS (Continued)

(f) *The disbursement journal (warrant file) was not designed to capture all transaction types nor the actual dates of service for the 1659 population. This information is however captured in the data file. Modifications to the disbursement journal (warrant file) contained in the Benefits Issuance system will require a great deal of time and resources. The SACWIS project requires the majority of the resources that would be needed to make the recommended changes. SACWIS is on a strict and very aggressive time frame. Once SACWIS is implemented, the issues raised in this management comment will be eliminated.*

Anticipated Completion Date for Corrective Action

(a) *A response will be drafted and submitted to DHHS by December 31, 2006.*

(b) *February 28, 2006.*

(c) *With full implementation of SACWIS.*

Contact Person Responsible for Corrective Action

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5. UNEMPLOYMENT INSURANCE – OVERPAYMENT OF BENEFITS

Finding Number	2005-JFS05-015
CFDA Number and Title	17.225 – Unemployment Insurance
Federal Agency	Department of Labor

QUESTIONED COSTS $93,351

42 USC Sec. 503 relates to State laws for Grants to States for Unemployment Compensation Administration states in part:

(a) Provisions required

The Secretary of Labor shall make no certification for payment to any State unless he finds that the law of such State, approved by the Secretary of Labor under the Federal Unemployment Tax Act [26 U.S.C. 3301 et seq.], includes provision for -

(1) Such methods of administration (including after January 1, 1940, methods relating to the establishment and maintenance of personnel standards on a merit basis, except that the Secretary of Labor shall exercise no authority with respect to the selection, tenure of office, and compensation of any individual employed in accordance with such methods) as are found by the Secretary of Labor to be reasonably calculated to insure full payment of unemployment compensation when due;

5. UNEMPLOYMENT INSURANCE – OVERPAYMENT OF BENEFITS (Continued)

On August 17, 2004, JFS started running the new computer application known as the Ohio Job Insurance (OJI) program, which replaced the older Benefits System. As originally designed, the OJI system included a feature that automatically issued a warrant to any claimant who had a credit balance for 90 days. November 15, 2004 was 90 days after the new OJI system went into production. On that day, 191 special warrants for $93,351 were issued to claimants who were not otherwise due a benefit payment but who were set up in OJI with credit balances after their data was converted from the Benefits System. Although JFS recognized this problem with the OJI system and subsequently suspended this automatic issuance option within the system, an overpayment was not established against these claimants to retrieve this money disbursed in error. Therefore, the $93,351 is being questioned as inappropriate disbursements.

We also noted two other instances where the overpayment process/feature was not applied appropriately. The first instance consisted of a claimant receiving a benefit overpayment through a series of decisions for and against his benefit claim. He repaid the overpayment on June 10, 2005; however, he was still listed on the Credit Balance Report as of August 10, 2005 with a credit balance of $4,704 even though he was not due the amount. The second instance consisted of a claimant receiving a benefit overpayment, which he repaid on May 10, 2005. A determination letter, dated July 6, 2005, notified the claimant that he was eligible for benefits due to an appeal. However, the “Overpayment Detail” screen in the OJI system doesn’t list that any overpayment was ever established for the claimant, who was listed on the “Credit Balance Report” as of July 8, 2005 with a credit balance of $2,727. It appears the claimant did not receive payment of these benefits after the final determination decision was made, although he has a credit balance and is due the amount. In both of these instances, there is a risk the claimant may or may not receive a deserved payment; however, no costs are questioned for these two instances.

Disbursing benefit payments to undeserved claimants can be viewed as noncompliance by the JFS, a condition which could result in federal funding being reduced or taken away, or sanctions imposed by the federal grantor agency. Noncompliance could also result in the Department having to repay part or all of the grant awards to the federal government, although we questioned no related costs during this period.

JFS management stated the release of credit balances to claimants not entitled to the amount was an error discovered by the Accounting Unit. This process was stopped until the programming error can be identified, corrected and tested before enabling it.

We recommend the Department take the necessary steps to recover the benefit overpayments that were paid to claimants. In addition, we recommend that management review the overpayment process and implement internal control procedures that provide reasonable assurance that future benefit claims are made only to claimants who are eligible for such payments. As with any control procedure, JFS should periodically monitor and test whether the established controls are working effectively.

Corrective Action Plan

(a) *JFS, UC Benefits, Finance staff is working with MIS staff to identify all credit balances that were released in error. We will create manual overpayments to recover the erroneous refunds. After the problem was discovered, Finance staff began working the daily OJI Credit Balance Report to ensure that refunds are not issued erroneously. Refunds will be issued on valid credit balances only, and those that are determined to be unsupported will be fixed accordingly. In addition, system changes that cause erroneous payments will be promoted into production during the month of March 2006.*

(b) *JFS, UC Benefits, Finance staff will work with JFS, MIS staff to fix the OJI defects #9675 & #9676 submitted on May 25, 2005 that occur when staff enter a reimbursement toward an overpayment and it remains in the credit balance field.*

5. UNEMPLOYMENT INSURANCE – OVERPAYMENT OF BENEFITS (Continued)

(c) The functionally that enables OJI to automatically issue a refund warrant after the credit balance has been on the system for 90 days has been disabled. Finance staff will routinely work the Credit Balance Report to ensure credit balances are not erroneously refunded until an automated solution can be programmed and implemented. The credit balance was manually released to the claimant.

Anticipated Completion Date for Corrective Action

(a) We have identified all credit balances released through the last date (September 2005) that OJI was automated to perform this function. This automation has since been disabled. All credit balances released are being reviewed to identify amounts released erroneously, manual overpayments will be established, and collection activity will commence forthwith. Additionally, overpayments older than 45 days will be certified to the Ohio Attorney General for collection. This corrective action plan will be complete by the end of May 2006. This action will resolve the finding.

(b) An OJI Test Director work request has been submitted and is being worked by JFS, MIS. The date for completion is June 30, 2006.

(c) An OJI defect #9726 was submitted on June 3, 2005 for work by JFS, MIS staff based on business prioritization. Implementation will be made as soon as all necessary analysis is completed.

Contact Person Responsible for Corrective Action

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6. MEDICAID/FOOD STAMPS/TANF – UNDOCUMENTED ELIGIBILITY – CUYAHOGA COUNTY

Finding Number	2005-JFS06-016
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance to Needy Families 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services

<u>QUESTIONED COSTS</u> $86,040

8 USC Sec. 1642(b) states:

> Not later than 24 months after the date the regulations described in subsection (a) of this section are adopted, a State that administers a program that provides a Federal public benefit shall have in effect a verification system that complies with the regulations.

8 USC Sec. 1641(b) states:

> For purposes of this chapter, the term "qualified alien" means an alien who, at the time the alien applies for, receives, or attempts to receive a Federal public benefit, is -
>
> (1) an alien who is lawfully admitted for permanent residence under the Immigration and Nationality Act [8 U.S.C. 1101 et seq.],
>
> (2) an alien who is granted asylum under section 208 of such Act [8 U.S.C. 1158],
>
> (3) a refugee who is admitted to the United States under section 207 of such Act [8 U.S.C. 1157],
>
> (4) an alien who is paroled into the United States under section 212(d)(5) of such Act [8 U.S.C. 1182(d)(5)] for a period of at least 1 year,
>
> (5) an alien whose deportation is being withheld under section 243(h) of such Act [8 U.S.C. 1253] (as in effect immediately before the effective date of section 307 of division C of Public Law 104-208) or section 241(b)(3) of such Act [8 U.S.C. 1231(b)(3)] (as amended by section 305(a) of division C of Public Law 104-208),
>
> (6) an alien who is granted conditional entry pursuant to section 203(a)(7) of such Act [8 U.S.C. 1153(a)(7)] as in effect prior to April 1, 1980; (1) or
>
> (7) an alien who is a Cuban and Haitian entrant (as defined in section 501(e) of the Refugee Education Assistance Act of 1980).

8 USC Sec. 1158(a)(1) states:

> Any alien who is physically present in the United States or who arrives in the United States (whether or not at a designated port of arrival and including an alien who is brought to the United States after having been interdicted in international or United States waters), irrespective of such alien's status, may apply for asylum in accordance with this section or, where applicable, section 1225(b) of this title.

6. MEDICAID/FOOD STAMPS/TANF – UNDOCUMENTED ELIGIBILITY – CUYAHOGA COUNTY (Continued)

8 USC Sec. 1612(b) states:

(1) Notwithstanding any other provision of law and except as provided in section 1613 of this title and paragraph (2), a State is authorized to determine the eligibility of an alien who is a qualified alien (as defined in section 1641 of this title) for any designated Federal program (as defined in paragraph (3)).

. . .

(3) For purposes of this chapter, the term "designated Federal program" means any of the following:

(A) Temporary assistance for needy families. The program of block grants to States for temporary assistance for needy families under part A of title IV of the Social Security Act [42 U.S.C. 601 et seq.].

. . .

(C) Medicaid. A State plan approved under title XIX of the Social Security Act [42 U.S.C. 1396 et seq.], other than medical assistance described in section 1611(b)(1)(A) of this title.

8 USC Sec. 1612(b)(2) “Exceptions” states:

Qualified aliens under this paragraph shall be eligible for any designated Federal program.

. . .

(B) Certain permanent resident aliens

An alien who—

(i) is lawfully admitted to the United States for permanent residence under the Immigration and Nationality Act [8 USC 1101 et. seq.]; and

(ii) Has worked 40 qualifying quarters of coverage as defined under title II of the Social Security Act [42 U.S.C. 401 et seq.] or can be credited with such qualifying quarters as provided under section 1645 of this title, and (II) in the case of any such qualifying quarter creditable for any period beginning after December 31, 1996, did not receive any Federal means-tested public benefit (as provided under section 1613 of this title) during any such period.

8 USC Sec. 1612(a) states:

(1) Notwithstanding any other provision of law and except as provided in paragraph (2), an alien who is a qualified alien (as defined in section 1641 of this title) is not eligible for any specified Federal program (as defined in paragraph (3)).

. . .

(3) For purposes of this chapter, the term "specified Federal program" means any of the following:

. . .

6. MEDICAID/FOOD STAMPS/TANF – UNDOCUMENTED ELIGIBILITY – CUYAHOGA COUNTY (Continued)

(B) Food stamps. The food stamp program as defined in section 3(h) of the Food Stamp Act of 1977 [7 U.S.C. 2012(h)].

8 USC Sec. 1612(a)(2)(B) states:

[Paragraph (1) [8 USC Sec. 1612(a)(1)] shall not apply to an alien who—

. . .

(ii) Has worked 40 qualifying quarters of coverage as defined under title II of the Social Security Act [42 U.S.C. 401 et seq.] or can be credited with such qualifying quarters as provided under section 1645 of this title, and (II) in the case of any such qualifying quarter creditable for any period beginning after December 31, 1996, did not receive any Federal means-tested public benefit (as provided under section 1613 of this title) during any such period.

8 USC Sec. 1613(a) states:

Notwithstanding any other provision of law and except as provided in subsections (b), (c), and (d) of this section, an alien who is a qualified alien (as defined in section 1641 of this title) and who enters the United States on or after August 22, 1996, is not eligible for any Federal means-tested public benefit for a period of 5 years beginning on the date of the alien's entry into the United States with a status within the meaning of the term "qualified alien".

8 USC Sec. 1631(a) states, in part:

Notwithstanding any other provision of law, in determining the eligibility and the amount of benefits of an alien for any Federal means-tested public benefits program (as provided under section 1613 of this title), the income and resources of the alien shall be deemed to include the following:

(1) The income and resources of any person who executed an affidavit of support pursuant to section 213A of the Immigration and Nationality Act [8 U.S.C. 1183a] (as added by section 423 and as amended by section 551(a) of the Illegal Immigration Reform and Immigrant Responsibility Act of 1996) on behalf of such alien.

. . .

When administering federal grant awards, it is the responsibility of management to develop and implement control policies and procedures to provide reasonable assurance that only eligible individuals receive assistance and the information reported to ODJFS is accurate and complete. In order for county management to ensure and verify this information, it is imperative that appropriate supporting documentation is maintained for all amounts reported and case files contain all pertinent information relating to the case and be readily accessible for review and/or reference.

We selected 41 case files out of approximately 2,300 with recipients identified as aliens/refugees for substantive testing and noted the errors listed below. As a result of the errors we will question costs for Medicaid ($51,094), TANF ($8,157), and Food Stamps ($26,789), totaling $86,040 , as detailed below.

- 23 (56.1%) did not have appropriate documentation to support the applicant had worked or qualified for 40 quarters under Title II of the Social Security Act. Seven of these recipients received both Medicaid and Food Stamp benefits; 13 received only Medicaid benefits; one received only Food Stamp benefits; and two received Food Stamp, TANF, and Medicaid benefits.

6. MEDICAID/FOOD STAMPS/TANF – UNDOCUMENTED ELIGIBILITY – CUYAHOGA COUNTY (Continued)

- 21 (51.2%) were not residents of the United States for five years or more beginning on the date of entry; therefore, were not eligible to receive benefits. Nine of these recipients received both Medicaid and Food Stamp benefits; nine received only Medicaid benefits; one received only Food Stamp benefits; one received Food Stamp and TANF benefits; and one received Food Stamp, TANF, and Medicaid benefits. The related questioned costs amounts are already encompassed with amounts questioned above.

- 29 (70.7%) recipients did not have sponsor information documented as required by 8 USC Sec. 1631(a). Fourteen of these recipients received both Medicaid and Food Stamp benefits (one of these recipients also received TANF benefits); 13 received only Medicaid benefits; and two received Food Stamp benefits (one of these recipients also received TANF benefits). The related questioned costs amounts are already encompassed with amounts questioned above.

- One (2.4%) recipient status was noted as refugee, for which the recipient received TANF benefits for ADCQ – Refugee Resettlement Program, ADC; however, there was no supporting documentation in the file or available to re-determine their refugee status. Therefore, we will question costs for the benefits received for refugee status, of $1,954 (this questioned cost amount is already encompassed with the amounts questioned above).

- One (2.4%) was unable to be located for testing; therefore, we were unable to determine if the recipient was eligible to receive Medicaid benefits of $677 (this questioned costs amount is already encompassed with the amounts questioned above).

Without consistently obtaining or maintaining the required documentation on file, Cuyahoga County Department of Job & Family Services (CCDJFS) may not be able to fully support or ensure payments were made only to or on behalf of eligible recipients. The lack of supporting documentation could result in questionable benefit payments and increase the risk that payments could be made to ineligible recipients.

CCDJFS management stated local agency operations since the implementation of welfare reform have been greatly challenged by a 40% increase in caseloads and a 30% decline in staffing resources. Additionally, there is a significant backlog in records imaging due to staffing and funding levels.

We recommend CCDJFS management review current eligibility requirements for aliens/refugees with all staff and perform supervisory reviews of alien/refugee case files to provide reasonable assurance that only eligible recipients receive benefits. Additionally, we recommend CCDJFS management review current, policies and procedures with all staff and implement or enforce control procedures which will reasonably ensure case files have adequate documentation to support benefit payments made to recipients. One method to ensure the required documents and information is maintained in the case file would be to develop and use a checklist. The checklist would serve as a lead sheet for each case file to show the status of the case and to help ensure the proper supporting documentation is included within the file.

Corrective Action Plan

TANF:

(a) The Agency has employed an electronic management review tool offered by the Rushmore Group to be utilized by direct service delivery staff, as well as, our internal quality control departments.

(b) Decrease the backlogged scanning of case record materials being converted to an upgraded electronic records management system called eRIMS.

6. MEDICAID/FOOD STAMPS/TANF – UNDOCUMENTED ELIGIBILITY – CUYAHOGA COUNTY (Continued)

(c) The Agency is hiring 23 additional Customer Service Aides (CSAs) with the primary responsibility of scanning case record materials into the electronic records information management system (eRIMS).

(d) The Agency will be issuing revised procedures for maintenance of case record materials and an updated process for front-line staff.

Food Stamps:

Eligibility Training on Aliens and Refugees for all eligibility workers, team leaders and managers covering rules for Food Stamps, Medicaid and cash.

Anticipated Completion Date for Corrective Action

TANF:

(a) Electronic management review tool to be implemented by November 30, 2006.

(b) Backlogged scanning to be completed by June 30, 2006.

(c) Additional CSAs to be hired by February 28, 2006.

(d) Revised procedures will be completed by March 31, 2006.

Food Stamps:

March 31, 2006

Contact Person Responsible for Corrective Action

Michelle Latimore, Participant Services Managers, Cuyahoga County Employment and Family Services, Ohio Department of Job and Family Services, 1641 Payne Avenue, Cleveland, Ohio 44114, Phone: (216) 987-8460, e-mail: Latimm@odjfs.state.oh.us

Jacquelon Ward, Participant Services Managers, Cuyahoga County Employment and Family Services, Ohio Department of Job and Family Services, 1641 Payne Avenue, Cleveland, Ohio 44114, Phone: (216) 987-6387, e-mail: Wardj01@odjfs.state.oh.us

7. TANF – LACK OF SUPPORTING DOCUMENTATION – PAULDING COUNTY

Finding Number	2005-JFS07-017
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $45,074

45 CFR 74.53(b) states, in part:

> Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditures report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report . . .
>
> . . .

It is management's responsibility to create and implement control policies and procedures to provide reasonable assurance that only eligible individuals receive assistance and the information reported to ODJFS is accurate and complete. It is imperative that appropriate supporting documentation is maintained for all amounts reported, and case files contain all pertinent information relating to the case and be readily accessible for review and/or reference.

We selected all seven Ohio Works First (OWF) vouchers, totaling $45,129, for testing. Six of seven vouchers (85.7%), totaling $45,074, consisted of handwritten notes stating the amount to be paid for the TANF share. No indication was noted regarding what the original expenditure was for or how the TANF share was determined; therefore, we were unable to determine if the expenditures were allowable, and question costs of $45,074.

Missing reports and documentation increase the risk the amounts and other information reported to the federal grantor agencies and/or on the State's financial statements may not reflect actual program activities. Without consistently obtaining or maintaining the required documentation on file, Paulding County Department of Job & Family Services (PCDJFS) management may not be able to fully support or ensure payments were made only to or on behalf of eligible recipients. The lack of supporting documentation could result in questionable benefit payments and increase the risk the payments could be made to ineligible clients or for unallowable activities.

PCDJFS management indicated this procedure was the practice of prior management and although they were confident of the source of expenditures they lacked audit trail requirements.

We recommend PCDJFS management review current grant requirements with appropriate staff and the related internal controls management has established to ensure files are complete and accessible. Additional procedures should be added, as necessary, to reasonably ensure proper expenditure determinations are made and appropriately documented in the county's records.

Corrective Action Plan

Agency staff has spoken with the former Director and from these discussions have developed procedures which outline expenditures, use and how the TANF share is determined. With the understanding of the process by the new Director, these procedures include a process worksheet, which will be attached to the vouchers. The worksheet will be signed by the director and fiscal officer.

7. TANF – LACK OF SUPPORTING DOCUMENTATION – PAULDING COUNTY (Continued)

Anticipated Completion Date for Corrective Action

Completed and in practice as of 12/19/05.

Contact Person Responsible for Corrective Action

Angela Johnson, Fiscal Officer, Paulding County, Ohio Department of Job and Family Services, 303 West Harrison Street, Paulding, Ohio 45879, Phone: (419) 399-3756, e-mail: johnsa16@odjfs.state.oh.us

8. TANF – SANCTIONS FOR REFUSAL TO WORK WITH CHILD UNDER SIX – LUCAS COUNTY

Finding Number	2005-JFS08-018
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $42,206

42 USC Sec. 607(e) states, in part

. . .

(2) Exception

Notwithstanding paragraph (1), a State may not reduce or terminate assistance under the State program funded under this part based on a refusal of an individual to engage in work required in accordance with this section if the individual is a single custodial parent caring for a child who has not attained 6 years of age, and the individual proves that the individual has a demonstrated inability (as determined by the state) to obtain needed child care, for 1 or more of the following reasons:

A) Unavailability of appropriate child care within a reasonable distance from the individual's home or work site.

B) Unavailability or unsuitability of informal child care by a relative or under other arrangements.

C) Unavailability of appropriate and affordable formal child care arrangements.

45 CFR 261.14(a) states:

If an individual refuses to engage in work required under section 407 of the Act, the State must reduce or terminate the amount of assistance payable to the family, subject to any good cause or other exceptions the State may establish. Such a reduction is governed by the provisions of Sec. 261.16.

Ohio Revised Code Section 5107.16 (A) states, in part:

If a member of an assistance group fails or refuses, without good cause, to comply in full with a provision of a self-sufficiency contract entered into under section 5107.14 of the Revised Code, a county department of job and family services shall sanction the assistance group . . .

. . .

8. TANF – SANCTIONS FOR REFUSAL TO WORK WITH CHILD UNDER SIX – LUCAS COUNTY (Continued)

We selected 15, of approximately 1,413, Ohio Works First (OWF) assistance groups (AG's) required to participate in work activities with a child under six from the GWP518 reports and performed a compliance test of the sanctions for refusal to work due to inability to obtain child care and noted the following:

- 12 (80%) OWF AG's benefits were not reduced or denied, as required. Although we did not observe any indications the AG did not participate due to the inability to obtain child care, the client did not participate in their required hours of participation, did not have good cause for non-participation, and were not sanctioned for failure to participate. LCDJFS failed to properly assign, follow-up and verify client participation in work or educational activities.

As a result, we are questioning the costs of OWF cash assistance payments of $42,206 from the date of noncompliance to the date of compliance, date of closed benefits, or the end of the fiscal year, as applicable for each case. Additionally, there is a risk that an AG who is not eligible to receive benefits under this program during a sanction period may not be eligible for benefits under other programs during the same period of noncompliance.

Without proper policies and procedures to reasonably ensure compliance with federal requirements, management cannot be fully assured that only eligible recipients are receiving benefits. If Lucas County Department of Job & Family Services (LCDJFS) is making payments during ineligible periods, there is greater risk of potential questioned costs which could jeopardize future funding.

LCDJFS management stated caseloads for social services case managers were very high and the agency lacked effective policy and procedures for monitoring of cases.

We recommend LCDJFS management review current policies and procedures and/or implement new control procedures which ensure only eligible individuals receive assistance. We recommend management communicate its policies and procedures to staff to ensure they are carried out as intended.

Corrective Action Plan

In our CAP for Fiscal Year 2004 Single State Audit, LCJFS planned for monitoring of cases at a level of 2 cases per worker per month with a beginning date of January 2005. LCJFS began monitoring of cases, but this occurred intermittently until September 2005. At that time, our QA/Monitoring unit began reviewing 15 cases from each Social Service Case Manager each month. We have recently restructured the make-up of our units so that there is more focus on the supervision of work activities, through the creation of 2 units focused only on work activity functions. We have added an additional Coordinator so that cases will be monitored more closely, including the review of cases with zero hours and documentation of failed hours/noncompliance and sanctions.

Since beginning this intensive review in September of 2005, we have seen an increase in our accuracy.

WA Coordinators will monitor ProviderGateway alerts and Careers no show list to ensure sanctions are being imposed or good cause is verified.

Anticipated Completion Date for Corrective Action

Though on-going, this process will start January 3, 2006.

Contact Person Responsible for Corrective Action

Carlotta Williamson-Brown, Manager 3, Lucas County, Ohio Department of Job and Family Services, 1301 Monroe Street, Toledo, Ohio 43699, Phone: (419) 213-6326, e-mail: willic09@odjfs.state.oh.us

9. TANF – SANCTIONS FOR REFUSAL TO WORK – LUCAS COUNTY

Finding Number	2005-JFS09-019
CFDA Number and Title	93.558 – Temporary Assistance to Needy Families
Federal Agency	Department of Health and Human Services

<u>QUESTIONED COSTS</u> $23,549

45 CFR 261.14(a) states:

> If an individual refuses to engage in work required under section 407 of the Act, the State must reduce or terminate the amount of assistance payable to the family, subject to any good cause or other exceptions the State may establish. Such a reduction is governed by the provisions of Sec. 261.16.

Ohio Revised Code Section 5107.16(A) states, in part:

> If a member of an assistance group fails or refuses, without good cause, to comply in full with a provision of a self-sufficiency contract entered into under section 5107.14 of the Revised Code, a county department of job and family services shall sanction the assistance group . . .
>
> . . .

We selected 15, of approximately 4,581, Ohio Works First (OWF) assistance groups (AG's) required to participate in work activities from the GWP518 reports and performed a compliance test of the sanctions for refusal to work and noted the following:

- Ten (66.7%) OWF AG's required to participate in work activities did not participate in the required hours of participation, did not have good cause for non-participation, and were not sanctioned for failure to participate. Lucas County Department of Job Family Services (LCDJFS) failed to properly assign, follow-up and verify client participation in work or educational activities. Additionally, four of these ten OWF AG's required to participate in work activities were not participating in accordance with their Self-Sufficiency Contracts (Employability Contract and Plans).

As a result, we are questioning the costs of OWF cash assistance payments of $23,549 from the date of noncompliance to the date of compliance, date of closed benefits, or the end of the fiscal year, as applicable for each case. Additionally, there is a risk that an AG who is not eligible to receive benefits under this program during a sanction period may not be eligible for benefits under other programs during the same period of noncompliance.

Without proper policies and procedures to reasonably ensure compliance with federal requirements, management cannot be fully assured that only eligible recipients are receiving benefits. If LCDJFS is making payments during ineligible periods, there is greater risk of potential questioned costs which could jeopardize future funding.

LCDJFS management stated caseloads for social services case managers were very high and the agency lacked effective policy and procedures for monitoring of cases.

We recommend LCDJFS management review current policies and procedures and/or implement new control procedures which ensure only eligible individuals receive assistance. We recommend management communicate its policies and procedures to staff to ensure they are carried out as intended.

9. TANF – SANCTIONS FOR REFUSAL TO WORK – LUCAS COUNTY (Continued)

Corrective Action Plan

In our CAP for Fiscal Year 2004 Single State Audit, LCJFS planned for monitoring of cases at a level of 2 cases per worker per month with a beginning date of January 2005. LCJFS began monitoring of cases, but this occurred intermittently until September 2005. At that time, our QA/Monitoring unit began reviewing 15 cases from each Social Service Case Manager each month. The 2004 CAP also included a plan to have the coordinators review cases based on the zero hour report. The coordinators were provided the 518 report that reflected which cases had zero hours and were directed to review these cases with the workers. We recognize that although this directive was given, that this may have also happened intermittently and not to the level planned. As such, we have recently restructured the make-up of our units so that there is more focus on the supervision of work activities, through the creation of 2 units focused only on work activity functions. We have added an additional Coordinator so that cases will be monitored more closely, including the review of cases with zero hours and documentation of failed hours/noncompliance and sanctions.

These new WA Coordinators will monitor the work performance of each SSCM (Social Service Case Manager) to ensure issues of non participation, good cause and the sanctioning of clients is performed in a timely manner, as well as monitoring that all assessments and reassessments are done timely.

Anticipated Completion Date for Corrective Action

By April 2006, cases will be reviewed and initialed by the WA Coordinators.

Contact Person Responsible for Corrective Action

Carlotta Williamson-Brown, Manager 3, Lucas County, Ohio Department of Job and Family Services, 1301 Monroe Street, Toledo, Ohio 43699, Phone: (419) 213-6326, e-mail: willic09@odjfs.state.oh.us

10. SCHIP – UNDOCUMENTED ELIGIBILITY – CUYAHOGA COUNTY

Finding Number	2005-JFS10-020
CFDA Number and Title	93.767 – State Children's Insurance Program
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $14,667

42 USC Sec. 1397aa(b) states:

> A State is not eligible for payment under section 1397ee of this title unless the State has submitted to the Secretary under section 1397ff of this title a plan that -
>
> (1) sets forth how the State intends to use the funds provided under this subchapter to provide child health assistance to needy children consistent with the provisions of this subchapter, and
>
> . . .

10. SCHIP – UNDOCUMENTED ELIGIBILITY – CUYAHOGA COUNTY (Continued)

42 USC Sec. 1397bb(b)(1) states:

(A) The plan shall include a description of the standards used to determine the eligibility of targeted low-income children for child health assistance under the plan. Such standards may include (to the extent consistent with this subchapter) those relating to the geographic areas to be served by the plan, age, income and resources (including any standards relating to spenddowns and disposition of resources), residency, disability status (so long as any standard relating to such status does not restrict eligibility), access to or coverage under other health coverage, and duration of eligibility. Such standards may not discriminate on the basis of diagnosis.

(B) Limitations on eligibility standards

(i) shall, within any defined group of covered targeted low-income children, not cover such children with higher family income without covering children with a lower family income, and

(ii) may not deny eligibility based on a child having a preexisting medical condition.

When administering federal grant awards, it is the responsibility of management to develop and implement control policies and procedures to provide reasonable assurance that only eligible individuals receive assistance and the information reported to ODJFS is accurate and complete. In order for county management to ensure and verify this information, it is imperative that appropriate supporting documentation is maintained for all amounts reported and case files contain all pertinent information relating to the case and be readily accessible for review and/or reference.

During eligibility control testing for 20 SCHIP case files, out of 3,790, we noted two (10%) case files were not available for testing. We selected these two case files for substantive testing to determine if the recipients were eligible to receive benefits. Due to lack of supporting documentation, we were unable to verify the recipients were eligible to receive benefits. As a result, we will question the total awards received for both cases, in the total amount of $14,667 ($7,543 and $7,124 respectively).

Missing reports and documentation increases the risk that amounts and other information reported to the federal grantor agencies and/or on the State's financial statements may not reflect actual program activities. Without consistently obtaining or maintaining the required documentation on file, Cuyahoga County Department of Job & Family Services (CDJFS) may not be able to fully support or ensure payments were made only to or on behalf of eligible recipients. The lack of supporting documentation could result in questionable benefit payments and increase the risk that payments could be made to ineligible clients.

CCDJFS management stated the missing case files and items are due to the fact they can be located at any one of three different locations: the imaging system, the paper record case file, or the caseworker's desk. Management also stated there are measures in place addressing the issues but there has been minimal progress. CCDJFS has a tremendous backlog and cases are in transition for imaging and the goal is to have everything entered into the imaging system over the next few months.

We recommend CCDJFS management review current policies and procedures with all staff and implement or enforce control procedures which will reasonably ensure the case files for the SCHIP program have adequate documentation to support benefit payments made to recipients. One method to ensure the required documents and information is maintained in the case file would be to develop and use a checklist. The checklist would then serve as a lead sheet for each case file to show the status of the case and to help ensure the proper supporting documentation is included within the file.

10. SCHIP – UNDOCUMENTED ELIGIBILITY – CUYAHOGA COUNTY (Continued)

Corrective Action Plan

- *<u>Staffing</u> – 56 eligibility staff are being hired; 7 team leaders are being promoted from eligibility staff positions; 23 customer service aides are being hired.*
- *<u>Training</u> – combined program application process training is being developed to include the comparative differences and similarities of Medicaid, Food Stamps, and cash to improve accuracy.*
- *<u>Records Management</u> – Backlog case files have been organized into case number order so that files waiting to be imaged can be readily found. Backlogged case files are being imaged during overtime and the backlog is decreasing.*
- *<u>Current Records</u> – are being imaged during regular work hours and the current work is up-to-date.*
- *<u>Case File Checklist</u> - A step-by-step activity detail will be completed for case files imaging process and staff will be afforded a desk aid.*

Anticipated Completion Date for Corrective Action

- *<u>Staffing</u> – All new staff will be selected, hired, and trained by June 30, 2006.*
- *<u>Training</u> – All existing staff will be afforded application process training in May 2006, and training will be completed by May 26, 2006.*
- *<u>Records Management</u> – Current case records imaging continues to be maintained and up to date. The backlog of case files will be imaged by December 2006.*
- *<u>Case File Checklist</u> – March 2006.*

Contact Person Responsible for Corrective Action

Michelle Latimore, Participant Services Managers, Cuyahoga County Employment and Family Services, Ohio Department of Job and Family Services, 1641 Payne Avenue, Cleveland, Ohio 44114, Phone: (216) 987-8460, e-mail: Latimm@odjfs.state.oh.us

Jacquelon Ward, Participant Services Managers, Cuyahoga County Employment and Family Services, Ohio Department of Job and Family Services, 1641 Payne Avenue, Cleveland, Ohio 44114, Phone: (216) 987-6387, e-mail: Wardj01@odjfs.state.oh.us

11. MEDICAID – UNDOCUMENTED ELIGIBILITY – CUYAHOGA COUNTY

Finding Number	2005-JFS11-021
CFDA Number and Title	93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

<u>QUESTIONED COSTS</u> $12,191

42 CFR 430.10 states:

> The State plan is a comprehensive written statement submitted by the agency describing the nature and scope of its Medicaid program and giving assurance that it will be administered in conformity with the specific requirements of title XIX, the regulations in this Chapter IV, and other applicable official issuances of the Department. The State plan contains all information necessary for CMS to determine whether the plan can be approved to serve as a basis for Federal financial participation (FFP) in the State program.

11. MEDICAID – UNDOCUMENTED ELIGIBILITY – CUYAHOGA COUNTY (Continued)

Ohio Administrative Code 5101:1-40-01(D) states:

> Eligibility for CFC [covered families and children's] medicaid is determined on an individual basis. Each individual included in the assistance group is to be determined eligible or ineligible according to CFC medicaid requirements. Eligibility factors in general are those eligibility requirements regarding income, resources, residence and citizenship, but not all factors apply nor do they necessarily apply in the same way to all of the various categories of CFC medicaid. The specifics to the various eligibility requirements are addressed in Chapters 5101:1-38, 5101:1-39, and 5101:1-40 of the Administrative Code. If an individual or assistance group does not meet all of the eligibility requirements for a given category of medicaid, then eligibility must be explored for all other categories. This may entail reviewing for other potential assistance groups which contain some, but not necessarily all, of the members of an ineligible assistance group. This means that an individual may have potential eligibility in more than one assistance group, and ineligibility in one of these assistance groups does not necessarily cause ineligibility in the others.

When administering federal grant awards, it is the responsibility of management to develop and implement control policies and procedures to provide reasonable assurance that only eligible individuals receive assistance and the information reported to ODJFS is accurate and complete. In order for county management to ensure and verify this information, it is imperative that appropriate supporting documentation is maintained for all amounts reported and case files contain all pertinent information relating to the case and be readily accessible for review and/or reference.

During eligibility control testing for ten Medicaid case files out of 244,189, we noted one (10%) case file was not available for testing. We selected this one case file for substantive testing to determine if the recipient was eligible to receive benefits. Due to lack of supporting documentation, we were unable to verify the recipient was eligible to receive benefits. As a result, we will question the total awards received during the fiscal year in the amount of $12,191.

Missing reports and documentation increases the risk that amounts and other information reported to the federal grantor agencies and/or on the State's financial statements may not reflect actual program activities. Without consistently obtaining or maintaining the required documentation on file, Cuyahoga County Department of Job & Family Services (CCDJFS) may not be able to fully support or ensure payments were made only to or on behalf of eligible recipients. The lack of supporting documentation could result in questionable benefit payments and increase the risk that payments could be made to ineligible clients.

CCDJFS management stated the missing case files and items are due to the fact they can be located at any one of three different locations: the imaging system, the paper record case file, or the caseworker's desk. Management also stated there are measures in place addressing the issues but there has been minimal progress. CCDJFS has a tremendous backlog and cases are in transition for imaging and the goal is to have everything entered into the imaging system over the next few months.

We recommend CCDJFS management review current policies and procedures with all staff and implement or enforce control procedures which will reasonably ensure the case files for the Medicaid program have adequate documentation to support benefit payments made to recipients. One method to ensure the required documents and information is maintained in the case file would be to develop and use a checklist. The checklist would then serve as a lead sheet for each case file to show the status of the case and to help ensure the proper supporting documentation is included within the file.

11. MEDICAID – UNDOCUMENTED ELIGIBILITY – CUYAHOGA COUNTY (Continued)

Corrective Action Plan

- *<u>Staffing</u> – 56 eligibility staff are being hired; 7 team leaders are being promoted from eligibility staff positions; 23 customer service aides are being hired.*
- *<u>Training</u> – combined program application process training is being developed to include the comparative differences and similarities of Medicaid, Food Stamps, and cash to improve accuracy.*
- *<u>Records Management</u> – Backlog case files have been organized into case number order so that files waiting to be imaged can be readily found. Backlogged case files are being imaged during overtime and the backlog is decreasing.*
- *<u>Current Records</u> – are being imaged during regular work hours and the current work is up-to-date.*
- *<u>Case File Checklist</u> - A step-by-step activity detail will be completed for case files imaging process and staff will be afforded a desk aid.*

Anticipated Completion Date for Corrective Action

- *<u>Staffing</u> – All new staff will be selected, hired, and trained by June 30, 2006.*
- *<u>Training</u> – All existing staff will be afforded application process training in May 2006, and training will be completed by May 26, 2006.*
- *<u>Records Management</u> – Current case records imaging continues to be maintained and up to date. The backlog of case files will be imaged by December 2006.*
- *<u>Case File Checklist</u> – March 2006.*

Contact Person Responsible for Corrective Action

Michelle Latimore, Participant Services Managers, Cuyahoga County Employment and Family Services, Ohio Department of Job and Family Services, 1641 Payne Avenue, Cleveland, Ohio 44114, Phone: (216) 987-8460, e-mail: <u>Latimm@odjfs.state.oh.us</u>

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12. MEDICAID - TRANSPORTATION CLAIM OVERPAYMENT

Finding Number	2005-JFS12-022
CFDA Number and Title	93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

<u>QUESTIONED COSTS</u> $9,768

2 CFR Part 255 (formerly known as Office of Management and Budget Circular A-87 “Cost Principles for State, Local, and Indian Tribal Governments,” Attachment A, subsection C), Basic Guidelines, states, in part:

12. MEDICAID CLUSTER - TRANSPORTATION CLAIM OVERPAYMENT (Continued)

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

   a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.

   …

   c. Be authorized or not prohibited under State or local laws or regulations.

   d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

Ohio Administrative Code Section 5101:3-15-04 states, in part:

> Medical transportation services covered in accordance with rule 5101:3-15-03 of the Administrative Code shall be reimbursed as set forth in this rule.
> …
>
> (B) Reimbursement for air ambulance services.
>
> (1) For the one-way fixed wing ambulance or rotary wing ambulance transport of one passenger, or the first passenger of a multiple passenger transportation, the provider shall be reimbursed a base rate for the service and a loaded mileage rate for each mile the passenger was transported.
>
> (a) The amount of reimbursement for the base rate shall be the lesser of the provider's billed charge or the Medicaid maximum rate as set forth in appendix DD of rule 5101:3-1-60 of the Administrative Code; and
>
> (b) The amount of reimbursement for the loaded mileage shall be the lesser of the provider's billed charge or:
>
> i. For fixed wing air ambulance, one dollar per mile for the first sixty miles and two dollars and fifty cents for each mile over sixty and six dollars and sixty cents for each mile over three hundred sixty; and
>
> ii. For rotary wing air ambulance, one dollar per mile for the first sixty miles and six dollars for each mile over sixty.
>
> …

It is management's responsibility to implement policies and procedures to provide reasonable assurance payments to providers for services are paid within the frame work of state and federal regulations.

12. MEDICAID CLUSTER - TRANSPORTATION CLAIM OVERPAYMENT (Continued)

As Medicaid claims from subrecipient agencies are received, they are interfaced with the automated Medicaid Management Information System (MMIS). Under the current operating structure, the Ohio Department of Job and Family Services relies on MMIS to determine whether payments for medical services are allowable and to verify recipient and provider eligibility. For one of 150 Medicaid payments tested, the payment for transportation services was paid out at amount greater than that allowed by code. As set forth by rule 5101:3-15-04 of the Ohio Administrative code, payment should be the lesser of amount billed or Medicaid maximum rate. The provider billed amount was greater than the maximum amount ($1,748) allowed however, the provider was paid the full amount billed ($11,516) thus creating an overpayment of $9,768 (projected to be more than $10,000).

The lack of sufficient edit and validation checks increases the risk of errors during processing of Medicaid claims, resulting in inaccurate payments to providers. Overpayments to providers may subject the Department to penalties or sanctions which may jeopardize future federal funding and limit their ability to fulfill program requirements to provide benefits to those in need. Department personnel indicated the overpayment occurred because the provider submitted the claim incorrectly and the MMIS system did not appear to have an edit in place to detect this particular type of error and deny the claim.

We recommend ODJFS periodically perform testing to help ensure that automated controls are functioning properly and the system is appropriately determining the eligibility of recipients and the allowability of claims. The evaluation should include a sample selection of provider payments to verify that reimbursements to providers are properly computed within MMIS and are reimbursed according to federal regulations and Departmental policy. Any problems noted should be promptly corrected to reduce the risk that payments will be made on behalf of ineligible individuals. We further recommend ODJFS develop or enhance the existing CRIS-E and MMIS manuals to document the different sequences of eligibility categories and case types for both Medicaid and SCHIP within the two systems.

Corrective Action Plan

ODJFS has identified all occurrences of the above stated overpayment on all transportation codes that should have only one unit billed per line item. The monies and providers in question will be audited and the overpayments recovered utilizing standard processes and procedures.

ODJFS has developed an edit within the MMIS claims system to assure future overpayments for this reason do not occur.

Anticipated Completion Date for Corrective Action

A timely recovery of state overpayments will be made on a case by case basis per provider utilizing standard timeframes necessitated by the processes for the recovery of overpayments and the providers level of cooperation.

The MMIS claims system edit to prevent future overpayments will be in production by March 30, 2006.

Contact Person Responsible for Corrective Action

Mary Sartain, Unit Supervisor, Ohio Health Plans, Ohio Department of Job and Family Services, 30 East Broad Street, 27th Floor, Columbus, Ohio 43215, Phone: (614) 466-6420, e-mail: sartam@odjfs.state.oh.us

13. MEDICAID – INELIGIBILE RECIPIENT

Finding Number	2005-JFS13-023
CFDA Number and Title	93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

<u>QUESTIONED COSTS</u> $6,229

45 CFR 206.10(a)(5)(i) states, in part:

> . . .
>
> Financial assistance and medical care and services included in the plan shall be furnished promptly to eligible individuals without any delay attributable to the agency's administrative process, and shall be continued regularly to all eligible individuals until they are found to be ineligible. . .
>
> . . .

It is management's responsibility to implement policies and procedures to provide reasonable assurance that only individuals who meet all of the eligibility criteria are able to receive benefits.

As medical claims from providers are received by the Department, they are uploaded into the Medicaid Management Information System (MMIS). The Department utilizes the Client Registry Information System – Enhanced (CRIS-E) to determine eligibility and MMIS to determine whether payments for medical services are allowable and to verify recipient and provider eligibility. Daily, county workers enter eligibility data into CRIS-E which interfaces with MMIS. When partial eligibility exists for one claim, MMIS is programmed with an edit to reasonably ensure the line item service dates, which fall within a period of eligibility, are paid and those that do not are denied. However, for one of 60 Medicaid recipient claims tested, totaling $34, the recipient was not eligible for Medicaid benefits on the date of service per the CRIS-E system. We are questioning costs of $6,229 (projected to be greater than $10,000), which represents the recipient's paid health care costs for the ineligible time frame.

The lack of sufficient edit and validation checks increases the risk of inaccurate payments to providers. Overpayments to providers may subject the Department to penalties or sanctions which may jeopardize future federal funding and limit their ability to fulfill program requirements to provide benefits to those in need. Management agreed the recipient was not eligible for Medicaid during the date of service and eligibility had been terminated within CRIS-E due to income requirements. The claims were erroneously paid due to an open time span existing within MMIS regardless of the eligibility time span status of the case within CRIS-E. The CDJFS has recently closed the MMIS eligibility time span for this recipient.

We recommend the Department periodically perform a review of CRIS-E and MMIS' automated controls to ensure they are functioning properly and the systems are appropriately determining the eligibility of recipients and the allowability of the claims. The evaluation should include a sample selection of provider payments to verify that reimbursements to those medical providers are properly computed within MMIS and are reimbursed according to federal guidelines and regulations. If any discrepancies are identified, the Department should promptly correct the issues in order to reduce future risk of payments being made on behalf of ineligible individuals.

13. MEDICAID – INELIGIBILE RECIPIENT (Continued)

Corrective Action Plan

The Office of Ohio Health Plans (OHP) will create an internal workgroup in order to ascertain which type of staff would best address these recipient based eligibility issues and/or conflicts between the CRIS-E computer system and the recipient master file of the MMIS computer system.

Anticipated Completion Date for Corrective Action

The ODJFS workgroup will be initiated in March 2006, with a recommendation to the Deputy Director of OHP, by June 30, 2006.

Contact Person Responsible for Corrective Action

Kevin M. Jones, OHP Program Integrity Manager, Ohio Department of Job and Family Services, 30 East Broad Street, 31st Floor, Columbus, Ohio 43215, Phone: (614) 644-6471, e-mail: jonesk@odjfs.state.oh.us

14. TANF – MISSING DOCUMENTATION – HAMILTON COUNTY

Finding Number	2005-JFS14-024
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $2,249

2 CFR Part 225 Appendix A (C)(1) states, in part:

> Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:
>
> . . .
>
> c. Be authorized or not prohibited under State or local laws or regulations.
> d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
> e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
>
> . . .
>
> j. Be adequately documented.

It is management's responsibility to design and implement internal controls to ensure compliance with federal laws and regulations. In order for management to ensure and verify this, it is imperative that appropriate supporting documentation be maintained for all amounts expended and reported.

14. TANF – MISSING DOCUMENTATION – HAMILTON COUNTY (Continued)

During substantive expenditure testing, we selected ten of 12 Ohio Works First (OWF) transactions, totaling $3,025 out of $1,210,525, and ten of 1,105 Prevention, Retention, and Contingency (PRC) transactions, totaling $117,470 out of $3,676,230, and noted the following:

- Four (40%) TANF OWF expenditures did not have supporting documentation to provide evidence the expenditures made were for allowable activities. Additionally, the accuracy of the vouchers could not be verified. Therefore, we are questioning costs of $1,749.

- One (10%) TANF PRC expenditure did not have supporting documentation to provide evidence the expenditure made was for allowable activities. Additionally, the accuracy of the voucher could not be verified. Therefore, we are questioning costs of $500.

The above amounts, totaling $2,249, are projected to be more than $10,000.

Failure to maintain supporting documentation may result in errors in the financial records or in the creation of inaccurate vouchers. Without adequate supporting documentation there could be an increased risk of unauthorized purchase of goods or services and/or misappropriation of Hamilton County Department of Job & Family Services (HCDJFS) assets.

HCDJFS management stated the previous policy did not require them to have invoice support for rental payments and they are currently reviewing the policy.

We recommend management review their current policies and procedures and implement appropriate controls which will ensure that appropriate supporting documentation is received and maintained within HCDJFS to substantiate expenditures. These controls should include a review and documentation of that review by management to ensure appropriate support for expenditures is provided for each transaction.

Corrective Action Plan

New form HCJFS 3254 is provided to the client with each voucher. The form notifies the recipient that a copy of invoice/receipt is required for payment. Payment will not be made until the documentation is provided, and documentation will be retained.

Anticipated Completion Date for Corrective Action

01/06/06

Contact Person Responsible for Corrective Action

Michael Hiles, Fiscal Section Chief, Hamilton County, Ohio Department of Job and Family Services, 222 East Central Parkway, Cincinnati, Ohio 45202, Phone: (513) 946-1854, e-mail: hilesm@jfs.hamilton-co.org

15. TANF – UNDOCUMENTED ELIGIBILITY – CUYAHOGA COUNTY

Finding Number	2005-JFS15-025
CFDA Number and Title	93.558 – Temporary Assistance to Needy Families
Federal Agency	Department of Health and Human Services

<u>QUESTIONED COSTS</u> $1,220

45 CFR 263.2(b) states:

> The benefits or services listed under paragraph (a) of this section count only if they have been provided to or on behalf of eligible families. An "eligible family," as defined by the State, must:
>
> (1) Be comprised of citizens or aliens who:
>
> (i) Are eligible for TANF assistance;
>
> (ii) Would be eligible for TANF assistance, but for the time limit on the receipt of federally funded assistance; or
>
> (iii) Are lawfully present in the United States and would be eligible for assistance, but for the application of title IV of PRWORA;
>
> (2) Include a child living with a custodial parent or other adult caretaker relative (or consist of a pregnant individual); and
>
> (3) Be financially eligible according to the appropriate income and resource (when applicable) standards established by the State and contained in its TANF plan.

When administering federal grant awards, it is the responsibility of management to develop and implement control policies and procedures to provide reasonable assurance that only eligible individuals receive assistance and the information reported to ODJFS is accurate and complete. In order for county management to ensure and verify this information, it is imperative that appropriate supporting documentation is maintained for all amounts reported and case files contain all pertinent information relating to the case and be readily accessible for review and/or reference.

During TANF Special Tests and Provisions, Refusal to Work and Non-cooperation with CSEA, testing of 20 case files for each requirement, out of 612 and 3,863 respectively, we noted three (7.5%) case files were not available for testing. We selected these case files for eligibility substantive testing to determine if the recipients were eligible to receive benefits. Due to lack of supporting documentation, we were unable to verify one recipient was eligible to receive benefits. As a result, we will question the total awards received during the fiscal year in the amount of $1,220 (projected to be more than $10,000).

Missing reports and documentation increases the risk that amounts and other information reported to the federal grantor agencies and/or on the State's financial statements may not reflect actual program activities. Without consistently obtaining or maintaining the required documentation on file, Cuyahoga County Department of Job & Family Services (CCDJFS) may not be able to fully support or ensure payments were made only to or on behalf of eligible recipients. The lack of supporting documentation could result in questionable benefit payments and increase the risk that payments could be made to ineligible clients.

15. TANF – UNDOCUMENTED ELIGIBILITY – CUYAHOGA COUNTY (Continued)

CCDJFS management stated the missing case files and items are due to the fact they can be located at any one of three different locations: the imaging system, the paper record case file, or the caseworker's desk. Management also stated there are measures in place addressing the issues but there has been minimal progress. CCDJFS has a tremendous backlog and cases are in transition for imaging and the goal is to have everything entered into the imaging system over the next few months.

We recommend CCDJFS management review current policies and procedures with all staff and implement or enforce control procedures which will reasonably ensure the case files for the TANF program have adequate documentation to support benefit payments made to recipients. One method to ensure the required documents and information is maintained in the case file would be to develop and use a checklist. The checklist would then serve as a lead sheet for each case file to show the status of the case and to help ensure the proper supporting documentation is included within the file.

Corrective Action Plan

(a) The Agency has employed an electronic management review tool offered by the Rushmore Group to be utilized by direct service delivery staff, as well as, our internal quality control departments.

(b) Decrease the backlogged scanning of case record materials being converted to an upgraded electronic records management system called eRIMS.

(c) The Agency is hiring 23 additional Customer Service Aides (CSAs) with the primary responsibility of scanning case record materials into the electronic records information management system (eRIMS).

(d) The Agency will be issuing revised procedures for maintenance of case record materials and an updated process for front-line staff.

Anticipated Completion Date for Corrective Action

(*a) Electronic management review tool to be implemented by November 30, 2006.*

(b) Backlogged Scanning to be completed by June 30, 2006.

(c) Additional CSAs to be hired by February 28, 2006.

(d) Revised procedures will be completed by March 31, 2006.

Contact Person Responsible for Corrective Action

Michelle Latimore, Participant Services Managers, Cuyahoga County Employment and Family Services, Ohio Department of Job and Family Services, 1641 Payne Avenue, Cleveland, Ohio 44114, Phone: (216) 987-8460, e-mail: Latimm@odjfs.state.oh.us

Jacquelon Ward, Participant Services Managers, Cuyahoga County Employment and Family Services, Ohio Department of Job and Family Services, 1641 Payne Avenue, Cleveland, Ohio 44114, Phone: (216) 987-6387, e-mail: Wardj01@odjfs.state.oh.us

16. TANF – REFUSAL TO WORK SANCTION – TRUMBULL COUNTY

Finding Number	2005-JFS16-026
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $373

45 CFR 261.14(a) states:

> If an individual refuses to engage in work required under section 407 of the Act, the State must reduce or terminate the amount of assistance payable to the family, subject to any good cause of other exceptions the State may establish. Such a reduction is governed by the provisions of Sec. 261.16.

Ohio Revised Code Section 5107.16(A) states, in part:

> If a member of an assistance group fails or refuses, without good cause, to comply in full with a provision of a self-sufficiency contract entered into under section 5107.14 of the Revised Code, a county department of job and family services shall sanction the assistance group . . .
>
> . . .

We selected ten of approximately 1,303 Ohio Works First (OWF) assistance groups (AG's) from the GWP518 reports related to work activities and performed a compliance test of the sanctions for refusal to work. One (10%) OWF AG was not in compliance with their self-sufficiency contract (Employability Contract) and did not have good cause for refusal to work. Trumbull County Department of Job & Family Services (TCDJFS) failed to properly sanction the client for refusal to work in August 2004. Therefore, costs will be questioned for one month of cash assistance payments of $373 (projected to be more than $10,000). The client was subsequently sanctioned for refusal to work in September 2004.

Without proper policies and procedures to reasonably ensure compliance with federal requirements, management cannot be fully assured that only eligible recipients are receiving benefits. If TCDJFS is making payments during ineligible periods, there is greater risk of potential questioned costs which could jeopardize future funding.

TCDJFS management indicated the failure to properly sanction this client for refusal to work was due to an oversight by a caseworker.

We recommend TCDJFS management review current policies and procedures and/or implement new control procedures which ensure only eligible individuals receive assistance. We recommend management communicate its policies and procedures to staff to ensure they are carried out as intended.

Corrective Action Plan

The case in question was reviewed and an overpayment referral was completed for the month of 9/2004. The month of 10/2004, was already under a sanction so only one month of an overpayment was needed. Information regarding the sanction was placed in the CRIS-E system's clrc/record comment for an explanation of audit compliance. Trumbull County asked for additional training from the state regarding sanctions. Margaret Newton from ODJFS provided the training on 10/8/2006. We have an internal QA Department that will also start targeting this issue while completing reviews for accuracy.

16. TANF – REFUSAL TO WORK SANCTION – TRUMBULL COUNTY (Continued)

Anticipated Completion Date for Corrective Action

(a) The corrective action was completed on 9/16/05.

(b) Margaret Newton completed agency training on sanctions on 10/8/2005.

(c) Internal QA will start targeting this issue effective 12/1/2005, as part of their monthly review of cases

Contact Person Responsible for Corrective Action

William P. Cummings, Fiscal Officer, Trumbull County Ohio Department of Job and Family Services, 150 South Park Avenue, Warren, Ohio 44481, Phone: (330) 675-2168, e-mail: cummiw@odjfs.state.oh.us

17. TANF – UNALLOWABLE EXPENDITURE – PAULDING COUNTY

Finding Number	2005-JFS17-027
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $200

Office of Management and Budget's Circular A-110 Section _.28 states:

> Period of Availability of Funds
> Where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency.

It is management's responsibility to implement policies and procedures to ensure compliance with established program requirements.

We selected ten Prevention, Retention, and Contingency (PRC) vouchers, totaling $2,835 out of a total population of $213,303, for testing. One (10%) voucher, totaling $200, included an invoice dated June 6, 2001 for reimbursement which was outside the fiscal year 2005 funding period and there was no evidence of any pre-award authorization. Therefore, we determined the expenditure to be unallowable and question costs of $200 (projected to be more than $10,000).

Paulding County Department of Job & Family Services (PCDJFS) management stated this occurred during the tenure of prior management and they were unsure of the cause.

We recommend PCDJFS management review current grant requirements with appropriate staff and the related internal controls management has established to ensure expenditures are made for only allowable purposes. Additional procedures should be added, as necessary, to reasonably ensure proper expenditure determinations are made and appropriately documented in the county's records.

17. TANF – UNALLOWABLE EXPENDITURE – PAULDING COUNTY (Continued)

Corrective Action Plan

The voucher that was reimbursed was from the vendor and not submitted to the agency in a timely manner although the purpose was allowable. All other program timeframes were met. The agency will develop a vendor agreement for this PRC program which will outline to the vendor an appropriate timeframe in which vouchers will be reimbursed.

Anticipated Completion Date for Corrective Action

The agreements have been developed and will be in place before the agency runs the program again which is anticipated in August of 2006.

Contact Person Responsible for Corrective Action

Angela Johnson, Fiscal Officer, Paulding County, Ohio Department of Job and Family Services, 303 West Harrison Street, Paulding, Ohio 45879, Phone: (419) 399-3756, e-mail: johnsa16@odjfs.state.oh.us

18. ADOPTION ASSISTANCE – COST ALLOCATION CODING ERRORS

Finding Number	2005-JFS018-028
CFDA Number and Title	93.659 – Adoption Assistance
Federal Agency	Department of Health and Human Services

NONCOMPLIANCE

2 CFR Part 225 (formerly known as Office of Management and Budget Circular A-87 "Cost Principles for State, Local, and Indian Tribal Governments," Attachment A, subsection C), Basic Guidelines, Part 3c states, in part:

> Any cost allocable to a particular Federal award or cost objective under the principles provided for in this Circular may not be charged to other Federal awards to overcome deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.

As part of our testing of the Department's letter-of-credit draws, we noted one draw totaling $33,994,642 which was coded to grant number K738, which is for the FY 2004 Adoption Assistance (CFDA # 93.659) award. However, according to the supporting documentation for the deposit, the expenditures supporting the draw were coded to the following programs:

K738 (Adoption Assistance)	$12,519,373
K739 (Adoption Assistance)	2,311,990
K743 (Foster Care)	2,861,054
K745 (Foster Care)	16,302,225
	$33,994,642

18. ADOPTION ASSISTANCE – COST ALLOCATION CODING ERRORS (Continued)

We also noted another draw totaling $10,930,356 coded to grant number L470 (FY 2005 Adoption Assistance award) which was supported by expenditures coded to grant number K738 (FY 2004 Adoption Assistance award). When questioned about these draws the Department acknowledged the vouchers which were shown as supporting the draws were coded incorrectly, but also maintained that since these vouchers were for advance payments to various County Departments of JFS there was not required to be a direct correlation between the vouchers and the draw. Furthermore, they indicated the costs for which they were seeking reimbursement with these draws had been incurred earlier at the County level and reported to the Federal grantor agency via the quarterly SF-269 reports, and the Department maintains a spreadsheet which tracks costs for all Federal programs which have been incurred and reported on the 269 report but not yet claimed for reimbursement. This spreadsheet indicated the awards noted above from which funds were drawn had unclaimed funds available, so that is why they were used.

Inaccurate coding increases the risk of misstatements in amounts included on any internal or external reports, which could subject the Department to fines and/or sanctions or a reduction in future federal funding. There is also the risk the Department's Schedule of Federal Financial Assistance could be misstated. In addition to the rationale discussed above, management indicated the coding inconsistencies were due to miscommunication between the Finance division and the Bureau of County Finance.

We recommend ODJFS management develop and implement policies and procedures requiring a periodic comparison of financial activity recorded in CAS to the Department's chart of accounts and drawdown supporting documentation. Any discrepancies or unusual activity should be documented, investigated, and any necessary corrective actions implemented. Furthermore, a risk based approach (i.e., identifying drawdowns with a higher risk of miscoding) could also be utilized. Finally, we recommend that ODJFS maintain and provide adequate documentation with their revenue receipts that sufficiently supports and details their Federal draws and any subsequent advances to the Counties.

Corrective Action Plan

We agree that the voucher and the draw grant coding was inconsistent. The Office of Fiscal Services (OFS) has developed procedures that assure the internal grant functions for these program activities are uniformly administered across operational units.

Anticipated Completion Date for Corrective Action

Corrective action for consistent coding and reporting was implemented July 2005.

Contact Person Responsible for Corrective Action

Stephen Boudinot, Assistant Deputy Director, Office of Fiscal Services, Ohio Department of Job and Family Services, 30 East Broad Street, 38th Floor, Columbus, Ohio 43215, Phone: (614) 466-1162, e-mail: boudis@odjfs.state.oh.us

19. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – THIRD PARTY MATCH

Finding Number	2005-JFS19-029
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services

NONCOMPLIANCE

45 CFR 205.56(a) states, in part:

> The State agency will use the information obtained under Sec. 205.55, in conjunction with other information, for:
>
> (1) Determining individuals' eligibility for assistance under the State plan and determining the amount of assistance. …

45 CFR 205.55(a) states, in part:

> … the State agency will request through the IEVS:
>
> …
>
> (1) Wage information from the SWICA for all applicants at the first opportunity following receipt of the application and for all recipients on a quarterly basis.
>
> …
>
> (3) All available information maintained by the Social Security Administration for all applicants at the first opportunity following receipt of the application in the manner set forth by the Commissioner of Social Security. …

Currently, ODJFS complies with these requirements by requesting and matching a portion of recipients within the CRIS-E system with the State Wage Information and Collection Agency (SWICA) information monthly and the Benefit Earnings Exchange Record (BEER) information twice monthly. SWICA sends their wage file to ODJFS to perform the match. BEER receives the ODJFS recipient file to perform the match against the BEER wage file.

During the FY2005, matches with the SWICA and BEER third-party sources were not completed as designed for the following:

- BEER was not accurately matched from July 2004 through February 2005.
- SWICA was not matched in June 2005.

19. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – THIRD PARTY MATCH (Continued)

Without performing matches as designed, the risk is increased that client income and resource information recorded in the CRIS-E will not be verified to outside sources as required by federal rules and regulations. Ultimately, this could lead to improper benefits being distributed to recipients and federal sanctions against the Department.

Per discussions with ODJFS MIS management, the jobs that completed the BEER source match were completed during the period; however, a programming error caused all BEER items to be marked as "out-of-state" recipients. Because the system then considered the recipients ineligible for state benefits, in effect, the match was not performed. In addition, it appeared ODJFS management was not aware the June SWICA match did not occur.

We recommend the client manually verify the validity of IEVS matches at least annually or at the point of any program change to the IEVS match process. This could be accomplished by selecting a sample of the match results and the corresponding resulting alerts to determine the matches were performed, as required. Additionally, the volume of matches produced by various IEVS jobs could be compared to prior jobs of the same type to reasonably determine whether the matches are executing properly. Finally, all executed IEVS match jobs should be compared to the required match frequencies to determine whether matches are occurring as required.

Corrective Action Plan

BEER – This sub-system was replaced during a re-write of Data Exchange. This has been corrected.

SWICA – Responsibility for scheduling the SWICA load job when the tapes arrive lies with our production control unit. We have instituted manual verification of Production Control SWICA processing for each month that the SWICA tapes are loaded.

Anticipated Completion Date for Corrective Action

BEER – Completed 03/24/05
SWICA – Completed 07/28/05

Contact Person Responsible for Corrective Action

Keith Krautter, Eligibility Systems Section Chief, BSFS-CRISE, Management Information Services, Ohio Department of Job and Family Services, 4200 East 5th Avenue, Columbus, Ohio 43219, Phone: (614) 387-8438, e-mail: kraut@odjfs.state.oh.us

20. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – DUE DATES

Finding Number	2005-JFS20-030
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services

NONCOMPLIANCE

Federal regulations require states to maintain an IEVS system, as indicated below:

7 CFR 272.8(a)(1) states, in part:

> State agencies may maintain and use an income and eligibility verification system (IEVS), as specified in this section. . . .

45 CFR 205.51(a) states, in part:

> A State plan . . . must provide that there be an Income and Eligibility Verification System in the State. . . .

45 CFR 205.56(a)(1) states, in part:

> . . . States wishing to exclude categories of information items from follow-up must submit for the Secretary's approval a follow-up plan describing the categories of information items which it proposes to exclude. . . .
>
> . . .

In accordance with these sections, the Department implemented the Income and Eligibility Verification System (IEVS) and established their own targeting system for processing IEVS matches. The IEVS compares income, as reported by the recipients, to information maintained by outside sources. Information that does not appear to agree is communicated in the form of a CRIS-E alert, which is forwarded to the appropriate county for investigation.

The system procedures and due dates were outlined in the Client Registry Information System - Enhanced (CRIS-E) "Flash #61" when IEVS was integrated within the CRIS-E computer system. ODJFS CRIS-E "Flash #61" states:

> ODHS [ODJFS subsequent to June 30, 2000] intends to monitor CDHS [County Departments of Job and Family Services subsequent to June 30, 2000] for both high and medium data exchange alerts to ensure compliance with state and federal regulations for timeliness and quality.

CRIS-E "Flash #61" specifies the due dates for completing IEVS alerts, depending on the program and priority ranking assigned by the Department of Job & Family Services (e.g., high, medium, or low). Low alerts are considered informational only and are not required to be processed although they are issued with a completion due date. In addition, in SFY04, the IEVS went through a redesign where medium alerts were eliminated and all alerts were deemed to be either high or low. The following chart outlines the required timeframes to work the alerts according to the redesign of the IEVS process:

20. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – DUE DATES (Continued)

Program	Priority Ranking	Federal Due Date (No. of Days)	Flash #61 Due Date (No. of Days)
Food Stamp Cluster	High	90	90
Food Stamp Cluster	Low	90	180
Temporary Assistance for Needy Families	High	45	45
Temporary Assistance for Needy Families	Low	N/A	180
Medicaid Cluster/State Children's Insurance Program	High	45	45
Medicaid Cluster/State Children's Insurance Program	Low	45	180

During the FY2005 audit, six counties were selected for testing related to the timely completion of IEVS alerts in accordance with the ODJFS standards set forth in "Flash #61." Clark, Cuyahoga, Franklin, Hamilton, Lucas, and Summit, represent approximately 45% of the nearly 1.5 million annual IEVS high priority alerts in state fiscal year 2005.

Of a sample of 178 IEVS alerts, 45 (25.3%) applicable alerts tested were not resolved by the mandated timeframe and there was no documentation within the CRIS-E System Screens of Running Record Comments (CLRC) or a "Y" on the Compliance Tracking Selection screen (DESL) to indicate a third party verification was pending. The delinquency results are summarized below:

Of the 45 delinquent High Priority alerts, 16 were resolved 1 - 30 days beyond the due date; 13 were resolved 31 - 90 days beyond the due date; 10 were resolved 91 - 180 days beyond the due date; and 6 were either not resolved or resolved after 180 days beyond due date.

Based on these results, IEVS alerts were not completed according to the time lines established in the ODJFS state plan and documented in "Flash #61." This increases the risk that benefits (totaling approximately $1.1 billion for Food Stamps, $760 million for TANF, $200 million for SCHIP, and $10.9 billion for Medicaid in fiscal year 2005) that may have been given to ineligible recipients for inappropriate amounts may not be properly or timely identified. Failure to comply with the requirements related to IEVS could result in federal sanctions or penalties. ODJFS IEVS management indicated the cause appears to be the volume of alerts being forwarded to the counties.

We recommend the Department work with the counties to implement control policies and procedures to reasonably ensure matches are completed by the due dates specified in "Flash #61." These procedures must include reviews by the County IEVS Coordinator or other supervisory personnel (possibly through the DEDT screen in CRIS-E) to monitor the status of IEVS alerts. We also recommend the Department monitor the activities of the counties to determine if they are following the established controls and are complying with the due date requirements.

Corrective Action Plan

(a) *ODJFS will continue to conduct thorough reviews of CDJFS IEVS alert processing. When the reviewer determines that less than 80 percent of the county's IEVS alerts have not been processed timely, Corrective Action will be required. The reviewer will then monitor the implementation of the county's plan.*

(b) *ODJFS will continue to provide training concerning the accurate and timely processing of IEVS alerts. We have conducted 73 separate IEVS training sessions since August 2003, in response to requests from counties, in situations where we find serious delinquency, and as workshops for conferences.*

20. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – DUE DATES (Continued)

(c) During calendar year 2005, nineteen counties did not fulfill the requirements that 80% of their IEVS alerts be processed timely. Our statewide compliance rate in 2005 was 76.8%. This is an improvement over 2004 activities. We will continue to offer and provide technical assistance and training at every opportunity.

Anticipated Completion Date for Corrective Action

These are ongoing initiatives.

Contact Person Responsible for Corrective Action

Jane Wasman, Chief, Fraud Control Section, Office of Research, Assessment & Accountability, Ohio Department of Job and Family Services, 4300 Kimberly Parkway, 4th Floor, Columbus, Ohio 43232, Phone: (614) 728-7743, e-mail: wasmaj@odjfs.state.oh.us

21. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – INADEQUATE DOCUMENTATION

Finding Number	2005-JFS21-031
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services

NONCOMPLIANCE

7 CFR 272.8(e) states:

> Documentation. The State agency must document, as required by § 273.3(f)(6), information obtained through the IEVS both when an adverse action is and is not instituted.

7 CFR 273.2(f)(6) states:

> Documentation. Case files must be documented to support eligibility, ineligibility, and benefit level determinations. Documentation shall be in sufficient detail to permit a reviewer to determine the reasonableness and accuracy of the determination.

45 CFR 205.56(a)(1)(iv) states, in part:

> For individuals who are recipients when the information is received or for whom a decision could not be made prior to authorization of benefits, the State agency shall . . . initiate a notice of case action or entry in the case record that no case action is necessary . . .

Ohio Admin Code Section 5101:1-1-36(E)(3) states:

> Once the CDJFS completes the IEVS match process, the results will be recorded in CRIS-E history.

21. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – INADEQUATE DOCUMENTATION (Continued)

The Income and Eligibility Verification System (IEVS) compares income, as reported by the recipients, to information maintained by outside sources. Information which does not appear to agree is communicated in the form of a CRIS-E alert, which is forwarded to the appropriate county for investigation.

Documentation retained in the CRIS-E system includes running record comments, resolution codes, and other supporting screens such as budget and employment history screens used in the determination of benefits. Through the resolution of IEVS alerts, budget and employment information may be updated, resulting in the recipient's eligibility determination being re-performed. An adjustment of eligibility for all program benefits could occur.

The following errors were noted in the IEVS documentation testing for the six selected counties: Clark, Cuyahoga, Franklin, Hamilton, Lucas, and Summit.

- 28 out of 178 applicable sampled alerts (15.7%) were not documented properly within the CRIS-E system to evidence the adequate resolution of the alert.

- 38 out of 178 applicable sampled alerts (21.4%) did not have proper result codes.

- One out of eight applicable IRS matches (12.5%) disclosed federal return information in the CRIS-E running records comments screen.

Without adequate documentation, a reviewer cannot determine if an IEVS alert has been resolved accurately, which may lead to benefits being issued to ineligible recipients or benefits being paid in inappropriate amounts. Additionally, disclosure of federal return information could ultimately result in litigation, including fines and/or penalties. ODJFS IEVS management indicated this noncompliance appears to be caused by the large volume of alerts assigned to the counties each month.

We recommend the Department update formal policies and procedures to detail specific requirements regarding how county caseworkers should process, resolve, and document IEVS alerts to ensure they are resolved accurately and are documented in accordance with federal and state requirements. In addition, the Department should work with the counties to develop and implement a thorough and consistent supervisory review process for the resolution and documentation of IEVS alerts. This may help ensure supporting documentation is being maintained in accordance with the policies and procedures and with applicable requirements and evidence the alert has been processed, resolved, and documented.

Corrective Action Plan

(A) ODJFS will continue to conduct thorough reviews of CDJFS IEVS alert processing and safeguarding. When the reviewer determines there is inadequate documentation, that improper result codes have been used, or that FTI has been compromised, Corrective Action will be required. The reviewer will then monitor the implementation of the county's plan.

(B) ODJFS will continue to provide training concerning the accurate and timely processing of IEVS alerts. Part of this training addresses documentation, proper use of codes, and safeguarding of FTI. We have conducted 73 separate IEVS training sessions since August 2003, in response to requests from counties, in situations where we find serious delinquency, and as workshops for conferences.

(C) ODJFS will continue to offer and provide technical assistance and training at every opportunity.

21. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – INADEQUATE DOCUMENTATION (Continued)

Anticipated Completion Date for Corrective Action

These are ongoing initiatives.

Contact Person Responsible for Corrective Action

Jane Wasman, Chief, Fraud Control Section, Office of Research, Assessment & Accountability, Ohio Department of Job and Family Services, 4300 Kimberly Parkway, 4th Floor, Columbus, Ohio 43232, Phone: (614) 728-7743, e-mail: wasmaj@odjfs.state.oh.us

22. MEDICAID/SCHIP – SUBRECIPIENT MONITORING

Finding Number	2005-JFS22-032
CFDA Number and Title	93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

NONCOMPLIANCE

The OMB Circular A-133 states, in part:

§___. 400 Responsibilities

. . .

(d) **Pass-through entity responsibilities.** A pass through entity shall perform the following for the federal awards it makes:

(1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of the Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.

(2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

. . .

(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

. . .

22. MEDICAID/SCHIP – SUBRECIPIENT MONITORING (Continued)

§___.405 Management decision.

(a) **General**. The management decision shall clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action. If the auditee has not completed corrective action, a timetable for follow-up should be given. Prior to issuing the management decision, the Federal agency or pass-through entity may request additional information or documentation from the auditee, including a request for auditor assurance related to the documentation, as a way of mitigating disallowed costs. The management decision should describe any appeal process available to the auditee.

. . .

(d) **Time requirements**. The entity responsible for making the management decision shall do so within six months of receipt of the audit report. Corrective action should be initiated within six months after receipt of the audit report and proceed as rapidly as possible.

. . .

Additionally, management should develop and implement internal controls over compliance requirements in order to be effective in preventing and/or detecting subrecipient noncompliance.

During state fiscal year 2005, approximately $1.1 billion in federal funding for the Medicaid Cluster and $35 million for the State Children's Insurance Program (SCHIP) was processed through Intra-State Transfer Vouchers (ISTVs) to five state agencies: Department of Health (DOH), Department of Mental Health (DMH), Department of Mental Retardation and Developmental Disabilities (DMR), Department of Aging (AGE), and Department of Drug and Alcohol Addiction Services (ADA). The Department has determined these five 'sister agencies' are subrecipients; however, the following issues were noted:

- CFDA numbers for Medicaid were not identified in the interagency agreement for the Department of Health.
- CFDA numbers for SCHIP were identified on the interagency agreements for the Departments of Alcohol and Drug Addiction, Mental Health, and Mental Retardation; however, these 'sister agencies' were not informed by ODJFS of the requirements imposed by laws and regulations for SCHIP.
- Per the Interagency Agreement with ODJFS and the Department of Mental Health, the amount of federal funds transferred for Medicaid and SCHIP could not exceed a maximum of $235,722,484 during state fiscal year 2005. However, ODJFS transferred an additional $2,960,473 during the fiscal year and the interagency agreement was not amended to account for these increases.
- ODJFS does not have a system in place to address the audit committee's review/approval of the 'sister agencies' (subrecipients) corrective action plan or management's decision on audit report findings as required by OMB Circular A-133. As a result, ODJFS provided no documentation that management issued a decision within six months of the A-133 audit findings for the Department of Mental Health and Mental Retardation issued in March 2005 for the state fiscal year 2004 audit.
- For two of four reviews performed by the Bureau of Audits, the engagement planning documents for Department of Aging and Department of Health were not signed by the External Audit Supervisor and External Audit Manager to indicate their review and approval of the document.

22. MEDICAID/SCHIP – SUBRECIPIENT MONITORING (Continued)

Under these circumstances, the Department may not be reasonably assured they have met the requirements of OBM Circular A-133, or the 'sister agencies' have met the requirements of the Medicaid and SCHIP programs. According to Management, the Department is in the process of implementing a procedure to address whether or not a State Agency's corrective actions are sufficient to correct the reported deficiency. OHP Management indicated the interagency agreements' maximum amounts allowable to be claimed by a 'sister agency' are derived through legislative appropriations. Once the agreement expires, it cannot be amended retroactively to account for the valid claims processed after fiscal year-end. Also, the Bureau of Audits Section Chief agreed with the control error identified and indicated a supervisory review, approval, and involvement is present throughout the entire audit process and that the risk of procedures not being performed according to their plan is minimal.

We recommend the Department utilize the guidance provided by OMB Circular A-133 to implement the necessary procedures and enhance existing procedures to appropriately fulfill their responsibilities of monitoring the 'sister agencies'. We recommend the Department revise their Interagency Agreement with the Department of Health to include the CFDA title and number for the Medicaid Cluster. We also recommend the Interagency Agreements for the Departments of Alcohol and Drug Addiction, Mental Health, and Mental Retardation define the laws, rules, and regulations related to SCHIP. These requirements should also include implementing procedures to track and report SCHIP funds separate from Medicaid. Furthermore, we recommend the Department develop and implement a tracking log to monitor the status of the 'sister agency' single audits received, the audit committee's review of the findings and corrective action plan, and the timeliness of their decision on audit report findings.

Corrective Action Plan

(A) The Bureau of Community Access (BCA) within the Office of Ohio Health Plans (OHP) will initiate a process to assure that the required management decision letters are completed and issued to affected sister agencies within six months of when the findings are made against our sister agencies. This will be completed based on our review of the corrective action plans submitted by our sister agencies related to the A-133 single audit. BCA is responsible for providing technical support, training and quality control related to Medicaid and SCHIP. During their audits of sister state agencies, the Bureau of Audit (BOA) within the Office of Research, Assessment and Accountability (ORAA) reviews any single audit findings to determine whether there is any effect on the planned audit strategy and whether the applicable sister state agency has implemented their corrective action plan.

(B) The SFY 2006-2007 interagency agreements (IAA) for the Departments of Alcohol and Drug Addiction, Mental Health, and Mental Retardation now cite the applicable requirements of OMB Circular A-133.

(C) ODJFS has implemented a review process for each sister agency's expenditures whereby, in April of each fiscal year, a review is performed of the first three quarters of the fiscal year transfer amounts and compared against the IAA federal fund maximum amount. The balance is reviewed with the sister agency who will provide an estimate of the amount expected to be requested for the remainder of the fiscal year. If the total of the expenditures and estimates exceeds the IAA federal fund maximum amount, an amendment to the IAA will be processed prior to the end of the fiscal year to increase the allowable federal fund amount available for transfer. This estimate of additional dollars included in the amendment will be made to the best of our ability based on available historic data and current service utilization trends.

22. MEDICAID/SCHIP – SUBRECIPIENT MONITORING (Continued)

Anticipated Completion Date for Corrective Action

(A) May 1, 2006
(B) July 1, 2005
(C) May 2006

Contact Person Responsible for Corrective Action

Hank Sellan, Policy Support Unit Chief, Bureau of Community Access, Ohio Health Plans, Ohio Department of Job and Family Services, 30 East Broad Street, 27th Floor, Columbus, Ohio 43215, Phone: (614) 387-7977, e-mail: sellah@odjfs.state.oh.us

23. EMPLOYMENT SERVICES – EARMARKING REQUIREMENT

Finding Number	2005-JFS23-033
CFDA Number and Title	17.207/17.801/17.804 – Employment Service Cluster
Federal Agency	Department of Labor

NONCOMPLIANCE

29 USC 49f (b) relates to the use of 10 percent of the funds allotted under the Employment Service (ES) program (Wagner-Peyser Act funding) and states, in part, that

(b) Ten percent of the sums allotted to each State pursuant to section 49e of this title shall be reserved for use in accordance with this subsection by the Governor of each such State to provide -

(1) performance incentives for public employment service offices and programs, consistent with performance standards established by the Secretary, taking into account direct or indirect placements (including those resulting from self-directed job search or group job search activities assisted by such offices or programs), wages on entered employment, retention, and other appropriate factors;

(2) services for groups with special needs, carried out pursuant to joint agreements between the employment service and the appropriate local workforce investment board and chief elected official or officials or other public agencies or private nonprofit organizations; and

(3) the extra costs of exemplary models for delivering services of the types described in subsection (a) of this section.

We tested the SF-269 (Financial Status Report) report prepared for the ES program for the quarter ending March 31, 2005. The report indicated that $26,977,578 of the $27,526,534 federal award had been expended, and that only $737,242 had been spent on activities costs related to the 10 percent earmark requirement. Even if the remaining unliqudated obligations of $548,956 were spent on the earmarked activities, JFS would spend less than the 10 percent required for these activities. As such, the Department has not complied with the stated federal requirement.

23. EMPLOYMENT SERVICES – EARMARKING REQUIREMENT (Continued)

Noncompliance by JFS could result in federal funding being reduced or taken away, or sanctions imposed by the federal grantor agency. Noncompliance could also result in the Department having to repay part or all of the grant awards to the federal government, although we questioned no related costs during this period.

JFS management believed that they spent the award appropriately. In the five-year ES state plan JFS stated they thought the Wagner-Peyser program was underfunded and therefore it was their intention to use the Wagner-Peyser 10 percent funds for the costs of general administration and provision of routine employment services. JFS assumed this approach was acceptable to the grantor agency since the grantor agency approved the state plan and hasn't questioned JFS about spending of the 10 percent funds.

We recommend the Department take the necessary steps to comply with the 10 percent earmark federal requirement. These steps may involve management reviewing the current process and implementing internal control procedures that provide reasonable assurance that future expenditures of the ES program will be spent on the specified activities. We also recommend that, if JFS disagrees with the federal requirement, the Department discuss the matter with the grantor agency and request a written waiver from the requirement.

Corrective Action Plan

The agency does not agree with the finding as indicated in the audit report. Question 3 of the Program Year 2000-2005 Five-Year Plan submitted to and approved by the Department of Labor, clearly indicated the agency's intent was to use the 10 percent funds for the general administration and the provision of routine employment services activities. Therefore, this action was approved and should not be questionable.

The Ohio's Strategic State Plan for Title I of the Workforce Investment Act (WIA) and Wagner-Peyser Act for the two year period July 1, 2005, and June 30, 2007 (Program Year 2005 and 2006), does not address specifically how the 10 percent funds will be used. Therefore, the auditor's recommendation of discussing this matter with the grantor agency and requesting a written exemption to this requirement will be undertaken.

It is anticipated the Office of Workforce Development will be submitting an exemption request to the Department of Labor no later than August 30, 2006, and the expectation of approval from the Department of Labor will occur by September 30, 2006. In the interim, the Department of Job and Family Services will continue to monitor its Wagner-Peyser expenditures and activities in the event the waiver is not granted. This will enable the office to make adjustments in an expeditious manner if necessary.

Anticipated Completion Date for Corrective Action

May 30, 2006

Contact Person Responsible for Corrective Action

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24. UNEMPLOYMENT INSURANCE – FEDERAL REPORTS

Finding Number	2005-JFS24-034
CFDA Number and Title	17.225 – Unemployment Insurance
Federal Agency	Department of Labor

NONCOMPLIANCE

ET Handbook 401, *Unemployment Insurance Reports Handbook 401,* identifies the following reports which must be completed for the Unemployment Insurance (UI) program:

- ETA 2112, *UI Financial Transaction Summary (OMB No. 1205-0154)* - A monthly summary of transactions, which account for all funds received in, passed through, or paid out of the State unemployment fund (Page II-1-1 of ET Handbook 401).

- ETA 191, *Financial Status of UCFE/UCX (OMB No. 1205-0162)* - Quarterly report on unemployment compensation for federal employees (UCFE) and ex-servicemembers (UCX) expenditures and the total amount of benefits paid to claimants of specific Federal agencies (Page II-3-1 of ET Handbook 401).

- ETA 227, *Overpayment Detection and Collection Activities (OMB No. 1205-0173)* - Quarterly report on results of SWA activities in principal detection areas of benefit payment control (Page IV-3-1 of ET Handbook 401).

Sections C of the handbook subsections state report ETA 2112 is due the 1st day of the second month following the month of reference and will be transmitted electronically; report ETA 191 should be submitted electronically to the National Office by the 25th of the month following the close of the quarter; and report ETA 227 is due quarterly on the first day of the second month after the quarter of reference.

It is management's responsibility to implement control policies and procedures to reasonably ensure the monthly ETA 2112 and the quarterly ETA 191 and ETA 227 reports are accurate, complete, and in compliance with these requirements. It is imperative that management be able to provide the underlying data and related program documentation required to prepare and support these reports.

JFS submitted three of the four ETA 2112 reports, one of the two ETA 191 reports, and one of the two ETA 227 reports tested after they were due. The ETA 2112 report for October 2004 was submitted 40 days late, the December 2004 report 28 days late, and the March 2005 report 17 days late. The ETA 191 and ETA 227 reports for the quarter ending December 31, 2004 were submitted 23 days and 115 days late, respectively.

On August 17, 2004, JFS started running the new computer application known as the Ohio Job Insurance (OJI) program, which replaced the older Benefits System. The OJI system generated the ETA 191 and ETA 227 reports from data contained within the system. JFS did not have any control procedures in place during the year to review and reconcile information shown on the reports to supporting documents before the reports were submitted. In addition, JFS was not able to furnish any documentation to support the amounts shown on the ETA 227 reports. Furthermore, the amounts shown on the ETA 191 reports, for each of the two quarters tested, and the amounts on the two monthly ETA 2112 reports tested, did not agree to supporting documentation.

24. UNEMPLOYMENT INSURANCE – FEDERAL REPORTS (Continued)

If the underlying data for the reports submitted cannot be readily verified, the Department and the federal government may not be reasonably assured the information is accurate and complete. Reporting inaccurate or incomplete information and submitting the reports late could subject the Department to federal sanctions, limiting the amount of funding for program activities. JFS management stated the OJI system was designed to generate the ETA 191 and ETA 227 reports without staff intervention. Only later did JFS become aware the system had defects that needed to be resolved before accurate data could be compiled to submit the reports timely and accurately, and allow data to be extracted properly from the same source (OJI) for the reports and the supporting documents.

We recommend the Department devise and implement policies and procedures to provide reasonable assurance the federal reports are accurate, complete, submitted timely, and in compliance with federal requirements. At a minimum, the controls should include a review of the reports and verifying the amounts on them before the reports are submitted. In addition, the Department should maintain appropriate supporting documentation for the reports. We also recommend management periodically monitor the preparation and accuracy of these reports, and formally document their reviews.

Corrective Action Plan

<u>ETA-2112 Report</u>:

We concur that the three cited monthly submissions of the ETA-2112 were submitted late. According to the notations in our report log, the reports were late due to problems with OJI conversion. The conversion defects in OJI affecting the ETA-2112 were corrected. We have also shortened the internal deadline for the TF Unit to pass the report to the Benefits Unit. This will give the Benefits Unit an extra day to process their work. The report has not been submitted late since July 2005.

<u>ETA-191 Report</u>:

The system issues that caused the report for the quarter ending December 31, 2004, to be filed untimely have been resolved. All quarterly reports have been timely filed after that date. Beginning with the quarter ending September 30, 2005 report, JFS put into practice a process between LMI and the Employer Charging sections to validate the ETA 191 data before it is transmitted to the Federal Government. Errors that occurred during the state fiscal year 2005, were corrected with the filing ending September 30, 2005. The corrections were confirmed with the Department of Labor.

<u>ETA-227 Report</u>:

A review by ODJFS of the AOS findings has confirmed that the ETA-227 report for quarter ending December 31, 2004, had issues with timeliness and accuracy. A thorough review of the data on the report was not available before the report was submitted to the Department of Labor. OJI was implemented on August 17, 2004, in order to replace the older Benefits system. The 4th quarter 2004 report that was tested is the first report generated by the new OJI process. It also contained data not only from OJI, but from the Legacy system as well due to the splitting of the quarter. This prompted delays in obtaining the necessary information for the report as it was coming from multiple sources. In addition, proper review and documentation was not available because of the defined implementation date. The concept of the new OJI system is to automatically generate the ETA-227 report on a quarterly basis. It will integrate all supporting documentation necessary to create the report. ODJFS is aware of the issues of accuracy, timeliness and supporting documentation required for the report.

24. UNEMPLOYMENT INSURANCE – FEDERAL REPORTS (Continued)

Anticipated Completion Date for Corrective Action

ETA-2112 Report:

Completed.

ETA-191 Report:

We expect all SFY2006 reports to be accurate and timely filed based on system fixes that were done in SFY2005, and the data validation process put in place beginning with the quarter ending September 30, 2005.

ETA-227 Report:

ODJFS has taken the steps to contract a vendor to analyze, design, develop, test and implement the ETA-227 report. This will be done in conjunction with ODJFS staff. The contract requires timeliness and accuracy of the report. In addition, we will produce a data validation that will correspond to ETA-227 information. Data validation files will support the numbers provided on the ETA-227 and must meet the minimum percentages allowed by the DOL Data Validation software. We will also provide supporting documentation of all data on each report through a "snapshot" that will remain constant in OJI instead of trying to retrieve data that is "fluid". We believe that when completed, this will address all issues of concern of the AOS and DOL. Our current contract calls for release of the new report on October 18, 2006.

Contact Person Responsible for Corrective Action

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25. UNEMPLOYMENT INSURANCE – PROCESSING OF OJI TRANSACTIONS

Finding Number	2005-JFS25-035
CFDA Number and Title	17.225 – Unemployment Insurance 17.245 – Trade Adjustment Assistance
Federal Agency	Department of Labor

INTERNAL CONTROL – MATERIAL WEAKNESS

An effective internal control structure requires implementation of policies and procedures which provide management with assurance that transactions are processed accurately, completely, and are indicative of actual activity. It is imperative that control procedures be adequately documented to evidence they are performed timely, consistently, as intended and by an appropriate level of management, enabling management to place reliance on them.

25. UNEMPLOYMENT INSURANCE – PROCESSING OF OJI TRANSACTIONS (Continued)

On August 17, 2004, JFS started running the new computer application known as the Ohio Job Insurance (OJI) program, which replaced the older Benefits System. Based on testing we performed, we noted instances where OJI appears not to function appropriately and where data or transactions were not processed accurately. Some of the instances are indicative that OJI issued duplicate warrants or may have changed historical information within the system. The instances consist of the following items:

a. A claimant, who had received a benefit payment in excess of what was determined eligible, repaid the benefit overpayment of $88. This amount was processed on May 2, 2005 in batch #43554 along with other receipts. At that time the View Batch Detail screen in OJI showed the total amount of the receipts posted on the batch agreed with the total amount reported by the bank, which receives the benefit overpayments via a lockbox arrangement. Later the check from this claimant was returned by the bank for insufficient funds. When viewed on August 10, 2005, the View Batch Detail screen showed the deposit amount of the check had been changed from $88 to $0, and showed the total amount of the receipts posted on the batch no longer agreed with the total amount reported by the bank. Instead of maintaining the original transaction and posting an adjusting entry for the returned check, OJI changed the original record of entry.

b. The OJI Warrants/EFT Search screen shows the system issued two warrants with the same warrant number (#168537) to two different claimants. The Treasurer of State's Redeemed Warrant System printouts show both warrants were redeemed and one warrant was issued on September 8, 2004; the other was issued September 13, 2004. Both warrants were paid from fund 928 and cashed by the respective claimant.

c. We noted six instances where a claimant received multiple payments, either by EFT (electronic fund transfer) and/or warrant, and OJI did not list each of the individual payments at the time of testing. However, there was evidence, previously in or generated by OJI, which showed these transactions had occurred. The six instances related to warrants #287389, #628124, #418665, #425508, #289300, and #287390. For warrant #287389, the claimant received an EFT and three duplicate warrant payments for benefit week ending September 25, 2004; each of the four payments was for $207. Copies of the warrants indicate three identical warrants were printed and sent to the claimant, who cashed two of them and the third was returned by the claimant. The Treasurer of State's Redeemed Warrant System also shows that two warrants were cashed. At the time of testing, however, the Warrants/EFT Search screen and the Benefit Payment Warrants Summary screen from OJI showed that only one warrant was issued; there is no listing of the EFT.

   Also, related to warrant #418665, OJI did not show, at the date of testing, that an EFT was ever previously issued and showed the warrant that it did list was canceled. Without evidence of the EFT payment, a JFS employee looking at the OJI system might assume the claimant never received payment for the benefit week and is due the money. Furthermore, the Overpayment Summary screen from OJI showed, at the date of testing, that an overpayment order had not been established to retrieve one of the multiple payments of $291 for warrant #425508 and two of the multiple payments of $207 for warrant #287389. The overpayment of these six instances of multiple payments amount to $705. These payments were not part of a sample and are not subject to projection.

d. We noted another 19 instances where two warrants were issued with the same warrant number to the same social security number, benefit year end, and bi-week benefit period but with different sequence numbers. These items are considered instances where JFS issued duplicate warrants to claimants. Similar to the six warrants noted above, the Treasurer of State's Redeemed Warrant System showed that each warrant in the set was cashed and OJI listed the warrant only once on the Auditor's Warrant Register and on the Warrant/EFT Search screen at the time of testing. However, JFS recognized the duplicate payments in these 19 instances and established an overpayment to retrieve the duplicate disbursement.

25. UNEMPLOYMENT INSURANCE – PROCESSING OF OJI TRANSACTIONS (Continued)

e. The OJI system produces an Auditor's Warrant Register report, which lists each warrant printed on any given day in sequential order. We noted five instances where a warrant was listed on the Auditor's Warrant Register at the end of the register but with a warrant number that was hundreds or thousands of numbers after the last sequential warrant number listed on the register. Using warrant #287389 as an example, the Auditor's Warrant Register (for September 29, 2004 printed on that day) listed the warrants in sequential order through #239707 and then listed warrant #287389, which is approximately 48,000 numbers after #239707. The Auditor's Warrant Register for the next day started with warrant #239708 and continued the sequential order. We noted that when this condition occurred, there could have been one or several warrant numbers listed out of sequence after the last sequential set of numbers.

Based on our discussions, JFS employees stated that there have been over 10,000 "remedies" requested agency-wide for fixes to the OJI system. Within the division of the fiscal/program (non-IT) employees with whom we communicated, there were 1,300 remedies. A remedy refers to any request for a change to the system; either in the programming code or merely a correction in the transaction data or reports, and there may be multiple changes resulting from a single request. When we inquired with the Department's Management Information System, they indicated the Test Director is the repository for customer service requests. It showed that 3,481 of 4,052 requests had been closed for the nine months OJI was operational in FY 2005 and another 1,291 requests had been closed for the first six months of FY 2006. This number is substantially larger than for other JFS applications and may indicate the OJI system was migrated into production before it had been adequately tested.

Given the number and type of conditions noted above, there is uncertainty that the OJI system processed transactions accurately during the year; there also appears to be a high likelihood that historical data in the system was changed during the year. These items are indicative the OJI system and the related controls in it are not operating appropriately and as intended by management. This increases the risk of transaction error and reduces the level of assurance management can place on the system. JFS management stated that FY 2005 was the first year for the new OJI system; they recognized there are problems with the system and are working to correct it.

We recommend the Department recover the benefit overpayments that were paid to claimants and investigate the conditions noted and take the necessary steps to resolve or correct any inappropriate actions found. In addition, we recommend that management review the OJI system and devise and implement internal control procedures that provide reasonable assurance OJI appropriately processes future benefit transactions and retains historical data within the system. As with any control procedure, JFS should periodically monitor and test whether the established controls are working effectively.

Corrective Action Plan

A work request has been submitted to append the Batch Detail Screen in order for OJI to maintain the original transaction and all subsequent adjustment entries to that transaction. An error occurred shortly after implementation which caused OJI to generate the same warrant number to two claimants. Both claimants identified in the management letter were due the money so there was no overpayment. The OJI defect was identified and corrected.

This OJI defect was corrected by removing the EFT pre-notification verification process that caused the multiple payments and the failure of OJI to show the EFT to be listed on the warrant register as stated in the management letter. This pre-notification process added no value to the overall process.

JFS established overpayments in the 19 instances indicated in the management letter. Warrants that were issued as a result of failed EFTs caused the warrants numbers to be out of sequence. This problem was fixed when then EFT pre-notification verification process was removed from OJI.
JFS, Benefits Finance staff have begun the process of identifying amounts paid in error and will attempt to collect by creating manual overpayments. Notices will be generated to the claimants explaining the error and provide them the opportunity to establish repayment agreements.

25. UNEMPLOYMENT INSURANCE – PROCESSING OF OJI TRANSACTIONS (Continued)

Anticipated Completion Date for Corrective Action

June 30, 2006
Completed.
Completed.
Completed.
See comments below.

The process to identify amounts paid in error and set up manual overpayments will be completed by June 30, 2006.

Contact Person Responsible for Corrective Action

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26. INTERNAL TESTING OF AUTOMATED CONTROLS

Finding Number	2005-JFS26-036
CFDA Number and Title	All Programs Administered by the Department
Federal Agency	Department of Agriculture Department of Health and Human Services Department of Labor

INTERNAL CONTROL – MATERIAL WEAKNESS

Federal regulations allow, and in some cases require, states to utilize computer systems for processing individual eligibility determinations and delivery of benefits. Often these computer systems are complex and separate from the agency's regular financial system. Typical functions of complex computer systems may include evaluating applicant information and determining eligibility and/or benefit amounts; maintaining eligibility records; determining the allowability of services; tracking the period of time an individual is eligible; and maintaining financial, statistical, and other data that must be reported to grantor federal agencies. It is management's responsibility to establish and implement internal control procedures to reasonably ensure program objectives and requirements are met and information (both financial and non-financial) is accurately and completely processed and maintained. Appropriate monitoring is performed to provide assurance the established manual and automated controls are operating effectively.

Additionally, with regard to programs administered on behalf of the Department of Health and Human Services, 45 CFR 95.621 (f)(2)(iii) requires states to perform risk analyses to ensure appropriate safeguards are incorporated into new and existing systems on a periodic basis and whenever significant system changes occur. 45 CFR 95.621 (f)(3) further requires states to review the ADP system security of these systems on a biennial basis. At a minimum, the reviews are to include the evaluation of physical and data security, operating procedures, and personnel practices.

26. INTERNAL TESTING OF AUTOMATED CONTROLS (Continued)

The Department places immeasurable reliance on a number of complex information systems (CRIS-E, FACSIS, MMIS, SETS, CORe, SCOTI, WRS, OJI, and Unemployment Compensation) to record and process eligibility and financial information for all their major federal programs. However, during the audit period, the Department did not have any internal, independent individuals assigned to evaluate the ADP environment and provide assurance to management that the programs' objectives and requirements of 45 CFR 95.621 were achieved. Instead, management relied heavily on the Department's Management Information Systems (MIS) personnel who were directly responsible for the ADP environment and external auditors to review, monitor, and troubleshoot problems as they arose. These MIS individuals may not have the necessary knowledge of program requirements, and may lack the necessary objectivity and independence because they are responsible for programming, operating, and/or securing these critical systems. In addition, the external auditors are oversight-oriented and report on audit objectives defined by various branches and levels of government in the interest of assuring effective legislative and public oversight of government activities, instead of being management-oriented with consideration of the entire ADP environment.

The MIS personnel responsible for the operation of the ADP environment completed a risk analysis of the data processing systems in conjunction with the Department's overall Internal Accounting Controls Program (IACP) review in 2004, as mandated by the Governor for all cabinet level agencies. However, the requirements of this analysis do not meet all the requirements specified in the federal regulations.

Without sufficient, experienced internal personnel possessing the appropriate technical skills to independently analyze, evaluate, and test their complex information systems, management may not be reasonably assured these systems are processing transactions accurately, completely, and in accordance with federal compliance requirements. This increases the risk of noncompliance with federal regulations and of material errors or misstatements within the data processed, resulting in inappropriate determinations regarding eligibility, allowability, and/or benefit amounts.

The Bureau of Production Systems management indicated ODJFS has relied on external reviews by Health and Human Services, the Auditor of State, the Internal Revenue Service, and other federal agencies. In addition, the Bureau Chief acknowledged the need for such reviews, but indicated there were insufficient resources to perform them.

We recommend ODJFS management implement a process for conducting internal independent reviews of significant computer systems (CRIS-E, FACSIS, MMIS, SETS, CORe, SCOTI, WRS, OJI, and Unemployment Compensation) as required by federal and state guidelines. The reviews should be designed to provide management with reasonable assurance these large, critical systems are operating effectively and in accordance with program guidelines. We recommend these reviews or audits be conducted by personnel with the necessary program and information systems audit and control expertise. All test procedures, working papers, and supporting documentation related to the analysis and testing should be maintained and the results and recommendations should be communicated, in writing, to the Director and/or other appropriate upper management. ODJFS should evaluate the results and ensure timely corrective action is taken to address risk areas and/or weaknesses identified.

26. INTERNAL TESTING OF AUTOMATED CONTROLS (Continued)

Corrective Action Plan

MIS is in the process of initiating a pilot centered around Ohio Job Insurance (OJI) Program. The pilot will enlist a state term schedule (STS) vendor to conduct an independent review of internal testing for automated financial controls. The intent is to determine whether sufficient checks and balances exist to ensure that the financial transactions that occur in OJI are sound and consistently accurate.

This audit is pursuant to a corrective action plan prescribed by the Auditor of State to ensure the following:

(a) That the Department complies with Federal laws and regulations addressing the internal review of significant computer systems;

(b) That risk analysis requirements related to data processing systems are adequately reviewed; and

(c) That the Department successfully implement and amend procedures as necessary to reasonably ensure their compliance.

This effort has been coordinated with the Office of the Auditor of the State and ORAA

Anticipated Completion Date for Corrective Action

June 30, 2006

Contact Person Responsible for Corrective Action

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27. DATA PROCESSING – CORe ADVANCE CALCULATION

Finding Number	2005-JFS27-037
CFDA Number and Title	All Programs Administered by the Counties
Federal Agency	Department of Agriculture Department of Health and Human Services Department of Labor

INTERNAL CONTROL – MATERIAL WEAKNESS

When administering federal programs, management is responsible for designing and implementing internal control policies and procedures to reasonably ensure compliance with federal laws and regulations. These procedures include controls to ensure budgetary information and all transactions are accurately recorded. Controls must be adequately documented to provide management with assurance the controls are performed timely and consistently.

The Department maintains the Central Office Reporting System (CORe) to capture (via monthly uploads) and process (quarterly) county expenditure and other activity pertaining to various federal programs, calculate amounts to be advanced to counties (more than $1.5 billion in State Fiscal Year (SFY) 2005), and prepare reconciliations related to these transactions.

27. DATA PROCESSING – CORe ADVANCE CALCULATION (Continued)

During state fiscal year 2003, 2004, and 2005, the counties were allowed to complete advance draws for their expenditures on a weekly basis instead of a monthly basis. When the CORe application was updated to perform the advance calculation on a weekly basis, the year-to-date totals, which reconciled monies advanced to the counties against monies actually expended by the counties for the closed quarters, did not report accurate amounts. This caused the draws sent to the counties in the second quarter of SFY 2005 to be higher than requested. To resolve the issue, the County Finance section of quarters so that only budgetary numbers were used and no year to date totals were considered. As a result, all the weekly advances that were sent to the counties in SFY 2003, 2004, and 2005 were based on budgetary requests with no actual expenditures taken into account.

The monies that are advanced to the counties on a weekly basis could be significantly higher than the actual expenditures the county incurs for the period. This may result in some counties owing more money than they can pay back to the state at the end of the SFY. Although a year-to-date reconciliation will be made at the end of the SFY, the interest earned on the monies advanced to the counties in error will not be recognized at the state level. In addition, the risk of errors made by CORe while calculating and reporting county expenditures and advances is greatly increased.

County Finance management indicated that a request has been made for the application vendor, Maximus, Inc., to fix the error in the advance calculation.

We recommend the Department immediately correct the advance calculation so that it will account for a year-to-date total of actual expenditures versus reimbursements, for each county, before money is advanced to the counties.

Corrective Action Plan

The contract with Maximus for SFY 2005 included a scope of work to correct this problem beginning July 1, 2005. As of July 1, 2005, the updated program was implemented and the July through September quarter was closed on January 1, 2006.

Anticipated Completion Date for Corrective Action

The BCFTA implemented the corrections to CORe beginning July 1, 2005.

Contact Person Responsible for Corrective Action

Don Foster, County Finance Section Chief, BCFTA, Office of Fiscal Services, Ohio Department of Job and Family Services, 30 East Broad Street, 37th Floor, Columbus, Ohio 43215, Phone: (614) 644-6598, e-mail: fosted@odjfs.state.oh.us

28. DATA PROCESSING – MANUAL OVERRIDES OF CRIS-E

Finding Number	2005-JFS28-038
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services

INTERNAL CONTROL – MATERIAL WEAKNESS

When utilizing and relying upon a complex data processing system with many users, it is vital to address the users' needs and minimize the manual and human input necessary to complete a transaction.

ODJFS uses the Client Registry Information System-Enhanced (CRIS-E) to determine eligibility and benefit amounts for public assistance programs totaling approximately $1.1 billion for Food Stamps, $664 million for Temporary Assistance for Needy Families (TANF), $235 million for State Children's Insurance Program (SCHIP), and $11.9 billion for Medicaid in fiscal year 2005. To facilitate changes to the programmed criteria in CRIS-E, the Department has implemented a process where the users (caseworkers) notify the appropriate Department personnel of the need for a program modification through Customer Service Requests (CSRs). Until these changes are made, the caseworkers must, in most cases, manually override the CRIS-E flags. At the end of FY 2005, there were 527 open CSRs requested through the CRIS-E Help Desk to help alleviate manual override situations encountered by county staff statewide. Also, there were 132 additional manual override situations reported by the case workers to the Help Desk that did not generate a CSR.

By not completing CRIS-E program modifications in a timely manner, the need for frequent manual overrides is increased. This involves a great deal of judgment on the part of caseworkers and their supervisors. Under these circumstances, the risk of errors occurring in benefit eligibility determinations is greatly increased, and caseworker efficiency is decreased because of the cumbersome process. Eligibility errors have, in the past, resulted in federal fiscal sanctions against the Department.

ODJFS' MIS Management indicated that they continue to prioritize CSR work for maintenance and development. Factors considered in the Office's prioritization process include customer impact, program risk, federal/state mandate, system impact, and financial impact. The presence of manual overrides influence the customer impact, program risk, and system impact considerations. Their plans are to continue to identify CSRs resulting in manual overrides and prioritize each CSR as described.

We recommend ODJFS continue to analyze their current process of addressing manual overrides and devote the necessary resources to minimize manual override situations in CRIS-E.

Corrective Action Plan

The FIAT Process was a planned design feature of the CRIS-E system which exists to ensure that correct *benefits can be created. It makes good business sense to address many of these FIATS, but some FIATS will always exist. The program area has focused emphasis on functionality prioritization of requests rather than fiats, particularly those that don't have fiats.*

Program approach has been that fiats are frustrating to use and counter-productive to the system, but missing or erroneous processing with larger impact (no benefits, wrong benefits, threat of legal action, large numbers affected, etc.) are higher in the prioritization.

28. DATA PROCESSING – MANUAL OVERRIDES OF CRIS-E (Continued)

Anticipated Completion Date for Corrective Action

May 30, 2006. MIS has identified all CSR's and has requested the Customer prioritize them by this date.

Contact Person Responsible for Corrective Action

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29. ADOPTION ASSISTANCE – PAYMENT LIMITS

Finding Number	2005-JFS29-039
CFDA Number and Title	CFDA # 93.659 – Adoption Assistance
Federal Agency	Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

42 USC Sec. 673 (a)(3) states:

> The amount of the payments to be made in any case . . . shall be determined through agreement between the adoptive parent and the local agency administering the program under this section, which shall take into consideration the circumstances of the adopting parents and the needs of the child being adopted, and may be readjusted periodically, with the concurrence of the adopting parents (which may be specified in the adoption assistance agreement), depending upon the changes in such circumstances. However, in no case may the amount of the adoption assistance payment made . . . exceed the foster care maintenance payment which would have been paid during the period if the child with respect to whom the adoption assistance payment is made had been in a foster family home.

It is management's responsibility to develop and implement internal controls to reasonably ensure amounts claimed are processed accurately, completely, and in compliance with federal laws and regulations. These controls must include procedures to prevent and/or detect overpayments of Adoption Assistance, taking into consideration the corresponding Foster Care Maintenance rate established by the State, and be adequately documented to provide management with some assurance they are being performed timely and consistently.

Currently, there are no documented procedures in place at the Ohio Department of Job and Family Services or the County Public Children's Service Agencies to evaluate, track, and/or monitor Adoption Assistance subsidies to verify they do not exceed the Foster Care Maintenance (FCM) rate. Although management indicated the counties do consider the FCM rate when establishing the Adoption Assistance benefit amounts, there is no evidence maintained to substantiate this. The Department was able to provide information from selected case files maintained by the counties to document what the FCM rate was for the child the month prior to adoption, along with the rates paid for a child with the same level of care currently in a foster care home. With this information, we were able to determine the benefits paid from Adoption Assistance for the selected cases did not exceed the rates which would have been paid if that child was in a foster care home.

29. ADOPTION ASSISTANCE – PAYMENT LIMITS (Continued)

Without internal controls to evaluate the Adoption Assistance payments to verify they do not exceed the Foster Care maintenance rate, management cannot be reasonably assured the Department is in compliance with the stated requirement. This could result in overpayment of Adoption Assistance benefits and questioned costs.

Department management stated the Adoption Assistance payment is checked against the FCM rate by the counties; however, they do not maintain documentation of the comparison and management was not aware they needed to retain this information. They also indicated there will be fields in the system showing the prior Foster Care payment for each child when the new SACWIS system is implemented.

We recommend the Department devise and implement policies and procedures to provide reasonable assurance Adoptive Assistance payments are being compared to FCM rates to assure compliance with federal laws and regulations. This should include documenting the FCM payment prior to the child's adoption and evidencing the consideration of this rate is establishing the Adoption Assistance benefit amount. Any subsequent changes to the benefit amount should also be documented to demonstrate compliance with the requirements. We also recommend management periodically monitor the Adoption Assistance benefit payments, rate determinations, and other appropriate information to assure adherence to the policies and procedures and reasonably ensure compliance with State and Federal requirements.

Corrective Action Plan

Response (A) **–** *OCF will identify specific rules in Ohio Administrative Code (OAC), Chapter 5101:2-47 to ensure that all administrative rules, regulations, policies, forms and guidelines used by the State and all of its sub-recipients that are involved with adoption assistance conform to federal law. In addition, OCF will revise the following affected rules and respective forms mandating documentation justifying the amounts of adoption assistance payments are processed accurately, completely, and in compliance with federal guidelines. Tentative rules changes include:*

- *5101:2-47-43 - Adoption Assistance payment rate: payment rate for adoption assistance.*
- *5101:2-47-39 - Adoption Assistance payment eligibility payment for retroactive adoption assistance.*
- *5101:2-47-42 - Adoption Assistance payment rate: determination of the Payment Amount.*
- *5101:2-47-35 - Adoption Assistance eligibility procedure: The IV-E adoption post-finalization application.*
- *5101:2-47-38 - Adoption Assistance Payment Eligibility: Modification/Amendment of Adoption Assistance Agreement.*
- *Development of new rules or forms to capture appropriate and accurate information.*

OCF will provide statewide training and/or training information on Adoption Assistance rules and the requirements to detect and prevent overpayments of Adoption Assistance.

Response (B) **-** *OCF will develop a Title IV-E Adoption Assistance monitoring instrument by which to evaluate, track, and/or monitor Adoption Assistance subsidies to verify they do not exceed the Foster Maintenance (FCM) payment rate. Monitoring activities will be conducted via onsite review for each of Ohio's 88 counties. County agencies found out of compliance with USC § 673 (a) (3) will be given a corrective action plan by which the county must indicate a specific time frame to reconcile the findings of the review.*

29. ADOPTION ASSISTANCE – PAYMENT LIMITS (Continued)

Anticipated Completion Date for Corrective Action

<u>Response (A)</u> *- This action step will be completed in a series of steps. The rules will tentatively be effective in by no later than July 1, 2006.*

- *Training on rules will be completed via video conference and regional meetings with county partners sanctioned to administer the adoption assistance program by June 1, 2006.*
- *Private Child Placing Agencies and Public Non-Custodial Agencies will also be trained or receive training information separately by June 1, 2006.*
- *The Adoption Subsidy Guide will be revised to include specific information for prospective adoptive families by July 1, 2006.*

<u>Response (B)</u> - *This action step will be completed in a series of steps. The Title IV-E monitoring instrument complete by May 31, 2006. The monitoring instrument will be piloted in Hamilton, Franklin, Summit and Cuyahoga Counties. The piloted process will run for 6 months (July to December 2006). Additionally, the following activities to ensure implementation of the monitoring will occur no later then the dates listed.*

- *Evaluation of the piloted process (January 31, 2007).*
- *Final Draft of monitoring instrument (January 31, 2007).*
- *Review dates and components of the on site review process disseminated to county agencies by March 31, 2007.*

Contact Person Responsible for Corrective Action

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30. MEDICAID/SCHIP – THIRD PARTY LIABILITY

Finding Number	2005-JFS30-040
CFDA Number and Title	93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

<u>INTERNAL CONTROL – REPORTABLE CONDITION</u>

42 CFR 433.138 states, in part:

(a) Basic provisions. The agency must take reasonable measures to determine the legal liability of the third parties who are liable to pay for services furnished under the plan. . .

(b) Obtaining health insurance information: Initial application and redetermination processes for Medicaid eligibility. . .

. . .

30. MEDICAID/SCHIP – THIRD PARTY LIABILITY (Continued)

(g) Follow up procedures for identifying legally liable third party resources. . .

(2)(i) Within 60 days, the agency must follow up on such information (if appropriate) in order to identify legally liable third party resources and incorporate such information into the eligibility case file and into its third party data base and third party recovery unit so the agency may process claims under the third party liability payment. . .

. . .

The Department employs a Cost Avoidance Unit with the objective of detecting third party liabilities. The Cost Avoidance Unit primarily utilizes three methods of obtaining insurance carrier information from providers. First, the unit obtains recipient insurance information through the initial Medicaid/SCHIP eligibility and redetermination process in which the recipient completes an ODJFS 6612. Second, the Medicaid Management Information System (MMIS) flags and reports claims from providers that are coded with a “Third-Party Payer.” From this information, MMIS automatically identifies any claims paid over $2,000 and generates a Cost Avoidance Worksheet which is then forwarded to the provider to obtain the third-party information needed to update the Third-Party Liability (TPL) database and MMIS. Third, providers may also notify the unit if they discover a recipient is covered by third-party insurance. The ODJFS 6614, “Health Insurance Fact Form,” is completed by the provider noting the third-party insurance information. All third-party liability information obtained by the unit is verified with the appropriate insurance carrier. A third-party liability file is then created within the TPL database and within MMIS to prevent payments for claims that would otherwise be the responsibility of a third-party. However, the following weaknesses were noted:

- The Cost Avoidance Unit receives numerous third party liability information forms though the mail and by various sources. However, there is no control procedure in place to reasonably ensure all of the ODJFS 6612, ODJFS 6614, and Cost Avoidance Worksheets received by the unit are entered into the TPL database accurately. As a result, no assurance could be obtained that the population of records within the database was complete and accurate.

- The Cost Avoidance Unit did not perform the Monthly Quality Control Checks during the fiscal year to ensure the accuracy and completeness of all health insurance information being entered into the TPL database.

- Four of 60 Health Insurance Verification Forms selected were not provided for review. As a result, we were unable to determine if the consumer’s health insurance information was verified with the insurance carrier or provider. We were also unable to determine if the cost avoidance examiner documented their review of the third party information received on the health verification form by assigning a document control number to indicate the information was accurate within MMIS.

- For four of 40 third party liability records tested, the insurance coverage dates within MMIS did not agree with the insurance coverage dates listed on the verification form.

- For three of 40 third party liability records tested, the information was not created accurately and completely in MMIS.

Without a procedure in place to track third party liabilities, the Department is unable to identify all liable third parties and recoup overpayments related to third-party obligations which could reduce the amount of program funds available for eligible Medicaid/SCHIP recipients. Furthermore, inaccurate or incomplete information could lead to claims being unjustly rejected or erroneously paid. According to management, the missing Health Verification Forms were not provided since the corresponding document batch numbers did not exist due to a keying and/or system error. Furthermore, due to staffing issues, the quality control reviews were not performed during the fiscal year; however, spot checks were performed on an intermittent basis.

30. MEDICAID/SCHIP – THIRD PARTY LIABILITY (Continued)

We recommend the Department develop and implement a procedure to track all third-party liability documents received electronically or via mail by the Cost Avoidance Unit. The Department should ensure the number of third-party liability documents received agrees with the number of claims entered into the Third-Party Liability Database and/or MMIS on a monthly basis. We recommend the Department maintain adequate documentation of the reconciliation and any variances which required further investigation. In addition, we recommend the Department reinforce their established policies and procedures and emphasize the importance of documenting their completion of a quality control review by completing the appropriate checklists. We further recommend the Department document discrepancies between the information maintained within MMIS and the third party record (e.g., Health Insurance Verification Forms).

Corrective Action Plan

(A) The Cost Avoidance Unit (CAU) has a control in place to count every document (ODJFS 6612, 6614 and verification letters) received by mail or fax. This count is tracked on a monthly report prepared by unit clerks. This data is recorded in an on-going spreadsheet. A control also exists to track the action taken for each document. Unit staff prepares monthly reports of documents keyed into the TPL database. Documents with duplicate information or non-TPL information are not entered. These documents that are not entered are then batched and counted so the amount not entered added to amount entered will equal the amount of documents received. As part of our planned corrective action, CAU will revise the report form to show a count of those documents not entered into the TPL database.

(B) With the addition of new staff, the monthly quality control checks have resumed as of March 1, 2006. Management will ensure that the quality control checks will be maintained.

(C) Two of the errors were caused by staff keying error. One individual was keying in a control number and not letting the system generate the control number thus the number did not match. This person is no longer employed by the State. The other error was caused by numbers being transposed. Retraining has taken place to ensure this individual will properly record document control numbers. Two of the errors were system generated errors. CAU staff notified MIS of the bad number because CAU does not have the capability to correct. One error, the system started the DCN number with 00 but our numbers start 01 for the first document in a batch. The other one was caused by a duplicate number generated in the system. CAU is working with MIS to find the cause of the duplicate numbers being generated. CAU has begun to record Control Number errors on the monthly reports so the errors can be tracked until a resolution is found.

(D) CAU reviewed the documents requested that had errors. Of the four, two of the errors identified were not errors but difference in insurance eligibility dates that were due to birth of a child and a marriage. One was a staff keying error and the other was a system generated error that had an end date that was newer than the effective date of policy. To reduce keying errors, retraining has taken place. The system error has been given to MIS to review and implement a correction.

(E) This exception regards 6612 forms with policy dates that do not match the dates on the TPL database. CAU reviewed the errors and only one error was found. This error was due to a worker calling for verbal verification and not having written documentation to support the change made in the system. To correct this, the CAU supervisor has advised staff that every update to a record must have written documentation with a document control number to support the change made in the system.

30. MEDICAID/SCHIP – THIRD PARTY LIABILITY (Continued)

Anticipated Completion Date for Corrective Action

(A) January 30, 2006
(B) March 1, 2006
(C) January 30, 2006
(D) January 30, 2006
(E) January 30, 2006

Contact Person Responsible for Corrective Action

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31. MEDICAID/SCHIP – DRUG REBATE PAYMENTS

Finding Number	2005-JFS31-041
CFDA Number and Title	93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

Section 1927 of the Social Security Act allows States to receive rebates for drug purchases the same as other payers receive. Drug manufacturers are required to provide a listing to CMS of all covered outpatient drugs and, on a quarterly basis, are required to provide their average manufacturer's price and their best prices for each covered outpatient drug. Based on these data, CMS calculates a unit rebate amount for each drug, which it then provides to States. No later than 60 days after the end of the quarter, the State Medicaid agency must provide to manufacturers drug utilization data.

CMS' Medicaid Drug Rebate Program Release No. 26, states in part:

> . . .
>
> For all rebates not paid in a timely manner . . . within 38 calendar days after the postmark date of the State's invoice, interest accrues on unpaid rebates until the date the manufacturer mails the check to the State. The obligation for calculating interest due rests with the manufacturer, just as does the obligation to calculate interest due, and report those amounts to HCFA. However, whether or not a State invoices for interest has no bearing on the manufacturer's responsibilities to calculate and pay the amount(s) of interest due.

As such, it is management's responsibility to design and implement control procedures to reasonably ensure all rebate payments have been calculated properly, are submitted timely, and include any interest owed. Internal controls over drug rebates, which totaled approximately $570 million during the fiscal year, were not consistently applied to ensure timely billing and collection, as indicated below:

- The Department does not have adequate procedures in place to ensure all rebate payments are submitted timely and include any interest owed to the Department by the manufacturer.

31. MEDICAID/SCHIP – DRUG REBATE PAYMENTS (Continued)

- 40 of 40 rebate invoices tested from four of four quarters were not mailed within 60 days after the end of the quarter. Days in excess ranged from two to fifteen days late.

- For 14 of 40 rebate invoice payments tested, the payment of the rebate invoice or notification of disputed items was not received within 38 days after the Department's mailing. Days in excess ranged from one to 109 days late. For the 14 late rebate invoice payments tested, either no or partial interest was calculated and/or paid by the drug manufacturer.

Untimely distribution of rebate invoices to drug manufacturers results in delayed collections of rebates owed to the State, thereby reducing the amount of funding available to finance operations and/or Medicaid program activities. According to management, the rebate invoices were not mailed timely due to CMS sending the rebate per unit values late and the Department's Management Information System encountered technical difficulties in delivering various reports. In addition, management indicated the Department is not responsible for pursuing interest obligations and it is the manufacturers' responsibility to settle with CMS. Management also stated the pharmacy function of the Department will be outsourced in fiscal year 2006.

We recommend the Department implement and/or strengthen control policies and procedures related to the receipt of payment for drug rebate invoices and the collection of interest on late drug rebate payments to reasonably ensure all payments, including interest, are properly calculated and submitted in accordance with Section 1927 of the Social Security Act and the Medicaid Drug Rebate Program Release No. 26. This would include ensuring all related information is received timely, mailing invoices within 60 days after the end of the quarter (or within 22 days of the CMS release date), and reviewing all labeler reconciliations.

Corrective Action Plan

(A) The department recently released an RFP to obtain a new Pharmacy Program Benefit Manager to, among other duties, create Drug Rebate Invoices, mail timely, post timely and pursue interest when appropriate. This will commence with the rebate invoices of the first calendar quarter of 2006. It is anticipated that the new vendor will be able to assign the needed resources to accomplish timeliness.

(B) Since the new vendor will not have to rely on timely interchanges between CMS, the MIS staff and the Rebate Administrator, and since the new vendor will have ready access to CMS rebate/unit calculations, it is anticipated that the entire rebate invoicing and collecting will run more smoothly.

(C) It is anticipated that the Pharmacy Program Benefit Manager will assign the appropriate resources to ensure timeliness of the entire Drug Rebate Invoicing and Collection process.

Anticipated Completion Date for Corrective Action

Since the first quarter Drug Rebate Invoices are scheduled to be mailed o/a June 1, 2006, it should take the following three months to determine if the new vendor is satisfying the deliverables requirement of the vendor contract.

Contact Person Responsible for Corrective Action

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32. EMPLOYMENT SERVICES – FEDERAL REPORTING

Finding Number	2005-JFS32-042
CFDA Number and Title	17.207/17.801/17.804 – Employment Service Cluster
Federal Agency	Department of Labor

<u>INTERNAL CONTROL – REPORTABLE CONDITION</u>

The Wagner Peyser Act, section 10c, requires each state to submit reports concerning its operations and expenditures, and establish and maintain a management information system to facilitate the compilation and analysis of programmatic and financial data necessary for reporting, monitoring, and evaluating purposes. It is management's responsibility to implement control policies and procedures to reasonably ensure these reports, which include the ETA 9002 and VETS 200 Quarterly Reports, are accurate, complete, and in compliance with federal requirements. Sound internal controls would require a review of the reports be performed, and documented in some manner, prior to submitting the data to verify the information reported is accurate and complete.

During state fiscal year 2005, the Department submitted the quarterly ETA 9002 and VETS 200 (a subset of the ETA 9002) reports electronically based on the information maintained in the Department's Sharing Career Opportunities and Training Information (SCOTI) system. Department personnel indicated they compiled the necessary information from SCOTI and uploaded it each quarter into software provided by the U. S. Department of Labor. This software allows the Department to view the reports electronically before they are finalized and submitted to the Department of Labor. Although several individuals within the Bureau of Workforce Services, System Support Section, indicated they reviewed the reports for reasonableness before submission, there was no evidence maintained to document this review either electronically or in another form. In addition, there are no written policies and procedures in place to identify the intended review process and documentation requirements.

In the absence of internal controls which would reasonably ensure the accuracy and completeness of reports, the risk is greatly increased that information being reported is not representative of Employment Service activity and/or is not in accordance with the federal requirement. Reporting inaccurate or incomplete information could subject the Department to federal sanctions, limiting the amount of funding for program activities. Although the Department's Management indicated the reports were reviewed before being submitted, they did not realize the importance of maintaining evidence to support that management reviews had occurred.

We recommend the Department devise and implement policies and procedures to provide reasonable assurance the federal reports submitted are accurate, complete, and in compliance with federal requirements. This would include implementing policies and procedures which require appropriate supervisory personnel to review the reports prior to submission and management to periodically monitor the preparation and accuracy of these reports. Evidence of such reviews should be maintained to provide management with assurance the controls are operating consistently and effectively.

Corrective Action Plan

The agency does not agree with the finding as indicated in the audit report. At the time of the audit, the agency had and continues to have a written process in place which provides appropriate and reasonable oversight prior to report submission. In addition, an annual report tracking calendar is used to ensure the timely review and submission of all required reports.

32. EMPLOYMENT SERVICES – FEDERAL REPORTING (Continued)

The auditor's evidence indicates that several individuals within the Bureau of Workforce Services, System Support Section, review the reports for reasonableness before submission; however, the auditor recommended OWD document such reviews in order to provide assurance of internal control. We have taken this observation under advisement and will amend our existing policy and process to require OWD staff formally document report reviews prior to submission. This documentation will be maintained.

Anticipated Completion Date for Corrective Action

The anticipated date for completion is May 31, 2006.

Contact Person Responsible for Corrective Action

Steve Clayborn, Supervisor, Grant and Audit Resolution, Office of Workforce Development, Ohio Department of Job and Family Services, 145 South Front Street, Columbus, Ohio 43216, Phone: (614) 644-8826, e-mail: claybs@odjfs.state.oh.us

33. UNEMPLOYMENT INSURANCE – INTERNAL CONTROLS

Finding Number	2005-JFS33-043
CFDA Number and Title	17.225 – Unemployment Insurance
Federal Agency	Department of Labor

INTERNAL CONTROL – REPORTABLE CONDITION

OMB Circular A-133, § _.300, states in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

JFS has established certain internal controls for its administration of the Unemployment Insurance (UI) federal program. Based on testing performed, JFS did not consistently apply these controls during fiscal year 2005 or the controls did not achieve the intended purpose. We noted the following conditions:

- JFS received monies known as "overpayment" receipts, which consist of the reimbursement of benefit payments, originally paid to claimants and later returned (paid back to JFS) when a determination was made (through either the identification of an error or an appeal process) that a claimant received benefit payments in excess of the benefits for which the claimant was eligible. The original benefit payments for which the overpayment was paid back could have been made from several different benefit types, including regular benefits, unemployment compensation for ex-servicemen, unemployment compensation for federal employees, temporary extended unemployment compensation, disaster unemployment assistance, and trade adjustment assistance. Transactions for the disaster and trade assistance benefit types are recorded in separate physical accounts; the other benefit types are recorded in the benefits custodial account. However, JFS is required to track and report to DOL the activity for each type of benefits separately. Under the previous Benefits system, the overpayment receipts were identified by the different type of original benefits paid out and were returned (credited) to that benefit type by a corresponding reduction in future draws. However,

33. UNEMPLOYMENT INSURANCE – INTERNAL CONTROLS (Continued)

the new Ohio Job Insurance (OJI) system, which was migrated into production on August 17, 2004, was not able to accurately identify or record the type of benefit overpayment being repaid and credit it back to the same source. OJI credited the overpayment collections to the benefits custodial account as a return of regular benefits. Thus, this condition resulted in the individual types of benefits not reflecting the transaction activity correctly, although the total amount of all benefits combined was not affected. Individual employer accounts did not appear to be affected by this miscoding in OJI. During the year JFS received $8,857,141 for 42,141 overpayment reimbursements.

- Unemployment benefit warrants are printed daily for JFS by the State of Ohio Office of Information Technology (OIT) Enterprise Print Services. Beginning in January 2005, JFS sent OIT an e-mail, notifying them of the number of warrants and related dollar amount to be printed. However, OIT prints the warrants during the third shift a little after midnight, soon after they receive the data needed to print the warrants. So, at the time of printing, OIT did not have a checksum or other notification that tells OIT how many warrants should be printed and the associated dollar amount, since the e-mail JFS sent arrived after the warrants were already printed and sent to JFS for mailing. After the warrants were printed, OIT notified JFS of the number of warrants printed. There were approximately two million warrants printed during the fiscal year over the 260 working days.

When controls are not consistently applied or applied too late to prevent an error, there is a risk that fraudulent, inaccurate and incomplete transactions may be processed and assets/resources of the Department could be compromised and irregularities could occur without being detected in a timely manner or at all. Without adequate documentation of controls, management cannot be assured the controls are working as intended or provide evidence to persons external to the organization, such as auditors. JFS management stated that FY 2005 was the first year for the new OJI system; they recognized the overpayment remittance problem and are working to correct it. JFS thought the e-mail notification was sent prior to the printing of the warrants.

We recommend the Department apply their control procedures consistently and in a timely manner so as to achieve their intended purpose. Specifically, we recommend JFS continue with its revision of the OJI system to identify the type of benefit payments from which the overpayments were made so that repayment of such amounts can be credited back to the appropriate type; provide OIT with an e-mail or other means to identify the number of warrants to be printed and the associated dollar amount prior to the printing of the warrants; and reconcile the number and dollar amount of the printed warrants to the print data sent to OIT. We also recommend that management periodically monitor the established procedures to help ensure they are being performed timely, consistently, and effectively.

Corrective Action Plan

<u>ISSUE ONE</u>: JFS, UC Benefits, Finance staff are working with JFS, MIS staff to resolve OJI defect #9088 submitted on March 29, 2005. Once the correction is promoted, the funding sources of the all reimbursements will be identified retroactively so that the funds can be credited back to correct fund type in one lump sum. Then, all future reimbursements will be transferred a daily basis. This activity will be tracked by Finance in compliance with DOL requirements.

<u>ISSUE TWO</u>: The current BISS notification e-mail that reports the number of warrants issued is mailed immediately after core batch is complete. This is received by the OIT print shop and the JFS mail room well before any warrants are mailed. The OIT print shop is located adjacent to the JFS mailroom within the same facility. They work hand in hand. In addition, the OIT print shop counts pages, not documents. The mail room counts documents (envelopes) being mailed. If the mail room count matches what is expected, the correct amount of warrants should be sent. In January, 2006, new processes were put in

33. UNEMPLOYMENT INSURANCE – INTERNAL CONTROLS (Continued)

place whereby the print sequence number and last name of the claimant are reported for the first and last warrants in the print file. OIT is matching these to ensure that this is what they printed. The second step is that the mail room is ensuring that the number of envelopes mailed matches to the number of warrants expected. This process should be automated by the end of this calendar year.

There are two additional controls. Each night, OJI uses a product called Control-B that calculates the average amount of all warrants created during the nightly batch. Tolerances are built into this product that, if exceeded, cause an alert to be set. Staff then can intervene if necessary. In addition, a report is produced that shows all warrants in excess of $2500, which is monitored by UC Internal Security staff. With these three controls in place, a checksum verification becomes redundant and inefficient.

Anticipated Completion Date for Corrective Action

ISSUE ONE: An OJI Test Director work request has been submitted and is being worked by JFS, MIS. An anticipated date for completion is 6-30-06.

ISSUE TWO: Completed. In January, 2006, new processes were put in place.

Contact Person Responsible for Corrective Action

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34. WIA – GUIDANCE TO SUBRECIPIENTS

Finding Number	2005-JFS34-044
CFDA Number and Title	17.258/17.259/17.260 – WIA Cluster
Federal Agency	Department of Labor

INTERNAL CONTROL – REPORTABLE CONDITION

The Workforce Investment Act (WIA) of 1998 is the legal authority for the WIA program and describes the intended operation and administration of the program; and sets forth the roles, powers and responsibilities of the entities that participate in the program. The Act defines general eligibility guidelines for the program and requires States to submit a plan regarding how they intend to implement these guidelines and utilize the funds to serve those in need of assistance. As the primary recipient agency, the State is responsible for providing guidance and technical assistance to the local areas and counties who administer the WIA program.

During fiscal year 2005, there were 20 Local Workforce Investment Areas (local areas) who were subrecipients of the Ohio Department of Job & Family Services. These local areas then had subrecipient relationships with one or more of the 88 counties in Ohio. Each local area has its own board which develops a five year plan for the area and sets the policies and procedures for that area. These polices include, but are not limited to, how to determine self-sufficiency. ODJFS management indicated they received and reviewed the plans for each of the local areas. However, they noted some plans included different criteria and/or activities for each of the counties they served and they indicated they review only selected policies and procedures. In addition, ODJFS provided some support to the local areas/counties

34. WIA – GUIDANCE TO SUBRECIPIENTS (Continued)

in the form of guidance letters and questions and answers on specific issues. One such issue involved an e-mailed question from a county in November, 2004 to a staff member of the Workforce Development section of ODJFS inquiring about whether a college student still claimed as a dependent by their parents could be considered as an adult for WIA benefits. The e-mailed response indicated that to be considered an adult, the applicant only needed to be 18 years old, be a citizen or legal alien, and be registered for selective service, if required. The e-mail further stated it did not matter if the person was legally dependent, therefore the applicant could be eligible as an adult for WIA. This guidance was also posted in the questions and answers portion the Workforce Development web site. According to ODJFS management, the information included on the web site is reviewed by appropriate personnel prior to posting.

Based on concerns expressed by a County Auditor, the ODJFS Bureau of Audit (BOA) expanded their regular testing of the local area which included this county to review these activities and, in November, 2005, concluded the county had incorrectly considered 13 college students as a family of one instead of evaluating their family's income against the federal poverty levels, in accordance with PELL grant and IRS standards. ODJFS BOA determined there were six of 13 individuals who received approximately $27,113 in inappropriate benefits for college tuition for program years 2003, 2004, and 2005. Of the remaining seven individuals, six were determined eligible after including the family income and one did not receive any payments. In addition, ODJFS indicated that five of the ineligible recipients were related in some manner to a county employee. ODJFS has not yet completed the final report for this review or evaluated other counties to determine if this is a pervasive issue statewide.

Incomplete or inconsistent guidance to the local areas or counties could result in incorrect benefits being paid to or on behalf of individuals who do not qualify for the program. Noncompliance with the requirements of WIA could result in federal funding being reduced or eliminated, sanctions imposed by the federal grantor agency, or the Department having to repay part or all of the grant awards to the federal government. Department management indicated this use of WIA funds may be allowable in certain circumstances; however, the guidance provided was incomplete in that it did not make clear that the evaluation of self-sufficiency should have included the family's income if they provided more than 50% of the student's support, as stipulated by the IRS and the PELL grant standards.

We recommend the Department:

- Provide immediate guidance to the local areas and counties regarding the requirements related to determining the self-sufficiency of each applicant, particularly college students between the ages of 18 and 24. Specific and detailed guidelines should be developed and implemented consistently statewide which require the counties to consider the family's income for these individuals and prohibit benefits from being provided if the individual is not self sufficient and/or the family does not qualify based on the federal poverty guidelines.

- Determine if this is a pervasive issue by reviewing cases in other counties and taking appropriate steps to recover any over-paid benefits.

- Evaluate their process for providing guidance to the counties to reasonably ensure the information is accurate and complete. Any exemptions or other special circumstances should be thoroughly explained, with reference to the underlying laws, rules, or regulations where the reader may be able to obtain more detailed information on the issue. Any formal guidance provided by the State should be reviewed and approved by appropriate management-level personnel prior to issuance.

- More closely review the plans and policies and procedures of the local areas to reasonably ensure they are in line with the WIA requirements and the State's overall plan and objectives, and include consistent criteria and/or activities for each of the counties within the area.

34. WIA – GUIDANCE TO SUBRECIPIENTS (Continued)

Corrective Action Plan

The Department will provide additional guidance by conducting further training for WIA Area staff including the requirements related to determining the self-sufficiency and suitability of each applicant, particularly college students between the ages of 18 and 24. Specific and detailed guidelines will be included in this training and administered consistently statewide by guidance, subgrant agreements, etc. that prohibits benefits from being provided if the individual is not self sufficient and/or the family does not qualify based on the federal poverty guidelines.

Additionally, the Department is determining whether this is systemic issue by reviewing cases in other WIA Areas through routine and special financial management, and program integrity reviews.

The process for providing guidance to the WIA Areas is reasonable to ensure the information is accurate and complete. Exemptions or other special circumstances are thoroughly explained with reference to the underlying laws, rules, or regulations where the reader may be able to obtain more detailed information on the issue. Formal guidance provided by the State is reviewed and approved by appropriate management-level personnel prior to issuance.

The Department will more closely review the plans, policies, and procedures of the local areas to ensure they are in line with the WIA requirements and the State's overall plan and objectives, and include consistent criteria and/or activities for each WIA Area. Further oversight and monitoring remains the responsibility of the area board and staff.

Anticipated Completion Date for Corrective Action

Ongoing	*Review of participant case files through on-site financial management and program integrity activities. Additional review of WIA Area policy and guidance occurs on a routine and non-routine basis in the Office of Workforce Development.*
Ongoing	*Formal guidance provided by the State is reviewed and approved by appropriate management-level personnel prior to issuance.*
10.30.2006	*Training to be completed for determining self-sufficiency and suitability for intensive and training services at the annual WIA 411 conference*

Contact Person Responsible for Corrective Action

John Weber, Chief, Bureau of Workforce Services, Office of Workforce Development, Ohio Department of Job and Family Services, 4020 E. Fifth Ave, Columbus, Ohio 43219, Phone: (614) 466-9494, e-mail: WEBERJ@odjfs.state.oh.us

35. TRADE ADJUSTMENT ASSISTANCE – FEDERAL REPORTS

Finding Number	2005-JFS35-045
CFDA Number and Title	17.245 – Trade Adjustment Assistance
Federal Agency	Department of Labor

<u>INTERNAL CONTROL – REPORTABLE CONDITION</u>

JFS is required to submit the following reports to the Department of Labor in connection with the administration of the Trade Adjustment Assistance (TAA) federal program:

- *Trade Act Participant Report* (TAPR) (*OMB No. 1205-0392*) – State Employment Security Agencies are required to submit quarterly reports on participant characteristics, services and benefits received, and outcomes achieved.

- ETA 563, *Quarterly Determinations, Allowance Activities and Reemployment Services Under the Trade Act (OMB No. 1205-0016)* - This report is due quarterly from each State Workforce Agency. The report details quarterly activities for each petition in the state and is due "by the last day of the month following the end of the reporting period which the reports cover" (ETA Handbook No. 315, Chapter III, 2d).

It is management's responsibility to implement control policies and procedures to reasonably ensure the federal reports they submit are accurate, complete, and in compliance with program requirements. It is imperative that management be able to provide the underlying data and related program documentation required to prepare and support these reports.

JFS did not have control procedures in place during the year to review and approve the TAPR and ETA 563 reports for accuracy and completeness before submitting the reports. In addition, JFS did not maintain copies of the TAPR reports it submitted, although it had documentation to show the reports were submitted timely. JFS was not able to furnish any documentation to support the data shown on the ETA 563 reports. Furthermore, JFS did not submit the ETA 563 reports for the January-March 2005 and April-June 2005 quarters, in final correct format accepted by DOL, until July 7, 2005 and December 6, 2005, respectively.

If copies of the submitted reports are not maintained or if the underlying data for the reports cannot be readily verified, the Department and the federal government may not be reasonably assured the information is accurate and complete. Submitting the reports late could subject the Department to federal sanctions, limiting the amount of funding for program activities. JFS management stated the newly implemented Ohio Job Insurance system was designed to generate the ETA 563 report without staff intervention, but the program's report modules are not working as intended. The TAPR document is prepared by one section of JFS and submitted by another; neither section maintained a copy of the submitted report.

We recommend the Department devise and implement policies and procedures to provide reasonable assurance the federal reports are accurate, complete, submitted timely, and in compliance with federal requirements. At a minimum, the controls should include a review of the reports and verifying the amounts on them before the reports are submitted. In addition, the Department should maintain appropriate supporting documentation for the reports and copies of the reports submitted. We also recommend management periodically monitor the preparation and accuracy of these reports, and formally document their reviews.

35. TRADE ADJUSTMENT ASSISTANCE – FEDERAL REPORTS (Continued)

Corrective Action Plan

Trade Act Participant Report: During the audited year, ODJFS did not have an automated system which housed TAPR data. The report was created manually. Each exited participant's file was pulled, necessary data retrieved and entered manually into the TAPR Foxpro application. In addition, previously entered data is re-verified. MIS was notified when the data compilation for the report had been completed and MIS then converted the file into a comma delimited format and forwarded to Department of Labor. Department of Labor did not return a completed report. When the next TAPR report was due, MIS overwrote the previous comma delimited file only which did not allow for TRADE to maintain a copy. The data for the report remained, and continues to remain, in the Foxpro TAPR database. This database can be queried for a record of what was submitted to MIS prior to the comma delimited conversion. In fact, this database is queried annually for data validation. In February of 2006, data validation revealed a less than 2% error rate across all categories for TAPRs submitted for the 2005 Program Year.

Admittedly, the Foxpro application is a rather archaic and ineffective system which did not include built in controls to ensure accurate data. ODJFS is in the process of automating the TAPR via the Ohio Job Insurance System. In addition, as a result of the new common performance measures, ODJFS will be utilizing the SCOTI system to ensure more accurate wage record information. It is believed these systems will provide a more timely, accurate, effective and efficient means of creating the TAPR. We thus, consider this finding in the process of being resolved.

ETA-563: Unfortunately, the ETA-563 report is a very difficult report to create, and therefore validate, in light of the various methods used to pay training costs and benefits. ODJFS continues to look for ways to improve and simplify this process and is moving toward one single primary method of paying training costs and benefits which would put ODJFS in a position to submit the ETA-563 reports timely. Most recently, defects in the current Ohio Job Insurance program caused a delay in capturing necessary information. The correction has now been implemented and will hopefully lead to a more timely and more accurate transfer of data for future reports. Copies of the ETA-563 report are housed on a shared Trade database. We thus, consider this finding in the process of being resolved.

Anticipated Completion Date for Corrective Action

June 30, 2006

Contact Person Responsible for Corrective Action

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36. SOCIAL SERVICES BLOCK GRANT – INCOMPLETE MONITORING

Finding Number	2005-JFS36-046
CFDA Number and Title	93.667 – Social Services Block Grant
Federal Agency	Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

Federal regulations require management to devise and implement an adequate internal control structure capable of providing them with reasonable assurance their objectives are being achieved. The Ohio Department of Job and Family Services currently operates the Social Service Block Grant (SSBG) Program using a state-supervised, county-administered approach. It is the Department's responsibility to monitor the activities of the 88 county agencies for overall compliance with federal requirements and program objectives.

During fiscal year 2005, ODJFS disbursed approximately $123.5 million in SSBG funds to the counties (approximately 95% of the total program). This includes approximately $76 million in funds transferred by ODJFS to SSBG from the Temporary Assistance for Needy Families (TANF) Program which has restrictions on its use. Each county is to develop a plan to indicate how they will use their SSBG funding which is submitted to ODJFS for approval. The Department has not, however, designed appropriate monitoring procedures to provide reasonable assurance the county agencies were in compliance with federal requirements related to the SSBG program or their individual plans. There were no monitoring procedures conducted by the SSBG program staff during fiscal year 2005. Although the Department's Bureau of Audit (BOA) conducted some on-site reviews of the county agencies, these reviews were performed substantially after the period of review and testing had been completed for only seven of the 88 counties. The focus of the BOA procedures for the SSBG program is contract payments; however, four of the four sets of working papers selected for testing from the seven reviews completed during the audit period indicated these contract payments were not tested for various reasons. In addition, there was no evidence to indicate the reviews included procedures to reasonably ensure counties were properly determining program eligibility or to evaluate the allowability and appropriateness of benefits or other charges paid from the TANF transfer funds.

Without performing adequate monitoring procedures and/or maintaining the necessary supporting documents, management may not be reasonably assured the Department is in compliance with federal program requirements. This increases the risk that necessary corrective actions may not be properly or timely implemented resulting in noncompliance, and/or fines or penalties which could adversely affect program funding. Management indicated additional monitoring procedures over the counties were in the process of being designed and implemented, but had been delayed due to understaffing.

We recommend ODJFS implement policies and procedures to require thorough monitoring procedures of county activities are performed on a regular basis, and proper supporting documentation is maintained at all levels. These monitoring procedures should cover all programmatic and financial requirements of the program, including those related to the TANF transfers. Particular attention should be paid to the activities allowed and eligibility requirements included in the OMB Circular A-133 Compliance Supplement and the county's SSBG plan. These procedures may include, but are not limited to, periodic on-site reviews of county operations and federal program compliance by SSBG program staff members and/or other qualified ODJFS personnel. The procedures should be performed timely, thoroughly documented, and reviewed by appropriate supervisory personnel. All work performed should include sign-offs by the preparer and the reviewer. The results of the reviews should be communicated to the counties in writing and follow-up procedures performed on any required corrective action.

36. SOCIAL SERVICES BLOCK GRANT – INCOMPLETE MONITORING (Continued)

Corrective Action Plan

ODJFS will craft a letter from the Director's Office requiring counties submit an addendum to their plan that references their specific county eligibility criteria. We will also review and update any administrative procedure letters necessary for the Title XX RMS coding system to ensure counties properly report expenditures for Title XX and the TANF transfer.

ODJFS will monitor county expenditures and services through desk reviews using a risk based model. This model will look at the total expenditures per county and focus monitoring efforts on those counties that spend the most. Based on this analysis, ODJFS will conduct annual reviews on counties deemed to be at the highest risk. Counties deemed to be at medium risk will be reviewed every two years. Counties deemed to be low risk will reviewed every three years.

The ODJFS Bureau of Audit was previously limited in the extent of its audit coverage with regard to Title XX and TANF transfer monies, as the prescribed financial reporting system did not sufficiently differentiate the expenditures. This has been corrected, and our monitoring audit activity will henceforth include testing of such monies. County departments of job and family services are being placed on a standardized audit cycle for monitoring purposes, as previously communicated to HHS.

Anticipated Completion Date for Corrective Action

Letter requesting an addendum to county Title XX plans will be released by July 1, 2006.

Review of any administrative procedure letters requiring update for Title XX RMS code will occur by May 30, 2006. Any updates or revisions required will be released by July 1, 2006.

For desk review monitoring, Placement Section staff will conduct two meetings with staff in the Office of Research Assessment and Accountability to develop a plan for monitoring the higher risk counties in SFY 2007. The plan will include what materials to request from the counties for the purposes of monitoring, the specific counties that will be monitored based on the highest Title XX expenditures, method for communicating the plan to the local agencies, and schedule for conducting the reviews. The meetings and plan will be developed by July 1, 2006. The monitoring of the high risk counties will be completed during SFY 2007.

The change in the Bureau of Audit procedures will be effective as to all audits of county departments of job and family services initiated after July 1, 2006.

Contact Person Responsible for Corrective Action

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37. MISSING DOCUMENTATION – VARIOUS COUNTIES

Finding Number	2005-JFS37-047
CFDA Number and Title	10.551/10.561– Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.563 – Child Support Enforcement 93.575/93.596 – Child Care Cluster 93.658 – Foster Care 93.659 – Adoption Assistance 93.667 – Social Services Block Grant 93.775/93.777/93.778 – Medicaid Cluster 93.767 – State Children's Insurance Program
Federal Agency	Department of Agriculture Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

When administering federal grant awards for the Ohio Department of Job and Family Services (ODJFS), it is each County Department of Job and Family Services managements' responsibility to provide reasonable assurance that only eligible individuals receive assistance and information reported to ODJFS is accurate and complete. In order for county management to ensure and verify this, it is imperative that appropriate supporting documentation be maintained for all amounts reported and case files contain all pertinent information relating to the case and be readily accessible for review and/or reference. The ODJFS Administrative Procedure Manual Chapter 9212 states, in part:

> Financial, programmatic, statistical, and recipient records and supporting documents must be retained for a minimum of three years. The minimum retention period for public assistance records depends upon whether the assistance group is active or inactive. ODJFS requires inactive assistance group records to be held for a minimum of three years after the group has become inactive. For active assistance groups, or assistance groups that have been inactive for less than three years, ODJFS requires a minimum retention period of seven years for documentation, including old application/reapplication forms and monthly reporting forms which were obtained for the assistance group record.

ODJFS is responsible for establishing guidelines and regulations for implementation at the county level and for overseeing county activities to reasonably ensure ODJFS is in compliance with federal program requirements.

Four of six counties tested were missing required case file or other documentation for control testing of various programs, as follows:

COUNTY/CFDA#	MISSING DOCUMENTATION
Cuyahoga/ 93.558	We noted the following missing documents during the respective control testing of the TANF program (Special Tests and Provisions): <u>Child Support Non-Cooperation, Sanctioned</u> – sample of 20 case files out of a total population of 612: • Six (30%) did not contain a Self-Sufficiency Contract evidencing the participants agreed to the terms set forth by Employment and Family Services (EFS). • Eight (40%) did not have a signed Self Sufficiency Plan evidencing the self-sufficiency coach reviewed the plan to ensure it was satisfactory.

37. MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

COUNTY/CFDA#	MISSING DOCUMENTATION
Cuyahoga/ 93.558 (Continued)	• 13 (65%) did not have a sanction intervention letter for our review to show appropriate approval of the sanction and the notification to the participant they have five days to show good cause for their failed hours or they would be sanctioned and their benefits would be cut. <u>Refusal to Work (Failure to Participate in a Work Activity), Sanctioned</u> – sample of 20 case files out of a total population of 3,863: • Six (30%) did not contain a signed Self-Sufficiency Contract. • Six (30%) did not contain a signed Self-Sufficiency Plan. • Ten (50%) did not have a sanction intervention letter. • One (5%) did not have a written record of the participant's refusal to work in the case file or on the CRIS-e CLRC running comments screen. <u>Refusal to Work (Failure to Participate in a Work Activity), Non-Sanctioned</u> – sample of 20 case files out of approximately 25,530: • Four (20%) did not contain a signed Self-Sufficiency Contract. • Four (20%) did not contain a signed Self-Sufficiency Plan. <u>Adult Custodial Parent with Child Under Age Six When Child Care Unavailable, Sanctioned</u> – sample of 15 case files out of approximately 2,329: • Two (13.3%) did not contain a signed Self-Sufficiency Contract. • Two (13.3%) did not contain a signed Self-Sufficiency Plan. • Ten (66.6%) did not have a sanction intervention letter. <u>Adult Custodial Parent with Child Under Age Six When Child Care Unavailable, Non-sanctioned</u> – sample of 15 case files out of approximately 82,560: • Six (40%) did not contain a signed Self-Sufficiency Contract. • Six (40%) did not contain a signed Self-Sufficiency Plan. During eligibility control testing of 20 TANF PRC case files, out of 5,413, we noted the following: • Ten (50%) did not contain an application; therefore, we could not review for the signature approval of management and the appropriate signature of the applicant. However, we did note eligibility approval was on the CRIS-e AEIID screen. • Six (30%) did not contain a PRC Request Form indicating eligibility had been determined by the signature and date of the caseworker. Information was noted on the CLRC case notes screen and the SFPR approved benefits screen indicating a request was made and payment was authorized. • 15 (75%) did not contain a copy of the PRC Notice to evidence the client was either eligible or ineligible for PRC benefits. Due to CCDJFS using the CRIS-e system to verify participants and their eligibility during testing, we will not question costs for the above three bullet items. During eligibility control testing of ten TANF OWF case files, out of approximately 25,531, we noted the following: • Seven (70%) did not contain a copy of the Self-Sufficiency Contract or Plan.

37. MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

COUNTY/CFDA#	MISSING DOCUMENTATION
Cuyahoga/ 93.767	During eligibility control testing of the SCHIP program, out of approximately 3,790 case files, we noted the following: • Three of 20 (15%) applications were unable to be located; two of the case files were not received and one application was not included in the case file; therefore, we were unable to determine if the application was submitted correctly. In addition, we were unable to determine if these applications were accurately input into the CRIS-e system by the Health and Nutrition Specialist. • 11 of 12 (91.6%) case files did not contain the required signed Redetermination Letter indicating the letter was reviewed for accuracy.
Cuyahoga/ 93.575/ 93.596	During eligibility control testing of 20 Child Care case files, out of approximately 19,765, we noted the following: • Six (30%) were missing Child Care Application/Redeterminations. • Ten (50%) did not have a Notice of Approval of Application for Assistance Form (ODJFS 4074 Form) evidencing the client was eligible to receive child care benefits. • 12 (60%) did not have the Rights and Responsibility Form (ODJFS 4065 or 5420) to review for completeness and the client's signature.
Cuyahoga/ 93.658	During eligibility control testing of 20 Foster Care cases files, out of a total population of 7,400, we noted the following: • Two (10%) did not have Redetermination Forms for determining continuing eligibility. The IV-E Notification Reports periodically generated to identify cases in which an eligibility redetermination is due or delinquent did not properly identify these two cases.
Cuyahoga/ 93.659	During eligibility control testing of 18 Adoption Assistance case files, out of the 6,800, we noted the following: • Four (22.2%) Annual Determination of Continuing Eligibility forms could not be located; therefore, we could not determine if the application was approved and whether the approval was timely.
Cuyahoga/ 93.775/ 93.777/ 93.778	During eligibility control testing of ten Medicaid case files, out of approximately 244,189, we noted the following: • Two (20%) applications were unable to be located; therefore, we were unable to determine if eligibility factors contained within the CRIS-e system were accurately input. One case file was missing and the other case file did not contain the application.
Hamilton/ All programs	During payroll control testing of 14, out of 39,000, payroll transactions, we noted the following: • Two (14.3%) leave requests were unable to be located; therefore, we were unable to determine the leave request was appropriately reviewed and approved by the supervisor.
Hamilton/ 93.563	During Activities Allowed or Unallowed control testing of seven CSEA vouchers, out of 750, we noted the following: • One (14.3%) did not have a purchase order available for review; therefore, we could not determine if it had been signed by authorized personnel to indicate it had been reviewed and approved prior to the purchase.

37. MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

COUNTY/CFDA#	MISSING DOCUMENTATION
Lucas/ 93.558	During Special Tests and Provisions (Adult Custodial Parent with Child under Six, Non-sanctioned) control testing of 20 TANF cases files, out of 1,413, we noted the following: • Three (15%) Employment Contract and Plans (ECP) were unable to be located; therefore, we were unable to determine if they were signed by the applicant when completed and the manager to indicate approval. However, we were able to identify in the CRIS-e CLRC running comments screen when the ECP was completed. During eligibility control testing of 20 TANF PRC case files, out of approximately 963, we noted the following: ▪ Two (10%) PRC applications were unable to be located; therefore, we could not review the application for the clients' signature to verify they had completed it, or the signature of the caseworker indicating the application was approved, or managements' review over the application and their signature as verification of benefits or denial. During Activities Allowed or Unallowed control testing of 20 TANF PRC vouchers, out of 1,043, we noted the following: • Two (10%) were unable to be located; therefore, we could not determine if the vouchers were signed and dated by the casework aide indicating the vouchers were prepared and ready for review. We also could not verify the voucher had been reviewed and approved by appropriate management as indicated by their signature. During Special Tests and Provisions (Refusal to Work, Sanctioned) control testing of 20 TANF sanctioned case files, out of approximately 2,751, we noted the following: • Ten (50%) Referral Forms 1505 were unable to be located; therefore, we were unable to test if the data processing personnel date stamped the receipt of the 1505 form. • Two (10%) did not have a copy of the ECP; however, we were able to identify in the CRIS-e CLRC running comments screen when the ECP was completed. During Special Tests and Provisions (Refusal to Work, Non-Sanctioned) control testing of 20 TANF case files, out of approximately 4,581, we noted the following: • Five (25%) ECPs were unable to be located. During Special Tests and Provisions (Adult Custodial Parent with Child Under Six, Sanctioned) control testing of 20 TANF sanctioned case files, out of 2,547, we noted the following: • Seven (35%) did not have a copy of the ECP; however, we were able to identify in the CRIS-e CLRC running comments screen when the ECP was completed. • Nine (45%) Referral Forms 1505 were unable to be located.

37. MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

COUNTY/CFDA#	MISSING DOCUMENTATION
Lucas/ 93.558 (Continued)	During Special Tests and Provisions (Child Support Non-Cooperation, Sanctioned) control testing of 20 sanctioned case files, out of approximately 2,052, we noted the following: • Ten (50%) Referral for Sanction Forms (AEIGC) were unable to be located; therefore, we could not test for the date stamp of when it was received by data processing and for the initials/date of the data processing personnel indicating it had been processed. • One (5%) did not have a copy of the ECP; however, we were able to identify in the CRIS-e CLRC running comments screen when the ECP was completed.
Lucas/ 93.767	During eligibility control testing of 20 SCHIP case files, out of approximately 10,108, we noted the following: • One (5%) did not have an ODHS 7216 application, although, it was noted within CRIS-e CLRC screen that a reapplication was sent to the client and received. However, we were unable to review the application for the client signature and we could not determine if application information had been entered into CRIS-e accurately. • Eight of 15 (53.3%) Redetermination Forms were missing from the case files to indicate the recipient was re-evaluated for eligibility. However, it was noted within CRIS-e CLRC screen a reapplication was sent to six of the eight recipients. • One of eight (12.5%) ODHS 7220 Application/Verification Request Checklists were not sent to the client to complete, when recipient information from the case file was missing.
Lucas/ 93.775/ 93.777/ 93.778	During eligibility control testing of eight Medicaid case files, out of 83,920, we noted the following: • Four of seven (57.1%) did not have a checklist in the case file which signified the case worker verified appropriate information necessary for making a proper eligibility determination. • Three (37.5%) did not have the CRIS-e printouts of applicants' SSI income, which is printed when a case worker verifies the participant's income through the CRIS-e system.
Muskingum/ 93.558	During Activities Allowed or Unallowed control testing of 20 TANF PRC case files, out of 726, we noted the following: • Three (15%) Approval or Denial Sheets were missing; therefore, we were unable to test for the caseworker signature. However, we were able to determine the recipients were approved for the amounts received as noted by a prior authorization form attached to the voucher.

37. MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

Without appropriate supporting documentation on file, county personnel may not be able to evaluate the appropriateness of eligibility determinations/denials, reasonably ensure the amount of benefits paid is accurate, or reasonably ensure the designed procedures are in place and operating as management intended. In addition, county and ODJFS management may not be reasonably assured the amounts reported are accurate and complete, that adjustments made to original reports were appropriate, or compliance requirements are being met. Without completing and retaining a copy of the application/agreement, the county may not have a solid legal position to ensure the recipient's compliance with federal regulations.

Cuyahoga County management indicated the missing documents and case files were the result of records possibly being located at three different locations (the imaging system, paper record case file, or the caseworker's desk) and could not be found. Hamilton County management stated not all supervisors are following procedures for approval of leave forms prior to payroll processing. Lucas County management indicated missing documents were the result of significant changes in personnel for the TANF program, and the records department is currently behind so the items noted were due to oversight. Muskingum County management's policy was to dispose of the case files after a year of the application date.

We recommend Cuyahoga, Hamilton, Lucas, and Muskingum county management review the current policies and procedures with all staff and implement or enforce control procedures which will reasonably ensure case files have adequate documentation to support payments made to recipients. One method to ensure the required information is maintained in the case file would be to develop and use a checklist. The checklist would serve as a lead sheet for each case file to show the status of the case and to help ensure the proper supporting documentation is included within the file. Management may consider performing a periodic review of case files to ensure established control and record retention procedures are followed by personnel, and revise records retention policies to maintain appropriate documentation for auditing purposes.

CUYAHOGA COUNTY

Corrective Action Plan

TANF/Child Care Cluster:

(a) The Agency has employed an electronic management review tool offered by the Rushmore Group to be utilized by direct service delivery staff, as well as, our internal quality control departments.

(b) Decrease the backlogged scanning of case record materials being converted to an upgraded electronic records management system called eRIMS.

(c) The Agency is hiring 23 additional Customer Service Aides (CSAs) with the primary responsibility of scanning case record materials into the electronic records information management system (eRIMS).

(d) The Agency will be issuing revised procedures for maintenance of case record materials and an updated process for front-line staff.

Foster Care/Adoption Assistance:

There is a system in place in which notification reports are generated during the year and provided to the IV-E staff to identify the cases that are either due or now delinquent for completing redeterminations. Since there were a few that were missed or omitted from the report, DCFS will address the problem by monitoring the reports closer and requiring periodic manual review by each worker of their case assignments as another effort at preventing and identifying missed redeterminations.

37. MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

Medicaid Cluster:

Staffing – 56 eligibility staff are being hired; 7 team leaders are being promoted from eligibility staff positions; 23 customer service aides are being hired.

Training – combined program application process training is being developed to include the comparative differences and similarities of Medicaid, Food Stamps, and cash to improve accuracy.

Records Management – Backlog case files have been organized into case number order so that files waiting to be imaged can be readily found. Backlogged case files are being imaged during overtime and the backlog is decreasing.

Current Records – are being imaged during regular work hours and the current work is up-to-date.

Case File Checklist - A step-by-step activity detail will be completed for case files imaging process and staff will be afforded a desk aid.

Anticipated Completion Date for Corrective Action

TANF/Child Care Cluster:

(a) Electronic management review tool to be implemented by November 30, 2006.

(b) Backlogged Scanning to be completed by June 30, 2006.

(c) Additional CSAs to be hired by February 28, 2006.

(d) Revised procedures will be completed by March 31, 2006.

Foster Care/Adoption Assistance:

Ongoing process, completion date not applicable.

Medicaid Cluster:

Staffing – All new staff will be selected, hired and trained by June 30, 2006.

Training – All existing staff will be afforded application process training in May 2006, and training will be completed by May 26, 2006.

Records Management – Current case records imaging continues to be maintained and up to date. The backlog of case files will be imaged by December 2006.

Case File Checklist – March 2006.

37. MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

Contact Person Responsible for Corrective Action

TANF/Child Care Cluster:

Michelle Latimore, Participant Services Managers, Cuyahoga County Employment and Family Services, Ohio Department of Job and Family Services, 1641 Payne Avenue, Cleveland, Ohio 44114, Phone: (216) 987-8460, e-mail: Latimm@odjfs.state.oh.us

Jacquelon Ward, Participant Services Managers, Cuyahoga County Employment and Family Services, Ohio Department of Job and Family Services, 1641 Payne Avenue, Cleveland, Ohio 44114, Phone: (216) 987-6387, e-mail: Wardj01@odjfs.state.oh.us

Foster Care/Adoption Assistance:

Audrey L. Beasley, Business Services Manager, Cuyahoga County, Ohio Department of Job and Family Service, 3955 Euclid Avenue, Cleveland, Ohio 44115, Phone: (216) 432-2675, e-mail: abeasley@cuyahogacounty.us

Medicaid Cluster:

Michelle Latimore, Participant Services Managers, Cuyahoga County Employment and Family Services, Ohio Department of Job and Family Services, 1641 Payne Avenue, Cleveland, Ohio 44114, Phone: (216) 987-8460, e-mail: Latimm@odjfs.state.oh.us

Jacquelon Ward, Participant Services Managers, Cuyahoga County Employment and Family Services, Ohio Department of Job and Family Services, 1641 Payne Avenue, Cleveland, Ohio 44114, Phone: (216) 987-6387, e-mail: Wardj01@odjfs.state.oh.us

HAMILTON COUNTY

Corrective Action Plan

Provide additional outreach and communication to all Unit Timekeepers/Team Leaders regarding the requirement that all requests for time off or extended leave must be prior approved. Further, emphasize that the Unit must maintain signed, approved leave request forms to document each occurrence of absence PRIOR to recording the time off on the daily timesheet. Bring concerns surrounding non-compliance to attention of Executive Team. Research feasibility of Human Resources providing on-going supervisory training for newly promoted managers.

Anticipated Completion Date for Corrective Action

April 15, 2006

Contact Person Responsible for Corrective Action

Barbara Turner, Payroll Manager, Hamilton County, Ohio Department of Job and Family Services, 222 East Central Parkway, Cincinnati, Ohio 45202, Phone: (513) 946-1492, e-mail: turneb03@jfs.hamilton-co.org

37. MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

LUCAS COUNTY

Corrective Action Plan

TANF:

(a) The clerical support staff will open all cases and will have the ECP as the top copy of each case opened. Case Managers will not be permitted to open their own cases, which results in duplicate cases that can not be located during audits and internal reviews. In addition, a client tracking system is being designed that will allow management to keep track of where cases are located.

(b) A PRC unit has been developed and this unit will complete all PRC applications instead of in seven different units. A PRC Coordinator was hired to develop standardize the PRC process and to ensure that all PRC applications are processed timely and accurately. All completed applications will be stored within the PRC unit.

(c) The vouchers on-site may or may not have initials; we are certain that all original vouchers submitted to the County Auditor for payment are initialed as it is their practice to return un-initialed voucher packets. To confirm that this practice is occurring for all vouchers prepared by Lucas CDJFS, the Fiscal Coordinator will review the requirement of the need for initialing with the Account Clerks. This is critical because of new hires in these roles. The Procedure "2827 Monthly Financial Reporting" will be amended to include in part 1, following the second sentence, "The Account Clerk will then initial the voucher(s) indicating the invoice has been reviewed for accuracy."

The Fiscal Coordinator or Manager's requirement to sign the voucher is already within the above referenced procedure.

The PRC voucher payment procedure will indicate the importance of the Fiscal Coordinator's signature prior to issuance for payment.

(d) An Excel spreadsheet has been created to track the receipt of the referral, the date completed, along with other pertinent statistics related to the sanction process. The unit clerk receives the referral, enters in spreadsheet, date stamps referral, distributes to assigned worker for processing. After processing is completed, referral is returned to unit clerk, again logged for completion and filed into appropriate file by type, date and action completed.

Another department was assisting in processing the backlog of sanctions and controls were not in for this unit. Since backlog is caught up, only Data Dept. will be imposing sanctions and these oversights will be eliminated. In addition, referrals are randomly audited by Data Services Coordinator to ensure correctness.

These Coordinators will perform a desk review beginning January 2006, and monitor that the physical ECP is in each work activity case. As a part of a desk and case reorganization for consistency with the SSCM's, the SSCM will be instructed to attach the most recent ECP on the left side of the file folder for easy visibility.

WA Coordinators will be monitoring all WA cases for SSCM signatures, client signatures and dates of service on all ECP's.

(e) See item (d) above.

(f) See item (d) above.

37. MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

State Children's Insurance Program:

Records area is backlogged and may not have gotten to file the 7216 in the case. Records is undergoing a renovation to enable filing to be placed in cases. A temporary filing strategy was implemented in June 2005, to keep the filing in the units until records is renovated. All case documentation could then be retrieved from the units. Four temporary workers were hired to make sure the filing in the units is in order and easily accessible.

Beginning February 15, 2006, the Team Leader or ESW assigned to the unit will be reviewing the cases prior to authorization, for a period of one month. Additionally, for a period of three months, each caseworker will be required to submit an additional three random cases per week, to the Team Leader/ESW, prior to authorization for review. The Team Leader/ESW will review the case to ensure that a copy of the re-determination letter is in the file. The case will be considered in error if they are not in the file. All errors require a response from the employee and will be considered on the employee's evaluation.

Medicaid Cluster:

Beginning February 15, 2006, for a period of one month, all cases requiring income verification for SSI will be reviewed by the Team Leader prior to authorization to ensure the SSI printout is in the file, and the checklist is completed correctly. Each caseworker will be required to submit an additional three random cases per week, to the Team Leader, prior to authorization for review. The Team Leader will review the checklist and verifications to ensure all required documents are in the file. After the one month period, cases will be randomly reviewed prior to authorization by the Team Leader. The Manager will issue a directive to staff that the verification checklist must be used and kept in the case file. Also, issues a directive that the SSI must be verified and a copy of the CRIS-E printout must be in the case file. Post authorization of cases will be reviewed by the monitoring unit, who will check for a copy of the verification checklist and the SSI printout in the case file. The case will be considered in error if they are not in the file. All errors require a response from the employee and will be considered on the employee's evaluation.

Anticipated Completion Date for Corrective Action

TANF:

(a) Clerical support will begin opening cases for case managers as soon as the positions are filled. These positions have been posted. Client Tracking is being developed and is expected to be completed in 2006.

(b) This has already been implemented.

(c) December 31, 2005

(d) By April 2006, each work activity case is anticipated to be reviewed.

(e) Same as item (d)
(f) Same as item (d)

State Children's Insurance Program:

Ongoing; December 2006 for completion of all records projects.

Medicaid Cluster:

Ongoing

37. MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

Contact Person Responsible for Corrective Action

TANF:

Jodi Walker, Manager of Family Services, Lucas County, Ohio Department of Job and Family Services, 3210 Monroe Street, Toledo, Ohio 43699, Phone: (419) 213-8237, e-mail: walkerj09@odjfs.state.oh.us

Debra A. Campbell, Director of Client Services, Lucas County, Ohio Department of Job and Family Services, 3210 Monroe Street, Toledo, Ohio 43699, Phone: (419) 213-8811, e-mail: campbd@odjfs.state.oh.us

Barbara Prond, PRC Coordinator, Lucas County, Ohio Department of Job and Family Services, 3210 Monroe Street, Toledo, Ohio 43699, Phone: (419) 213-8050, e-mail: prondb@odjfs.state.oh.us

Adam Nutt, Fiscal Coordinator, Lucas County, Ohio Department of Job and Family Services, 3210 Monroe Street, Toledo, Ohio 43699, Phone: (419) 213-8933, e-mail: nutta@odjfs.state.oh.us

Carlotta Williamson-Brown, Manager 3, Lucas County, Ohio Department of Job and Family Services, 1301 Monroe Street, Toledo, Ohio 43699, Phone: (419) 213-6326, e-mail: willic09@odjfs.state.oh.us

Kim Morris, Data Services Coordinator, Lucas County, Ohio Department of Job and Family Services, 3210 Monroe Street, Toledo, Ohio 43699, Phone: (419) 213-8317, e-mail: morrik01@odjfs.state.oh.us

MUSKINGUM COUNTY

Corrective Action Plan

Muskingum County is currently digitally imaging all its case files, including all PRC case files. After files are imaged into the electronic system, they are maintained for an indefinite period of time. Files are retrievable at any point in time.

Muskingum CDJFS will modify its records retention policy to state that all PRC files will be maintained for a seven year period and until audited based on Ohio Administrative Code (OAC) 5101:9-4-07 (Retention of Procurement Records). This change to our policy will be submitted to the Muskingum County Records Commission for approval.

Anticipated Completion Date for Corrective Action

November 30, 2005

Contact Person Responsible for Corrective Action

Tanya Sturtz, Deputy Director, Social Services, Muskingum County, Ohio Department of Job and Family Services, P.O. Box 100, Zanesville, Ohio 43702-0100, Phone: (740) 454-0161, ext 169, e-mail: sturtt@odjfs.state.oh.us

38. DATA PROCESSING – CORe REPORTING OF ACCRUALS AND OBLIGATIONS

Finding Number	2005-JFS38-048
CFDA Number and Title	All Programs Administered by the Counties
Federal Agency	Department of Agriculture Department of Health and Human Services Department of Labor

INTERNAL CONTROL – REPORTABLE CONDITION

When administering federal programs, management is responsible for designing and implementing internal control policies and procedures to reasonably ensure compliance with federal laws and regulations. These procedures must include controls to ensure all transactions and budgetary information is accurately recorded. The controls must be adequately documented to provide management with assurance the controls are performed timely and consistently.

ODJFS maintains the Central Office Reporting System (CORe) to capture (via monthly QuIC uploads) and process (quarterly) county expenditure and other activity pertaining to various federal programs, calculate amounts to be advanced to counties (more than $1.5 billion in state fiscal year 2005), and prepare reconciliations related to these transactions. There were two amount fields submitted on each county's QuIC upload, a reimbursement amount column and an amount column. The two separate amount fields were created to account for the difference in the county's cash value. Entries the counties need to report that affect their cash on hand should be reported in the reimbursement amount field (column). Entries that do not affect cash but need to be reported should be recorded in the amount column. At the beginning of FY02, accruals and obligations began to be recorded by the counties. Accruals and obligations are reported in the amount column because they do not affect the county's cash.

Each County Department of Job and Family Services (CDJFS) submitted their expenditures to the ODJFS CORe system via a QuIC upload. The CORe financial schedules for one (10%) of ten selected counties incorrectly reported accruals and obligations for the WIA Area (Area 13) in the reimbursement amount field, instead of correctly in the amount field of the upload file.

Although the WIA Area reported the amounts incorrectly in the reimbursement amount field, CORe picked up the amounts in the reimbursement amount field, and if there was no amount in the amount column, CORe reported it on the financial schedules, precluding ODJFS from recognizing that the counties were incorrectly reporting the accruals and obligations.

If the counties reported accruals and obligations in the reimbursement amount column, the county's cash at hand could be misstated on their financial statements. In addition, since CORe did not reflect that the counties had reported the amounts in the wrong column, there is an increased risk that ODJFS would not realize the counties were incorrectly reporting the accruals and obligations.

According to County Finance management, this was a result of this one Area not being able break their accruals out manually before submitting them to be processed by CORe. Thus, the vendor, Maximus, Inc., had to recreate the Area's upload to break out the amounts for them before submission. To correct this problem in FY06, County Finance has set up a specific line code so the Areas can manually break out the accruals and vendor manipulation will be eliminated.

We recommend County Finance work with the vendor, Maximus, Inc., to program CORe to only report monies that are included in the amount field of the QuIC uploads. This will allow the counties to detect when they have reported accruals and obligations in the incorrect column. Also, we recommend the Department immediately address the correct reporting of accruals and obligations with the counties that are incorrectly reporting them in the reimbursement amount field.

38. DATA PROCESSING – CORe REPORTING OF ACCRUALS AND OBLIGATIONS (Continued)

Corrective Action Plan

We are working with Maximus to develop a report to identify when this reporting situation occurs.

When an Area has submitted an upload with the accrual and obligation in the wrong field, the Area will be required to submit a corrected upload.

Anticipated Completion Date for Corrective Action

The BCFTA plans on having the report available beginning April 2006.

Contact Person Responsible for Corrective Action

Don Foster, County Finance Section Chief, BCFTA, Office of Fiscal Services, Ohio Department of Job and Family Services, 30 East Broad Street, 37th Floor, Columbus, Ohio 43215, Phone: (614) 644-6598 e-mail: fosted@odjfs.state.oh.us

39. DATA PROCESSING – RECERTIFICATION OF MMIS PROVIDERS

Finding Number	2005-JFS39-049
CFDA Number and Title	93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

The Ohio Administrative Code 5101:3-1-17 states:

> An "eligible provider" is any individual, group, corporation, or institution licensed or approved by a standard-setting or regulatory agency, and approved for participation in the Medicaid program by the Ohio Department of Job and Family Services …

The Medicaid Management Information System (MMIS) provides reimbursement to medical providers and managed care entities for services rendered to eligible recipients. The medical providers must complete an application process and possess valid licensure and accreditations before being eligible to receive reimbursement through MMIS. Once the provider is approved, they are marked as active in MMIS and allowed to submit claims for reimbursement until the provider is marked inactive (e.g. voluntary withdrawal from MMIS, license becomes invalid, death, etc.). The provider's recertification date, the date when the provider's license will expire if not renewed, is also entered into the MMIS application.

For in-state physicians, osteopaths, and podiatrists, ODJFS has a process in place to receive information from the Ohio medical boards regarding license renewals and disciplinary actions. Recertification data for these providers is updated in MMIS on a monthly basis.

For all other licensed providers, such as dentists, nurses, chiropractors, etc., ODJFS relies on the providers for notification of any change in status. As of June 2005, 14,676 (34%) of the 43,627 active medical providers on the MMIS provider master file had an expired recertification date. Ohio Health Plan management does not research or resolve any providers with expired recertification dates.

39. DATA PROCESSING – RECERTIFICATION OF MMIS PROVIDERS (Continued)

Without periodic review to ensure providers have met licensure and/or accreditation requirements, ineligible providers may receive reimbursement from the Medicaid program. Inappropriate reimbursement of federal claims could subject the Department to possible federal sanctions.

Ohio Health Plan (OHP) management indicated that although Medicaid has informed the providers that they must notify ODJFS of any changes in the provider's status, most providers do not send notification. Ohio Health Plan management indicated that MMIS was never programmed to report or deny any providers with an expired recertification date and that OHP has never conducted a review of expired recertification dates.

We recommend that ODJFS work with the medical licensing boards to verify all Medicaid providers possess a valid license or accreditation. The Department should establish a process to review potentially ineligible providers and provide timely inactivation in MMIS when ineligibility is established. The process should ensure their active status is correct. We also recommend the department implement detective controls to regularly report and review all providers with an expired recertification date.

Corrective Action Plan

In addition to current license information, enhancements to the Provider Master File (PMF) will be pursued to include license date and re-certification dates for specific provider types. Also, a one character field will be added to the file to indicate licensure status, such as current, within sixty days of expiration, expired or suspended. Those providers who are not licensed/certified by their respective boards will be made inactive in the PMF

Anticipated Completion Date for Corrective Action

This work will commence in SFY '06, with a tentative completion date of July '07.

Contact Person Responsible for Corrective Action

Peggy L. Smith , Section Chief, Provider Network Management Section, Ohio Department of Job and Family Services, 255 East Main Street, Columbus, Ohio 43215, Phone: (614) 752-9551, e-mail: smithp@odjfs.state.oh.us

40. DATA PROCESSING – MISSING PROGRAM CHANGE REQUEST FORMS

Finding Number	2005-JFS40-050
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 17.225 Unemployment Insurance 93.558 – Temporary Assistance for Needy Families 93.658 – Foster Care 93.659 – Adoption Assistance 93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services Department of Labor

INTERNAL CONTROL – REPORTABLE CONDITION

The following is stated in the ODJFS Information Security Policy, section 27.1, "Change Control Procedures:"

> In order to minimize the corruption of information systems, there should be strict control over the implementation of changes. Formal change control procedures should ensure that security and control procedures are not compromised, that support programmers are given access only to those parts of the system necessary for them to perform their jobs, and that formal interdisciplinary agreement and approval for any changes are obtained. This process should include:

- Maintaining a record of agreed upon authorization levels including:
  - IT support team focal point for change requests;
  - user authority for submission of change requests;
  - user authority levels for acceptance of detailed proposals;
  - user authority for the acceptance of completed changes.
- Only accepting changes submitted by authorized users.
- Reviewing security controls and integrity procedures to ensure that they will not be compromised by the changes.
- Identifying all computer software, data files, database entities and hardware that require amendment.
- Obtaining approval for detailed proposals before work commences.
- Ensuring that changes are accepted by the authorized user before implementation.
- Ensuring that the system documentation set is updated on the completion of each change and that old documentation is archived or disposed of.
- Maintaining a version control for all software updates.
- Maintaining an audit log of all change requests.

40. DATA PROCESSING – MISSING PROGRAM CHANGE REQUEST FORMS (Continued)

Of the 20 and 25 changes sampled for MMIS and SCOTI, respectively, all were supported by a related Customer Service Request (CSR). However, change documentation was missing for other applications as follows:

Application	Number of Changes Tested During the SFY05	Number of Changes Without Related Change Documentation
CRIS-E	60	4 (7%)
FACSIS	2	2 (100%)
OJI	60	2 (3%)

Without consistent application of standardized procedures for modifying application programs, critical data processing applications could be improperly modified, resulting in erroneous transaction processing.

The Section Chief of BSCM stated that missing CSRs could be attributed to the process of the conversion of all CSRs to the Dimensions system in October 2004.

We recommend that ODJFS complete the change request forms for all program changes before moving changes into production. Appropriate approvals should be obtained and documented at all stages of the program change cycle to reasonably ensure applications are updated as intended.

Corrective Action Plan

OJI/SCOTI:

A formalized process was developed for OJI production enhancements during the 2005 Audit Period following the initial implementation of the application in August of 2004. Customer requests are entered into the Test Director product and tracked through the development process. The formalized process for release consists of several points of review including development immediate management, build coordination and release management. Each of these review points ensures that the changes are properly related to authorized customer service requests.

CRIS-E:

There were actually 5 of these items on the most recent audit. After researching these, it is apparent that this software was modified prior to implementation of PVCS/Dimensions and the record of these CSR's is archived in paper form. Programs and developer modification dates (all prior to Dimensions implementation) for these are:

GMC310	*7/17/2003*
GWP501	*12/30/03*
KBY034	*10/18/04*
KBY700	*8/23/04*
KDE154	*8/9/04*

Going forward, the implementation of dimensions, along with requirements that software can not be promoted without proper documentation has eliminated the possibility of software being installed without proper documentation.

40. DATA PROCESSING – MISSING PROGRAM CHANGE REQUEST FORMS (Continued)

***FACSIS*:**

The FACSIS team has recently had the Dimensions process made available to them for change requests. We intend to begin using this as our sole means of requesting changes to production beginning March 1, 2006. This process will be used as long as it is applicable to the agency or is superseded by another process.

Anticipated Completion Date for Corrective Action

***OJI/SCOTI*:**
Corrective Action covered by the formal release process implemented in the spring of 2005. No additional action required. Process in place ensures that changes are specifically related to authorized customer service requests.

***CRIS-E*:**
Completed 1/1/05

***FACSIS*:**
The CWS section intends to implement this on March 1, 2006.

Contact Person Responsible for Corrective Action

***OJI/SCOTI*:**
John Suminski, Information Technology Consultant 3, Management Information Services, Ohio Department of Job and Family Services, 4200 East 5th Avenue, L-217, Columbus, Ohio 43219, Phone: (614) 387-8777, e-mail: suminj@odjfs.state.oh.us

CRIS-E:
Keith Krautter, Eligibility Systems Section Chief, Management Information Services, Ohio Department of Job and Family Services, 4200 East Fifth Avenue, Columbus, Ohio 43219, Phone: (614) 387-8438, e-mail: krautk@odjfs.state.oh.us

***FACSIS*:**
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41. DATA PROCESSING – UNAVAILABLE PROGRAM CHANGE DOCUMENTATION

Finding Number	2005-JFS41-051
CFDA Number and Title	All Programs Administered by the Department
Federal Agency	Department of Agriculture Department of Health and Human Services Department of Labor

INTERNAL CONTROL – REPORTABLE CONDITION

Effective control procedures require reviews and testing of program changes to provide management assurance that users' requirements are achieved prior to a program being transferred into the production environment. Standard testing procedures are an essential component of the overall program change process, and they are designed to gain adequate assurance over the application programming logic.

41. DATA PROCESSING – UNAVAILABLE PROGRAM CHANGE DOCUMENTATION (Continued)

Furthermore, the procedures require that documentation of all testing of program changes, along with evidence of user acceptance of the results, be maintained.

ODJFS currently has a policy in place addressing the issue of program changes for the significant applications, including MMIS, CRIS-E, FACSIS, UC, SCOTI, and OJI. The policies are designed to provide enough detail to adequately control the program change processes and to ensure testing documentation and results are maintained. During the audit period, the following was found:

- For MMIS, six (30%) of the 20 changes sampled did not have testing documentation or results available.
- For CRIS-E, 25 (42%) of the 60 changes sampled did not have testing documentation or results available.
- For FACSIS, two (100%) of the 2 changes sampled did not have testing documentation or results available.
- For UC, nine (45%) of the 20 changes sampled did not have testing documentation or results available.
- For SCOTI, five (20%) of the 25 changes sampled did not have testing documentation or results available.
- For OJI, 30 (50%) of the 60 changes sampled did not have testing documentation or results available.

Without following standardized procedures for maintaining testing documentation, the Department increases the risk that requested changes are not fully validated and/or do not meet users' expectations. Also, without maintaining adequate testing documentation, it may be impossible to duplicate or evaluate testing scenarios in the event that problems arise later that require subsequent review of the program change.

The ODJFS MIS Management indicated that departments did not consistently follow the established standards for maintaining testing documentation across the department due to resource constraints.

We recommend ODJFS follow the established program change documentation standards to reasonably ensure all key documentation of the testing performed for all program changes is maintained. In addition, user acceptance should be obtained for all pertinent changes to help ensure the applications are operating as intended. As with any effective internal control, these standards should be periodically reviewed by management to ensure procedures are being appropriately followed.

Corrective Action Plan

<u>MMIS</u>:
Medical Systems has obtained several licenses of the Mercury Test Director. After product training, we will incorporate Test Director into the MMIS System and User Acceptance Testing processes, building testing plans, test scripts and regression transactions. Additionally, we have implemented new procedures in Dimensions that will allow the Medical Systems Testing unit to create a Traceability Matrix that will trace each customer requirement to the Dimension Work Request and to the executed testing script used to ensure the program changes function properly.

The testing plan, test scripts and traceability matrix will provide the complete documentation and process flow to track system modifications.

<u>CRIS-E</u>:
The Eligibility Systems section has recently procured Mercury Interactive's Quick Test Pro, and has a set of thirty (30) automated test scripts which are being used for testing the CRIS-E application. The use of Quick Test Pro will continue to grow as we expand our testing capacity with new test database environments and on-line regions, with the goal of full system regression testing for all major planned releases.

41. DATA PROCESSING – UNAVAILABLE PROGRAM CHANGE DOCUMENTATION (Continued)

In addition, both the eICMS and TANF-WRT applications were load-tested using Mercury Interactive's LoadRunner tool prior to production deployment, after major enhancements were made by in-house developers. This testing enabled us to catch issues that otherwise would only have been found in production, when the entire user population was accessing the application(s).

FACSIS:
We have never had an automated testing tool on the mainframe side and it is too late to think about using one now since we are moving forward with SACWIS.

UC-SCOTI-OJI:
A review of policies which address the issue of program changes designed to ensure testing documentation and results are maintained will be undertaken. The Bureau will develop standardized expectation for all sections related to testing documentation, identifying various scenarios and providing a template of test result expectations.

A review of the audit results to identify areas of specific concern will occur in order to assist in identification of areas which need to be addressed. A request for recommendations on what would be considered acceptable proof of testing as it relates to those test cases for which insufficient information was available will be made from the Auditor.

Anticipated Completion Date for Corrective Action

MMIS:
Third Quarter of SFY 2006
Implement the use of Work Requests and Incident Report change products in Dimensions.

Fourth Quarter of SFY 2006
Medical Systems will obtain licenses for all System Test Staff.
Product training will be provided to System Testing Staff.
System Testing staff will begin executing Test Director scripts for system modifications in the system test arena.

MIS is planning to begin using the Mercury Product in the first quarter of SFY 2007.

CRIS-E:
March 30, 2006

FACSIS:
This will no longer be an issue once SACWIS gets implemented which begins in July 2006.

UC-SCOTI-OJI:
Policy Review – March 31, 2006
Update of Policy as appropriate – April 28, 2006

Requires availability of Auditor Resources for recommendation.

Contact Person Responsible for Corrective Action

MMIS:
Michelle Burk, Bureau Chief, Bureau of Support to Families Services, Management Information Services, Ohio Department of Job and Family Services, 4200 East Fifth Avenue, Columbus, Ohio 43219, Phone: (614) 387-8635
e-mail: burkm@odjfs.state.oh.us

41. DATA PROCESSING – UNAVAILABLE PROGRAM CHANGE DOCUMENTATION (Continued)

CRIS-E:
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UC –SCOTI-OJI:
John Suminski, Information Technology Consultant 3, Management Information Services, Ohio Department of Job and Family Services, 4200 East 5th Avenue, L-217, Columbus, Ohio 43219, Phone: (614) 387-8777, e-mail: suminj@odjfs.state.oh.us

42. DATA PROCESSING – OJI PROGRAMMER ACCESS TO PRODUCTION

Finding Number	2005-JFS42-052
CFDA Number and Title	17.225 – Unemployment Insurance
Federal Agency	Department of Labor

INTERNAL CONTROL – REPORTABLE CONDITION

In order to have reliable internal control procedures in a data processing environment, programmers and developers are restricted from having access to the production environments to help ensure an effective segregation of duties. In addition, employees' computer access rights are periodically reviewed to help ensure they are commensurate with their job responsibilities.

During fiscal year 2005, our review of user access for programmers/developers to the production environments for each application noted there was one OJI programmer/developer account that had the access rights to migrate their own changes into three production server environments. (NOTE: The access was removed in October 2005.) In addition, we noted that during the audit period four OJI developers successfully accessed the administrator accounts to one production server by using the switch user function (a restricted operating system command to allow a user to switch from their unique user ID account to an account with full administrator access). (NOTE: Access was removed in July 2005.)

With unauthorized access, users could attain inappropriate access levels and/or profiles that could result in the misuse of critical ODJFS information assets. In addition, the programmers/developers could make erroneous or intentional changes to the production applications. Thus, unauthorized access privileges could increase the risk of asset misuse or misappropriation of state or federal monies.

The Bureau Chief of Service to Family Support indicated that from the time of design and development of the process, the need to allow access has lessened. The control of the process has changed hands, coupled with the lack of adequate documentation. The process and procedures have not been kept up-to-date with current practices.

42. DATA PROCESSING – OJI PROGRAMMER ACCESS TO PRODUCTION (Continued)

We recommend ODJFS remove all programmer/developer access to the OJI production servers and periodically review and verify application-level profiles and access authorities are appropriate for the assigned job functions of all state-level employees and outside contractors and maintain access documentation as an audit trail.

Corrective Action Plan

The reportable conditions were addressed. Access was removed for identified situation 1 in October of 2005. Access was removed for identified situation 2 in July of 2005. A complete review of all developer access was performed to ensure that other inappropriate access did not exist over and above those specific cases identified during the audit review.

Access to the production environment is controlled through BISS. Developers do not have access to the production environment for the purpose of changing production libraries. A quarterly review of access by BISS with confirmation from the appropriate section chief is being implemented as an additional safeguard.

Anticipated Completion Date for Corrective Action

Quarterly Review – Commencing April 3, 2006

Contact Person Responsible for Corrective Action

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43. DATA PROCESSING – LEVEL OF ACCESS TO PRODUCTION ENVIRONMENTS

Finding Number	2005-JFS43-053
CFDA Number and Title	All Programs Administered by the Department
Federal Agency	Department of Agriculture Department of Health and Human Services Department of Labor

INTERNAL CONTROL – REPORTABLE CONDITION

To help reduce the likelihood of unauthorized use of key computer resources, organizations logically restrict access to their computer systems, programs, and data. The level of access established is commensurate to a specific user's job responsibilities and needs.

The ODJFS Information Security Policy states the following in section 18.1, "Authorized User Registration":

> Local access to the system is controlled through use of individually owned user accounts and associated confidential passwords. The authorized user registration process includes the following:

- Verifying the user has authorization from their department's Security Liaison.
- Checking that the level of access granted is appropriate for the user's purpose and is consistent with the Information Security Policy.

43. DATA PROCESSING – LEVEL OF ACCESS TO PRODUCTION ENVIRONMENTS (Continued)

- Maintaining a formal record of all persons registered to use the service.
- Removing redundant user IDs and accounts which are no longer required.

During the audit, the production environments for CRIS-E, MMIS, SETS, FACSIS, SCOTI, OJI, UC, and WRS were reviewed with the corresponding management to help ensure access was commensurate with users' job responsibilities. The following are exceptions of users with access that was not commensurate with their job functions:

- WSETSDBA RACF Group had 1 of 15 (7%) user IDs that should have been removed (removed July 2005).
- WDSTORE RACF Group had 1of 2 (50%) user IDs that should have been removed.
- WSUPPORT RACF Group had 1 of 16 (6%) user IDs that should have been removed.
- WCRISE RACF Group had 90 of 184 (49%) user IDs that should have been removed.
- WINC RACF Group had 42 of 95 (44%) user IDs that should have been removed.
- WBCM RACF Group had 8 of 20 (40%) user IDs that should have been removed.
- WICMS RACF Group had 15 of 31 (48%) user IDs that should have been removed.
- WTAPE RACF Group had UPDATE access to WELF.CMMIS*, WELF.PMMIS*, the BI auxiliary tape file (WLF5.PROD.GBI002FW*), and the BI recurring tape file (WLF5.PROD.GBI002F%*); however, they only required READ capabilities.
- MMIS historical data file had one programmer/developer with ALTER access, which should have been READ.
- CRIS-E had 1 of 8 (13%) users with access to the GPROFILE security profile that allowed access to sensitive security screens within CRIS-E who no longer required the access (removed July 2005).
- CRIS-E's Benefits Issuance (BI) auxiliary and recurring disk files that are sent to the Auditor of State's Office had 1 of 7 (14%) groups and 5 of 7 (71%) user IDs with ALTER access who did not require the access for their job responsibilities.
- WRS had 9 IT personnel with UPDATE access that was not necessary for their job functions.
- UC had 6 of 8 (75%) users with UPDATE access to sensitive security functions that were not necessary for their job duties.
- UC had 12 IT personnel with UPDATE access that was not necessary for their job functions.
- SCOTI had 6 users who had access to the Central Office user role and 5 users with access to the Production Support user role that gave UPDATE capabilities to multiple security screens, who no longer needed the access.
- SCOTI had 4 user IDs that had access to the servers that housed the production environment for the application that no longer needed access for their job responsibilities.
- OJI had 2 programmers with the System Administrator user role, which allowed UPDATE access to multiple sensitive screens and functions within OJI, who no longer required the access.
- OJI had 2 users (1 user with 2 user IDs) that had the INFOSEC user role, which allowed UPDATE access to multiple security screens within OJI, who no longer required the access.
- OJI had 17 user IDs that had access to the servers that housed the production environment for the application that no longer needed access for their job functions.

With unauthorized access, users could execute inappropriate application transactions or alter unauthorized programs or data files. Unauthorized access to user profiles or profile security accounts could allow superfluous access rights to be granted. With this inappropriate access, the misuse or fraudulent misappropriation of state resources or federal program monies could occur.

According to ODJFS personnel, access was not updated after personnel had been reassigned to other duties, or assess was thought to be changed but was not.

43. DATA PROCESSING – LEVEL OF ACCESS TO PRODUCTION ENVIRONMENTS (Continued)

We recommend the Department comply with their Information Security Policy by reviewing and implementing access restrictions to the production environments for the applications and data. Access should be commensurate with the current job responsibilities of the users. If temporary access is granted to certain employees, a tickler or reminder should be established so that ODJFS personnel know to adjust that access in the future. Also, ODJFS should periodically complete a review to validate employee access in accordance with the ODJFS Information Security Policy.

Corrective Action Plan

<u>OJI-SCOTI-UC/WRS</u>:

The UC/WRS reportable conditions 1, 2 and 3 were addressed. Production update access was removed for all IT staff in the UC/WRS applications. A review of the authorized access to the UC/WRS applications was performed and all appropriate access was updated. The internal security access was limited to those who have been assigned approval responsibilities on the business side. A quarterly review of the external and internal security tables is being done on a quarterly basis. Some additional reports are being developed to assist in this effort.

The SCOTI reportable conditions 4 and 5 were addressed. A quarterly review of the user roles for UPDATE both on the IT and program side will occur quarterly as a safeguard.

The OJI reportable conditions 6, 7, and 8 were addressed. Authorization for access is submitted to the UC tech area. It contains a defined role for each individual requiring access to OJI. UC Tech reviews the request and submits it to InfoSec for processing. IT staff follow the same formal request process as is done on the program (business) side of the operation. A quarterly review of the defined user roles for UPDATE both on the IT and program side will occur quarterly as a safeguard.

<u>CRIS-E</u>:

Using reports showing the list of User ID's with access to all production regions, the Eligibility Systems section management identified all invalid Users and sent the reports to the Information Security unit for removal. There needs to be follow up with the Information Security unit to validate that the request was processed.

<u>FACSIS</u>:

Using reports showing the list of User ID's with access to all production regions, the Child Welfare section management identified all invalid Users and sent the reports to the Information Security unit for removal. There needs to be follow up with the Information Security unit to validate that the request was processed.

<u>MMIS</u>:

The audit revealed that several support areas had access rights that were not commensurate with their job functions. Support areas such as the DBA staff, Production Support, the Tape Unit have specific needs and should be determined by the requirements of their job and the Information Security Unit.

Additionally, the Information Security Unit and Medical Systems have agreed to routinely, semi-annually to review all production access for precision and accuracy. The access maintained by the support areas will be included in this review.

43. DATA PROCESSING – LEVEL OF ACCESS TO PRODUCTION ENVIRONMENTS (Continued)

SETS:

The followings RACF id's were found not to commensurate with job responsibilities. MIS Child Support Section will work with the owner of each group to insure that the RACF id's in question are addressed.

RACF id WCOOLT1 in-group wsupport is at issue. The owner of wsupport is Jerry McClurg.

RACF id's WSEH, WAKM, WMXV, WFEF, WHAA, WLZF, WTKS, and WFRS90 in-group WBCM is at issue. The owner of WBCM is Philip Davis.

RACF id WVLA in-group WSETSDBA is at issue. The owner of WSETSDBA is Kelly Kassor.

Anticipated Completion Date for Corrective Action

OJI-SCOTI-UC/WRS:
UC/WRS report completion – April 28, 2006.
Quarterly Review UC/SCOTI/OJI – April 3, 2006.

CRIS-E:
December 31, 2005. Follow up with Information Security Unit was completed.

FACSIS:
December 27, 2005. Follow up with Information Security Unit was completed.

MMIS:
Third Quarter of SFY 2006
Complete the first semi-annual access security review.
This review was completed in January 2006 and is scheduled again for July/August 2006

SETS:
May 31, 2006

Contact Person Responsible for Corrective Action

OJI/SCOTI:
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CRIS-E:
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FACSIS:
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MMIS:
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43. DATA PROCESSING – LEVEL OF ACCESS TO PRODUCTION ENVIRONMENTS (Continued)

***SETS*:**
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44. DATA PROCESSING – UNAUTHORIZED ACCESS TO SCOTI AND OJI PROFILES

Finding Number	2005-JFS44-054
CFDA Number and Title	17.207/17.801/17.804 – Employment Services Cluster 17.225 – Unemployment Insurance 17.258/17.259/17.260 – WIA Cluster
Federal Agency	Department of Labor

INTERNAL CONTROL – REPORTABLE CONDITION

To help reduce the likelihood of unauthorized use of key computer resources, organizations logically restrict access to their computer systems, programs, and data. The level of access established is commensurate to a specific user's job responsibilities and needs and is also periodically reviewed by management.

The ODJFS Information Security Policy states the following in section 18.1.1, "Privilege Management:"

> The use of special privileges must be restricted and controlled. For multi-user systems that require protection against unauthorized access, the allocation of privileges will be controlled by the system owner through a formal authorization process as follows:

- Identify the privileges associated with each system product.
- Allocate privileges to individuals on a "need-to-use" basis and on an "event-by-event" basis (i.e. the minimum requirement for their functional role only when needed).
- Maintain an authorization process and a record of all privileges allocated. Privileges should not be granted until the authorization process is complete.
- Promote the development and use of system routines to avoid the need to grant privileges to users.
- Assign separate IDs for special purposes that require high privileges.

In addition, section 22.1.1 "Use of System Utilities" states:

> Most computer installations have one or more system utility programs that might be capable of overriding system and application controls. It is essential that the use of such system utilities is restricted and tightly controlled. The following controls should be applied:

- Password protection for system utilities;
- Segregation of system utilities from applications software;
- Limitation of the use of the system utilities to the minimum practical number of trusted, authorized users;
- Authorization for other ad hoc use of system utilities;
- Defining and documenting authorization levels for system utilities.

44. DATA PROCESSING – UNAUTHORIZED ACCESS TO SCOTI AND OJI PROFILES (Continued)

The Sharing Career Opportunities Training Information (SCOTI) application is a web-based system that was acquired to meet the needs of the ODJFS Office of Workforce Development in managing the state's Federal Workforce Investment Act (WIA) and Wagner-Peyser Act (Labor Exchange) requirements. SCOTI had a system administrator account that had the ability to change, add, or delete all data and application files. There were 58 SCOTI system administrator (scotadmg) users on nine servers that housed the production environment for the SCOTI application. Four of the 58 scotadmg users (7%) were identified as not needing access for their jobs. All four were removed in September 2005.

The Ohio Job Insurance (OJI) application is a web-based system with a centralized statewide database. This means OJI can be accessed using an Internet browser (i.e., Microsoft Internet Explorer). Information entered and retrieved from all call centers, processing centers, one-stop locations, and the central office resided in the same database.

OJI had system administrator accounts that had the ability to change, add, or delete all data and application files. There were 429 admin users on ten servers that housed the production environment for the OJI application. Forty-one of the 429 admin users (10%) were identified as not needing access for their jobs.

If a user's access to the system is not restricted only to programs, transactions, and data necessary to do their assigned job functions, the extraneous access rights may increase the risk of unauthorized access to sensitive system resources. This unauthorized access could seriously jeopardize the integrity of departmental data.

Enterprise Support Services management indicated that several personnel required privileged access when the OJI and SCOTI applications were implemented but have since been reassigned to other duties and the access was never updated.

We recommend the Department review and implement access restrictions to all of the sensitive SCOTI and OJI application profiles and utilities. Access should be commensurate with the current job responsibilities of the users and granted based upon the principle of least privilege or need-to know. If temporary access is granted to certain employees, a tickler or reminder should be established so that ODJFS personnel know to adjust that access in the future. Also, a review to validate all sensitive access should be completed periodically in accordance with the ODJFS Information Security Policy.

Corrective Action Plan

The SCOTI reported condition was addressed, all four were removed in September of 2005.

The OJI reported condition was addressed.

A quarterly review of the admin rights is being performed by BISS. Concurrence of access is established between BISS and management within both the SCOTI and OJI sections on a quarterly basis as a result of this review. Access rights to the production environments are controlled by BISS.

Anticipated Completion Date for Corrective Action

Quarterly Review UC/OJI/SCOTI in conjunction with BISS – April 3, 2006.

Contact Person Responsible for Corrective Action

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45. DATA PROCESSING – DATA ENTRY ERRORS IN MMIS PROVIDER MASTER FILE

Finding Number	2005-JFS45-055
CFDA Number and Title	93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

<u>INTERNAL CONTROL – REPORTABLE CONDITION</u>

To help ensure data integrity, it is prudent that data input for electronic processing be properly authorized and accurately input. Another method of ensuring data integrity is to establish a separation of duties among those inputting data and those reviewing and approving the integrity of that data. Additionally, in situations where data is incorrectly input, procedures are established for the correction and resubmission of erroneous input data.

The Medicaid Management Information System (MMIS) provides reimbursement to medical providers and managed care entities for services rendered to eligible recipients. Medicaid providers submit changes to their Medicaid accounts to the Ohio Health Plans. Ohio Health Plans then inputs the changes into the MMIS Provider Master file for processing. Of the 60 changes sampled, 10 (17%) had at least one error in the change of the Provider Master file. The errors were a combination of incorrect names, phone numbers, street addresses, zip codes, county identifiers, license numbers, links to other Medicaid group numbers, and incorrect status of providers.

If a provider's status is updated incorrectly, non-eligible providers or provider groups could receive reimbursement from Medicaid. In addition, if a provider's address is updated incorrectly, correspondence will be returned as undeliverable and the provider will have to work with Ohio Health Plans to have the error corrected, which could cost several hours of personnel research time and additional postage and handling charges to resend correspondence.

Ohio Health Plan Management indicated that the staff was making keying errors from rushing through the change requests and not rechecking their work. A review process was occurring by the Supervisor of Provider Enrollment; however, the review process was limited by time and volume and needed improvement.

We recommend that management emphasize to their data entry personnel to check the data they have input when making changes to the MMIS Provider Master file. We also recommend that Ohio Health Plan Management assign an employee to periodically conduct and document reviews of the change requests input to the MMIS Provider Master File. It is also important that when errors are identified, they are corrected immediately.

Corrective Action Plan

In July of 2005, the Bureau of Plan Operations hired a management analyst position to perform quality assurance on operations in the Provider Network Management (PNM) Section. This position's primary focus is:

- *To analyze the work processes and functions of the Provider Assistance and Provider Enrollment Units within PNM.*
- *To identify program deficiencies and recommend alternatives based on research and analysis.*
- *To develop new operational functions in order to increase agency efficiency and effectiveness.*
- *To report findings and recommendations to Section Chief, Assistant Bureau Chief and Bureau Chief of Plan Operations.*
- *To conduct routine quality assurance controls and checks on the work functions and processes in the Provider Assistance and Provider Enrollment Units within PNM.*

45. DATA PROCESSING – DATA ENTRY ERRORS IN MMIS PROVIDER MASTER FILE (Continued)

This position will monitor on a monthly basis the changes submitted by providers requesting to update their provider file (in addition to monitoring a sample of the new provider applications keyed each month) in the PMF in order to assure accuracy. This review will result in corrections made to information keyed in error; and the submission of a report of the errors in changes made to the PMF each month to the Unit manager, the section chief, and the assistant bureau chief. The Unit manager will arrange for retraining of staff. Consistent errors by unit staff will result in discipline as appropriate.

Anticipated Completion Date for Corrective Action

By February 1, 2007, all changes made to the PMF will have been subject to monitoring and, if appropriate, correction. The management analyst, as part of job duties, will continue to routinely review the keying of new applications and changes to current provider files in the PMF.

Contact Person Responsible for Corrective Action

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46. DATA PROCESSING – CONTROLS OVER APPLICATION CHANGES

Finding Number	2005-JFS46-056
CFDA Number and Title	All Programs Administered by the Department
Federal Agency	Department of Agriculture Department of Health and Human Services Department of Labor

INTERNAL CONTROL – REPORTABLE CONDITION

It is prudent that information technology departments establish internal control procedures that require only properly tested, reviewed, and approved changes be transferred into the live environment.

At ODJFS, the change process for the applications is largely controlled through automated software tools. Authorized programming staff members are required to formally indicate through these tools when all tests, reviews, and approvals have been completed. After receipt of formal authorization, staff members independent of the programming staff move programs into production.

During our testing of the Department's application changes, we found the following exceptions:

- Twenty-six of 60 (43%) sampled Ohio Job Insurance (OJI) application changes, four of 60 (7%) sampled CRIS-E application changes, and two of two (100%) sampled FACSIS application changes had no supporting change documentation provided to signify they were approved and ready to be placed in production prior to being migrated into production.

- Two of 25 (8%) sampled SCOTI application change documents, one of 60 (2%) sampled CRIS-E application change documents, two of two (100%) sampled FACSIS application change documents and one of 20 (5%) sampled MMIS application change documents were not documented as "Ready for Production" to signify they were approved and ready to be placed in production prior to being migrated into production.

46. DATA PROCESSING – CONTROLS OVER APPLICATION CHANGES (Continued)

Without following standardized procedures for modifying application programs, the risk is increased that unauthorized, untested, and unapproved program changes could be placed in production (maliciously or mistakenly) in noncompliance with management's original intentions, requirements, or objectives.

ODJFS' MIS management indicated that there should have been documentation for every change that was migrated into production; however, they acknowledged that missing approvals may be the result of verbal or e-mail approvals outside of the formal change process.

We recommend ODJFS ensure all program changes are properly tested, reviewed, and approved by management and documented approval is gained before the change is transferred into the live environment. This can be accomplished by reminding employees to process only tested, reviewed, and approved program changes. Management should also periodically review documentation to ensure that only tested, reviewed and approved program changes are being processed.

OJI/SCOTI

Corrective Action Plan

A formalized process was developed for OJI production enhancements during the 2005 Audit Period following the initial implementation of the application in August of 2004. The formalized process for release consists of several points of review including development immediate management, build coordination and release management. Each of these review points ensures that appropriate approved change documentation is provided prior to changes being placed into production.

SCOTI utilizes the Dimensions process which requires both the "Conformance Review" and the "Ready for Baseline" state to be established prior to production implementation. Moving from the Conformance Review into the Ready for Baseline state provides a checkpoint to ensure that the appropriate approved change documentation is in place. Separation of responsibility for migration into the production environment utilizing the Dimensions process ensures that this check point is taken before BISS staff can take action, based on the "Ready for Baseline" state for movement of the change into the production libraries.

Neither OJI nor SCOTI development staff have access rights to move changes into the production environment. Quarterly reviews of the production environment are in place to ensure that only appropriate staff have these access rights.

Anticipated Completion Date for Corrective Action

Corrective Action covered by the formal release process implementation in the spring of 2005 for OJI, as well as, utilization of the Dimensions release process for SCOTI address the findings noted above. No additional action required. Processes in place ensure that changes are specifically related to authorized customer.

Contact Person Responsible for Corrective Action

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46. DATA PROCESSING – CONTROLS OVER APPLICATION CHANGES (Continued)

CRIS-E

Corrective Action Plan

There were actually 5 of these items on the most recent audit. After researching these, it is apparent that this software was modified prior to implementation of PVCS/Dimensions and these approvals do not appear in Dimensions because they were processed in paper form. Programs and developer modification dates (all prior to Dimensions implementation) for these are:

GMC310	*7/17/2003*
GWP501	*12/30/03*
KBY034	*10/18/04*
KBY700	*8/23/04*
KDE154	*8/9/04*

Going forward, the implementation of dimensions, along with requirements that software can not be promoted without proper approval has eliminated the possibility of software being installed without proper approval.

Anticipated Completion Date for Corrective Action

Completed 1/1/05

Contact Person Responsible for Corrective Action

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FACSIS

Corrective Action Plan

The FACSIS team has recently had the Dimensions process made available to them for change requests. We intend to begin using this as our sole means of requesting changes to production beginning 1 March 2006. This process will be used as long as it is applicable to the agency or is superseded by another process.

Anticipated Completion Date for Corrective Action

The CWS section intends to implement this on March 1, 2006.

Contact Person Responsible for Corrective Action

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46. DATA PROCESSING – CONTROLS OVER APPLICATION CHANGES (Continued)

MMIS

Corrective Action Plan

One of the procedures utilized within Medical Systems was the practice of the software warranty period. This time period usually existed for thirty days after software changes were implemented into Production. The warranty period allow the software changes to be fully exercised in the Production environment and leaving the Dimension Change Documents in an 'open' state would provide the authorization to fix any errors encountered. At the end of the warranty period, the Dimensions Change Documents would be closed. Medical Systems has changed this practice and now all change documents are in the 'Ready for Production' state before implementation into the Production environment and 'closed'. When the software changes have been successfully installed in production, a CSR is created to serve as the Dimensions Change Document for any errors found during the warranty period.

Additionally, Medical Systems has requested changes to the Dimensions process to only move to Production, software modifications that are in the state 'Ready for Production'

Anticipated Completion Date for Corrective Action

February 2006

Process changes agreed and implement that would close all Dimensions Change Documents when moved to Production and in the 'Ready for Production' state. The warranty period would be covered by the creation of separate specific CSR that would track and authorize corrections to errors resulting from the implemented system changes.

July 2006 – planned

Dimension changes will be implemented that will only allow the migration of Dimension Change Documents that have the 'Ready for Production' state.

Contact Person Responsible for Corrective Action

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47. DATA PROCESSING – UNAUTHORIZED ACCESS TO SUBSYSTEMS

Finding Number	2005-JFS47-057
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

Sound IT practices suggest that organizations establish procedures to ensure that data input is performed only by authorized staff. The procedures also ensure that processing of data contains a separation of duties and that work performed is routinely verified.

The Medicaid Management Information System (MMIS) provides reimbursement to medical providers and managed care entities for services rendered to eligible recipients. The following were instances of individuals having inappropriate access based on their job duties:

- 16 of the 41 (39%) users with UPDATE access to the MMIS Text & Exception Code subsystem (PF7) should not have had this access. Access was updated in July 2005.

- 28 of the 89 (31%) users with UPDATE access to the Suspended Claims Correction subsystem (PF2) should not have had this access. Access was updated for 23 of these users in July 2005; access for the remaining five was not.

- 21 of the 50 (42%) users with UPDATE access to the Prior Authorization subsystem (PF11) should not have had this access. Access was updated for 20 of these users in July 2005; access for the remaining one was not.

- 12 of the 66 (18%) users with UPDATE access to the Claims Exam Entry subsystem (PF1) should not have had this access. Access was updated for three of these users in July 2005; access for the remaining nine was not.

- 24 of 85 (28%) users with UPDATE access to the Recipient Eligibility subsystem (PF9) should not have had this access. We are unaware of whether action was taken to address these user accounts.

ODJFS uses the Client Registry Information System-Enhanced (CRIS-E) to determine eligibility and benefit amounts for public assistance programs. The following were instances of personnel having inappropriate access based on their job functions:

- 4 of 7 (57%) groups should not have had ALTER access with respect to the Benefits Issuance auxiliary and recurring disk files sent to the Auditor of State to create warrants.

- 1 of 4 (25%) groups had ALTER access but should have only had READ access with respect to the Benefits Issuance auxiliary and recurring tape files. Access of the group was modified in July 2005.

- 1 user ID had CONTROL access but should have only had READ with respect to the Buy-In database data files.

47. DATA PROCESSING – UNAUTHORIZED ACCESS TO SUBSYSTEMS (Continued)

Without a limited number of authorized personnel having access to the MMIS and CRIS-E subsystems, there is an increased likelihood of incorrect processing of claims. As such, unauthorized access privileges could occur, increasing the risk of asset misuse or misappropriation of state or federal monies.

Management indicated that, over time, the need for access has lessened. Security administration responsibilities have been assigned to many personnel in Ohio Health Plans and MIS. This coupled with a lack of adequate documentation and outdated procedures may have resulted in the inappropriate access.

We recommend that management limit the number of authorized personnel having access to the MMIS and CRIS-E subsystems to help ensure access restrictions are commensurate with their current assigned job duties. We also recommend the Department periodically review access levels for the MMIS and CRIS-E subsystems in accordance with the ODJFS Information Security Policy to detect and prevent inappropriate access levels.

Corrective Action Plan

As a result of a prior audit finding, the Information Security Section semi-annually meets with each section to review granted system access. As indicated in the above findings, the review of MMIS was conducted in July 2005. As a result of this security review, user access was examined and restructured. Also, as indicated above, there were incidents where the audit findings recommended that some user access was inappropriate and the security review revealed the critical need for the granted access remain.

Medical Systems agrees and recognizes the value of our committed support of this periodic access evaluation.

Anticipated Completion Date for Corrective Action

July 2005

The first semi-annual security access review completed, resulting in changes to user access.

Contact Person Responsible for Corrective Action

Michelle Burk, Bureau Chief, Bureau of Support to Families Services, Management Information Services, Ohio Department of Job and Family Services, 4200 East Fifth Avenue, Columbus, Ohio 43219, Phone: (614) 387-8635, e-mail: burkm@odjfs.state.oh.us

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF MENTAL HEALTH

1. MEDICAID/SCHIP/SSBG – SUBRECIPIENT MONITORING

Finding Number	2005-DMH01-058
CFDA Number and Title	93.767 State Children's Insurance Program (SCHIP) 93.778 Medical Assistance Program (Medicaid) 93.667 Social Services Block Grant (SSBG)
Federal Agency	Department of Health and Human Services

NONCOMPLIANCE

The Office of Management and Budget's (OMB) Circular A-133 states, in part:

§. _400 Responsibilities

…

(d) **Pass-through entity responsibilities.** A pass through entity shall perform the following for the federal awards it makes:

(1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R & D, and name of the Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.

(2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts of grant agreements and that performance goals are achieved.

(4) Ensure that subrecipients exceeding $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

(5) Issue a management decision on audit findings within six months after the receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

(6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

(7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

1. MEDICAID/SCHIP/SSBG – SUBRECIPIENT MONITORING (Continued))

§. _405 Management decision

(a) **General.** The management decision shall clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action. If the auditee has not completed corrective action, a timetable for follow-up should be given. Prior to issuing the management decision, the Federal agency or pass-through entity may request additional information or documentation from the auditee, including a request for auditor assurance related to the documentation, as a way of mitigating disallowed costs. The management decision should describe any appeal process available to the auditee.

It is management's responsibility to implement policies and procedures to monitor subrecipients to help ensure they have complied with the rules and regulations related to the programs and have met the objectives of the programs.

The Ohio Department of Mental Health (the Department) passes through at least 96% of the federal Medicaid/State Children's Insurance Program (SCHIP) funds and 100% of the federal Social Services Block Grant (SSBG) funds to Community Mental Health (CMH) Boards around the State of Ohio. For state fiscal year 2005, DMH disbursed approximately $273,698,275 in Medicaid and SCHIP funds and $8,473,650 in SSBG funds. The CMH Boards, which are considered to be subrecipients by the Department, in turn, disburse these funds to provider agencies. During our review and testing of the Department's subrecipient monitoring process we noted the following:

- The Audit Manager's review of subrecipients' independent audit reports does not include reviewing the accompanying federal schedule to verify that all federal grants that should be listed were included on the federal schedule with the appropriate name, CFDA number, and source of funds. In addition, the Audit Manager does not look at the amounts reported on the federal schedule to determine if they reasonably agree with the amount the Department has in their records as being disbursed to the subrecipient.

- The Audit Manager does not record through their review of independent audit reports whether the audit tested the applicable federal programs as a major program, along with determining the percentage of coverage based on the major program testing from the A-133 audits.

- There is no written plan describing subrecipient monitoring activities or who is responsible for coordinating such activities in place or reviewed/approved by management.

- Management does not monitor subrecipients through on-site reviews or desk reviews for those subrecipients requiring A-133 audits as well as those that do not require A-133 audits.

- The SSBG agreements with CMH Boards do not contain the CFDA number for the federal program and the federal agency for the source of funds.

- Management decisions are not completed when findings are noted in the review of audit reports.

- A spreadsheet which tracks the receipt of independent audit reports from providers, documents corrective action plans needed, and telephone contact made was not maintained.

- One of ten (10%) provider audits selected for testing required a corrective action plan; however, no management decision was issued within six months of the audit.

- Two of ten (20%) CMH Board audit reports and two of ten (20%) provider audit reports were not received within nine months (between one to four months late). Additionally, there was no documentation maintained of follow-up action taken by the client related to these late reports.

1. MEDICAID/SCHIP/SSBG – SUBRECIPIENT MONITORING (Continued)

The lack of adequate subrecipient monitoring procedures results in noncompliance with the subrecipient monitoring requirements of OMB Circular No. A-133 for fiscal year 2005. Furthermore, the Department cannot be reasonably assured the subrecipients have met the requirements of the Medicaid, SCHIP, and SSBG grant programs. Federal noncompliance could result in the identification of questioned costs and may impact the amount of federal funding received in subsequent years. Management indicated they are aware of these issues and have been conducting managerial level meetings with the Ohio Department of Job and Family Services and the Ohio Department of Alcohol and Drug Addiction Services to discuss possible coordination of efforts between the agencies to determine how additional monitoring activities will be implemented within the Department.

We recommend the Department develop a comprehensive and coordinated subrecipient monitoring process which includes, but is not limited to, the following:

- A review of the requirements for subrecipient monitoring established by OMB Circular No. A-133 and an evaluation of the sufficiency of the Department's current monitoring policies and procedures. In accordance with OMB Circular No. A-133, the Department should consider various risk factors in developing subrecipient monitoring procedures, such as the relative size and complexity of the federal awards administered by subrecipients, prior experience with each subrecipient, and the cost-effectiveness of various monitoring procedures.

- A formal procedural manual to document the Department's monitoring approach. This procedural manual should document the Department's methodology for performing subrecipient reviews and the nature, timing, and extent of the reviews to be performed. It should also include the methodology for resolving findings of subrecipient noncompliance or weaknesses as well as the impact of subrecipient activities on the Department's ability to comply with applicable federal regulations. The written plan should identify personnel assigned to oversee and coordinate subrecipient monitoring activities.

- A review and analysis of the federal schedule and other portions of the A-133 reports received to verify the funds awarded to the subrecipient are properly identified on the schedule and to determine the amount of coverage obtained from the A-133 audits. This will require the Department to track the amount of federal funds, by program, provided to each subrecipient on a calendar year basis (or other fiscal period used by the subrecipients) to determine the amount expected to be reported on the federal schedules. This information should also be provided to the subrecipient to aid in their federal schedule preparation and help identify any problems or concerns. If findings are noted during the review of the A-133 reports, a management decision should be issued in accordance with OMB Circular No. A-133.

- Utilizing a spreadsheet to track the timely receipt and timely review of independent audit reports for all subrecipients (providers and boards).

- Monitoring of the subrecipient's use of federal awards through site visits or other means to provide reasonable assurance the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of the grant agreements and that performance goals are achieved. The reviews conducted via on-site visits should include evaluations of the subrecipients' processes and procedures over critical single audit compliance requirements such as allowable costs, matching, cash management, and period of availability. Supervisory reviews should be performed to determine the adequacy of subrecipient monitoring performed.

1. MEDICAID/SCHIP/SSBG – SUBRECIPIENT MONITORING (Continued)

Corrective Action Plan

The Department is aware of the issues raised in the audit findings and has been conducting managerial level meetings with other state agencies to discuss possible coordination of efforts between agencies to determine how additional monitoring activities will be implemented within the Department. As part of this process, the Department will review the requirements for subrecipient monitoring established by OMB Circular A-133 and conduct an evaluation of the Department's current monitoring policies and procedures.

The Department will also incorporate a risk-based approach in developing additional monitoring procedures. The Department will establish the appropriate legal framework for its monitoring process including appropriate procedural manuals and documentation requirements which outlines the Department's methodology for performing subrecipient reviews and the nature, timing and extent of the reviews to be performed. The procedures will also include the methodology for resolving findings.

The Department will develop procedures for performing site reviews and other means to provide reasonable assurance the subrecipient administers federal awards in compliance with laws, regulations and the provisions of the grant agreements. The Department will include in its procedures an evaluation of the subrecipient's processes and procedures over critical single audit requirements such as allowable costs, matching and cash management.

Anticipated Completion Date for Corrective Action

The Department is currently working on various components of the corrective action plan. It is anticipated that the plan can be completed by the close of SFY 2006. The Department has hired a full time auditor and will work to develop policies and procedures.

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES

1. MEDICAID/SCHIP – SUPPORTING DOCUMENTATION

Finding Number	2005-DMR01-059
CFDA Number and Title	93.775/93.777/93.778 - Medicaid Cluster 93.767 – State Children's Insurance Program
Federal Agency	Department of Health and Human Services

<u>INTERNAL CONTROL – REPORTABLE CONDITION</u>

An effective accounting and grants management system includes controls to ensure sufficient tracking and monitoring of financial activity and programmatic compliance. Sufficient tracking and monitoring entails obtaining and maintaining adequate supporting documentation that details an accurate record of financial and program activity. Adequate supporting documentation not only provides evidence for future inquiry or investigation should a discrepancy occur, but also allows management and external reviewers to ensure accuracy and completeness of the program's financial activity as well as compliance with applicable requirements.

The Department receives claims for reimbursement from providers for services provided to eligible Medicaid and SCHIP recipients through the Medicaid Billing System (MBS). Periodically, the Department requests the federal funds needed to reimburse the providers from the Ohio Department of Job & Family Services (ODJFS). ODJFS returns an Intra-State Transfer Voucher (ISTV), along with reports identifying the required federal and state portions of the claims. Once the federal funds are received by the Department, they add-on the state portion and disburse the funds to the providers. Of the 30 ISTVs reviewed, 11 were for Medicaid – Waiver programs and 19 were for Medicaid – CAFS/TCM programs. For the 19 CAFS/TCM ISTVs, no supporting documentation was provided that would identify the provider claims for which reimbursement had been requested from ODJFS. As a result, we were unable to determine if the timing of the disbursement was reasonable and the costs for which reimbursement was requested were paid prior to the date of the reimbursement request.

Inadequate supporting documentation for reimbursements of medical claims makes the Department susceptible to inaccurate or incomplete payments, as well as overpayment. Although the Department may be able to ensure claims in total were paid, there is no reasonable assurance there are not errors with individual claims. If a claim cannot be tied to a specific ISTV, the Department is unable to answer questions or address concerns of the medical providers if there are errors with their payment. According to management, there are automated edit checks within MBS to ensure individual CAFS/TCM ISTVs are complete and accurate. Management also demonstrated the ability to produce supporting documentation.

We recommend the Department maintain a more detailed record of which claims are paid on each ISTV to provide reasonable assurance claims are being paid accurately and timely. This could be accomplished through internal tracking of the claims on the MBS report to the requests for payment to ODJFS. We further recommend the Department attach the supporting documentation to each ISTV so it is readily available when needed.

Corrective Action Plan

The Ohio Department of Retardation and Developmental Disabilities (ODMRDD) disagrees with the audit finding. During the exit interview with the auditors, it became apparent that there was a misunderstanding about what information the auditors needed. Subsequently, on February 6, 2006, ODMRDD staff met with the auditors and provided documentation for three of the 19 ISTVs for CAFS. Upon review of the documentation, the auditor stated that claims detail is available to support the amounts claimed. ODMRDD does have documentation to support all 19 CAFS ISTVs that were reviewed. It should be noted that the CAFS program ended on June 30, 2005. It no longer exists.

1. MEDICAID/SCHIP – SUPPORTING DOCUMENTATION (Continued)

It should also be noted that the auditors also reviewed 11 ISTVs for waivers, and the auditor found no problems with them. The CAFS ISTVs were more complicated because during FY 2005, ODMRDD had complex claims processing requirements placed upon it for CAFS during the time period impacted by the temporary restraining order and at least 3 different reimbursement rules in as many months

Anticipated Completion Date for Corrective Action

A corrective action plan is not necessary. The necessary documentation for ISTVs exists.

Contact Person Responsible for Corrective Action

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Auditor of State's Analysis

Management was informed of this issue approximately three months prior to receiving a written draft of the comment, which was approximately three weeks prior to the exit conference date. At no time during this period did any representative of the Department provide the documentation necessary to support these transactions. Although limited documentation was provided subsequent to the exit, there was not sufficient time to determine if documentation was available to support all transactions selected for testing.

2. DATA PROCESSING – NETWORK OPERATING SYSTEM

Finding Number	2005-DMR02-060
CFDA *Number and Title*	93.775/777/778 Medicaid Cluster 93.767 State Children's Insurance Program
Federal Agency	Department of Health and Human Services

<u>INTERNAL CONTROL - REPORTABLE CONDITION</u>

An entity's network operating system (NOS) provides the initial logical access point to critical systems and data. Typically, vendors upgrade operating system versions and provide patches for NOSs to resolve identified weaknesses and incompatibilities for all users and systems covered by vendor support. Therefore, it is critical NOSs are consistently upgraded and supported by the vendor.

Currently, the Department utilizes a NOS to control overall access to the Department's network. The NOS utilized by the Department is no longer being supported by the vendor.

Without a vendor-supported NOS, there is an increased risk weaknesses in the system will be discovered and exploited. In addition, the system may become susceptible to emerging threats and attacks. Ultimately, this could lead to corruption and/or loss of data and an indefinite interruption of processing.

Management indicated that the Department is aware the current network operating system is not supported, but they do not have the resources to purchase nor the staffing to implement an updated network operating system.

We recommend the Department implement a vendor-supported NOS to increase reliability in their operating system.

2. DATA PROCESSING – NETWORK OPERATING SYSTEM (Continued)

Corrective Action Plan

The agency recognizes the potential risk inherent in an unsupported network operating system; unfortunately budget constraints precluded action prior to the vendor dropping support of the system. The agency has plans in place and as funds have been allocated is actively working on converting its pilot domain. The plan, which includes upgrading 11 domain controllers, calls for the conversion of one domain at a time, then rolling on the next site. The department will consider using external assistance to supplement internal staff and speed the process once we have reached full internal staffing. While slower than perhaps it might be, this plan minimizes both cost and disruptions that so often plague multi-site upgrades.

Anticipated Completion Date for Corrective Action

July 1, 2006

Contact Person Responsible for Corrective Action

F. Gregory Schneller, Deputy Director of Information Systems, Ohio Department of Mental Retardation and Developmental Disabilities, 30 East Broad Street, 12th Floor, Columbus, Ohio 43215, Phone: (614) 466-2201, e-mail: greg.schneller@dmr.state.oh

3. DATA PROCESSING – TRANSFERS TO LIVE ENVIRONMENT (MEDICAID BILLING SYSTEM)

Finding Number	2005-DMR03-061
CFDA *Number and Title*	93.775/777/778 Medicaid Cluster 93.767 State Children's Insurance Program
Federal Agency	Department of Health and Human Services

INTERNAL CONTROL - REPORTABLE CONDITION

Effective internal controls dictate a segregation of duties between certain IT functions within an application change process. Functions such as modifying computer code, testing the changes, and placing them into production must be appropriately delegated and segregated among personnel and be approved by management.

The Medicaid Billing System (MBS) edit application includes a series of edits used to identify claims to be adjudicated or denied. However, a segregation of duties does not exist within the program change process for the MBS edit application. The MBS edit application programmer has the responsibility to modify, test, and to migrate MBS edit program changes into production.

Without proper management review, approval, and segregation of duties or other controls that restrict access to key programs, the programs could be changed without the knowledge and/or consent of management or the user community. Ultimately, this could lead to the MBS edit application operating in a manner other than intended by management.

Management indicated it is aware of the need to segregate duties over transfers to the live environment for the MBSEDIT changes; however, has not had the staffing to implement this process.

3. DATA PROCESSING – TRANSFERS TO LIVE ENVIRONMENT (MEDICAID BILLING SYSTEM) (Continued)

We recommend the Department develop, document, and implement policies and procedures over the MBS edits, which require an appropriate segregation of duties. These policies and procedures should include, but not be limited to, the following:

- Formalizing and documenting the change testing process.
- Limiting the programmer's access to the production/test environments.
- Requiring documented management approval for program migration into production.

This could be accomplished by upgrading the logical access controls of all Department personnel to segregate the duties between modifying and migrating applications to the production environment.

Corrective Action Plan

The agency has now implemented a dedicated CPU for MBS. This has allowed for segregation of MBS code on an isolated machine; which is highly restricted to a select number of personnel. The agency is in the process of formalizing test procedures. As a result of a recent reorganization at the start of FY06; a number of new staff have been dedicated to MBS through reassignment/hire. This will allow for the conditions noted above to be mitigated to a large extent. It should be noted that while management approval of production control moves is being formalized; there are staffing and budgetary constraints which make it impractical to provide a dedicated production control staff for an environment, which lies outside our current technical direction. Training of an existing staff person to perform this role will be required in order to complete this particular effort.

Anticipated Completion Date for Corrective Action

July 1, 2006

Contact Person Responsible for Corrective Action

F. Gregory Schneller, Deputy Director of Information Systems, Ohio Department of Mental Retardation and Developmental Disabilities, 30 East Broad Street, 12th Floor, Columbus, Ohio 43215, Phone: (614) 466-2201, e-mail: greg.schneller@dmr.state.oh

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF PUBLIC SAFETY

1. STATE DOMESTIC PREPAREDNESS PROGRAM – MONITORING OF SUBRECIPIENTS

Finding Number	2005-DHS01-062
CFDA Number and Title	97.004 – State Domestic Preparedness Equipment Support Program
Federal Agency	Department of Homeland Security

<u>QUESTIONED COSTS</u> $61,893,834

OMB Circular A-133, Subpart D, §___.400 (d), states, in part, that a pass-through entity shall perform the following for the Federal awards it makes:

. . .

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

(4) Ensure that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

31 USC 7502 Section (f) (2) (B) states in part:

. . .

Each pass-through entity shall -

Monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means;

During state fiscal year 2005, the Ohio Department of Public Safety (DHS) disbursed $61.9 million in Federal funding from the State Domestic Preparedness Equipment Support Program (CFDA # 97.004) to both state and local government subrecipients. DHS is responsible for monitoring the use of the State Domestic Preparedness Equipment Support program funds by its subrecipients. However, we found the Department did not have an effective system in place to determine whether subrecipients were using these Federal funds in accordance with applicable laws and regulations. Primarily, we noted the Department had not established procedures for tracking A-133 audits of subrecipients of this program or for making any required management decisions regarding those audits. The Department indicated they were obtaining copies of subrecipient A-133 audits from the Auditor of State website and reviewing them, but we were not provided with any evidence that these reviews were taking place.

We did find that DHS had established some procedures for monitoring subrecipients via limited site visits, reviews of subrecipient-prepared reports, and various other procedures. However, when we reviewed the documentation provided to support these site visits, report reviews and other procedures we found none of the documentation provided a level of detail which demonstrated the Department could rely on these procedures to determine whether subrecipients were complying with applicable federal regulations. There were no formal procedures for site visits, no documentation of what procedures were performed on these site visits (only logs indicating the visits had taken place), and no evidence that the report reviews and other procedures were being used to monitor federal compliance.

1. STATE DOMESTIC PREPAREDNESS PROGRAM – MONITORING OF SUBRECIPIENTS (Continued)

Therefore, since the Department did not have an adequate subrecipient monitoring system in place, we will question the $61,893,834 in payments made to State Domestic Preparedness Equipment Support Program subrecipients during state fiscal year 2005.

Without proper monitoring procedures in place during the period of the grant award to specifically ensure that subrecipients are in compliance with applicable federal rules and regulations, management may not be reasonably assured their subrecipients are expending federal funds for allowable activities and that other significant compliance requirements are being met, thereby putting management at risk of noncompliance with Federal subrecipient monitoring requirements. This could result in reduced federal funding or termination of future federal awards. Based on discussions with various DHS personnel, it appears they felt the procedures they had in place for these programs were sufficient for them to rely on.

We recommend DHS review OMB Circular A-133 requirements and implement the necessary monitoring procedures over subrecipients in order to provide reasonable assurance that all subrecipients are in compliance with program laws and regulations. These procedures should at a minimum include the performance of regular and on-going site visits, maintaining the proper supporting documentation to evidence the site visit and any review procedures performed, and the implementation of an effective tracking system to provide reasonable assurance that A-133 audit reports are received, reviewed and that appropriate corrective action is taken when required.

Corrective Action Plan

As of the date of this response, we have fully documented the review of the most recently submitted Single Audit Reports for all counties available, as well as the action planned for the specific entity, such as desk review or site visit. Additionally, we have contacted our federal liaison in the Department of Homeland Security Preparedness Directorate Office of Grants and Training to formally request some specific training assistance, which is scheduled to begin in July, 2006. In addition, the grant managers in this area have been instructed to more completely document in written form contacts with subrecipients. Finally, we have developed checklists and testing forms to utilize and document reviews of subrecipient activities, as desk or on site reviews. We are in the process of scheduling site visits and sending requests for additional documentation for desk reviews.

Anticipated Completion Date for Corrective Action

December 31, 2006

Contact Person Responsible for Corrective Action

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SUPPLEMENTAL INFORMATION

STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
JULY 1, 2004 THROUGH JUNE 30, 2005

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Office of the Attorney General	2004-AGO01-001 **Medicaid Fraud Control Unit Payroll**	Yes	
	2004-AGO02-002 **Medicaid Fraud Control Unit Reports**	No	The finding is no longer considered noncompliance under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Office of the Attorney General.
Ohio Office of Criminal Justice Services	2003-CJS02-002 2004-CJS01-003 **Subrecipient Monitoring**	No	The finding is no longer considered noncompliance under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Office of Criminal Justice Services.
	2004-CJS02-004 **Federal Reporting**	No	The finding is no longer considered noncompliance under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Office of Criminal Justice Services.
Ohio Department of Education	2003-EDU01-003 2004-EDU01-005 **Charter Schools – Monitoring of Subrecipients**	No	The finding has been repeated in the FY 2005 Single Audit. See 2005-EDU01-002.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Education (Continued)	2004-EDU02-006 **Charter Schools – Payroll Expense Distribution**	Yes	
	2004-EDU03-007 **Expenditures Outside the Period of Availability**	Yes	
	2002-EDU01-006 2003-EDU02-004 2004-EDU04-008 **TANF Monitoring of Head Start Expenditures**	Yes	
	2000-EDU11-017 2001-EDU14-020 2002-EDU14-019 2003-EDU06-008 2004-EDU05-009 **DP — Application Development and Maintenance**	No	The finding has been repeated in the FY 2005 Single Audit. See 2005-EDU03-004.
	2004-EDU06-010 **DP – CRRS Reimbursement Reporting to Federal Government**	Yes	
Ohio Department of Health	2004-DOH01-011 **Administrative Costs**	Yes	
	2000-DOH01-021 2001-DOH01-022 2002-DOH01-020 2003-DOH01-009 2004-DOH02-012 **Subrecipient Monitoring**	No	The finding has been repeated in the FY 2005 Single Audit. See 2005-DOH02-006.
	2004-DOH03-013 **Early Redemption of Food Instruments**	No	The finding has been repeated in the FY 2005 Single Audit. See 2005-DOH03-007.

STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (Continued)
JULY 1, 2004 THROUGH JUNE 30, 2005

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Health (Continued)	2004-DOH04-014 **Federal Reporting**	No	The finding has been repeated in the FY 2005 Single Audit. See 2005-DOH04-008.
	2001-DOH02-023 2002-DOH02-21 2003-DOH02-010 2004-DOH05-015 **DP – Business Resumption Plan**	No	The finding is no longer considered a reportable condition under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Health.
	2003-DOH03-011 2004-DOH06-016 **DP – Program Change Controls**	No	The finding has been repeated in the FY 2005 Single Audit. See 2005-DOH06-010.
Ohio Department of Job and Family Services*	2004-JFS01-07 **TANF – Consolidated Funding – Inappropriate Expenditures**	Yes	
	2004-JFS02-018 **Medicaid – Undocumented Disbursements**	Yes	
	2000-HUM01-022 2001-JFS03-028 2002-JFS03-024 2003-JFS02-013 2004-JFS03-019 **DP – FACSIS NO History Payment Data/Foster Care Duplicates**	No	The finding has been repeated in the FY 2005 Single Audit. See 2005-JFS04-014.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2002-JFS04-025 2003-JFS06-017 2004-JFS04-020 **TANF-Subrecipient Monitoring – Hancock County**	No	The finding is no longer considered a questioned cost under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
	2002-JFS06-027 2003-JFS09-020 2004-JFS05-021 **TANF –Refusal to Work Sanction – Lucas County**	No	The finding has been repeated in the FY 2005 Single Audit. See 2005-JFS09-019.
	2004-JFS06-022 **Foster Care – Unallowed Costs**	Yes	
	2002-JFS11-032 2003-JFS014-025 2004-JFS07-023 **Child Support Non-cooperation – Lucas County**	Yes	
	2000-HUM09-030 2001-JFS09-034 2002-JFS09-030 2003-JFS08-019 2004-JFS08-024 **Child Care – Missing Documentation – Cuyahoga County**	Yes	
	2003-JFS15-026 2004-JFS09-025 **Medicaid – Ineligible Recipients**	Yes	
	2003-JFS18-029 2004-JFS10-026 **CSEA – Unallowed Activities – Defiance County**	Yes	

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2004-JFS11-027 **TANF – Refusal to Work Sanction – Franklin County**	Yes	
	2004-JFS12-028 **Various Programs – Cost Allocation – Hamilton County**	No	The finding has been repeated in the FY 2005 Single Audit. See 2005-JFS03-013.
	2000-HUM18-039 2001-JFS15-040 2002-JFS19-040 2003-JFS20-031 2004-JFS13-029 **IEVS — Due Dates**	No	The finding has been repeated in the FY 2005 Single Audit. See 2005-JFS20-030.
	2000-HUM22-043 2001-JFS21-046 2002-JFS25-046 2003-JFS26-036 2004-JFS14-030 **Lack of Corrective Action**	Yes	
	2000-HUM026-047 2001-JFS23-048 2002-JFS26-047 2003-JFS029-040 2004-JFS015-031 **TANF – Determining Population of Cases for Testing – Various Counties**	Yes	
	2004-JFS16-032 **TANF – Subrecipient Monitoring**	No	The finding is no longer considered noncompliance under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2000-HUM28-049 2001-JFS25-050 2002-JFS27-048 2003-JFS30-041 2004-JFS17-033 **Medicaid/SCHIP – Subrecipient Monitoring**	No	The finding has been repeated in the FY 2005 Single Audit. See 2005-JFS22-032.
	2004-JFS18-034 **Employment Services Reporting**	No	This finding is no longer considered noncompliance under the provisions of OMB Circular A-133; however the finding has been repeated as a reportable condition under the provisions of OMB Circular A-133. See 2005-JFS32-042.
	2002-JFS33-054 2003-JFS34-045 2004-JFS19-035 **WIA – One-Stop Delivery Systems**	Yes	
	2000-HUM36-057 2001-JFS34-059 2002-JFS39-060 2003-JFS38-049 2004-JFS20-036 **DP – CORe Processing WIA**	Yes	
	2003-JFS56-057 2004-JFS21-037 **CORe Advance Calculation**	No	The finding has been repeated in the FY 2005 Single Audit. See 2005-JFS27-037.
	2000-HUM35-056 2001-JFS33-058 2002-JFS38-059 2003-JFS37-048 2004-JFS22-038 **DP – Manual Overrides of CRIS-E (Fiats)**	No	The finding has been repeated in the FY 2005 Single Audit. See 2005-JFS28-038.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2004-JFS23-039 **DP – Internal Reviews of Automated Systems**	No	The finding has been repeated in the FY 2005 Single Audit. See 2005-JFS26-036.
	2000-HUM038-059 2001-JFS37-062 2002-JFS42-063 2003-JFS40-051 2004-JFS24-040 **TANF – County Monitoring**	Yes	
	2000-HUM20-041 2001-JFS18-043 2002-JFS22-043 2003-JFS23-034 2004-JFS25-041 **IVES – Policies and Procedures Manual**	No	The finding is no longer considered a reportable condition under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
	2000-HUM45-066 2001-JFS41-066 2002-JFS48-069 2003-JFS45-056 2004-JFS26-042 **Contracts/ Relationships with County Agencies**	No	The finding is no longer considered a reportable condition under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.

STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (Continued)
JULY 1, 2004 THROUGH JUNE 30, 2005

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2000-HUM47-068 2001-JFS42-067 2001-JFS52-077 2002-JFS05-026 2002-JFS49-070 2002-JFS07-028 2003-JFS04-015 2003-JFS46-057 2004-JFS27-043 **Various Programs – Coding Errors**	No	The finding is no longer considered a reportable condition under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
	2000-HUM44-065 2001-JFS53-078 2002-JFS56-077 2003-JFS50-061 2004-JFS28-044 **Adoption Assistance - Voucher Summary Support Detail**	Yes	
	2000-HUM27-048 2001-JFS24-049 2002-JFS52-073 2003-JFS047-058 2004-JFS029-045 **TANF – Data Report**	Yes	
	2000-HUM46-067 2001-JFS51-076 2002-JFS53-074 2003-JFS48-059 2004-JFS30-046 **Medicaid/SCHIP – Third-Party Liabilities**	No	The finding has been repeated in the FY 2005 Single Audit. See 2005-JFS30-040.
	2000-HUM04-025 2001-JFS07-032 2002-JFS12-033 2003-JFS12-023 2004-JFS31-047 **Medicaid/SCHIP – Drug Rebate Payments**	No	The finding has been repeated in the FY 2005 Single Audit. See 2005-JFS31-041.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2004-JFS32-048 **MMIS Provider Statuses**	No	The finding has been repeated in the FY 2005 Single Audit. See 2005-JFS39-049.
	2004-JFS33-049 **MMIS Provider Master File Changes**	No	The finding has been repeated in the FY 2005 Single Audit. See 2005-JFS45-055.
	2004-JFS34-050 **MMIS Edit Changes**	No	The finding has been repeated in the FY 2005 Single Audit. See 2005-JFS47-057.
	2002-JFS34-055 2003-JFS33-044 2004-JFS35-051 **WIA – Reporting/CORe Time Period**	No	The finding is no longer considered a reportable condition under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
	2004-JFS36-052 **CORe Business Resumption Plan**	No	The finding is no longer considered a reportable condition under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
	2004-JFS37-053 **CORe Reporting of Accruals and Obligations**	No	The finding has been repeated in the FY 2005 Single Audit. See 2005-JFS38-048.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2000-HUM43-064 2001-JFS40-065 2002-JFS45-066 2003-JFS42-053 2004-JFS38-054 **SSBG – Incomplete Monitoring**	No	The finding has been re-peated in the FY 2005 Single Audit. See 2005-JFS36-046.
	2000-HUM10-031 2000-HUM53-074 2001-JFS10-035 2001-JFS59-084 2002-JFS14-035 2002-JFS61-082 2003-JFS52-063 2004-JFS39-055 **Missing Documentation – Various Counties**	No	The finding has been re-peated in the FY 2005 Single Audit. See 2005-JFS37-047.
	2000-HUM51-072 2001-JFS60-085 2002-JFS62-083 2003-JFS53-064 2004-JFS40-056 **Late County Reports – Various Counties**	No	The finding is no longer considered a reportable condition under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
	2000-HUM52-073 2001-JFS58-083 2001-JFS61-086 2002-JFS63-084 2003-JFS54-065 2004-JFS41-057 **Report Processing, Reviews, Inaccuracies – Various Counties**	No	The finding is no longer considered a reportable condition under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
	2004-JFS42-058 **DP – Loss of WRS Archived Data**	Yes	

STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (Continued)
JULY 1, 2004 THROUGH JUNE 30, 2005

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2004-JFS43-059 **DP – MMIS & CRIS-E Missing Change Request Forms**	No	The finding has been re-peated in the FY 2005 Single Audit. See 2005-JFS40-050.
	2000-HUM60-081 2001-JFS68-093 2002-JFS69-090 2003-JFS62-073 2004-JFS44-060 **DP - MMIS/CRIS-E Program Change Documentation**	No	The finding has been re-peated in the FY 2005 Single Audit. See 2005-JFS41-051.
	2001-JFS66-091 2002-JFS68-089 2003-JFS61-072 2004-JFS45-061 **DP – SETS System Documentation**	Yes	
	2004-JFS46-062 **DP – MMIS, CRIS-E, & SETS Comment Log Documentation**	No	The finding is no longer considered a reportable condition under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
	2004-JFS47-063 **DP – SCOTI Programmers' Access to Production**	Yes	

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2004-JFS48-064 **DP- Periodic Access Reconciliations**	No	The finding is no longer considered a reportable condition under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
	2004-JFS49-065 **DP – Terminated Employees w/Access to Unemployment Applications**	No	The finding is no longer considered a reportable condition under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
	2004-JFS50-066 **DP – Security Violations Reports**	No	The finding is no longer considered a reportable condition under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
	2004-JFS51-067 **DP – Lists of Third Party Contractors and Their Access**	No	The finding is no longer considered a reportable condition under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2004-JFS52-068 **DP – Access to SCOTI Production Servers**	No	The finding has been re-peated in the FY 2005 Single Audit. See 2005-JFS43-053.
	2004-JFS53-069 **DP – Password Parameters not Set to Standards**	No	The finding is no longer considered a reportable condition under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
	2004-JFS54-070 **DP – Access to Sensitive SETS & SCOTI Profiles**	No	The finding has been re-peated in the FY 2005 Single Audit. See 2005-JFS44-054.
	2003-JFS60-071 2004-JFS55-071 **DP – Physical Access to the Computer Room**	Yes	
	2004-JFS56-072 **DP – SCOTI Disaster Recovery Test**	No	The finding is no longer considered a reportable condition under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2000-HUM34-055 2001-JFS32-057 2002-JFS37-058 2003-JFS36-047 2004-JFS57-073 **DP – Accuracy of CRIS-E Input**	No	The finding is no longer considered a reportable condition under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
Ohio Department of Mental Health	2001-DMH01-094 2002-DMH01-091 2003-DMH01-074 2004-DMH01-074 **Subrecipient Monitoring**	No	The finding has been re-peated in the FY 2005 Single Audit. See 2005-DMH01-058.
Ohio Department of Mental Retardation and Developmental Disabilities	2004-DMR01-075 **Social Services Block Grant - Payroll**	Yes	
	2001-DMR01-095 2002-DMR01-093 2003-DMR01-075 2004-DMR02-076 **Medicaid – Subrecipient Monitoring**	No	The finding is no longer considered noncompliance under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Mental Retardation and Developmental Disabilities.

STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (Continued)
JULY 1, 2004 THROUGH JUNE 30, 2005

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Mental Retardation and Developmental Disabilities (Continued)	2001-DMR03-097 2002-DMR03-095 2003-DMR03-077 2004-DMR03-077 **Medicaid – Provider Certifications**	No	The finding is no longer considered a reportable condition under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Mental Retardation and Developmental Disabilities.
	2003-DMR04-078 2004-DMR04-078 **DP – Transfer into the Live Environment**	No	The finding has been repeated in the FY 2005 Single Audit. See 2005-DMR03-061.
	2004-DMR05-079 **DP – Network Operating Systems**	No	The finding has been repeated in the FY 2005 Single Audit. See 2005-DMR02-060.

*On July 1, 2000, the Ohio Department of Human Services (HUM) merged with the Ohio Bureau of Employment Services (BES). The merger of these two agencies created the Ohio Department of Job and Family Services (JFS). This new agency is responsible for corrective action of the prior year findings reported above for HUM and BES.

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STATE OF OHIO
SINGLE AUDIT

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
AUGUST 24, 2006