STATE OF OHIO

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2004

Auditor of State
Betty Montgomery

STATE OF OHIO

SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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NOTE:

The State of Ohio *Comprehensive Annual Financial Report* for fiscal year ended June 30, 2004, 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/

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, business-type 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, 2004, 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: Capitol Square Review and Advisory Board (Underground Parking Garage); Office of the Auditor of State; Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio; State Treasury Asset Reserve of Ohio; Treasurer of State Lease Revenue Bonds; Office of Credit and Finance; 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; 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; and Medical College of Ohio at Toledo.

In addition, we did not audit the financial statements of the Public Employees Retirement System, 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%	0%
Business-Type Activities	86%	46%
Aggregate Discretely Presented Component Units	77%	89%
Aggregate Remaining Fund Information	90%	23%
Workers' Compensation	100%	100%
Ohio Building Authority	100%	100%
Underground Parking Garage	100%	100%
Office of Auditor of State	100%	100%

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.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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.

In our opinion, based on 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, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Ohio as of June 30, 2004, and respective changes in financial position and cash flows, where applicable, 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 fiscal year 2004, the State of Ohio adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which required certain foundations of state colleges and universities to be reported as component units of their respective reporting entities.

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 required by the Governmental Accounting Standards Board. 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2004, on our consideration of the State of Ohio'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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered when assessing the results of our audit.

We conducted our audit was to form opinions on the financial statements that collectively comprise the State of Ohio'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 purposes of additional analysis and are not a required part of the basic financial statements. The schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The schedules have not been subjected 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

December 15, 2004

State of Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(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, 2004. 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 $18.89 billion, as of June 30, 2004, increased $333.4 million since the previous year. Net assets of the State's component units reported in the amount of $10.85 billion, as of June 30, 2004, increased $1.22 billion since the end of last fiscal year.

Fund Financial Statements
Governmental funds reported combined ending fund balances of $4.23 billion that was comprised of $283.7 million reserved for specific purposes, such as for debt service, state and local government highway construction, and federal programs; $5.58 billion reserved for nonappropriable items, such as encumbrances, noncurrent loans receivable, noncurrent interfund receivables, loan commitments, and inventories; $104.3 million in designations for budget stabilization and compensated absences; and a $1.74 billion deficit.

As of June 30, 2004, the General Fund's fund balance was approximately $735.8 million, including $20.7 million reserved for "other" specific purposes, as detailed in NOTE 17; $617.4 million reserved for nonappropriable items; and $74.6 million and $23.2 million in designations for budget stabilization and for compensated absences, respectively. The General Fund's fund balance increased by $543 million (including a $2.5 million increase in inventories) or 281.7 percent during fiscal year 2004. Due to greater-than-expected personal income tax revenue for fiscal year 2004 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, including a $234.7 million transfer from the Tobacco Settlement Fund, and a $193 million federal grant award under the Jobs and Growth Tax Relief Reconciliation Act of 2003 provided additional resources to cover anticipated spending in the General Fund during fiscal year 2004.

Proprietary funds reported net assets of $1.57 billion, as of June 30, 2004, a decrease of $212.8 million since June 30, 2003. Most of the net decline was due to the $477.6 million and $77.3 million net losses reported for the Unemployment Compensation and Lottery Commission enterprise funds, respectively, which offset increases in net assets of $308.4 million and $29.6 million in the Workers' Compensation and Tuition Trust Authority enterprise funds, respectively. The loss for the Unemployment Compensation Enterprise fund is attributable to benefits and claims expenses of $1.63 billion that exceeded total operating and nonoperating revenues by approximately $457.9 million. For the Lottery Commission Enterprise Fund, the decline is mainly due to a decline in investment income of $161.1 million, which more than offsets an increase in lottery ticket sales of $76.5 million for fiscal year 2004. The Workers' Compensation Enterprise Fund's increase is due to net investment income of $1.25 billion, which more than offsets premium dividend reductions and refund expenses of $415.5 million, and workers' compensation benefits and compensation adjustment expenses of $2.55 billion, which exceeded net premium and assessment income of $2.13 billion by $422.4 million. The Tuition Trust Authority's increase in net assets resulted from a $270.2 million reduction in tuition benefit expenses in fiscal year 2004 as compared to fiscal year 2003.

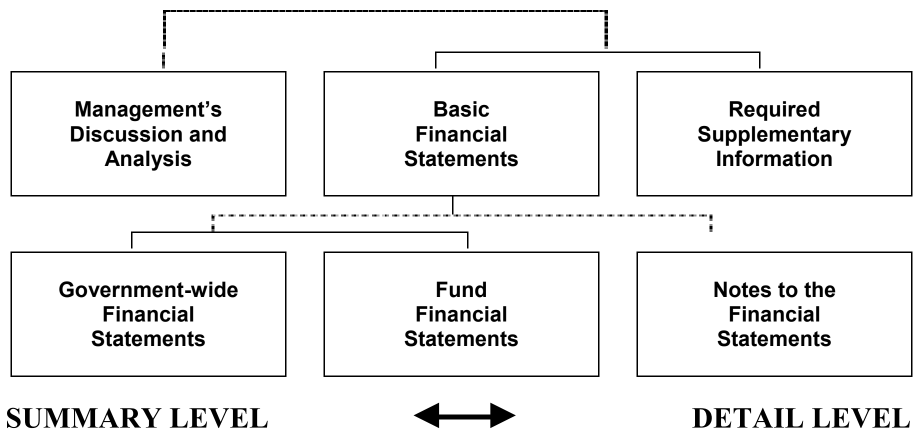
Long-Term Debt — Bonds and Notes Payable and Certificates of Participation Obligations
Overall, the carrying amount of total long-term debt for the State's primary government increased $775.4 million or 8.3 percent during fiscal year 2004 to end the fiscal year with a reported balance of $10.1 billion in long-term debt. During the year, the State issued at par $1.22 billion in general obligation bonds, of which $125.2 million were refunding bonds, $221.1 million in revenue bonds, of which $7.4 million were refunding bonds, and $389.9 million in special obligation bonds, of which $122.1 million were refunding bonds. Changes in the primary government's long-term debt for fiscal year 2004 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, 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 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 funds statements report on the activities, which the State operates like private-sector businesses. Fiduciary funds 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 also 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 66 through 126 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 128 and 129 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 19 through 22 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, community and economic development, and intergovernmental. 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, Arts and Sports 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 14 special revenue funds, 22 debt service funds, and 10 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 42 governmental funds, which are classified as nonmajor funds, are combined into a single, aggregated presentation under a single column on the 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 23 through 34 of this report while the combining fund statements and schedules can be found on pages 132 through 191 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 applying the accrual basis of accounting and an economic resources focus. The eight enterprise funds, all of which are considered to be major 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 35 through 42 of this report.

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 43 through 46 of this report.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Assets. During fiscal year 2004, as shown in the table on the following page, the combined net assets of the State's primary government increased $333.4 million or 1.80 percent. Net assets reported for governmental activities increased $546.2 million or 3.26 percent and business-type activities decreased $212.8 million or 11.94 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, 2004
With Comparatives as of June 30, 2003 (as restated)
(dollars in thousands)

	As of June 30, 2004			As of June 30, 2003		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Assets:						
Current and Other Noncurrent Assets	$12,172,731	$23,832,701	$36,005,432	$10,416,761	$24,213,259	$34,630,020
Capital Assets	22,946,964	183,801	23,130,765	22,368,509	211,908	22,580,417
Total Assets	35,119,695	24,016,502	59,136,197	32,785,270	24,425,167	57,210,437
Liabilities:						
Current and Other Liabilities	7,296,528	3,452,725	10,749,253	6,101,273	3,836,997	9,938,270
Noncurrent Liabilities	10,499,232	18,994,111	29,493,343	9,906,250	18,805,672	28,711,922
Total Liabilities	17,795,760	22,446,836	40,242,596	16,007,523	22,642,669	38,650,192
Net Assets:						
Invested in Capital Assets, Net of Related Debt	19,868,078	5,873	19,873,951	19,261,553	19,827	19,281,380
Restricted	1,888,728	1,787,404	3,676,132	1,870,890	2,026,857	3,897,747
Unrestricted/(Deficits)	(4,432,871)	(223,611)	(4,656,482)	(4,354,696)	(264,186)	(4,618,882)
Total Net Assets	$17,323,935	$ 1,569,666	$18,893,601	$16,777,747	$ 1,782,498	$18,560,245

As of June 30, 2004, 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 $19.87 billion. Restricted net assets were approximately $3.68 billion, resulting in a $4.66 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 $4.43 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 $9.33 billion of outstanding general obligation and special obligation debt at June 30, 2004, $5.71 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, 2004, the State's governmental activities have significant unfunded liabilities for compensated absences in the amount of $382.2 million (see NOTE 14A.) and a $795.7 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 2004 and 2003, follows.

Primary Government
Statement of Activities
For the Fiscal Year Ended June 30, 2004
With Comparatives for the Fiscal Year Ended June 30, 2003 (as restated)
(dollars in thousands)

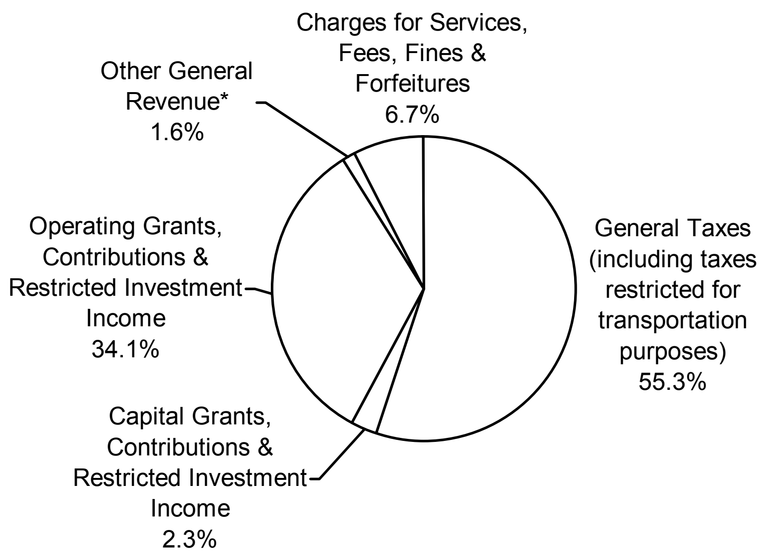
	Fiscal Year 2004			Fiscal Year 2003		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Program Revenues:						
Charges for Services, Fees, Fines and Forfeitures	$ 2,529,150	$4,997,160	$ 7,526,310	$ 2,176,902	$4,989,469	$ 7,166,371
Operating Grants, Contributions & Restricted Investment Income/(Loss)	12,945,972	2,455,783	15,401,755	11,772,552	1,895,246	13,667,798
Capital Grants, Contributions & Restricted Investment Income/(Loss)	890,444	332	890,776	930,497	956	931,453
Total Program Revenues	16,365,566	7,453,275	23,818,841	14,879,951	6,885,671	21,765,622
General Revenues:						
General Taxes	19,396,617	—	19,396,617	17,633,793	—	17,633,793
Taxes Restricted for Transportation	1,631,631	—	1,631,631	1,462,608	—	1,462,608
Tobacco Settlement	316,799	—	316,799	345,075	—	345,075
Escheat Property	74,268	—	74,268	43,173	—	43,173
Unrestricted Investment Income	18,159	622	18,781	5,285	29,726	35,011
Federal	193,033	12	193,045	193,033	44	193,077
Other	1,940	—	1,940	1,802	4,822	6,624
Total General Revenues	21,632,447	634	21,633,081	19,684,769	34,592	19,719,361
Total Revenues	37,998,013	7,453,909	45,451,922	34,564,720	6,920,263	41,484,983
Expenses:						
Primary, Secondary and Other Education	9,190,983	—	9,190,983	8,498,696	—	8,498,696
Higher Education Support	2,495,208	—	2,495,208	2,515,379	—	2,515,379
Public Assistance and Medicaid	13,573,040	—	13,573,040	12,683,617	—	12,683,617
Health and Human Services	3,247,382	—	3,247,382	2,930,071	—	2,930,071
Justice and Public Protection	2,452,891	—	2,452,891	2,435,774	—	2,435,774
Environmental Protection and Natural Resources	419,933	—	419,933	403,445	—	403,445
Transportation	1,463,959	—	1,463,959	1,532,040	—	1,532,040
General Government	607,374	—	607,374	486,013	—	486,013
Community and Economic Development	821,841	—	821,841	739,814	—	739,814
Intergovernmental	3,770,780	—	3,770,780	3,675,073	—	3,675,073
Interest on Long-Term Debt (excludes interest charged as program expense)	189,583	—	189,583	195,559	—	195,559
Workers' Compensation	—	3,072,477	3,072,477	—	4,088,796	4,088,796
Lottery Commission	—	1,575,279	1,575,279	—	1,523,764	1,523,764
Unemployment Compensation	—	1,639,014	1,639,014	—	1,838,949	1,838,949
Ohio Building Authority	—	27,524	27,524	—	30,824	30,824
Tuition Trust Authority	—	118,834	118,834	—	388,469	388,469
Liquor Control	—	374,507	374,507	—	354,547	354,547
Underground Parking Garage	—	2,199	2,199	—	2,515	2,515
Office of Auditor of State	—	75,758	75,758	—	84,087	84,087
Total Expenses	38,232,974	6,885,592	45,118,566	36,095,481	8,311,951	44,407,432
Surplus/(Deficiency) Before Special Items & Transfers	(234,961)	568,317	333,356	(1,530,761)	(1,391,688)	(2,922,449)
Special Items	—	—	—	—	11	11
Transfers-Internal Activities	781,149	(781,149)	—	755,855	(755,855)	—
Change in Net Assets	546,188	(212,832)	333,356	(774,906)	(2,147,532)	(2,922,438)
Net Assets, July 1 (as restated)	16,777,747	1,782,498	18,560,245	17,552,653	3,930,030	21,482,683
Net Assets, June 30	$17,323,935	$1,569,666	$18,893,601	$16,777,747	$1,782,498	$18,560,245

Governmental Activities

The $546.2 million increase in net assets during fiscal year 2004 primarily resulted from higher-than-expected personal income tax collections for the year, executive-ordered spending reductions in March 2004 totaling $100 million, and an additional $150 million in expected lapses that revised current spending estimates for the year downward. Effective July 2003, the State raised the sales and use tax rate by one cent to six percent. The tax increase, in combination with other general tax revenues, federal reimbursements for eligible program costs, and transfers from the State's business-type activities, more than adequately offset spending increases over fiscal year 2003 largely in the Primary, Secondary and Other Education and the Public Assistance and Medicaid functions. Increased spending in the State's largest public assistance-related program, Medicaid, most likely resulted from increases in health care costs and the continuation of a slowdown in the economy.

The following chart illustrates revenue sources of governmental activities as percentages of total revenues reported for the fiscal year ended June 30, 2004.

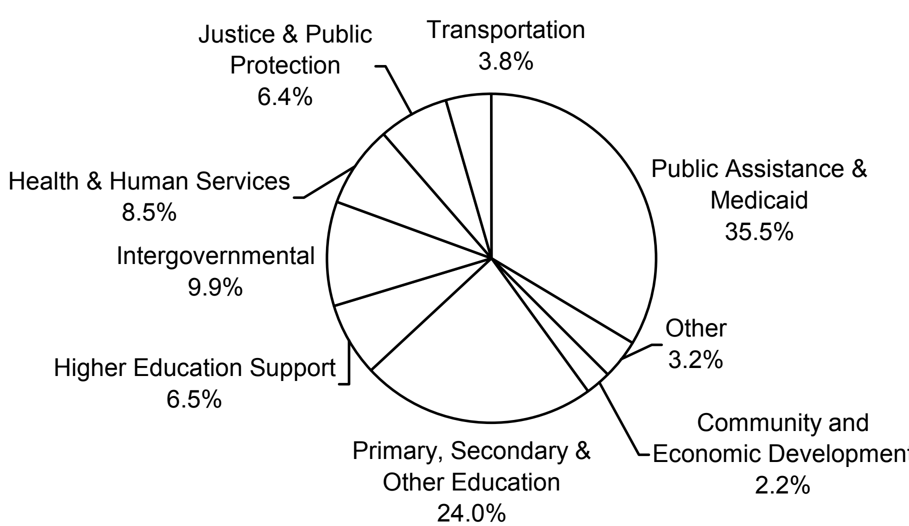
Governmental Activities — Sources of Revenue
Fiscal Year 2004



Total FY 04 Revenue for Governmental Activities = $38.0 Billion

The following chart illustrates expenses by program of governmental activities as percentages of total program expenses reported for the fiscal year ended June 30, 2004.

Governmental Activities — Expenses by Program
Fiscal Year 2004



Total FY 04 Program Expenses for Governmental Activities = $38.2 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, 2004 and 2003. 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, 2004
With Comparatives for the Fiscal Year Ended June 30, 2003 (as restated)
(dollars in thousands)

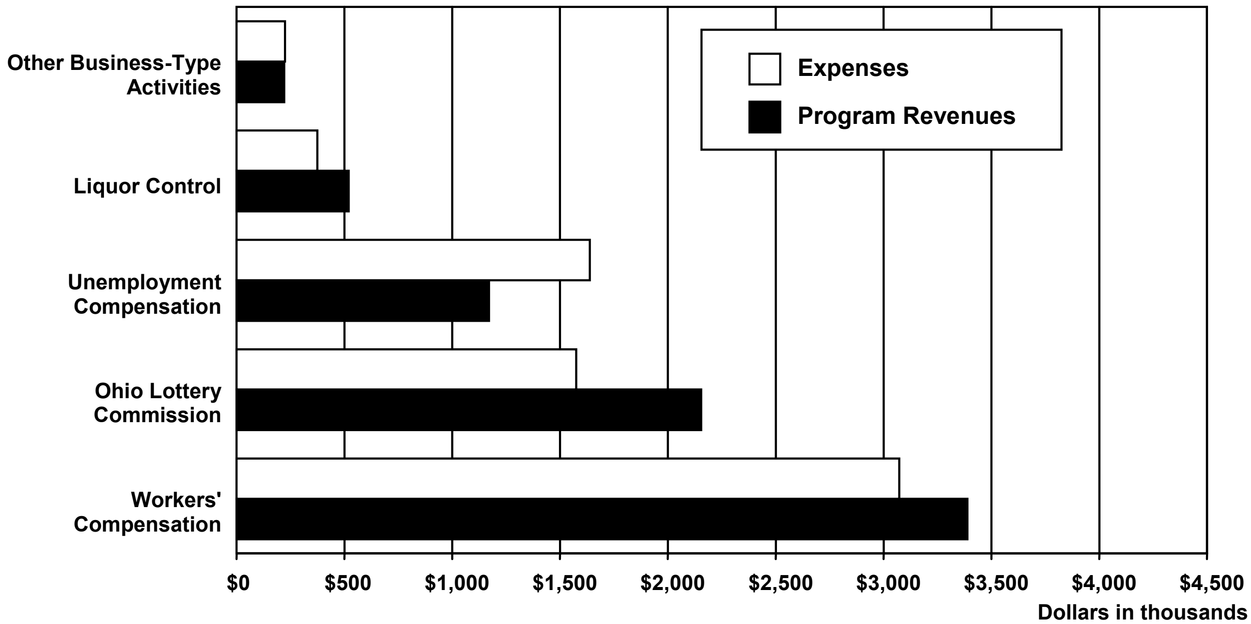
	For the Fiscal Year Ended June 30, 2004			
Program	**Program Expenses**	**Net Cost of Program**	**Net Cost as Percentage of Total Expenses for Program**	**Net Cost as Percentage of Total Expenses — All Programs**
Primary, Secondary and Other Education	$ 9,190,983	$ 7,738,890	84.2%	20.2%
Higher Education Support	2,495,208	2,475,475	99.2	6.5
Public Assistance and Medicaid	13,573,040	3,936,213	29.0	10.3
Health and Human Services	3,247,382	1,265,232	39.0	3.3
Justice and Public Protection	2,452,891	1,415,166	57.7	3.7
Environmental Protection and Natural Resources	419,933	167,008	39.8	0.4
Transportation	1,463,959	509,473	34.8	1.3
General Government	607,374	191,603	31.5	0.5
Community and Economic Development	821,841	207,985	25.3	0.6
Intergovernmental	3,770,780	3,770,780	100.0	9.9
Interest on Long-Term Debt	189,583	189,583	100.0	0.5
Total Governmental Activities	$38,232,974	$21,867,408	57.2	57.2%

	For the Fiscal Year Ended June 30, 2003			
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	$ 8,498,696	$ 7,234,432	85.1%	20.0%
Higher Education Support	2,515,379	2,491,806	99.1	6.9
Public Assistance and Medicaid	12,683,617	3,937,383	31.0	10.9
Health and Human Services	2,930,071	1,164,789	39.8	3.2
Justice and Public Protection	2,435,774	1,584,283	65.0	4.4
Environmental Protection and Natural Resources	403,445	179,562	44.5	0.5
Transportation	1,532,040	515,201	33.6	1.4
General Government	486,013	77,450	15.9	0.2
Community and Economic Development	739,814	159,992	21.6	0.5
Intergovernmental	3,675,073	3,675,073	100.0	10.2
Interest on Long-Term Debt	195,559	195,559	100.0	0.6
Total Governmental Activities	$36,095,481	$21,215,530	58.8	58.8%

Business-Type Activities

The State's enterprise funds reported net assets of $1.57 billion, as of June 30, 2004, as compared to $1.78 billion in net assets, as of June 30, 2003. Contributing to the overall decline in business-type activities was the Unemployment Compensation Fund, which reported net assets of $809 million, as of June 30, 2004, as compared to $1.29 billion, a 37.1 percent decrease since June 30, 2003. The Lottery Commission Fund posted a $77.3 million or 38.5 percent reduction in net assets during fiscal year 2004 when the fund reported net assets of $123.5 million, as of June 30, 2004. The Workers' Compensation Fund, however, reported net assets of $860.8 million, as of June 30, 2004, as compared to $552.4 million in net assets, as of June 30, 2003, a 55.8 percent increase. The chart below compares program expenses and program revenues for business-type activities.

Business-Type Activities — Expenses and Program Revenues
Fiscal Year 2004



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, 2004 and June 30, 2003 (dollars in thousands).

As of and for the Fiscal Year Ended June 30, 2004:	General Fund	Other Major Funds	Nonmajor Govern-mental Funds	Total Governmental Funds
Unreserved/Undesignated Fund Balance (Deficit)	$ —	$ (2,184,137)	$ 443,440	$ (1,740,697)
Designated Fund Balance	97,748	—	6,584	104,332
Total Fund Balance	735,836	690,876	2,805,192	4,231,904
Total Revenues	24,100,293	10,300,523	3,354,568	37,755,384
Total Expenditures	23,696,836	10,479,377	5,411,537	39,587,750
As of and for the Fiscal Year Ended June 30, 2003 (as restated):				
Unreserved/Undesignated Fund Balance (Deficit)	$ (364,851)	$ (1,837,828)	$ 393,979	$ (1,808,700)
Designated Fund Balance	—	—	3,941	3,941
Total Fund Balance	192,787	762,870	2,660,290	3,615,947
Total Revenues	21,748,682	9,757,471	3,115,188	34,621,341
Total Expenditures	22,428,880	10,135,171	5,122,383	37,686,434

General Fund

Fund balance for the General Fund, the main operating fund of the State, had increased by $543 million during the current fiscal year. Key factors for the increase were higher personal income tax and sales tax collections resulting from an expansion in the economy and a temporary increase (effective through June 30, 2005) in the sales and use tax rate by one cent to six percent, and from increased federal receipts due to a temporary increase in the reimbursement percentage under the federal Medicaid Program. These increases in revenues outpaced mandated spending increases in the Medicaid Program and increased spending for primary and secondary education.

General Fund Budgetary Highlights

The State ended the first year of its biennial budget period on June 30, 2004 with a General Fund budgetary fund balance (i.e., cash less encumbrances) of $934.3 million. Total budgetary sources for the General Fund (including $617.1 million in transfers from other funds) in the amount of $25.76 billion were above final estimates by $308.1 million or 1.2 percent during fiscal year 2004, while total tax receipts were above final estimates by $191.6 million or 1.1 percent. The State also received a $193.0 million federal grant award under the Federal Jobs and Growth Tax Relief Reconciliation Act of 2003, which was deposited into the General Fund, and $234.7 million from tobacco settlement revenues was transferred to the General Fund, as authorized under legislation. It was not necessary to use any of the $180.7 million that had been designated for budget stabilization purposes at June 30, 2003 during fiscal year 2004.

The State also received the enhanced federal medical assistance percentage portion of federal Medicaid reimbursements allowed under the Federal Jobs and Growth Tax Relief Reconciliation Act of 2003. This allows the State to receive reimbursement for an additional 2.95 percent of its eligible Medicaid disbursements paid during the last quarter of fiscal year 2003 and all four quarters of fiscal year 2004. During fiscal year 2004 the State received $368.5 million under this program. Temporary legislation requires that $18.6 million and $90.9 million of this money be spent to pay eligible Medicaid claims during fiscal years 2004 and 2005, respectively. The remainder may be spent at the discretion of the State.

The State undertook several revenue enhancement actions in fiscal year 2003 that took effect in fiscal year 2004, including:

- A one-cent increase in the State sales tax (to six percent) for the biennium. The tax is currently set to expire 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 a 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 better-than-expected revenue picture primarily resulted from higher-than-anticipated receipts from personal income tax which exceeded estimates by $310.2 million and more than offset lower-than-anticipated sales tax receipts, which fell below estimates by $104.4 million.

Total budgetary uses for the General Fund (including $144 million in transfers to other funds) in the amount of $25.77 billion were below final estimates by $226.3 million or .9 percent for fiscal year 2004.

Based on regular monthly monitoring of revenues and expenditures, OBM on March 8, 2004 announced revised General Revenue Fund (GRF) revenue projections for fiscal years 2004 and 2005 based primarily on reduced revenue collections from personal income taxes. The GRF is the largest, non-GAAP, budgetary-basis operating fund included in the State's General Fund. In response to OBM reducing its GRF revenue projection by $247.1 million (1.02%) for fiscal year 2004 and by $372.7 million (1.48%) for fiscal year 2005, the Governor on March 8 ordered fiscal year 2004 expenditure reductions of approximately $100 million, and the Office of Budget and Management revised the current spending estimates downward to account for an additional $150 million in expected lapses.

Other Major Governmental Funds

Fund balance for the *Job, Family and Other Human Services Fund*, as of June 30, 2004, was a deficit in the amount of $76.5 million, a decrease of $94.5 million since June 30, 2003. Expenditures exceeded revenues by $109.6 million, and of this deficiency of revenues under expenditures, $15.2 million was offset by net transfers-in received from other funds.

Fund balance for the *Education Fund*, as of June 30, 2004, totaled $48.3 million, an increase of $25.8 million since June 30, 2003. Fiscal year 2004 net transfers-in for the fund in the amount of $635.5 million was more than enough to cover the excess of expenditures over revenues reported for the fund in the amount of $609.8 million.

Fund balance for the *Highway Operating Fund*, as of June 30, 2004, totaled $600.2 million, a decrease of $15.5 million (including a $946 thousand decrease in inventories) since June 30, 2003. The decline was in spite of decreased transportation spending of $1.78 billion for fiscal year 2004 compared with $1.91 billion during the previous fiscal year, and an increase in the fund's revenues to $1.52 billion in fiscal year 2004 from $1.44 billion in fiscal year 2003. The revenue increase for this fund was due in part to a two-cent increase in the motor vehicle fuel tax rate from 22 cents a gallon to 24 cents a gallon, effective July 1, 2003. There was a slight increase in transfers-out for fiscal year 2004 of $9.1 million when compared to fiscal year 2003 results.

Fund balance for the *Revenue Distribution Fund*, as of June 30, 2004, totaled $118.8 million, an increase of $12.2 million since June 30, 2003. Fiscal year 2004 net transfers-out to other governmental funds of $790 million were lower than the $825.9 million net transfers-out reported for fiscal year 2003, thus causing the increase in fund balance.

Proprietary Funds

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

For the *Workers' Compensation Fund*, the $308.4 million increase in net assets was primarily due to an increase in investment income of approximately $674.5 million. The Bureau of Worker's Compensation experienced net investment income of $1.25 billion, compared to net investment income of $575.4 million reported in the previous fiscal year. The increase in net investment income was primarily attributable to an increase of $804 million in the fair value of the investment portfolio in fiscal year 2004 compared to a $43 million increase in fair value during fiscal year 2003.

Workers' compensation benefits and claims expenses exceeded premium and assessment income by $422.4 million in fiscal year 2004 as compared with $1.19 billion in fiscal year 2003.

Net assets were reduced by premium dividend reductions and refunds expenses of $415.5 million during fiscal year 2004 as compared to a $640.6 million reduction in fiscal year 2003. The Workers Compensation Oversight Commission approved a one-time 20-percent premium reduction for Ohio private employers for the policy period, July 1, 2003 through December 31, 2003, and an additional 20-percent premium reduction was approved for the policy period January 1, 2004 through June 30, 2004.

Workers' compensation benefits and claims expense were $2.55 billion in fiscal year 2004 as compared to $3.36 billion in fiscal year 2003. The decrease in workers' compensation benefits is due largely to declines in the number of newly awarded permanent total disability claims. Medical costs in fiscal year 2004 were lower than expected by nearly $80 million.

For fiscal year 2004, the *Lottery Commission Fund* reported $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 dollar reduction in the fund's net assets. For fiscal year 2003, the Lottery Commission Fund reported approximately $708.2 million in income before transfers of $641.4 million and $189 thousand to the Education and General funds, respectively, posting a $66.6 million gain in the fund's net assets.

Unemployment benefits and claims expenses of $1.63 billion exceeded total operating and nonoperating revenues by approximately $457.9 million for the *Unemployment Compensation Fund*. As a result of the decline in the asset balance on deposit with the federal government relative to employer contributions during fiscal year 2004, investment income for the fund was $53.3 million, down $40.3 million or 43.1 percent from fiscal year 2003. As of June 30, 2004, the deposit with federal government was reported at $711.0 million, as compared with $1.19 billion, as of June 30, 2003, a 40.3 percent decline. Premium and assessment income reported for fiscal year 2004 in the amount of $847.6 million increased by $96.6 million, while federal government revenue in the amount of $224.4 million decreased by $116.2 million when compared to fiscal year 2003. For calendar year 2003, Ohio's annualized average monthly unemployment rate 6.1 percent versus 5.7 percent during the previous calendar year, according to the Ohio Department of Job and Family Services.

For fiscal year 2004, the *Tuition Trust Authority* Fund reduced its deficit by $29.6 million or 9.3 percent. The deficit reduction was primarily due to an increase in investment income of $79.9 million and a decrease in benefits and claims expenses of $270.2 million. The investment income for the Authority was $109 million in fiscal year

2004 as compared to $29.1 million in fiscal year 2003. The increase in investment income was primarily attributable to improving market values of securities held by the Authority. Tuition benefit expense was $111.0 million in fiscal year 2004, as compared to $381.2 million in fiscal year 2003. The decrease in the tuition benefits expense was a result of more modest growth during fiscal year 2004 and the slower estimated increase in the projected future tuition growth due to the suspension of sales in the Guaranteed Savings Program. While the increase in investment income and the reduction in the benefits claims expenses contributed to the reduction in the Authority's deficit for fiscal year 2004, tuition unit sales decreased by $71.2 million or 64.4 percent. The reduction in unit sales is attributable to the suspension of sales in the Guaranteed Savings Program.

The *Liquor Control* Fund reported a net gain of $1.1 million after transferring $118 million to the General Fund and $26.6 million to other governmental funds.

In fiscal year 2004, transfers from proprietary funds to governmental funds totaled $830.3 million, up $3.8 million or .5 percent when compared to the $826.5 million in transfers-out reported in fiscal year 2003.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2004 and June 30, 2003, the State had invested $23.13 billion and $22.58 billion, net of accumulated depreciation of $1.99 billion and $1.86 billion, respectively, in a broad range of capital assets, as detailed in the table below.

Capital Assets, Net of Accumulated Depreciation
As of June 30, 2004
With Comparatives as of June 30, 2003
(dollars in thousands)

	As of June 30, 2004			As of June 30, 2003		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Land	$ 1,573,861	$ 12,631	$ 1,586,492	$ 1,530,958	$ 12,631	$ 1,543,589
Buildings	2,016,005	133,763	2,149,768	1,895,700	141,111	2,036,811
Land Improvements	143,262	17	143,279	110,112	18	110,130
Machinery and Equipment	141,704	34,928	176,632	141,766	54,799	196,565
Vehicles	125,976	2,462	128,438	125,321	2,393	127,714
Infrastructure:						
Highway Network:						
General Subsystem	8,232,748	—	8,232,748	8,059,076	—	8,059,076
Priority Subsystem	6,707,733	—	6,707,733	6,570,628	—	6,570,628
Bridge Network	2,287,175	—	2,287,175	2,255,567	—	2,255,567
Parks, Recreation, and Natural Resources System	23,424	—	23,424	17,836	—	17,836
	21,251,888	183,801	21,435,689	20,706,964	210,952	20,917,916
Construction-in-Progress	1,695,076	—	1,695,076	1,661,545	956	1,662,501
Total Capital Assets, Net	$22,946,964	$183,801	$23,130,765	$22,368,509	$211,908	$22,580,417

During fiscal year 2004, the State recognized $179.5 million in annual depreciation expense relative to its general governmental capital assets as compared with $156.2 million in depreciation expense recognized in fiscal year 2003.

Additionally, the State completed construction on a variety of projects at various state facilities during fiscal year 2004 totaling approximately $615.6 million, as compared with $435 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 2.44 percent (a 2.6 percent increase for governmental activities and a 13.3 percent decrease for business-type activities). As further detailed in NOTE 19D. of the notes to the financial statements, the State had $226.2 million in major construction commitments (unrelated to infrastructure), as of June 30, 2004, as compared with the $205.6 million balance reported for June 30, 2003.

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 42,471 in lane miles of highway (12,225 in lane miles for the priority highway subsystem and 30,246 in lane miles for the general highway subsystem) and approximately 82.3 million square feet of deck area that comprises more than 12,000 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 2003, indicates that only 3.9 percent and 1.1 percent of the priority and general subsystems, respectively, were assigned a "poor" condition rating. For calendar year 2002, only 3.1 percent and 1.8 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 2003, indicates that 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 calendar year 2002, only 3.0 percent and .01 percent of the number of square feet of bridge deck area were considered to be in "fair" and "poor" conditions, respectively.

For fiscal year 2004, 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. For the previous fiscal year, total actual maintenance and preservation costs for the priority and general subsystems were $273.8 million and $209.5 million, respectively, compared to estimated costs of $243.7 million for the priority system and $135.1 million for the general system, while total actual maintenance and preservation costs for the bridge network was $229.1 million compared to estimated costs of $180.4 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, 2004 and June 30, 2003, the State had total debt of approximately $10.10 billion and $9.32 billion, respectively, as shown in the table below.

Bonds and Notes Payable and Certificates of Participation
As of June 30, 2004
With Comparatives as of June 30, 2003
(dollars in thousands)

	As of June 30, 2004			As of June 30, 2003		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Bonds and Notes Payable:						
General Obligation Bonds	$5,420,711	$ —	$ 5,420,711	$4,603,842	$ —	$4,603,842
Revenue Bonds and Notes	607,958	158,537	766,495	450,598	167,310	617,908
Special Obligation Bonds	3,904,480	—	3,904,480	4,093,614	—	4,093,614
Certificates of Participation	6,480	—	6,480	7,370	—	7,370
Total Debt	$9,939,629	$158,537	$10,098,166	$9,155,424	$167,310	$9,322,734

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 2004, the State issued at par $1.22 billion in general obligation bonds, $221.1 million in revenue bonds, and $389.9 million in special obligation bonds. Of the general obligation bonds, revenue bonds, and special obligation bonds issued at par, $125.2 million, $7.4 million, and $122.1 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 8.3 percent (an 8.6 percent increase for governmental activities and a 5.2 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 AA+, except for Highway Capital Improvement Obligations, which are rated AAA.

For state obligations, 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.

On November 8, 2004, Moody's changed its credit outlook on the State from "negative" to "stable." On July 9, 2003, S&P changed its credit outlook on the State from "negative" to "stable." The changes in outlook to "stable" do not constitute a rating change, but reflect an assessment by that particular rating agency that a change in the rating is not expected in the near term.

Limitations on Debt
A 1999 amendment to the Ohio Constitution provides an annual debt service "cap" on general obligation bonds and other direct obligations payable from the General Revenue Fund (GRF) or net state lottery proceeds. Generally, such bonds may not be issued if the future fiscal year debt service on the new bonds and previously issued bonds exceeds five percent of total estimated GRF revenues plus net state lottery proceeds during the fiscal year of issuance. Application of the cap may be waived in a particular instance by a three-fifths vote of each house of the General Assembly and may be changed by future constitutional amendments. Direct obligations of the State include, for example, special obligation bonds issued by the Ohio Building Authority and the Treasurer of State that are paid from GRF appropriations, but exclude bonds such as highway bonds that are paid from highway user receipts.

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
As of the end of October, the national economy has pulled out of the mid-year soft patch, and is moving ahead on the back of a strong showing by consumer spending and a large increase in business equipment spending. Analysts expect the same or faster growth in the current quarter.

The forecast for the State of Ohio's economy is for a continuing, moderate economic recovery with moderate improvements in Ohio's labor markets. Growth in wages and salaries, which are a key determinant of revenue from income taxes and has an important effect on revenue from the sales and use tax, grew at an annualized rate of 6.4 percent for the first quarter of 2004. Through the end of October, actual tax revenues and disbursements for the GRF for fiscal year 2005 have been consistent with the Office of Budget and Management's projections.

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.

The GRF appropriations bill for the fiscal year 2004-05 biennium (beginning July 1, 2003) was passed by the General Assembly on June 19, 2003 and promptly signed (with selective vetoes) by the Governor June 26. Necessary GRF debt service and lease-rental appropriations (for special obligation debt) for the entire biennium were requested in the Governor's proposed budget, incorporated in the related appropriations bill as introduced and in the bill's versions as passed by the House and the Senate, and in the Act as passed and signed. (The same is true for the separate Department of Transportation (DOT) and Bureau of Workers' Compensation (BWC) appropriations acts containing lease-rental appropriations for certain Ohio Building Authority-financed projects at DOT, BWC, and the Department of Public Safety.)

The Act provides for total GRF biennial expenditures of approximately $48.8 billion. Those authorized GRF expenditures for fiscal year 2005 are approximately 3.5 percent higher than for fiscal year 2004. The following are examples of increases in authorized GRF biennial expenditures compared with actual fiscal year 2002-03 expenditures in major program categories: primary and secondary education-5.1 percent; higher education-4.4 percent; mental health and mental retardation-4.1 percent; Medicaid-19.9 percent; and adult and juvenile corrections-5.7 percent.

The above expenditure levels reflect among other expenditure controls in the Act: 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 years 2000 and 2001 or the amount that would have been distributed under the standard formula.

On July 1, 2004, the Governor ordered fiscal year 2005 expenditure cuts of approximately $118 million in addition to a reduction of $50 million in state spending on Medicaid reflecting an increased federal share of certain Medicaid services. Those annualized reductions are one percent for corrections, youth services, mental health, and mental retardation and developmental disabilities; and four percent in fiscal year 2004 and six percent in fiscal year 2005 for other departments and agencies. Expressly excluded from those reductions are 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 those revenue reductions have been and will be offset by GRF expenditure lapses and, for fiscal year 2005, elimination of an anticipated $100 million year-end set-aside for budget stabilization purposes, while maintaining a year-end GRF fund balance at June 30, 2005 equal to one-half percent of total revenues and transfers-in reported for this budgetary fund during fiscal year 2004.

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.

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BASIC FINANCIAL STATEMENTS

STATE OF OHIO
STATEMENT OF NET ASSETS
JUNE 30, 2004
(dollars in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS:				
Cash Equity with Treasurer	$ 5,107,379	$ 50,295	$ 5,157,674	$ 388,266
Cash and Cash Equivalents	94,120	1,716,627	1,810,747	730,630
Investments	742,645	14,973,939	15,716,584	5,189,911
Collateral on Lent Securities	2,108,403	2,673,153	4,781,556	153,934
Deposit with Federal Government	—	711,038	711,038	—
Taxes Receivable	1,076,897	—	1,076,897	—
Intergovernmental Receivable	1,508,497	4,828	1,513,325	46,022
Premiums and Assessments Receivable	—	1,410,658	1,410,658	—
Investment Trade Receivable	—	350,491	350,491	—
Loans Receivable, Net	907,439	—	907,439	249,326
Receivable from Primary Government	—	—	—	47,879
Other Receivables	518,257	318,045	836,302	746,130
Inventories	45,218	33,304	78,522	50,013
Other Assets	63,876	14,602	78,478	407,986
Restricted Assets:				
Cash and Cash Equivalents	—	1,768	1,768	121,243
Investments	—	1,573,953	1,573,953	1,260,909
Loans Receivable, Net	—	—	—	2,683,771
Capital Assets Being Depreciated, Net	2,394,839	171,170	2,566,009	5,905,188
Capital Assets Not Being Depreciated	20,552,125	12,631	20,564,756	1,206,072
TOTAL ASSETS	**35,119,695**	**24,016,502**	**59,136,197**	**19,187,280**
LIABILITIES:				
Accounts Payable	607,443	39,151	646,594	409,196
Accrued Liabilities	274,852	4,322	279,174	349,246
Medicaid Claims Payable	954,720	—	954,720	—
Obligations Under Securities Lending	2,108,403	2,673,153	4,781,556	153,934
Investment Trade Payable	—	1,451,130	1,451,130	—
Intergovernmental Payable	1,148,395	837	1,149,232	1,127
Internal Balances	802,254	(802,254)	—	—
Payable to Component Units	47,879	—	47,879	—
Unearned Revenue	574,918	2,822	577,740	144,722
Benefits Payable	—	2,290	2,290	—
Refund and Other Liabilities	777,664	81,274	858,938	100,976
Noncurrent Liabilities:				
Bonds and Notes Payable:				
Due in One Year	907,383	6,991	914,374	613,017
Due in More Than One Year	9,025,766	151,546	9,177,312	3,707,024
Certificates of Participation:				
Due in One Year	945	—	945	810
Due in More Than One Year	5,535	—	5,535	28,930
Other Noncurrent Liabilities:				
Due in One Year	105,842	2,393,944	2,499,786	893,514
Due in More Than One Year	453,761	16,441,630	16,895,391	1,933,429
TOTAL LIABILITIES	**17,795,760**	**22,446,836**	**40,242,596**	**8,335,925**

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....................................	*19,868,078*	*5,873*	*19,873,951*	*4,637,663*
Restricted for:				
Primary, Secondary and Other Education	*15,862*	—	*15,862*	—
Transportation and Highway Safety..........	*698,428*	—	*698,428*	—
State and Local Government				
Highway Construction............................	*126,517*	—	*126,517*	—
Federal Programs......................................	*32,858*	—	*32,858*	*110*
Coal Research				
and Development Program....................	—	—	—	*4,518*
Clean Ohio Program..................................	*80,530*	—	*80,530*	—
Debt Service..	—	—	—	*1,961,617*
Intergovernmental and Capital Purposes..	*924,533*	—	*924,533*	—
Enterprise Bond Program..........................	*10,000*	—	*10,000*	—
Workers' Compensation............................	—	*866,307*	*866,307*	—
Deferred Lottery Prizes............................	—	*83,603*	*83,603*	—
Unemployment Compensation..................	—	*809,037*	*809,037*	—
Ohio Building Authority..............................	—	*28,457*	*28,457*	—
Nonexpendable for				
Colleges and Universities......................	—	—	—	*2,573,715*
Expendable for				
Colleges and Universities......................	—	—	—	*1,475,444*
Unrestricted (Deficits)....................................	*(4,432,871)*	*(223,611)*	*(4,656,482)*	*198,288*
TOTAL NET ASSETS................................	***$ 17,323,935***	***$ 1,569,666***	***$ 18,893,601***	***$ 10,851,355***

STATE OF OHIO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(dollars in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES, FEES, FINES AND FORFEITURES	PROGRAM REVENUES: OPERATING GRANTS, CONTRIBUTIONS AND RESTRICTED INVESTMENT INCOME/(LOSS)	PROGRAM REVENUES: CAPITAL GRANTS, CONTRIBUTIONS AND RESTRICTED INVESTMENT INCOME/(LOSS)	NET (EXPENSE) REVENUE
PRIMARY GOVERNMENT:					
GOVERNMENTAL ACTIVITIES:					
Primary, Secondary and Other Education	$ 9,190,983	$ 35,932	$ 1,416,161	$ —	$ (7,738,890)
Higher Education Support	2,495,208	5,722	14,011	—	(2,475,475)
Public Assistance and Medicaid	13,573,040	556,006	9,080,821	—	(3,936,213)
Health and Human Services	3,247,382	200,636	1,780,344	1,170	(1,265,232)
Justice and Public Protection	2,452,891	832,787	204,566	372	(1,415,166)
Environmental Protection and Natural Resources	419,933	169,611	83,113	201	(167,008)
Transportation	1,463,959	20,350	46,198	887,938	(509,473)
General Government	607,374	413,028	1,980	763	(191,603)
Community and Economic Development	821,841	295,078	318,778	—	(207,985)
Intergovernmental	3,770,780	—	—	—	(3,770,780)
Interest on Long-Term Debt (excludes interest charged as program expense)	189,583	—	—	—	(189,583)
TOTAL GOVERNMENTAL ACTIVITIES	**38,232,974**	**2,529,150**	**12,945,972**	**890,444**	**(21,867,408)**
BUSINESS-TYPE ACTIVITIES:					
Workers' Compensation	3,072,477	2,138,634	1,249,889	—	316,046
Lottery Commission	1,575,279	2,166,512	(12,294)	—	578,939
Unemployment Compensation	1,639,014	61,033	1,109,081	—	(468,900)
Ohio Building Authority	27,524	26,385	—	99	(1,040)
Tuition Trust Authority	118,834	39,431	108,999	—	29,596
Liquor Control	374,507	520,161	—	19	145,673
Underground Parking Garage	2,199	2,570	30	206	607
Office of Auditor of State	75,758	42,434	78	8	(33,238)
TOTAL BUSINESS-TYPE ACTIVITIES	**6,885,592**	**4,997,160**	**2,455,783**	**332**	**567,683**
TOTAL PRIMARY GOVERNMENT	**$ 45,118,566**	**$ 7,526,310**	**$ 15,401,755**	**$ 890,776**	**$ (21,299,725)**
COMPONENT UNITS:					
School Facilities Commission	$ 444,888	$ 1,607	$ 9,591	$ —	$ (433,690)
Ohio Water Development Authority	91,543	128,688	84,321	—	121,466
Ohio State University	2,794,873	1,753,935	508,974	80,147	(451,817)
University of Cincinnati	826,737	304,345	440,847	8,263	(73,282)
Other Component Units	3,772,765	2,210,417	506,593	56,800	(998,955)
TOTAL COMPONENT UNITS	**$ 7,930,806**	**$ 4,398,992**	**$ 1,550,326**	**$ 145,210**	**$ (1,836,278)**

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	$ (21,867,408)	$ 567,683	$ (21,299,725)	$ (1,836,278)
General Revenues:				
Taxes:				
Income	8,526,572	—	8,526,572	—
Sales	7,915,493	—	7,915,493	—
Corporate and Public Utility	1,755,736	—	1,755,736	—
Cigarette	557,543	—	557,543	—
Other	641,273	—	641,273	—
Restricted for Transportation Purposes:				
Motor Vehicle Fuel Taxes	1,631,631	—	1,631,631	—
Total Taxes	21,028,248	—	21,028,248	—
Tobacco Settlement	316,799	—	316,799	—
Escheat Property	74,268	—	74,268	—
Unrestricted Investment Income	18,159	622	18,781	370,645
State Assistance	—	—	—	2,548,830
Federal	193,033	12	193,045	—
Other	1,940	—	1,940	44,222
Contributions	—	—	—	90,618
Transfers-Internal Activities	781,149	(781,149)	—	—
TOTAL GENERAL REVENUES, CONTRIBUTIONS, AND TRANSFERS	**22,413,596**	**(780,515)**	**21,633,081**	**3,054,315**
CHANGE IN NET ASSETS	**546,188**	**(212,832)**	**333,356**	**1,218,037**
NET ASSETS, JULY 1 (as restated)	16,777,747	1,782,498	18,560,245	9,633,318
NET ASSETS, JUNE 30	**$ 17,323,935**	**$ 1,569,666**	**$ 18,893,601**	**$ 10,851,355**

STATE OF OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004
(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	JOB, FAMILY AND OTHER HUMAN SERVICES	EDUCATION
ASSETS:			
Cash Equity with Treasurer	$ 1,505,364	$ 219,625	$ 57,401
Cash and Cash Equivalents	14,156	7,447	491
Investments	242,017	16,097	3,310
Collateral on Lent Securities	629,082	92,235	23,949
Taxes Receivable	811,159	—	—
Intergovernmental Receivable	454,312	572,397	127,753
Loans Receivable, Net	41,757	—	9,438
Interfund Receivable	269,421	6	—
Other Receivables	297,374	41,059	560
Inventories	21,614	—	—
Other Assets	16,919	1,994	4,577
TOTAL ASSETS	**$ 4,303,175**	**$ 950,860**	**$ 227,479**
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts Payable	$ 153,398	$ 53,630	$ 10,001
Accrued Liabilities	99,842	11,872	1,373
Medicaid Claims Payable	954,720	—	—
Obligations Under Securities Lending	629,082	92,235	23,949
Intergovernmental Payable	286,132	231,759	70,017
Interfund Payable	580,085	15,251	2,696
Payable to Component Units	10,728	1,498	1,043
Deferred Revenue	160,128	282,324	11,759
Unearned Revenue	—	330,740	58,335
Refund and Other Liabilities	686,075	8,006	—
Liability for Escheat Property	7,149	—	—
TOTAL LIABILITIES	3,567,339	1,027,315	179,173
FUND BALANCES:			
Reserved for:			
Debt Service	—	—	—
Encumbrances	290,374	1,268,135	32,421
Noncurrent Portion of Loans Receivable	39,529	—	9,170
Noncurrent Portion of Interfund Receivable	265,875	—	—
Loan Commitments	—	—	—
Inventories	21,614	—	—
State and Local Highway Construction	—	—	—
Federal Programs	—	410	8,704
Other	20,696	1,994	203
Unreserved/Designated	97,748	—	—
Unreserved/Undesignated (Deficits):			
Special Revenue Funds	—	(1,346,994)	(2,192)
Capital Projects Funds	—	—	—
TOTAL FUND BALANCES	735,836	(76,455)	48,306
TOTAL LIABILITIES AND FUND BALANCES	**$ 4,303,175**	**$ 950,860**	**$ 227,479**

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

HIGHWAY OPERATING	REVENUE DISTRIBUTION	NONMAJOR GOVERNMENTAL FUNDS	TOTAL
$ 674,454	$ 350,262	$ 2,300,273	$ 5,107,379
365	6,818	64,843	94,120
—	—	481,221	742,645
272,097	141,308	949,732	2,108,403
48,302	212,641	4,795	1,076,897
85,264	—	268,771	1,508,497
55,311	—	800,933	907,439
—	—	3,257	272,684
986	—	178,278	518,257
23,403	—	201	45,218
3,175	—	11,408	38,073
$ 1,163,357	**$ 711,029**	**$ 5,063,712**	**$ 12,419,612**
$ 134,401	$ —	$ 256,013	$ 607,443
19,046	—	34,576	166,709
—	—	—	954,720
272,097	141,308	949,732	2,108,403
1,386	356,021	203,080	1,148,395
100,045	56	376,805	1,074,938
682	—	33,928	47,879
850	16,289	253,710	725,060
34,629	8,162	143,052	574,918
—	70,389	7,624	772,094
—	—	—	7,149
563,136	592,225	2,258,520	8,187,708
—	—	83,398	83,398
1,346,264	—	1,438,773	4,375,967
54,617	—	690,574	793,890
—	—	—	265,875
—	—	103,629	103,629
23,403	—	201	45,218
—	126,517	—	126,517
—	—	12,205	21,319
3,175	—	26,388	52,456
—	—	6,584	104,332
(827,238)	(7,713)	621,503	(1,562,634)
—	—	(178,063)	(178,063)
600,221	118,804	2,805,192	4,231,904
$ 1,163,357	**$ 711,029**	**$ 5,063,712**	**$ 12,419,612**

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STATE OF OHIO
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2004
(dollars in thousands)

Total Fund Balances for Governmental Funds	***$ 4,231,904***
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 $1,101 accumulated depreciation	*17,251,080*
Land	*1,573,861*
Buildings and Improvements, net of $1,205,986 accumulated depreciation	*2,016,005*
Land Improvements, net of $126,924 accumulated depreciation	*143,262*
Machinery and Equipment, net of $300,596 accumulated depreciation	*141,704*
Vehicles, net of $107,789 accumulated depreciation	*125,976*
Construction-in-Progress	*1,695,076*
	22,946,964
Some of the State's revenues are collected after year-end but are not available soon enough to pay for the current period's (within 60 days of year-end) expenditures, and therefore, are deferred in the funds.	
Taxes Receivable	*155,129*
Intergovernmental Receivable	*390,414*
Other Receivables	*169,807*
Other Assets - Federal Commodities Programs	*9,710*
	725,060
Unamortized bond issue costs are not financial uses, and therefore, are not reported in the funds.	*25,803*
The following liabilities are not due and payable in the current period, and therefore, are not reported in the funds.	
Accrued Liabilities:	
Interest Payable	*(104,591)*
Other	*(3,552)*
Refund and Other Liabilities	*(5,570)*
Bonds and Notes Payable:	
General Obligation Bonds	*(5,420,711)*
Revenue Bonds	*(607,958)*
Special Obligation Bonds	*(3,904,480)*
Certificates of Participation	*(6,480)*
Other Noncurrent Liabilities:	
Compensated Absences	*(382,208)*
Capital Leases Payable	*(3,460)*
Liability for Escheat Property	*(166,786)*
	(10,605,796)
Total Net Assets of Governmental Activities	***$ 17,323,935***

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, 2004

(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	JOB, FAMILY AND OTHER HUMAN SERVICES	EDUCATION
REVENUES:			
Income Taxes	$ 7,645,597	$ —	$ —
Sales Taxes	7,596,254	—	—
Corporate and Public Utility Taxes	1,381,752	—	—
Motor Vehicle Fuel Taxes	—	—	—
Cigarette Taxes	557,532	—	—
Other Taxes	580,143	4,446	—
Licenses, Permits and Fees	121,953	423,731	1,139
Sales, Services and Charges	44,233	—	292
Federal Government	5,786,013	3,926,300	1,358,057
Tobacco Settlement	—	—	—
Escheat Property	103,767	—	—
Investment Income	43,029	8,593	1,354
Other	240,020	89,638	20,061
TOTAL REVENUES	**24,100,293**	**4,452,708**	**1,380,903**
EXPENDITURES:			
CURRENT OPERATING:			
Primary, Secondary and Other Education	7,042,643	56,152	1,949,883
Higher Education Support	2,094,674	264	23,327
Public Assistance and Medicaid	9,656,641	3,960,302	—
Health and Human Services	1,134,812	504,835	725
Justice and Public Protection	1,828,501	31,136	16,745
Environmental Protection and Natural Resources	108,268	—	—
Transportation	27,277	—	—
General Government	330,042	4,305	—
Community and Economic Development	131,895	4,204	—
INTERGOVERNMENTAL	1,341,542	—	—
CAPITAL OUTLAY	—	1,150	—
DEBT SERVICE	541	—	—
TOTAL EXPENDITURES	**23,696,836**	**4,562,348**	**1,990,680**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	**403,457**	**(109,640)**	**(609,777)**
OTHER FINANCING SOURCES (USES):			
Bonds Issued	613,000	—	—
Refunding Bonds Issued	—	—	—
Payment to Refunded Bond Escrow Agents	—	—	—
Bond Premiums	—	—	—
Bond Discounts	—	—	—
Capital Leases	260	—	18
Transfers-in	543,443	24,942	667,352
Transfers-out	(1,019,566)	(9,776)	(31,843)
TOTAL OTHER FINANCING SOURCES (USES)	**137,137**	**15,166**	**635,527**
NET CHANGE IN FUND BALANCES	**540,594**	**(94,474)**	**25,750**
FUND BALANCES, JULY 1 (as restated)	192,787	18,019	22,556
Increase (Decrease) for Changes in Inventories	2,455	—	—
FUND BALANCES, JUNE 30 (DEFICITS)	**$ 735,836**	**$ (76,455)**	**$ 48,306**

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

HIGHWAY OPERATING	REVENUE DISTRIBUTION	NONMAJOR GOVERNMENTAL FUNDS	TOTAL
$ —	$ 829,717	$ 4,586	$ 8,479,900
—	301,264	17,975	7,915,493
—	359,869	14,115	1,755,736
504,945	1,097,801	28,886	1,631,632
—	—	11	557,543
—	13,200	43,485	641,274
70,447	345,990	841,031	1,804,291
2,124	—	38,898	85,547
924,943	—	1,780,053	13,775,366
—	—	316,322	316,322
—	—	—	103,767
5,064	478	52,358	110,876
10,987	83	216,848	577,637
1,518,510	**2,948,402**	**3,354,568**	**37,755,384**
—	—	35,585	9,084,263
—	—	268,685	2,386,950
—	—	320	13,617,263
—	—	1,446,859	3,087,231
—	—	567,199	2,443,581
—	—	257,243	365,511
1,780,103	—	532	1,807,912
—	—	158,888	493,235
—	—	664,925	801,024
—	2,146,246	219,428	3,707,216
—	—	456,968	458,118
—	—	1,334,905	1,335,446
1,780,103	**2,146,246**	**5,411,537**	**39,587,750**
(261,593)	**802,156**	**(2,056,969)**	**(1,832,366)**
—	—	961,566	1,574,566
—	—	247,297	247,297
—	—	(260,146)	(260,146)
—	—	111,270	111,270
—	—	(7,923)	(7,923)
—	—	122	400
524,896	51,094	1,434,602	3,246,329
(277,825)	(841,052)	(285,118)	(2,465,180)
247,071	**(789,958)**	**2,201,670**	**2,446,613**
(14,522)	**12,198**	**144,701**	**614,247**
615,689	106,606	2,660,290	3,615,947
(946)	—	201	1,710
$ 600,221	**$ 118,804**	**$ 2,805,192**	**$ 4,231,904**

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, 2004

(dollars in thousands)

Net Change in Fund Balances -- Total Governmental Funds		***$ 614,247***
Change in Inventories		*1,710*
		615,957
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	*757,990*	
Depreciation Expense	*(179,535)*	
Excess of Capital Outlay Over Depreciation Expense		*578,455*
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	*(1,093,000)*	
Revenue Bonds	*(213,765)*	
Special Obligation Bonds	*(267,801)*	
Refunding Bonds, including Bond Premium/Discount, Net	*(259,521)*	
Premiums and Discounts, Net:		
General Obligation Bonds	*(62,722)*	
Revenue Bonds	*(8,594)*	
Special Obligation Bonds	*(17,639)*	
Deferred Refunding Loss	*20,119*	
Capital Leases	*(400)*	
Total Debt Proceeds		*(1,903,323)*
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	*461,345*	
Revenue Bonds	*60,800*	
Special Obligation Bonds	*596,238*	
Certificates of Participation	*890*	
Capital Lease Payments	*1,828*	
Total Long-Term Debt Repayment		*1,121,101*
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.		*153,575*

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....................................	*7,070*	
Increase in Accrued Interest and Other Accrued Liabilities..............................	*(8,636)*	
Decrease in Payable to Component Units...	*512*	
Amortization of Bond Premiums/Accretion of Bond Discount, Net.....................	*18,286*	
Amortization of Deferred Refunding Loss..	*(18,841)*	
Decrease in Compensated Absences..	*1,429*	
Decrease in Refund and Other Liabilities..	*101*	
Decrease in Litigation Liabilities..	*10,000*	
Increase in Liability for Escheat Property...	*(29,498)*	
Total additional expenditures...		*(19,577)*
Change in Net Assets of Governmental Activities...		***$ 546,188***

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, 2004
(dollars in thousands)

	GENERAL			
	BUDGET			VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES:				
Income Taxes	$ 7,602,000	$ 7,386,700	$ 7,696,895	$ 310,195
Sales Taxes	7,633,700	7,635,001	7,530,590	(104,411)
Corporate and Public Utility Taxes	1,381,300	1,382,200	1,374,579	(7,621)
Motor Vehicle Fuel Taxes	—	—	—	—
Cigarette Taxes	560,000	558,000	557,532	(468)
Other Taxes	628,053	586,053	579,937	(6,116)
Licenses, Permits and Fees	126,708	126,708	132,765	6,057
Sales, Services and Charges	44,240	44,240	44,577	337
Federal Government	5,919,522	5,919,522	5,942,045	22,523
Tobacco Settlement	—	—	—	—
Investment Income	27,070	27,070	20,036	(7,034)
Other	1,296,874	1,296,874	1,264,442	(32,432)
TOTAL REVENUES	**25,219,467**	**24,962,368**	**25,143,398**	**181,030**
BUDGETARY EXPENDITURES:				
CURRENT OPERATING:				
Primary, Secondary and Other Education	6,492,873	6,584,548	6,562,207	22,341
Higher Education Support	2,104,063	2,099,701	2,097,585	2,116
Public Assistance and Medicaid	10,404,031	10,465,243	10,413,047	52,196
Health and Human Services	1,316,594	1,305,174	1,286,806	18,368
Justice and Public Protection	2,011,641	2,008,933	1,972,163	36,770
Environmental Protection and Natural Resources	150,435	150,774	145,797	4,977
Transportation	54,260	54,753	54,055	698
General Government	667,908	714,108	608,395	105,713
Community and Economic Development	210,746	208,351	200,720	7,631
INTERGOVERNMENTAL	1,357,644	1,358,983	1,341,295	17,688
CAPITAL OUTLAY	—	—	—	—
DEBT SERVICE	1,053,714	1,042,163	948,210	93,953
TOTAL BUDGETARY EXPENDITURES	**25,823,909**	**25,992,731**	**25,630,280**	**362,451**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES	**(604,442)**	**(1,030,363)**	**(486,882)**	**543,481**
OTHER FINANCING SOURCES (USES):				
Bond Proceeds	—	—	—	—
Transfers-in	470,240	489,970	617,063	127,093
Transfers-out	(7,811)	(7,811)	(144,006)	(136,195)
TOTAL OTHER FINANCING SOURCES (USES)	**462,429**	**482,159**	**473,057**	**(9,102)**
NET CHANGE IN FUND BALANCES	**(142,013)**	**(548,204)**	**(13,825)**	**534,379**
BUDGETARY FUND BALANCES (DEFICITS), JULY 1	536,953	536,953	536,953	—
Outstanding Encumbrances at Beginning of Fiscal Year	411,162	411,162	411,162	—
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30	**$ 806,102**	**$ 399,911**	**$ 934,290**	**$ 534,379**

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	
		$ —				$ —	
		—				—	
		—				—	
		—				—	
		—				—	
		4,446				—	
		424,681				1,139	
		—				292	
		3,085,862				1,366,820	
		—				—	
		8,964				1,610	
		176,434				30,770	
		3,700,387				**1,400,631**	
$ 57,504	$ 57,504	57,249	$ 255	$ 2,065,760	$ 2,154,022	2,062,571	$ 91,451
2,151	2,151	650	1,501	13,656	24,428	20,059	4,369
5,153,017	5,276,592	4,672,886	603,706	—	—	—	—
558,260	580,106	558,282	21,824	279	1,041	781	260
61,501	65,223	37,072	28,151	27,581	29,371	19,944	9,427
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
2,163	2,163	2,109	54	—	—	—	—
5,137	5,137	5,137	—	—	—	—	—
—	—	—	—	—	—	—	—
18,846	18,846	2,004	16,842	—	—	—	—
—	—	—	—	—	—	—	—
$ 5,858,579	**$ 6,007,722**	**5,335,389**	**$ 672,333**	**$ 2,107,276**	**$ 2,208,862**	**2,103,355**	**$ 105,507**
		(1,635,002)				**(702,724)**	
		—				—	
		15				656,106	
		(1,595)				(29)	
		(1,580)				**656,077**	
		(1,636,582)				**(46,647)**	
		(1,266,672)				(36,468)	
		1,461,108				79,111	
		$ (1,442,146)				**$ (4,004)**	

(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, 2004

(dollars in thousands)

(continued)

	HIGHWAY OPERATING			
	BUDGET			VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL	ACTUAL	POSITIVE/ (NEGATIVE)
REVENUES:				
Income Taxes			$ —	
Sales Taxes			—	
Corporate and Public Utility Taxes			—	
Motor Vehicle Fuel Taxes			488,683	
Cigarette Taxes			—	
Other Taxes			—	
Licenses, Permits and Fees			70,470	
Sales, Services and Charges			2,124	
Federal Government			922,980	
Tobacco Settlement			—	
Investment Income			8,882	
Other			92,412	
TOTAL REVENUES			**1,585,551**	
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	3,282,477	4,253,728	3,342,889	910,839
General Government	—	—	—	—
Community and Economic Development	—	—	—	—
INTERGOVERNMENTAL	—	—	—	—
CAPITAL OUTLAY	—	—	—	—
DEBT SERVICE	85,867	102,926	79,344	23,582
TOTAL BUDGETARY EXPENDITURES	**$ 3,368,344**	**$ 4,356,654**	**3,422,233**	**$ 934,421**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES			**(1,836,682)**	
OTHER FINANCING SOURCES (USES):				
Bond Proceeds			—	
Transfers-in			528,150	
Transfers-out			(200,525)	
TOTAL OTHER FINANCING SOURCES (USES)			**327,625**	
NET CHANGE IN FUND BALANCES			**(1,509,057)**	
BUDGETARY FUND BALANCES (DEFICITS), JULY 1			(637,175)	
Outstanding Encumbrances at Beginning of Fiscal Year			1,324,654	
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30			**$ (821,578)**	

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)
		$ 829,717	
		301,264	
		359,590	
		1,096,018	
		—	
		13,200	
		520,886	
		—	
		—	
		—	
		702	
		84	
		3,121,461	
$ —	$ —	—	$ —
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
2,363,993	2,451,414	2,282,556	168,858
—	—	—	—
—	—	—	—
$ 2,363,993	**$ 2,451,414**	**2,282,556**	**$ 168,858**
		838,905	
		—	
		51,093	
		(822,077)	
		(770,984)	
		67,921	
		279,826	
		—	
		$ 347,747	

STATE OF OHIO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS -- ENTERPRISE
JUNE 30, 2004
(dollars in thousands)

	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer	$ 2,429	$ 27,602	$ —
Cash and Cash Equivalents	1,615,478	19,770	75,032
Investments	—	—	1,000
Collateral on Lent Securities	2,041,501	11,135	228
Restricted Assets:			
Cash Equity with Treasurer	—	625	—
Cash and Cash Equivalents	—	—	—
Investments	—	84,664	—
Collateral on Lent Securities	—	604,622	—
Other Receivables	—	2,910	—
Deposit with Federal Government	—	—	711,038
Intergovernmental Receivable	—	—	4,800
Premiums and Assessments Receivable	891,009	—	11,526
Investment Trade Receivable	350,491	—	—
Interfund Receivable	62,692	—	—
Other Receivables	237,868	38,033	10,447
Inventories	—	—	—
Other Assets	2,659	3,982	6,727
TOTAL CURRENT ASSETS	**5,204,127**	**793,343**	**820,798**
NONCURRENT ASSETS:			
Restricted Assets:			
Cash and Cash Equivalents	1,768	—	—
Investments	—	852,306	—
Investments	14,735,716	—	—
Premiums and Assessments Receivable	508,123	—	—
Interfund Receivable	740,160	—	—
Other Receivables	—	—	—
Capital Assets Being Depreciated, Net	129,411	30,543	—
Capital Assets Not Being Depreciated	12,631	—	—
TOTAL NONCURRENT ASSETS	**16,127,809**	**882,849**	**—**
TOTAL ASSETS	**21,331,936**	**1,676,192**	**820,798**
CURRENT LIABILITIES:			
Accounts Payable	7,814	6,722	—
Accrued Liabilities	—	—	—
Obligations Under Securities Lending	2,041,501	615,757	228
Investment Trade Payable	1,451,130	—	—
Intergovermental Payable	—	—	437
Deferred Prize Awards Payable	—	88,200	—
Interfund Payable	—	443	—
Unearned Revenue	16,930	2,813	—
Benefits Payable	1,764,828	—	2,290
Refund and Other Liabilities	488,659	48,220	8,806
Bonds and Notes Payable	5,300	—	—
TOTAL CURRENT LIABILITIES	**5,776,162**	**762,155**	**11,761**
NONCURRENT LIABILITIES:			
Deferred Prize Awards Payable	—	768,703	—
Interfund Payable	—	4,007	—
Unearned Revenue	377,389	—	—
Benefits Payable	12,855,045	—	—
Refund and Other Liabilities	1,319,480	17,852	—
Bonds and Notes Payable	143,090	—	—
TOTAL NONCURRENT LIABILITIES	**14,695,004**	**790,562**	**—**
TOTAL LIABILITIES	**20,471,166**	**1,552,717**	**11,761**
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	(5,537)	257	—
Restricted for Deferred Lottery Prizes	—	83,603	—
Unrestricted (Deficits)	866,307	39,615	809,037
TOTAL NET ASSETS (DEFICITS)	**$ 860,770**	**$ 123,475**	**$ 809,037**

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

OHIO BUILDING AUTHORITY	TUITION TRUST AUTHORITY	LIQUOR CONTROL	UNDERGROUND PARKING GARAGE	OFFICE OF AUDITOR OF STATE	TOTAL
$ —	$ 120	$ 10,335	$ 2,262	$ 6,922	$ 49,670
461	499	5,316	—	—	1,716,556
26,359	46	—	—	—	27,405
7	11,115	3,638	907	—	2,068,531
—	—	—	—	—	625
—	71	—	—	—	71
—	54,729	—	—	—	139,393
—	—	—	—	—	604,622
—	—	—	—	—	2,910
—	—	—	—	—	711,038
—	—	—	—	28	4,828
—	—	—	—	—	902,535
—	—	—	—	—	350,491
—	—	12	—	1,738	64,442
2,881	5,046	—	—	8,734	303,009
—	—	33,304	—	—	33,304
578	—	172	35	449	14,602
30,286	**71,626**	**52,777**	**3,204**	**17,871**	**6,994,032**
—	—	—	—	—	1,768
—	721,647	—	—	—	1,573,953
—	71,425	—	—	—	14,807,141
—	—	—	—	—	508,123
—	—	—	—	7,385	747,545
12,126	—	—	—	—	12,126
—	116	1,065	7,091	2,944	171,170
—	—	—	—	—	12,631
12,126	**793,188**	**1,065**	**7,091**	**10,329**	**17,834,457**
42,412	**864,814**	**53,842**	**10,295**	**28,200**	**24,828,489**
3,582	329	20,296	21	387	39,151
114	191	913	59	3,045	4,322
7	11,115	3,638	907	—	2,673,153
—	—	—	—	—	1,451,130
—	—	400	—	—	837
—	—	—	—	—	88,200
—	—	2,798	2	—	3,243
—	—	—	9	—	19,752
—	54,800	—	—	—	1,821,918
105	833	2,584	16	1,237	550,460
1,691	—	—	—	—	6,991
5,499	**67,268**	**30,629**	**1,014**	**4,669**	**6,659,157**
—	—	—	—	—	768,703
—	—	2,310	173	—	6,490
—	—	—	—	—	377,389
—	1,086,900	—	—	—	13,941,945
—	—	2,325	109	13,827	1,353,593
8,456	—	—	—	—	151,546
8,456	**1,086,900**	**4,635**	**282**	**13,827**	**16,599,666**
13,955	**1,154,168**	**35,264**	**1,296**	**18,496**	**23,258,823**
—	116	1,065	7,091	2,881	5,873
—	—	—	—	—	83,603
28,457	(289,470)	17,513	1,908	6,823	1,480,190
$ 28,457	**$ (289,354)**	**$ 18,578**	**$ 8,999**	**$ 9,704**	**$ 1,569,666**

STATE OF OHIO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(dollars in thousands)

	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
OPERATING REVENUES:			
Charges for Sales and Services	$ —	$ 2,154,715	$ 20,175
Premium and Assessment Income	2,126,782	—	847,649
Federal Government	—	—	224,417
Investment Income	—	—	52,638
Other	11,852	11,797	25,235
TOTAL OPERATING REVENUES	**2,138,634**	**2,166,512**	**1,170,114**
OPERATING EXPENSES:			
Costs of Sales and Services	—	—	—
Administration	72,861	82,024	—
Premium Dividend Reductions and Refunds	415,523	—	—
Bonuses and Commissions	—	132,766	—
Prizes	—	1,275,994	—
Benefits and Claims	2,549,141	—	1,628,598
Depreciation	16,250	14,982	—
Other	18,702	141	10,416
TOTAL OPERATING EXPENSES	**3,072,477**	**1,505,907**	**1,639,014**
OPERATING INCOME (LOSS)	**(933,843)**	**660,605**	**(468,900)**
NONOPERATING REVENUES (EXPENSES):			
Investment Income (Loss)	1,249,889	(12,294)	622
Interest Expense	—	(6,356)	—
Federal Grants	—	—	12
Other	—	(63,016)	—
TOTAL NONOPERATING REVENUES (EXPENSES)	**1,249,889**	**(81,666)**	**634**
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	**316,046**	**578,939**	**(468,266)**
CAPITAL CONTRIBUTIONS AND TRANSFERS:			
Capital Contributions	—	—	—
Transfers-in	—	—	1,419
Transfers-out	(7,655)	(656,229)	(10,795)
TOTAL CAPITAL CONTRIBUTIONS AND TRANSFERS	**(7,655)**	**(656,229)**	**(9,376)**
NET INCOME (LOSS)	**308,391**	**(77,290)**	**(477,642)**
NET ASSETS (DEFICITS), JULY 1	552,379	200,765	1,286,679
NET ASSETS (DEFICITS), JUNE 30	**$ 860,770**	**$ 123,475**	**$ 809,037**

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

OHIO BUILDING AUTHORITY	TUITION TRUST AUTHORITY	LIQUOR CONTROL	UNDERGROUND PARKING GARAGE	OFFICE OF AUDITOR OF STATE	TOTAL
$ 23,701	$ 39,431	$ 519,129	$ 2,570	$ 42,056	$ 2,801,777
—	—	—	—	—	2,974,431
—	—	—	—	—	224,417
—	108,999	—	—	—	161,637
2,684	—	1,032	—	378	52,978
26,385	**148,430**	**520,161**	**2,570**	**42,434**	**6,215,240**
21,638	—	321,866	—	64,924	408,428
3,701	7,743	52,020	1,651	8,228	228,228
—	—	—	—	—	415,523
—	—	—	—	—	132,766
—	—	—	—	—	1,275,994
—	110,993	—	—	—	4,288,732
—	98	232	548	2,393	34,503
1,542	—	389	—	182	31,372
26,881	**118,834**	**374,507**	**2,199**	**75,727**	**6,815,546**
(496)	**29,596**	**145,654**	**371**	**(33,293)**	**(600,306)**
99	—	—	30	—	1,238,346
(643)	—	—	—	(5)	(7,004)
—	—	—	—	78	90
—	—	—	—	(26)	(63,042)
(544)	**—**	**—**	**30**	**47**	**1,168,390**
(1,040)	**29,596**	**145,654**	**401**	**(33,246)**	**568,084**
—	—	19	206	8	233
15,190	—	—	—	32,548	49,157
(10,293)	—	(144,578)	(756)	—	(830,306)
4,897	**—**	**(144,559)**	**(550)**	**32,556**	**(780,916)**
3,857	**29,596**	**1,095**	**(149)**	**(690)**	**(212,832)**
24,600	(318,950)	17,483	9,148	10,394	1,782,498
$ 28,457	**$ (289,354)**	**$ 18,578**	**$ 8,999**	**$ 9,704**	**$ 1,569,666**

STATE OF OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(dollars in thousands)

	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	$ —	$ 2,162,703	$ 36,491
Cash Received from Premiums and Assessments	1,820,694	—	875,769
Cash Received from Multi-State Lottery for Grand Prize Winner	—	97,955	—
Cash Received from Reciprocal Transactions with Other Funds	48,066	138	—
Cash Received from the Federal Government for Extended Benefits	—	—	208,794
Other Operating Cash Receipts	12,988	11,658	13,424
Cash Payments to Suppliers for Goods and Services	(71,367)	(61,279)	—
Cash Payments to Employees for Services	(239,224)	(22,854)	—
Cash Payments for Benefits and Claims	(2,026,871)	—	(1,639,020)
Cash Payments for Lottery Prizes	—	(1,502,751)	—
Cash Payments for Bonuses and Commissions	—	(132,663)	—
Cash Payments for Premium Reductions and Refunds	(92,172)	—	—
Cash Payments for Reciprocal Transactions with Other Funds	(4)	(491)	—
Other Operating Cash Payments	—	(141)	(11,845)
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	**(547,890)**	**552,275**	**(516,387)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers-in	—	—	1,419
Transfers-out	(7,655)	(656,229)	(10,795)
Federal Grants	—	—	—
NET CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	**(7,655)**	**(656,229)**	**(9,376)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal Payments on Bonds and Capital Leases	—	(13,835)	—
Interest Paid	(6,183)	(2,270)	—
Acquisition and Construction of Capital Assets	(3,762)	(745)	—
Principal Receipts on Capital Leases Receivable	—	—	—
Proceeds from Sales of Capital Assets	22	108	—
NET CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(9,923)**	**(16,742)**	**—**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of Investments	(36,249,877)	(341,162)	(16,730,049)
Proceeds from the Sales and Maturities of Investments	35,895,078	455,163	17,328,707
Investment Income Received	535,547	16,260	622
Borrower Rebates and Agent Fees	(75,137)	(4,168)	—
NET CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES	**105,611**	**126,093**	**599,280**
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	**(459,857)**	**5,397**	**73,517**
CASH AND CASH EQUIVALENTS, JULY 1	2,079,532	42,600	1,515
CASH AND CASH EQUIVALENTS, JUNE 30	**$ 1,619,675**	**$ 47,997**	**$ 75,032**

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

OHIO BUILDING AUTHORITY	TUITION TRUST AUTHORITY	LIQUOR CONTROL	UNDERGROUND PARKING GARAGE	OFFICE OF AUDITOR OF STATE	TOTAL
$ 26,363	$ 33,169	$ 521,803	$ 2,007	$ 33,880	$ 2,816,416
—	—	—	—	—	2,696,463
—	—	—	—	—	97,955
1,103	—	1	570	8,195	58,073
—	—	—	—	—	208,794
1,713	—	1,033	1	715	41,532
(25,696)	(13,212)	(357,290)	(632)	(8,331)	(537,807)
(1,086)	(5,112)	(17,534)	(1,049)	(65,365)	(352,224)
—	—	—	—	—	(3,665,891)
—	—	—	—	—	(1,502,751)
—	—	—	—	—	(132,663)
—	—	—	—	—	(92,172)
—	(83)	(68)	(1)	—	(647)
—	(33,533)	(123)	—	(55)	(45,697)
2,397	**(18,771)**	**147,822**	**896**	**(30,961)**	**(410,619)**
15,190	—	—	—	32,551	49,160
(10,293)	—	(144,577)	(756)	—	(830,305)
—	—	—	—	59	59
4,897	**—**	**(144,577)**	**(756)**	**32,610**	**(781,086)**
(3,730)	—	—	—	(13)	(17,578)
(5,544)	—	—	—	(5)	(14,002)
—	(96)	(288)	(24)	(1,476)	(6,391)
3,730	—	—	—	—	3,730
—	—	39	—	212	381
(5,544)	**(96)**	**(249)**	**(24)**	**(1,282)**	**(33,860)**
(68,707)	(319,306)	—	—	—	(53,709,101)
66,863	310,203	—	—	—	54,056,014
104	27,436	—	26	—	579,995
—	—	—	—	—	(79,305)
(1,740)	**18,333**	**—**	**26**	**—**	**847,603**
10	**(534)**	**2,996**	**142**	**367**	**(377,962)**
451	1,224	12,655	2,120	6,555	2,146,652
$ 461	**$ 690**	**$ 15,651**	**$ 2,262**	**$ 6,922**	**$ 1,768,690**

(continued)

STATE OF OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(dollars in thousands)
(continued)

	WORKERS' COMPENSATION	OHIO LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss)	$ (933,843)	$ 660,605	$ (468,900)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Investment Income	—	—	(52,638)
Depreciation	16,250	14,982	—
Provision for Uncollectible Accounts	105,873	—	—
Amortization of Premiums and Discounts	(366)	—	—
Interest on Bonds, Notes and Capital Leases	6,194	—	—
Decrease (Increase) in Assets:			
Premiums and Assessments Receivable	138,673	—	18,640
Intergovernmental Receivable	—	—	692
Other Receivables	(84,731)	7,104	(1,956)
Interfund Receivable	(21,400)	—	—
Inventories	—	—	—
Other Assets	(654)	(358)	(65)
Increase (Decrease) in Liabilities:			
Accounts Payable	2,324	(2,227)	—
Accrued Liabilities	—	—	—
Intergovernmental Payable	—	—	437
Deferred Prize Awards Payable	—	(135,256)	—
Interfund Payable	—	(83)	—
Unearned Revenue	(8,117)	884	—
Benefits Payable	312,502	—	(10,858)
Refund and Other Liabilities	(80,595)	6,624	(1,739)
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	**$ (547,890)**	**$ 552,275**	**$ (516,387)**

	WORKERS' COMPENSATION	OHIO LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Change in Fair Value of Investments	$ 803,577	$ (73,452)	$ —
Refunding Bond Proceeds for Defeasance of Debt	—	—	—
Contributions of Capital Assets from Other Funds	—	—	—

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

OHIO BUILDING AUTHORITY	TUITION TRUST AUTHORITY	LIQUOR CONTROL	UNDERGROUND PARKING GARAGE	OFFICE OF AUDITOR OF STATE	TOTAL
$ (496)	$ 29,596	$ 145,654	$ 371	$ (33,293)	$ (600,306)
—	(108,999)	—	—	—	(161,637)
—	98	232	548	2,393	34,503
—	—	—	—	—	105,873
1,019	—	—	—	—	653
—	—	—	—	—	6,194
—	—	—	—	—	157,313
—	—	—	—	—	692
559	(11,737)	—	—	(209)	(90,970)
—	—	(12)	—	—	(21,412)
—	—	(4,261)	—	—	(4,261)
18	—	(20)	(3)	(36)	(1,118)
1,382	(48)	3,440	6	(37)	4,840
—	131	169	7	341	648
—	—	25	—	—	462
—	—	—	—	—	(135,256)
—	—	1,400	(44)	—	1,273
(81)	—	—	3	—	(7,311)
—	61,200	—	—	—	362,844
(4)	10,988	1,195	8	(120)	(63,643)
$ 2,397	**$ (18,771)**	**$ 147,822**	**$ 896**	**$ (30,961)**	**$ (410,619)**
$ —	$ —	$ —	$ —	$ —	$ 730,125
7,368	—	—	—	—	7,368
—	—	19	206	63	288

STATE OF OHIO
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004
(dollars in thousands)

	PENSION TRUST	PRIVATE-PURPOSE TRUST	INVESTMENT TRUST
	STATE HIGHWAY PATROL RETIREMENT SYSTEM (as of 12/31/03)	VARIABLE COLLEGE SAVINGS PLAN	STAR OHIO
ASSETS:			
Cash Equity with Treasurer	$ —	$ —	$ —
Cash and Cash Equivalents	12,856	234,942	—
Investments (at fair value):			
U.S. Government and Agency Obligations	26,885	—	3,489,778
Common and Preferred Stock	327,336	—	—
Corporate Bonds and Notes	58,139	—	—
Foreign Stocks and Bonds	88,671	—	—
Commercial Paper	—	—	476,955
Repurchase Agreements	—	—	25,666
Mutual Funds	—	2,826,597	—
Real Estate	63,901	—	—
Venture Capital	—	—	—
Direct Mortgage Loans	44,073	—	—
State Treasury Asset Reserve of Ohio (STAR Ohio)	—	—	—
Collateral on Lent Securities	166,950	—	910,096
Employer Contributions Receivable	1,552	—	—
Employee Contributions Receivable	1,329	—	—
Investment Trade Receivable	—	16,585	—
Other Receivables	1,448	—	—
Other Assets	68	—	—
Capital Assets, Net	41	—	—
TOTAL ASSETS	**793,249**	**3,078,124**	**4,902,495**
LIABILITIES:			
Accounts Payable	1,278	—	—
Accrued Liabilities	964	4,569	—
Obligations Under Securities Lending	166,950	—	910,096
Investment Trade Payable	—	16,543	—
Intergovernmental Payable	—	—	—
Refund and Other Liabilities	70	174	2,227
TOTAL LIABILITIES	**169,262**	**21,286**	**912,323**
NET ASSETS:			
Held in Trust for:			
Employees' Pension Benefits	535,235	—	—
Employees' Postemployment Healthcare Benefits	88,752	—	—
Individuals, Organizations and Other Governments	—	3,056,838	—
Pool Participants	—	—	3,990,172
TOTAL NET ASSETS	**$ 623,987**	**$ 3,056,838**	**$ 3,990,172**

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

AGENCY
$ 170,767
129,236
10,559,628
58,552,590
10,252,981
25,408,093
2,038,838
52,180
7,961,507
9,729,581
1,780,588
5,000,276
32,946
247,008
—
—
—
3,325
424,455
—
132,343,999
—
—
247,008
—
71,313
132,025,678
132,343,999
—
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—
—
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STATE OF OHIO
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(dollars in thousands)

	PENSION TRUST	PRIVATE-PURPOSE TRUST	INVESTMENT TRUST
	STATE HIGHWAY PATROL RETIREMENT SYSTEM (for the fiscal year ended 12/31/03)	VARIABLE COLLEGE SAVINGS PLAN	STAR OHIO
ADDITIONS:			
Contributions from:			
Employer	$ 19,757	$ —	$ —
Employees	8,137	—	—
Plan Participants	—	830,034	—
Other	763	—	—
Total Contributions	28,657	830,034	—
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	112,899	293,866	—
Interest, Dividends and Other	15,720	54,058	53,442
Total Investment Income	128,619	347,924	53,442
Less: Investment Expense	4,620	23,336	4,181
Net Investment Income	123,999	324,588	49,261
Capital Share and Individual Account Transactions:			
Shares Sold	—	—	17,130,626
Reinvested Distributions	—	—	49,261
Shares Redeemed	—	—	(18,556,621)
Net Capital Share and Individual Account Transactions	—	—	(1,376,734)
TOTAL ADDITIONS	**152,656**	**1,154,622**	**(1,327,473)**
DEDUCTIONS:			
Pension Benefits Paid to Participants or Beneficiaries	33,075	—	—
Healthcare Benefits Paid to Participants or Beneficiaries	7,181	—	—
Refunds of Employee Contributions	387	—	—
Administrative Expense	653	2	—
Transfers to Other Retirement Systems	789	—	—
Distributions to Shareholders and Plan Participants	—	516,543	49,261
TOTAL DEDUCTIONS	**42,085**	**516,545**	**49,261**
CHANGE IN NET ASSETS HELD FOR:			
Employees' Pension Benefits	95,564	—	—
Employees' Postemployment Healthcare Benefits	15,007	—	—
Individuals, Organizations and Other Governments	—	638,077	—
Pool Participants	—	—	(1,376,734)
TOTAL CHANGE IN NET ASSETS	110,571	638,077	(1,376,734)
NET ASSETS, JULY 1	513,416	2,418,761	5,366,906
NET ASSETS, JUNE 30	**$ 623,987**	**$ 3,056,838**	**$ 3,990,172**

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, 2004
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY (as of 12/31/03)	OHIO STATE UNIVERSITY
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer	$ 367,657	$ —	$ —
Cash and Cash Equivalents	—	308	180,446
Investments	—	89,340	948,124
Collateral on Lent Securities	148,325	—	—
Intergovernmental Receivable	6,704	577	943
Loans Receivable, Net	—	2,295	12,056
Receivable from Primary Government	—	—	19,926
Other Receivables	—	11	316,347
Inventories	—	—	18,770
Other Assets	27	—	43,220
TOTAL CURRENT ASSETS	**522,713**	**92,531**	**1,539,832**
NONCURRENT ASSETS:			
Restricted Assets:			
Cash and Cash Equivalents	—	11,559	34,030
Investments	—	852,579	—
Loans Receivable, Net	—	2,683,771	—
Investments	—	32,147	1,152,338
Loans Receivable, Net	—	18,698	59,324
Other Receivables	—	6,187	23,771
Other Assets	—	15,216	—
Capital Assets Being Depreciated, Net	73	1,568	1,669,040
Capital Assets Not Being Depreciated	—	539	419,625
TOTAL NONCURRENT ASSETS	**73**	**3,622,264**	**3,358,128**
TOTAL ASSETS	**522,786**	**3,714,795**	**4,897,960**
CURRENT LIABILITIES:			
Accounts Payable	7,836	30,205	196,386
Accrued Liabilities	202	6,351	127,082
Obligations Under Securities Lending	148,325	—	—
Intergovernmental Payable	638,909	746	—
Unearned Revenue	—	—	87,954
Refund and Other Liabilities	81	—	68,572
Bonds and Notes Payable	—	104,241	405,480
Certificates of Participation	—	—	720
TOTAL CURRENT LIABILITIES	**795,353**	**141,543**	**886,194**
NONCURRENT LIABILITIES:			
Intergovernmental Payable	1,352,000	—	—
Unearned Revenue	—	—	6,000
Refund and Other Liabilities	442	142	185,618
Bonds and Notes Payable	—	1,456,740	387,216
Certificates of Participation	—	—	6,180
TOTAL NONCURRENT LIABILITIES	**1,352,442**	**1,456,882**	**585,014**
TOTAL LIABILITIES	**2,147,795**	**1,598,425**	**1,471,208**
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	73	2,107	1,273,058
Restricted for:			
Federal Programs	—	—	—
Coal Research and Development Program	—	—	—
Debt Service	—	1,961,617	—
Nonexpendable:			
Scholarships and Fellowships	—	—	—
Research	—	—	—
Endowments and Quasi-Endowments	—	—	966,758
Loans, Grants and Other College and University Purposes	—	—	—
Expendable:			
Scholarships and Fellowships	—	—	—
Research	—	—	—
Instructional Department Uses	—	—	—
Student and Public Services	—	—	—
Academic Support	—	—	—
Debt Service	—	—	—
Capital Purposes	—	—	14,784
Endowments and Quasi-Endowments	—	—	130,433
Current Operations	—	—	278,858
Loans, Grants and Other College and University Purposes	—	—	40,927
Unrestricted (Deficits)	(1,625,082)	152,646	721,934
TOTAL NET ASSETS (DEFICITS)	**$ (1,625,009)**	**$ 2,116,370**	**$ 3,426,752**

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
$ —	$ 20,609	$ 388,266
87,355	462,521	730,630
104,006	811,325	1,952,795
—	5,609	153,934
—	37,798	46,022
3,201	23,894	41,446
671	27,282	47,879
71,815	231,678	619,851
4,938	26,305	50,013
18,702	57,812	119,761
290,688	**1,704,833**	**4,150,597**
—	75,654	121,243
—	408,330	1,260,909
—	—	2,683,771
1,125,696	926,935	3,237,116
29,179	100,679	207,880
31,979	64,342	126,279
246,916	26,093	288,225
993,186	3,241,321	5,905,188
224,182	561,726	1,206,072
2,651,138	**5,405,080**	**15,036,683**
2,941,826	**7,109,913**	**19,187,280**
45,257	129,512	409,196
67,934	147,677	349,246
—	5,609	153,934
—	381	640,036
12,945	207,008	307,907
38,492	85,251	192,396
60,387	42,909	613,017
90	—	810
225,105	**618,347**	**2,666,542**
—	8,992	1,360,992
—	5,923	11,923
188,180	186,132	560,514
700,683	1,162,385	3,707,024
750	22,000	28,930
889,613	**1,385,432**	**5,669,383**
1,114,718	**2,003,779**	**8,335,925**
547,502	2,814,923	4,637,663
—	110	110
—	4,518	4,518
—	—	1,961,617
105,423	90,467	195,890
77,477	3,515	80,992
552,341	502,770	2,021,869
223,355	51,609	274,964
34,297	108,677	142,974
99,999	14,217	114,216
28,480	63,443	91,923
23,700	12,587	36,287
29,779	72,714	102,493
120	6,783	6,903
9,054	46,028	69,866
119,263	55,531	305,227
38,631	76,504	393,993
9,766	160,869	211,562
(72,079)	1,020,869	198,288
$ 1,827,108	**$ 5,106,134**	**$ 10,851,355**

STATE OF OHIO
COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY (for the year ended 12/31/03)	OHIO STATE UNIVERSITY
EXPENSES:			
Primary, Secondary and Other Education	$ 10,374	$ —	$ —
Community and Economic Development	—	—	—
Intergovernmental	434,471	562	—
Cost of Services	—	77,518	—
Administration	—	10,269	—
Education and General:			
Instruction and Departmental Research	—	—	577,500
Separately Budgeted Research	—	—	317,310
Public Service	—	—	110,750
Academic Support	—	—	103,502
Student Services	—	—	65,906
Institutional Support	—	—	109,331
Operation and Maintenance of Plant	—	—	73,133
Scholarships and Fellowships	—	—	49,336
Auxiliary Services	—	—	178,645
Hospitals	—	—	1,039,526
Interest on Long-Term Debt	—	—	23,322
Depreciation	43	145	141,477
Other	—	3,049	5,135
TOTAL EXPENSES	**444,888**	**91,543**	**2,794,873**
PROGRAM REVENUES:			
Charges for Services, Fees, Fines and Forfeitures	1,607	126,954	1,753,935
Operating Grants, Contributions and Restricted Investment Income	9,591	84,321	508,974
Capital Grants, Contributions and Restricted Investment Income	—	—	80,147
TOTAL PROGRAM REVENUES	**11,198**	**211,275**	**2,343,056**
NET PROGRAM (EXPENSE) REVENUE	**(433,690)**	**119,732**	**(451,817)**
GENERAL REVENUES:			
Unrestricted Investment Income	—	1,477	244,013
State Assistance	620,562	—	536,693
Other	—	35	8,840
TOTAL GENERAL REVENUES	**620,562**	**1,512**	**789,546**
CONTRIBUTIONS TO ENDOWMENTS AND PERMANENT FUND PRINCIPAL	**—**	**—**	**51,478**
SPECIAL ITEMS	**—**	**1,734**	**—**
CHANGE IN NET ASSETS	**186,872**	**122,978**	**389,207**
NET ASSETS (DEFICITS), JULY 1 (as restated)	(1,811,881)	1,993,392	3,037,545
NET ASSETS (DEFICITS), JUNE 30	**$ (1,625,009)**	**$ 2,116,370**	**$ 3,426,752**

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
$ —	$ 39,744	$ 50,118
—	8,645	8,645
—	17,137	452,170
—	—	77,518
—	—	10,269
243,226	1,242,002	2,062,728
131,637	154,097	603,044
46,068	124,182	281,000
57,919	318,265	479,686
35,264	199,168	300,338
69,250	351,267	529,848
64,310	237,873	375,316
15,260	153,627	218,223
74,041	454,860	707,546
—	171,449	1,210,975
22,780	35,401	81,503
61,967	220,240	423,872
5,015	42,039	55,238
826,737	**3,769,996**	**7,928,037**
304,345	2,210,417	4,397,258
440,847	506,593	1,550,326
8,263	56,800	145,210
753,455	**2,773,810**	**6,092,794**
(73,282)	**(996,186)**	**(1,835,243)**
—	125,155	370,645
194,145	1,197,430	2,548,830
2,582	32,765	44,222
196,727	**1,355,350**	**2,963,697**
12,442	**26,698**	**90,618**
—	**(2,769)**	**(1,035)**
135,887	**383,093**	**1,218,037**
1,691,221	4,723,041	9,633,318
$ 1,827,108	**$ 5,106,134**	**$ 10,851,355**

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Ohio, as of June 30, 2004, 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, *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 the organizations listed below. 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
Arts and Sports 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 College of Ohio at Toledo
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, Arts and Sports 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 Statement No. 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, unrestricted investment income, escheat property revenues, unrestricted federal grants, 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 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

Ohio Building Authority Enterprise Fund — This fund accounts for the Authority's local government office building lease operations and for the maintenance of all government office buildings owned or leased by the Authority.

Tuition Trust Authority Enterprise Fund — This fund accounts for the operations of the Ohio Tuition Trust Authority, including the sale of tuition credits under its guaranteed return option program.

Liquor Control Enterprise Fund — This fund accounts for the State's liquor sales operations of the Ohio Department of Commerce's Division of Liquor Control.

Underground Parking Garage Enterprise Fund — This fund accounts for the operations of the State's underground parking facilities at Capitol Square in Columbus.

Office of Auditor of State Enterprise Fund — This fund accounts for the operations of the Ohio Auditor of State's Office, which provides government audit and management advisory services to Ohio's public offices.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2003.

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.

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, 2003. 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, with exception to federal revenue reported in the Highway Operating Special Revenue Fund, to be available when the revenues are collectible within 60 days after year-

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

end or soon enough thereafter to be used to pay liabilities of the current period. The availability period for purposes of recognizing federal revenues for the Highway Operating Special Revenue Fund is 105 days after fiscal year-end or soon enough thereafter 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 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, bond premiums, and acquisitions under capital leases are reported as other financing sources while bond discounts and payments to 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 fund type:

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Ohio Building Authority Special Obligations
Transportation Certificates of Participation

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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 payment of deferred prize awards (Ohio Lotto) and tuition benefits in the enterprise funds for the Lottery Commission and Tuition Trust Authority, respectively.

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 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:

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

∉ 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 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. 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.

M. 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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

N. 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.

Unreserved/Undesignated

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

O. 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 Bureau of Workers' Compensation Enterprise Fund, for the financing of their respective workers' compensation liabilities. These liabilities are reported in the governmental funds as an interfund payable. (See NOTE 7).

P. 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Q. 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).

NOTE 2 RESTATEMENTS AND CHANGES IN ACCOUNTING PRINCIPLES AND STANDARDS

A. Implementation of Recently Issued Accounting Pronouncements
For the fiscal year ended June 30, 2004, the State implemented the provisions of the following pronouncements of the Governmental Accounting Standards Board (GASB):

- GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*
- GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*

GASB Statement No. 39 amends GASB Statement No. 14, *The Financial Reporting Entity*, and establishes additional guidance on the application of existing standards during the assessment of potential component units when determining a government's financial reporting entity. GASB Statement No. 39 requires the reporting of a legally separate, tax-exempt organization, as a component unit, when it raises and holds economic resources for the direct benefit of a governmental unit, and the organization in question meets certain other criteria set forth in the standard.

GASB Technical Bulletin No. 2004-1 clarifies the guidance for revenue recognition of payments to settling governments pursuant to the Master Settlement Agreement with the major tobacco companies.

Restatements for the primary government and its component units resulting from corrections, implementation of GASB 39, and changes in reporting entity are detailed in the following tables.

B. Restatements — Primary Government
Restatements of fund balances/net assets, as of June 30, 2003, for the primary government are presented in the following table (dollars in thousands).

	Governmental Funds		
	Job, Family and Other Human Services	Other Governmental Funds	Total
Fund Balance, as of June 30, 2003, As Previously Reported	$288,975	$3,597,928	$3,886,903
Corrections:			
Decrease in Assets:			
Intergovernmental Receivable (Federal Temporary Assistance to Needy Families (TANF) Program)	(59,983)	—	(59,983)
Increase in Liabilities:			
Unearned Revenue (Federal TANF Program)	(210,973)	—	(210,973)
Fund Balance, July 1, 2003, As Restated	$ 18,019	$3,597,928	$3,615,947

	Governmental Activities
Net Assets, as of June 30, 2003, As Previously Reported	$16,860,415
Corrections:	
Increase/(Decrease) in Assets:	
Intergovernmental Receivable (Federal Programs — TANF-($59,983) & Child Care Development-$30,127)	(29,856)
Other Receivables (Tobacco Settlement Revenue Recognition under GASB Technical Bulletin 2004-1)	158,161
Increase in Liabilities:	
Unearned Revenue (Federal TANF Program)	(210,973)
Net Assets, July 1, 2003, As Restated	$16,777,747

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

C. Restatements — Nonmajor Component Units
Restatements of net assets, as of June 30, 2003, are summarized for the discretely presented nonmajor component unit funds below (dollars in thousands).

	Nonmajor Component Units
Net Assets, as of June 30, 2003, As Previously Reported	$3,875,671
Change in Accounting Principle: Implementation of GASB 39	845,022
Change in Reporting Entity: Net Assets of the Air Quality Development Authority	3,972
Corrections to Net Assets, as previously reported	(1,624)
Net Increase	847,370
Net Assets, July 1, 2003, As Restated	$4,723,041

D. Recently Issued GASB Pronouncements
In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3*. This Statement 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. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2004.

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 Statement No. 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 Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*, 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 Statement No. 45 are discussed below.

In May 2004, the GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section*. This Statement amends portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, that guide the preparation of the statistical section. The provisions of this Statement are effective for statistical sections prepared for periods beginning after June 15, 2005.

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).

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 2004.

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 2004, whenever signed into law or otherwise legally authorized.

For fiscal year 2004, 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, 2004
(dollars in thousands)

		Major Special Revenue Funds			
	General	Job, Family, and Other Human Services	Education	Highway Operating	Revenue Distribution
Total Fund Balances - GAAP Basis	$ 735,836	$ (76,455)	$ 48,306	$ 600,221	$ 118,804
Less: Reserved Fund Balances	638,088	1,270,539	50,498	1,427,459	126,517
Less: Designated Fund Balances	97,748	—	—	—	—
Unreserved/Undesignated Fund Balances — GAAP Basis	—	(1,346,994)	(2,192)	(827,238)	(7,713)
Revenue Accruals/Adjustments:					
Cash Equity with Treasurer	(74,863)	(5,936)	(557)	(15,108)	(2,515)
Taxes Receivable	(811,159)	—	—	(48,302)	(212,641)
Intergovernmental Receivable	(454,312)	(572,397)	(127,753)	(85,264)	—
Loans Receivable, Net	(41,757)	—	(9,438)	(55,311)	—
Interfund Receivable	(269,421)	(6)	—	—	—
Other Receivables	(297,374)	(41,059)	(560)	(986)	—
Inventories	(21,614)	—	—	(23,403)	—
Other Assets	(16,919)	(1,994)	(4,577)	(3,175)	—
Deferred Revenue	160,128	282,324	11,759	850	16,289
Unearned Revenue	—	330,740	58,335	34,629	8,162
Total Revenue Accruals/Adjustments	(1,827,291)	(8,328)	(72,791)	(196,070)	(190,705)
Expenditure Accruals/Adjustments:					
Accounts Payable	153,398	53,630	10,001	134,401	—
Accrued Liabilities	99,842	11,872	1,373	19,046	—
Medicaid Claims Payable	954,720	—	—	—	—
Intergovernmental Payable	286,132	231,759	70,017	1,386	356,021
Interfund Payable	580,085	15,251	2,696	100,045	56
Payable to Component Units	10,728	1,498	1,043	682	—
Refund and Other Liabilities	686,075	8,006	—	—	70,389
Liability for Escheat Property	7,149	—	—	—	—
Total Expenditure Accruals/Adjustments	2,778,129	322,016	85,130	255,560	426,466
Other Adjustments:					
Fund Balance Reclassifications:					
From Unreserved (Non-GAAP Budgetary Basis) to Reserved for:					
Noncurrent Portion of Loans Receivable	39,529	—	9,170	54,617	—
Noncurrent Portion of Interfund Receivable	265,875	—	—	—	—
Inventories	21,614	—	—	23,403	—
State and Local Highway Construction	—	—	—	—	126,517
Federal Programs	—	410	8,704	—	—
Other	20,696	1,994	203	3,175	—
From Undesignated (Non-GAAP Budgetary Basis) to Designated	97,748	—	—	—	—
Cash and Investments Held Outside of State Treasury	(256,173)	(23,544)	(3,801)	(365)	(6,818)
Total Other Adjustments	189,289	(21,140)	14,276	80,830	119,699
Total Basis Differences	1,140,127	292,548	26,615	140,320	355,460
TIMING DIFFERENCES					
Encumbrances	(205,837)	(387,700)	(28,427)	(134,660)	—
Budgetary Fund Balances (Deficits) — Non-GAAP Basis	$ 934,290	$(1,442,146)	$ (4,004)	$ (821,578)	$ 347,747

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:

- Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest;
- Bonds, notes, debentures, or other obligations or securities issued by any federal government agency, or the Export-Import Bank of Washington;
- Repurchase agreements in the securities enumerated above;
- Certificates of deposit in the eligible institutions applying for interim moneys;
- 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;
- The Treasurer of State's investment pool, as authorized under Section 135.45, Ohio Revised Code;
- Linked deposits, reduced-rate deposits at financial institutions that provide reduced-rate loans to small businesses, as authorized under Section 135.63, Ohio Revised Code;
- Agricultural linked deposits, reduced-rate deposits at financial institutions that provide reduced-rate loans to agricultural businesses, as authorized under Section 135.631, Ohio Revised Code;
- 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;
- Commercial paper issued by any corporation that is incorporated under the laws of the United States or a state, and rated in one of the two highest rating categories by two nationally recognized rating agencies and not exceeding five percent of the total average investment portfolio;
- Bankers' acceptances maturing in 270 days or less and not exceeding 10 percent of the total average investment portfolio;
- Debt of domestic corporations and direct obligations of foreign nations diplomatically recognized by the United States, rated investment grade by nationally recognized rating agencies and, in the aggregate, not exceeding 25 percent of the total average investment portfolio;
- Obligations of a board of education as authorized under Sections 133.10 or 133.301, Ohio Revised Code; and
- No-load money market funds consisting of U.S. government agency obligations or commercial paper, and repurchase agreements secured by such obligations.

The primary government's deposits must be held in insured depositories approved by the State Board of Deposit and must be fully collateralized.

In some cases, 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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

System Pension Trust Fund, the Tuition Trust Authority Enterprise Fund, the Workers' Compensation Enterprise Fund, the Retirement Systems Agency Fund, and the higher education institutions may also invest in common and preferred stocks, domestic and foreign corporate/government bonds and notes, direct mortgages, 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. Deposits

1. Primary Government
As of June 30, 2004, the carrying amount of deposits was (dollars in thousands) $941,596 and the bank balance was $1,067,570. Of the bank balance, $774,483 was fully insured or collateralized with securities held by the primary government or its agent in the primary government's name (Category 1), $11,276 was collateralized with securities held by the pledging financial institution's trust department or its agent in the primary government's name (Category 2), and $281,811, although meeting legal collateralization requirements, was categorized as uninsured and uncollateralized (Category 3).

2. Component Units
As of June 30, 2004, the carrying amount of deposits was (dollars in thousands) $618,492, and the bank balance was $705,228. Of the bank balance, $20,229 was fully insured or collateralized with securities held by the respective component units or their agents in the component unit's name (Category 1), $498,487 was collateralized with securities held by the pledging financial institution's trust department or its agent in the respective component unit's name (Category 2), and $186,512, although meeting legal collateralization requirements, was categorized as uninsured and uncollateralized (Category 3).

D. Investments
The State categorizes investments to give an indication of the levels of credit risk associated with the State's custodial arrangements at year-end. *Category 1* includes investments that are insured, registered, or held by the State or its agent in the State's name. *Category 2* includes uninsured and unregistered investments held by the counterparty's trust department or its agent in the State's name. *Category 3* includes uninsured and unregistered investments held by the counterparty, its trust department, or its agent, but not in the State's name.

Certain investments have not been categorized because the securities are not used as evidence of the investment. These uncategorized investments include ownership in mutual funds, real estate, venture capital and limited partnerships, direct mortgages, life insurance, investment contracts, charitable lead trusts, and the deposit with the federal government. In conformity with Governmental Accounting Standards Board Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, securities lent at year-end for cash collateral have not been categorized by custodial credit risk, while securities lent for securities collateral have been categorized.

The levels of credit risk assumed by the primary government and its discretely presented component units and the carrying amount and fair value of investments, as of June 30, 2004, are detailed in the tables on the following page.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Investment Credit Risk
As of June 30, 2004
(dollars in thousands)

Primary Government:	Category 1	Category 2	Category 3	Total Fair Value
U.S. Government & Agency Obligations:				
Not on Securities Loan	$ 15,497,572	$ —	$ 5,189,802	$ 20,687,374
On Securities Loan	—	—	94,538	94,538
Repurchase Agreements	118,117	—	339	118,456
Common and Preferred Stock				
Not on Securities Loan	58,508,478	—	3,790,566	62,299,044
On Securities Loan	—	—	863,698	863,698
Corporate Bonds and Notes:				
Not on Securities Loan	10,371,209	—	1,527,885	11,899,094
On Securities Loan	—	—	58,264	58,264
Foreign Stocks and Bonds	24,737,854	—	1,597,211	26,335,065
Commercial Paper	3,152,408	—	1,607,815	4,760,223
High-Yield & Emerging Markets Fixed Income	898,909	—	—	898,909
Mortgage and Asset-Backed Securities	5,033,132	—	—	5,033,132
Securities Lending Collateral:				
U.S. Government & Agency Obligations	10,628	—	1,348,409	1,359,037
Repurchase Agreements	1,083,669	—	—	1,083,669
Common and Preferred Stock	134,350	—	269,858	404,208
Corporate Bonds and Notes	2,305,871	—	222,870	2,528,741
Foreign Stocks and Bonds	—	—	199,384	199,384
Commercial Paper	464,612	—	—	464,612
Mortgage and Asset-Backed Securities	13,142	—	—	13,142
	$122,329,951	$ —	$16,770,639	139,100,590
Investments Held by Broker-dealers under Securities Loans with Cash Collateral:				
U.S. Government and Agency Obligations				6,389,037
Common and Preferred Stock				398,227
Corporate Bonds and Notes				227,900
Foreign Stocks and Bonds				965,887
Mortgage and Asset-Backed Securities				12,848
Mutual Funds				10,357,751
Real Estate				9,793,482
Venture Capital				1,780,588
Limited Partnerships				999,037
Investment Contracts				943
Securities Lending Collateral — Mutual Funds				207,323
Deposit with Federal Government				711,038
Component Units' Equity in State Treasurer's Cash and Investment Pool (including associated Collateral on Lent Securities)				(542,200)
Component Units' Equity in the State Treasury Asset Reserve of Ohio (STAR Ohio)				(485,075)
Total Investments — Primary Government				$169,917,376

Component Units:	Category 1	Category 2	Category 3	Total Fair Value
U.S. Government & Agency Obligations	$ 266,857	$ 983,877	$201,006	$1,451,740
Common and Preferred Stock	801,816	1,432,507	128,637	2,362,960
Corporate Bonds and Notes	216,957	345,163	89,598	651,718
Commercial Paper	104	—	—	104
Repurchase Agreements	—	328,152	4,062	332,214
Negotiable Certificates of Deposit	—	—	4,000	4,000
Foreign Bonds	29	—	—	29
Other Investments	1,206	—	—	1,206
	$1,286,969	$3,089,699	$427,303	4,803,971
Investment in State Treasurer's Cash and Investment Pool (including associated Collateral on Lent Securities)				542,200
Investment in the State Treasury Asset Reserve of Ohio (STAR Ohio)				485,075
Mutual Funds				1,172,255
Real Estate				84,060
Direct Mortgages				45,774
Life Insurance				2,761
Limited Partnerships				23,025
Investment Contracts				66,629
Charitable Lead Trusts				651
Total Investments — Component Units				$7,226,401

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The total carrying amount of deposits and investments, as of June 30, 2004, reported for the primary government and its component units is (dollars in thousands) $178,267,277. The total carrying amount of deposits and investments categorized and disclosed in this note is $178,703,865. A reconciliation of the difference is presented in the table below.

E. Securities Lending Transactions
The Treasurer of State, Bureau of Workers' Compensation (BWC), and the State Highway Patrol Retirement System 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. The State requires its custodial agents to ensure that the State's lent securities are collateralized at no less than 102 percent of fair value. Consequently, as of June 30, 2004, the State had no credit exposure since the amount the State owed to borrowers exceeded the amount borrowers owed the State.

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 STAR Ohio total average investment portfolio may be lent up to seven days and no more than 10 percent of the total average portfolio for terms greater than seven days, but no more than to 30 days.

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.

Reconciliation of Deposit and Investments Disclosures
With Financial Statements
As of June 30, 2004
(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	$5,107,379	$ 50,295	$ 388,266	$ 170,767	$ 5,716,707
Cash and Cash Equivalents	94,120	1,716,627	730,630	377,034	2,918,411
Investments	742,645	14,973,939	5,189,911	138,797,209	159,703,704
Collateral on Lent Securities	2,108,403	2,673,153	153,934	1,324,054	6,259,544
Deposit with Federal Government	—	711,038	—	—	711,038
Restricted Assets:					
Cash and Cash Equivalents	—	1,768	121,243	—	123,011
Investments	—	1,573,953	1,260,909	—	2,834,862
Total Reporting Entity	$8,052,547	$21,700,773	$7,844,893	$140,669,064	$178,267,277

Primary Government:	
Deposits	$ 941,596
Investments	169,917,376
	170,858,972
Component Units:	
Deposits	618,492
Investments	7,226,401
	7,844,893
Total Carrying Amount of Deposits and Investments	178,703,865
Outstanding Warrants and Other Reconciling Items	(188,708)
Differences Resulting from Component Units with December 31 Year-Ends	(247,880)
Total Reporting Entity	$178,267,277

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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 shall be limited to an indemnification amount equal to the difference between the market value of the loaned securities on the date that such loaned 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 shall 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 2004, the State had not experienced any losses due to credit or market risk on securities lending activities.

During the fiscal year, 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.

F. Derivatives

Derivatives are generally defined as a contract whose value depends on, or derives from, the values of an underlying asset, reference rate, or index.

As of June 30, 2004, the Bureau of Workers' Compensation Enterprise Fund held approximately $4.4 billion in certain mortgage and asset-backed securities (primarily classified under the "U.S. Government and Agency Obligations" 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.

Through the use of international money managers, the Bureau of Workers' Compensation also enters into various foreign currency exchange contracts to manage exposure to changes in foreign currency exchange rates on its international securities holdings. A forward 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 payable for the Bureau was $29 thousand, as of June 30, 2004.

Additionally, during the reporting period, the retirement systems reported in the Retirement Systems Agency Fund had investments in derivatives that were held in the Treasurer of State's custody. Specific information on the nature of the transactions and the reasons for entering into them can be found in each respective system's Comprehensive Annual Financial Report.

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, 2004, approximately $155.1 million of the net taxes receivable balance is also reported as deferred revenue on the governmental funds' balance sheet, of which $138.8 million is reported in the General Fund and $16.3 million is reported in the Revenue Distribution Special Revenue Fund.

Refund liabilities for income, corporation franchise, and sales taxes, totaling approximately $756.3 million, are reported for governmental activities as "Refunds and Other Liabilities" on the Statement of Net Assets, of which, $685.9 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			Nonmajor	
	General	Highway Operating	Revenue Distribution	Governmental Funds	Total Primary Government
Current-Due Within One Year:					
Income Taxes	$279,129	$ —	$ 47,653	$ 146	$ 326,928
Sales Taxes	423,407	—	28,655	764	452,826
Motor Vehicle Fuel Taxes	—	48,302	100,365	2,035	150,702
Public Utility Taxes	64,484	—	30,790	—	95,274
Other Taxes	—	—	—	1,850	1,850
	767,020	48,302	207,463	4,795	1,027,580
Noncurrent-Due in More Than One Year:					
Income Taxes	44,139	—	5,178	—	49,317
Taxes Receivable, Net	$811,159	$48,302	$212,641	$4,795	$1,076,897

B. Intergovernmental Receivables — 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, 2004 (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	$ 436,831	$ 8,770	$ —	$ 8,711	$ 454,312
Job, Family and Other Human Services	506,030	66,367	—	—	572,397
Education	57,306	70,447	—	—	127,753
Highway Operating	85,264	—	—	—	85,264
Nonmajor Governmental Funds	226,661	19,294	—	22,816	268,771
Total Governmental Activities	1,312,092	164,878	—	31,527	1,508,497
Business-Type Activities:					
Unemployment Compensation	—	—	4,800	—	4,800
Office of Auditor of State	28	—	—	—	28
Total Business-Type Activities	28	—	4,800	—	4,828
Intergovernmental Receivable	$1,312,120	$164,878	$4,800	$31,527	$1,513,325

NOTE 5 RECEIVABLES (Continued)

C. Loans Receivable
Loans receivable for the primary government and its discretely presented major component units, as of June 30, 2004, 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
School District Solvency Assistance	$27,233	$ —	$ —	$ —	$ 27,233
Vocational Education	104	29	—	—	133
Wayne Trace Local School District	4,677	—	—	—	4,677
Vocational School Assistance	—	9,148	—	—	9,148
Nurses Education Assistance	—	261	—	—	261
Office of Minority Financial Incentives	1,532	—	—	—	1,532
Rail Development	—	—	—	4,246	4,246
Economic Development					
Office of Credit and Finance	—	—	—	294,482	294,482
Ohio Housing Finance Agency	—	—	—	265,139	265,139
Small Government Fire Departments	238	—	—	—	238
Higher Education Research Investment Loans	—	—	—	751	751
Highway, Transit, & Aviation Infrastructure Bank	—	—	55,311	—	55,311
Natural Resources	—	—	—	155	155
Local Infrastructure Improvements	—	—	—	251,633	251,633
Columbiana County Economic Stabilization	1,499	—	—	—	1,499
State Workforce Development	6,201	—	—	—	6,201
Professional Development	901	—	—	—	901
Loans Receivable, Gross	42,385	9,438	55,311	816,406	923,540
Estimated Uncollectible	(628)	—	—	(15,473)	(16,101)
Loans Receivable, Net	$41,757	$9,438	$55,311	$800,933	$907,439
Current-Due Within One Year	$21,123	$ 268	$ 7,579	$129,203	$158,173
Noncurrent-Due in More Than One Year	20,634	9,170	47,732	671,730	749,266
Loans Receivable, Net	$41,757	$9,438	$55,311	$800,933	$907,439

Major Component Units — Loans Receivable

Loan Program	Ohio Water Development Authority (12/31/03)	Ohio State University	University of Cincinnati
Water and Wastewater Treatment			
(including restricted portion)	$2,704,764	$ —	$ —
Student	—	81,985	36,093
Other	—	—	694
Loans Receivable, Gross	2,704,764	81,985	36,787
Estimated Uncollectible	—	(10,605)	(4,407)
Loans Receivable, Net	$2,704,764	$71,380	$32,380
Current-Due Within One Year	$ 2,295	$12,056	$ 3,201
Noncurrent-Due in More Than One Year	2,702,469	59,324	29,179
Loans Receivable, Net	$2,704,764	$71,380	$32,380

NOTE 5 RECEIVABLES (Continued)

D. Other Receivables

The other receivables balances reported for the primary government and its major discretely presented major component units reporting significant balances, as of June 30, 2004, 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 Governmental Funds	Total
Accounts	$ 5,790	$ —	$560	$986	$ 16,479	$ 23,815
Drug Manufacturers' Rebates	269,149	—	—	—	—	269,149
Health Facility Bed Assessments	—	38,552	—	—	—	38,552
Interest	3,670	—	—	—	1,616	5,286
Leases	—	—	—	—	1,545	1,545
Tobacco Settlement	—	—	—	—	158,638	158,638
Miscellaneous	18,765	2,507	—	—	—	21,272
Other Receivables, Net-Due Within One Year	$297,374	$41,059	$560	$986	$178,278	$518,257

	Business-Type Activities						
Type of Receivable	Workers' Compensation	Lottery Commission	Unemployment Compensation	Ohio Building Authority	Tuition Trust Authority	Office of Auditor of State	Total
Accounts	$850,169	$ —	$75,501	$ 900	$5,046	$8,788	$940,404
Interest and Dividends (including restricted portion)	73,472	2,910	—	290	—	—	76,672
Leases	—	—	—	13,817	—	—	13,817
Lottery Sales Agents	—	38,417	—	—	—	—	38,417
Other Receivables, Gross	923,641	41,327	75,501	15,007	5,046	8,788	1,069,310
Estimated Uncollectible	(685,773)	(384)	(65,054)	—	—	(54)	(751,265)
Other Receivables, Net	$237,868	$40,943	$10,447	$15,007	$5,046	$8,734	$318,045
Current-Due Within One Year	$237,868	$40,943	$10,447	$ 2,881	$5,046	$8,734	$305,919
Noncurrent-Due in More Than One Year	—	—	—	12,126	—	—	12,126
Other Receivables, Net	$237,868	$40,943	$10,447	$15,007	$5,046	$8,734	$318,045
Total Primary Government							$836,302

Major Component Units — Other Receivables

Type of Receivable	Ohio State University	University of Cincinnati
Accounts	$488,499	$ 25,471
Interest	15,510	9,330
Pledges	48,844	59,495
Miscellaneous	—	19,354
Other Receivables, Gross	552,853	113,650
Estimated Uncollectible	(212,735)	(9,856)
Other Receivables, Net	$340,118	$103,794
Current-Due Within One Year	$316,347	$ 71,815
Noncurrent-Due in More Than One Year	23,771	31,979
Other Receivables, Net	$340,118	$103,794

NOTE 5 RECEIVABLES (Continued)

The "Other Receivables" balance reported in the fiduciary funds as of June 30, 2004, is comprised of interest due of $1.4 million and miscellaneous receivables of $3.4 million.

Nonmajor governmental funds report leases receivable for direct financing agreements with local government for land and buildings under the Chapter 166 Direct Loan Program, which is administered by Ohio Department of Development's Office of Credit and Finance.

Additionally, 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.

Future lease payments included under "Other Receivables" in governmental and business-type activities, net of executory costs, (dollars in thousands) are as follows:

	Leases Receivable		
Year Ending June 30,	Governmental Activities	Business-Type Activities	Total
2005	$ 169	$ 2,099	$ 2,268
2006	169	2,345	2,514
2007	169	4,802	4,971
2008	169	2,716	2,885
2009	169	—	169
Thereafter	990	—	990
Total Minimum Lease Payments	1,835	11,962	13,797
Amount for interest	(290)	(885)	(1,175)
Present Value of Net Minimum Lease Payments	1,545	11,077	12,622
Unearned Income	—	2,740	2,740
	$1,545	$13,817	$15,362

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, 2004, follow (dollars in thousands).

Primary Government — Accrued Liabilities

	Wages	Health Benefit Claims	Accrued Interest	Vehicle Liability Claims	Total Accrued Liabilities
Governmental Activities:					
Major Governmental Funds:					
General	$ 96,710	$3,132	$ —	$ —	$ 99,842
Job, Family and Other Human Services	11,510	362	—	—	11,872
Education	1,318	55	—	—	1,373
Highway Operating	18,704	342	—	—	19,046
Nonmajor Governmental Funds	33,633	938	5	—	34,576
	161,875	4,829	5	—	166,709
Reconciliation of balances in fund financial statements to government-wide financial statements due to basis differences	—	—	104,591	3,552	108,143
Total Governmental Activities	161,875	4,829	104,596	3,552	274,852
Business-Type Activities:					
Ohio Building Authority	—	—	114	—	114
Tuition Trust Authority	191	—	—	—	191
Liquor Control	886	27	—	—	913
Underground Parking Garage	57	2	—	—	59
Office of Auditor of State	2,983	62	—	—	3,045
Total Business-Type Activities	4,117	91	114	—	4,322
Total Primary Government	$165,992	$4,920	$104,710	$3,552	$279,174

NOTE 6 PAYABLES (Continued)

Primary Government — Accrued Liabilities (Continued)

	Wages	Health Benefit Claims	Management and Administrative Expenses	Total Accrued Liabilities
Fiduciary Activities:				
State Highway Patrol Retirement System Pension Trust (12/31/03)	$824	$140	$ —	$ 964
Variable College Savings Plan Private-Purpose Trust	—	—	4,569	4,569
Total Fiduciary Activities	$824	$140	$4,569	$5,533

Major Component Units — Accrued Liabilities

	Wages & Employee Benefits	Accrued Interest	Other	Total Accrued Liabilities
Ohio State University	$75,195	$1,906	$49,981	$127,082
University of Cincinnati	52,585	3,144	12,205	67,934

B. Intergovernmental Payable

The intergovernmental payable balances for the primary government, as of June 30, 2004, are comprised of the following (dollars in thousands).

Primary Government

	Local Government				
	Shared Revenue and Local Permissive Taxes	Subsidies and Other	Federal Government	Other State Governments	Total
Governmental Activities:					
Major Governmental Funds:					
General	$ —	$ 286,132	$ —	$ —	$ 286,132
Job, Family and Other Human Services	—	231,706	53	—	231,759
Education	—	69,574	443	—	70,017
Highway Operating	—	1,386	—	—	1,386
Revenue Distribution	13,620	339,342	—	3,059	356,021
Nonmajor Governmental Funds	—	203,080	—	—	203,080
Total Governmental Activities	13,620	1,131,220	496	3,059	1,148,395
Business-Type Activities:					
Unemployment Compensation	—	437	—	—	437
Liquor Control	—	400	—	—	400
Total Business-Type Activities	—	837	—	—	837
Total Primary Government	$13,620	$1,132,057	$ 496	$3,059	$1,149,232
Fiduciary Activities:					
Holding and Distribution Agency Fund	$ —	$ —	$2,028	$ 75	$ 2,103
Payroll Withholding and Fringe Benefits Agency Fund	—	357	—	—	357
Other Agency Fund	61,462	7,391	—	—	68,853
Total Fiduciary Activities	$61,462	$ 7,748	$2,028	$ 75	$ 71,313

Component Units-Intergovernmental Payable

As of June 30, 2004, the School Facilities Commission Component Unit Fund reported an intergovernmental payable balance totaling approximately $1.99 billion for long-term funding contracts the Commission has with local school districts. 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.

NOTE 6 PAYABLES (Continued)

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, 2004, consist of the following (dollars in thousands).

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	$519,959	$165,963	$685,922	$ —	$ 153	$686,075
Job, Family and Other Human Services	—	—	—	6,721	1,285	8,006
Revenue Distribution	64,766	5,623	70,389	—	—	70,389
Nonmajor Governmental Funds	—	—	—	—	7,624	7,624
	584,725	171,586	756,311	6,721	9,062	772,094
Reconciliation of balances in fund financial statements to government-wide financial statements due to basis differences	—	—	—	—	5,570	5,570
Total Governmental Activities	$584,725	$171,586	$756,311	$6,721	$14,632	$777,664

Business-Type Activities:	Reserve for Compensation Adjustment	Refund & Security Deposits	Compensated Absences	Capital Leases	Other	Total
Workers' Compensation	$1,647,199	$85,679	$22,086	$ —	$53,175	$1,808,139
Lottery Commission	—	—	2,455	30,286	33,331	66,072
Unemployment Compensation	—	8,806	—	—	—	8,806
Ohio Building Authority	—	—	105	—	—	105
Tuition Trust Authority	—	—	151	—	682	833
Liquor Control	—	—	2,815	—	2,094	4,909
Underground Parking Garage	—	—	125	—	—	125
Office of Auditor of State	—	54	7,082	82	7,846	15,064
	1,647,199	94,539	34,819	30,368	97,128	1,904,053
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the government-wide financial statements	(1,647,199)	(85,679)	(34,563)	(30,368)	(24,970)	(1,822,779)
Total Business-Type Activities	$ —	$ 8,860	$ 256	$ —	$72,158	$ 81,274
Total Primary Government						$ 858,938

Fiduciary Activities:	Child Support Collections	Refund & Security Deposits	Payroll Withholdings	Retirement Systems' Assets	Other	Total
State Highway Patrol Retirement System Pension Trust (12/31/03)	$ —	$ —	$ —	$ —	$ 70	$ 70
Variable College Savings Plan Private-Purpose Trust	—	—	—	—	174	174
STAR Ohio Investment Trust	—	—	—	—	2,227	2,227
Agency Funds	95,734	492,504	101,258	131,336,182	—	132,025,678
Total Fiduciary Activities	$95,734	$492,504	$101,258	$131,336,182	$2,471	$132,028,149

Major Component Units — Refund and Other Liabilities

	Refund & Security Deposits	Compensated Absences	Capital Leases	Obligations Under Annuity Life Agreements	Other	Total
Ohio State University	$52,692	$70,518	$ 15,010	$52,263	$63,707	$254,190
University of Cincinnati	6,390	62,471	131,151	—	26,660	226,672

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

A. Interfund Balances

Interfund balances, as of June 30, 2004, consist of the following (dollars in thousands):

	Due to			
	Governmental Activities			
	Major Governmental Funds			
Due from	General	Job, Family and Other Human Services	Nonmajor Governmental Funds	Total
Major Governmental Funds:				
General	$ —	$ 6	$2,851	$ 2,857
Job, Family and Other Human Services	—	—	—	—
Education	—	—	—	—
Highway Operating	—	—	—	—
Revenue Distribution	—	—	56	56
Nonmajor Governmental Funds	266,798	—	350	267,148
Total Governmental Activities	266,798	6	3,257	270,061
Business-Type Activities:				
Lottery Commission	—	—	—	—
Liquor Control	2,623	—	—	2,623
Underground Parking Garage	—	—	—	—
Total Business-Type Activities	2,623	—	—	2,623
Total Primary Government	$269,421	$ 6	$3,257	$272,684

	Business-Type Activities				
	Workers' Compensation	Liquor Control	Office of Auditor of State	Total	Total Primary Government
Major Governmental Funds:					
General	$568,093	$12	$9,123	$577,228	$ 580,085
Job, Family and Other Human Services	15,251	—	—	15,251	15,251
Education	2,696	—	—	2,696	2,696
Highway Operating	100,045	—	—	100,045	100,045
Revenue Distribution	—	—	—	—	56
Nonmajor Governmental Funds	109,657	—	—	109,657	376,805
Total Governmental Activities	795,742	12	9,123	804,877	1,074,938
Business-Type Activities:					
Lottery Commission	4,450	—	—	4,450	4,450
Liquor Control	2,485	—	—	2,485	5,108
Underground Parking Garage	175	—	—	175	175
Total Business-Type Activities	7,110	—	—	7,110	9,733
Total Primary Government	$802,852	$12	$9,123	$811,987	$1,084,671

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 $266.8 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 $265.9 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 $802.9 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 $802.3 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, 2004, 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	$ —	$12,948	$ 10,246	$ —	$ 3,780	$ 944,854	$ 971,828
Job, Family and Other Human Services	6,857	—	1,500	—	—	—	8,357
Education	31,843	—	—	—	—	—	31,843
Highway Operating	718	—	—	—	47,314	229,793	277,825
Revenue Distribution	106,241	—	—	524,862	—	209,949	841,052
Nonmajor Governmental Funds	271,494	1,199	—	34	—	12,391	285,118
Total Governmental Activities	417,153	14,147	11,746	524,896	51,094	1,396,987	2,416,023
Business-Type Activities:							
Workers' Compensation	7,655	—	—	—	—	—	7,655
Lottery Commission	623	—	655,606	—	—	—	656,229
Unemployment Compensation	—	10,795	—	—	—	—	10,795
Ohio Building Authority	—	—	—	—	—	10,293	10,293
Liquor Control	118,012	—	—	—	—	26,566	144,578
Underground Parking Garage	—	—	—	—	—	756	756
Total Business-Type Activities	126,290	10,795	655,606	—	—	37,615	830,306
Total Primary Government	$543,443	$24,942	$667,352	$524,896	$51,094	$1,434,602	$3,246,329

	Business-Type Activities				
	Unemploy-ment Compen-sation	Ohio Building Authority	Office of Auditor of State	Total	Total Primary Govern-ment
Major Governmental Funds:					
General	$ —	$15,190	$32,548	$47,738	$1,019,566
Job, Family and Other Human Services	1,419	—	—	1,419	9,776
Education	—	—	—	—	31,843
Highway Operating	—	—	—	—	277,825
Revenue Distribution	—	—	—	—	841,052
Nonmajor Governmental Funds	—	—	—	—	285,118
Total Governmental Activities	1,419	15,190	32,548	49,157	2,465,180
Business-Type Activities:					
Workers' Compensation	—	—	—	—	7,655
Lottery Commission	—	—	—	—	656,229
Unemployment Compensation	—	—	—	—	10,795
Ohio Building Authority	—	—	—	—	10,293
Liquor Control	—	—	—	—	144,578
Underground Parking Garage	—	—	—	—	756
Total Business-Type Activities	—	—	—	—	830,306
Total Primary Government	$1,419	$15,190	$32,548	$49,157	$3,295,486

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 2004, the component units reported $2.55 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.

		Program Expenses for State Assistance to the Component Units		
Primary Government	Payable to the Component Units	Primary, Secondary and Other Education Function	Higher Education Support Function	Total State Assistance to the Component Units
Major Governmental Funds:				
General	$10,728	$619,505	$1,669,927	$2,289,432
Job, Family and Other Human Services	1,498	—	—	—
Education	1,043	—	—	—
Highway Operating	682	—	—	—
Nonmajor Governmental Funds	33,928	35,577	224,326	259,903
	47,879	655,082	1,894,253	2,549,335
Reconciling items to balance with government-wide financial statements	—	(505)	—	(505)
Total Primary Government	$47,879	$654,577	$1,894,253	$2,548,830

Component Units	Receivable from the Primary Government	Total State Assistance from the Primary Government
Major Component Units:		
School Facilities Commission	$ —	$ 620,562
Ohio State University	19,926	536,693
University of Cincinnati	671	194,145
Nonmajor Component Units	27,282	1,197,935
	47,879	2,549,335
Reconciling items to balance with government-wide financial statements	—	(505)
Total Component Units	$47,879	$2,548,830

NOTE 8 CAPITAL ASSETS

A. Primary Government

Capital asset activity, for the year ended June 30, 2004, reported for the primary government is as follows (dollars in thousands):

	Primary Government			
	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Buildings	$ 54,602	$ —	$ —	$ 54,602
Land	1,530,958	45,240	(2,337)	1,573,861
Land Improvements	930	—	—	930
Construction-in-Progress	1,661,545	648,179	(614,648)	1,695,076
Infrastructure:				
Highway Network:				
General Subsystem	8,059,076	173,672	—	8,232,748
Priority Subsystem	6,570,628	137,105	—	6,707,733
Bridge Network	2,255,567	31,608	—	2,287,175
Total Capital Assets Not Being Depreciated	20,133,306	1,035,804	(616,985)	20,552,125
Other Capital Assets:				
Buildings	2,966,416	217,328	(16,355)	3,167,389
Land Improvements	224,966	67,882	(23,592)	269,256
Machinery and Equipment	429,336	63,598	(50,634)	442,300
Vehicles	230,251	28,307	(24,793)	233,765
Infrastructure:				
Parks, Recreation and Natural Resources Network	18,563	6,068	(106)	24,525
Total Other Capital Assets at historical cost	3,869,532	383,183	(115,480)	4,137,235
Less Accumulated Depreciation for:				
Buildings	1,125,318	89,103	(8,435)	1,205,986
Land Improvements	115,784	11,626	(486)	126,924
Machinery and Equipment	287,570	51,417	(38,391)	300,596
Vehicles	104,930	13,117	(10,258)	107,789
Infrastructure:				
Parks, Recreation and Naturals Resources Network	727	644	(270)	1,101
Total Accumulated Depreciation	1,634,329	165,907	(57,840)	1,742,396
Other Capital Assets, Net	2,235,203	217,276	(57,640)	2,394,839
Governmental Activities-Capital Assets, Net	$22,368,509	$1,253,080	$(674,625)	$22,946,964

For fiscal year 2004, the State charged depreciation expense to the following governmental functions:

Governmental Activities:	
Primary, Secondary and Other Education	$ 2,303
Higher Education Support	7
Public Assistance and Medicaid	8,798
Health and Human Services	22,965
Justice and Public Protection	75,008
Environmental Protection and Natural Resources	14,606
Transportation	22,575
General Government	30,285
Community and Economic Development	2,988
Total Depreciation Expense for Governmental Activities	$179,535
Losses on Capital Asset Disposals Included in Depreciation	(13,628)
Fiscal Year 2004 Increases to Accumulated Depreciation	$165,907

NOTE 8 CAPITAL ASSETS (Continued)

	Primary Government *(Continued)*			
	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Business-Type Activities:				
Capital Assets Not Being Depreciated:				
Land	$ 12,631	$ —	$ —	$ 12,631
Construction-in-Progress	956	—	(956)	—
Total Capital Assets Not Being Depreciated	13,587	—	(956)	12,631
Other Capital Assets:				
Buildings	256,728	1,163	(37)	257,854
Land Improvements	66	—	—	66
Machinery and Equipment	163,335	6,020	(17,251)	152,104
Vehicles	4,852	814	(1,128)	4,538
Total Other Capital Assets at historical cost	424,981	7,997	(18,416)	414,562
Less Accumulated Depreciation for:				
Buildings	115,617	8,474	—	124,091
Land Improvements	48	1	—	49
Machinery and Equipment	108,536	23,719	(15,079)	117,176
Vehicles	2,459	559	(942)	2,076
Total Accumulated Depreciation	226,660	32,753	(16,021)	243,392
Other Capital Assets, Net	198,321	(24,756)	(2,395)	171,170
Business-Type Activities-Capital Assets, Net	$211,908	$(24,756)	$(3,351)	$183,801

For fiscal year 2004, the State charged depreciation expense to the following business-type functions:

Business-Type Activities:	
Workers' Compensation	$16,250
Lottery Commission	14,982
Tuition Trust Authority	98
Liquor Control	232
Underground Parking Garage	548
Office of Auditor of State	2,393
Total Depreciation Expense for Business-Type Activities	34,503
Losses on Capital Asset Disposals Included in Depreciation	(1,750)
Fiscal Year 2004 Increases to Accumulated Depreciation	$32,753

NOTE 8 CAPITAL ASSETS (Continued)

B. Major Component Units

Capital asset activity, for the year ended June 30, 2004, reported for discretely presented major component unit funds with significant capital asset balances is as follows (dollars in thousands):

	Major Component Units			
Ohio State University:	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital Assets Not Being Depreciated:				
Land	$ 42,025	$ 177	$ —	$ 42,202
Construction-in-Progress	237,643	292,417	(152,637)	377,423
Total Capital Assets Not Being Depreciated	279,668	292,594	(152,637)	419,625
Other Capital Assets:				
Buildings	2,141,374	141,031	(922)	2,281,483
Land Improvements	181,959	11,606	(2)	193,563
Machinery, Equipment and Vehicles	655,875	67,106	(37,066)	685,915
Library Books and Publications	158,472	3,673	(1,605)	160,540
Total Other Capital Assets at historical cost	3,137,680	223,416	(39,595)	3,321,501
Less Accumulated Depreciation for:				
Buildings	865,040	68,583	(2,717)	930,906
Land Improvements	104,415	8,069	(2)	112,482
Machinery, Equipment and Vehicles	451,239	57,886	(34,290)	474,835
Library Books and Publications	127,299	6,939	—	134,238
Total Accumulated Depreciation	1,547,993	141,477	(37,009)	1,652,461
Other Capital Assets, Net	1,589,687	81,939	(2,586)	1,669,040
Total Capital Assets, Net	$1,869,355	$374,533	$(155,223)	$2,088,665
University of Cincinnati:				
Capital Assets Not Being Depreciated:				
Land	$ 17,962	$ 2,014	$ —	$ 19,976
Construction-in-Progress	256,317	119,488	(176,007)	199,798
Collections of Works of Art and Historical Treasures	4,579	—	(171)	4,408
Total Capital Assets Not Being Depreciated	278,858	121,502	(176,178)	224,182
Other Capital Assets:				
Buildings	1,078,212	205,940	(7,324)	1,276,828
Land Improvements	21,806	7,160	(1,040)	27,926
Machinery, Equipment and Vehicles	141,455	13,981	(8,835)	146,601
Library Books and Publications	117,674	9,333	(1,419)	125,588
Infrastructure	54,840	21,961	—	76,801
Total Other Capital Assets at historical cost	1,413,987	258,375	(18,618)	1,653,744
Less Accumulated Depreciation for:				
Buildings	400,330	39,698	(2,871)	437,157
Land Improvements	5,548	1,183	(128)	6,603
Machinery, Equipment and Vehicles	94,654	11,653	(8,424)	97,883
Library Books and Publications	75,605	6,390	(1,419)	80,576
Infrastructure	35,262	3,077	—	38,339
Total Accumulated Depreciation	611,399	62,001	(12,842)	660,558
Other Capital Assets, Net	802,588	196,374	(5,776)	993,186
Total Capital Assets, Net	$1,081,446	$317,876	$(181,954)	$1,217,368

For fiscal year 2004, Ohio State University and the University of Cincinnati reported $141.5 million and $62 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 administers three separate pension plans — a cost-sharing, multiple-employer defined benefit plan, a defined contribution plan, and a cost-sharing, multiple-employer combined plan with features of both the defined benefit plan and the defined contribution plan.

OPERS benefits are 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. Employees who participate in the defined contribution plan may retire at age 55.

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 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.

The retirement allowance for the defined contribution plan is based entirely on the proceeds of retirees' individual retirement plans. Retirees may choose to receive either a lump-sum distribution or a monthly annuity for life. 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 unreduced monthly pension benefit, and is capped at no more than 50 percent of the retirement benefit amount.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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 2004, 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%

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):

	2004	2003	2002
Primary Government:			
Regular Employees	$235,634	$224,267	$228,637
Law Enforcement Employees	3,763	3,596	3,646
Total	$239,397	$227,863	$232,283
Major Component Units:			
School Facilities Commission	$ 346	$ 298	$ 454
Ohio Water Development Authority	83	72	71
Ohio State University	54,280	51,968	48,550
University of Cincinnati	12,596	11,339	10,057

Contribution amounts shown for fiscal year 2002 only apply to the defined benefit plan, since the combined plan was not in effect during fiscal year 2002.

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):

	2004	2003
Primary Government:		
Employer Contributions	$1,593	$ 530
Employee Contributions	3,322	1,137
Major Component Units:		
Ohio State University:		
Employer Contributions	720	188
Employee Contributions	1,437	392
University of Cincinnati:		
Employer Contributions	150	39
Employee Contributions	291	83

Only contributions for the past two fiscal years are presented, since the defined contribution plan and the combined plan began during fiscal year 2003.

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 2004, 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, 2004, are as follows (dollars in thousands):

	2004
Primary Government	$902
Major Component Units:	
Ohio State University	407
University of Cincinnati	85

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.

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 5.0 percent of covered payroll for the period, July 1, 2003 through December 31, 2003 and 4.0 percent of covered payroll for the period, January 1, 2004 through June 30, 2004. Employees do not fund any portion of healthcare costs.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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, 2002 (the latest information available), include a rate of return on investments of 8.0 percent, an annual increase in total payroll for active employees of 4.0 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 6.3 percent based on additional annual pay increases. Healthcare costs were assumed to increase 4.0 percent annually.

Net assets available for payment of benefits at December 31, 2002 were $10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were $18.7 billion and $8.7 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 2004, the State's actuarially required and actual contributions for the defined benefit plan and the defined benefit portion of the combined plan are as follows (dollars in thousands):

	2004
Primary Government:	
Regular Employees	$120,358
Law Enforcement Employees	1,388
Total	$121,746
Major Component Units:	
School Facilities Commission	$ 177
Ohio Water Development Authority	42
Ohio State University	27,726
University of Cincinnati	6,434

The number of active contributing participants for the primary government was 59,013, as of June 30, 2004.

B. State Teachers Retirement System of Ohio (STRS)

Pension Benefits

STRS administers three separate pension plans — a cost-sharing, multiple-employer defined benefit plan, a defined contribution plan, and a cost-sharing, multiple-employer 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.

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.

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.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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.

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 2004 were 14 percent for employers and 10.0 percent for employees for the defined benefit, defined contribution, and combined plans. For the defined benefit and combined plans, 13.0 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):

	2004	2003	2002
Primary Government	$ 6,966	$ 7,248	$5,420
Major Component Units:			
Ohio State University	31,995	31,181	22,220
University of Cincinnati	13,043	12,536	8,579

Contribution amounts shown for fiscal years 2002 and 2003 only 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 two fiscal years for the defined contribution plan and the defined contribution part of the combined plan follow (dollars in thousands):

	2004	2003
Primary Government:		
Employer Contributions	$111	$ 96
Employee Contributions	161	138
Major Component Units:		
Ohio State University:		
Employer Contributions	634	418
Employee Contributions	819	517
University of Cincinnati:		
Employer Contributions	480	384
Employee Contributions	547	400

Only contributions for the past two fiscal years are presented, since the defined contribution plan and the combined plan began during fiscal year 2003.

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.

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.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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, 2003 (the most recent information available), net assets available for future healthcare benefits were $2.8 billion. Net healthcare costs paid by the primary government and its discretely presented major component units, for the year ended June 30, 2004, are as follows (dollars in thousands):

	2004
Primary Government	$ 536
Major Component Units:	
Ohio State University	2,461
University of Cincinnati	1,003

The number of eligible benefit recipients for STRS as a whole was 143,239, as of June 30, 2003; a breakout of the number of eligible recipients for the primary government and its component units, as of June 30, 2004, 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, 2003, were as follows:

Contribution Rates	
Employee Share	Employer Share
10.0%	24.50%

On March 24, 2003, the employee share increased from 9.5 percent to 10.0 percent, while the employer share increased to 24.50 percent from 23.50 percent on July 1, 2003.

During calendar year 2003, all of the employees' contributions funded pension benefits while 18.75 percent of the employer's contributions funded pension benefits from January 1 through June 30, 2003, and 21.0 percent of the employer's contributions funded pension benefits from July 1 through December 31, 2003. 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.

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

For the Year Ended December 31,	Primary Government	Percentage of Employer's Annual Pension Cost Contributed
2003	$16,307	100%
2002	15,393	100%
2001	13,765	100%

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)
2003	$702,799	$545,982	$156,817	77.7%	$81,738	191.9%
2002 (a)	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
2001	636,715	551,279	85,436	86.6	76,344	111.9

(a) Change in assumption or method.

SHPRS used the entry-age, normal actuarial cost method for the Schedule of Funding Progress for the actuarial valuation, dated December 31, 2003. Assumptions used in preparing the Schedule of Funding Progress and in determining the annual required contribution include: an 8.0 percent rate of return on investments; projected salary increase of 4.0 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 4.0 percent a year; and postretirement increases each year equal to 3.0 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 40 years.

The Schedule of Funding Progress for the last three years is presented in the table above. 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, 2003, was 1,542. The cost of retiree healthcare benefits is recognized as claims are incurred and premiums are paid. The calendar year 2003 expense was $7.2 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 4.0 percent, compounded annually, due to inflation, was also used in the valuation. Net assets available for benefits allocated to healthcare costs at December 31, 2003 were $90.5 million, and included investments carried at fair value, as previously described.

As of December 31, 2003, 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 $58.6 million; the actuarial accrued liability for healthcare benefits at that date was $149.1 million.

Employer contributions are made in accordance with actuarially determined requirements. The employer contribution requirement was approximately $3.4 million or 4.75 percent of active member payroll for the period, January 1 through June 30, 2003, and 3.5 percent of active member payroll for the period, July 1 through December 31, 2003.

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

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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, 2004 to STRS in cases when the employee would have otherwise been enrolled in STRS.

For the year ended June 30, 2004, 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, 2004, for the ARP follow (dollars in thousands):

	Fiscal Year 2004	
	OPERS	STRS
Major Component Units:		
Ohio State University:		
Employer Contributions	$14,543	$8,794
Employee Contributions	9,287	8,375
University of Cincinnati:		
Employer Contributions	5,319	3,875
Employee Contributions	3,767	3,691

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, 2004, the General Assembly had authorized the issuance of $2.51 billion in Common Schools Capital Facilities Bonds, of which $1.79 billion had been issued. As of June 30, 2004, the General Assembly had also authorized the issuance of $1.85 billion in Higher Education Capital Facilities Bonds, of which $1.25 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, 2004, the General Assembly had authorized the issuance of approximately $1.77 billion in Highway Capital Improvements Bonds, of which $1.30 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, 2004, the General Assembly had authorized $2.16 billion of these bonds to be sold (excluding any amounts for unaccreted discount on capital appreciation bonds at issuance), of which $1.92 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, 2004, 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, 2004, the General Assembly had authorized the issuance of $150 million in Coal Research and Development Bonds, all of which had been issued. Legislative authorizations for the issuance of Natural Resources Capital Facilities Bonds totaled $287 million, as of June 30, 2004 of which $240 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, 2004, the General Assembly had authorized the issuance of approximately $100 million in Conservation Projects Bonds, all of which had been issued.

General obligation bonds outstanding and future general obligation debt service requirements, as of June 30, 2004, are presented in the table on the following page.

For the year ended June 30, 2004, 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, 2004
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Common Schools Capital Facilities	2000-04	3.1%-5.4%	2024	$1,745,057	$ 715,000
Higher Education Capital Facilities	2000-04	3.8%-5.4%	2024	1,171,443	601,000
Highway Capital Improvements	1997-04	3.0%-5.0%	2014	807,222	475,000
Infrastructure Improvements	1990-04	2.0%-7.6%	2023	1,368,172	240,014
Highway Obligations	1996	4.5%	2005	10,000	—
Coal Research and Development	1996-04	2.4%-5.0%	2013	48,975	—
Natural Resources Capital Facilities	1995-03	3.0%-5.6%	2018	171,316	47,000
Conservation Projects	2002-04	3.5%-4.3%	2019	98,526	—
Total General Obligation Bonds				$5,420,711	$2,078,014

Future Funding of Current Interest and Capital Appreciation Bonds:

Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2005	$ 390,705	$ 226,052	$ (459)	$ 616,298
2006	375,905	206,725	(386)	582,244
2007	376,555	191,817	(312)	568,060
2008	371,965	175,994	(237)	547,722
2009	360,795	160,358	(160)	520,993
2010-2014	1,571,640	577,701	(81)	2,149,260
2015-2019	943,830	283,612	—	1,227,442
2020-2024	637,185	70,589	—	707,774
Total Current Interest and Capital Appreciation Bonds	$5,028,580	$1,892,848	$(1,635)	$6,919,793

Future Funding of Variable-Rate Bonds:

Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2005	$ 785	$ 4,530	$ 5,754	$ 11,069
2006	625	4,576	5,866	11,067
2007	650	4,569	5,850	11,069
2008	675	5,085	6,373	12,133
2009	695	5,594	5,890	12,179
2010-2014	26,680	27,590	19,641	73,911
2015-2019	195,840	21,695	14,538	232,073
2020-2024	126,075	9,478	3,554	139,107
Total Variable-Rate Bonds	352,025	$83,117	$67,466	$502,608
Total General Obligation Bonds	5,380,605			
Unamortized Discount/ (Premium), Net	100,724			
Deferred Refunding Loss	(60,618)			
Total Carrying Amount	$5,420,711			

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, 2004. 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, 2004, approximately $382.1 million of Infrastructure Improvement Bonds and Common Schools Bonds included associated interest-rate swaps. Terms of the swap agreements are provided below.

Primary Government-Governmental Activities
Interest Rate Swaps
As of June 30, 2004
(dollars in thousands)

Issue	Type of Swap	Notional Amount	Underlying Index	Counterparty's Swap Rate at 06/30/2004	State's Swap Rate at 06/30/2004	Effective Date	Termination (Maturity) Date	Fair Value	Method to Estimate Fair Value	Credit Quality Ratings of Counterparties
Infrastructure Improvements, Series 2001B	Floating to fixed knock-out	$63,900	BMA Index	1.02%*	4.63%	11/29/2001	08/01/2021	$(5,404)	Quoted Market Value	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	1.03%	2.96%	02/26/2003	08/01/2008	$(111)	Quoted Market Value	Aa3/A+ Morgan Stanley Capital Services
Infrastructure Improvements, Refunding Series 2003D	Floating to fixed	$58,085	Actual Bond Rate	1.03%	3.04%	03/20/2003	02/01/2010	$544	Quoted Market Value	Aa3/A+ Morgan Stanley Capital Services
Infrastructure Improvements, Series 2003F	Fixed to floating	$30,115	BMA Index	2.54%	1.02%*	12/04/2003	02/01/2010	$(309)	Quoted Market Value	Aa3/AA- JP Morgan Chase
Infrastructure Improvements, Refunding Series 2004A	Floating to fixed enhanced LIBOR	$58,725	68% of LIBOR (1-month LIBOR > 5.0%) or 63% of LIBOR + 25 basis points (1-month LIBOR < 5.0%)	.99%	3.51%	03/03/2004	02/01/2023	$1,312	Quoted Market Value	Aa3/A+ Morgan Stanley Capital Services
Common Schools, Series 2003D	Fixed to floating	$67,000	BMA Index	2.67%	1.05%*	12/15/2003	09/01/2007	$(145)	Quoted Market Value	50% Aa3/A+ Morgan Stanley Capital Services 50% Aa3/AA- JP Morgan Chase

*Weighted-average rate based on payment dates

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, 2004. 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, 2004. 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,

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

2010, which is consistent with its long-term asset/liability management policy objective. At June 30, 2004, the State has credit risk exposure equal to the swap's fair value of $.5 million.

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 a borrowing cost that 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, 2004. 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.

At June 30, 2004, the State has credit risk exposure equal to the swap's fair value of $1.3 million.

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.

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 20.5 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, 2004. 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.

Advance Refundings
During fiscal year 2004, there were two advance refundings of general obligation bonds as follows:

The State issued approximately $59.0 million in Infrastructure Improvements refunding bonds (Series 2004A and 2004B) with a true interest cost rate of 3.6 percent to defease approximately $60.6 million (in substance). Net refunding bond proceeds of $64.8 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 $4.5 million over the next 19 years. The net economic gain from the refunding was $3.3 million. At issuance, Series 2004A was comprised of $58.7 million in term bonds, and Series 2004B was comprised of $309 thousand in capital appreciation bonds, net of unaccreted discount of $7.9 million and unamortized premium of $6.2 million.

The State issued approximately $58.2 million in Common Schools refunding bonds (Series 2003E) with an average interest cost rate of 5 percent to defease approximately $57.6 million (in substance). Net refunding bond proceeds of $65.1 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 $5.2 million over the next 10 years. The net economic gain from the refunding was $3.3 million.

In prior years, the Treasurer of State defeased certain Infrastructure Improvement Bonds, Natural Resources Bonds, and Higher Education Bonds 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, 2004, Infrastructure Improvement Bonds of $502.8 million, Natural Resources Bonds of $16.8 million, Common Schools Bonds of $57.6 million, and Higher Education Bonds of $56.2 million are considered defeased and no longer outstanding.

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 Credit and Finance, 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 Credit and Finance'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.

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. During fiscal year 2004, the Treasurer of State issued $100 million in Revitalization Project bonds, which 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, 2004, are presented in the table below.

For the year ended June 30, 2004, NOTE 15 summarizes changes in revenue bonds.

Future bond service requirements for revenue bonds of the primary government, as of June 30, 2004, are presented in the table at the top of the following page.

Primary Government
Revenue Bonds
As of June 30, 2004
(dollars in thousands)

	Fiscal Year Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
Governmental Activities:				
Treasurer of State:				
Economic Development	1997-04	3.8%-7.8%	2024	$234,975
State Infrastructure Bank	1998-04	2.0%-5.0%	2011	321,485
Revitalization Project	2003	3.0%-5.0%	2018	51,498
Total Governmental Activities				607,958
Business-Type Activities:				
Bureau of Workers' Compensation	2003	1.6%-4.0%	2014	148,390
Ohio Building Authority	1986-04	2.0%-9.8%	2008	10,147
Total Business-Type Activities				158,537
Total Revenue Bonds				$766,495

NOTE 11 REVENUE BONDS AND NOTES (Continued)

Primary Government
Future Funding Requirements for Revenue Bonds
As of June 30, 2004
(dollars in thousands)

	Governmental Activities			Business-Type Activities			Total		
Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2005	$ 62,175	$ 31,664	$ 93,839	$ 6,991	$ 6,986	$ 13,977	$ 69,166	$ 38,650	$ 107,816
2006	63,185	28,770	91,955	15,237	6,770	22,007	78,422	35,540	113,962
2007	64,280	25,689	89,969	18,803	6,050	24,853	83,083	31,739	114,822
2008	65,450	22,488	87,938	17,741	5,337	23,078	83,191	27,825	111,016
2009	57,875	19,355	77,230	16,005	4,606	20,611	73,880	23,961	97,841
2010-2014	115,795	66,165	181,960	78,800	11,597	90,397	194,595	77,762	272,357
2015-2019	91,095	38,059	129,154	—	—	—	91,095	38,059	129,154
2020-2024	67,880	9,270	77,150	—	—	—	67,880	9,270	77,150
	587,735	241,460	829,195	153,577	41,346	194,923	741,312	282,806	1,024,118
Net Unamortized Premium/(Discount)	20,223	—	20,223	10,289	—	10,289	30,512	—	30,512
Deferred Refunding Loss	—	—	—	(5,329)	—	(5,329)	(5,329)	—	(5,329)
Total	$607,958	$241,460	$849,418	$158,537	$41,346	$199,883	$766,495	$282,806	$1,049,301

In December 1998, the Treasurer of State entered into a forward purchase refunding agreement to advance refund approximately $102 million in Series 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, 2004, no obligation for the refunding bonds has been included in the financial statements.

During fiscal year 2004, there were two advance refundings of revenue bonds as follows:

The State issued approximately $6.7 million in State Facilities refunding bonds (Series 2003A DiSalle Government Center) with a true interest cost rate of 1.9 percent to defease approximately $10.2 million (in substance). Net refunding bond proceeds of $7 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 $5.6 million over the next five years. The net economic gain from the refunding was $636 thousand.

The State issued approximately $701 thousand in State Facilities refunding bonds (Series 2003A Ocasek Government Center) with a true interest cost rate of 1.9 percent to defease approximately $1 million (in substance). Net refunding bond proceeds of $700 thousand 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 $546 thousand over the next five years. The net economic gain from the refunding was $61 thousand.

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, 2003, approximately $697.0 million in bonds were outstanding for this program.

NOTE 11 REVENUE BONDS AND NOTES (Continued)

Future bond service requirements for the Water Pollution Control Loan Program revenue bonds, as of December 31, 2003, are as follows (dollars in thousands):

Year Ending December 31,	Principal	Interest	Total
2004	$ 33,460	$ 75,608	$ 109,068
2005	35,095	70,549	105,644
2006	36,605	65,223	101,828
2007	37,860	60,177	98,037
2008	39,705	55,510	95,215
2009-2013	214,705	215,817	430,522
2014-2018	192,740	109,545	302,285
2019-2023	102,050	31,672	133,722
2024-2028	—	3,661	3,661
2029-2033	—	231	231
	692,220	687,993	1,380,213
Net Unamortized Premium/(Discount)	24,516	—	24,516
Deferred Refunding Loss	(19,758)	—	(19,758)
Total	$696,978	$687,993	$1,384,971

Generally, bonds and notes issued by the state universities and state community colleges are payable 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 $127.6 million in bonds had adjustable interest rates that are reset weekly at rates determined by the remarketing agency. As of December 31, 2003, the rates for $100.9 million and $26.7 million of the variable-rate bonds were 1.1 percent and 1.3 percent, respectively.

Future bond service requirements for revenue bonds and notes reported for the discretely presented major component units, as of June 30, 2004, are presented in the table below.

Major Component Units
Future Funding Requirements for Revenue Bonds
As of June 30, 2004
(dollars in thousands)

Year Ending December 31 or June 30,	Ohio Water Development Authority (12/31/03)			Ohio State University			University of Cincinnati		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2004	$ 104,430	$ 75,608	$ 180,038						
2005	105,265	70,549	175,814	$405,480	$ 23,529	$ 429,009	$ 59,868	$ 30,391	$ 90,259
2006	130,580	65,223	195,803	18,206	23,630	41,836	20,630	28,774	49,404
2007	104,935	60,177	165,112	16,689	22,864	39,553	25,650	27,881	53,531
2008	67,030	55,510	122,540	17,274	22,008	39,282	31,215	26,818	58,033
2009	—	—	—	18,184	21,121	39,305	26,040	25,664	51,704
2009-2013	453,810	215,817	669,627	—	—	—	—	—	—
2010-2014	—	—	—	89,354	90,973	180,327	138,650	111,927	250,577
2014-2018	354,960	109,545	464,505	—	—	—	—	—	—
2015-2019	—	—	—	79,565	65,004	144,569	161,145	79,473	240,618
2019-2023	207,725	31,672	239,397	—	—	—	—	—	—
2020-2024	—	—	—	67,945	38,715	106,660	144,740	44,560	189,300
2024-2028	28,510	3,661	32,171	—	—	—	—	—	—
2025-2029	—	—	—	47,025	19,522	66,547	116,640	17,402	134,042
2029-2033	3,660	231	3,891	—	—	—	—	—	—
2030-2034	—	—	—	32,974	4,294	37,268	34,900	1,614	36,514
	1,560,905	687,993	2,248,898	792,696	331,660	1,124,356	759,478	394,504	1,153,982
Net Unamortized Premium/(Discount)	30,785	—	30,785	—	—	—	1,592	—	1,592
Deferred Refunding Loss	(30,709)	—	(30,709)	—	—	—	—	—	—
Total	$1,560,981	$687,993	$2,248,974	$792,696	$331,660	$1,124,356	$761,070	$394,504	$1,155,574

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.

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, 2004, are presented in the table below.

Future special obligation debt service requirements, as of June 30, 2004, are as follows (dollars in thousands):

Year Ending June 30,	Principal	Interest	Total
2005	$ 455,429	$ 189,956	$ 645,385
2006	443,938	167,942	611,880
2007	445,632	141,029	586,661
2008	430,559	120,244	550,803
2009	321,200	100,585	421,785
2010-2014	1,191,475	291,623	1,483,098
2015-2019	463,925	88,111	552,036
2020-2024	123,165	14,301	137,466
	3,875,323	1,113,791	4,989,114
Net Unamortized Premium/ (Discount)	88,328	—	88,328
Deferred Refunding Loss	(59,171)	—	(59,171)
Total	$3,904,480	$1,113,791	$5,018,271

For the year ended June 30, 2004, NOTE 15 summarizes changes in special obligation bonds.

During fiscal year 2004, 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

Primary Government-Governmental Activities
Special Obligation Bonds
As of June 30, 2004
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Ohio Building Authority	1986-04	2.0%-9.8%	2024	$2,278,308	$361,910
Treasurer of State:					
Chapter 154 Bonds:					
Higher Education Facilities	1994-03	3.2%-6.0%	2013	1,133,059	—
Mental Health Facilities	1995-03	3.1%-6.0%	2018	263,773	77,915
Parks and Recreation Facilities	1996-04	2.5%-5.5%	2019	122,725	23,100
Elementary and Secondary Education	1997-99	4.0%-5.6%	2008	106,615	—
Total Special Obligation Bonds				$3,904,480	$462,925

NOTE 12 SPECIAL OBLIGATION BONDS (Continued)

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 2004 are presented in the table below.

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, 2004, $299.8 million and $476.9 million of OBA and Chapter 154 special obligation bonds, respectively, are considered defeased and no longer outstanding.

Governmental Activities
Special Obligation Bonds
Details of Advance Refundings
For the Year Ended June 30, 2004
(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 (DiSalle Government Center), Series 2003A	7/22/03	$ 4,263	1.9%	$ 6,498	$ 4,450	$3,593 over next 5 years	$ 407
State Facilities (Lausche State Office Building), Series 2003A	7/22/03	4,915	1.9%	7,183	4,935	$3,948 over next 5 years	449
State Facilities (Ocasek Government Office Building), Series 2003A	7/22/03	1,994	1.9%	2,876	1,998	$1,553 over next 5 years	175
State Facilities (Highway Safety Building), Series 2004B	3/23/04	41,695	2.4%	42,685	46,879	$2,446 over next 8 years	2,148
State Facilities (DNR Fountain Square), Series 2004A	5/11/04	3,910	2.5%	3,473	4,022	$153 over next 5 years	149
State Facilities (Vern Riffe Center), Series 2004A	5/11/04	22,705	2.3%	22,236	23,550	$678 over next 5 years	663
State Facilities (Adult Correctional Building), Series 2004B	5/11/04	42,665	2.1%	41,819	44,365	$1,215 over next 5 years	1,190
Total..		$122,147		$126,770	$130,199		$5,181

NOTE 13 CERTIFICATES OF PARTICIPATION

As of June 30, 2004, approximately $6.5 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.

Under the COP financing arrangements, the State is required to make rental payments from the Transportation 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, 2004, are presented in the table at the top of the following page.

NOTE 13 CERTIFICATES OF PARTICIPATION (Continued)

Primary Government — Governmental Activities
Certificate of Participation Obligations
As of June 30, 2004
(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	$5,105
Rickenbacker Port Authority Improvements	1996	6.1%	2007	1,375
Total Certificates of Participation				$6,480

As of June 30, 2004, the primary government's future commitments under the COP financing arrangements are as follows (dollars in thousands):

Year Ending June 30,	Principal	Interest	Total
2005	$ 945	$ 408	$1,353
2006	1,005	348	1,353
2007	800	285	1,085
2008	520	242	762
2009	555	209	764
2010-2012	2,655	400	3,055
Total	$6,480	$1,892	$8,372

For the year ended June 30, 2004, NOTE 15 summarizes changes in COP obligations.

For the State's component units, approximately $29.7 million in COP obligations are reported in the component unit funds. The obligations finance building construction costs at the Ohio State University, University of Cincinnati, and the University of Akron.

As of June 30, 2004, 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, 2004
(dollars in thousands)

	Ohio State University			University of Cincinnati		
Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total
2005	$ 720	$ 321	$1,041	$ 90	$ 46	$ 136
2006	355	293	648	90	41	131
2007	360	277	637	90	36	126
2008	390	260	650	95	31	126
2009	405	242	647	95	26	121
2010-2014	2,340	890	3,230	380	52	432
2015-2019	2,330	242	2,572	—	—	—
2020-2024	—	—	—	—	—	—
2025-2029	—	—	—	—	—	—
2030-2034	—	—	—	—	—	—
Total	$6,900	$2,525	$9,425	$840	$232	$1,072

	University of Akron			Total Component Units		
Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total
2005	$ —	$ 1,725	$ 1,725	$ 810	$ 2,092	$ 2,902
2006	140	1,585	1,725	585	1,919	2,504
2007	275	1,450	1,725	725	1,763	2,488
2008	295	1,430	1,725	780	1,721	2,501
2009	315	1,410	1,725	815	1,678	2,493
2010-2014	1,955	6,670	8,625	4,675	7,612	12,287
2015-2019	2,765	5,860	8,625	5,095	6,102	11,197
2020-2024	3,845	4,780	8,625	3,845	4,780	8,625
2025-2029	5,240	3,385	8,625	5,240	3,385	8,625
2030-2034	7,170	1,455	8,625	7,170	1,455	8,625
Total	$22,000	$29,750	$51,750	$29,740	$32,507	$62,247

NOTE 14 OTHER NONCURRENT LIABILITIES

As of June 30, 2004, 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	$ 382,208
Capital Leases Payable	3,460
Liability for Escheat Property	173,935
Total Governmental Activities	559,603
Business-Type Activities:	
Compensated Absences	34,563
Capital Leases Payable	30,368
Workers' Compensation:	
Unearned Revenue	394,319
Benefits Payable	14,619,873
Other	1,750,020
Deferred Prize Awards Payable	856,903
Tuition Benefits Payable	1,141,700
Workers Compensation Claims-Auditor of State's Office	7,828
Total Business-Type Activities	18,835,574
Total Primary Government	$19,395,177

For the year ended June 30, 2004, 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, 2004, was $416.8 million, of which $382.2 million is allocable to governmental activities and $34.6 million is allocable to business-type activities.

As of June 30, 2004, discretely presented major component units reported a total of $133.7 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 2004 were approximately $85.4 million.

Future minimum lease commitments for operating leases and capital leases judged to be noncancelable, as of June 30, 2004, are as follows (dollars in thousands):

Primary Government

Year Ending June 30,	Operating Leases
2005	$4,628
2006	361
2007	39
2008	28
2009	3
Total minimum lease payments	$5,059

	Capital Leases		
Year Ending June 30,	Governmental Activities	Business-Type Activities	Total
2005	$1,435	$16,135	$17,570
2006	1,285	16,134	17,419
2007	821	27	848
2008	441	15	456
2009	11	—	11
Total Minimum Lease Payments	3,993	32,311	36,304
Amount for interest	(533)	(1,943)	(2,476)
Present Value of Net Minimum Lease Payments	$3,460	$30,368	$33,828

NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

As of June 30, 2004, the primary government had the following capital assets under capital leases (dollars in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Equipment	$5,998	$69,469	$75,467
Vehicles........	33	—	33
Total	$6,031	$69,469	$75,500

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 funds. For the component units, capital lease obligations are included under the "Other Liabilities" account.

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, 2004, are presented in the table below.

Major Component Units

	Capital Leases	
Year Ending June 30,	Ohio State University	University of Cincinnati
2005	$ 5,576	$ 11,047
2006	5,431	11,198
2007	3,413	11,647
2008	828	11,852
2009	183	12,882
2010-2014	637	55,964
2015-2019	—	44,299
2020-2024	—	51,631
Total Minimum Lease Payments	16,068	210,520
Amount for interest	(1,058)	(79,369)
Present Value of Net Minimum Lease Payments	$15,010	$131,151
Equipment & Vehicles.................	$30,240	$ —
Buildings................	—	140,635
Total	$30,240	$140,635

C. 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, 2004, this liability totaled approximately $173.9 million.

D. Workers' Compensation

Unearned Revenue
Unearned revenue in the amount of $394.3 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, 2004, in the amount of approximately $14.62 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.

E. Deferred Prize Awards Payable
Deferred prize awards payable in installments over future years totaling approximately $856.9 million, as of June 30, 2004, are reported at present value based upon interest rates the Treasurer of State provides the Lottery Commission Enterprise Fund. The interest rates, ranging from 4.0 to 11.7 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 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.

NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

The present value of future payments of unpaid prize awards, as of June 30, 2004, is as follows (dollars in thousands):

Year Ending June 30,	
2005	$ 142,721
2006	127,253
2007	116,166
2008	100,696
2009	85,302
2010-2014	329,871
2015-2019	280,757
2020-2024	134,551
	1,317,317
Unamortized Discount	(460,414)
Net Prize Liability	$ 856,903

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

F. Tuition Benefits Payable
The actuarial present value of future tuition benefits payable from the Tuition Trust Authority Enterprise Fund were $1.14 billion, as of June 30, 2004. 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: 7.0 percent rate of return, compounded annually, on the investment of current and future assets; a projected annual tuition increase of 10.0 percent for calendar year 2005 and 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, 2003	$(321.1)
Interest on the Deficit at 7.0 Percent	(22.5)
Recognition of Gain in Investment Returns	54.2
Additional Deficit from New Unit Purchases	(3.2)
Lower-Than-Assumed Tuition Increase	43.4
Budget Savings	1.1
Lower-Than-Expected Units/Credits Redeemed	(2.8)
Lower-Than-Expected Credit Payouts	0.3
Interest Gain on Late Tuition Payouts	0.5
Change in Assumptions	(43.8)
Other	(0.7)
Actuarial Deficit, as of June 30, 2004, Before Adjustment for Value of Future Contingent Payments for Variable Investment Options	(294.6)
Value of Future Contingent Payments for Variable Investment Options	42.2
Actuarial Deficit, as of June 30, 2004	$(252.4)

As of June 30, 2004, the market value of net assets available for payment of the tuition benefits payable was $847.1 million.

G. Other Liabilities
The Workers' Compensation Enterprise Fund reports approximately $1.75 billion in other noncurrent liabilities, as of June 30, 2004, of which 1.) $1.65 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.) $85.7 million represents premium payment security deposits collected in advance from private employers to reduce credit risk for premiums collected in subsequent periods, and 3.) $17.1 million consists of other miscellaneous liabilities.

Additionally, the Office of the Auditor of State Enterprise Fund reports $7.8 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, 2004 (See NOTE 7A.).

NOTE 15 CHANGES IN NONCURRENT LIABILITIES

Primary Government
Changes in noncurrent liabilities, for the year ended June 30, 2004, are presented for the primary government in the following table.

Primary Government
Changes in Noncurrent Liabilities
For the Fiscal Year Ended June 30, 2004
(dollars in thousands)

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Amount Due Within One Year
Governmental Activities:					
Bonds and Notes Payable:					
General Obligation Bonds (NOTE 10)	$ 4,603,842	$1,307,987	$ (491,118)	$ 5,420,711	$ 391,970
Revenue Bonds (NOTE 11)	450,598	222,359	(64,999)	607,958	62,799
Special Obligations (NOTE 12)	4,093,614	429,696	(618,830)	3,904,480	452,614
Total Bonds and Notes Payable	9,148,054	1,960,042	(1,174,947)	9,933,149	907,383
Certificates of Participation (NOTE 13)	7,370	—	(890)	6,480	945
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences	383,637	331,908	(333,337)	382,208	49,669
Capital Leases Payable	4,888	400	(1,828)	3,460	1,184
Litigation Liabilities	10,000	—	(10,000)	—	—
Liability for Escheat Property	141,328	78,829	(46,222)	173,935	54,989
Total Other Noncurrent Liabilities	539,853	411,137	(391,387)	559,603	105,842
Governmental Activities-Noncurrent Liabilities	9,695,277	2,371,179	(1,567,224)	10,499,232	1,014,170
Business-Type Activities:					
Bonds and Notes Payable:					
Revenue Bonds (NOTE 11)	167,310	8,868	(17,641)	158,537	6,991
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences	34,580	30,609	(30,626)	34,563	1,406
Capital Leases Payable	44,151	66	(13,849)	30,368	14,711
Workers' Compensation:					
Unearned Revenue	402,436	35,076	(43,193)	394,319	16,930
Benefits Payable	14,307,371	2,548,502	(2,236,000)	14,619,873	1,764,828
Other:					
Adjustment Expenses Liability	1,673,704	—	(26,505)	1,647,199	441,865
Premium Payment Security Deposits	82,991	5,370	(2,682)	85,679	—
Miscellaneous	75,576	72,205	(130,639)	17,142	10,761
Deferred Prize Awards Payable	929,225	29,365	(101,687)	856,903	88,200
Tuition Benefits Payable	1,080,500	110,993	(49,793)	1,141,700	54,800
Workers' Compensation Claims-Auditor of State's Office	7,828	—	—	7,828	443
Total Other Noncurrent Liabilities	18,638,362	2,832,186	(2,634,974)	18,835,574	2,393,944
Business-Type Activities-Noncurrent Liabilities	18,805,672	2,841,054	(2,652,615)	18,994,111	2,400,935
Total Primary Government	$28,500,949	$5,212,233	$(4,219,839)	$29,493,343	$3,415,105

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 2004, 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.

	(dollars in thousands)
Governmental Activities:	
Primary, Secondary and Other Education	$ 83,228
Higher Education Support	121,238
Environmental Protection and Natural Resources	416
Transportation	4
Community and Economic Development	21,841
Intergovernmental	85,066
Total Interest Expense Charged to Governmental Functions	$311,793

Component Units
Changes in noncurrent liabilities, for the year ended June 30, 2004 (December 31, 2003 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, 2004
(dollars in thousands)

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Amount Due Within One Year
School Facilities Commission:					
Intergovernmental Payable	$2,133,542	$ 394,439	$ (537,072)	$1,990,909	$638,909
Compensated Absences*	411	174	(62)	523	81
Total	$2,133,953	$ 394,613	$ (537,134)	$1,991,432	$638,990
Ohio Water Development Authority:					
Bonds and Notes Payable	$1,614,964	$ 246,373	$ (300,356)	$1,560,981	$104,241
Compensated Absences*	177	8	(43)	142	—
Total	$1,615,141	$ 246,381	$ (300,399)	$1,561,123	$104,241
Ohio State University:					
Unearned Revenue	$ 97,674	$1,546,534	$(1,550,254)	$ 93,954	$ 87,954
Compensated Absences*	64,541	11,982	(6,005)	70,518	6,005
Capital Leases Payable*	17,723	2,590	(5,303)	15,010	5,070
Other Liabilities*	108,736	12,744	(5,511)	115,969	4,804
Bonds and Notes Payable	560,631	384,525	(152,460)	792,696	405,480
Certificates of Participation	7,880	—	(980)	6,900	720
Total	$ 857,185	$1,958,375	$(1,720,513)	$1,095,047	$510,033
University of Cincinnati:					
Compensated Absences*	$ 58,465	$ 4,177	$ (171)	$ 62,471	$ 33,790
Capital Leases Payable*	135,262	—	(4,111)	131,151	4,306
Other Liabilities*	32,347	91,653	(90,950)	33,050	396
Bonds and Notes Payable	509,776	304,960	(53,666)	761,070	60,387
Certificates of Participation	930	—	(90)	840	90
Total	$ 736,780	$ 400,790	$ (148,988)	$ 988,582	$ 98,969

*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, 2004 (December 31, 2003 for component units), revenue bonds and notes outstanding that represent "no commitment" debt for the State are as follows (dollars in thousands):

	Outstanding Amount
Primary Government:	
Ohio Department of Development:	
Ohio Housing Finance Agency	$1,708,174
Ohio Enterprise Bond Program	168,890
Hospital Facilities Bonds	24,905
Total Primary Government	$1,901,969
Component Units:	
Ohio Water Development Authority	$2,114,745
Ohio Air Quality Development Authority	1,616,281
Total Component Units	$3,731,026

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, 2004 (dollars in thousands):

Primary Government:	
Major Governmental Funds:	
Job, Family and Other Human Services	$ (76,455)
Nonmajor Governmental Funds:	
Mental Health and Retardation Special Revenue Fund	(67,004)
Total Governmental Funds	$ (143,459)
Primary Government (Continued):	
Proprietary Funds:	
Tuition Trust Authority Enterprise Fund	$ (289,354)
Component Units:	
School Facilities Commission Fund	$(1,625,009)

B. "Other" Fund Balance Reserves and Designations

Details on the "Reserved for Other" account reported for the governmental funds, as of June 30, 2004, are presented below.

Primary Government
Governmental Funds — Reserved for Other
As of June 30, 2004
(dollars in thousands)

	General Fund	Job, Family and Other Human Services	Education	Highway Operating	Nonmajor Governmental Funds	Total Governmental Funds
Prepaids (included in "Other Assets")	$16,919	$1,994	$203	$3,175	$ 5,847	$28,138
Advances to Local Governments	3,651	—	—	—	—	3,651
Ohio Enterprise Bond Program	—	—	—	—	10,000	10,000
Loan Guarantee Programs	126	—	—	—	2,514	2,640
Long-Term Leases Receivable	—	—	—	—	1,525	1,525
Special Purpose Restrictions:						
Environmental Protection and Natural Resources	—	—	—	—	6,499	6,499
Assets in Excess of Debt Service Requirements	—	—	—	—	3	3
Total Reserved for Other	$20,696	$1,994	$203	$3,175	$26,388	$52,456

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

The unreserved fund balance for governmental funds, as of June 30, 2004, has been designated as follows, (dollars in thousands):

Major Governmental Funds:	
General Fund:	
Budget Stabilization	$ 74,598
Compensated Absences	23,150
Total General Fund	97,748
Nonmajor Governmental Funds:	
Compensated Absences	6,584
Total Governmental Funds	$104,332

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 $285 thousand for the year ended December 31, 2003) 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, 2003 (the GLPF's year-end), are 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, 2003, is as follows (dollars in thousands):

Cash and Investments	$112,577
Other Assets	361
Total Assets	$112,938
Total Liabilities	$ 2,059
Total Net Assets	110,879
Total Liabilities and Net Assets	$112,938
Total Revenues and Other Additions	$ 22,477
Total Expenditures	(6,593)
Net Increase in Net Assets	$ 15,884

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 2004 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 Community College	$ 46,191	$ 2,270	$ 48,461
Jefferson Community College	4,041	731	4,772
Lakeland Community College	15,162	451	15,613
Lorain County Community College..............	22,330	1,275	23,605
Rio Grande Community College..............	4,305	17	4,322
Sinclair Community College ...	43,820	1,498	45,318
Total Local Community Colleges............	135,849	6,242	142,091
Technical Colleges:			
Belmont Technical College.....	4,957	246	5,203
Central Ohio Technical College	4,880	12	4,892
Hocking Technical College.....	16,535	255	16,790
James A. Rhodes State College (formerly Lima Technical College)	7,329	3,640	10,969
Marion Technical College	4,044	257	4,301
Zane State College (formerly Muskingum Area Technical College)	5,157	361	5,518
North Central State College....	7,368	997	8,365
Stark State College of Technology	11,547	3,742	15,289
Total Technical Colleges.......	61,817	9,510	71,327
Total	$197,666	$15,752	$213,418

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 2004, the State had the following related-party transactions with its related organizations:

- The primary government distributed $2.8 million in motor vehicle fuel excise tax collections from the Revenue Distribution Fund to the Ohio Turnpike Commission.

- 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 approximately $647 thousand in compensation to the Ohio Legal Assistance Foundation for administrative services performed under contract for the distribution of state funding to nonprofit legal aid societies. Also, during fiscal year 2004, the Ohio Legal Assistance Foundation received approximately $1.6 million in state assistance paid from the Job, Family and Other Human Services Fund.

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 pending in the Ohio Court of Claims contests the Ohio Department of Human Services (ODHS, now Ohio Department of Job and Family Services (ODJFS)) former Medicaid financial eligibility rules for married couples when one spouse is living in a nursing facility and the other resides in the community. ODHS promulgated new eligibility rules effective January 1, 1996. ODHS appealed an order of the federal court directing it to provide notice to persons potentially affected by the former rules from 1990 through 1995, and the Court of Appeals ruled in favor of ODHS. The U.S. Supreme Court did not grant plaintiff's petition for certiorari. As to the Court of Claims case, it is not possible to state the period (beyond the current fiscal year) during which necessary additional Medicaid expenditures would have to be made. Plaintiffs have estimated total additional Medicaid expenditures at $600 million for the retroactive period and, based on current law, it is estimated that the State's share of those additional expenditures would be approximately $240 million. The Court of Appeals has certified the class action and notice has been sent to the members of the class. Trial for liability only was completed in the Court of Claims in January 2003, and all post-trial briefs have been filed with that Court. In March 2004, the trial court issued a decision finding no liability with respect to ODJFS. The plaintiff class has filed an appeal from that decision to the Franklin County Court of Appeals. That appeal is currently pending. No liability has been reported in the financial statements for this matter.

Litigation is also currently 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 has appealed the trial court's decision and order. No liability has been reported in the financial statements for this matter.

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 (which are not included in the basic financial statements). Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure 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 2003 State of Ohio Single Audit (completed in 2004), $20.6 million of federal expenditures are in question as not being appropriate under the terms of the respective grants. The amount of expenditures, which may be ultimately disallowed by the grantor, cannot be determined at this time, and consequently, no provision for any liability or adjustments for this matter has been recognized in the State's financial statements for the fiscal year ended June 30, 2004.

C. Tax Refund Claims
As of June 30, 2004, tax refund claims estimated in the amount of $21.7 million were pending an official determination of the Tax Commissioner at the Ohio Department of Taxation. The claims arose from refund claims taxpayers filed for tax periods occurring in fiscal year 2004 and in prior years. No liability has been reported in the financial statements for this matter.

D. Construction Commitments
As of June 30, 2004, the Ohio Department of Transportation had total contractual commitments of approximately $1.73 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 $937 million, $325.9 million, $382 million, and $83.7 million, respectively.

NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

As of June 30, 2004, other major non-highway construction commitments for the primary government's budgeted capital projects funds are as follows (dollars in thousands):

Primary Government	
Mental Health/Mental Retardation Facilities Improvements	$ 48,834
Parks and Recreation Improvements	17,249
Administrative Services Building Improvements	89,168
Youth Services Building Improvements	4,039
Transportation Building Improvements	63
Adult Correctional Building Improvements	42,179
Highway Safety Building Improvements	2,643
Ohio Parks and Natural Resources	22,064
Total	$226,239

As of June 30, 2004, construction commitments for the State's discretely presented major component units are as follows (dollars in thousands):

Major Component Units	
Ohio State University	$328,534
University of Cincinnati	382,042

E. 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
2005	$ 352,827	$ —	$ 352,827
2006	352,827	—	352,827
2007	352,827	—	352,827
2008	359,829	23,950	383,779
2009	359,829	23,950	383,779
2010-2014	1,799,147	119,750	1,918,897
2015-2019	1,885,893	71,850	1,957,743
2020-2024	2,016,011	—	2,016,011
2025	403,202	—	403,202
Total	$7,882,392	$239,500	$8,121,892

During fiscal year 2004, Ohio received $320.5 million, which was approximately $32.3 million or 9.2 percent less than the pre-adjusted base payment for the year. For the last five 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 $1.79 billion, which is approximately $200 million or 10.1 percent less than the total of the pre-adjusted base payments established for the last three 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. During fiscal year 2004, the State transferred $234.7 million in tobacco settlement revenues from the Special Revenue Fund to the General Fund to help make up for a shortfall in estimated tax revenues for fiscal year 2004.

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, 2004, in the amount of approximately $14.62 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 $1.65 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 5.5 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 $33.1 billion, as of June 30, 2004, and $32.3 billion, as of June 30, 2003. For additional information, refer to the Fund's separate audited financial report, for the fiscal year ended June 30, 2004.

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 2004	Fiscal Year 2003
Benefits Payable and Compensation Adjustment Expenses Liability, as of July 1	$15,981	$14,888
Incurred Compensation and Compensation Adjustment Benefits	2,549	2,916
Incurred Compensation and Compensation Adjustment Benefit Payments	(2,263)	(2,267)
Change in Liability Due to Decrease in Discount Rate	—	444
Benefits Payable and Compensation Adjustment Expenses Liability, as of June 30	$16,267	$15,981

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, 2004, approximately $82 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 are as follows (dollars in thousands):

Ohio Med Plan

	Fiscal Year 2004	Fiscal Year 2003
Claims Liabilities, as of July 1	$ 39,449	$ 22,744
Incurred Claims	275,399	265,890
Claims Payments	(273,931)	(249,185)
Claims Liabilities, as of June 30.........	$ 40,917	$ 39,449

As of June 30, 2004, 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 $41.1 million, thereby resulting in a funding surplus. The surplus was reallocated back to the governmental and proprietary funds, with a resulting reduction in expenditures/expenses.

As of June 30, 2004, approximately $2.3 million 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 are as follows (dollars in thousands):

United Healthcare Plan

	Fiscal Year 2004	Fiscal Year 2003
Claims Liabilities, as of July 1	$ 13,637	$ —
Incurred Claims	46,921	76,077
Claims Payments	(53,014)	(62,440)
Claims Liabilities, as of June 30.........	$ 7,544	$13,637

As of June 30, 2004, the estimated claims liability of the United Healthcare Plan exceeded the resources on deposit in the Payroll Withholding and Fringe Benefits Agency Fund for the payment of claims by approximately $5.2 million, thereby, resulting in a funding deficit. The net claims liability, which was payable from expendable financial resources in the governmental funds, as of June 30, 2004, was reported as a fund liability 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 and Authorizations

Subsequent to June 30, 2004 (December 31, 2003 for the Ohio Water Development Authority), the State issued major debt as detailed in the table below.

Debt Issuances
Subsequent to June 30, 2004
(dollars in thousands)

	Date	Interest Coupon Rates	Amount
Primary Government:			
Ohio Public Facilities Commission-General Obligation Bonds:			
Higher Education Facilities, Series 2004B	Sept. 9, 2004	4.2%*	$ 150,000
Common Schools Capital Facilities, Series 2004B	Sept. 14, 2004	4.2%*	200,000
Common Schools Capital Facilities Refunding, Series 2004C	Sept. 14, 2004	3.5%*	18,880
Natural Resources Refunding-Series J	Sept. 14, 2004	3.3%*	47,425
Treasurer of State-General Obligation Bonds:			
Infrastructure Improvements Refunding, Series 2004C	Aug. 26, 2004	3.4%*	39,530
Infrastructure Improvements, Series 2004D	Nov. 9, 2004	4.6%*	120,000
Total General Obligation Bonds			575,835
Treasurer of State-Revenue Bonds:			
Ohio 166 Loan Program (Taxable), Series 2004A	Aug. 25, 2004	5.5%*	50,000
Higher Education Capital Facilities Refunding, Series II-2004A	Aug. 26, 2004	3.4%*	173,975
Mental Health Capital Facilities Refunding, Series II-2004A	Aug. 26, 2004	3.4%*	30,035
Parks and Recreation Capital Facilities Refunding, Series II-2004B	Aug. 26, 2004	3.6%*	11,740
Total Revenue Bonds			265,750
Ohio Building Authority Special Obligation Bonds:			
State Facilities Refunding (Arts and Sports Facilities), Series 2004A	Sept. 30, 2004	3.4%*	20,000
State Facilities Refunding (Administrative Building), Series 2004B	Sept. 30, 2004	3.6%*	130,750
State Facilities Refunding (Adult Correctional Building, Series 2004C	Sept. 30, 2004	3.7%*	225,350
Total Special Obligation Bonds			376,100
Total Primary Government			$1,217,685
Major Component Units:			
Ohio Water Development Authority Revenue Bonds and Notes:			
Water Pollution Control Loan-Water Quality, Series 2004	Jan. 29, 2004	2.0%-5.00%	$509,700
Drinking Water Assistance, Series 2004	Feb. 26, 2004	2.0%-5.00%	99,490
Fresh Water, Series 2004	May 27, 2004	2.0%-5.25%	149,000
Road Loan Advance, Series 2004A	Sept. 23, 2004	Variable Rate	16,000
Water Quality Refunding, Series 2004	Nov. 17, 2004	2.5%-5.0%	65,005
Total Ohio Water Development Authority			$839,195

*True Interest Cost

B. Tuition Trust Authority

The Authority's Board passed a resolution, on August 26, 2004, to continue the temporary suspension of contributions to Guaranteed Savings fund plan accounts from January 1, 2005 through December 31, 2005.

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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.

Condition Assessment Data for the Pavement Network

Priority Subsystem:		Calendar Year 2003		Calendar Year 2002		Calendar Year 2001	
	PCR	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%
Excellent..........	85-100	7,679	62.81%	7,483	61.29%	6,753	55.74%
Good	75-84	2,451	20.05	2,498	20.46	2,688	22.19
Fair	65-74	1,618	13.24	1,849	15.14	2,162	17.85
Poor.................	Less than 65	477	3.90	380	3.11	511	4.22
		12,225	100.00%	12,210	100.00%	12,114	100.00%

General Subsystem:		Calendar Year 2003		Calendar Year 2002		Calendar Year 2001	
	PCR	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%
Excellent..........	85-100	12,634	41.77%	11,997	39.57%	10,635	34.89%
Good	75-84	6,378	21.09	6,496	21.43	6,547	21.47
Fair	55-74	10,910	36.07	11,278	37.20	12,393	40.65
Poor................	Less than 55	324	1.07	546	1.80	912	2.99
		30,246	100.00%	30,317	100.00%	30,487	100.00%

Comparison of Estimated-to-Actual Maintenance and Preservation Costs

(dollars in thousands)

	Fiscal Year 2004	Fiscal Year 2003	Fiscal Year 2002
Priority Subsystem:			
Estimated	$195,333	$243,722	$251,216
Actual	273,318	273,834	319,518
General Subsystem:			
Estimated	$133,236	$135,149	$110,956
Actual	227,437	209,530	151,978

Infrastructure Assets Accounted for Using the Modified Approach (Continued)

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 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.

Condition Assessment Data for the Bridge Network

		Calendar Year 2003		Calendar Year 2002		Calendar Year 2001	
	General Appraisal Rating	Square Feet of Deck Area	%	Square Feet of Deck Area	%	Square Feet of Deck Area	%
Excellent...........	7-9	47,045,574	57.19%	45,143,958	56.01%	43,395,068	53.56%
Good	5-6	32,972,057	40.08	33,066,880	41.02	34,898,954	43.08
Fair	3-4	2,224,378	2.71	2,387,969	2.96	2,687,455	3.32
Poor.................	0-2	17,970	.02	8,788	.01	30,112	.04
		82,259,979	100.00%	80,607,595	100.00%	81,011,589	100.00%

Comparison of Estimated-to-Actual Maintenance and Preservation Costs

(dollars in thousands)

	Fiscal Year 2004	Fiscal Year 2003	Fiscal Year 2002
Estimated	$147,779	$180,358	$192,105
Actual	208,381	229,077	210,084

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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, 2004

FEDERAL AGENCY	
U.S. Department of Health and Human Services	$9,354,499,576
U.S. Department of Labor	1,941,066,077
U.S. Department of Agriculture	1,657,110,874
U.S. Department of Education	1,179,675,436
U.S. Department of Transportation	932,128,935
U.S. Environmental Protection Agency	479,510,099
U.S. Department of Treasury	193,041,939
U.S. Department of Housing and Urban Development	141,330,213
Social Security Administration	83,108,117
U.S. Department of Justice	72,418,236
U.S. Department of Homeland Security	59,073,861
U.S. Department of the Interior	28,287,334
U.S. Department of Energy	26,480,013
U.S. Department of Defense	26,070,006
U.S. Appalachian Regional Commission	11,853,465
U.S. Department of Veterans Affairs	11,413,246
U.S. Department of Commerce	8,261,296
Corporation for National and Community Service	7,598,216
National Foundation on the Arts and the Humanities	7,215,599
U.S. General Services Administration	5,710,406
U.S. Small Business Administration	3,374,471
U.S. Equal Employment Opportunity Commission	2,861,406
U.S. Nuclear Regulatory Commission	4,692
TOTAL EXPENDITURES	**$16,232,093,513**

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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, 2004

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Agriculture		
Food Stamp Cluster:		
10.551	Food Stamps	$983,944,666
10.561	State Administrative Matching Grants for Food Stamp Program	119,411,427
	Total Food Stamp Cluster	1,103,356,093
Child Nutrition Cluster:		
10.553	School Breakfast Program	41,662,566
10.555	National School Lunch Program	186,534,001
10.556	Special Milk Program for Children	667,536
10.559	Summer Food Service Program for Children	5,257,164
	Total Child Nutrition Cluster	234,121,267
10	Cooperative Pest Recordkeeping Contract	2,287
10	Beef Quality Assurance	29,467
10	Marketing Specialty Crops	479,673
10	Farmland Preservation	1,040,500
10	NEGEV Foundation	28,447
10.025	Plant and Animal Disease, Pest Control, and Animal Care	2,095,361
10.153	Market News	58,078
10.163	Market Protection and Promotion	1,677,828
10.304	Homeland Security Agriculture	71,654
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	4,803,663
10.550	Food Donation	36,898,709
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	204,926,010
10.558	Child and Adult Care Food Program	59,189,734
10.560	State Administrative Expenses for Child Nutrition	3,287,771
10.565	Commodity Supplemental Food Program	526,363
10.568	Emergency Food Assistance Program (Administrative Costs)	2,131,953
10.570	Nutrition Services Incentive	143
10.572	WIC Farmers' Market Nutrition Program (FMNP)	254,624
10.574	Team Nutrition Grants	181,113
10.576	Senior Farmers Market Nutrition Program	1,364,872
10.664	Cooperative Forestry Assistance	436,629
10.665	School and Roads -- Grants to States	98,077
10.672	Rural Development, Forestry and Communities	15,017
10.769	Rural Business Enterprise Grants	35,541
	Total U.S. Department of Agriculture	**$1,657,110,874**
U.S. Department of Commerce		
11.419	Coastal Zone Management Administration Awards	$3,937,498
11.419	* Coastal Zone Management Administration Awards	138,049
11.420	Coastal Zone Management Estuarine Research Reserves	338,769
11.420	* Coastal Zone Management Estuarine Research Reserves	91,126
11.611	Manufacturing Extension Partnership	3,755,854
	Total U.S. Department of Commerce	**$8,261,296**
U.S. Department of Defense		
12	FUSRAP Oversight: Diamond Magnesium Site and Luckey Beryllim Site	$33,267
12.002	Procurement Technical Assistance for Business Firms	388,999
12.005	Donation of Federal Surplus Property	1,806,865
12.112	Payments to States in Lieu of Real Estate Taxes	326,766
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	804,178
12.400	Military Construction, National Guard	1,872,826
12.401	National Guard Military Operations and Maintenance (O&M) Projects	20,791,953
12.630	Basic, Applied, and Advanced Research in Science and Engineering	45,152
	Total U.S. Department of Defense	**$26,070,006**

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Housing and Urban Development		
14.182	Lower Income Housing Assistance Program -- Section 8 Moderate Rehabilitation	$49,346,682
14.227	Community Development Block Grants\Technical Assistance Program	24,774
14.228	Community Development Block Grants\State's Program	56,901,670
14.231	Emergency Shelter Grants Program	3,050,338
14.235	Supportive Housing Program	233,058
14.238	Shelter Plus Care	248,504
14.239	HOME Investment Partnerships Program	29,669,101
14.241	Housing Opportunities for Persons with AIDS	1,124,552
14.246	Community Development Block Grants/Brownfields Economic Development Initiative	5,200
14.401	Fair Housing Assistance Program -- State and Local	726,334
	Total U.S. Department of Housing and Urban Development	**$141,330,213**
U.S. Department of the Interior		
Fish and Wildlife Cluster:		
15.605	Sport Fish Restoration	$7,923,262
15.611	Wildlife Restoration	7,084,292
	Total Fish and Wildlife Cluster	15,007,554
15.250	Regulation of Surface Coal Mining and Surface Effect of Underground Coal Mining	2,122,287
15.252	Abandoned Mine Land Reclamation (AMLR) Program	9,296,807
15.616	Clean Vessel Act	182,297
15.622	Sportfishing and Boating Safety Act	65,575
15.634	State Wildlife Grants	1,102,454
15.808	* U.S. Geological Survey -- Research and Data Acquisition	53,631
15.809	National Spatial Data Infrastructure Cooperative Agreements Program	224,403
15.810	National Cooperative Geologic Mapping Program	232,326
	Total U.S. Department of the Interior	**$28,287,334**
U.S. Department of Justice		
16.2004-89	Domestic Canibis Eradication Program	$398,998
16.202	Offender Reentry Program	569,886
16.303	Law Enforcement Assistance - FBI Fingerprint Identification	63,755
16.523	Juvenile Accountability Incentive Block Grants	6,847,634
16.540	Juvenile Justice and Delinquency Prevention -- Allocation to States	2,827,876
16.548	Title V -- Delinquency Prevention Program	1,456,516
16.549	Part E -- State Challenge Activities	232,144
16.550	State Justice Statistics Program for Statistical Analysis Centers	38,301
16.554	National Criminal History Improvement Program (NCHIP)	842,352
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	129,660
16.564	Crime Laboratory Improvement -- Combined Offender DNA Index System Backlog Reduction	2,035,665
16.575	Crime Victim Assistance	14,499,471
16.576	Crime Victim Compensation	5,641,000
16.579	Byrne Formula Grant Program	17,303,157
16.579	* Byrne Formula Grant Program	2,230,410
16.582	Crime Victim Assistance/Discretionary Grants	49,998
16.585	Drug Court Discretionary Grant Program	17,608
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	5,854,169
16.588	Violence Against Women Formula Grants	5,177,716
16.589	Rural Domestic Violence and Child Victimization Enforcement Grant Program	88,934
16.592	Local Law Enforcement Block Grants Program	629,727
16.593	Residential Substance Abuse Treatment for State Prisoners	2,852,587
16.606	State Criminal Alien Assistance Program	884,655
16.607	Bulletproof Vest Partnership	383

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Justice (Continued)		
16.609	Community Prosecution and Project Safe Neighborhoods	280,921
16.710	Public Safety Partnership and Community Policing Grants	942,412
16.727	Enforcing Underage Drinking Laws Program	468,479
16.733	National Incident Based Reporting System (NIBRS)	53,822
	Total U.S. Department of Justice	**$72,418,236**
U.S. Department of Labor		
Employment Service Cluster:		
17.207	Employment Service	$24,816,871
17.801	Disabled Veterans' Outreach Program (DVOP)	3,491,646
17.804	Local Veterans' Employment Representative Program	3,740,696
	Total Employment Service Cluster	32,049,213
WIA Cluster:		
17.258	WIA Adult Program	41,947,003
17.259	WIA Youth Activities	46,499,186
17.260	WIA Dislocated Workers	40,061,022
	Total WIA Cluster	128,507,211
17.002	Labor Force Statistics	2,917,337
17.005	Compensation and Working Conditions	37,427
17.203	Labor Certification for Alien Workers	451,204
17.225	Unemployment Insurance	1,741,345,621
17.235	Senior Community Service Employment Program	3,723,296
17.245	Trade Adjustment Assistance -- Workers	28,443,832
17.246	Employment and Training Assistance -- Dislocated Workers	270,000
17.257	One-Stop Career Center Initiatives	555,896
17.261	Employment and Training Administration Pilots, Demonstrations and Research Projects	621,492
17.263	Youth Opportunity Grants	153,477
17.504	Consultation Agreements	1,510,683
17.600	Mine Health and Safety Grants	275,348
17.720	Employment Programs for People with Disablilities	204,040
	Total U.S. Department of Labor	**$1,941,066,077**
U.S. Department of Transportation		
*Highway Planning and Construction Cluster:***		
20.205	Highway Planning and Construction	$878,624,821
20.205	* Highway Planning and Construction	3,585,557
23.003	Appalachian Development Highway System	11,558,370
	Total Highway Planning and Construction Cluster	893,768,748
Federal Transit Cluster:		
20.500	Federal Transit -- Capital Investment Grants	$1,826,529
20.507	Federal Transit -- Formula Grants	8,204,289
	Total Federal Transit Cluster	10,030,818
20.106	Airport Improvement Program	18,000
20.218	National Motor Carrier Safety	5,769,925
20.219	Recreational Trails Program	534,904
20.505	Federal Transit -- Metropolitan Planning Grants	8,133,146
20.509	Formula Grants for Other Than Urbanized Areas	8,967,777
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	596,946
20.600	State and Community Highway Safety	15,001,910
20.700	Pipeline Safety	488,533
20.700	* Pipeline Safety	30,971
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	345,627
	Total U.S. Department of Transportation	**$943,687,305**

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Treasury		
21.000	Counter Drug Asset Forfeiture Program	$8,972
21.000	Jobs and Growth Tax Relief Reconcilation Act of 203 Section 401(B)	193,032,967
	Total U.S. Department of Treasury	**$193,041,939**
U.S. Appalachian Regional Commission		
23.008	Appalachian Local Access Road	$6,824
23.011	Appalachian State Research, Technical Assistance, and Demonstration Projects	288,271
	Total U.S. Appalachian Regional Commission	**$295,095**
U.S. Equal Employment Opportunity Commission		
30.002	Employment Discrimination -- State and Local Fair Employment Practices Agency Contracts	$2,861,406
	Total U.S. Equal Employment Opportunity Commission	**$2,861,406**
General Services Administration		
39.003	Donation of Federal Surplus Personal Property	$650,045
39.011	Election Reform Payments	5,060,361
	Total General Services Administration	**$5,710,406**
National Foundation on the Arts and the Humanities		
45.025	Promotion of the Arts -- Partnership Agreements	$696,700
45.027	Promotion of the Arts -- Challenge America	90,000
45.310	State Library Program	6,428,899
	Total National Foundation on the Arts and the Humanities	**$7,215,599**
U.S. Small Business Administration		
59.037	Small Business Development Center	$3,374,471
	Total U.S. Small Business Administration	**$3,374,471**
U.S. Department of Veterans Affairs		
64.005	Grants to States for Construction of State Home Facilities	$1,316,230
64.014	Veterans State Domiciliary Care	1,694,775
64.015	Veterans State Nursing Home Care	7,884,600
64.124	All-Volunteer Force Educational Assistance	517,641
	Total U.S. Department of Veterans Affairs	**$11,413,246**
U.S. Environmental Protection Agency		
66.001	Air Pollution Control Program Support	$5,927,816
66.032	State Indoor Radon Grants	414,016
66.419	Water Pollution Control: State and Interstate Program Support	4,988,473
66.432	State Public Water System Supervision	2,975,497
66.433	State Underground Water Source Protection	121,849
66.454	Water Quality Management Planning	869,056
66.458	Capitalization Grants for Clean Water State Revolving Funds	361,925,466
66.460	Nonpoint Source Implementation Grants	5,323,879
66.461	Wetlands Program Grants	237,271
66.463	Water Quality Cooperative Agreements	201,772
66.467	Wastewater Operator Trainin Grant Program (Technical Assistance)	64,131
66.468	Capitalization Grants for Drinking Water State Revolving Fund	84,538,360
66.469	Great Lakes Program	57,499
66.470	Hardship Grants Program for Rural Communities	424,273
66.472	Beach Monitoring and Notification Program Implementation Grants	143,751
66.474	Water Protection Grants to States	65,983
66.500	Environmental Protection -- Consolidated Research	475,773

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FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Environmental Protection Agency (Continued)		
66.605	Perfomance Partnership Grants	176,043
66.606	Surveys, Studies, Investigations and Special Purpose Grants	762,425
66.608	Environmental Information Exchange Network Grant Program	63,439
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	533,042
66.707	TSCA Title IV State Lead Grants -- Certification of Lead-Based Paint Professionals	383,420
66.709	Capacity Building Grants and Cooperative Agreements for States and Tribes	45,169
66.801	Hazardous Waste Management State Program Support	4,751,051
66.802	Superfund State, Political Subdivision, and Indian Tribe Site - Specifice Cooperative Agreements	1,977,539
66.804	State and Tribal Underground Storage Tanks Program	193,900
66.805	Leaking Underground Storage Tank Trust Fund Program	1,325,339
66.808	Solid Waste Management Assistance	7,517
66.811	Brownfield Pilots Cooperative Agreements	4,031
66.817	State and Tribal Response Program Grants	532,319
	Total U.S. Environmental Protection Agency	**$479,510,099**
U.S. Nuclear Regulatory Commission		
77.30-83-646	Nuclear Regulatory Commision	$4,692
	Total U.S. Nuclear Regulatory Commission	**$4,692**
U.S. Department of Energy		
81	Cost Recovery Grants: Environmental Research	$2,257,439
81	Petroleum Violation Escrow Funds	1,590,070
81	Agreement in Principle/COS	133,098
81.041	State Energy Program	1,924,173
81.042	Weatherization Assistance for Low-Income Persons	13,232,697
81.086	Conservation Research and Development	654,440
81.086	* Conservation Research and Development	8,988
81.089	* Fossil Energy Research and Development	34,994
81.103	Agreement in Principle/CO	275
81.104	Office of Environmental Cleanup and Acceleratio	273,386
81.117	Energy Efficiency and Renewable Energy Information Disseminatior Outreach, Training and Technical Analysis/Assistance	23,500
81.119	State Energy Program Special Projects	346,953
81.502	* High End Computing and Networking in Support of Energy anc Homeland Security Research	6,000,000
	Total U.S. Department of Energy	**$26,480,013**
U.S. Department of Education		
Special Education Cluster:		
84.027	Special Education -- Grants to States	$287,582,916
84.173	Special Education -- Preschool Grants	13,307,397
	Total Special Education Cluster	300,890,313
84.002	Adult Education -- State Grant Program	21,021,795
84.010	Title I Grants to Local Educational Agencies	394,807,934
84.011	Migrant Education -- Basic State Grant Program	2,935,712
84.013	Title I Program for Neglected and Delinquent Children	2,913,211
84.026	Media and Captioning Services for Individuals with Disabilities	1,690
84.048	Vocational Education -- Basic Grants to States	47,387,525
84.069	Leveraging Educational Assistance Partnership	3,112,253
84.126	Rehabilitation Services -- Vocational Rehabilitation Grants to States	116,151,605
84.161	Rehabilitation Services -- Client Assistance Program	435,383
84.169	Independent Living -- State Grants	650,985
84.177	Rehabilitation Services -- Independent Living Service for Older Individuals Who Are Blind	1,393,296

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE			
U.S. Department of Education (Continued)			
84.181		Special Education -- Grants for Infants and Families with Disabilities	15,292,888
84.184		Safe and Drug-Free Schools and Communities -- National Programs	1,509,938
84.185		Byrd Honors Scholarships	1,600,247
84.186		Safe and Drug-Free Schools and Communities -- State Grants	15,842,199
84.187		Supported Employment Services for Individuals with Severe Disabilities	1,299,704
84.196		Education for Homeless Children and Youth	2,113,772
84.206		Javits Gifted and Talented Students Education Grant Program	38,990
84.213		Even Start -- State Educational Agencies	7,165,203
84.215		Fund for the Improvement of Education	715,385
84.240		Program of Protection and Advocacy of Individual Rights	523,217
84.243		Tech-Prep Education	5,038,851
84.265		Rehabilitation Training -- State Vocational Rehabilitation Unit	131,506
84.276		Goals 2000 -- State and Local Education Systemic Improvement Grants	220,760
84.281		Eisenhower Professional Development State Grants	908,207
84.282		Charter Schools	15,076,225
84.287		Twenty-First Century Community Learning Center	15,724,339
84.298		Innovative Education Program Strategies	14,923,863
84.314		Even Start -- Statewide Family Literacy Program	73
84.318		Education Technology State Grants	18,340,427
84.318	*	Education Technology State Grants	79,025
84.323		Special Education -- State Program Improvement Grants for Children with Disabilities	1,784,233
84.324		Special Education - Research and Innovation to Improve Services and Results for Children with Disabilities	1,106,203
84.330		Advanced Placement Program	285,978
84.331		Grants to States for Incarcerated Youth Offenders	906,533
84.332		Comprehensive School Reform Demonstration	9,471,423
84.334		Gaining Early Awareness and Readiness for Undergraduate Programs	1,057,847
84.334	*	Gaining Early Awareness and Readiness for Undergraduate Programs	15,000
84.336		Teacher Quality Enhancement Grants	1,046,394
84.340		Class Size Reduction	3,014,465
84.342		Preparing Tomorrow's Teachers to Use Technology	269,534
84.343		Assistive Technology - State Grants for Protection and Advocacy	168,733
84.346		Vocational Education - Occupational and Employment Information State Grants	160,023
84.348		Title I Accountability Grants	1,290,174
84.352		School Renovation Grants	16,979,373
84.357		Reading First State Grants	23,362,486
84.358		Rural Education	1,451,170
84.365		English Language Acquisition Grants	4,906,869
84.366		Mathmatics and Science Partnerships	242,588
84.367		Improving Teacher Quality State Grants	100,357,619
84.369		Grants for State Assessments and Related Activities	3,552,270
		Total U.S. Department of Education	**$1,179,675,436**
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	$15,704,947
93.045		Special Programs for the Aging -- Title III, Part C -- Nutrition Services	23,469,011
93.053		Nutrition Services Incentive Program	4,824,252
		Total Aging Cluster	43,998,210
CCDF Cluster:			
93.575		Child Care and Development Block Grant	126,315,893
93.596		Child Care Mandatory and Matching Funds of the Child Care and Development Fund	71,603,771
		Total Child Care Cluster	197,919,664

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FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE			
U.S. Department of Health and Human Services (Continued)			
Medicaid Cluster:			
93.775		State Medicaid Fraud Control Units	2,593,851
93.777		State Survey and Certification of Health Care Providers and Suppliers	21,383,293
93.778		Medical Assistance Program (Medicaid)	7,216,901,077
93.778	*	Medical Assistance Program (Medicaid)	200,425
		Total Medicaid Cluster	7,241,078,646
93		Food Sanitation Inspection Contract	228,520
93		Evaluation of Suicide Prevention Programs Grant	22,550
93		Behavioral Risk Factor Surveillance - Older Adults	5,909
93		Tissue Residue Contract	13,760
93.003		Public Health and Social Services Emergency Fund	5,900,626
93.006		State and Territorial and Technical Assistance Capacity Developmer Minority HIV/AIDS Demonstration Program	140,920
93.041		Special Programs for the Aging -- Title VII, Chapter 3 -- Programs for Prevention of Elder Abuse, Neglect, and Exploitation	229,445
93.042		Special Programs for the Aging -- Title VII, Chapter 2 -- Long Term Care Ombudsman Services for Older Individuals	572,829
93.043		Special Programs for the Aging -- Title III, Part D -- Disease Prevention and Health Promotion Services	953,489
93.048		Special Programs for the Aging -- Title IV and Title II- Discretionary Projects	79,437
93.05-0205-OH-5002		Clinical Laboratory Improvement Amendment	142,210
93.05-0305-OH-5002		Clinical Laboratory Improvement Amendment	313,954
93.052		National Family Caregiver Support Program	7,767,675
93.110		Maternal and Child Health Federal Consolidated Programs	217,396
93.118		Acquired Immunodeficiency Syndrome (AIDS) Activity	971,893
93.127		Emergency Medical Services for Children	134,144
93.130		Primary Care Services -- Resource Coordination and Development	317,314
93.136		Injury Prevention & Control Research and State and Community Based Programs	1,940,922
93.138		Protection and Advocacy for Individuals with Mental Illness	1,118,105
93.150		Projects for Assistance in Transition from Homelessness (PATH)	1,433,477
93.197		Childhood Lead Poisoning Prevention Projects -- State and Loca Childhood Lead Poisoning Prevention and Surveillance of Bloo Lead Levels in Children	1,303,749
93.2000-07236		Health Statistics	332,121
93.200-98-7265		National Death Index	33,984
93.217		Family Planning -- Services	4,889,147
93.223-03-4434		Mammography Quality Standard Act Inspection	323,303
93.230		Consolidated Knowledge Development Application (KD&A) Program	1,026,062
93.234		Traumatic Brain Injury -- State Demonstration Grant Program	127,149
93.235		Abstinence Education	1,620,456
93.240		State Capacity Building	337,144
93.241		State Rural Hospital Flexibility Program	610,491
93.242		Mental Health Research Grants	88,100
93.243		Substance Abuse and Mental Health Services -- Projects of Regional and National Significance	2,901,173
93.251		Universal Newborn Hearing Screening	113,983
93.252		Healthy Community Access Program	506,740
93.259		Rural Access to Emergency Devices Grant	239,200
93.268		Immunization Grants	7,047,345
93.283		Centers for Disease Control and Prevention -- Investigations and Technical Assistance	34,049,346
93.301		Small Rual Hospital Improvement Grants	252,928
93.556		Promoting Safe and Stable Families	23,807,268
93.558		Temporary Assistance for Needy Families	640,897,695
93.560		Family Support Payments - Assistance Payments	19,962
93.563		Child Support Enforcement	190,849,066

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Health and Human Services (Continued)		
93.566	Refugee and Entrant Assistance -- State Administered Programs	3,322,921
93.568	Low-Income Home Energy Assistance	96,851,302
93.569	Community Services Block Grant	25,831,985
93.570	Community Services Block Grant -- Discretionary Award	29,739
93.571	Community Services Block Grant Discretionary Award - Community Food and Nutrition	114,710
93.576	Refugee and Entrant Assistance -- Discretionary Grants	412,880
93.584	Refugee and Entrant Assistance -- Targeted Assistance	508,142
93.586	State Court Improvement Program	200,569
93.590	Community-Based Family Resource and Support Grants	214,248
93.597	Grants to States for Access and Visitation Programs	280,306
93.599	Chafee Educational Training Vouchers Program	159,300
93.600	Head Start	204,991
93.603	Adoption Incentive Payments	1,506,647
93.618	Voting Access for Individuals with Disabilities - Grants for Protectio and Advocacy Systems	40,908
93.630	Developmental Disabilities Basic Support and Advocacy Grants	4,432,716
93.631	Developmental Disabilities Projects of National Significance	1,350
93.643	Children's Justice Grants to States	344,148
93.645	Child Welfare Services -- State Grants	10,629,523
93.658	Foster Care -- Title IV-E	226,220,485
93.659	Adoption Assistance	151,098,061
93.667	Social Services Block Grant	110,564,198
93.669	Child Abuse and Neglect State Grants	587,265
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters -- Grants to States and Indian Tribes	3,446,545
93.674	Independent Living	5,525,391
93.767	State Children's Insurance Program	149,009,916
93.779	Centers for Medicare and Medicid Services (CMS) Research, Demonstration, and Evaluations	967,115
93.779	* Centers for Medicare and Medicid Services (CMS) Research, Demonstration, and Evaluations	70,303
93.913	Grants to States for Operation of Offices of Rural Health	69,678
93.917	HIV Care Formula Grants	16,344,272
93.926	Healthy Start Initiative	275
93.940	HIV Prevention Activities -- Health Department Based	5,816,343
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	583,257
93.945	Assistance Programs for Chronic Disease Prevention and Control	285,016
93.958	Block Grants for Community Mental Health Services	14,913,463
93.959	Block Grants for Prevention and Treatment of Substance Abuse	71,687,734
93.965	Coal Miners Respiratory Impairment Treatment Clinics and Services	549,523
93.977	Preventive Health Services -- Sexually Transmitted Diseases Control Grants	3,179,632
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	523,438
93.991	Preventative Health and Health Services Block Grant	5,483,499
93.994	Maternal and Child Health Services Block Grant to the States	25,610,275
	Total U.S. Department of Health and Human Services	**$9,354,499,576**
Corporation for National and Community Service		
94.002	Retired and Senior Volunteer Program	$432,810
94.003	State Commissions	515,089
94.004	Learn and Serve America -- School and Community Based Programs	941,248
94.006	AmeriCorps	4,824,110
94.007	Planning and Program Development Grants	142,277
94.009	Training and Technical Assistance	136,849
94.011	Foster Grandparent Program	605,833
	Total Corporation for National and Community Service	**$7,598,216**

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FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
Social Security Administration		
96	Program Income for Rehabilitating Recipients of Social Security Income and Supplemental Security Income -- Vocational Rehabilitation Program (CFDA# 84.126)	$12,557,740
96.001	Social Security -- Disability Insurance	69,522,390
96.007	Social Security -- Research and Demonstration	623,252
96.008	Social Security -- Benefits Planning, Assistance, and Outreach Program	247,996
96.0600-01-60051	Social Security Contract	7,891
96.0600-98-32688	Social Security Contract	148,848
	Total Social Security Administration	**$83,108,117**
U.S. Department of Homeland Security		
97	Project Safe Room	$14,000
97.004	State Domestic Preparedness Equipment Support Program	21,572,747
97.011	Boating Safety	2,072,802
97.021	Hazardous Material Assistance Program	3,333
97.023	Community Assistance Program State Support Services Element	167,981
97.029	Flood Mititgation Assistance	410,356
97.034	Disaster Unemployment Assistance	72,547
97.036	Public Assistance Grants	23,567,531
97.038	First Responder Counter-Terrorism Training Assistance	10,925
97.039	Hazard Mitigation Grant	1,624,966
97.041	National Dam Safety Program	75,063
97.042	Emergency Management Performance Grant	4,939,831
97.042	* Emergency Management Performance Grant	20,000
97.047	Pre-Disaster Mitigation	565,516
97.051	State and Local All Hazard Emergency Operations Planning	3,141,405
97.052	Emergency Operations Centers	97,685
97.053	Citizen Corps	573,997
97.054	Community Emerency Response Teams	143,176
	Total U.S. Department of Homeland Security	**$59,073,861**
	TOTAL EXPENDITURES	**$16,232,093,513**

* 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 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, 2004. 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 College of Ohio at Toledo

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 Among State Agencies

The State has adopted the following policies to avoid the overstatement of federal financial assistance reported on the Supplementary Schedules.

- A state agency that receives federal funds from another state agency to assist in meeting the requirements of an assistance award reports the federal assistance in its accounts. In such cases, the State excludes the interagency disbursements of federal moneys from the accounts of the state agency that originally receives the funds from the federal government.

- When a state agency uses federal assistance moneys to purchase goods or services from another state agency, the State includes the interagency disbursements of federal moneys in the accounts of the state agency making the purchase. The state agency from which goods and services are purchased does not report the receipt of federal moneys as federal assistance.

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.

- *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.

- *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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Valuation of Non-Cash Federal Assistance (Continued)

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, 2004, 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 2004, 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, 2004, outstanding loans for the Capitalization Grants for Revolving Loan Funds programs totaled approximately $903 million.

The calculation of federal assistance for the loan programs includes the following elements.

Capitalization Grant Loan Balance, as of 6/30/03	$816,949,107
Loans without Compliance Requirements	(459,542,415)
Net Loan Balance (Loans with Compliance Requirements)	357,406,692
New Loans Disbursed in FY 2004	101,600,595
Net Principal Repayments Received in FY 2004	(16,790,500)
Capitalized Interest Earned in FY 2004	1,787,416
Current Loan Activity	86,597,511
Ending Loan Balance (Loans with Compliance Requirements)	444,004,204
Administrative Costs in FY 2004	851,438
Administrative Trustee Fee	157
Loan Account Trustee Fee	400
Source Water Account Costs	169,051
Source Water Account Trustee Fee	0
Small System Technical Assistant	226,505
Small System Technical Assistant Trustee Fee	462
Wellhead Costs	1,225,131
Wellhead Trustee Fee	473
Administrative Interest Earned	(969)
Loan Account Interest Earned	(12,027)
Source Water Account Interest Earned	(1)
Small System Technical Assistant Interest Earned	(492)
Wellhead Interest Earned	(505)
Total Federal Assistance for FY 2004	$446,463,827

The total federal assistance for fiscal year 2004, as reported by the Ohio Environmental Protection Agency, for the Clean Water Revolving Fund and the Drinking Water Revolving Fund were $361,925,466 and $84,538,360 respectively.

NOTE 3 INVENTORY BALANCES FOR NON-CASH FEDERAL ASSISTANCE PROGRAMS

As of June 30, 2004, the outstanding inventory balances for the non-cash federal assistance programs are as follows:

CFDA#	Non-Cash Program	Outstanding Balance, as of 6/30/04
10.550	Food Donation	$4,374,109
10.551	Food Stamps	3,052,812
12.005	Donation of Federal Surplus Property	0
	Total	$7,426,921

NOTE 4 HOME INVESTMENT PARTNERSHIPS PROGRAM (CFDA# 14.239)

During fiscal year 2004, the State's Supplementary Schedule shows the State spent approximately $30 million on the Home Investment Partnerships Program.

NOTE 5 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, 2004, outstanding FHA-insured loans approximated $1.1 million and mortgage loans guaranteed by the VA approximated $ 132 thousand.

NOTE 6 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, 2004, OHFA allocated approximately $21.5 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, 2004, OHFA issued/committed approximately $2.5 million in federal tax credits under this program.

NOTE 7 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
11.419	Coastal Zone Management Administration Awards	$ 138,049
11.420	Coastal Zone Management Estuarine Research Reserves	91,126
15.808	U.S. Geological Survey -- Research and Data Acquisition	53,631
16.579	Byrne Formula Grant Program	2,230,410
20.205	Highway Planning and Construction	3,585,557
20.700	Pipeline Safety	30,971
81.086	Conservation Research and Development	8,988
81.089	Fossil Energy Research and Development	34,994
81.502	High End Computing and Networking in Support of Energy	6,000,000
84.318	Education Technology State Grants	79,025
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	15,000
93.778	Medicaid Assistance Program	200,425
93.779	Center for Medicare and Medicaid Services (CMS) Research, Demonstrations, and Evaluations	70,303
97.042	Emergency Management Performance Grants	20,000
	Total Research and Development Cluster	**$ 12,558,479**

NOTE 8 TRANSFERS BETWEEN FEDERAL PROGRAMS

During fiscal year 2004, the State made allowable transfers of approximately $57 million from the Temporary Assistance for Needy Families (93.558) program to the Social Services Block Grant (93.667) and the Child Care and Development Block Grant (93.575) programs. The Supplementary Schedule shows the State spent approximately $641 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 and the Child Care and Development Block Grant program. The amounts transferred to the Social Services Block Grant program and the Child Care and Development Block Grant program are 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 2004 and the amounts transferred to the Social Services Block Grant and the Child Care and Development Block Grant programs.

Temporary Assistance for Needy Families	$ 697,550,810
Social Services Block Grant	(56,653,114)
Child Care and Development Block Grant	(0)
Total Temporary Assistance for Needy Families	**$ 640,897,696**

NOTE 9 FEDERAL TAX RELIEF PROGRAM

In accordance with the provisions under the Jobs and Growth Tax Relief Reconciliation Act of 2003 Section 401 (B), the State of Ohio received approximately $386 million from the federal government. The Act allowed the State to spend the money to provide essential government services or to cover the costs to the State of complying with any Federal intergovernmental mandates to the extent that the mandate applied to the State, and the Federal government has not provided funds to cover the costs. In addition, the Act required the state to only use the funds for types of expenditures permitted under the most recently approved budget.

The State received approximately $193 in fiscal years 2003 and 2004 from the federal government under the Jobs and Growth Tax Relief Reconciliation Act of 2003 Section 401 (B). The federal government has not assigned a specific CFDA number to the program therefore in the federal schedule the State has reported the federal program using the federal agency number that the State received the federal dollars. The program is reported as CFDA number 21.000.

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 financial statements of the governmental activities, business-type 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, 2004, which collectively comprise the State's basic financial statements and have issued our report thereon dated December 15, 2004, wherein we noted the State of Ohio adopted GASB 39. We did not audit the financial statements of the following organizations:

Primary Government: Capitol Square Review and Advisory Board (Underground Parking Garage); Office of the Auditor of State; Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio; State Treasury Asset Reserve of Ohio; Treasurer of State Lease Revenue Bonds; Office of Credit and Finance; 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; 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; and Medical College of Ohio at Toledo.

In addition, we did not audit the financial statements of the Public Employees Retirement System, 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%	0%
Business-Type Activities	86%	46%
Aggregate Discretely Presented Component Units	77%	89%
Aggregate Remaining Fund Information	90%	23%
Workers' Compensation	100%	100%
Ohio Building Authority	100%	100%
Underground Parking Garage	100%	100%
Office of Auditor of State	100%	100%

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.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

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, in order to determine our auditing procedures for the purpose of expressing 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 143.

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 in the normal course of 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 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 such 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 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

Betty Montgomery
Auditor of State

December 15, 2004

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS 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 are applicable to each of its major federal programs for the year ended June 30, 2004. The State of Ohio's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the State of Ohio's management. Our responsibility is to express an opinion on the State of Ohio's compliance based on our audit.

Federal programs of the State College and University funds are subject to audit procedures under Office of Management and Budget Circular A-133 and are reported on separately.

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 obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on 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 such 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 2004-EDU02-006 and 2004-JFS01-017 in the accompanying schedule of findings and questioned costs on pages 160 and 175, the State of Ohio's Departments of Education and Job & Family Services did not comply with the requirements regarding activities allowed or unallowed and allowable costs/cost principles applying to its Charter Schools and Temporary Assistance for Needy Families programs. Compliance with those requirements is necessary, in our opinion, for the State of Ohio to comply with requirements applicable to those programs.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

As described in items 2004-CJS01-003 and 2004-EDU01-005 in the accompanying schedule of findings and questioned costs on pages 155 and 159, the State of Ohio's Office of Criminal Justice Services and Department of Education did not comply with the requirements regarding subrecipient monitoring applying to its Byrne Formula Grant and Charter Schools programs. Compliance with those requirements is necessary, in our opinion, for the State of Ohio to comply with requirements applicable to those programs.

As described in items 2004-CJS02-004 and 2004-JFS18-034 in the accompanying schedule of findings and questioned costs on pages 156 and 199, the State of Ohio's Office of Criminal Justice Services and Department of Job & Family Services did not comply with the requirements regarding reporting applying to its Byrne Formula Grant and Employment Services Cluster programs. Compliance with those requirements is necessary, in our opinion, for the State of Ohio to comply with requirements applicable to those programs.

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, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are identified in the summary of findings and questioned costs on pages 149 through 151 and described in the accompanying schedule of findings and questioned costs.

We also noted certain instances of noncompliance that do not require inclusion in this report that we have reported to the management of the State of Ohio in separate management letters issued at various times during the year.

Internal Control Over Compliance

The management of the State of Ohio 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 have a direct and material effect on a major federal program in order 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 pages 149 through 151 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 within a timely period by employees in the normal course of 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. However, of the reportable conditions described above, we consider certain items identified in the summary of findings and questioned costs on pages 149 through 151 and described in the accompanying schedule of findings and questioned costs to be material weaknesses.

We also noted other matters involving the internal controls over federal compliance that do not require inclusion in this report 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 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

Betty Montgomery
Auditor of State

March 21, 2005

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505

STATE OF OHIO
JUNE 30, 2004

1. SUMMARY OF AUDITORS' RESULTS		
(d)(1)(i)	*Type of Financial Statement Opinion*	Unqualified
(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*	Qualified
(d)(1)(vi)	*Are there any other reportable findings under §.510?*	Yes
(d)(1)(vii)	*Major Programs (list):*	See pages 145 through 148
(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

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding Number	2004-JFS22-038

INTERNAL CONTROL – REPORTABLE CONDITION

See federal finding # 2004-JFS22-038 on page 203; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2004-JFS24-040

INTERNAL CONTROL – REPORTABLE CONDITION

See federal finding # 2004-JFS24-040 on page 205; 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 149 through 151.

The questioned costs are summarized by federal agency, program, and amount on page 152.

The findings and questioned costs are detailed by state agency on pages 153 through 258.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
U.S. Department of Agriculture			
10.550	Food Donation		
	Ohio Department of Education	$36,898,709	
	Total CFDA # 10.550	$36,898,709	0.23%
Food Stamp Cluster			
10.551/10.561			
	Ohio Department of Job & Family Services	$1,102,299,793	
	Other Agencies (Not Tested as a Major Program)	1,056,300	
	Total Food Stamp Cluster	$1,103,356,093	6.80%
Child Nutrition Cluster			
10.553/10.555/10.556/10.559			
	Ohio Department of Education	$231,044,601	
	Other Agencies (Not Tested as a Major Program)	3,076,666	
	Total Nutrition Cluster	$234,121,267	1.44%
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children		
	Ohio Department of Health	$204,926,010	
	Total CFDA # 10.557	$204,926,010	1.26%
10.558	Child and Adult Care Food Program		
	Ohio Department of Education	$59,189,734	
	Total CFDA # 10.558	$59,189,734	0.36%
U.S. Department of Housing and Urban Development			
14.182	Lower Income Housing Assistance Program - Section 8		
	Ohio Department of Development	$49,346,682	
	Total CFDA # 14.182	$49,346,682	0.30%
U.S. Department of Justice			
16.579	Byrne Formula Grant Program		
	Ohio Office of the Attorney General	$1,122,762	
	Ohio Office of Criminal Justice Services	17,604,604	
	Other Agencies (Not Tested as a Major Program)	806,201	
	Total CFDA # 16.579	$19,533,567	0.12%
U.S. Department of Labor			
Employment Services Cluster			
17.207/17.801/17.804			
	Ohio Department of Job & Family Services	$32,049,213	
	Total Employment Services Cluster	$32,049,213	0.20%
17.225	Unemployment Insurance		
	Ohio Department of Job & Family Services	$1,741,345,621	
	Total CFDA # 17.225	$1,741,345,621	10.73%

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
Workforce Investment Act (WIA) Cluster			
17.258/17.258/17.260			
	Ohio Department of Job & Family Services	$125,350,647	
	Other Agencies (Not Tested as a Major Program)	3,156,564	
	Total WIA Cluster	$128,507,211	0.79%
U.S. Department of Transportation			
Highway Planning and Construction Cluster			
20.205/23.003			
	Ohio Department of Transportation	$893,710,494	
	Other Agencies (Not Tested as a Major Program)	58,254	
	Total Highway Planning and Construction Cluster	$893,768,748	5.51%
U.S. Department of Treasury			
21.000	Jobs and Growth Tax Relief Reconciliation Act of 2003 Section 401 (B)		
	Office of Budget and Management	$193,032,967	
	Total CFDA # 21.000	$193,032,967	1.19%
U.S. Environmental Protection Agency			
66.458	Capitalization Grants for Clean Water - State Revolving Fund		
	Ohio Environmental Protection Agency	$361,925,466	
	Total CFDA # 66.458	$361,925,466	2.23%
66.468	Capitalization Grants for Drinking Water - State Revolving Fund		
	Ohio Environmental Protection Agency	$84,538,360	
	Total CFDA # 66.468	$84,538,360	0.52%
U.S. Department of Education			
84.010	Title I Grants to Local Education Agencies		
	Ohio Department of Education	$394,807,934	
	Total CFDA # 84.010	$394,807,934	2.43%
Special Education Cluster			
84.027/84.173			
	Ohio Department of Education	$297,944,738	
	Other Agencies (Not Tested as a Major Program)	2,945,575	
	Total Special Education Cluster	$300,890,313	1.85%
84.048	Vocational Education - Basic Grants to States		
	Ohio Department of Education	$46,894,897	
	Other Agencies (Not Tested as a Major Program)	492,628	
	Total CFDA # 84.048	$47,387,525	0.29%
84.282	Charter Schools		
	Ohio Department of Education	$15,076,225	
	Total CFDA # 84.282	$15,076,225	0.09%

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
84.367	Improving Teacher Quality State Grants		
	Ohio Department of Education	$98,510,132	
	Other Agencies (Not Tested as a Major Program)	1,847,487	
	Total CFDA # 84.367	$100,357,619	0.62%
U.S. Department of Health and Human Services			
Aging Cluster			
93.044/93.045/93.053			
	Ohio Department of Aging	$43,998,210	
	Total Aging Cluster	$43,998,210	0.27%
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance		
	Ohio Department of Health	$34,049,346	
	Total CFDA # 93.283	$34,049,346	0.21%
93.558	Temporary Assistance for Needy Families		
	Ohio Department of Job & Family Services	$587,680,520	
	Ohio Department of Education	49,423,229	
	Other Agencies (Not Tested as a Major Program)	3,793,946	
	Total CFDA # 93.558	$640,897,695	3.95%
93.563	Child Support Enforcement		
	Ohio Department of Job & Family Services	$190,849,066	
	Total CFDA # 93.563	$190,849,066	1.18%
Child Care Cluster			
93.575/93.596			
	Ohio Department of Job & Family Services	$197,192,153	
	Other Agencies (Not Tested as a Major Program)	727,511	
	Total Child Care Cluster	$197,919,664	1.22%
93.658	Foster Care - Title IV-E		
	Ohio Department of Job & Family Services	$224,294,152	
	Other Agencies (Not Tested as a Major Program)	1,926,333	
	Total CFDA # 93.658	$226,220,485	1.39%
93.659	Adoption Assistance		
	Ohio Department of Job & Family Services	$151,098,061	
	Total CFDA # 93.659	$151,098,061	0.93%
93.667	Social Services Block Grant		
	Ohio Department of Job & Family Services	$89,737,372	
	Ohio Department of Mental Retardation and Developmental Disabilities	12,485,961	
	Ohio Department of Mental Health	8,340,865	
	Total CFDA # 93.667	$110,564,198	0.68%

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
93.767	State Children's Insurance Program		
	Ohio Department of Job & Family Services	$124,676,206	
	Ohio Department of Mental Health	15,879,078	
	Ohio Department of Mental Retardation and Developmental Disabilities	3,635,217	
	Other Agencies (Not Tested as a Major Program)	4,819,415	
	Total CFDA # 93.767	$149,009,916	0.92%
Medicaid Cluster			
93.775/93.777/93.778			
	Ohio Department of Job & Family Services	$6,250,948,814	
	Ohio Department of Mental Health	228,333,377	
	Ohio Department of Mental Retardation and Developmental Disabilities	555,089,154	
	Other Agencies (Not Tested as a Major Program)	206,707,301	
	Total Medicaid Cluster	$7,241,078,646	44.61%
93.917	HIV Care Formula Grants		
	Ohio Department of Health	$16,344,272	
	Total CFDA # 93.917	$16,344,272	0.10%
93.959	Block Grants for the Prevention and Treatment of Substance Abuse		
	Ohio Department of Alcohol and Drug Addiction Services	$71,190,422	
	Other Agencies (Not Tested as a Major Program)	497,312	
	Total CFDA # 93.959	$71,687,734	0.44%
93.994	Maternal and Child Health Services Block Grant to States		
	Ohio Department of Health	$25,610,275	
	Total CFDA # 93.917	$25,610,275	0.16%
Total Major Federal Programs		$15,100,386,832	93.03%
Other Federal Programs		1,131,706,681	6.97%
Total Federal Awards Expenditures		$16,232,093,513	100.00%

STATE OF OHIO
SUMMARY OF FINDINGS AND QUESTIONED COSTS
JULY 1, 2003 THROUGH JUNE 30, 2004

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
Office of the Attorney General (AGO) (See ** below)			
1. Medicaid Fraud Control Unit Payroll	2004-AGO01-001	Questioned Costs	153
2. Medicaid Fraud Control Unit Reports	2004-AGO02-002	Noncompliance	154
Office of Criminal Justice Services (CJS)			
1. Subrecipient Monitoring	2004-CJS01-003	Noncompliance	155
2. Federal Reporting	2004-CJS02-004	Noncompliance	156
Ohio Department of Education (EDU)			
1. Charter Schools - Monitoring of Subrecipients	2004-EDU01-005	Questioned Costs	159
2. Charter Schools – Payroll Expense Distribution	2004-EDU02-006	Questioned Costs	160
3. Expenditures Outside the Period of Availability	2004-EDU03-007	Questioned Costs	162
4. TANF - Monitoring of Head Start Expenditures	2004-EDU04-008	Noncompliance	163
5. DP - Application Development & Maintenance	2004-EDU05-009	Reportable Condition	165
6. DP - CRRS Reimbursement Reporting to Federal Gov.	2004-EDU06-010	Reportable Condition	166
Ohio Department of Health (DOH)			
1. Administrative Costs	2004-DOH01-011	Questioned Costs	168
2. Subrecipient Monitoring	2004-DOH02-012	Noncompliance	168
3. Early Redemption of Food Instruments	2004-DOH03-013	Noncompliance	170
4. Federal Reporting	2004-DOH04-014	Noncompliance	171
5. DP - Business Resumption Plan	2004-DOH05-015	Reportable Condition	172
6. DP - Program Change Controls	2004-DOH06-016	Reportable Condition	173
Ohio Department of Job & Family Services (JFS)			
1. TANF - Consolidated Funding - Inappropriate Expenditures	2004-JFS01-017	Questioned Costs	175
2. Medicaid -Undocumented Disbursements	2004-JFS02-018	Questioned Costs	176
3. FACSIS - Foster Care Duplicates	2004-JFS03-019	Questioned Costs	177
4. TANF - Subrecipient Monitoring - Hancock County	2004-JFS04-020	Questioned Costs	180
5. TANF - Refusal to Work Sanction – Lucas County	2004-JFS05-021	Questioned Costs	181
6. Foster Care - Unallowed Costs	2004-JFS06-022	Questioned Costs	182
7. Child Support Non-Cooperation - Lucas County	2004-JFS07-023	Questioned Costs	183
8. Child Care - Missing Documentation-Cuyahoga County	2004-JFS08-024	Questioned Costs	184
9. Medicaid - Ineligible Recipients	2004-JFS09-025	Questioned Costs	185
10. CSEA - Unallowed Activities-Defiance County	2004-JFS10-026	Questioned Costs	186
11. TANF - Refusal to Work Sanction -Franklin County	2004-JFS11-027	Questioned Costs	188
12. Various Programs - Cost Allocations - Hamilton Co	2004-JFS12-028	Questioned Costs	188
13. IEVS - Due Dates	2004-JFS13-029	Noncompliance	189
14. Lack of Corrective Action	2004-JFS14-030	Noncompliance	191
15. TANF - Determining Population of Cases for Testing-Var Co	2004-JFS15-031	Noncompliance	193
16. TANF - Subrecipient Monitoring	2004-JFS16-032	Noncompliance	194
17. Medicaid/SCHIP - Subrecipient Monitoring	2004-JFS17-033	Noncompliance	196
18. Employment Services Reporting	2004-JFS18-034	Noncompliance	199

STATE OF OHIO
SUMMARY OF FINDINGS AND QUESTIONED COSTS
JULY 1, 2003 THROUGH JUNE 30, 2004

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE REFERENCE
Ohio Department of Job & Family Services (JFS)			
19. WIA - One-Stop Delivery Systems	2004-JFS19-035	Noncompliance	200
20. CORe Processing of WIA	2004-JFS20-036	Material Weakness	201
21. CORe Advance Calculation	2004-JFS21-037	Material Weakness	202
22. DP - Manual Overrides of CRIS-E (Fiats)	2004-JFS22-038	Material Weakness	203
23. DP - Internal Reviews of Automated Systems	2004-JFS23-039	Material Weakness	204
24. TANF - County Monitoring	2004-JFS24-040	Material Weakness	205
25. IEVS - Policies and Procedures Manual	2004-JFS25-041	Reportable Condition	206
26. Contracts/Relationships with Co. Agencies	2004-JFS26-042	Reportable Condition	207
27. Various Programs - Coding Errors	2004-JFS27-043	Reportable Condition	208
28. Adoption Assistance-Voucher Summary Support Detail	2004-JFS28-044	Reportable Condition	210
29. TANF - Data Report	2004-JFS29-045	Reportable Condition	211
30. Medicaid/SCHIP - Third-party Liabilities	2004-JFS30-046	Reportable Condition	213
31. Medicaid/SCHIP - Drug Rebate Payments	2004-JFS31-047	Reportable Condition	214
32. MMIS Provider Statuses	2004-JFS32-048	Reportable Condition	215
33. MMIS Provider Master File Changes	2004-JFS33-049	Reportable Condition	216
34. MMIS Edit Changes	2004-JFS34-050	Reportable Condition	217
35. WIA - Reporting/CORe Time Periods	2004-JFS35-051	Reportable Condition	218
36. CORe Business Resumption Plan	2004-JFS36-052	Reportable Condition	219
37. CORe Reporting of Accruals and Obligations	2004-JFS37-053	Reportable Condition	220
38. SSBG - Incomplete Monitoring	2004-JFS38-054	Reportable Condition	221
39. Missing Documentation - Various Counties	2004-JFS39-055	Reportable Condition	222
40. Late County Reports - Various Counties	2004-JFS40-056	Reportable Condition	226
41. Report Processing, Reviews, Inaccuracies-Various Counties	2004-JFS41-057	Reportable Condition	228
42. DP - Loss of WRS Archieved Data	2004-JFS42-058	Reportable Condition	232
43. DP - MMIS & CRIS-E Missing Change Request Forms	2004-JFS43-059	Reportable Condition	233
44. DP - MMIS Program Change Testing Documentation	2004-JFS44-060	Reportable Condition	234
45. DP - SETS System Documentation	2004-JFS45-061	Reportable Condition	235
46. DP - MMIS, CRIS-E, & SETS Comment Log Documentation	2004-JFS46-062	Reportable Condition	236
47. DP - SCOTI Programmers' Access to Production	2004-JFS47-063	Reportable Condition	237
48. DP - Periodic Access Reconciliations	2004-JFS48-064	Reportable Condition	238
49. DP - Terminated Employees w/Access-Unemployment Appl.	2004-JFS49-065	Reportable Condition	239
50. DP - Security Violations Reports	2004-JFS50-066	Reportable Condition	241
51. DP - Lists of Third Party Contractors and Their Access	2004-JFS51-067	Reportable Condition	242
52. DP - Access to SCOTI Production Servers	2004-JFS52-068	Reportable Condition	243
53. DP - Password Parameters Not Set To Standards	2004-JFS53-069	Reportable Condition	244
54. DP - Access to Sensitive SETS & SCOTI Profiles	2004-JFS54-070	Reportable Condition	245
55. DP - Physical Access to the Computer Room	2004-JFS55-071	Reportable Condition	246
56. DP - SCOTI Disaster Recovery Test	2004-JFS56-072	Reportable Condition	247
57. DP - Accuracy of CRIS-E Input	2004-JFS57-073	Reportable Condition	248
Ohio Department of Mental Health (DMH)			
1. Subrecipient Monitoring	2004-DMH01-074	Noncompliance	250

STATE OF OHIO
SUMMARY OF FINDINGS AND QUESTIONED COSTS
JULY 1, 2003 THROUGH JUNE 30, 2004

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE REFERENCE
Ohio Department of Mental Retardation/DD (DMR)			
1. Social Services Block Grant - Payroll	2004-DMR01-075	Questioned Costs	253
2. Medicaid/SCHIP - Subrecipient Monitoring	2004-DMR02-076	Noncompliance	254
3. Medicaid - Provider Certifications	2004-DMR03-077	Reportable Condition	255
4. DP - Transfer Into the Live Environment	2004-DMR04-078	Reportable Condition	256
5. DP - Network Operating Systems	2004-DMR05-079	Reportable Condition	257

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
22. DP - Manual Overrides of CRIS-E (Fiats)	2004-JFS22-038	Reportable Condition	203
24. TANF - County Monitoring	2004-JFS24-040	Reportable Condition	205

** - The audit of the Office of the Attorney General was performed by an independent public accountant. Findings from their report which were considered to be reportable have also been included in this report.

STATE OF OHIO
SUMMARY OF QUESTIONED COSTS BY FEDERAL AGENCY AND PROGRAM
JULY 1, 2003 THROUGH JUNE 30, 2004

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE	PAGE NUMBER(S)	QUESTIONED COSTS
U.S. DEPARTMENT OF AGRICULTURE		
10.551/10.561 – Food Stamp Cluster	181,183	$5,738
Total U.S. Department of Education		$5,738
U.S. DEPARTMENT OF EDUCATION		
84.010 – Title I Grants to Local Educational Agencies	162	$74,859
84.027/84.173 – Special Education Cluster	162	595,576
84.282 – Charter Schools	159,160	14,920,294
Total U.S. Department of Education		$15,590,729
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
93.558 – Temporary Assistance for Needy Families	175,180,181,183,188	$129,761,598
93.563 – Child Support	186	450
93.575/93.596 – Child Care Cluster	184	4,687
93.658 – Foster Care	177,182	1,075,788
93.667 – Social Services Block Grant	253	82,940
93.775/93.777/93.778 – Medicaid Cluster	153,176,181,183,185	8,837,290
93.917 – HIV Care Formula Grants	168	268,467
Total U.S. Department of Health and Human Services		$140,031,220
TOTAL QUESTIONED COSTS - STATE OF OHIO		**$155,627,687**

NOTE: In addition, finding number 2004-JFS12-028 on page 188 reported questioned costs for which the amounts and programs could not be determined.

OFFICE OF THE ATTORNEY GENERAL

1. MEDICAID FRAUD CONTROL UNIT PAYROLL

Finding Number	2004-AGO01-001
CFDA Number and Title	93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

<u>QUESTIONED COSTS</u> $68,251

OMB Circular A-87, Attachment B, Section 8, states, in part:

(a) Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits.

Furthermore, 42 CFR, Section 1007.19 states, in part:

(e) FFP is not available under this part for expenditures attributable to-- ….

(4) The performance by a person other than a full-time employee of the unit of any management function for the unit, any audit or investigation, any professional legal function, or any criminal, civil or administrative prosecution of suspected providers;

In our review of payroll and related expenditures charged to the Medicaid Fraud Control Unit, we noted two employees of the Attorney General's Workers' Compensation Fraud Unit were erroneously charged to the Medicaid Fraud Control Unit during part of State fiscal year 2004. Since these two employees did not render services for the Medicaid Fraud Control Unit, their compensation and related fringe benefits may not be charged to that grant.

In addition, we noted one employee of the Medicaid Fraud Control Unit whose responsibilities also included the Workers' Compensation Fraud Unit. A portion of this employee's salary and fringe benefits was charged to the Medicaid Fraud Control Unit grant during State fiscal year 2004. However, since this employee was not a full-time employee of the Medicaid Fraud Control Unit, the employee may not be charged to that grant.

The total salaries and fringe benefits for the three employees described above was $68,251. This amount is a questioned cost. Approximately 42 employees worked for the Medicaid Fraud Control Unit during 2004. The total salaries and fringe benefits charged to the grant for the year was $2,154,483.

To avoid similar noncompliance in the future, we recommend that the Attorney General begin completing semi-annual certifications for employees working full-time on a single grant activity, such as the Medicaid Fraud Control Unit. Those certifications should then, on a regular basis, be compared to budgetary and actual payroll expenditure data to ensure that only eligible employees are being charged to the grant.

2. MEDICAID FRAUD CONTROL UNIT REPORTS

Finding Number	2004-AGO02-002
CFDA Number and Title	93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

<u>NONCOMPLIANCE</u>

45 CFR 92.41 (b)(4), states, in part:

> 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.

For the period under audit, the Attorney General did not file any of the above required reports (Form SF-269) on a timely basis. The reports, due dates, and dates submitted are as follows:

Period Ended	**Report Period**	**Due Date**	**Date Submitted**
September 30, 2003	Quarterly	October 30, 2003	November 24, 2003
September 30, 2003	Annual	December 29, 2003	May 21, 2004
December 31, 2003	Quarterly	January 30, 2004	May 21, 2004
March 31, 2004	Quarterly	April 30, 2004	May 21, 2004
June 30, 2004	Quarterly	July 30, 2004	August 13, 2004

Furthermore, 42 CFR 1007.17 states, in part:

> At least 60 days prior to the expiration of the certification period, the unit will submit to the Secretary a report covering the last 12 months….

This annual statistical report includes various information regarding the number of Medicaid fraud complaints, investigations, cases prosecuted, recovery actions, and other performance data. This report was due on August 1, 2003, but was not filed until September 19, 2003.

Because of the lateness in the submission of its reports, there were times throughout the year when the Attorney General was prohibited from drawing down additional federal funds for the Medicaid Fraud Control Unit. Thus, in order to pay Medicaid Fraud Control Unit expenses on a timely basis, management used other State monies intended for general operations of the Attorney General. Once the financial reports were submitted and additional federal funds were drawn down, management returned the operating monies to the originally intended fund. Should the Attorney General continue to file its quarterly and annual reports late, it risks loss of funding or other sanctions from the federal government.

Attorney General management should develop timelines for the preparation, review, and submission for the various grant reports that are required. Management should also devote the necessary staff resources to ensure that reports are submitted timely.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OFFICE OF CRIMINAL JUSTICE SERVICES

1. SUBRECIPIENT MONITORING

Finding Number	2004-CJS01-003
CFDA Number and Title	16.579 – Byrne Formula Grant Program
Federal Agency	Department of Justice

NONCOMPLIANCE

OMB Circular A-133, Subpart, §_.400 (d), states, in part, that 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 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.

. . .

(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.

. . .

In addition, the Office of Criminal Justice Services (OCJS or Office) subgrant administration guidelines state the Office is to evaluate each project, employing an evaluation system which requires regular reports, desktop and on-site reviews (project monitoring), and outcome evaluation. It is management's responsibility to implement policies and procedures to reasonably ensure compliance with these federal and Office requirements.

The Office acts as a regulating authority for the Byrne Formula Grant program by granting sub-awards to other state agencies, counties, cities, villages, and non-profit organizations around the State of Ohio. During state fiscal year 2004, the Office disbursed approximately $18,086,795 in federal Byrne Formula Grant funding to subrecipients. OCJS currently requires its subrecipients to submit quarterly subgrant reports which summarize the current quarter and year-to-date expenditures and quarterly payment requests. OCJS reviews the quarterly subgrant reports to verify the funds requested and reported were reasonable, as compared to the award agreements. Additionally, the Office reviews its subrecipients' independent audit reports to identify instances of noncompliance with applicable federal requirements, determine whether the Byrne Formula Grant funds were tested as a major program (of the reports received in FY 2004, only about 5% had the Byrne Grant tested as a major), and verify the amounts passed through to the subrecipients were appropriately identified and recorded on the Schedule of Expenditures of Federal Awards. OCJS tracks the receipt and review of these audit reports on a worksheet that includes a listing of all the subrecipients who received federal Byrne funds from the Office. However, the Office did not perform the required on-site visits or desk-top reviews, or any other type of reviews to monitor the subrecipient's progress towards the grant objectives and compliance with the requirements of the Byrne Formula Grant during the award period. In addition, OCJS did not properly identify the federal award in documentation provided to its subrecipients as none of the 30 grant agreements tested contain the CFDA title and/or name of the Federal agency.

1. SUBRECIPIENT MONITORING (Continued)

Without performing adequate subrecipient monitoring procedures, including on-site visits and programmatic reviews, management may not be reasonably assured their subrecipients are expending federal funds for allowable activities and that other significant compliance requirements of the Byrne Formula Grant program are being met, thereby putting management at risk for noncompliance with Federal subrecipient monitoring requirements. This could result in reduced federal funding or termination of future federal awards. Noncompliance could ultimately result in the Office having to repay part of or the entire grant award to the federal government. In addition, if the award documents do not include all the required information, there is an increased risk the subrecipients will not be aware of the laws, regulations, and other pertinent items to allow them to properly prepare their schedule of federal awards and/or comply with the program's requirements.

The Grants Administration Chief indicated significant employee turnover in the grants division was the primary cause for the lack of subrecipient monitoring procedures being performed. However, she indicated they were aware of the importance of subrecipient monitoring and were in the process of implementing new procedures for 2005.

We recommend management review OMB Circular A-133 and implement the necessary procedures to fulfill their responsibilities for all subrecipients. These procedures should, at a minimum:

- Include programmatic and fiscal reviews and other monitoring procedures designed to provide reasonable assurance all subrecipients are in compliance with program laws, regulations and requirements. This should include examining selected supporting documentation related to the grant disbursements of each subrecipient to verify the disbursements are allowable and in accordance with the federal regulations, and other documents, as necessary, to reasonably ensure other compliance and programmatic requirements are being met.
- Be formally documented in a policies and procedures manual.
- Be performed on a regular and ongoing basis.

We also recommend the Office revise the agreements with its subrecipients to clearly identify the CFDA title and number, project name and number, award period, and the name of the Federal agency for the federal program covered by the agreements. These agreements should also define the laws and regulations related to these awards.

2. FEDERAL REPORTING

Finding Number	2004-CJS02-004
CFDA Number and Title	16.579 – Byrne Formula Grant Program
Federal Agency	Department of Justice

<u>NONCOMPLIANCE</u>

28 CFR 66.41 (b) states, in part:

> (1) <u>Form.</u> Grantees will use Standard Form 269 or 269A, Financial Status Report, to report the status of funds for all nonconstruction grants …
>
> . . .

2. FEDERAL REPORTING (Continued)

(3) Frequency. The Federal agency may prescribe the frequency of the report for each project or program. However, the report will not be required more frequently than quarterly…A final report will be required upon expiration or termination of grant support.

(4) Due date. When reports are required on a quarterly or semiannual basis, they will be due 30 days after the reporting period...

It is management's responsibility to implement control policies and procedures to reasonably ensure the SF-269 reports and reconciliations are accurate, complete, and in compliance with these requirements. It is imperative management maintain the data and related program documentation required to prepare and support this report.

During state fiscal year 2004, OCJS submitted 16 SF-269 reports for the Byrne Formula Grant awards active during the period. OCJS prepares the quarterly SF-269 reports for the Byrne Formula Grant program based on the information maintained in the Office's Grants Management Information System (GMIS). The GMIS is used by OCJS to track the activity and balances remaining for each sub-grant award. When subrecipients make their quarterly payment request via the Quarterly Subgrant Reports (QSR), GMIS is updated to reflect the disbursement, total disbursements and remaining award balance for each subrecipient. Each quarter, OCJS generates a Crystal report from GMIS to compile the total current quarter's expenditures (federal and the state/local match amounts) used to prepare the SF-269 report. A Financial Status Report (FSR) Submission Checklist is prepared and maintained in the grant file, prior to preparing the quarterly SF-269 reports, evidencing the GMIS and the grant file have been reviewed to verify the federal award document and approved extension/adjustments are on file, and the cash balance appears accurate as compared to the subgrant activity during the period. Before submitting the SF-269 report to the federal government, the OCJS Director, or other authorized personnel, certifies the information reported is accurate, as evidenced by their signature on the report. The Office's procedures for preparing the SF-269 reports also require quarterly reconciliations be performed between the GMIS system and the Central Accounting System (CAS) to verify the information in GMIS is accurate and complete as compared to the Office's financial system. However:

- For four of the eight SF-269 reports tested, the Quarterly FSR Submission Checklist was not included in the grant file; therefore, there was no documentation of its review.

- Two of the eight reports tested did not contain the signature of the OCJS Director or other authorized personnel certifying the SF-269 reports were accurate;

- Eight of the sixteen SF-269 reports were not submitted within 30 days of the quarter ending. Six of the reports ranged from four to 11 business days late, and two reports did not contain a submission date; therefore, we were unable to verify they were submitted to the federal government timely.

- No documentation was maintained to support the expenditure amounts reported on any of the SF-269 reports tested. Although management indicated a report could be generated by GMIS at any time, these reports would not be representative of the information as of the report date due to adjustments and other timing differences which occurred subsequent to the reports' submission.

Additionally, reconciliations between the GMIS and CAS systems were not performed until after the fiscal year. Since these reconciliations were not prepared in a timely manner, and no other documentation was maintained to support the amounts reported, as noted above, we were unable to verify the accuracy and completeness of the reports submitted during the period. This further impacted OCJS' ability to ensure the Byrne Formula grant program's earmarking requirements were being met since the earmarked amounts are identified and set aside in the GMIS system. OCJS tracks the earmarking requirements utilizing a GMIS generated status report which is used at the conclusion of each sub-grant award period to verify all sub-grants have been closed, total disbursements match the award amount, and the matching requirements have been met. Management indicated these status reports are not maintained once they have verified all sub-grants have been closed.

2. FEDERAL REPORTING (Continued)

The Grants Administration Assistant Chief indicated they had not realized the importance of maintaining the reports in the sub-grant file once the sub-grant period was closed since the status reports could be run at any time. Additionally, the Grants Administration Chief and Assistant Chief stated they did not realize detail support to the SF-269 was required if the Fiscal Chief was preparing her quarterly CAS-GMIS reconciliations. However, management indicated that beginning with SFY05, the SF-269 reports would be reported using CAS amounts rather than the GMIS amounts, as the CAS amounts are the ultimate figure looked at by the federal government. The delay in performing the CAS-GMIS reconciliations was due to employee turnover in the Fiscal department during the period. Finally, management indicated the untimely submission of the SF-269 reports was a result of adjustments to the federal award holding up the reporting process and oversight.

If reports submitted cannot be supported by appropriate documentation, OCJS and the federal government may not be reasonably assured the SF-269 report data is accurate and complete. In the absence of internal controls to reasonably ensure the accuracy and completeness of reports and/or required reconciliations, the risk is increased that information being reported is not representative of Byrne Grant activity and/or is not in accordance with the federal requirement. This, in turn, could result in materially misstating program expenditures on any internal or external reports, which may subject OCJS to fines and/or sanctions or reductions in future federal funding.

We recommend OCJS devise and implement policies and procedures to provide reasonable assurance the federal SF-269 reports are accurate, complete, and submitted timely in compliance with federal requirements. This could be achieved by establishing a comprehensive review of the report information which should include ensuring the supporting documentation properly reflects the data reported. In addition, although management does not plan to continue using the GMIS system as the reporting basis for the SF-269 reports, we recommend management continue reconciling the GMIS and CAS systems regularly, with explanations for any variances noted, as management places reliance on GMIS for verifying the earmarking requirements have been met. We also recommend retaining, either electronically or in hard-copy form, all pertinent supporting documentation with the filed reports and reconciliations for review and verification by management and other interested parties. Evidence of such reviews and reconciliations should be maintained to provide management with assurance the controls are operating consistently and effectively.

1. CHARTER SCHOOLS – MONITORING OF SUBRECIPIENTS

Finding Number	2004-EDU01-005
CFDA Number and Title	84.282 Charter Schools
Federal Agency	Department of Education

QUESTIONED COSTS $13,832,369

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 2004, EDU disbursed $13.8 million to qualified community schools in the form of start-up 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 periodic on-site visits, reviews of Annual Performance Reviews (APRs), Final Expenditure Reports (FERs) other subrecipient-prepared reports from the community schools, and the monitoring of A-133 audit performed on the schools. However, none of these procedures provided for adequate on-site subrecipient monitoring during state fiscal year 2004. Neither the on-site visits nor most of the subrecipient-prepared reports specifically addressed the federal Charter School funds. 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. Furthermore, neither the APRs nor the FERs were routinely reviewed by OCS during SFY 2004. There were several instances where a community school received a new grant award despite the fact that the FER and/or the APR for the previous grant award had not been approved. Finally, the majority of these schools did not expend $300,000 or more in federal money during 2003 and, therefore, were not required to have an A-133 audit. Of the 144 community schools subrecipients, only 49 received an A-133 audit for state fiscal year 2003. Therefore, because the Department did not have an adequate on-site subrecipient monitoring system in place for the federal Charter Schools program, we will question the $13,832,369 in payments made to 144 Charter School grant subrecipients.

1. CHARTER SCHOOLS – MONITORING OF SUBRECIPIENTS (Continued)

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 is only one employee assigned full time to the federal Charter Schools program who is responsible for a majority of these monitoring procedures, and she was on disability for several months during fiscal year 2004.

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. Finally, due to the increasing amount of funding the Ohio Department of Education receives for this program, we recommend that the Department provide for additional employees to assist with on-site monitoring procedures.

2. CHARTER SCHOOLS – PAYROLL EXPENSE DISTRIBUTION

Finding Number	2004-EDU02-006
CFDA Number and Title	84.282 Charter Schools
Federal Agency	Department of Education

QUESTIONED COSTS $1,087,925

OMB Circular A-87, Attachment B, Section 8(h), § 3, states in part:

> Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

OMB Circular A-87, Attachment B, Section 8(h), § 4, states in part:

> Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5)….Such documentary support will be required where employees work on:

2. CHARTER SCHOOLS – PAYROLL EXPENSE DISTRIBUTION (Continued)

(a) More than one Federal award,

(b) A Federal award and a non-Federal award.

. . .

OBM A-87, Circular A-87, Attachment B, Section 8(h), § 5(a-e), states in part:

Personnel activity reports or equivalent documentation must meet the following standards:

(a) They must reflect an after the fact distribution of the actual activity of each employee,
. . .

(c) They must be prepared at least monthly....
. . .

(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:
. . .

(i) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made… and

(ii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

The determination of which employee payroll expenses are allocated to the Charter Schools grant and the percentages in which they are allocated is based on internal discussions between grant personnel and the EDU fiscal office. These allocations are then entered into the Department's internal accounting system for payroll processing purposes, where they can be adjusted by the Department's comptroller based on input from grant personnel. The Department could not provide us with any support to demonstrate how the original payroll allocations entered into the accounting system were determined, how any changes to these original allocations were justified, or how the certification requirements of Circular A-87 were met. As such, we are questioning expenditures of $1,087,925, which represents total payroll charges to the Charter Schools grant for SFY 2004.

Without establishing and documenting a process to demonstrate that payroll charges to the Charter Schools grant are based on actual activity, there is increased risk that programmatic activities may be incorrectly charged to the grant. Based on discussions with the comptroller, it appears the Department's previous comptroller may have prepared the required documentation in the past, but this documentation could not be located. They also feel the amount of paperwork they would be required to maintain to document all changes to payroll allocations would be unnecessary with the implementation of their new system.

We recommend EDU establish formal procedures to help ensure the methodology used to allocate payroll charges to the Charter Schools grant is formally documented, is based on actual activity, and is reviewed and updated as necessary on a regular basis. We also recommend the Department ensure it is meeting the certification requirements of OMB Circular A-87, although it should be noted the Department began preparing payroll certifications during SFY 2005.

3. EXPENDITURES MADE AFTER THE PERIOD OF AVAILABILITY

Finding Number	2004-EDU03-007
CFDA Number and Title	84.010 – Title I 84.027/84.173 – Special Education Cluster
Federal Agency	Department of Education

QUESTIONED COSTS $670,435

34 CFR 80.23(a) states in part:

> When a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted…
> . . .

34 CFR 80.23(b) states in part:

> A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation)….The Federal agency may extend this deadline at the request of the grantee.

The Department disbursed $94,177 of 2000 Special Education Cluster grant funds, $44,818 of 2001 Special Education Cluster grant funds and $456,581 of 2002 Special Education Cluster grant funds outside of the allowed period of availability, as detailed below.

EDU requested and received from the United States Department of Education (USDE) an extension to liquidate obligations from the 2002 Special Education – Part B award until May 26, 2004, but still made liquidated obligations from the grant totaling $254,144 between May 27, 2004 and June 18, 2004.

In addition, there were several instances where EDU liquidated obligations within the appropriate period, but could not demonstrate that the obligation occurred in the allowable period of availability. Specifically:

- Payments from the 2000 Special Education, Part B award year totaling $94,117 were disbursed prior to the extended deadline of February 14, 2004 while additional payments from the 2000 Special Education, Part B award year totaling $60 were disbursed prior to the extended liquidation date of April 2, 2004. However, it appears that these obligations occurred in September 2002, which was past the required obligation date of September 30, 2001;

- Payments from the 2001 Special Education, Part B award year totaling $24,800 and the 2001 Preschool Grant award year totaling $20,018 were all disbursed prior to the extended liquidation date of February 14, 2004. However, we could not determine when the expenditures had been obligated; although it appeared the payment in question was obligated in July 2003, which was past the required obligation date of September 30, 2003;

- Payments from the 2002 Special Education, Part B award year totaling $188,924 and the 2002 Preschool Grant award year totaling $13,513 were all disbursed prior to the extended liquidation date of May 26, 2004. However, we could not determine when the expenditures had been obligated, although it appeared the payments in question were obligated between October, 2003 and May, 2004, which was past the required obligation date of September 30, 2003.

As a result of these exceptions, we are questioning Special Education – Part B expenditures of $562,045 and Preschool Grant expenditures of $33,531, for a grand total of $595,576.

3. EXPENDITURES MADE AFTER THE PERIOD OF AVAILABILITY (Continued)

The Department also disbursed $74,859 of 2002 Title I grant funds outside the allowed period of availability. The Department requested and received from the USDE an extension to liquidate obligations from the 2002 Title I grant until September 30, 2003, and the disbursement in question was made within this period. However, according to the approval letter from the USDE the extension was granted with the understanding that the funds were obligated prior to September 30, 2002, and it did not appear as if the funds were obligated until June 9, 2003. As such, we are questioning the expenditure in question, which totaled $74,859. Combined with the questioned costs for the Special Education cluster discussed above, we are questioning a total of $670,435. Per the schedule of Federal Awards, total expenditures for the Special Education Cluster and Title I during the audit period were $297,944,738 and $394,807,934 respectively.

Failure by the Department to liquidate its obligations within the time limits established by Federal regulations could result in the Department being required to repay those funds to the Federal government unless an extension is obtained. Based on discussions with the Department it appears that, while they make every effort to obtain extensions of the liquidation period for some of their grants, they are not always able to liquidate all obligations in a timely manner. As for the expenditures which were not obligated during the appropriate period, EDU feels they were obligated properly, they just didn't request documentation from the subrecipient verifying that.

We recommend the Department contact the United States Department of Education to determine the disposition of those expenditures being questioned. We further recommend the Department review grant balances prior to the expiration of the available period to determine if any unpaid obligations exist and request documentation for all obligations made towards the end of the period of availability so that they can more effectively determine when the obligation was made. Finally, ODE should more closely monitor cash requests and subsequent expenditures to help ensure that funds are spent within the grant's period of availability.

4. TANF – MONITORING OF HEAD START EXPENDITURES

Finding Number	2004-EDU04-008
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

<u>NONCOMPLIANCE</u>

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 $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.
>
> . . .

4. TANF – MONITORING OF HEAD START EXPENDITURES (Continued)

Section 41.19 of Am. Sub. H.B. 95 of the 125th General Assembly states in part:

> There is hereby established the Title IV-A Head Start Program to be administered by the Department of Education in accordance with an interagency agreement entered into with the Department of Job and Family Services under division (A)(2) of section 5101.801 of the Revised Code. The program shall provide benefits and services to TANF eligible individuals pursuant to the requirements of section 5101.801 of the Revised Code. Upon approval by the Department of Job and Family Services, the Department of Education shall adopt policies and procedures establishing program requirements for eligibility, services, fiscal accountability, and other criteria necessary to comply with the provisions of Title IV-A of the "Social Security Act,"

Interagency agreement A-04-17-0302, Article IV, A (2) , between the Ohio Department of Job and Family Services and the Ohio Department of Education, states EDU's responsibilities are, in part to:

> Assure eligibility for services provided under this Agreement are in conformance with state and federal TANF eligibility requirements. For the purpose of this Agreement, eligibility for Title IV-A Head Start services is a family that is in receipt of OWF cash assistance or employed with income at or below 100% of the federal poverty level per Am. Sub. H.B. 95, Section 41.19.

During fiscal year 2004, EDU conducted 32 on-site data verification reviews, 14 desk data verification reviews, and five coordinated reviews with the Federal Department of Health and Human Service (DHHS) auditors of the 51 Head Start providers. EDU also conducted fiscal focus reviews of 11 Head Start providers. However, these limited fiscal focus reviews were only performed on an annual basis, and only covered 12.1% of the total TANF funding distributed to the Head Start providers during the audit period. Performance of these data and fiscal focus reviews was typically documented on standardized monitoring instruments. While the fiscal focus reviewer marked a box within the monitoring instrument stating that all costs were allowable, there were no specifics listed to demonstrate how the reviewer determined what costs were included in provider reimbursements and how reasonableness and allowability was substantiated. During the performance of the data verification reviews, a sample of case files was selected and reviewed to determine if documentation existed to demonstrate the child's TANF eligibility. However, the TANF eligibility reviews performed did not correspond with the providers' monthly reimbursement requests to ensure that only costs related to TANF eligible children were reimbursed by the Department. There is no direct link between the children's files selected for review and the reimbursements made to the Head Start providers to determine whether only eligible children were included on the reimbursement requests and that only allowable costs incurred to provide services to these eligible children were paid.

Additionally, the Department was not fully in compliance with the provisions of OMB Circular A-133 with regards to obtaining and reviewing audit reports for their Head Start providers. The Department disbursed Federal TANF funds to all 51 Head Start providers during the fiscal year, and 41 of them were required to submit A-133 audit reports to EDU. The Department did not receive two of the required 41 audit reports (4.9%), although they did send letters to the providers requesting the reports. Of the 39 audit reports that were obtained by the Department, two (4.9%) had Schedules of Expenditures of Federal Awards that did not report Federal TANF funds passed-through from the Department, and we did not see evidence of corrective action taken by EDU. The Department received 22 reports where the TANF program was tested as a Major program at the subrecipient level. This represented 79.5% of the TANF dollars for the program year.

4. TANF – MONITORING OF HEAD START EXPENDITURES (Continued)

Without performing and documenting adequate monitoring procedures to determine whether TANF funds were used for services provided to or on behalf of TANF eligible children, management cannot be reasonably assured their subrecipients were reimbursed for allowable activities. The limited scope on-site verification and fiscal focus reviews cannot assure the Department reimbursement requests from Head Start providers were only for allowable TANF costs. Additionally, the Department is currently unable to adequately recover unallowable costs in a timely manner when they are identified. According to EDU management, since there was no direct ratio between the number of TANF eligible children and the allowable costs claimed by a Head Start provider, the Department was unsure of how to adjust the providers' funding based on the identification of ineligible children. Additionally, the Department believes that the determination of whether costs were allocated to TANF only on behalf of eligible children should be covered through the performance of independent A-133 audits; however they have indicated a willingness to increase the level of on-site monitoring they currently perform.

We recommend the Department increase the scope and frequency of their on-site monitoring procedures to help ensure only costs associated with TANF eligible children were claimed for reimbursement by Head Start providers. We would also recommend that the Department take appropriate action, which includes seeking reimbursement if appropriate, whenever any noncompliance is noted. Finally, we recommend that EDU continue their efforts to ensure that A-133 audit reports are obtained and evaluated for all providers exceeding the $300,000 (or $500,000) Federal expenditure threshold and that TANF funds are properly reported on the providers' Schedule of Expenditures of Federal Awards.

5. DATA PROCESSING – APPLICATION DEVELOPMENT AND MAINTENANCE

Finding Number	2004-EDU05-009
CFDA Number and Title	All Programs Administered by the Department
Federal Agency	Department of Agriculture and Education

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 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.

The Department did not have formal written procedures to track, monitor, remediate, test, implement and document all key program change life cycle phases for significant EDU applications.

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 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 and Career Technical and Adult Education systems 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.

5. DATA PROCESSING – APPLICATION DEVELOPMENT AND MAINTENANCE (Continued)

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.

6. DATA PROCESSING – CRRS REIMBURSEMENT REPORTING TO FEDERAL GOVERNMENT

Finding Number	2004-EDU06-010
CFDA Number and Title	10.553/10.555/10.556/10.559 – Child Nutrition Cluster 10.558 – Child and Adult Care Food Program
Federal Agency	Department of Agriculture

<u>REPORTABLE CONDITION</u>

Sufficient input controls and edit and validation checks must be in place within an application system to provide assurance to management that client data is being reported from the system accurately and completely.

The Department of Education reports reimbursement totals from the Claims Reimbursement and Reporting System (CRRS) to the federal government using the FNS-10 report. However, the FNS-10 report did not completely and accurately record all after-school reimbursement totals from the National School Lunch Program (NSLP) database.

Also, the Department of Education reports food reimbursement totals through CRRS to the federal government using the FNS-44 and FNS-418 reports, as well.

Discrepancies were noted between the FNS-44 reports and the Child and Adult Care Food Program (CACFP) database records for April and May. For the month of April, breakfast, lunch, and supplement totals for child care centers and lunch and supplement totals for adult day care, per the FNS-44 reports, did not agree to the totals reflected in the CACFP database records.

For the month of May, breakfast, lunch, and supplement totals for child care centers, per the FNS-44 report, did not agree to the totals reflected in the CACFP database records.

Meal totals on the FNS-418 reports did not agree to meal totals reflected in the Summer Food Service Program (SFSP) database records for June, July, or August.

Without adequate controls for the reporting of information in the FNS-10, FNS-44 and FNS-418 reports, state totals for reimbursement may be erroneously submitted to the federal government. If the errors are not detected, the department may receive overpayments and federal sanctions may be levied against the department.

EDU management's review of the FNS10 to meal counts noted the 'Severe Need Paid' meals and 'Severe Need Reduced Price' meals were not included in the all meal counts. There should not be any 'Severe Need Paid' or Sever Need Reduced Price' meal counts because if the Sponsor is designated 'Severe Need,' all meals are reimbursed at Free. The program code is being reviewed by the software vendor.

6. DATA PROCESSING – CRRS REIMBURSEMENT REPORTING TO FEDERAL GOVERNMENT (Continued)

EDU management also indicated the FNS reports were pointing to the development site for CRRS and not the production site. This was corrected after the audit period and all FNS reports match the backup reports.

We recommend the Department review and update the FNS-10, FNS-44, and FNS-418 reporting process to help ensure complete and accurate information is being reported from the relevant CRRS database files.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

1. ADMINISTRATIVE COSTS

Finding Number	2004-DOH01-011
CFDA Number and Title	93.917 – HIV Care Formula Grants
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $268,467

42 USC 300ff-28 (b)(4)(A) states "Subject to paragraph (5) and except as provided in paragraph (6), a State may not use more than 10 percent of amounts received under a grant awarded under this part for administration."

The Department received a federal award for FY 2003 under the HIV Care Formula Grants program for $25,322,829 but had spent only $16,883,519 of the award when the grant was closed out. Of the amount actually spent, the Department used $1,956,819 on administrative expenses of the program. This amount represents 11.6% of the total amounts received under the grant award and thus indicates the Department has not complied with the federal requirement cited above. We have questioned the amount of costs that is the difference between the claimed and allowed administrative costs.

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, although we questioned no related costs during this period. The Assistant Chief of Financial Affairs said administrative costs of the program were based on the total grant award and the actual expenditures were less than that.

We recommend the Department more closely monitor the percentage of administrative costs used to the total grant funds received to track its own compliance with the federal requirements of the program. This process should be ongoing and performed throughout the life of the grant award.

2. SUBRECIPIENT MONITORING

Finding Number	2004-DOH02-012
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	Department of Agriculture Department of 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:

2. SUBRECIPIENT MONITORING (Continued)

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.

§___.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 78 of 288 local agencies that received an award for grant year 2003 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 78 subrecipients, 40 did not submit their audit report to the Department within the required time. The reports were late from two to 444 days, with the average being 103 days.

- The Department did not issue timely a management decision on the subrecipient's audit findings for 39 subrecipients tested. The management decisions were late from one to 434 days, with the average being 97 days.

2. SUBRECIPIENT MONITORING (Continued)

- Forty-six 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 three to 535 days, with the average being 107 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 and the Department has to catch up on the audits during the audit period.

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 receipt 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 should consider withholding future awards to subrecipients who are not in compliance with the federal audit provisions.

3. EARLY REDEMPTION OF FOOD INSTRUMENTS

Finding Number	2004-DOH03-013
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

3. EARLY REDEMPTION OF FOOD INSTRUMENTS (Continued)

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."

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 $721 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 seven of the twelve months of 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 Program Analysis Supervisor said that, based on investigation of the amount for one of the months' in question, it appears as though there was a mix-up at the local client level when the FIs were printed, resulting in the preprinted number on the FI not agreeing with the number entered by the client. This difference allowed the FI to be redeemed early without being detected by the computer application.

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.

4. FEDERAL REPORTING

Finding Number	2004-DOH04-014
CFDA Number and Title	93.283 – Centers for Disease Control and Prevention – Investigations and Technical Assistance 93.917 – HIV Care Formula Grants
Federal Agency	Department of Health and Human Services

<u>NONCOMPLIANCE</u>

Federal regulations require that management establish and enforce internal control procedures over federal programs to provide assurance of the reliability and timeliness of financial reporting. The Ohio Department of Health 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 (269) for two of the programs tested. Each report consists of an annual report which is due 90 days from the end of the budget period. The report for the CDC program was due November 30, 2003; an interim report was submitted on December 15, 2003 with the final not being submitted until June 17, 2004. The report for the HIV program was due June 30, 2004; an interim report was submitted on June 29, 2004 with the final not being submitted until September 21, 2004. The Department did not receive an extension to postpone the filing of either annual report.

4. FEDERAL REPORTING (Continued)

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 sub-grantees were slow in reporting to the Department, thus causing the annual reports to not be prepared 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.

5. DATA PROCESSING - BUSINESS RESUMPTION PLAN

Finding Number	2004-DOH05-015
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	Department of Agriculture Department Health and Human Services

INTERNAL CONTROL - REPORTABLE CONDITION

Contingency planning for disaster recovery includes the evaluation and implementation of a written plan that defines the actions to be taken in the event of various disaster situations to facilitate decision making in the period immediately following the disaster. Computer related contingency plans identify arrangements for the continuation or resumption of data processing on compatible hardware and software in the event of an emergency, and require a business impact assessment be performed to identify essential business functions and the applications that support them. Generally, these contingency or business resumption plans are formal, written, and approved by upper management. A business resumption plan describes the responsibilities and procedures required to resume all key business operations and process transactions in case of varying degrees of data processing outages.

The Department made significant progress during the audit period toward completing a written business resumption plan, which included disaster strategies, definitions, and assumptions, a disaster recovery action plan, functional teams and responsibilities, testing the disaster recovery plan, and maintaining the plan. However, the plan was not complete or implemented for the agency in general, or for the restoration of computerized systems that process monies related to the federal grants tested. The WIC program processes data and transactions via a FoxPro program and an internal server interfacing with the state data center's mainframe.

Without a plan listing the key recovery sites, hardware and software configurations, off-site backup tape listings, prioritized recovery lists, roles and responsibilities of data processing and end-user personnel for both the mainframe and FoxPro programs and data, restoration of the WIC and other program processing could be significantly delayed. Without formal, written recovery policies and procedures, there is an increased risk that key agency operations could be interrupted for an extended period of time, resulting in a temporary halt to the valuable health support services provided to the general public.

5. DATA PROCESSING - BUSINESS RESUMPTION PLAN (Continued)

The Network Services Manager said the Divisions of Prevention, Quality and Family are in the process of completing the documentation of Business Processes for their own functional areas. Several other tasks are dependent on the selection, approval and deployment of hardware and software components that will perform the mirroring of systems and data at the Recovery Site. As the components are put into place, the details will be documented in the Disaster Recovery/Business Continuance Plan.

We recommend the Department continue work on completing a business resumption plan in its entirety. The Department should ensure their plan is comprehensive, consistent with the Department's overall objectives, and reflects current recovery operations including:

- Recovery Terms and Definitions
- Recovery (Hot/Cold/Reciprocal) Site Information and Procedures
- Technical (Hardware/Software) Recovery Procedures and Configurations
- End User Recovery Procedures
- Prioritized Application and Transaction Recovery List
- Recovery Testing Plan and Maintenance Procedures
- Personnel Training
- Public Relations/Liaison Procedures

Once completed, the business resumption plan should be implemented and periodically reviewed, tested, and updated. This review should provide reasonable assurance that personnel are sufficiently trained to carry out procedures necessary to restore data processing functions critical to business operations.

6. DATA PROCESSING - PROGRAM CHANGE CONTROLS

Finding Number	2004-DOH06-016
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	Department of Agriculture Department 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 management perform accurately, efficiently, and meet management's requirements. The procedures typically cover such areas as programming standards, naming conventions, schedules and budgets, design standards, approval procedures for users, approval procedures for data processing management, and testing standards.

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 Data Service Request (DSR) form used for documenting mainframe program change requests was not used for the WIC program change process.

6. DATA PROCESSING - PROGRAM CHANGE CONTROLS (Continued)

Without formal program change control procedures in operation, critical data processing applications could be improperly modified, resulting in erroneous and unauthorized transaction processing. The Information Technology Supervisor said staffing restraints prevented the implementation of program change procedures. All changes to WIC Mainframe Programs are documented within the Programs. The Department purchased a versioning control software package and all projects with the exception of Mainframe Program are under PVCS.

We recommend the Department develop, formalize, and approve standards for the entire life cycle of the program change request process, which would be used for all programs. 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.

1. TANF – CONSOLIDATED FUNDING – INAPPROPRIATE EXPENDITURES

Finding Number	2004-JFS01-017
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $129,535,924

45 CFR 260.20 states:

The TANF program has the following four purposes:

(a) Provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;

(b) End the dependence of needy parents on government benefits by promoting job preparation, work, and marriage;

(c) Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and

(d) Encourage the formation and maintenance of two-parent families.

Sound accounting practices require management to devise and implement an adequate internal control structure capable of providing reasonable assurance their objectives are being achieved and federal funds are being spent in accordance with their respective requirements. It is necessary to have internal controls that reasonably ensure amounts claimed for federal reimbursement are accurate, complete, and allowable. Adequate documentation is necessary to provide management assurance the controls are being performed timely and consistently.

The 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 year 2004, the Department advanced approximately $1.5 billion to the CDJFS, more than $600 million of which was advanced utilizing a consolidated funding approach. Under the consolidated funding approach, the CDJFS' were provided spending estimates for each federal program that may exceed estimated amounts for certain programs if the county total amounts were not exceeded. The Department maintains the Central Office Reporting System (CORe) to capture (via monthly QuIC uploads) and process quarterly county expenditures and other activity pertaining to federal programs. The CORe system is also used to calculate amounts to be advanced to counties and to prepare reconciliations related to these transactions. CORe has a functionality that allows the Department to define rules which give them the capability to draw funds from one program/funding source with available money and credit those funds to another program/funding source when that program/funding source's allotted budget has been exceeded. At the conclusion of state fiscal year 2004, the Department performed a reconciliation of the consolidated funding programs and determined that $129,535,924 in TANF funds were inappropriately spent on Federal Social Services, Federal Medicaid local match, and Federal Food Stamp local match expenditures. The auditors independently evaluated the accounting information in CORe and determined the amount of the TANF overpayment calculated by the Department was reasonable.

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 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.

1. TANF – CONSOLIDATED FUNDING – INAPPROPRIATE EXPENDITURES (Continued)

The Bureau Chief of County Finance indicated that rules were designed in accordance with consolidated funding rules that were created because counties were responsible for not overspending their total allocations, which included individual fund allocations. At the end of the fiscal year, it was the Department's intention to put the funding back where it belonged; however, that did not happen appropriately and TANF funding sources were overspent leaving insufficient funding for various county and state expenditures. The consolidated funding approach with the CDJFS' was discontinued in state fiscal year 2005.

We recommend the Department take the necessary steps to recover TANF Federal awards that were inappropriately paid to the counties for other Federal programs. In addition, we recommend that management devise and implement internal control procedures that provide reasonable assurance that future federal reimbursements are made only for allowable program costs, paid only once, and are not used to replace local and State match amounts.

2. UNDOCUMENTED DISBURSEMENTS – MEDICAID CLUSTER

Finding Number	2004-JFS02-018
CFDA Number and Title	93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $8,750,360

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:

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.

As part of our ODJFS Federal Revenue testing, we selected a sample of 20 drawdown transactions made against the Department's four largest Letters-of-Credit (LOC). One of the transactions drawn against the LOC 7081G on 3/29/04 was deposited into CAS Fund R12. This is a holding account used for funds whose disposition cannot be determined at the time of receipt. The Department's intention was to determine within 30 days which CAS funds this revenue should credited to, but, as of 3/11/05, the money was still in Fund R12.

The supporting documentation associated with the deposit, which totaled $8,750,360, indicated the draw was made to close out several grants with available balances, and was for reimbursement of expenditures already made by ODJFS. However, the Department was unable to identify these expenditures in order to substantiate the validity of the draw. As a result, we are questioning costs in the amount of $8,750,360 since we cannot determine whether the underlying expenditures which support the draw were allowable in accordance with the provisions of OMB Circular A-87 indicated above. The supporting documentation indicated the entire deposit was coded to grant #H974, which is the Children's

2. UNDOCUMENTED DISBURSEMENTS – MEDICAID CLUSTER (Continued)

Justice Grants to States (CFDA #93.643). However, given the small size of that program, it did not appear this coding was correct and we were unable to determine which grant(s) the drawdown was intended to fund. Therefore, we are issuing the questioned costs against the Medicaid Cluster (CFDA #93.775/93.777/93.778) since it was the only program funded by LOC 7081G large enough to account for a draw of this size.

If ODJFS does not adequately document the program expenditures it uses to support drawdowns of federal funds, and cannot reasonably ensure they are for allowable activities, the Department risks noncompliance with federal regulations. As a result, ODJFS may be required to return funds used for unallowable activities and future funding may be adversely affected. The Unit Supervisor indicated they felt the drawdown was for legitimate expenditures, but could not explain why they were unable to identify these expenditures.

We recommend ODJFS management implement and/or strengthen controls to reasonably ensure all requests for federal reimbursement are in accordance with federal guidelines, are based on actual expenditures processed, and that program funds are used only for those activities necessary and allowable, as defined under applicable sections of OMB Circular A-87 and individual program requirements. Furthermore, management should periodically monitor the effectiveness of these controls.

3. FACSIS FOSTER CARE DUPLICATES

Finding Number	2004-JFS03-019
CFDA Number and Title	93.658 – Foster Care 93.659 – Adoption Assistance
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $1,060,855

42 USC § 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.

> 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:
>
>   (a) 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.

3. FACSIS FOSTER CARE DUPLICATES (Continued)

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) 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 2004 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 transaction code, and same dates of service. In addition, the auditor also obtained the IV-E Disbursement Journals for July, August, and September of 2004 to reasonably identify adjustments to duplicate payments subsequent to fiscal year end. This analysis identified several matches in payments for the same child, same dates of service, and same transaction code, as detailed below.

Description	Records	Amount Reimbursed
FY04 Payments Plus Subsequent Adjustments: All Foster Care payments recorded on the Disbursement Journal for FY04 and adjustments from the Journal from the first three months of FY05.	151,026	$77,770,685
1) Payments With Adjustments: All payments with an adjustment for the same child, service dates, transaction code, and amount.	26,715	$(5,006,484)
1a) Adjustment Questioned Amount: All payments with adjustments that had more than one non-adjusted payments for the same child, service dates, transaction code, and amount.	74	$7,081 $4,123*
1b) Adjustment Non-Questioned Amount: All payments with adjustments that had one or less non-adjusted payments for the same child, service dates, transaction code, and amount.	26,641	$(5,013,565)
2) Payments Without Adjustments: All payments without an adjustment for the same child, service dates, transaction code, and amount.	124,311	$82,777,169
2a) Exact Date Duplicates: All payments without adjustments with the same child, service dates, and transaction codes.	8,686	$2,127,368
2ai) Exact Date and Exact Amount: All exact date duplicates with exactly the same amount.	1,476	$321,611 (~)$(153,156) $168,455 *
2aii) Exact Date and Different Amounts: All exact date duplicates with no duplicated amounts.	7,210	$1,805,756
2aiia) October 2003 Duplicates: All exact date and different amounts with an adjustment for FFP.	5,382	$1,081,706
2aiia) Duplicates Minus October Duplicates: All exact date and different amounts with no October 2003 adjustments.	1,828	$724,050 *
2b) Overlapping Duplicates: All payments without adjustments with the same child and transaction code and overlapping dates of service.	568	$164,227 *
2c) Non-Questioned Remaining: All remaining payments without adjustments.	115,057	$80,485,574
Total Questioned Amount (* indicates a questioned amount)		$1,060,855

(~) indicates backout amount because we assumed one payment was acceptable

3. FACSIS FOSTER CARE DUPLICATES (Continued)

Several of the items identified included multiple reimbursements for the same child, same time period of service, and same transaction code, 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. Therefore, we have questioned the total amount of the files identifying potential duplicate payments ($1,060,855) for the Foster Care Program.

In addition to the duplicates, there was a problem with the payments that were issued in October 2003. Foster Care payments are disbursed according to the Federal Financial Participation (FFP) rates. Each October, the rates have to be manually updated for the new Federal Fiscal Year (FFY). In October 2003, the rates were overlooked and not updated accordingly, which caused the October payments to be disbursed at the FFY 2002 rates. To correct the problem, ODJFS issued an additional warrant for each payment to account for the difference between the 2002 and 2003 rates.

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 1925s and 1659s have been 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. In addition, we recommend ODJFS implement internal controls to ensure that the FFP rates are changed according to federal regulations.

4. TANF – SUBRECIPIENT MONITORING – HANCOCK COUNTY

Finding Number	2004-JFS04-020
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $191,524

Office of Management and Budget's 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:

. . .

(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.

. . .

Factors such as size of the awards, percentage of the total program's funds awarded to subrecipients, and the complexity of the compliance requirements may influence the extent of monitoring procedures. Monitoring activities may take various forms, such as reviewing reports submitted by the subrecipient, performing site visits to the subrecipient to review financial and programmatic records and observe operations, arranging for limited scope audits of aspects of subrecipient activities, such as eligibility determinations, reviewing the subrecipient's single audit or program-specific audit results and evaluating audit findings and the subrecipient's corrective action plan.

During state fiscal year 2002, the Hancock County Department of Job & Family Services (HCDJFS) had one contract with one provider for Ohio Works First (OWF) and Prevention, Retention, and Contingency (PRC) services requiring the provider to determine eligibility of the recipients of benefits. During our review, we noted HCDJFS had no monitoring procedures in place to determine if the provider was properly assessing the eligibility status of the recipients and only providing benefits to eligible recipients. As part of the fiscal year 2003 follow-up of prior year Single Audit comments, we contacted the HCDJFS Director and reviewed supporting documentation to determine if adequate monitoring procedures were in place during fiscal year 2003. Based on discussions with the Director and review of the contracts, HCDJFS has two contracts with one provider to provide TANF services (Help Me Grow, and the Wellness Initiative Program). Although there was some monitoring of the invoices submitted by the provider and a limited review of selected cases, these procedures were performed only once and covered the period October 2002 through December 2002. Furthermore, there was no sufficient evidence or support of appropriate monitoring procedures in place to determine if the provider was properly assessing the eligibility status of the recipients and only providing benefits to eligible recipients. As part of the fiscal year 2004 follow-up of prior year Single Audit comments, we contacted the HCDJFS Director to determine if adequate monitoring procedures were placed in operation during fiscal year 2004. The Director stated the procedures HCDJFS had begun implementing in fiscal year 2003 were not continued during fiscal year 2004. No monitoring procedures were in place to determine if the provider was properly assessing the eligibility status of the recipients and only providing benefits to eligible recipients. Therefore, amounts disbursed to the provider during fiscal year 2004 resulted in questioned costs totaling $191,524.

4. TANF – SUBRECIPIENT MONITORING – HANCOCK COUNTY (Continued)

Without performing the required monitoring procedures, HCDJFS cannot determine if these federal funds were used for authorized purposes or disbursed to eligible recipients for the appropriate amounts. In addition, county management cannot be reasonably assured that internal controls associated with these subrecipients are sound or that appropriate actions are taken to correct weaknesses. The Director of HCDJFS indicated the monitoring procedures were not performed due to lack of resources.

We recommend HCDJFS management review OMB Circular A-133 and implement the necessary procedures to fulfill their responsibilities for subrecipients. These procedures should, at minimum:

- Include on-site monitoring and other procedures designed to provide reasonable assurance the subrecipients are in compliance with program laws, regulations, and requirements. These on-site reviews should include evaluations of the subrecipients' process and procedures over critical single audit compliance requirements (allowable costs, eligibility, etc.), as well as program activities.
- Be performed on a regular and ongoing basis.
- Provide assurance that appropriate corrective actions are taken to address errors or weaknesses identified.

In addition, we recommend HCDJFS management ensure a system is in place to track the status of the monitoring performed and the status of any required corrective actions resulting from those procedures.

5. TANF – REFUSAL TO WORK SANCTIONS – LUCAS COUNTY

Finding Number	2004-JFS05-021
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for 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> $43,224

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 section 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 970 TANF/Ohio Works First (OWF) assistance groups (AGs) from the GWP 523 reports and performed a compliance test of the sanctions for refusal to work. The benefits for two of the 15 (13%) sanctioned AGs tested were reduced for OWF, but were not reduced for Food Stamps resulting in questioned costs of $383 ($282 from July 2003 through September 2003 and $101 for June 2004). Additionally, the sanctions were lifted early for two of the 15 (13.3%) assistance groups tested and/or their Medicaid or Food Stamp benefits were not properly reduced. Therefore, we are questioning the costs for TANF/OWF (cash assistance) payments of $602, Food Stamps of $433 and Medicaid benefits of $6,751.

5. TANF – REFUSAL TO WORK SANCTIONS – LUCAS COUNTY (Continued)

We also selected 15 of approximately 6,676 OWF assistance groups from the GWP 518 reports related to work activities and performed a compliance test of the sanctions for refusal to work. Eleven of 15 (73%) OWF AGs selected were not in compliance with the work requirements of their self-sufficiency contracts (Employability Contracts) and did not have good cause. In addition, there was no evidence to indicate the Lucas County Department of Job & Family Services (LCDJFS) properly assigned work activities to the client and/or followed up to verify the client's participation in work activities. As a result, appropriate sanctions were not imposed and benefits were not properly reduced. Therefore, we are questioning the costs for cash assistance payments of $30,739 and Food Stamps of $4,316 from the date of noncompliance to the date of compliance, date of closed benefits, or the end of the fiscal year, where applicable for these 11 AGs. The total amount questioned from the testing described above equaled $43,224.

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. Management stated that LCDJFS underwent major departmental restructuring and down-sizing and was coping with significant changes in work procedures and assignments during the fiscal year, as well as significant case management position vacancies. As a result, the errors occurred due to personnel learning new job duties.

We recommend 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. In addition, supervisory reviews could provide added assurance that payments are not made to recipients during ineligible periods.

6. FOSTER CARE – UNALLOWED COSTS

Finding Number	2004-JFS06-022
CFDA Number and Title	93.658 – Foster Care
Federal Agency	Department of Health and Human Services

<u>QUESTIONED COSTS</u> $14,933

42 USC § 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.

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:

   (b) Be necessary and reasonable for proper and efficient performance and administration of Federal awards.

6. FOSTER CARE – UNALLOWED COSTS (Continued)

While testing expenditures in the Foster Care (FC) program, we identified 37 payment records that were listed on the Foster Care Daily Disbursement Journal that were not included on the FC historical database, which indicated the payments did not originate from the FC application (FACSIS). Upon further investigation, we learned these payments were not related to the Foster Care program, but were actually related to TANF benefits which were paid by Lucas County and erroneously charged to the FC program. As a result, the total amount of these disbursements, $14,399, is being questioned.

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 Programmer Analyst indicated that FC payments are paid through a subsystem of CRIS-E (Benefits Issuance [BI]). The BI program was originally programmed to identify the federal program associated with a reimbursement request; however, if the application cannot identify a proper federal program, the system defaults to paying the requests from the FC program and posting the payments to the FC Disbursement Journal.

We recommend the Department investigate these disbursements and determine whether they were charged to the wrong federal program. If so, the Department should make appropriate adjusting entries between the affected programs and consider revising the related federal reports. We also recommend the Department reconcile payments listed on the disbursement journals with the related program's database and investigate any differences noted for all programs the Department administers. Furthermore, we recommend the Department revise the Benefits Issuance application so that any reimbursement payment requests that cannot be identified with a specific federal program be manually reviewed before automatically paying them from a default federal program.

7. TANF – CHILD SUPPORT NON-COOPERATION – LUCAS COUNTY

Finding Number	2004-JFS07-023
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for 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> $12,193

42 United States Code 608(a)(2) states, in part:

> If the agency responsible for administering the State plan approved under part D of section 651 of this title determines that an individual is not cooperating with the State in establishing paternity or in establishing, modifying, or enforcing a support order with respect to a child of the individual, and the individual does not qualify for any good cause or other exception established by the State pursuant to section 654(29) of this title, then the State –
>
> (A) shall deduct from the assistance that would otherwise be provided to the family of the individual under the State program funded under this part an amount equal to not less than 25% of the amount of such assistance; and
>
> (B) may deny the family any assistance under the State program.

It is management's responsibility to establish policies and procedures which reasonably assure compliance with these federal requirements and ensure appropriate supporting documentation is maintained.

7. TANF – CHILD SUPPORT NON-COOPERATION – LUCAS COUNTY (Continued)

We selected 15 out of approximately 425 Lucas County Child Support Enforcement Agency (CSEA) referrals to be sanctioned for child support non-cooperation. We noted one of 15 (6.7%) cases selected was released prior to cooperation with CSEA and/or work activities. The client was sanctioned appropriately with a 1st tier sanction effective October 1, 2003. Both OWF benefits and Food Stamp benefits were reauthorized November 1, 2003, prior to cooperation with work activities on August 9, 2004. Therefore, we are questioning TANF/OWF cash assistance payments of $1,382 and Food Stamps for $495 for benefits paid from November 2003 through June 2004. The total amount questioned is the total of the individual amounts questioned from above, or $1,877 (projected to be more than $10,000).

In addition, we selected 15 out of approximately 1,339 CSEA referrals for sanctions that could not be processed. We noted one of 15 (6.7%) of these referrals did not have valid reasons to justify why it was not processed. Therefore, we are questioning cash assistance payments of $1,230, Food Stamps of $111 and related Medicaid benefits of $236, for the period of January 2004 through March 2004. Furthermore, one of the 15 (7%) referral sanctions tested had a prior sanction that was lifted erroneously which results in further questioned Medicaid benefits of $8,739, for the period July 2003 through March 2004. The total amount questioned as a result of this test is $10,316, resulting in total questioned costs of the individual amounts questioned from above, or $12,193.

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 the 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 these were oversights made by department personnel. Management also stated that LCDJFS underwent major departmental restructuring and down sizing and was coping with significant changes in work procedures and assignments during the fiscal year, as well as significant position vacancies. As a result, the errors occurred due to personnel learning new job duties.

We recommend management review current policies and procedures and/or implement new control procedures which ensure only eligible individuals receive assistance. We also recommend management communicate its policies and procedures to staff to ensure they are carried out as intended. In addition, supervisory reviews could provide added assurance that payments are not made to recipients during ineligible periods.

8. CHILD CARE – MISSING DOCUMENTATION – CUYAHOGA COUNTY

Finding Number	2004-JFS08-024
CFDA Number and Title	93.575/93.596 – Child Care Cluster
Federal Agency	Department of Health and Human Services

<u>QUESTIONED COSTS</u> $4,687

45 CFR 98.20 (a) states, in part:

(a) In order to be eligible for services under Sec. 98.50, a child shall:

(1) (i) Be under 13 years of age; or,

(ii) At the opinion of the Lead Agency, be under age 19 and physically or mentally incapable of caring for himself or herself, or under court supervision;

8. CHILD CARE – MISSING DOCUMENTATION – CUYAHOGA COUNTY (Continued)

(2) Reside with a family whose income does not exceed 85 percent of the State's median income for a family of the same size; and

(3) (i) Reside with a parent or parents (as defined in Sec. 98.2) who are working or attending a job training or educational program; or

(ii) Receive, or need to receive, protective services and reside with a parent or parents (as defined in Sec. 98.2) other than the parent(s) described in paragraph (a)(3)(i) of this section.

…

We selected 20 of 21,963 Day Care Placement and Payment case files for compliance testing. The 20 cases selected represent $9,024 of $124,664,388 total program expenditures for fiscal year 2004. One of 20 (5%) cases selected, including supporting documentation, could not be located. We were unable to determine if the respective payments related to the missing file were made to an eligible recipient. Total payments made to the recipient in question were $4,687 (projected to be more than $10,000).

Missing reports and documentation increase 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 and maintaining the required documentation on file, 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 or for unallowable activities.

The Manager of Administrative Operations for Employment and Family Services stated the missing case file/support is due to the fact they can be located at any one of three different locations; 1) the imaging system, 2) the paper record case file, or 3) the caseworker's desk and the file and support could not be located.

We recommend management review current grant eligibility requirements and the related internal controls CCDJFS has established to ensure files are complete and accessible. Additional procedures should be added, as necessary, to reasonably ensure proper eligibility determinations are made and appropriately documented in CCDJFS' records. One method to help ensure the required information is within the file is the development and use of a checklist, which could serve as a lead sheet for each file and provide a quick status of the case for the personnel responsible for reviewing, approving, and maintaining case files.

9. RECIPIENT ELIGIBILITY – MEDICAID CLUSTER

Finding Number	2004-JFS9-025
CFDA Number and Title	93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $2,953

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 ineligible…

9. RECIPIENT ELIGIBILITY – MEDICAID CLUSTER (Continued)

It is management's responsibility to implement policies and procedures to provide reasonable assurance that only persons who meet all eligibility criteria are able to receive benefits.

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. MMIS interfaces with the CRIS-E system to verify the recipients' eligibility status. For one of 120 Medicaid recipient claims tested, the recipient's eligibility per CRIS-E was not consistent with their eligibility status per MMIS. MMIS indicated the recipient was Medicaid-eligible, while CRIS-E indicated the recipient was eligible for SCHIP. We were unable to verify which program the recipient was eligible for and which program funds should have been used to reimburse the recipient's health care costs. As a result, we are questioning costs of $2,953 (projected to be greater than $10,000), which represents the recipient's paid health care costs for the period tested.

The lack of sufficient edit and validation checks increase 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. Management indicated the interfaces between the MMIS and CRIS-E systems contained underlying coding where the recipient's eligibility category in CRIS-E may indicate they are SCHIP-eligible, but they have a type indicator indicating they are Medicaid-eligible. Even though the recipient is labeled as SCHIP-eligible in CRIS-E, the type indicator is an indication of Medicaid eligibility if the recipient is at the proper percent of poverty level.

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.

10. CSEA – UNALLOWED ACTIVITIES – DEFIANCE COUNTY

Finding Number	2004-JFS10-026
CFDA Number and Title	93.563 – Child Support Enforcement
Federal Agency	Department of Health and Human Services

<u>QUESTIONED COSTS</u> $450

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:

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.

   …

10. CSEA – UNALLOWED ACTIVITIES – DEFIANCE COUNTY (Continued)

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.

45 CFR, Section 304.20, states, in part:

(a) Federal financial participation at the applicable matching rate is available for:

(1) Necessary expenditures under the State title IV-D plan for the support enforcement services and activities specified in this section and Sec. 304.21 provided to individuals from whom an assignment of support rights as defined in Sec. 301.1 of this chapter has been obtained;

(2) Parent locator services for individuals eligible pursuant to Sec. 302.33 of this title;

(3) Paternity and support services under the State plan for individuals eligible pursuant to Sec. 302.33 of this chapter.

(b) Services and activities for which Federal financial participation will be available shall be those made pursuant to the approved title IV-D State plan which are determined by the Secretary to be necessary expenditures properly attributable to the Child Support Enforcement program, except any expenditure incurred in providing location services to individuals listed in Sec. 302.35 (c) (4) of this title, …

During state fiscal year 2003, ten direct program expenditures were selected to test compliance with the above requirements. One of ten expenditures selected was for the quarterly rental of a water cooler ($150). Total program funds expended on the water cooler during fiscal year 2003 were $600 ($150 x 4 quarters). This resulted in questioned costs because the expenditures did not meet the allowable criteria, as defined by OMB Circular A-87 and 45 CFR, Section 304.20. As part of the fiscal year 2004 follow-up of prior year Single Audit comments, we contacted the Defiance County Department of Job & Family Services (DCDJFS) Assistant Director and reviewed appropriate supporting documentation to determine if program funds continued to be used for quarterly water cooler payments. Based on documents received from the Assistant Director, DCDJFS used program funds to make three water cooler payments of $150 in July 2003, October 2003, and January 2004. Therefore, amounts disbursed for the water cooler during fiscal year 2004 resulted in questioned costs totaling $450 (projected to be more than $10,000).

If DCDJFS does not ensure its program expenditures are for only allowable activities, DCDJFS will be in a state of noncompliance with federal regulations. Additionally, DCDJFS may be required to return funds used for unallowable activities, and future funding may be adversely affected.

In fiscal year 2003, the Assistant Director and Director stated the water cooler was purchased because the City of Defiance has a high level of nitrates in its water system, and the water is not recommended for extended drinking. It is also not recommended for pregnant women who are employed by CSEA. The Assistant Director indicated that ODJFS internal auditors questioned and looked into the expense in a past audit; however, it was not addressed in their audit report. The Assistant Director stated that once this issue was brought to their attention, they ceased making the payments for the water cooler from program funds and began using other funds to pay for the water cooler. The fiscal year 2004 fourth quarter payment was not charged to program funds.

We recommend management review its policies and procedures designed to ensure that program funds are used only for those activities necessary and allowable, as defined under applicable sections of OMB Circular A-87 and 45 CFR, Section 304.20. Furthermore, management should periodically monitor the effectiveness of its procedures designed to ensure program funds are spent only on allowable program activities.

11. TANF – REFUSAL TO WORK SANCTIONS – FRANKLIN COUNTY

Finding Number	2004-JFS11-027
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

<u>QUESTIONED COSTS</u> $197

45 CFR 261.14 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 section 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 20 of approximately 2,729 TANF case files and performed a compliance test of the sanctions for refusal to work. Our test found one instance where a client had been identified for a sanction, yet still received benefits during the sanction period. As a result, we are questioning costs for the benefits paid to this recipient during the sanction period, totaling $197 (projected to be more than $10,000).

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 FCDJFS is making payments during ineligible periods, there is greater risk of potential questioned costs which could jeopardize future funding. Management stated they were unsure why benefits were received during this period, and that it appeared to be simply an oversight on their part.

We recommend 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.

12. VARIOUS PROGRAMS – COST ALLOCATIONS – HAMILTON COUNTY

Finding Number	2004-JFS12-028
CFDA Number and Title	All Programs Administered by the County
Federal Agency	Department of Agriculture Department of Health and Human Services

<u>QUESTIONED COSTS</u> Undetermined

Direct costs are those that can be identified specifically with a particular final cost objective. Costs allocable to a particular cost objective must be charged to the benefiting Federal program. This is a requirement of the Grants Management Common Rule, which incorporates OMB Circular A-87 by reference. Specifically, the Grants Management Common Rule (7 CFR Part 3016.22; 29 CFR Part 97.22; 45 CFR Part 92.22) states:

12. VARIOUS PROGRAMS – COST ALLOCATIONS – HAMILTON COUNTY (Continued)

(b) Applicable cost principles. For each kind of organization, there is a set of Federal principles for determining allowable costs. Allowable costs will be determined in accordance with the cost principles applicable to the organization incurring the costs.

OMB Circular A-87, Attachment A(C)(3)(a), states:

A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

It is management's responsibility to implement policies and procedures to ensure compliance with established cost principles and program requirements.

Based upon a memorandum and supporting documentation provided to us on December 1, 2004, by management of the Hamilton County Fiscal Department, the treatment and coding of certain Title IV-E costs related to a contract with Magellan, Inc., was recently questioned by ODJFS. According to the December 1, 2004 memorandum provided to us, the County inappropriately coded expenditures related to the Magellan contract to the Apportioned Direct Cost Pool. As a result, Hamilton County reversed $26,282,317 of charges to the cost pool on its final, revised 2827 Report for fiscal year 2004.

In addition, in fiscal year 2004, HCDJFS charged costs for the Title IV-E Foster Care program, including placement and maintenance direct costs, to the indirect cost pool. The effect of these actions was to inappropriately charge portions of these costs to various federal programs which derived no ascertainable benefit there from. The amount of direct costs improperly charged through indirect cost pools and thereby to inappropriate federal programs is not determinable at this time. A special audit, to be released under separate cover, is ongoing at HCDJFS. This report will provide more information concerning these expenditures and may include federal questioned costs.

Inappropriate coding of expenditures may result in questioned costs and could negatively impact future funding amounts. Management indicated the miscoding was due to misinterpretation and error on part of the Fiscal Department management in interpreting the Grants Management Common Rule.

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.

13. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – DUE DATES

Finding Number	2004-JFS13-029
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

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. . . .

13. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – DUE DATES (Continued)

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 IEVS and established their own targeting system for processing IEVS matches. 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. The chart below details the "Flash #61" due dates and compares them with the due dates required by federal regulations and guidelines for those states not using their own targeting system.

Program	Priority Ranking	Federal Due Date (No. of Days)	Flash #61 Due Date (No. of Days)
Food Stamp Cluster	High	90	90
"	Medium	90	120
"	Low	90	180
Temporary Assistance for Needy Families (TANF)	High	45	45
"	Medium	N/A	120
"	Low	N/A	180
Medicaid Cluster and State Children's Insurance Program (SCHIP)	High	45	45
"	Medium	45	120
"	Low	45	180

We selected six large counties; Cuyahoga, Franklin, Hamilton, Lucas, Clark, and Summit, representing approximately 44% of the nearly 2.2 million annual IEVS alerts in state fiscal year 2004 for testing related to the timely completion of IEVS alerts in accordance with the JFS standards set forth in "Flash #61".

Initially 58 of 180 (32%) alerts were tested in which the alert was not resolved by the mandated timeframe. Of the 58 errors noted, 9 alerts had documentation indicating third party verification was pending. Therefore, only 49 of 180 (27%) alerts tested, were not resolved by the mandated timeframe since there was no documentation within the CRIS-E System Screens CLRC or a "Y" on DESL to indicate a third party verification was pending. The results are summarized below:

13. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – DUE DATES (Continued)

Type of Alert	No. Tested	No. Delinquent	Delinquency Rate
High Priority	144	42	23.33%
Medium Priority	36	7	19.44%
Total	180	49	27.22%

Of the 42 delinquent High Priority alerts, twelve were resolved 1-30 days beyond the 45 day requirement; fourteen were resolved 31-90 days beyond the 45 day requirement; seven were resolved 91-180 days beyond the 45 day requirement; and nine were resolved 180-275 days beyond the 45 day requirement. Of the 7 delinquent Medium Priority alerts, three were resolved 31-90 days beyond the 120 day requirement; three were resolved 91-180 days beyond the 120 day requirement; and one was resolved 301 days beyond the 120 day requirement.

Based on these results, it does not appear IEVS alerts were being completed according to the time lines established in the ODJFS state plan and documented in "Flash #61". This increases the risk of benefits (totaling approximately $776 million for Food Stamps, $870 million for TANF, $193 million for SCHIP, and $10.2 billion for Medicaid in fiscal year 2004) 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. The Fraud Control Section Chief agreed with the validity of this finding. The Department has been reprogramming IEVS; as a result, notifies the county supervisors 15 days prior to the 'due date' of an alert in an effort to minimize the number of delinquencies.

We recommend the Department work with the counties to implement control policies and procedures which 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.

14. LACK OF CORRECTIVE ACTION

Finding Number	2004- JFS14-030
CFDA Number and Title	All Programs Administered by the Counties
Federal Agency	Department of Agriculture Department of Labor Department of Health and Human Services

<u>NONCOMPLIANCE</u>

OMB Circular A-133. §___.300 states, in part, the auditee shall:

> . . .
>
> (f) Follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan in accordance with §__.315(b) and §__.315(c), respectively.
>
> . . .

14. LACK OF CORRECTIVE ACTION (Continued)

In the State of Ohio, the responsibility to implement appropriate control policies and procedures to evaluate each audit finding, develop a corrective action plan, and ensure appropriate corrective action is taken is given to the management of each department or agency.

Of the 57 comments included in the fiscal year 2004 State of Ohio Single Audit Report for ODJFS, 32 (approximately 57%) relate to comments which were included in the prior year's report; many of these comments have been repeated for several years. Although this is an improvement over the prior year where approximately 73% of the findings were repeated, it does indicate that appropriate corrective actions were not taken to correct a significant number of items. The table below lists the most significant of these recurring issues:

COMMENT AREA	PROGRAM INVOLVED	COMMENT TYPE
Foster Care Duplicates	Foster Care	Questioned Costs
IEVS – Due Dates	Food Stamps, TANF, Medicaid, SCHIP	Noncompliance
CORe Processing	WIA	Material Weakness
CORE Advance Calculation	All Programs Administered by the Counties	Material Weakness
Manual Overrides of CRIS-E	Food Stamps, TANF, Medicaid, SCHIP	Material Weakness
Inadequate Monitoring	TANF	Material Weakness

Without appropriate corrective actions on audit report comments, the risk is increased that ODJFS will be subjected to fines or penalties or that funding will be reduced. ODJFS management indicated many of these issues are currently being evaluated or are planned for review. However, they have either not had time to fully address the comments or other factors, such as budget and staff issues, have delayed the process.

We recommend ODJFS continue their efforts to ensure necessary corrective actions are taken via the Office of the Chief Inspector and the audit committee. ODJFS should ensure the audit committee is comprised of top management-level personnel for each major section of the organization and emphasize the need to prioritize the corrective actions needed to help resolve audit findings and reduce/eliminate repeated comments. We also recommend the audit committee meet with the auditors at the entrance conference and throughout fieldwork to gain an understanding of the scope of testing being performed, discuss exceptions noted, and address audit concerns.

15. TANF – DETERMINING POPULATION OF CASES FOR TESTING – VARIOUS COUNTIES

Finding Number	2004-JFS15-031
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

NONCOMPLIANCE

42 U.S.C 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 one 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.

It is management's responsibility to establish policies and procedures which reasonably ensure compliance with the above federal requirements and ensure appropriate supporting documentation is maintained to verify compliance.

Currently, there is no system in place to ensure compliance with this requirement. The CRIS-E system has no coding or parameters to determine the population of adult single custodial parents, assigned to work activities, caring for a child who is under six years of age, who have been sanctioned, and whose benefits may have been reduced or terminated. Therefore, we were unable to test for compliance with this requirement at any of the seven County Departments of Job & Family Services (CDJFS) selected for testing this year.

With no procedures or ability to identify within the CRIS-E system the population of adult single custodial parents, assigned to work activities, caring for a child who is under six years of age, who have been sanctioned, and whose benefits may have been reduced or terminated, management cannot ensure compliance with 42 U.S.C 607 (e)(2). As a result, the risk that assistance benefits paid to adult single custodial parents, assigned to work activities, caring for a child who is under six years of age, who refuse to work, but have a demonstrated inability to obtain child care, may be inappropriately reduced or terminated is increased.

Management within the various CDJFS stated CRIS-E does not allow them to track the cases of adult single custodial parents caring for a child who is under six years of age whose benefits have been reduced or terminated. ODJFS management indicated a field will be added in Control D to indicate whether a sanction met the criteria above; however, this was unavailable for us to select a sample from and/or determine a population for fiscal year 2004 testing.

15. TANF – DETERMINING POPULATION OF CASES FOR TESTING – VARIOUS COUNTIES (Continued)

To ensure benefits are properly reduced or terminated in accordance with 42 U.S.C. 607 (e)(2), we recommend CDJFS maintain a listing, database, or other form of appropriate documentation identifying the population of adult single custodial parents, assigned to work activities, caring for a child who is under six years of age, who have been sanctioned for refusal to work. Additionally, management should work with the ODJFS to determine and implement a method to maintain and identify this information within the CRIS-E system.

16. TANF – SUBRECIPIENT MONITORING

Finding Number	2004-JFS16-032
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

NONCOMPLIANCE

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 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.
(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.

. . .

16. TANF – 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 2004, approximately $58 million in federal funding for the Temporary Assistance for Needy Families (TANF) was processed through Intra-State Transfer Vouchers (ISTVs) primarily to three other state agencies: The Department of Education (ODE), Department of Development (DEV), and Department of Health (DOH). The Department has determined these agencies are subrecipients however, because they are included in the State of Ohio reporting entity, they would not be subject to separate A-133 audits. With regard to the Department's monitoring of its subrecipients, the following issues were noted:

- The Department does not have a system in place to identify the federal funds transferred to other state agencies for TANF or track A-133 audits performed for those agencies, if/when a management decision was issued, if a corrective action plan is required, when those corrective action plans are due, and when the corrective actions have been resolved.

- ODJFS transferred approximately $3.7 million in federal TANF funding to DEV during state fiscal year 2004, but did not perform any subrecipient monitoring activities.

- The CFDA number for TANF was not identified in the interagency agreement for ODE during state fiscal year 2004.

- ODJFS provided no documentation that management issued a decision on the A-133 audit findings of ODE issued in March 2004 for the fiscal year 2003 State Single Audit. The Bureau of Audits did utilize the audit finding when developing procedures for their audit.

Under these circumstances, the Department may not be reasonably assured they have met the requirements of OMB Circular A-133, or the "sister agencies" have met the requirements of the TANF program. Based on discussions with management, ODJFS is performing a risk-based approach to testing similar to that of an external audit.

16. TANF – SUBRECIPIENT MONITORING (Continued)

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 for monitoring subrecipients. We recommend the Department develop and implement a tracking log to identify the amount of federal funds transferred to other agencies for TANF. This log would aid the Department in determining:

- Whether or not the subrecipients' federal single audit was obtained and evaluated to determine if TANF was included in the review,

- If/when a management decision was issued, if a corrective action plan is required, when those corrective action plans are due, and when the corrective actions have been resolved.

- The type and extent of subrecipient monitoring procedures required as well as the frequency with which they should be performed.

We also recommend the Department revise their interagency agreements with their subrecipients to clearly identify the CFDA title and number for each federal program covered by the agreements.

17. MEDICAID/SCHIP – SUBRECIPIENT MONITORING

Finding Number	2004-JFS17-033
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

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 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.

17. MEDICAID/SCHIP – SUBRECIPIENT MONITORING (Continued)

(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.
(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.

. . .

§___.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 2004, approximately $974 million in federal funding for the Medicaid Cluster and $29 million for the State Children's Insurance Program (SCHIP) was processed through Intra-State Transfer Vouchers (ISTVs) primarily to five other state agencies: The 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, because they are included in the State of Ohio reporting entity, they would not be subject to separate A-133 audits. With regard to the Department's monitoring of its subrecipients, the following issues were noted:

- The Department does not have a system in place to identify the federal funds transferred to other state agencies for Medicaid and SCHIP or track A-133 audits performed for those agencies, if/when a management decision was issued, if a corrective action plan is required, when those corrective action plans are due, and when the corrective actions have been resolved.

- Per the Interagency Agreement with ODJFS and DMH, the amount of federal funds transferred for Medicaid and SCHIP could not exceed a maximum of $229,511,895 during State fiscal year 2004. However, ODJFS transferred an additional $3,782,896 during the fiscal year and the interagency agreement was not amended to account for these increases.

17. MEDICAID/SCHIP – SUBRECIPIENT MONITORING (Continued)

- Per the Interagency Agreement with ODJFS and the AGE, the amount of federal funds transferred for Medicaid could not exceed a maximum of $506,250 during State fiscal year 2004. However, ODJFS transferred an additional $149,513,582 during the fiscal year and the interagency agreement was not amended to account for these increases.

- The CFDA numbers for the Medicaid Cluster were not identified on the interagency agreements for AGE and DOH.

- The CFDA number for SCHIP was identified on the interagency agreements for ADA, DMH, and DMR; however, the subrecipient agencies were not informed by ODJFS of the requirements imposed by laws and regulations for SCHIP. Therefore, these “sister agencies” may not be able to provide the necessary information regarding compliance requirements, etc. to their subrecipients.

- ODJFS did not make a distinction in their monitoring procedures between Medicaid and SCHIP, even though these programs have some separate and unique compliance requirements. As a result, the Department may not be reasonably assured they have sufficiently monitored SCHIP at ADA, DMH, and DMR.

- ODJFS provided no documentation that management issued a decision on the A-133 audit findings of DMH and DMR issued in March 2004 for the fiscal year 2003 State Single Audit.

Under these circumstances, the Department may not be reasonably assured they have met the requirements of OMB Circular A-133, or the “sister agencies” have met the requirements of the Medicaid and SCHIP programs. Based on discussions with management, ODJFS is performing a risk-based approach to testing similar to that of an external audit.

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 for monitoring subrecipients. We recommend the Department develop and implement a tracking log to identify the amount of federal funds transferred to the sister agencies for Medicaid and SCHIP. This log would aid the Department in determining:

- Whether or not the subrecipients’ federal single audit was obtained and evaluated to determine if Medicaid and/or SCHIP was included in the review,

- If/when a management decision was issued, if a corrective action plan is required, when those corrective action plans are due, and when the corrective actions have been resolved.

- The type and extent of subrecipient monitoring procedures required as well as the frequency with which they should be performed.

We also recommend the Department revise their interagency agreements with their subrecipients to clearly identify the CFDA title and number for each federal program covered by the agreements. Furthermore, these agreements should define the laws, rules and regulations related to these awards, including any special considerations (such as the need to separately track and report SCHIP funds). The interagency agreements should be modified if the maximum federal funding amounts are exceeded during the award year.

18. EMPLOYMENT SERVICES – FEDERAL REPORTING

Finding Number	2004-JFS18-034
CFDA Number and Title	17.207/17.801/17.804 – Employment Service Cluster
Federal Agency	Department of Labor

NONCOMPLIANCE

The Wagner Peyser Act section 10c states:

(c) Each State receiving funds under this Act shall--

(1) make such reports concerning its operations and expenditures in such form and containing such information as shall be prescribed by the Secretary, and

(2) establish and maintain a management information system in accordance with guidelines established by the Secretary designed 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 the ETA 9002 and VETS 200 Quarterly Reports are accurate, complete, and in compliance with these requirements. It is imperative management be able to provide the underlying data and related program documentation required to prepare and support these reports.

During state fiscal year 2004, 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 compile the necessary information from SCOTI and upload it into ETA's web based reporting system each quarter. This system allows the Department to view the reports electronically before they are finalized and submitted to the Department of Labor. Several individuals within the Bureau of Workforce Services, System Support Section are to review the reports for reasonableness before submission. However, no documentation was maintained, either electronically or in another form, to identify the detail which supported the information on these reports at the time of submission. In addition, we were unable to recreate the reports from the underlying data within SCOTI because the information is being continuously updated. As a result, we were unable to determine whether the ETA 9002 or the VETS 200 reports submitted during fiscal year 2004 were accurate, complete, and in compliance with federal rules and regulations.

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 could subject the Department to federal sanctions, limiting the amount of funding for program activities. The Department's management stated they did not realize detailed support to the ETA 9002 and VETS 200 was required to be maintained. They indicated it may have been possible to recreate the data with some additional programming; however, there was insufficient time to explore this option due to a recent reorganization of the section.

We recommend the Department devise and implement policies and procedures to provide reasonable assurance the federal reports are accurate, complete, and in compliance with federal requirements. This will require the Department to maintain a "snapshot" of the SCOTI system information at the time each report is prepared, or develop a method which would allow the information to be easily recreated, so appropriate supporting documentation is being maintained and can be evaluated timely. We also recommend management periodically monitor the preparation and accuracy of these reports, and formally document their reviews.

19. WIA – ONE STOP DELIVERY SYSTEMS

Finding Number	2004-JFS19-035
CFDA Number and Title	17.258/17.259/17.260 – WIA Cluster
Federal Agency	Department of Labor

<u>NONCOMPLIANCE</u>

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. Section 134 (c)(2)(A) of the Act requires that a One-Stop Delivery System make available all of the listed programs, services and activities "… at not less than one physical center in each local area of the State…" The Act specifies there be 19 required partners and five optional partners in the delivery system and that relationships be documented by a memorandum of understanding. (WIA Act Section 121 (a)).

In addition, 20 CFR 662.100 states:

(a) In general, the One-Stop delivery system is a system under which entities responsible for administering separate workforce investment, educational, and other human resource programs and funding streams (referred to as One-Stop partners) collaborate to create a seamless system of service delivery that will enhance access to the programs' services and improve long-term employment outcomes for individuals receiving assistance.

(b) Title I of WIA assigns responsibilities at the local, State and Federal level to ensure the creation and maintenance of a One-Stop delivery system that enhances the range and quality of workforce development services that are accessible to individuals seeking assistance.

(c) The system must include at least one comprehensive physical center in each local area that must provide the core services specified in WIA section 134(d)(2), and must provide access to other programs and activities carried out by the One-Stop partners.

. . .

During fiscal year 2004, the Department had eight Local Workforce Investment Areas (LWIA). Of these eight, LWIA #1 through #6 and #8 were conventional Areas and LWIA #7 had 76 counties and 55 sub-areas within the Area. On July 1, 2004, the Department expanded the number of local areas to 20, which encompassed 31 One-Stop centers. The Department has also developed a two-tiered certification process to evaluate the One-Stop system for compliance with the WIA requirements. The first tier is the Conditional Certification which requires an on-site review to evaluate ADA accessibility, core services, resource rooms, and follow-up on corrective actions required from previous audits. The second tier is the Full Certification which requires an on-site review to ensure the Memorandum of Understanding (MOU) is compliant and fully executed, all partners identified in the MOU are present at the location, and ADA accessibility requirements are met. The Department indicated all 20 of the new LWIAs have achieved Conditional Certification, but only one has achieved Full Certification. In addition, neither certification includes verifying all 19 partners required by WIA Section 121 are included in the MOU and/or are participating in the One-Stop system. As such, the Department has not demonstrated compliance with the WIA One-Stop requirements.

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. The Department management indicated that they are aware of the deficiency regarding the One-Stop Centers and are working to make improvements.

19. WIA – ONE STOP DELIVERY SYSTEMS (Continued)

We recommend the Department continue to work toward compliance with the Act. This should include revising the MOUs and expanding the Full Certification process to include verifying the LWIA has met the requirements of WIA Section 121 regarding the 19 required and five optional partners. We also recommend the Department continue to communicate with the U.S. Department of Labor regarding the structure of WIA and their procedures to help ensure their plan meets federal expectations and requirements.

20. CORe PROCESSING OF WIA

Finding Number	2004-JFS20-036
CFDA Number and Title	17.258/17.259/17.260 WIA Cluster
Federal Agency	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 must include controls to ensure all transactions and budgetary information are accurately recorded and documented to provide management with assurance the controls are being performed timely and consistently.

The County Finance Department maintains the Central Office Reporting System (CORe) to capture (via monthly uploads from the counties' QuIC systems) 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 2004), and prepare reconciliations related to these transactions. However, the Shared Portion of Workforce Investment Act (WIA) Administration and Indirect Services were mapped to funding sources on the Year to Date Over/Under reports that did not correspond to the funds the mapping codes indicated. The counties use the mapping codes to prepare their expenditure uploads in the QuIC system before submission to County Finance to be processed in CORe. This resulted in questionable amounts used on the over/under report for year-end county balances.

Under these conditions, the risk of errors made by CORe while calculating and reporting county expenditures and advances is greatly increased. In addition, rollovers may be processed for inaccurate and/or unauthorized expenditures without detection. As a result, financial information from CORe used for federal, state, or county reporting may not be reliable.

County Finance management indicated that WIA mapping codes have been adjusted at the State level to accurately report WIA expenditures and to calculate the Over/Under amounts. The new mappings have been communicated to the counties via training and handouts. However, the new mappings are not contained in the General Tables, which are the reference the counties use to guide them in creating their uploads and balancing their reports with the CORe reports, because the counties do not have the capability of performing their own mappings on the QuIC systems.

We recommend the Department implement policies and procedures that provide reasonable assurance the financial information maintained, processed, and reported by CORe is accurate and complete and understood by all the counties. This would require all WIA expenditures to be reviewed, analyzed, and communicated to the counties through the General Tables within CORe.

21. CORe ADVANCE CALCULATION

Finding Number	2004-JFS21-037
CFDA Number and Title	All Programs Administered by the Counties
Federal Agency	Department of Agriculture Department of Labor Department of Health and Human Services

<u>INTERNAL CONTROL – MATERIAL WEAKNESS</u>

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. 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) 2004), and prepare reconciliations related to these transactions.

During state fiscal year 2003 and 2004, the counties were allowed to make 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 2003 to be higher than requested. To resolve the issue, the County Finance section of ODJFS re-opened closed quarters in the CORe application and ran the advance calculation with all open quarters so that only budgetary numbers were used and no year to date totals were considered. This caused all the weekly advances that were sent to the counties in SFY 2003 and 2004 to be based on all 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. 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 fix the advance calculation to take into account a year-to-date total of actual expenditures versus reimbursements for each county before money is advanced to the counties.

22. DATA PROCESSING - MANUAL OVERRIDES OF CRIS-E (FIATS)

Finding Number	2004-JFS22-038
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, $588 million for Temporary Assistance for Needy Families (TANF), $125 million for State Children's Insurance Program (SCHIP), and $6.3 billion for Medicaid in fiscal year 2004. 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 through FIATs. At the end of FY 2004, there were 566 open CSRs requested through the CRIS-E Help Desk to help alleviate 138 FIAT situations encountered by county staff statewide. Also, there were 42 additional FIAT situations reported by the case workers to the Help Desk, which did not generate a CSR to resolve the overrides.

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 involved. Eligibility errors have, in the past, resulted in federal fiscal sanctions against the Department.

The Bureau of Production Systems' management stated that CRIS-E was designed to support the caseworker in their work at the county. CRIS-E was not designed to be an "expert" system. That is why the FIAT screens were designed as part of the original system. It was expected that there would be circumstances where the caseworker would need to override the system. There will always be a need for FIATS. In addition, management indicated work on CRIS-E is customer driven. There is a Change Control Review Board (CCRB) with representatives from the Office of Family Stability (OFS), Office of Health Plans (OHP), Office of Research, Assessment & Accountability (ORAA), Office of Management Information Services (OMIS), Bureau of Standards & Configuration Management (BSCM), as well as a representative from the Director's Office and a County. The CCRB meets monthly to discuss the CCRB priority of the Customer Service Requests (CSRs). Work to resolve FIAT issues is done when the CCRB decides it should be and the CCRB usually has higher priority work for OMIS. Once the review/clean-up of existing CSRs is completed, the CCRB will consider the FIATed CSRs during the prioritization process of the OMIS workload.

We recommend ODJFS continue to analyze their current process of addressing FIATs and devote the necessary resources to minimize manual override situations in CRIS-E.

23. INTERNAL REVIEWS OF AUTOMATED SYSTEMS

Finding Number	2004-JFS23-039
CFDA Number and Title	All Programs Administered by the Department
Federal Agency	Department of Agriculture Department of Labor Department of Health and Human Services

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 which must be reported to grantor federal agencies. It is management's responsibility to establish and implement internal control procedures that reasonably ensure program objectives and requirements are met and information (both financial and non-financial) is accurately and completely processed and maintained. Appropriate monitoring must be 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.

The Department places immeasurable reliance on a number of complex information systems (CRIS-E, FACSIS, MMIS, SETS, CORe, SCOTI, WRS, Unemployment Benefits, 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

23. INTERNAL REVIEWS OF AUTOMATED SYSTEMS (Continued)

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 the Auditor of State, Health and Human Services, 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 evaluate the current priority regarding the Department’s compliance with federal regulations and state IACP guidelines addressing the internal independent review of significant computer systems (CRIS-E, FACSIS, MMIS, SETS, CORe, SCOTI, WRS, Unemployment Benefits, and Unemployment Compensation). Independent reviews and assessments should be implemented, as required by federal and state guidelines, 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 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.

24. TANF – COUNTY MONITORING

Finding Number	2004-JFS24-040
CFDA Number and Title	93.558 –Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

<u>INTERNAL CONTROL – MATERIAL WEAKNESS</u>

Specific requirements for eligibility are unique to each program and are contained within the laws, regulations, and agreements pertaining to the program. To provide assurance eligibility and other critical requirements are being adhered to, it is the responsibility of management to implement control procedures which provide for a standardized review and monitoring process, and promotes adherence to the specific program compliance requirements.

The determination of an applicant’s eligibility to receive cash assistance from the Temporary Assistance for Needy Families (TANF) program is initiated at each county agency (approximately $646 million for Ohio Works First (OWF) and $46 million for Prevention, Retention, and Contingency (PRC)). Applicant information is compiled by case workers and input into CRIS-E, an ODJFS computer system designed to evaluate information, determine if an applicant is eligible to receive cash assistance, and calculate the benefit amount. In addition, ODJFS has entered into a partnership agreement with each county to provide incentives to the counties to reduce the number of assistance groups on the welfare rolls.

As of June 30, 2004, the Department had not instituted monitoring procedures to determine whether information input into the CRIS-E system corresponded to source documentation, or if CRIS-E was accurately evaluating the information provided by the county agency case workers. Although the Bureau of Audits completed reviews of county activities during state fiscal year 2004, these reviews were limited primarily to the PRC portion of the TANF program and did not include specific testing of compliance requirements for the OWF portion of the program. In May 2004, the Bureau of Program Integrity completed a ‘pilot’ statewide quality control review which included performing eligibility reviews over OWF; however, the Department revised their focus of the ‘pilot’ to a work participation review in July 2004. These procedures do not appear to be sufficient to monitor the overall PRC and OWF activities for the TANF program at the county level.

24. TANF – COUNTY MONITORING (Continued)

Without an adequate monitoring process, the Department has limited assurance program funding was disbursed to eligible recipients for the appropriate amounts. If uncorrected, this condition could lead to questioned costs, thereby increasing the Department's liability and/or impacting the amount of federal funding to be received in future years. According to the Bureau of Audits, the Department has been reviewing areas for expansion over its review of compliance requirements applicable to TANF and will implement those procedures in their audits of CDJFS for state fiscal year 2005. In addition, the Bureau of Program Integrity Section Chief indicated the Department has completed eligibility reviews over OWF in state fiscal year 2005.

We recommend the Department continue to implement monitoring policies and procedures which sufficiently provide reasonable assurance that TANF program requirements and objectives are being fulfilled at both the state and county levels. These monitoring procedures should cover all compliance requirements of the program, with particular attention paid to the activities allowed, eligibility, and special tests and provisions requirements included in the OMB Circular A-133 Compliance Supplement for both the OWF and PRC portions of the TANF program; and include a review and evaluation of the counties' compliance with their fiscal agreement. All monitoring procedures should be documented in some manner to indicate who performed the review, the results, and any recommendations or planned corrective action.

25. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – POLICY AND PROCEDURE MANUAL

Finding Number	2004-JFS25-041
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

<u>INTERNAL CONTROL – REPORTABLE CONDITION</u>

An entity's internal control structure consists of the policies and procedures established by management to provide reasonable assurance that specific financial and operational objectives are achieved. These policies set the tone for management's commitment to the accomplishment of their goals as well as professional and statutory requirements. Additionally, the documentation of policies provides specific direction for consistent and timely processing of a quality control or internal review.

The Department processed and forwarded to the 88 counties nearly 2.2 million IEVS alerts during fiscal year 2004. The following monitoring weakness was noted:

- CRIS-E Flash #61, the State IEVS Policy and Procedure Manual, was last updated in July 1, 1992. The State has not updated the existing 'centralized' policy or procedure manual to reflect the current procedures in place over IEVS processing. The Department currently has a policy in place to monitor IEVS activities at county level through their processing reviews. This policy needs to be included in the 'centralized' policy or procedure manual for IEVS; as well as, any additional monitoring procedures the Department performs (i.e., review of the GDE007RA, GDE0089RA, GDE0090RA reports, etc.) to monitor the completion and timeliness of IEVS alerts at the counties.

25. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – POLICY AND PROCEDURE MANUAL (Continued)

Without standardized procedures over IEVS, the Department cannot be reasonably assured IEVS is being utilized as intended at the county levels, especially considering there are differing operating procedures at each of the counties. The Fraud Quality Control Section Chief stated the Department has not yet issued a "centralized policy or procedure manual to reflect the current procedures," since they have carefully kept IEVS workers apprized of all the changes as they occurred via the CRIS-E View Flash Bulletins. Revision of the entire official policy / procedure will occur once we have completed revision of the automated system later this year.

We recommend the Department update their current policies and procedures to include information related to the monitoring, processing, and compliance of IEVS alerts. These procedures should be formally communicated to all employees, including the 88 counties, once finalized. Additionally, the procedures should be updated on a regular basis to address any necessary changes. We recommend the Department continue providing updated IEVS processing procedures to the counties through policy amendments rather than relying on CRIS-E Flash Bulletins as some IEVS Coordinators may over look these publications.

26. CONTRACTS/RELATIONSHIPS WITH COUNTY AGENCIES

Finding Number	2004-JFS26-042
CFDA Number and Title	All Programs Administered by the Counties
Federal Agency	Department of Agriculture Department of Health and Human Services

INTERNAL CONTROL - REPORTABLE CONDITION

OMB Circular A-133 §__.210 states, in part:

. . .

(b) Federal award. Characteristics indicative of a Federal award received by a subrecipient are when the organization:

(1) Determines who is eligible to receive what Federal financial assistance;

(2) Has its performance measured against whether the objectives of the Federal program are met;

(3) Has responsibility for programmatic decision making;

(4) Has responsibility for adherence to applicable Federal program compliance requirements; and

(5) Uses the Federal funds to carry out a program of the organization as compared to providing goods or services for a program of the pass-through entity.

. . .

It is management's responsibility to evaluate all federal transactions to determine if a subrecipient relationship exists; and to notify the parties involved, in a written contract or agreement, of the nature of these relationships as well as the other parties' responsibilities for meeting the compliance and audit requirements of the single audit act and OMB Circular A-133.

26. CONTRACTS/RELATIONSHIPS WITH COUNTY AGENCIES (Continued)

ODJFS currently uses a state supervised, county administered approach for the operation of its major programs, except those received from the Department of Labor. Under this structure, the 88 counties in Ohio do not report these funds on their federal schedule even though they may meet all five criteria of a subrecipient, in varying degrees for each program, as defined in OMB Circular A-133. In addition, the counties must contribute local dollars as a condition of receiving this federal funding for most, if not all, of these programs. ODJFS has entered into fiscal agreements with each county, as required by Ohio Revised Code Section 5101.21. These fiscal agreements state that each county must comply with state and federal laws, including OMB Circulars; however, they do not identify the nature of the relationships between ODJFS and the county agencies, nor has a formal evaluation of these relationships been completed.

If subrecipient relationships exist between ODJFS and the county agencies and are not properly identified, the county agencies would not be subject to a separate single audit, as required by the Single Audit Act and OMB Circular A-133. In addition, under the current structure, the roles and responsibilities of the State and county agencies are not always clear, which increases the risk of noncompliance and reduces overall program effectiveness. This greatly increases the risk that federal funds could be used improperly or that other program compliance requirements would not be met. Department management indicated they are in the process of correcting this problem, but have not finalized the details.

We recommend ODJFS evaluate the current state/county relationship to determine a more effective method for defining responsibilities and monitoring results. This will require the Department to complete an evaluation of their relationships with the county agencies to determine whether, based on the criteria in OMB Circular A-133, they should be treated as subrecipients for any or all of the federal programs involved, and they should revise contracts/agreements with the counties to clearly define the nature of the relationships and each party's responsibilities. If subrecipient relationships are identified, these contracts must identify the program name and CFDA number, the award name and number, the award year, if the award is for research and development, and the name of the federal awarding agency. In addition, the contracts should incorporate basic information about the award and key provisions which would enable the counties to carry out their responsibilities and allow the Department to monitor their activities.

We also recommend ODJFS review their responsibilities with regard to monitoring subrecipients, and institute the necessary control procedures to satisfy these requirements should the counties be determined subrecipeints. Furthermore, all future relationships which involve federal funds should be carefully evaluated and explicit agreements defining the nature of the relationship and each party's responsibilities should be completed before funds are disbursed.

27. VARIOUS PROGRAMS – CODING ERRORS

Finding Number	2004-JFS27-043
CFDA Number and Title	93.563 – Child Support Enforcement 93.658 – Foster Care 93.667 – Social Services Block Grant
Federal Agency	Department of Health and Human Services

<u>INTERNAL CONTROL – REPORTABLE CONDITION</u>

It is management's responsibility to consistently and efficiently track and compile financial data related to federal program activities. This is typically accomplished through the use of a chart of accounts with enough detail to reasonably ensure financial information can be gathered and organized to allow management to effectively analyze and/or report on program operations. In a sound internal control environment, procedures would be periodically performed which compare the chart of accounts in place to management's objectives to reasonably ensure sufficient and reliable data is being maintained from an overall Department perspective for each program as a whole.

27. VARIOUS PROGRAMS – CODING ERRORS (Continued)

We identified the following errors/inconsistencies in the coding of revenue and expenditure transactions related to state fiscal year 2004 activity:

- Child Support Enforcement (CFDA #93.563):
  - $168,707 was recorded as disbursements from the federal fiscal year 2002 grant J616 in CAS. However, revenue draws supporting these expenditures originated from the federal fiscal year 2003 award, grant number K140;
  - $1,302,297 was recorded as disbursements from the federal fiscal year 2003 grant K140 in CAS. However, revenue draws supporting these expenditures originated from the federal fiscal year 2004 award, grant number K779;
  - $152,331 was recorded as disbursements from the federal fiscal year 2002 grant J616 in CAS. However, draws were not made for this expenditure due to sufficient balances in fund 397.
- Foster Care (CFDA #93.658):
  - $366,048 was recorded as disbursements from the federal fiscal year 2002 grant J684 in CAS. However, revenue draws supporting these expenditures originated from the federal fiscal year 2003 award, grant number K152;
  - $75,162 was recorded as disbursements from the federal fiscal year 2002 grant J686 in CAS. However, revenue draws supporting these expenditures originated from the federal fiscal year 2003 award, grant number K151;
  - $27,939 was recorded as disbursements from the federal fiscal year 2002 grant J686 in CAS. However, revenue draws supporting these expenditures originated from the federal fiscal year 2004 award, grant number K745;
  - $4,939,078 was recorded as disbursements from the federal fiscal year 2003 grant K151 in CAS. However, revenue draws supporting these expenditures originated from the federal fiscal year 2004 award, grant number K745;
  - $13,744,134 was recorded as disbursements from the federal fiscal year 2003 grant K152 in CAS. However, revenue draws supporting these expenditures originated from the federal fiscal year 2004 award, grant number K744;
- Social Services Block Grant (CFDA #93.667):
  - $18,617 was recorded as disbursements from the federal fiscal year 2003 grant K157 in CAS. However, revenue draws supporting these expenditures originated from the federal fiscal year 2004 award, grant number K766.

As a result of these errors, a significant amount of time was required by Department personnel, audit staff, and OBM to investigate and/or identify the correct program(s) and/or classifications related to these activities. 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. Management indicated that most of the coding inconsistencies were due to human error, and that many of the coding errors were recognized by the Bureau of Cost and Cash management's Revenue Management section when making the draws. During state fiscal year 2004, this information was not being related back to the proper coding personnel, but they have since implemented procedures to correct this situation.

27. VARIOUS PROGRAMS – CODING ERRORS (Continued)

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 physical vouchers. This could be accomplished by utilizing the Crystal Reports software currently maintained by ODJFS. Information maintained in CAS could be exported and organized as to identify all coding variables which are not included on or consistent with the Department's chart of accounts. Any discrepancies or unusual activity should be documented, investigated, and any necessary corrective actions implemented. Furthermore, a risk based approach (i.e., identifying vouchers with a higher risk of miscoding such as hand written as opposed to electronically produced vouchers) could be utilized to compare a representative selection of physical vouchers to coding maintained in CAS for accuracy.

28. ADOPTION ASSISTANCE – VOUCHER SUMMARY SUPPORT DETAIL

Finding Number	2004-JFS28-044
CFDA Number and Title	93.659 – Adoption Assistance
Federal Agency	Department of Health and Human Services

INTERNAL CONTROL - REPORTABLE CONDITION

Federal guidelines require recipients of funds to ensure program costs are necessary, authorized, and adequately documented. It is management's responsibility to establish and implement internal control procedures to reasonably ensure compliance with these federal guidelines and maintain appropriate supporting documentation for all disbursements of federal funds.

ODJFS places primary reliance on information systems to comply with various federal requirements, particularly those related to activities allowed or unallowed, allowable costs, and eligibility. For the Foster Care and Adoption Assistance Programs, the FACSIS computer systems process and maintain recipient data for eligibility determination and benefit issuance. Each client maintained on FACSIS is assigned a recipient number for identification and tracking purposes. The FACSIS system must interface with the Client Registry Information Benefits Issuance (CRIS BI) System, a subset of the old CRIS System which was replaced by Client Registry Information Benefits – Enhanced (CRIS-E), which generates the electronic files used to prepare the voucher summary and individual warrants for Foster Care and Adoption Assistance benefit payments. The Department maintains this electronic data in Control-D (a viewing and report writing database of selected CRIS-E fields or screens) to identify the detailed warrant information associated with each voucher summary.

As part of our testing, we selected a sample of 30 benefit payments from approximately $151 million in Adoption Assistance expenditures made by ODJFS in fiscal year 2004 and attempted to trace individual recipients/clients to FACSIS to verify they had been determined eligible. However, in all 30 instances, the Adoption Assistance IV-E identification numbers shown on the Control-D GBI017RA Reports did not correlate directly to recipient numbers required to locate the recipients/clients in the FACSIS system, nor was there a readily identifiable link between these two types of numbers. Based on documentation provided by the Department, the FACSIS IV-E numbers can take on one of two forms, both 12-digits long:

- Old Style – CCTNNNNNNNPP
- New Style - CCCNNNNNNN80 (80 represents the assigned designator for FACSIS cases).

28. ADOPTION ASSISTANCE – VOUCHER SUMMARY SUPPORT DETAIL (Continued)

Since CRIS BI only accepts a 10-digit number and a majority of the cases use the new IV-E number style where the first 10-digits represent a unique number, in order to convert a ten-digit number to an IV-E number the suffix 80 must be added to the end of the 10-digit number sequence. If this fails, the Department indicated the suffix 03 may be added or in rare instances suffixes 04 or 05 could be used instead. However, there is no clear indication which suffixes to add to the CRIS BI number other than trial and error to activate the information in FACSIS. Therefore, a direct link does not exist between disbursement support and the computer systems used to determine recipient/client eligibility and benefit amounts which would help management be reasonably assured that program expenditures are accurate, complete, and paid only to eligible recipients in accordance with the laws and regulations of the related federal programs.

Although no inappropriate payments were identified in our testing, management cannot be reasonably assured that program expenditures are accurate, complete, and paid only to/for eligible recipients in accordance with the laws and regulations of the related federal programs without a direct link between the disbursement support and the computer systems used to determine recipient/client eligibility and benefit amounts. ODJFS personnel indicated there is an indirect link between the disbursement report and FACSIS used for documenting eligibility and requested Adoption Assistance benefit amounts. The Department recognizes the need for a more direct link between the child welfare automation and the information maintained with the disbursement of benefits. A stronger link is planned with the development and release of a new statewide child welfare information system.

We recommend ODJFS closely review the programs and processes used in the preparation of voucher summary benefit payments for Adoption Assistance to identify the rationale for using the various numbers and how they are created. We recommend ODJFS create a cross-walk between all possible identification numbers for each client/recipient by creating a field within FACSIS or CRIS so the appropriate individual can be directly identified within the systems based on the supporting documentation for the disbursement.

29. TANF – DATA REPORT

Finding Number	2004-JFS29-045
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

<u>INTERNAL CONTROL – REPORTABLE CONDITION</u>

45 CFR 265.3 states, in part:

(a) Quarterly Reports. (1) Each State must collect on a monthly basis, and file on a quarterly basis, the Data specified in the TANF Data Report. . . .

(b) TANF Data Report. The TANF Data Report consists of three sections. Two sections contain disaggregated data elements and one section contains aggregated data elements.

. . .

It is management's responsibility to implement control policies and procedures to reasonably ensure the TANF Data Reports are submitted in compliance with these requirements. Sound internal controls would require a review of the reports to be performed, and documented in some manner, prior to submitting the data to verify the information reported is accurate and complete.

29. TANF – DATA REPORT (Continued)

Under the current reporting structure, information is extracted monthly from CRIS-E and compiled into a TANF Data Universe file. A sample of the TANF Universe file is then extracted and submitted electronically to the U. S. Department of Health and Human Services on a quarterly basis. Each report consists of three types of data: Assistance Group Level Data, Adult/Individual Level Data, and Child Level Data. However, there are no automated or manual procedures in place to review, evaluate, and approve the reports prior to submission. In addition, the Department is not monitoring the county level information to ensure it is completed and updated on a regular basis within CRIS-E, which ultimately rolls into the ACF-199 Data Report. In support of these findings, the following were noted when testing the ACF-199 Data Report's critical line items (as identified in the OMB Circular A-133 Compliance Supplement):

- Of the 18,594 Child Level Data records within the two quarterly TANF Data Reports selected for testing, 930 contained at least one social security number comprised with all zeros with populated dates of birth and relationship to head-of-household. It appeared these children were newborns and may not have been assigned a social security number. All Child Level Data dates of birth and relationships to the head-of-household were examined utilizing audit software to identify records where the date of birth preceded the reporting month date by more than one year since TANF eligibility redeterminations are to occur at least once annually. For 58 of the 930 records with no social security number, the date of birth preceded the report date by more than 365 days. The days in excess ranged from 414 to 4,520 with an average of 2,462 days.

- Of the 12,076 Individual Level Data records within the two quarterly TANF Data Reports selected for testing, 28 contained at least one social security number comprised with all zeros with populated dates of birth and relationship to head-of-household. All Individual Level Data dates of birth and relationships to the head-of-household were examined utilizing audit software to identify records where the date of birth preceded the reporting month date by more than one year since TANF eligibility redeterminations are to occur at least once annually. For 27 of the 28 records with no social security number, the date of birth preceded the report date by more than 365 days. The days in excess ranged from 6,135 to 21,549 with an average of 10,595 days.

As a result, we were unable to determine whether the quarterly TANF Data Reports were accurate, complete, and in compliance with federal rules and regulations. In the absence of internal controls which would ensure the accuracy and completeness of reports, the risk is greatly increased that information being reported is not representative of TANF 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**.** The Federal Reports and Data Development Section Chief stated if the caseworker at the county level does not obtain the social security number of a child, the Department will go ahead and submit the TANF Data Report without this information. The Department prepares the TANF Data Report based on the information recorded within the CRIS-E system.

We recommend the Department develop and implement control procedures to provide reasonable assurance that the federal TANF Data Report is accurate, complete, and in compliance with federal requirements before being submitted to the federal government. This could be achieved by reviewing and agreeing critical line items contained within the reports to the historical information maintained within CRIS-E and maintaining a log of submission dates. Evidence of such reviews should be maintained to provide management with assurance the controls are operating consistently and effectively. We also recommend the Department monitor the counties on a quarterly basis to ensure a child's/individual's social security number with a date of birth greater than 365 days, is obtained during redetermination of TANF eligibility and updated within the CRIS-E system.

The Corrective Action Plan on page 302 identified additional analysis performed by the Department related to the TANF Data Report. This additional analysis, received March 28, 2005, was not presented to us during the course of our testing nor at the exit conference held March 16, 2005. We have not had an opportunity to evaluate this information.

30. MEDICAID/SCHIP – THIRD PARTY LIABILITY

Finding Number	2004-JFS30-046
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

42 CFR 433.138 states, in part:

(a) Basic Provision. 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. . .

. . .

(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 on a consistent basis throughout the fiscal year to ensure the accuracy and completeness of all health insurance information being entered into the TPL database.

- For three of 60 Health Insurance Verification Forms tested, the verification forms were not completed for the document control numbers selected for review.

- For three of 60 Health Insurance Verification Forms tested, there was no evidence of the examiner's review of that the third party information was updated within MMIS accurately.

30. MEDICAID/SCHIP – THIRD PARTY LIABILITY (Continued)

If ODJFS is not able to completely and accurately identify liable third parties and recoup overpayments related to third-party obligations, the amount of program funds available for eligible Medicaid/SCHIP recipients could be reduced, limiting management's ability to achieve program objectives. Furthermore, inaccurate or incomplete information could lead to claims being unjustly rejected or erroneously paid. According to management, the Third Party forms will be automated where the responsibility of entering the data will be that of the originator. Also, the decrease in the number of reviews was due to limited staffing resources.

We recommend the Department develop and implement a procedure to track all third-party liability documents received by the Cost Avoidance Unit. The Department should ensure the number of third-party liability documents 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 checklists.

31. MEDICAID/SCHIP – DRUG REBATE PAYMENTS

Finding Number	2004-JFS31-047
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 CONTROLS – REPORTABLE CONDITION</u>

Section 1927 of the Social Security Act, states in part:

> . . .
>
> 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.
>
> . . .

31. MEDICAID/SCHIP – DRUG REBATE PAYMENTS (Continued)

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 $399 million during the fiscal year, were not consistently applied to ensure timely billing and collection, as indicated below:

- For four of four quarters tested, or 40 of 40 rebate invoices were not mailed within 60 days after the end of the quarter. Days in excess ranged from nine to fourteen days late.

- For 18 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 143 days late. For the 18 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 manufactures 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 the Pharmacy Unit Supervisor, the rebate invoices were mailed late because the Department did not receive the information from CMS on time. The Pharmacy Unit Supervisor also stated the Department does not have control over when the drug manufacturers submit payment for the drug rebates. In addition, the Department is not responsible for pursuing interest obligations and it is the manufacturers' responsibility to settle with CMS. Management also stated that the pharmacy function of the Department will be outsourced beginning in state fiscal year 2006.

We recommend the Department implement and/or strengthen control policies and procedures related 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. We also recommend the Department take appropriate steps to reasonably ensure an appropriate level of checks and balances exist and appropriate supervisory reviews are completed on a consistent basis.

32. MMIS PROVIDERS' STATUSES

Finding Number	2004-JFS32-048
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>

Reliable IT application controls require that procedures be established that are adequate to ensure the integrity of the data maintained within critical application files.

The Medicaid Management Information System (MMIS) system 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 from 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.).

32. MMIS PROVIDERS' STATUSES (Continued)

Notification of licensure revocation is being sent to ODJFS when medical boards are taking disciplinary action against providers in Ohio; however, notification is not always being received by ODJFS when a provider's license expires and is not renewed or when the provider moves out of state, retires, or dies. Therefore, the status of the 43,284 active providers in the MMIS Provider Master file is not always being updated accurately. Without validation of the providers' licensure and current demographics, non-eligible providers could erroneously or inappropriately receive Medicaid reimbursement.

Ohio Health Plan 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 that notification. ODJFS is working with the Medical Board to receive the current status and demographics of physicians, osteopaths, and podiatrists; however, this process has not been successful as of April 2004.

We recommend that ODJFS work with all of the medical boards to verify that all Medicaid providers possess a valid license or accreditation and that the providers' statuses are updated accordingly in the MMIS Provider Master file.

33. MMIS PROVIDER MASTER FILE CHANGES

Finding Number	2004-JFS33-049
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

<u>INTERNAL CONTROL – REPORTABLE CONDITION</u>

Data that is input for processing must be properly authorized and accurately input to help ensure data integrity. Entry of the data must have a separation of duties among those involved as well as routine verification of the work performed in the data input process. In addition, procedures must be established for the correction and resubmission of erroneous input data.

The Medicaid Management Information System (MMIS) system 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 Policy Department. The changes are then input into the MMIS Provider Master file for processing. Of the 60 changes sampled in the FY2004 Single Audit, 25 (42%) had at least one error in the change of the Provider Master file and 13 (22%) were missing the date stamp of the Provider Enrollment staff that completed the change. 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 and additional postage 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 a thorough review of the change-request input to the MMIS Provider Master File be performed and documented on a regular basis. In addition, all identified errors should be corrected immediately.

34. MMIS EDIT CHANGES

Finding Number	2004-JFS34-050
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

Sound IT practices suggest that organizations establish appropriate procedures to ensure that data input is performed only by authorized staff and that transaction data entered for processing be subject to a variety of controls to check for accuracy, completeness, and validity. Procedures must be established to assure that input data is validated and edited as close to the point of origination as possible. The procedures must also ensure that the processing of data contains a separation of duties and that work performed is routinely verified. Also, the procedures must guarantee that adequate update controls, such as master file update controls, are in place.

Also, change management controls require that each change have a corresponding authorized source document that is complete and accurate, properly accounted for, and transmitted in a timely manner for entry.

The Medicaid Management Information System (MMIS) provides reimbursement to medical providers and managed care entities for services rendered to eligible recipients. The MMIS allowed changes to edits to be completed online through the MMIS Text and Exception Code subsystem. There were 37 people (4 MIS and 33 Ohio Health Plan employees) with access to update these edits.

MMIS was programmed to create a report that listed all the changes to the edit file; however, MIS terminated the report several years ago because of lack of use. Therefore, no review of changes was occurring and in order to verify what changes were performed, each of the 999 edits within MMIS had to be reviewed for the date and user number of the last completed change.

Of the 999 edits programmed into MMIS, 44 were changed within FY 2004. These 44 changes were made by a combination of six people (4 from Ohio Health Plans and 2 from MIS). Out of 10 changes selected for review, 2 (20%) did not have originating or change support documentation. Five of the remaining 8 (62%) were missing originating documentation, approval documentation, or documentation of what changes were made. Only 3 (30%) of the 10 changes selected for review contained complete documentation on what change was made, why the change was made, and who approved the change to be made.

Without a limited number of authorized personnel having access to the MMIS edit file and authorization, documentation, and review of MMIS edits, the status of MMIS edits could be erroneously changed to allow incorrect processing of claims. This could result in erroneous Medicaid reimbursement being paid to MMIS providers.

Ohio Health Plan Management indicated that this was an area that had been assigned to many personnel in Ohio Health Plans and MIS. With the distributed responsibility of updating this file, changes were made with minimal documentation being maintained.

We recommend that management develop, document, and implement procedures to ensure that adequate protection of the MMIS edit information is provided against unauthorized access, modification, and misaddressing. Management should also ensure that the integrity and correctness of the data kept on files and other media (e.g., electronic cards) is checked periodically.

35. WIA – REPORTING/CORe TIME PERIODS

Finding Number	2004-JFS35-051
CFDA Number and Title	17.258/17.259/17.260 – WIA Cluster
Federal Agency	Department of Labor

<u>INTERNAL CONTROL – REPORTABLE CONDITION</u>

The WIA act Section 185(e)(1) states:

> . . .
>
> (e) QUARTERLY FINANCIAL REPORTS-
>
> (1) In general. --Each local board in the State shall submit quarterly financial reports to the Governor with respect to programs and activities carried out under this title. Such reports shall include information identifying all program and activity costs by cost category in accordance with generally accepted accounting principles and by year of the appropriation involved.
>
> . . .

Office of Management and Budget's Circular A-133 states, in part:

> §___.400 Responsibilities. . .
>
> (a) Financial statements. The auditee shall prepare financial statements that reflect its financial position, results of operations or changes in net assets, and, where appropriate, cash flows for the fiscal year audited. The financial statements shall be for the same organizational unit and fiscal year that is chosen to meet the requirements of this part. However, organization-wide financial statements may also include departments, agencies, and other organizational units that have separate audits in accordance with §___.500 and prepare separate financial statements.
>
> (b) Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately.
>
> . . .

It is the Department's responsibility to provide information to the local boards which would allow them to readily compile the required reports timely and accurately.

During fiscal year 2004, counties were required to use the Quarterly Information Consolidation (QuIC) system to transmit their financial data to ODJFS for upload into the Department's Central Office Reporting (CORe) system. CORe allocated the expenditure data received from QuIC to specific line codes and funding sources. Based on reports from CORe, ODJFS determined the amount of WIA funding paid to each county, more than $100 million in state fiscal year 2004. The local area boards also utilized this information to aid in their preparation of the quarterly reports. In addition, the individual counties utilized this information to help compile their Schedules of Expenditures of Federal Awards. However, the CORe system:

35. WIA – REPORTING/CORe TIME PERIODS (Continued)

- Maintains the data by county and is not designed to summarize and report financial data for any local area, as a whole.
- Lacks the capacity to track the local area expenditures by cost category.
- Can only produce state fiscal year cumulative reports, although the counties are required to report their expenditures on a calendar year basis.

As a result, the individual counties and local areas may not have the information readily available to properly prepare the required reports to the Governor and/or their Schedules of Expenditures of Federal Awards. In addition, the counties, local areas, ODJFS, or other interested parties may not have the ability to properly monitor WIA activity and/or reconcile local WIA records to CORe. Under these conditions, the risk of errors made by the counties in reporting expenditures and advances is greatly increased. In addition, the financial information from CORe used for federal, state, or county reporting purposes may not be reliable.

County Finance Management indicated that CORe was never given the functionality to produce reports by calendar year, cost category, or local area and it would be quite costly to implement new programming to allow for this type of reporting.

We recommend the Department implement the necessary changes to the CORe system which would allow individual counties and/or local areas to be able compile their financial data by cost category and local fiscal/appropriate year. This will require the Department to upgrade CORe to allow it to produce reports of each of the counties' expenditures on a quarterly and/or calendar year basis.

36. CORe BUSINESS RESUMPTION PLAN

Finding Number	2004-JFS36-052
CFDA Number and Title	All Programs Administered by the Counties
Federal Agency	Department of Agriculture Department of Labor Department of Health and Human Services

<u>INTERNAL CONTROL – REPORTABLE CONDITION</u>

Contingency planning includes the evaluation and implementation of a business resumption plan that facilitates decision making by defining the actions to be taken in the event of various disaster situations. Sound data processing contingency plans identify arrangements for the continuation of data processing on compatible hardware and software in the event of a major emergency and require a business impact assessment be performed to identify essential business functions and the applications that support them. This information helps define data processing and business continuity requirements. These plans must be periodically tested to help ensure all approved recovery procedures will work effectively and all personnel, vendor, technical, and other recovery-related information is kept current. Results of the testing must be documented and analyzed to adjust the plan based on those test results. Also, copies of the plan must be placed in relevant off-site locations.

36. CORe BUSINESS RESUMPTION PLAN (Continued)

ODJFS 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 2004), and prepare reconciliations related to these transactions. The County Finance Section of ODJFS created a business resumption plan for the CORe application and data; however, the plan was lacking personnel responsibilities, recovery site location and information, technical (hardware/software) recovery procedures, and testing and maintenance procedures. The plan had never been tested or reviewed and was not current.

Without complete documented business recovery procedures, critical resources and processing may not be restored in a timely and efficient manner. As a result, the Department could incur substantial costs in attempting to retrieve and recreate pertinent financial information for internal and external purposes.

Bureau of County Finance management indicated that the Business Resumption Plan had not been updated, tested, or reviewed since the prior audit due to the section focusing on the design and implementation of the new WIA subset.

We recommend the business resumption plan be periodically reviewed and tested to ensure its continued integrity and applicability, and any recovery problems encountered be documented and resolved. We recommend the plan be appropriately updated, based on the results of the tests. This periodic review should also ensure that personnel are sufficiently trained to carry out procedures necessary to restore functions critical to business operations. Copies of the plan should then be stored in relevant on and off-site locations.

37. CORe REPORTING OF ACCRUALS AND OBLIGATIONS

Finding Number	2004-JFS37-053
CFDA Number and Title	All Programs Administered by the Counties
Federal Agency	Department of Agriculture Department of Labor Department of Health and Human Services

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 2004), 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. Two separate amount fields were created to account for the difference in the county's cash value. Entries that 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 contained 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.

37. CORe REPORTING OF ACCRUALS AND OBLIGATIONS (Continued)

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 three (30%) of ten selected counties reported accruals and obligations for Franklin, Hamilton, and Summit incorrectly in the reimbursement amount field, instead of correctly in the amount field of the upload file.

Although the counties reported the amounts incorrectly in the reimbursement amount field, CORe picked up the amounts in the reimbursement amount field if there was no amount in the amount column and reported it on the financial schedules, prohibiting 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.

County Finance management indicated that CORe had reported the correct amounts of accruals even though the counties had reported them incorrectly. Also, County Finance was aware of the problem because although CORe did not report that the counties had incorrectly reported their accruals in the reimbursement column, when County Finance performed a cash reconciliation with the counties, they realized that the counties were out of balance due to the incorrect reporting of accruals.

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. SOCIAL SERVICES BLOCK GRANT - INCOMPLETE MONITORING

Finding Number	2004-JFS38-054
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 that management 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 2004, ODJFS disbursed to the counties approximately $86.2 million in SSBG funds. However, as of the date of our testing, the Department had not designed appropriate monitoring procedures to help provide assurance the Department and county agencies were in compliance with federal requirements related to the SSBG program. Although the Department conducted on-site reviews of the county agencies, these reviews did not include obtaining evidence to reasonably ensure the counties were properly determining program eligibility and performing required monitoring of county subrecipients.

38. SOCIAL SERVICES BLOCK GRANT - INCOMPLETE MONITORING (Continued)

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.

We recommend ODJFS implement policies and procedures to reasonably ensure thorough monitoring of county activities is performed on a regular basis, and proper supporting documentation is maintained at all levels. These procedures may include, but are not limited to, periodic on-site reviews of county operations and compliance by Department SSBG program staff member or an internal auditor. These reviews should be documented in the form of a report that includes the reviewer's signature or initials and date, along with follow-up on any required corrective action.

The Corrective Action Plan on page 308 identified additional procedures performed by the Department related to monitoring SSBG. These procedures, identified on March 28, 2005, were not presented to us during the course of our testing nor at the exit conference held March 16, 2005. We have not had an opportunity to evaluate this information.

39. MISSING DOCUMENTATION – VARIOUS COUNTIES

Finding Number	2004-JFS39-055
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families 93.563 – Child Support Enforcement 93.575/93.569 – Child Care Cluster 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 Health and Human Services

<u>INTERNAL CONTROL – REPORTABLE CONDITION</u>

When administering federal grant awards for ODJFS, it is the counties' responsibility 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, 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 monitoring county activities to reasonably ensure the Department's compliance with federal program requirements.

39. MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

Five of the seven counties tested during the audit period were missing required case file or other documentation, as follows:

COUNTY	CFDA #	MISSING DOCUMENTATION
Brown	93.659	We noted one of 20 (5%), out of approximately 40, adoption assistance case files was missing the Adoptive Placement Agreement Form (ODHS 1654) for eligibility control testing.
	93.667	We noted one of 17 (5.88%), out of approximately 45, SSBG case files was missing the application for SSBG eligibility control testing.
Cuyahoga	93.575/ 93.569	We noted the following missing documentation during child care eligibility control testing of 20, out of approximately 21,963, Day Care Placement and Payment cases: • Ten Application/Redetermination forms (50%) were missing (one of the 20 case files could not be found). • 11 Notice of Approvals or Applications for Assistance (55%) were missing (one of the 20 case files could not be found). • Ten Rights and Responsibilities forms (50%) were missing (one of the 20 case files could not be found). • Ten Notices of Day Care Placement and Payment (50%) were missing (one of the 20 case files could not be found).
	93.558	We noted the following missing documentation during TANF child support non-cooperation control testing of 20, out of approximately 159, case files: • Four Self-Sufficiency Contracts (20%) were not in the case file. • Six Self-Sufficiency Plans (30%) were not in the case file. • 17 Sanction Intervention Letters (85%) were not in the case file. • 18 Sanction Notification Letters (90%) were not in the case file. We noted the following missing documentation during TANF refusal to work control testing of 20, out of approximately 1,334, case files for sanctioned cases: • Ten Self-Sufficiency Contracts (50%) were not in the case file (four of the 20 case files could not be found). • 11 Self-Sufficiency Plans (55%) were not in the case file (four of the 20 case files could not be found). • 18 Sanction Intervention Letters (90%) were not in the case file (four of the 20 case file could not be found). • 17 Sanction Notification Letters were not in the case file (four of the 20 case files could not be found). We noted the following missing documentation during TANF refusal to work control testing of 20, out of approximately 26,830, case files for non sanctioned cases: • Seven Self-Sufficiency Contracts (35%) were not in the case file (one of the 20 case files could not be found). • Eight Self-Sufficiency Plans (40%) were not in the case file (one of the 20 case files could not be found).

39. MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

COUNTY	CFDA #	MISSING DOCUMENTATION
Cuyahoga (continued)	93.558 (continued)	We noted the following missing documentation during TANF eligibility control testing of 20, out of approximately 5,647, case files: • 16 PRC applications (80%) were not the case file (two of the 20 case files could not be found for control and compliance test). • 14 PRC request forms (70%) were not in the case file (two of the 20 case files could not be found for control and compliance test). • 18 PRC Notices (90%) were not in the case file (two of the 20 case files could not be found for control and compliance test). We noted the following missing documentation during TANF activities allowed control testing of 20, out of approximately 5,647, case files: • One case file (5%) could not be found. • 13 PRC Request Forms (65%) could not be found. We noted six of ten TANF-OWF cases (60%) were missing the personal responsibility contract for TANF-OWF eligibility control testing.
	93.767	We noted five missing case files during SCHIP eligibility control testing of 20, out of approximately 5,719, case files (25%). As such, we were unable to test the controls in place over the five initial applications or redeterminations (if not a first time applicant), five entries of the application information into CRIS-E, and five ODHS 7220 forms from these case files. An additional application was missing from a case file that was received.
	93.775/ 93.777/ 93.778	We noted three of ten Medicaid cases (30%) were missing the application for Medicaid eligibility control testing (two case files were missing and one contained only medical bills and no other items pertaining to the case).
Franklin	93.558	We noted one missing self-sufficiency contract during TANF-OWF eligibility control testing of ten (10%), out of approximately 26,470 case files. Therefore, we could not determine if the contract was signed by the applicant and the caseworker. We noted one missing self-sufficiency contract during TANF-OWF special tests and provisions child support non-cooperation control testing of 17 (5.89%), out of approximately 26,470 case files. Therefore, we could not determine if the contract was signed by the applicant and the caseworker.
	93.767	We noted one missing rights and responsibilities form during SCHIP eligibility control testing of 19 (5.26%), out of approximately 25,337 case files. Therefore, we could not determine if the rights and responsibilities form was signed by the client.

39. MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

COUNTY	CFDA #	MISSING DOCUMENTATION
Hamilton	93.563	We noted one case file was missing during control testing of 22, out of approximately 8,045, Child Support Interstate case files (4.5%).
Lucas	93.558	During TANF allowability and eligibility control testing of 20, out of approximately 426, PRC voucher packets, we noted three applications (15%) did not have the appropriate supporting documentation. During TANF allowability control testing of 20, out of approximately 426, PRC voucher packets, we noted two case files were missing (10%). During TANF-OWF eligibility control testing of 10, out of approximately 6,676 cases files, we noted: • One case file (10%) was missing. • One employability contract and plan was missing (10%) from a case file. During TANF-OWF special tests and provisions control testing of 20, out of approximately 425, CSEA non-cooperation sanction files, we noted two self-sufficiency contracts and self-sufficiency plans (10%) were missing. During TANF-OWF special tests and provisions control testing of 20, out of approximately 970, CSEA refusal to work sanction files, we noted one referral form for sanction (5%) was missing.
	93.667	During SSBG eligibility control testing of 20, out of approximately 725, case files, we noted one (5%) case file was missing.
	93.767	During SCHIP eligibility control testing of 13, out of approximately 4,365, case files, we noted two redetermination forms (15.38%) were missing from the case files.
	93.775/ 93.777/ 93.778	During Medicaid eligibility control testing of 10, out of approximately 84,331, case files we noted three case files (30%) did not contain all verifications, i.e. CRIS-E printout of applicants SSI income or checklist.

Without appropriate supporting documentation on file, the 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 beneficiary's compliance with federal regulations.

Brown and Franklin County management indicated the missing documents were the result of employee oversight. 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 indicated that interstate child support cases were contracted with a was never returned from the vendor and the case is

39. MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

now closed. Lucas County management indicated missing documents were the result of employee oversight and failures of caseworkers to notify auditors that many items of support formerly kept within the case file are currently maintained in the CRIS-E CLRC screen as running comments.

We recommend Brown CDJFS, Cuyahoga CDJFS, Franklin CDJFS, Hamilton CDJFS, and Lucas CDJFS 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 the subsidy 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. Finally, management should ensure caseworkers inform auditors that certain supporting documents for cases that were kept in hard copy format in the past are currently kept within CRIS-E or another application system in soft copy format.

40. LATE COUNTY REPORTS – VARIOUS COUNTIES

Finding Number	2004-JFS40-056
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.658 – Foster Care 93.667 – Social Services Block Grant
Federal Agency	Department of Agriculture Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

County agencies are advanced or reimbursed federal monies to administer various programs. The county agencies are required to submit monthly financial and other reports to identify program outlays/activities and provide information to ODJFS which is then used to prepare cumulative federal reports and various schedules used by the Office of Budget and Management to compile the State's financial statements. To facilitate the completion and submission of these reports, ODJFS has established policy and procedure manuals to identify applicable reporting requirements, as indicated below:

The FNS 250 Food Coupon Accountability Report (food stamps program) is completed monthly by the CDJFS and must be submitted no later than 20 days after the end of the report month. This report must be submitted regardless of monthly activity by each coupon issuer and bulk storage point that distributes food stamps. [Users Guide to Food Stamp Delivery Chapter 3 Food Stamp Coupons]

The ODHS 1925 Monthly Financial Statement (foster care program) must be submitted to ODJFS no later than the 10th working day of the month following the expenditure month. [ODHS Administrative Procedure Manual Appendix]

The ODHS 4282 Title XX Social Services Block Grant Report (SSBG program) is completed quarterly by the CDJFS and must be submitted no later than 45 days after the end of each quarter. This report must be submitted quarterly even if SSBG direct services were not provided and/or purchased services expenditures were not made during the quarter. [ODHS Administrative Procedure Manual Section 5501]

40. LATE COUNTY REPORTS – VARIOUS COUNTIES (Continued)

Five of the seven counties tested during the audit period, five submitted one or more reports beyond the required due dates, as follows:

Report: FNS 250 Monthly Report Program Affected: Food Stamps		
COUNTY	**# LATE / # TESTED**	**DAYS LATE**
Brown	3/4	12
Cuyahoga	2/4	2 - 3

Report: ODHS 1925 Monthly Report Program Affected: Foster Care		
COUNTY	**# LATE / # TESTED**	**DAYS LATE**
Lucas	4/4	2 - 12

Report: ODHS 4282 Quarterly Report Program Affected: Social Services Block Grant		
COUNTY	**# LATE / # TESTED**	**DAYS LATE**
Brown	2/4	7 – 12
Hamilton	3/4	6 – 45
Highland	2/4	4 – 12
Lucas	1/4	17

Without accurate and timely reporting by the various county agencies, the risk that amounts reported to the federal grantor agencies and/or on the State's financial statements are not indicative of actual program activities is greatly increased. Delays in receiving county financial information could significantly delay the preparation of certain GAAP Package Schedules used to provide information for the preparation of the State's financial statements. County personnel identified a variety of reasons for not preparing the reports and/or not submitting them timely, including inadequate experience of the preparer, delays in receiving statistical support, human error, and insufficient procedures.

We recommend the various county agencies implement control policies and procedures which would reasonably ensure the required reports are prepared accurately and timely. These procedures could include the use of a tickler file to alert county personnel of the approaching deadlines. If, for some reason, the reports cannot be filed within the timeframe established, management should seek a written extension or waiver from ODJFS for this requirement. In addition, any extensions granted to counties should be clearly documented, in writing, so that each party is sure of the expectations. Also, ODJFS should enhance their monitoring procedures related to county reporting to identify those counties who are habitually late and enforce punitive measures for those counties, as provided for in the procedure manuals and Ohio Administrative Code.

41. REPORTING PROCEDURES, REVIEWS, AND INACCURACIES – VARIOUS COUNTIES

Finding Number	2004-JFS41-057
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.563 – Child Support Enforcement 93.575/93.569 – 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

County agencies are advanced or reimbursed federal monies to administer various programs. The county agencies are required to submit monthly financial and other reports to identify program outlays/activities and provide information to ODJFS which is then used to prepare cumulative federal reports and various schedules used by the Office of Budget and Management to compile the State's financial statements. It is the responsibility of county management to implement control policies and procedures to reasonably ensure these reports are complete, accurate, and timely.

Six of seven counties tested had weaknesses in their report preparation and/or review process which, in some instances, resulted in inaccurate information, as follows:

COUNTY	CFDA #	REPORT/WEAKNESSES NOTED
Brown	93.667	During SSBG allowability control testing of 20, out of approximately 42, vouchers, we noted: • One invoice (5%) was not signed by the client or the client's power of attorney. • Twenty invoices (100%) contained no evidence to determine if the invoices had been reviewed and approved by the fiscal specialist prior to payment.
Cuyahoga	93.558	During TANF-PRC allowability control testing of 20, out of approximately 5,647, cases, we noted one voucher (5%) was not signed by the client to indicate the amount received was accurate.
Franklin	93.775/ 93.777/ 93.778	During Medicaid control testing of 20, out of approximately 630 employees, we noted 13 Data Entry Recap Forms (65%) did not have a checkmark on them to indicate they were agreed to the Munis System.
Hamilton	All Programs	During control testing over payroll transactions, we noted four of 19 (21.1%), out of approximately 1,452 employees, daily timesheets were not approved by the Unit Timekeeper/Team Leader.
	93.667	Two of the four quarterly 4282 reports (50%) selected for testing did not contain the correct number of total customers served.

41. REPORTING PROCEDURES, REVIEWS, AND INACCURACIES – VARIOUS COUNTIES (Continued)

COUNTY	CFDA #	REPORT/WEAKNESSES NOTED
Henry	93.667	One of four quarterly 4282 reports (25%) selected for testing did not contain the correct number of children that received protective services for the quarter.
	93.767	During control testing of SCHIP eligibility, we noted one of 20 (5%), out of approximately 858, cases the income support included in the case file did not agree to the income amount posted to the CRIS-E system.
Lucas	10.551/ 10.561 93.558 93.575/ 93.569 93.667 93.767 93.775/ 93.777/ 93.778	During control testing over 20, out of approximately 9,200, IMRMS observation forms, we noted two IMRMS forms (10%) were not signed by the employee indicating completeness.
	93.558	During TANF allowability and eligibility control testing of 20, out of approximately 426, PRC voucher packets, we noted: • One application (5%) was not signed by the caseworker aide, the income maintenance worker, the work activities worker, or the social services unit worker. • One voucher application (5%) was not signed by the unit supervisor or team leader. During TANF eligibility testing of 18, out of approximately 426, PRC voucher packets, we noted one application (5.6%) did not have the source of income verification. During TANF-OWF eligibility control testing of ten, out of approximately 6,676, assistance groups we noted in two cases (20%) a checklist was not used properly to ensure all the appropriate information was obtained from the client. During TANF-OWF special tests and provisions refusal to work control testing of 20, out of approximately 6,676, assistance groups we noted: • Five needs appraisals (25%) were not completed, signed, and dated by the applicant. • Three self-sufficiency and plans (15%) were not completed, signed, and dated by the applicant or caseworker for the period cash benefits were received. • Four cases (20%) contained no documentation of where the client was referred or assigned to a work activity.

41. REPORTING PROCEDURES, REVIEWS, AND INACCURACIES – VARIOUS COUNTIES (Continued)

Under these conditions, reports submitted to the federal awarding agency may not include all activity of the reporting period, may not be supported by underlying accounting or performance records, and/or may not be presented in accordance with program requirements. Various reasons were provided by county personnel regarding these issues including employee oversight, staffing changes/reductions, movement of records, insufficient procedures, inexperienced staff, new procedures, and new computer systems.

We recommend the following:

BROWN COUNTY

In an effort to ensure management's control objectives are achieved, we recommend management review invoice approval procedures with staff and revise procedures, if necessary. Furthermore, management may consider performing monitoring procedures to ensure these control procedures are consistently implemented. For example, management may periodically examine invoices to ensure the required signatures are present.

CUYAHOGA COUNTY

In an effort to ensure management's control objectives are achieved, we recommend management review its policies and procedures regarding the processing of PRC voucher payments to clients. Management should ensure its policies are adequately communicated to staff responsible for performing PRC payments. Furthermore, management may consider performing periodic reviews of case files to determine if PRC vouchers are being processed as intended.

FRANKLIN COUNTY

We recommend management reiterate to personnel the importance of consistently following and performing established internal controls and ensuring that proper documentation is maintained to evidence the performance of these controls.

HAMILTON COUNTY

We recommend management review its established payroll control procedures with those persons who are responsible for their performance (Unit Timekeepers/Team Leaders or Supervisors/Department Heads) and emphasize the importance of the consistent application of those procedures. To ensure control procedures are in place and operating as intended, management may periodically monitor the application of such procedures by examining payroll records and supporting documentation, such as time sheets and leave forms.

In an effort to ensure ODHS 4282 Reports are complete, accurate, and are being reviewed by the appropriate level of management prior to their submission to ODJFS, we recommend management review its current internal control policies and procedures and ensure they are adequately communicated to individuals with review responsibilities. Management should also ensure that new computer systems are operating as intended so information necessary for the preparation of reports is received in a timely manner. In addition, management should follow up on any discrepancies or unusual items noted. Evidence of the performance of managerial reviews, approvals, and follow up actions should be documented in the form of signatures, dates, and explanatory notes on the reports and/or supporting documentation.

HENRY COUNTY

In an effort to ensure ODHS 4282 Reports are complete, accurate, and are being reviewed by the appropriate level of management prior to their submission to ODJFS, we recommend management review its current internal control policies and procedures and ensure they are adequately communicated

41. REPORTING PROCEDURES, REVIEWS, AND INACCURACIES – VARIOUS COUNTIES (Continued)

HENRY COUNTY (continued)

to individuals with review responsibilities. Management should also ensure they communicate to caseworkers all the necessary information to be included in the supporting documentation submitted for preparation of the ODHS 4282 Reports. To ensure control procedures are in place and operating as intended, management may periodically monitor the application of such procedures by examining case files and other supporting documentation, such as count sheets submitted by caseworkers.

In an effort to ensure management's control objectives are achieved, we recommend management communicate to staff established control procedures to ensure accuracy of case files. These control procedures should include ensuring that information in a case file agrees to the information input into the CRIS-E System. Furthermore, management may consider performing monitoring procedures to ensure these control procedures are consistently implemented. For example, management may periodically examine case files to ensure they agree to CRIS-E.

LUCAS COUNTY

We recommend management review its established IMRMS control procedures with those persons who are responsible for their performance (supervisors and employees) and emphasize the importance of the consistent application of those procedures. Furthermore, management should implement control procedures to ensure the completeness and accuracy of IMRMS forms. To ensure control procedures are in place as intended, management may periodically monitor the application of such procedures by examining IMRMS observation forms to ensure all appropriate signatures are on them.

We recommend management review its policies and control procedures related to determination and documentation of eligibility of recipients. Management should ensure policies and procedures are communicated to persons responsible for performing the procedures. Furthermore, in an effort to ensure its objectives are carried out as intended, we recommend management periodically measure the degree to which established control procedures are being performed. This may include periodically selecting random recipient cases to determine if the respective case files indicate the proper performance of procedures, including income verification and the use of checklists.

In an effort to ensure management's control objectives over eligibility are achieved, we recommend management communicate to staff established control procedures regarding the completion of applications and documentation of income eligibility determination. Furthermore, management may consider performing monitoring procedures to ensure these control procedures are consistently implemented. For example, management may periodically examine case files to ensure applications contain all the necessary signatures and documentation of income eligibility determination.

We recommend management review its current policies and procedures which ensure required self-sufficiency contracts, plans, needs appraisals, checklists, client referrals, and assignments for work activities are completed accurately and signed by recipients and LCDJFS representatives when necessary. These procedures should be communicated to staff to ensure they are carried out as intended. Furthermore, management may perform periodic reviews of case files in an effort to determine the degree to which established procedures are being followed.

42. DATA PROCESSING – LOSS OF WRS ARCHIVED DATA

Finding Number	2004-JFS42-058
CFDA Number and Title	17.225 – Unemployment Insurance
Federal Agency	Department of Labor

INTERNAL CONTROL – REPORTABLE CONDITION

Sound practices for the management of IT processes suggests that an organization's system development life cycle methodology provide, as part of every information system development, implementation, or modification project, that the necessary elements from the old system are converted to the new one according to a pre-established plan. The data conversion plan should be prepared, defining the methods of collecting and verifying the data to be converted, and identifying and resolving any errors found during conversion. Also, tests should be performed to ensure all data was converted completely and accurately.

The Wage Record System (WRS) contains reported wage data for all Ohio employers. In August of 2004, the WRS had to be updated as a result of the Unemployment Benefits System being replaced with the Ohio Job Insurance (OJI) application. The WRS historically held the previous six quarters of wage information and all subsequent quarters were maintained in separate archived files; however, the OJI application required the previous eight quarters to be maintained within WRS. During the update of WRS to append the two additional quarters, there was a problem with the recording of wages reported for the first quarter of 2003. MIS had technical difficulties adding the first quarter of 2003 for any employee with more than two employers reporting for the quarter. Thus, some records did not get placed into the updated WRS after the processing was complete.

Without a complete and accurate reporting of wage data in the WRS and OJI applications, the risk is increased that unemployment benefits would be calculated incorrectly. In addition, employer's unemployment contribution rates are based in part on the employer's annual taxable payroll. If the employer's wage data is not reported completely and accurately, the risk is increased that the employer's contribution rate would be calculated inaccurately.

According to the management of Employment Services, it was an oversight on MIS' part when the WRS database was reconstructed to correct a purge error. Management indicated the deleted data was able to be recovered from a test environment file.

We recommend that ODJFS develop, document, and implement policies and procedures over the conversion of elements from one system to another for all current and future conversions of data. The procedures should include, but not be limited to:

- Periodically comparing the original and converted files.
- Verifying the compatibility of the converted data with the new system.
- Reviewing master files after conversion to ensure the updated master file data is complete and accurate.
- Verifying that, if transactions which change the master file are processed between the initial conversion and final implementation, both the original file and the file being prepared for conversion are updated.

In addition, after data is converted from one system to another, procedures should be performed and documented that confirm the conversion was successful. This is particularly critical during the period of time just subsequent to the implementation of this new system. We also recommend that ODJFS review the conversion of the OJI and WRS applications by comparing the previous applications and data to the new systems to ensure that all the information was converted completely and accurately. Appropriate follow-up actions should be taken to resolve any discrepancies note.

43. DATA PROCESSING - MMIS AND CRIS-E MISSING CHANGE REQUEST FORMS

Finding Number	2004-JFS43-059
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

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. Therefore, formal change control procedures are necessary. They 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 change 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.

Three of the 60 (5% error) MMIS migrated programs reviewed did not have a completed CSR available for review for the programs changed.

Three of the 60 (5% error) CRIS-E migrated programs reviewed did not have (a) CSR(s) completed for the program changed. For all three of the migrated programs the related CSR could not be located and provided for review.

For 23 of the 60 (38% error) CRIS-E CSRs, the "Required Completion Date" field was not completed.

Without following standardized procedures for modifying application data, the risk is increased that unauthorized change requests could result in program changes being made in noncompliance with management's original intentions, requirements, or objectives.

43. DATA PROCESSING - MMIS AND CRIS-E MISSING CHANGE REQUEST FORMS (Continued)

According to CRIS-E management, missing CSRs could be attributed to the process of the conversion of all CRIS-E CSRs to Dimensions system in early 2004. Prior to the use of Dimensions, the request completion date was not a required field when a CSR was generated. Now it is a required data element in the Dimensions system. According to MMIS management, CSRs were requested to be completed from the customer for the related changes that were found in error, but the completed CSRs were never received by MMIS from the customer.

We recommend that the ODJFS complete the change request forms in their entirety before moving changes into production. Appropriate approvals should be obtained and documented at all stages of the program change cycle to ensure updated applications are operating as intended.

44. DATA PROCESSING - MMIS PROGRAM CHANGE TESTING DOCUMENTATION

Finding Number	2004-JFS44-060
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

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. 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. These systems provide ODJFS with the ability to determine eligibility for welfare benefits and provide reimbursements to Medicaid providers. The policies are designed to provide enough detail to adequately control the program change processes, which is initiated by a Customer Service Request (CSR/SRF) form. During the audit period, testing documentation was not available for 55 of the 60 (92%) MMIS program changes selected for review.

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.

Per MMIS management, the ODJFS MMIS department does 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 are maintained. In addition, user acceptance should be obtained for all pertinent changes to help ensure the applications are operating as intended.

45. DATA PROCESSING - SETS SYSTEM DOCUMENTATION

Finding Number	2004-JFS45-061
CFDA Number and Title	93.563 – Child Support Enforcement
Federal Agency	Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

Sound business practices dictate that an organization ensure that there is appropriate system documentation created and maintained. Program logic, functionality, and relationships must be documented to provide an understanding of how the application programs work and interact. This is especially prudent when term contractors have been hired to help complete the application's development or maintenance. Most importantly, the program documentation must be comprehensive and accurate enough to allow state employees or future contractors to effectively and efficiently resume the current contractors' roles and IT functions in the event the current contractors leave ODJFS.

There was no program documentation that shows the interrelationship of program changes and data dependencies between programs. However, there are the original Technical Design Documents (TDD) or Detail Design Documents (DSD) that could be used in conjunction with the Task Tracking System (TTS) and all the Test Incident Reports (TIRs) that have occurred since the original documentation, but the task would not be efficient, and the effectiveness questionable. System documentation of programs older than two years old is not as up-to-date and current as the most recent programs' system documentation.

There is the potential that when the new RFP for only one main contractor per application is released, the current contractors may no longer be working on SETS after the duration of their contract. Without the contractor involvement, the remaining state personnel would not be able to provide sufficient SETS program development and maintenance under current case load and program change conditions.

In the SETS programming environment, there is a significant risk that the programming staff could not effectively and efficiently fix some program abends, or complete some program changes without going through the arduous task of researching the program from its inception from the original design documents and program tracking tools. The absence of documentation may result in program development or maintenance that erroneously affects other programs in SETS. The integrity of the child support payment process could be seriously jeopardized.

SETS management indicated that state-level staff have the primary responsibility of maintaining the SETS application and have developed a base understanding of the system's processes. The Department will begin documenting the system in fiscal year 2005.

We recommend state-level programming personnel review the SETS program documentation created by the contractors and verify the adequacy of what has been completed. We also recommend the documentation be updated to identify key input, processing, and output information, including all program interrelationships and data dependencies between programs. Procedures should also be implemented to monitor the activities of the contractors to reasonably ensure they are following the prescribed procedures.

46. DATA PROCESSING – MMIS, CRIS-E, AND SETS COMMENT LOG DOCUMENTATION

Finding Number	2004-JFS46-062
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 93.563 – Child Support Enforcement
Federal Agency	Department of Agriculture Department of Health and Human Services

<u>INTERNAL CONTROL – REPORTABLE CONDITION</u>

Sound internal control procedures require changes to applications be documented to facilitate application maintenance and application modifications. Documentation of the changes to applications for each computer application must be clear and meaningful to a knowledgeable user of the system.

Although procedures were in place to document changes made to applications, programmers were not documenting all changes made to applications. Thirty-nine of the 60 (65%) comment logs for the MMIS application, two of the 60 (3%) comment logs for the CRIS-E application, and two of the 60 (3%) SETS program remark logs tested did not appear to be documented as required.

As a result of not completing the comment and program remark logs, an information systems professional who is unfamiliar with the programs could not use the current information to obtain an understanding of the changes to applications without extreme difficulty, if at all. This increases the risk of substantial time and financial burdens to the agency in the event of turnover in key Management Information Systems positions.

CRIS-E management indicated that the conversion to the PVCS Dimensions tracking system during FY04 may have placed time constraints on CRIS-E staff. MMIS management indicated that due to time constraints and mental errors, not all program changes were documented properly. SETS management confirmed that the production version of the programs does not contain the TIR/CSR number(s) in the remarks section and that they reviewed the PVCS version of the program and the remarks were in the program.

We recommend ODJFS update comment log documentation for all changes to applications to reflect the current processes and procedures of their computer applications. In addition, a comprehensive evaluation of the current documentation process should be conducted to help ensure all program changes are documented effectively.

47. DATA PROCESSING – SCOTI PROGRAMMERS' ACCESS TO PRODUCTION

Finding Number	2004-JFS47-063
CFDA Number and Title	17.225 – Unemployment Insurance
Federal Agency	Department of Labor

INTERNAL CONTROL – REPORTABLE CONDITION

Sound internal control procedures in a data processing environment ensure programmers and developers do not have access to the production environments and confirm employee's current computer access is commensurate with their job responsibilities.

During the review of user access for programmers/developers to the production servers for the Sharing Career Opportunities and Training Information (SCOTI) application, we noted there were 18 programmer/developer accounts that had the access rights to migrate their own changes into the following production environments:

- Three programmer/developer user accounts that should be removed from the Soccl001 production database server.
- Two programmer/developer user accounts that should be removed from the Soccl003 production database server.
- Seven programmer/developer user accounts that should be removed from the Soccl015 production database server.
- Five programmer/developer user accounts that should be removed from the Soccl028 production database server.
- One programmer/developer user account that should be removed from the Soccl039 production database server.

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 SCOTI application. Thus, unauthorized access privileges could increase the risk of asset misuse or misappropriation of State or Federal monies.

According to SCOTI management, the programmer/developer access to these servers was used to generate Federal reports and to ensure Federal report deadlines were met by SCOTI. The programmer/developer access to the Soccl015 production application server was used for web site update deployments.

We recommend ODJFS complete the following functions:

- Remove all programmer/developer access to the SCOTI production servers.
- 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 documentation as an audit trail.

48. DATA PROCESSING – PERIODIC ACCESS RECONCILIATIONS

Finding Number	2004-JFS48-064
CFDA Number and Title	All Programs Administered by the Department
Federal Agency	Department of Agriculture Department of Labor Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

An important internal control in a data processing environment is confirming that employees' current computer access is commensurate with their job responsibilities.

The ODJFS Information Security Policy states under section 3.0, "Allocation of Information Security Responsibilities," specifically section 3.1.3, "Security Designees:"

> The departmental unit-appointed Security Designees are responsible for:… performing periodic reviews of user access to ensure that all accesses are appropriate and current.

In addition, under section 18.0, "User Access Management," specifically section 18.1.3, "Review of User Access Rights:"

> To maintain effective control over access to the networks and data, the Chief Security Officer will conduct periodic reviews of users' access rights. This review will ensure that:
>
> - Users' access capabilities are reviewed for appropriateness.
> - Privilege allocations are checked at regular intervals to ensure that unauthorized privileges have not been obtained.

During the audit period, there were no procedures in place to give direction on how often access reconciliations should be completed, which systems should be reviewed, who should perform the reconciliations, or what and how long documentation should be maintained as an audit trail.

There also was not a complete access reconciliation carried out by management in FY 2004 to confirm that the employees' mainframe and network access authorities were commensurate with their job duties for most of the audit-significant applications, including: CRIS-E, FACSIS, SETS, SCOTI, Benefits System, and Wage Record System. The Department attempted to complete an annual access reconciliation for MMIS during 2004; however, 33% of the access changes required as a result of the reconciliation were not implemented. In addition, there was no centralized system or readily accessible documentation maintained on hired contractors to monitor their employment status and system access.

Without a periodic review of user access, the risk is increased that unauthorized users have inappropriate access to program and data files because they either were not granted access appropriately, changed job responsibilities and no longer required the access, or were terminated from the Agency and did not have their access appropriately severed. Unauthorized access could result in the execution of inappropriate application transactions or the alteration of program or data files, which could be a misuse or fraudulent misappropriation of state resources or federal program monies.

48. DATA PROCESSING – PERIODIC ACCESS RECONCILIATIONS (Continued)

The Data Security management stated the review of user access privileges is an ongoing effort in the Information Security unit. It is balanced with the actual initial administration of access. Several strides in this area have been achieved. A partial review of the ODJFS network user accounts was completed. A review of outside agencies access (Auditors, SSA, etc.) is in process. A review regarding MIS SETS staff is in process. A review of county and state level user access privileges is also in process. Currently, the Information Security unit is down by two staff members. With the staff shortage as well as the increasing workload with regard to functional areas of responsibility, this makes it even more challenging for the unit to dedicate appropriate time for reviews of user access privileges.

We recommend ODJFS complete the following functions on a periodic basis:

- Review and verify mainframe, application, and network-level profiles and access authorities are appropriate for the assigned job functions of all state-level employees and outside contractors and maintain documentation as an audit trail.

- Review and verify mainframe, application, and network-level profiles and access authorities are appropriate for the assigned job functions of all relevant county employees and maintain documentation as an audit trail.

- Distribute a report of pertinent mainframe, application, and network-level profiles and access authorities to user management to confirm any access authority changes made and maintain documentation as an audit trail.

49. DATA PROCESSING – TERMINATED EMPLOYEES WITH ACCESS TO UNEMPLOYMENT APPLICATIONS

Finding Number	2004-JFS49-065
CFDA Number and Title	17.225 – Unemployment Insurance
Federal Agency	Department of Labor

<u>INTERNAL CONTROL – REPORTABLE CONDITION</u>

The ODJFS Information Security Policy states in section 18.1, “Authorized User Registration,” that authorized user registration processing includes immediately removing the access rights of users who have changed jobs or left the organization.

There were three major unemployment applications during the audit period: Benefits System, Wage Record System (WRS), and the Unemployment Compensation (UC) application. The Benefits System pays claims to unemployed workers by interfacing with the WRS to access the employment history of a claimant and with the UC Tax system to access the claimant’s previous employers’ liability information. Utilizing this information, the system calculates the monetary award and processes benefits.

The WRS was implemented by federal mandate to automate collection of quarterly employer information on wages paid. The system is a repository for the six most recent quarters of wage information for 6.5 million employees and over 200,000 employers in the state of Ohio. The UC supports the employers’ tax reporting and collection as well as their compliance activities.

ODJFS had 68 Unemployment staff members who were terminated within FY04. Of the 68 individuals terminated, 37 (54%) still had access to the Benefits System, Unemployment Compensation, or Wage Record System applications.

49. DATA PROCESSING – TERMINATED EMPLOYEES WITH ACCESS TO UNEMPLOYMENT APPLICATIONS (Continued)

Without comprehensive termination procedures being documented and followed, there is an increased risk that terminated employees could gain unauthorized and undetected access to secured programs, data files, or other ODJFS resources.

According to the Unemployment Services management, notification is not always being received by the System Administrators when employees are terminated. Therefore, access is not being appropriately updated.

We recommend the Department comply with their Information Security Policy by establishing and following formal termination procedures upon termination of an employee. A comprehensive procedure and checklist for the termination of these employees could include, but not be limited to, the following provisions when appropriate:

- Notify all departments, employees, and users of the terminated employees' status.
- Notify security guards and entrance receptionists, as necessary.
- Notify agency attorneys and obtain their guidance, as necessary.
- Notify vendors, as necessary.
- Promptly and specifically reassign the terminated employees' duties.
- Change appropriate door lock combinations.
- Make backups of critical system data.
- Retain console logs for longer-than-normal periods of time.
- Revoke assigned user IDs and passwords, and modify passwords for sensitive system accounts or user names.
- Review all objects owned by the employee for deletion or ownership reassignment.
- Review all application and system source code, executable files, and data files that have been used by the terminated employee. Review for unauthorized or malicious modifications. Remove or restrict any user IDs over which the employee had control or access.
- Revoke any voice mail privileges; establish electronic and voice mail forwarding processes.
- Disable the employee's privileges into external networks, such as e-mail and the Internet.
- Review/upgrade/revoke any dial-in privileges (e.g. Servers, LAN's, WAN's, VAN's, workstations).
- Check personal computers with virus-detection software.
- Have personal computers equipped with modems checked to ensure remote-control software (such as Carbon Copy or pcAnywhere) is not in use.
- Return of all access keys, cards, identification cards, and badges.
- Return of agency property - property may include: office supplies, briefcase, corporate credit cards, smart cards, telephone cards, pagers, cellular phones, state vehicle, parking permits, company hardware/ software, printouts, backup tapes, books, or misc. supplies.
- Completion of a confidentiality agreement.
- Arrangement of final pay routines with their Personnel or Human Resources department to remove the employee from the active payroll files.
- Performance of a termination interview.

50. DATA PROCESSING – SECURITY VIOLATIONS REPORTS

Finding Number	2004-JFS50-066
CFDA Number and Title	All Programs Administered by the Department
Federal Agency	Department of Agriculture Department of Labor Department of Health and Human Services

<u>INTERNAL CONTROL – REPORTABLE CONDITION</u>

The ODJFS Information Security Policy states the following in section 23.1.1, "Monitoring System Use:"

> Procedures for monitoring system use must be established. Such procedures are necessary to ensure that users are only performing processes that have been explicitly authorized. The level of monitoring required for individual systems should be determined by a separate risk assessment. Areas that should be considered are as follows:

- Access failures.
- Review of logon parameters for indications of abnormal use or revived user IDs.
- Allocation and use of accounts with a privileged access capability.
- Tracking of selected transactions.
- The use of sensitive resources.

Security violations of the ODJFS mainframe are captured daily on the RACF Activity Report and are available for review by the Information Security Unit. The Office of Information Technology (OIT) IBM Security Administrator places the security violations report online for ODJFS Security Administrators to review. The report is maintained online for two weeks. The ODJFS Information Security Unit (Data Security Supervisor or Data Security Analyst) is responsible for reviewing and resolving any issues on the RACF Activity Report on a daily basis. The report contains RACF security violations, unauthorized attempts to access datasets, and password resets.

No security violations reports were generated for the major MMIS, SETS, FACSIS, and SCOTI applications. Security violations to the CRIS-E application were captured daily and were available online for review by the Information Security Unit; however, the security violations reports were not monitored at a state level.

The risk is increased that unauthorized, and potentially compromising security violations are undetected and unresolved when security violations reports are not reviewed. Unauthorized access could result in the execution of inappropriate application transactions or the alteration of program or data files, which could be a misuse or fraudulent misappropriation of state resources or federal program monies.

According to Data Security management, when MMIS was implemented over thirteen years ago, no logic was written by the programmers to include the generation of security violation reports. It was also decided by management that the IBM RACF system security was the most important component of security because a lack of resources limits the amount of reports that can be reviewed.

We recommend ODJFS IT administration complies with their Information Security Policy by ensuring that violation and security activity is logged, reported, reviewed, and appropriately escalated on a regular basis for the CRIS-E, MMIS, SETS, FACSIS, and SCOTI applications to identify and resolve incidents involving unauthorized activity.

51. DATA PROCESSING – LIST OF THIRD-PARTY CONTRACTORS AND THEIR ACCESS

Finding Number	2004-JFS51-067
CFDA Number and Title	All Programs Administered by the Department
Federal Agency	Department of Agriculture Department of Labor Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

The ODJFS Information Security Policy states the following in section 4.1.1, “Security Conditions in Third Party Contracts:”

> Arrangements involving third party access to the ODJFS facilities should be based on a formal contract containing all of the necessary security conditions to ensure compliance with the ODJFS security policies and standards. The contract should be in place before providing access to the IT facilities. The following items should be considered for inclusion in the contract:
>
> - Applicable sections of the ODJFS Information Security Policy.
> - Permitted access methods, and the control and use of unique identifiers (user IDs) and passwords.
> - The respective liabilities of the parties to the agreement.
> - A requirement to maintain a list of individuals authorized to use the service.
> - Measures to ensure the return or destruction of information and assets at the end of the contract.

ODJFS did not maintain a central list of third party contractors that were hired, employed, or terminated during the audit period.

Without a central and complete list of third party contractors with access to ODJFS systems, there is no effective way to monitor third party use of ODJFS resources and the risk of unauthorized access to sensitive system resources is greatly increased. This unauthorized access could seriously jeopardize the integrity of departmental data because an unauthorized individual could accidentally or intentionally delete or alter computer programs or data.

According to Data Security management, the access request methods and termination procedures are adequate in tracking and maintaining third party contractor access.

We recommend ODJFS administer third party contractors’ security in compliance with their Information Security Policy. Compliance with the Plan requires ODJFS to maintain a centralized list of all third party contractors that are hired, employed, and terminated from ODJFS. Any deviations in the security administration and control of ODJFS third party contractors’ access should be approved by MIS and owner management and reflected accordingly in an updated version of the Information Security Policy.

52. DATA PROCESSING – ACCESS TO SCOTI PRODUCTION SERVERS

Finding Number	2004-JFS52-068
CFDA Number and Title	17.225 – Unemployment Insurance
Federal Agency	Department of Labor

INTERNAL CONTROL – REPORTABLE CONDITION

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 that the user has authorization from their department's Security Liaison.
- Checking that the level of access granted is appropriate for the users purpose and is consistent with the Information Security Policy.
- Maintaining a formal record of all persons registered to use the service.
- Removing redundant user IDs and accounts that are no longer required.

The Sharing Career Opportunities and Training Information (SCOTI) application is a web-based system that was acquired to meet the needs of the ODJFS Office of Workforce Development's needs in managing the state's Federal Workforce Investment Act (WIA) and Wagner-Peyser Act (Labor Exchange) requirements. There were five servers that housed the production environment for the SCOTI application. Of the 126 users with access to the production servers, 28 (22%) users no longer required access to perform their authorized job responsibilities.

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 SCOTI management, SCOTI had several personnel that required access when the application was implemented but have since been reassigned to other duties and the access was never updated.

We recommend the Department comply with their Information Security Policy by reviewing and implementing access restrictions to the production servers that house the SCOTI application and data. Access should be commensurate with the current job responsibilities of the users. Also, a review to validate access should be completed periodically in accordance with the ODJFS Information Security Policy.

53. DATA PROCESSING – PASSWORD PARAMETERS NOT SET TO STANDARDS

Finding Number	2004-JFS53-069
CFDA Number and Title	All Programs Administered by the Department
Federal Agency	Department of Agriculture Department of Labor Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

To help reduce the likelihood of unauthorized use, organizations must restrict access to their computer systems, programs, and data. The ODJFS Information Security Policy states in section 19.1, "Password Use," that passwords should be changed at least every 60 days or at any time a user feels the password has been compromised. Also, section 21.1.1, "Terminal Logon Procedures," states that the number of unsuccessful logon attempts allowed should be limited to three before action is taken to inactivate the account until it is reset by the system administrator.

The following ODJFS application password parameters were not in compliance with the ODJFS Information Security Policy:

- ODJFS maintained the Medicaid Management Information System (MMIS) that provided reimbursement to medical providers for services rendered. MMIS was protected at the system level by the RACF security software. MMIS application-level security included a unique user number and security code assigned to each user. ODJFS had not changed the MMIS security codes for over four years.
- The SCOTI application processed job opportunity information to assist unemployed workers in finding employment. SCOTI access was protected by UNIX security; however, of the 92 user IDs, 41 did not have a password expiration and 27 did not have a lockout on the account after any amount of unsuccessful logon attempts.
- RACF user IDs were revoked after four consecutive unsuccessful password attempts; however, the Information Security Policy required the revocation after three failed attempts.
- The Demand programming environment for the unemployment applications was used to allow authorized MIS users to access and modify the source code. There were several users in the Demand environment with a password expiration of 7300 days (20 years).

Inadequate password lifetimes and allowing a person excessive unsuccessful login attempts could allow an individual to learn or guess someone's password and attempt to gain unauthorized access to the system or functions not required to perform their job. This could result in an unauthorized individual gaining access to the system and accidentally or intentionally deleting or altering sensitive data.

Data Security management indicated that when MMIS was developed, the security codes were designed to be manually changed by Data Security. Now that MMIS has grown to over 4,000 users, the amount of labor involved in changing the codes is too large for the Data Security Department to efficiently complete. Unemployment Services management indicated that when Disaster Recovery tests are performed, the system resets the date. If the new date makes the passwords of the administrators expire, the system would be inoperable. Therefore, several users have been granted 20 year password lifetimes.

We recommend the MMIS application security codes, SCOTI passwords, and the Demand passwords be changed at least every 60 days to comply with the ODJFS Information Security Policy. In addition, MMIS, SCOTI, Demand, and RACF password accounts should be set to automatically lock the account after three unsuccessful attempts to be in compliance with the Security Policy and to adequately reduce the chances of any unauthorized access to programs and data.

54. DATA PROCESSING – ACCESS TO SENSITIVE SETS AND SCOTI PROFILES

Finding Number	2004-JFS54-070
CFDA Number and Title	93.563 – Child Support Enforcement 17.225 – Unemployment Insurance
Federal Agency	Department of Health and Human Services Department of Labor

<u>INTERNAL CONTROL – REPORTABLE CONDITION</u>

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 multiuser systems, that requires 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.

The Support Enforcement Tracking System (SETS) had an internal application security system that used profiles to prevent unauthorized access to transactions. The only profile with UPDATE access to the SETS security maintenance screen was SETSPROF. There were 36 ACTIVE users with the SETSPROF security profile. Of the 36 users, only 34 required the access for their daily job responsibilities. The other 2 (6%) users were personnel that no longer required the access and needed to be removed.

In addition, the SETS Help Desk had the responsibility of assigning new users a security profile within the SETS application. There were 50 profiles that were available to SETS users, depending on their assigned job functions. The SETS Help Desk did not have an efficient way to obtain a list of current users by profile to review for reconciliation.

The Sharing Career Opportunities and Training Information (SCOTI) application is a web-based system that was acquired to meet the needs of the ODJFS Office of Workforce Development’s needs 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

54. DATA PROCESSING – ACCESS TO SENSITIVE SETS AND SCOTI PROFILES (Continued)

all data and application files. The SCOTI system administrator password was restricted to the UNIX switch user (su) command by a member of the "scotadmg" group so that a user could not logon directly as system administrator. The user must logon successfully to an account within the scotadmg group and then su to the system administrator account. Of the 15 user accounts within the scotadmg group, one (7%) was unauthorized to have access to su into the SCOTI system administrator account.

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.

According to SETS Help Desk management, SETS has never had the ability to create user reports by profile; therefore, the Help Desk has not been able to review the members of the sensitive profiles and reconcile their access. According to SCOTI management, SCOTI had several personnel that required privileged access when the application was implemented but have since been reassigned to other duties and the access was never updated.

We recommend the Department comply with their Information Security Policy by reviewing and implementing access restrictions to all of the sensitive SETS and SCOTI 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. Also, a review to validate all sensitive access should be completed periodically in accordance with the ODJFS Information Security Policy.

55. DATA PROCESSING – PHYSICAL ACCESS TO THE COMPUTER ROOM

Finding Number	2004-JFS55-071
CFDA Number and Title	17.225 – Unemployment Insurance
Federal Agency	Department of Labor

INTERNAL CONTROL – REPORTABLE CONDITION

The ODJFS Information Security Policy states in section 8.1.2, "Physical Entry Controls," that:

> secure areas should be protected by appropriate entry controls to ensure that only authorized personnel are allowed access. The following controls should be considered:
>
> - Visitors to secure areas should be supervised and their date and time of entry and departure recorded. Visitors should only be granted access for specific, authorized purposes.
> - Access rights to secure areas should be revoked immediately for staff who leave employment.

The computer room at 145 South Front Street contains servers, operational equipment, printers, and blank warrant stock for the ODJFS unemployment applications. The computer operations monitoring room and equipment were located on the ground floor. The room had three doors (G08, G14, and G18) that were locked and secured with a key card system that was maintained by ODJFS Security personnel (only two doors led directly into the computer room; however, an adjoining computer room had one access door and the door between the two rooms was not locked or secured). Unauthorized badges were issued to 137 personnel to the three computer room doors. Twenty six duplicate badges were also issued.

55. DATA PROCESSING – PHYSICAL ACCESS TO THE COMPUTER ROOM (Continued)

Unauthorized personnel in the computer room could do malicious damage to the equipment in the facility, misuse confidential documentation obtained from reports not yet picked up, and/or misappropriate blank warrant stock for fraudulent purposes.

According to Security management, due to the merger of OBES and ODJFS along with a number of changes in the Security management team, the security function has become disorganized. The Security Officers inherited the security system from management and there has not been consistent enforcement of security policies and procedures. An access listing has been sent to the appropriate managers to review, but no documentation has been maintained.

We recommend that ODJFS secure the computer room in compliance with their Information Security Policy and take steps to ensure that card access is reviewed and restricted to authorized personnel who require access for job responsibilities.

56. DATA PROCESSING – SCOTI DISASTER RECOVERY TEST

Finding Number	2004-JFS56-072
CFDA Number and Title	17.225 – Unemployment Insurance
Federal Agency	Department of Labor

<u>INTERNAL CONTROL – REPORTABLE CONDITION</u>

Contingency planning includes the evaluation and implementation of a written contingency plan that defines the actions to be taken in the event of various disaster situations to facilitate decision making in the period immediately following the disaster. Sound data processing contingency plans identify arrangements for the continuation of data processing on compatible hardware and software in the event of an emergency and require a business impact assessment be performed to identify essential business functions and the applications that support them. This information helps define information continuity requirements.

The ODJFS Information Security Policy states the following in section 13.1, “Data Backups:”

> Backup copies of essential data and software should be made regularly. Adequate backup facilities must be provided to ensure that all essential data and software can be recovered following a computer disaster or media failure. Backup arrangements for individual systems should meet the requirements of continuity plans. The following guidelines should be applied:
>
> - A minimum level of backup information together with accurate and complete records of the backup copies should be stored in a remote location, at a sufficient distance to escape any damage from disaster at the main site.
> - Backup data should be given an appropriate level of physical and environmental protection consistent with the standards applied at the main site. The controls applied to media at the main site should be extended to cover the backup site.
> - Backup data should be regularly tested to ensure that it can be relied upon in an emergency situation.

ODJFS maintains RecoveryPAC software to assist in documenting and planning for data recovery in the event of a disaster. SCOTI application information was included in the RecoveryPAC software to document the critical personnel and functions to be performed in the event of a disaster; however, a disaster recovery test was not performed within FY04.

56. DATA PROCESSING – SCOTI DISASTER RECOVERY TEST (Continued)

Without testing the documented disaster recovery procedures, critical resources and processing may not be restored in a timely and efficient manner in the event of a disaster. As a result, the SCOTI application could potentially incur substantial costs in attempting to retrieve and recreate pertinent processing/reporting information for internal and external purposes.

According to SCOTI management, the lack of an alternative disaster recovery site has not been resolved to date by management to allow for disaster recovery testing.

We recommend ODJFS periodically review and test the contingency plan for SCOTI to help ensure its continued applicability and to help ensure recovery problems are documented and resolved. This review should also help ensure personnel are sufficiently trained to carry out procedures necessary to restore SCOTI functions critical to ODJFS business operations.

57. DATA PROCESSING - ACCURACY OF CRIS-E INPUT

Finding Number	2004-JFS57-073
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

The ODJFS Information Security Policy states the following in section 25.1, "Input Data Validation:"

> Data input to application systems should be validated to ensure that it is correct and appropriate. The following controls should be considered:
>
> - Checks to detect the following errors:
>   - out-of-range values;
>   - invalid characters in data fields;
>   - missing or incomplete data;
>   - exceeding upper and lower data volume limits;
>   - unauthorized or inconsistent control data;
> - Periodic review of the content of key fields or data files to confirm their validity and integrity;
> - Inspecting hard-copy input documents for any unauthorized changes to input data (all changes to Input documents should be authorized);
> - Procedures for responding to validation errors;
> - Defining the responsibilities of all personnel involved in the data input process.

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, $588 million for Temporary Assistance for Needy Families (TANF), $125 million for State Children's Insurance Program (SCHIP), and $6.3 billion for Medicaid in fiscal year 2004. CRIS-E has numerous screens a caseworker must complete to determine if an applicant is eligible for public assistance benefits. Several screens could be enhanced with edit controls to prevent caseworker keystroke errors from unintentionally impacting the extent of benefit or eligibility determinations by the system. The following are two examples of edit controls not in place:

57. DATA PROCESSING - ACCURACY OF CRIS-E INPUT (Continued)

- In the event that there is more than one client living at a residence, the Detail Shelter Cost (AEFSC) screen reflects a field to show the client to which the shelter expense is assigned. If the client assigned to the shelter expense leaves the home or is deleted from the case, the related shelter expense is deleted, as well. If this happens, shelter expense for the client who is not assigned to the expense will not be properly accounted for by the caseworker. No alerts or reminders are given to the caseworker to have the shelter costs recalculated.

- If a client applying for assistance has liquid asset resources, the Liquid Asset (AERLA) screen allows the caseworker to enter a beginning date of resources later than the ending date of resources. A beginning date later than an end date can only mean that the caseworker has made a typing error or the client has given false information.

Due to the lack of sufficient edit and validation checks, the risk of errors by the caseworker while completing the application process is increased. This could result in inappropriate benefit or eligibility determinations being made, as well as federal sanctions levied against the Department.

CRIS-E management indicated that one reason for the lack of sufficient edit and validation checks is that legislative mandates, staffing, and management priorities have resulted in a two year backlog in addressing expansion and modification of the CRIS-E system. The Bureau of Systems Development (BSD) indicated they have initiated efforts to upgrade the edit controls for the CRIS-E input process. The Bureau Chief of Production Systems indicated that MIS needs to assess additional screens needed to correct this issue.

We recommend ODJFS first survey county caseworkers to help determine which CRIS-E program screens need additional edits, and then modify these programs to implement the additional edit and validation checks in a timely manner to be in compliance with their Information Security Policy.

1. MEDICAID, SCHIP, AND SSBG – SUBRECIPIENT MONITORING

Finding Number	2004-DMH01-074
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

<u>NONCOMPLIANCE</u>

The Office of Management and Budget's 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 $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 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, AND 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 (DMH) passes through at least 95% 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 Boards (CMH) around the State of Ohio. For state fiscal year 2004, DMH disbursed approximately $228,859,000 in Medicaid and SCHIP funds and $8,315,000 in SSBG funds. The Community Mental Health Boards, which are considered to be subrecipients by the Department, in turn, disburse these funds to provider agencies. During our review 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.

- One of the provider audits required a corrective action plan however no management decision was issued. Our discussion with the client revealed that management decisions are not completed when findings are noted in the review of the audit reports.

- 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.

- Independent audit reports were received one to six months past the due date for six out of 20 (30%) reports reviewed during our testing. The Department's call list showed they had followed up with two of the CMH Boards concerning the missed deadline.

- Documentation used by the Program Compliance Manager to track the completion of CMH boards' compliance reviews of provider agencies for the fiscal year 2004 audit period was not available for our review.

1. MEDICAID, SCHIP, AND SSBG – SUBRECIPIENT MONITORING (CONTINUED)

The lack of adequate subrecipient monitoring procedures results in noncompliance with the subrecipient monitoring requirements of OMB Circular A-133 for the fiscal year 2004. 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. DMH 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 Departments'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.

- 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. SOCIAL SERVICES BLOCK GRANT – PAYROLL

Finding Number	2004-DMR01-075
CFDA Number and Title	CFDA#93.667– Social Services Block Grant
Federal Agency	Department of Health and Human Services

QUESTIONED COST $82,940

42 USC 1397 (a)(2)(B) states, in part:

> . . .
>
> Expenditures for such services may include expenditures for—
>
> (i) administration (including planning and evaluation);
>
> . . .

45 CFR 96.30 (a) states in part:

> . . .
>
> Fiscal control and accounting procedures must be sufficient to . . . (b) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant.
>
> . . .

It is imperative that personnel costs charged to a federal program are attributable to services performed/provided in support of the administration of the program. For personnel assignments that span across multiple federal programs, the time spent on each program should be appropriately tracked and charged to the respective program. It is management's responsibility to establish procedures to track costs charged to the programs they administer to ensure they are allowable and are properly allocated.

The Chief of Business and Grant Services (the Chief) worked on more than one federal program during state fiscal year 2004, including the Social Services Block Grant. The Chief's salary was paid out of Social Services Block Grant funds for 25 of the 26 pay periods during the fiscal year. However, the Department had neither a tracking device in place to determine how much of the Chief's time was actually spent on the Social Services Block Grant or other federal programs nor did they have an allocation plan for the Chief's payroll charges based on the Chief's job duties. As such, the Department was unable to provide supporting documentation to verify the payroll charges to the Social Services Block Grant were in support of the program and allowable under the program regulations or that the one pay period charged to another program was the only time spent on other programs. Therefore, we will question the gross salary paid from the Social Services Block Grant during state fiscal year 2004 in the amount of $82,940.

1. SOCIAL SERVICES BLOCK GRANT – PAYROLL (Continued)

Without proper procedures in place over the allocation of personnel expenses, the Department cannot be reasonably assured that charges are accurately charged to the appropriate program. Incorrectly charging costs to a program for time spent on other programs and/or job duties could result in sanctions imposed by the federal grantor agency. These sanctions could include, but are not limited to fines, penalties, repayment of funds, or a reduction in future allocations to recoup the unallowable charges. The Chief of Business and Grant services stated the payroll expenses were charged out of the administrative allotment for the Social Services Block Grant and agreed that a mechanism should be implemented to track time spent on each of the programs.

We recommend the Department devise and implement internal controls which provide reasonable assurance that payroll charges to the Social Services Block Grant program are only for charges allowable under the guidelines of the program. These controls should at a minimum require employees who work on the program to track their time so they can accurately allocate their payroll expenses to the appropriate fund. An alternate option would be to develop an allocation plan for payroll expenses of employees that work on multiple programs and/or state projects in alignment with their respective job duties. This allocation plan should be formally documented and properly supported to verify its accuracy and reasonableness.

2. MEDICAID/SCHIP – SUBRECIPIENT MONITORING

Finding Number	2004-DMR02-076
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>NONCOMPLIANCE</u>

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:

. . .

(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 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.

. . .

(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.

. . .

Additionally, the Interagency Agreement between the Ohio Department of Mental Retardation and Developmental Disabilities (the Department) and the Ohio Department of Job and Family Services (ODJFS) states that the Department shall assure that a mechanism is created that establishes review and monitoring systems for an ongoing selected sample of providers.

2. MEDICAID/SCHIP – SUBRECIPIENT MONITORING (Continued)

The Department disbursed approximately $189,913,312 during fiscal year 2004 for services associated with the Medicaid/Community Alternative Funding System (CAFS) program and the State Children's Insurance Program (SCHIP). The Department monitors subrecipients for compliance with the CAFS program and SCHIP requirements by reviewing the entities' Single Audit reports. There are approximately 400 subrecipients for the CAFS and SCHIP programs. These include 259 school districts, 88 County Boards of MRDD, and private providers. The Medicaid program is generally only audited as a major federal program at the larger metropolitan areas. We reviewed 25 Single Audit reports for the school districts which included all districts receiving over $200,000 in Medicaid funding and nine reports for the county boards to determine if the program had been tested. We noted that 22 of 34 (65%) Single Audits reviewed did not have Medicaid tested as a major program. We also reviewed the Single Audit reports and determined that none of them had audit procedures performed on the SCHIP and SCHIP was not included on the subrecipients' Schedule of Federal Awards. Additionally, the Department does not have procedures in place to perform during the award monitoring of private providers receiving CAFS funding.

Based on the above conditions, the Department was not in compliance with OMB Circular A-133 for the audit period. Circular A-133 requires the auditor to test the subrecipient's compliance with program requirements for certain major programs; therefore, there is the potential for many programs to not be included in that testing. Relying solely on the Single Audit reports of subrecipients, the Department may not be reasonably assured their subrecipients are in compliance with program requirements. In addition, subrecipient audit reports usually are not available until nine months after the end of the subrecipient's fiscal year so if there are problems, the pass-through entity may not be able to correct them before they are repeated. According to the Deputy Director of the Division of Audits, the Department believes that adequate monitoring controls are in place and also that it would not be cost beneficial to implement monitoring procedures at this time because the CAFS program will be discontinued in state fiscal year 2006. In addition, the eligibility determinations are performed at the Ohio Department of Job and Family Services for SCHIP and the funding is adjusted as such before coming to the Department thereby making it difficult for the Department to identify SCHIP funds/recipients separate from those of Medicaid.

We recommend the Department review OMB Circular A-133 requirements and implement the necessary monitoring procedures over subrecipients. These procedures should at a minimum include regular and on-going site visits and/or other procedures designed to provide reasonable assurance the subrecipients are in compliance with program laws, regulations and requirements. These procedures should provide assurance that appropriate corrective actions are taken to address errors or weaknesses identified. Additionally, the Department should identify federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year and name of Federal agency, and compliance requirements applicable to the program.

3. MEDICAID – PROVIDER RECERTIFICATION

Finding Number	2004-DMR03-077
CFDA Number and Title	93.775/93.777/93.778 - Medicaid Cluster
Federal Agency	Department of Health and Human Services

INTERNAL CONTROL - REPORTABLE CONDITION

The Interagency Agreement between the Ohio Department of Mental Retardation and Developmental Disabilities (the Department) and the Ohio Department of Job and Family Services (ODJFS) states that the Department, as a subrecipient of federal Medicaid funds for the administration and management of CAFS and Home and Community Based Services (HCBS) waivers, shall determine provider eligibility to

3. MEDICAID – PROVIDER RECERTIFICATION (Continued)

receive Medicaid payments. The agreement also states the Department shall establish standards and procedures that identify the requirements for qualification of providers by service and program. Sound internal control dictates management implement control procedures which provide assurance that Medicaid providers remain eligible to perform services for which they have been certified.

During the review of the provider certification process, it was noted that once a provider has been certified there is no renewal process. The Department performs an initial review of the provider application, criminal record check and other required supporting documentation. However, unless information is received from an outside source, the provider's qualifications are not verified again.

Without a certification renewal process, the Department cannot obtain reasonable assurance that providers continue to remain eligible to render service under the Medicaid program guidelines. Required licenses may become invalid, insurance requirements may be unfulfilled, education requirements unmet, and/or a criminal record may go undetected. Allowing unqualified individuals to retain Medicaid provider status may result in recipients not receiving quality care and could even endanger their well-being. As a result, the Department may be subject to fines, sanctions, or a loss of funding. The Provider Certification Manager indicated that the Department is currently working on policies for recertifying Medicaid providers. The Assistant Deputy Director added that language has been drafted that will give the department the statutory authority to implement a certification renewal process. The language is currently at the Legislative Service Commission awaiting completion. It will either be included as part of the budget bill or as part of an omnibus bill this spring.

We recommend the Department continue the process of developing and implementing procedures that will require periodic renewals of certifications for Medicaid providers. These renewal procedures should take into consideration the risk of the various services provided and the renewal period for required licenses.

4. DATA PROCESSING – NETWORK OPERATING SYSTEM

Finding Number	2004-DMR04-078
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 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 Windows NT NOS to control overall access to the Department's network. The NOS utilized by the Department will not be supported by the vendor beginning on January 1, 2005. Additionally, the Department had not replaced the NOS as of March 15, 2005.

4. DATA PROCESSING – NETWORK OPERATING SYSTEM (Continued)

Without a vendor supported NOS, there is an increased risk that new 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.

We recommend the Department upgrade to a more current vendor supported NOS or consider purchasing a new vendor supported NOS.

5. DATA PROCESSING – TRANSFERS TO LIVE ENVIRONMENT (MBS)

Finding Number	2004-DMR05-079
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>

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 programming 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 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 manor other than intended by management.

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 development/test environment.
- 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.

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SUPPLEMENTAL INFORMATION

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Office of Criminal Justice Services	2000-CJS02-004 2001-CJS01-004 2002-CJS01-003 2003-CJS01-001 **Expenditures Made After the Period of Availability**	Yes	
	2003-CJS02-002 **Subrecipient Monitoring**	No	The finding has been repeated in the FY 2004 Single Audit. See 2004-CJS01-003.
Ohio Department of Education	2003-EDU01-003 **Charter Schools – Monitoring of Subrecipients**	No	The finding has been repeated in the FY 2004 Single Audit. See 2004-EDU01-005.
	2002-EDU01-006 2003-EDU02-004 **TANF Monitoring of Head Start Expenditures**	No	The finding is no longer considered a questioned cost under the provisions of OMB Circular A-133; however, the finding has been repeated as a noncompliance finding under the provisions of OMB Circular A-133. See 2004-EDU04-008.
	2002-EDU08-013 2003-EDU03-005 **Special Education Cluster – On-Site Reviews**	Yes	
	2002-EDU09-014 2003-EDU04-006 **Special Education – Capacity Building Minimums Not Met**	Yes	

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Education (Continued)	1999-EDU03-007 2000-EDU01-007 2001-EDU02-008 2002-EDU12-017 2003-EDU05-007 **Grant Administration Payment System**	No	The finding is no longer considered a reportable condition under the provisions of OMB Circular A-133; however a related recommendation for improvement was included in the Management Letter for the Ohio Department of Education.
	1997-EDU03-005 1998-EDU08-010 1999-EDU09-013 2000-EDU11-017 2001-EDU14-020 2002-EDU14-019 2003-EDU06-008 **DP — Application Development and Maintenance**	No	The finding has been re-peated in the FY 2004 Single Audit. See 2004-EDU05-009.
Ohio Department of Health	1997-DOH01-012 1998-DOH01-017 1999-DOH01-019 2000-DOH01-021 2001-DOH01-022 2002-DOH01-020 2003-DOH01-009 **Subrecipient Monitoring**	No	The finding has been re-peated in the FY 2004 Single Audit. See 2004-DOH02-012.
	2001-DOH02-023 2002-DOH02-21 2003-DOH02-010 **DP – Business Resumption Plan**	No	The finding has been re-peated in the FY 2004 Single Audit. See 2004-DOH05-015.
	2003-DOH03-011 **DP – Program Change Controls**	No	The finding has been re-peated in the FY 2004 Single Audit. See 2004-DOH06-016.
Ohio Department of Job and Family Services*	2003-JFS01-012 **TANF – Subrecipient Monitoring – Cuyahoga County**	Yes	

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2000-HUM01-022 2001-JFS03-028 2002-JFS03-024 2003-JFS02-013 **DP – FACSIS NO History Payment Data/Foster Care Duplicates**	No	The finding has been re-peated in the FY 2004 Single Audit. See 2004-JFS03-019.
	2003-JFS03-014 **TANF/Child Care/SSBG – Subrecipient Monitoring – Defiance County**	Yes	
	2002-JFS05-026 2003-JFS04-015 **Employment Services/Social Services Block – Period of Availability**	No	This finding is no longer considered a questioned cost 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 2004-JFS27-043.
	2003-JFS05-016 **Child Care – Subrecipient Monitoring – Fulton County**	Yes	
	2002-JFS04-025 2003-JFS06-017 **TANF-Subrecipient Monitoring – Hancock County**	No	The finding has been repeated in the FY 2004 Single Audit. See 2004-JFS04-020.
	2003-JFS07-018 **TANF – Subrecipient Monitoring – Lucas 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 was 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-HUM09-030 2001-JFS09-034 2002-JFS09-030 2003-JFS08-019 **Child Care – Missing Documentation - Cuyahoga**	No	The finding has been repeated in the FY 2004 Single Audit. See 2004-JFS08-024.
	2002-JFS06-027 2003-JFS09-020 **TANF –Refusal to Work Sanction – Lucas County**	No	The finding has been repeated in the FY 2004 Single Audit. See 2004-JFS05-021.
	2003-JFS10-021 **TANF – Missing Self Sufficiency Contract – Lucas 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 was included in the Management Letter for the Ohio Department of Job and Family Services.
	2001-JFS08-033 2002-JFS17-038 2003-JFS11-022 **TANF – Unallowable Payment – Cuyahoga County**	Yes	
	1997-HUM20-033 1998-HUM21-038 1999-HUM03-022 2000-HUM04-025 2001-JFS07-032 2002-JFS12-033 2003-JFS12-023 **Medicaid/SCHIP – Drug Rebate Payments**	No	This finding is no longer considered a questioned cost 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 2004-JFS31-047.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2001-JFS14-039 2002-JFS16-037 2003-JFS13-024 **SCHIP – Ineligible Recipient**	Yes	
	2002-JFS11-032 2003-JFS014-025 **TANF – Child Support Non-cooperation – Lucas County**	No	The finding has been repeated in the FY 2004 Single Audit. See 2004-JFS07-023.
	2003-JFS15-026 **Medicaid – Ineligible Recipients**	No	The finding has been repeated in the FY 2004 Single Audit. See 2004-JFS09-025.
	2003-JFS16-027 **TANF – Unallowable Costs – Hamilton County**	Yes	
	2003-JFS17-028 **TANF/Child Support Non-cooperation – Cuyahoga County**	Yes	
	2003-JFS18-029 **CSEA – Unallowed Activities – Defiance County**	No	The finding has been repeated in the FY 2004 Single Audit. See 2004-JFS10-026.
	2003-JFS19-030 **SSBG – Transportation Services to Individuals – Fulton County**	Yes	
	1997HUM06-019 1998-HUM04-021 1999-HUM12-031 2000-HUM18-039 2001-JFS15-040 2002-JFS19-040 2003-JFS20-031 **IEVS — Due Dates**	No	The finding has been repeated in the FY 2004 Single Audit. See 2004-JFS13-029.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	1997-HUM07-020 1998-HUM05-022 1999-HUM13-032 2000-HUM19-040 2001-JFS16-041 2002-JFS20-041 2003-JFS21-032 **IEVS — Inadequate Documentation**	No	The finding is no longer considered noncompliance under the provisions of OMB Circular A-133; however a related recommendation for improvement was included in the Management Letter for the Ohio Department of Job and Family Services.
	2001-JFS17-042 2002-JFS21-042 2003-JFS22-033 **IEVS Return Information Access**	Yes	
	1997-HUM11-024 1998-HUM06-023 1999-HUM14-033 2000-HUM20-041 2001-JFS18-043 2002-JFS22-043 2003-JFS23-034 **IVES – Monitoring by the Department**	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 2004-JFS25-041.
	2001-JFS19-044 2002-JFS23-044 2003-JFS24-035 **Federal Schedule**	No	The finding is no longer considered noncompliance under the provisions of OMB Circular A-133; however a related recommendation for improvement was 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)	1999-HUM17-036 2000-HUM21-042 2001-JFS20-045 2002-JFS24-045 2003-JFS25-036 **Unapproved Indirect Cost Allocation Amendment**	No	The finding is no longer considered noncompliance under the provisions of OMB Circular A-133; however a related recommendation for improvement was included in the Management Letter for the Ohio Department of Job and Family Services.
	1999HUM16-035 2000-HUM22-043 2001-JFS21-046 2002-JFS25-046 2003-JFS26-036 **Lack of Corrective Action**	No	The finding has been re-peated in the FY 2004 Single Audit. See 2004-JFS14-030.
	2003-JFS27-038 **Excessive Food Stamp Coupon Inventory**	No	The finding is no longer considered noncompliance under the provisions of OMB Circular A-133; however a related recommendation for improvement was included in the Management Letter for the Ohio Department of Job and Family Services.
	2003-JFS28-039 **Food Stamp Report Late Submission and Lack of Management Review**	Yes	
	1998-HUM07-024 1999-HUM15-034 2000-HUM026-047 2001-JFS23-048 2002-JFS26-047 2003-JFS029-040 **TANF – Sanctions**	No	The finding has been re-peated in the FY 2004 Single Audit. See 2004-JFS015-031.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	1998-HUM18-035 1999-HUM18-037 2000-HUM28-049 2001-JFS25-050 2002-JFS27-048 2003-JFS30-041 **Medicaid/SCHIP – Subrecipient Monitoring**	No	The finding has been repeated in the FY 2004 Single Audit. See 2004-JFS17-033.
	2001-JFS27-052 2002-JFS28-049 2003-JFS31-042 **Child Support – Statewide Monitoring of CSENet**	Yes	
	2001-JFS54-079 2002-JFS30-051 2003-JFS32-043 **Social Services Block Grant – Reporting**	No	The finding is no longer considered noncompliance under the provisions of OMB Circular A-133; however a related recommendation for improvement was included in the Management Letter for the Ohio Department of Job and Family Services.
	2002-JFS34-055 2003-JFS33-044 **WIA - 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 2004-JFS35-051.
	2002-JFS33-054 2003-JFS34-045 **WIA – One-Stop Delivery Systems**	No	The finding has been repeated in the FY 2004 Single Audit. See 2004-JFS19-035.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	1997-HUM12-025 1998-HUM10-027 1999-HUM22-041 2000-HUM32-053 2001-JFS30-055 2002-JFS35-056 2003-JFS35-046 **IVES — Monitoring by Counties**	No	The finding is no longer considered a material weakness under the provisions of OMB Circular A-133; however a related recommendation for improvement was included in the Management Letter for the Ohio Department of Job and Family Services.
	1997-HUM09-022 1998-HUM12-029 1999-HUM24-043 2000-HUM34-055 2001-JFS32-057 2002-JFS37-058 2003-JFS36-047 **DP – Accuracy of CRIS-E Input**	No	The finding is no longer considered a material weakness 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 2004-JFS57-073.
	1997-HUM10-023 1998-HUM13-030 1999-HUM25-044 2000-HUM35-056 2001-JFS33-058 2002-JFS38-059 2003-JFS37-048 **DP – Manual Overrides of CRIS-E (Fiats)**	No	The finding has been repeated in the FY 2004 Single Audit. See 2004-JFS22-038.
	2000-HUM36-057 2001-JFS34-059 2002-JFS39-060 2003-JFS38-049 **DP – CORe Processing**	No	The finding has been repeated in the FY 2004 Single Audit. See 2004-JFS20-036.
	2001-JFS35-060 2002-JFS40-061 2003-JFS39-050 **DP – SETS Program Change for Federal Regulations**	Yes	

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	1998-HUM14-031 1999-HUM26-045 2000-HUM038-059 2001-JFS37-062 2002-JFS42-063 2003-JFS40-051 **TANF – County Monitoring**	No	The finding has been repeated in the FY 2004 Single Audit. See 2004-JFS24-040.
	2000-HUM49-070 2001-JFS39-064 2002-JFS44-065 2003-JFS41-052 **Child Support Processing & Reconciliations**	Yes	
	2000-HUM43-064 2001-JFS40-065 2002-JFS45-066 2003-JFS42-053 **SSBG – Incomplete Monitoring**	No	The finding is no longer considered a material weakness 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 2004-JFS38-054.
	2003-JFS43-054 **Unemployment – Warrant Controls/Security**	No	The finding is no longer considered a material weakness under the provisions of OMB Circular A-133; however a related recommendation for improvement was 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)	2002-JFS47-068 2003-JFS44-055 **Voucher Summary Weakness/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 was included in the Management Letter for the Ohio Department of Job and Family Services.
	1999-HUM36-055 2000-HUM45-066 2001-JFS41-066 2002-JFS48-069 2003-JFS45-056 **Contracts/ Relationships with County Agencies**	No	The finding has been re-peated in the FY 2004 Single Audit. See 2004-JFS26-042.
	1998-HUM16-033 1999-HUM35-054 2000-HUM47-068 2001-JFS42-067 2001-JFS52-077 2002-JFS49-070 2002-JFS07-028 2003-JFS46-057 **Various Programs – Coding Errors**	No	The finding has been re-peated in the FY 2004 Single Audit. See 2004-JFS27-043.
	2000-HUM27-048 2001-JFS24-049 2002-JFS52-073 2003-JFS047-058 **TANF – Data Report**	No	The finding has been re-peated in the FY 2004 Single Audit. See 2004-JFS029-045.
	1997-HUM18-031 1998-HUM20-037 1999-HUM38-057 2000-HUM46-067 2001-JFS51-076 2002-JFS53-074 2003-JFS48-059 **Medicaid/SCHIP – Third-Party Liabilities**	No	The finding has been re-peated in the FY 2004 Single Audit. See 2004-JFS30-046.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2002-JFS54-075 2003-JFS49-060 **Medicaid/SCHIP – Duplicate Physician/ Osteopath Payments**	Yes	
	1997-HUM14-027 1998-HUM15-032 1999-HUM34-053 2000-HUM44-065 2001-JFS53-078 2002-JFS56-077 2003-JFS50-061 **Adoption Assistance - Voucher Summary Support Detail**	No	The finding has been repeated in the FY 2004 Single Audit. See 2004-JFS28-044.
	2002-JFS59-080 2003-JFS51-062 **WIA – Structure of the Program**	Yes	
	1997-HUM24-037 1997-HUM25-038 1997-HUM28-041 1998-HUM31-048 1999-HUM47-066 2000-HUM10-031 2000-HUM53-074 2001-JFS10-035 2001-JFS59-084 2002-JFS14-035 2002-JFS61-082 2003-JFS52-063 **Missing Documentation – Various Counties**	No	The finding has been repeated in the FY 2004 Single Audit. See 2004-JFS39-055.
	2000-HUM51-072 2001-JFS60-085 2002-JFS62-083 2003-JFS53-064 **Late County Reports – Various Counties**	No	This finding has been repeated in the FY 2004 Single Audit. See 2004-JFS40-056.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2000-HUM52-073 2001-JFS58-083 2001-JFS61-086 2002-JFS63-084 2003-JFS54-065 **Report Processing, Reviews, Inaccuracies – Various Counties**	No	The finding has been re-peated in the FY 2004 Single Audit. See 2004-JFS41-057.
	1997-HUM31-044 1998-HUM38-055 1999-HUM52-071 2000-HUM57-078 2001-JFS62-087 2002-JFS64-085 2003-JFS55-066 **DP – MMIS & CRIS-E Application Documentation**	Yes	
	2003-JFS56-057 **DP – CORe Advance Calculation**	No	The finding is no longer considered a reportable condition under the provisions of OMB Circular A-133; however the finding has been repeated as a material weakness under the provisions of OMB Circular A-133.See 2004-JFS21-037.
	2000-HUM59-080 2001-JFS64-089 2002-JFS66-087 2003-JFS57-068 **DP– CORe Program Change Standards**	Yes	
	2003-JFS58-069 **DP CORe Backups**	Yes	
	2001-JFS65-090 2002-JFS67-088 2003-JFS59-070 **DP – Centralized Computer Security**	Yes	

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2003-JFS60-071 **DP – Physical Access to the Computer Room**	No	The finding has been repeated in the FY 2004 Single Audit. See 2004-JFS55-071.
	2001-JFS66-091 2002-JFS68-089 2003-JFS61-072 **DP – SETS System Documentation**	No	The finding has been repeated in the FY 2004 Single Audit. See 2004-JFS45-061.
	2000-HUM60-081 2001-JFS68-093 2002-JFS69-090 2003-JFS62-073 **DP - MMIS/CRIS-E Program Change Documentation**	No	The finding has been repeated in the FY 2004 Single Audit. See 2004-JFS44-060.
Ohio Department of Mental Health	2001-DMH01-094 2002-DMH01-091 2003-DMH01-074 **Subrecipient Monitoring**	No	The finding has been repeated in the FY 2004 Single Audit. See 2004-DMH01-074.
Ohio Department of Mental Retardation and Developmental Disabilities	2001-DMR01-095 2002-DMR01-093 2003-DMR01-075 **Medicaid – Subrecipient Monitoring**	No	The finding has been repeated in the FY 2004 Single Audit. See 2004-DMR02-076.
	2001-DMR02-096 2002-DMR02-094 2003-DMR02-076 **Medicaid – Allowable Costs**	Yes	
	2001-DMR03-097 2002-DMR03-095 2003-DMR03-077 **Medicaid – Provider Certifications**	No	The finding has been repeated in the FY 2004 Single Audit. See 2004-DMR03-077.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Mental Retardation and Developmental Disabilities (Continued)	2003-DMR04-078 **DP – Transfer into the Live Environment**	No	The finding has been re-peated in the FY 2004 Single Audit. See 2004-DMR04-078.

* On July 1, 2000, the Ohio Department of Human Services merged with the Ohio Bureau of Employment Services. 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 the Ohio Department of Human Services (HUM) and the Ohio Bureau of Employment Services (BES).

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OHIO ATTORNEY GENERAL'S OFFICE

2004-AGO01-001 Medicaid Fraud Control Unit Payroll

Corrective Action Plan
The Finance Section will work with the oversight agency to resolve this matter. Finance is in the process of implementing detailed procedures that require the grant coordinator to work with the Section Chief during the grant application process to ensure accuracy. In addition, the semi-annual payroll certifications will be compared to budgetary and actual payroll expenditure data to ensure that only eligible employees are being charged to the grant.

If new employees are hired, the Grant Coordinator will submit an adjustment request to the oversight agency for prior approval of any changes of personnel from the original submitted budget. Any changes throughout the year will be reviewed by the Payroll Officer and Grant Coordinator and any adjustments will be approved by the Section Chief and Fiscal Officer.

Anticipated Completion Date for Corrective Action
Corrective action plan should be in place in April 2005.

Contact Person Responsible for Corrective Action
Jay Easterling, Chief Finance Officer, Ohio Attorney General's Office, 30 East Broad Street, 15th Floor, Columbus, Ohio 43215, Phone: (614) 466-1812, e-mail: Jeasterling@ag.state.oh.us

2004-AGO02-002 Medicaid Fraud Control Unit Reports

Corrective Action Plan
The AGO will immediately develop a grant reporting timeline for the preparation, review and submission of all required grant reports. Section management will monitor the reporting timeline to ensure adequate resources are available to comply with timely report submission.

Anticipated Completion Date for Corrective Action
Corrective action plan should be in place in April 2005.

Contact Person Responsible for Corrective Action
Jay Easterling, Chief Finance Officer, Ohio Attorney General's Office, 30 East Broad Street, 15th Floor, Columbus, Ohio 43215, Phone: (614) 466-1812, e-mail: Jeasterling@ag.state.oh.us

OHIO OFFICE OF CRIMINAL JUSTICE

2004-CJS01-003 Subrecipient Monitoring

Corrective Action Plan
Substantive changes were made to the subrecipient monitoring procedure at the end of Fiscal Year 2004 and were implemented during Fiscal Year 2005. An updated grant monitoring policy was developed and implemented by the Grants Administration section. The Planning & Evaluation section is conducting both telephone and on-site programmatic monitoring. Also, the Grants Administration section is conducting fiscal and compliance desktop monitoring. Additionally, the Audit staff has established a risk assessment schedule to provide an evaluation for determining higher risk subrecipients that will receive an on-site fiscal monitoring from the Audit staff.

Also the Federal subgrant award agreement form will be updated to include the CFDA program title and the name of the Federal Agency providing the funds.

OHIO OFFICE OF CRIMINAL JUSTICE (Continued)

2004-CJS01-003 Subrecipient Monitoring (Continued)

Anticipated Completion Date for Corrective Action
June 1, 2005

Contact Person Responsible for Corrective Action
Karhlton Moore, Chief Legal Counsel, Ohio Office of Criminal Justice, 140 East Town Street, 14th Floor, Columbus, Ohio 43215, Phone: (614) 466-0308, e-mail: moore@ocjs.ohio.gov

2004-CJS02-004 Federal Reporting

Corrective Action Plan
Substantive changes have been made to the procedure for completing and filing the Federal Report form SF-269. Beginning with Fiscal Year 2005 the performance of this process was switched from the Grants Administration section to the Finance section. The SF-269 report is now based upon the information in the State of Ohio Central Accounting System (CAS). A reconciliation of the information from CAS to the Grants Management Information System (GMIS) is performed quarterly and any differences to be adjusted are reported to the Grants Administration Director. The reconciliations and CAS printouts are maintained as backup information for the report filings. The SF-269 report is now filed electronically on the Department of Justice website to ensure timely reporting and a printout with the OCJS Director's signature is maintained. A policy for this procedure is being written and updated.

Anticipated Completion Date for Corrective Action
June 1, 2005

Contact Person Responsible for Corrective Action
Karhlton Moore, Chief Legal Counsel, Ohio Office of Criminal Justice, 140 East Town Street, 14th Floor, Columbus, Ohio 43215, Phone: (614) 466-0308, e-mail: moore@ocjs.ohio.gov

OHIO DEPARTMENT OF EDUCATION

2004-EDU01-005 Charter Schools – Monitoring of Subrecipients

Corrective Action Plan
The OCS will enhance its subrecipient monitoring procedures to ensure the charter school grant funds are being spent in accordance with applicable laws and regulations. The Annual Performance Report (APR) guidelines will be revised to require subrecipients to include additional information regarding expenditures and use of funds. The additional information should assist the OCS in verifying the funds were used in accordance with their budget and they were used to pay for allowable expenses. On-site monitoring procedures will be developed and implemented to ensure the grant funds were used appropriately. The OCS will also provide for the additional human resources required to assist with the on-site monitoring activities by utilizing existing Office of Field Relations personnel and others as necessary implement the processes. Desk review processes and procedures will be developed and implemented to help ensure the amounts reported on the Final Expenditure Reports (FERs) agree with the subrecipient's financial records and that the school did not request more cash than what was needed to pay for approved expenses.

Anticipated Completion Date for Corrective Action
It is anticipated that the components of the corrective action plan will be in place no later than December 31, 2005.

OHIO DEPARTMENT OF EDUCATION (Continued)

2004-EDU01-005 Charter Schools – Monitoring of Subrecipients (Continued)

Contact Person Responsible for Corrective Action
Gaylen Blackwell, Associate Director, Ohio Department of Education, 25 South Front Street, Columbus, Ohio 43215, Phone: (614) 644-8396, e-mail: Gaylen.Blackwell@ode.state.oh.us

2004-EDU02-006 Charter Schools – Payroll Expense Distribution

Corrective Action Plan
This condition has been corrected. The condition was due to the migration of payroll certification from a manual process to an automated process. In fiscal year 2003, certifications were performed by printing out all staff and hours recorded in the payroll system then determining which employees were funded by federal cost centers. Certification forms were then created and signed by the employee. In fiscal year 2004, this process was fundamentally changed to a real-time accounting of federally funded staff time and effort. System generated time and effort certification reports were anticipated to be completed for fiscal year 2004, but were delayed.

Time and effort certification is now accomplished though the Department's Oracle time keeping system. Staff now enter time into electronic time cards in the system as they work it. The time is entered according to the cost center in which the employee spent their time working (e.g., attributing 4 hours to Charter School grant work and 4 hours to Charter School GRF work). At the end of each pay period, the time card is reviewed and approved by the supervisor. The time keeper for that work area then reviews the time card and makes any necessary corrections. An attendance sheet is then printed and initialed by the employee. Every six months, a certification report, which shows the cost centers charged for an individual employee's work, is generated and reviewed by the employee. The employee verifies the time distribution on the report and signs the report. If corrections are needed, they are noted on the report and correcting actions are entered in the accounting system. The certification form and any supporting documentation for adjusting entries are kept on file. This is a similar process currently being used by other states, such as Louisiana, which has been approved by the U.S. Department of Education for real-time time and effort accounting.

Anticipated Completion Date for Corrective Action
The corrective action plan was completed 07/01/2004.

Contact Person Responsible for Corrective Action
John T. Childs, Comptroller, Ohio Department of Education, 25 South Front Street, Columbus, Ohio 43215, Phone: (614) 466-2791, e-mail: John.Childs@ode.state.oh.us

2004-EDU03-007 Expenditures Outside the Period of Availability

Corrective Action Plan
The Department will include a statement on the project cash request submitted by local entities that certifies that the request for funds are for obligations made within the period of availability. For payments noted by the auditor in the citation, the Department is obtaining certification from the chief financial officers of the affected entities which attests to the obligation of funds within the period.

The Department received notification from the General Counsel of the U.S. Department of Education, regarding a clarification of period of availability requirements for U.S. Department of Education grant programs. The letter, dated November 21, 2003, outlines that receipt of a payment request by the Department does not constitute an obligation by the state agency. Rather, the underlying obligations by local entities are the standard which is required for payment.

OHIO DEPARTMENT OF EDUCATION (Continued)

2004-EDU03-007 Expenditures Outside the Period of Availability (Continued)

Anticipated Completion Date for Corrective Action
The certification of payments by local entities will be completed by June 30, 2005. The addition of the statement to the project cash request will be completed by May 1, 2005.

Contact Person Responsible for Corrective Action
Jeff Jordan, Associate Director, Office of Federal and State Grants Management, Ohio Department of Education, 25 South Front Street, Ground Floor, Columbus, Ohio 43215, Phone: (614) 752-1483, e-mail: jeff.jordan@ode.state.oh.us

2004-EDU04-008 TANF – Monitoring of Head Start Expenditures

Corrective Action Plan
Both the data verification and fiscal focus standardized monitoring documents will be revised to increase the scope of on-site monitoring. During on-site data verification, files will be examined to review documentation to ensure only TANF-eligible children were claimed for reimbursement by providers. All Title IV-A Head Start providers will receive an on-site data verification review as well as a fiscal focus review. All reviewers will be instructed to document their review process and conclusions including working papers as appropriate. Beginning in state fiscal year 2005 the county offices of job and family services will determine child eligibility.

Regarding the A-133 audits cited, the Department will be taking additional steps to ensure the audits are received, including suspending payment and/or terminating programs for noncompliance. With regards to the two reports which did not have TANF funding reported, the Department will contact the agencies to remind them to include this information in their reports. In addition, we will contact the audit firm to remind them of the requirement to ensure the Federal Schedule is fairly presented and complete before releasing the audit report publicly under Ohio Revised Code Section 117.26.

Anticipated Completion Date for Corrective Action
All data verification reviews will be completed by June 30, 2005. All fiscal focus reviews will be completed by September 30, 2005.

Sanctions will be imposed on subrecipients if the audit reports are not received by June 30, 2005. Contacting the audit firm regarding disclosure of TANF funds on the next Federal Schedule will occur by June 30, 2005.

Contact Person Responsible for Corrective Action
Sandra Miller, Director, Ohio Department of Education, 25 South Front Street, Columbus, Ohio 43215, Phone: (614) 466-0224, e-mail: Sandy.Miller@ode.state.oh.us

2004-EDU05-009 DP – Application Development & Maintenance

Corrective Action Plan
Resource and cost constraints have prevented the Department from developing and implementing formal standards in the past. ISM management has recently hired an Applications Development Manager to serve as a director of application development and help lead the Department in formalizing and documenting application development standards and best practices.

The Applications Development Manager recently created an Application Standards Team (herein called "AST") that consists of ISM developers, application architects and database administrators. The AST discusses various application development issues, trends, best practices and recommends standards to be adopted by the Department. These proposed standards are formulated, documented and presented to the Director of ISM for formal acceptance. Once adopted and published, these standards must be followed by all application developers.

OHIO DEPARTMENT OF EDUCATION (Continued)

2004-EDU05-009 DP – Application Development & Maintenance (Continued)

Corrective Action Plan (Continued)
The Applications Development Manager is actively documenting and formalizing existent, informal ISM standards and procedures. The following documents are currently available in a draft format:

- Application Design Guidelines – an outline of naming conventions and application architecture recommendations (including design standards)
- Distributed Development Best Practices – an outline of best practices with .NET development in ODE's distributed application environment.

Additional documentation will be prepared that will cover the following areas:

- Application Testing Standards (unit, integration, system, etc.)
- Change Control Procedures (leveraging Remedy for application change requests and workflow)

The Applications Development group is also currently evaluating Continuous Integration packages for automated application builds, including automated unit-testing using NAnt and NUnit.

Anticipated Completion Date for Corrective Action
Expected completion of all application development documentation is December, 2005.

Contact Person Responsible for Corrective Action
Brian Caldwell, Applications Development Manager, Ohio Department of Education, 25 South Front Street, Columbus, Ohio 43215, Phone: (614) 644-6339, e-mail: brian.caldwell@ode.state.oh.us

2004-EDU06-010 DP – CRRS Reimbursement Reporting to Federal Government

Corrective Action Plan
We have installed the FNS reports and backup documents from Colyar Consulting Group. All reports were validated and matched to the backup documentation already on file with the office in our miscellaneous reports on the intranet. These documents and the FNS reports are now reviewed monthly at the time of submission of the 90 day reports. All back up documentation is printed until the enhancement is done to archive the information.

The border for Development and Quality Assurance indicate the site to which the database is pointing. Anytime this is not seen by the user, we will notify the Office of Information Management Systems.

Anticipated Completion Date for Corrective Action
Completed

Contact Person Responsible for Corrective Action
Rena Carskadon, Account Clerk Supervisor, Ohio Department of Education, 25 South Front Street, 2nd Floor, Columbus, Ohio 43215, Phone: (614) 466-5062, e-mail: rena.carskadon@ode.state.oh.us

OHIO DEPARTMENT OF HEALTH

2004-DOH01-011 Administrative Costs

Corrective Action Plan
The Ohio Department of Health does not agree with the audit finding. The Department will however continue to closely monitor the percentage of administrative costs used. The Department's decision is based on the federal Notice of Grant Award (Grant No. X07HA00016-13) language page 3 of 7 Item #5 - "the grantee may not use more than 10 percent of the FY2003 grant funds for administration, accounting, reporting, and program oversight

OHIO DEPARTMENT OF HEALTH (Continued)

2004-DOH01-011 Administrative Costs (Continued)

Corrective Action Plan (Continued)
functions." Additionally, per the Ryan White CARE Act, Part B, Section 2618 (b) (4) (A), "a State may not use more than 10% of the amounts received under a grant awarded under this part for administration."

Therefore, based on the method of applying the administration costs to the total grant award, ODH actually spent a total of 7.7% for administration ($1,956,819 divided by $25,322,829).

Anticipated Completion Date for Corrective Action
The Department plans to contact the Ryan White CARE Act Administrator at the Division of Grants Management Operations (HRSA) by April 29, 2005 to ensure that administrative costs are applied in accordance with all rules and regulations.

Contact Person Responsible for Corrective Action
Terri Davis-Stuckey, Acting Chief, Internal Audit, Ohio Department of Health, 246 North High Street, 7th Floor, Columbus, Ohio 43266, Phone: (614) 644-7618, e-mail: tstuckey@odh.ohio.gov

2004-DOH02-012 Subrecipient Monitoring

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). Although ODH is working toward this goal, independent subgrantee audits cannot currently be submitted to ODH electronically.

ODH now has an implemented and functional Audits Module in its Grants Management Information System (GMIS). The module can create reminder form letters for distribution to the subgrantee in advance of the A-133 audit completion due. The module allows for ODH entry of information from independent audits received from ODH subgrantee's (ODH plans to add future functionality that will allow subgrantees to submit audit reports electronically where practical). The module pre-populates agency and specific grant information, and then calculates timeliness of audit completion and submission based upon the audit data inputted by ODH.

Data from each audit reviewed is immediately entered into the module. That information in turn generates an appropriate form letter to the subgrantee. The form letter is either acknowledging the receipt of the audit (indicating there were no reportable conditions), or that there were specific reportable conditions that the subgrantee must address. (ODH began issuing these letters when that functionality of the Audit module was complete in January 2004.) Letters are batched and attached to an executive summary sign off memo that is forwarded to the ODH Office of the Assistant Director for approval/disapproval. Executive summaries are forwarded the day they are batched. Once approved by the Assistant Director, the summaries with individual letters are returned to Grants Administration for signature and distribution by the Audits Unit. Individual subgrantee letters are pended by creation date for response from the subgrantee.

Follow up letters to subgrantees are pended by Executive Summary batch date for response. Once response is received, individual letters are pulled and forwarded to Audits Unit for review. Appropriate updates are made to the modules and copies are filed both in Audits Unit and in Grants Administration. If issues are resolved, a second form letter is distributed to the subgrantee indicating all reportable conditions have been satisfactorily addressed. Letters remain in a pending file until a response is received from the subgrantee. Pending files are reviewed each quarter for delinquent response and an additional contact is made either by telephone call or in writing.

OHIO DEPARTMENT OF HEALTH (Continued)

2004-DOH02-012 Subrecipient Monitoring (Continued)

Corrective Action Plan (Continued)
Subgrantee who fail to respond to ODH GAPP Policy requirements for either the submission of an independent audit, or in response to reportable conditions found in a submitted audit are now subject to special conditioning 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. Specific ODH Program Units are notified with recommendation that future grants not be awarded to audit delinquent subgrantees until all issues are satisfactorily resolved.

Anticipated Completion Date for Corrective Action
All corrective actions described above are in place and have been functioning in ODH Grants Administration since January 01, 2004. We will continue to review and enhance the process to ensure timeliness of subgrantee to OMB A-133 requirements.

Contact Person Responsible for Corrective Action
Terri Davis-Stuckey, Acting Chief, Internal Audit, Ohio Department of Health, 246 North. High Street, 7th Floor, Columbus, Ohio 43266, Phone: (614) 644-7618, e-mail: tstuckey@odh.ohio.gov

2004-DOH03-013 Early Redemption of Food Instruments

Corrective Action Plan
A food instrument that is presented for payment as redeemed prior to the valid period will reject for payment. The WIC Payment Specialist will manually review the payment to determine if the wrong date has been recorded in the date-redeemed box. The Specialist will manually review the food instrument to see if food instrument contains any supporting documentation such as “franking” on the back of the coupon to verify the correct date the coupon was redeemed. Only a small percentage of food instruments will be overridden and paid and appear on the Food Resolution Report.

Anticipated Completion Date for Corrective Action
Based on investigation of the amount for one of the months’ in question, it appears as though there was a mix-up at the local client level when the FIs were printed, resulting in the preprinted number on the FI not agreeing with the number entered by the client. This difference allowed the FI to be redeemed early without being detected by the computer application. The department will continue to review and enhance processes to ensure compliance and reduce potential errors.

Contact Person Responsible for Corrective Action
Terri Davis-Stuckey, Acting Chief, Internal Audit, Ohio Department of Health, 246 North High Street, 7th Floor, Columbus, Ohio 43266, Phone: (614) 644-7618, e-mail: tstuckey@odh.ohio.gov

2004-DOH04-014 Federal Reporting

Corrective Action Plan
The Ohio Department of Health attempts to report in an accurate and timely manner. However, in some instances, it is difficult to meet the federal timelines regarding submission of a Final Financial Status Report (FSR) within 90 days following the end of the grant period. In order to submit a Final FSR, all outstanding obligations must be liquidated. This is difficult in the case where ODH uses the federal funds to award sub grants. Per GAPP Policy, subgrantee agencies have 45 days after the grant period in which to submit their final expense report. Upon receipt of the final expense report, ODH must then closeout each subgrantee agency, and determine if funds are owed to ODH or if funds are due to the subgrantee. If funds are owed to ODH, ODH must then wait for the subgrantee to submit a check for the balance due, which takes time because most subgrantees require board

OHIO DEPARTMENT OF HEALTH (Continued)

2004-DOH04-014 Federal Reporting (Continued)

Corrective Action Plan (Continued)
approval in order to process such payment. If funds are due to the subgrantee agency, then ODH must process payment accordingly.

Both of these federal grants cited in the Single Audit Report were used to award subgrants.

Additionally, ODH had significant staff turnover in the Federal Reporting Unit during this review period. As a result, some reports were not as timely as they normally would be. The unit is now fully staffed, and taking the necessary steps to minimize the instances in which the federal timelines are not met.

In cases where a Final FSR cannot be submitted within the 90 days following the end of the grant period, ODH strives to submit an Interim FSR, and will follow-up with the Final FSR once all necessary steps are completed in order to do so. Though not the preferred route, this method has proven to be acceptable to most federal funding agencies.

In summary, ODH is devising and implementing the appropriate internal controls to ensure that federal reports are submitted in a timely manner. The Federal Reporting Unit will work closely with the Grants Administration Unit to ensure timelier closeout of sub grant awards, enabling the department to meet federal reporting timelines.

Anticipated Completion Date for Corrective Action
Immediate and on going.

Contact Person Responsible for Corrective Action
Terri Davis-Stuckey, Acting Chief, Internal Audit, Ohio Department of Health, 246 North High Street, 7th Floor, Columbus, Ohio 43266, Phone: (614) 644-7618, e-mail: tstuckey@odh.ohio.gov

2004-DOH05-015 DP – Business Resumption Plan

Corrective Action Plan
The Ohio Department of Health (DOH) continues to work toward implementing a formal Business Resumption Plan. DOH has completed a significant part of this plan and is contracting for it is completion by the end of June 2005. The primary component left to be completed has to do with the documentation of Critical Business Procedures by the Business Divisions of DOH. Testing of this plan will not occur until later in the summer of 2005. The IT portion of the Business Resumption Plan is largely in place, including a Hot Site for continuation of Agency business in the event of a Disaster, as well as hardware components to allow for the mirroring of critical data over to the Hot Site. This will be included in the testing, and of course, the Plan itself will require ongoing and continued updating and review to reflect changes and keep current with Agency procedures, policies and business functions.

Anticipated Completion Date for Corrective Action
Late summer 2005. We understand that this process will constantly change and will need to periodically be readdressed, updated and tested.

Contact Person Responsible for Corrective Action
Terri Davis-Stuckey, Acting Chief, Internal Audit, Ohio Department of Health, 246 North High Street, 7th Floor, Columbus, Ohio 43266, Phone: (614) 644-7618, e-mail: tstuckey@odh.ohio.gov

OHIO DEPARTMENT OF HEALTH (Continued)

2005-DOH06-016 DP – Program Change Controls

Corrective Action Plan
The Ohio Department of Health has contracted for assistance in designing and implementing a comprehensive change management system. The current procedure deals primarily with web based applications and server based databases. The revised Change Management system will use standard change management procedures to address all changes to the production environment including web, PC based, client server and mainframe applications and also network and server changes. Formal written procedures to track, monitor, remediate, test, implement and document all mainframe or server-based program changes will be developed during the implementation of the new Change Management System.

Until the new change, management system can be put into effect all WIC application changes will be reported through a weekly change log and reviewed by OMIS management.

Anticipated Completion Date for Corrective Action
Core change management standards and procedures will be in place by July 2005 with additional standards and procedures to be implemented at 4-6 month intervals until the new Change Management System is fully implemented.

Contact Person Responsible for Corrective Action
Terri Davis-Stuckey, Acting Chief, Internal Audit, Ohio Department of Health, 246 North High Street, 7th Floor, Columbus, Ohio 43266, Phone: (614) 644-7618, e-mail: tstuckey@odh.ohio.gov

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES

2004-JFS01-017 TANF – Consolidated Funding – Inappropriate Expenditures

Corrective Action Plan
A great deal of work occurred in SFY 2005 to address this finding. On 8/19/2004, the ODJFS Director determined that state and federal funds were insufficient to sustain existing and anticipated State Fiscal Year (SFY) 2005 spending levels in the consolidated allocation. Given the significance of projected shortfalls and the need to restore monies to the TANF federal grant, the consolidated allocation was terminated. This action was authorized by Article V.A. of the Fiscal Agreement. ODJFS made amendments for SFY 2005 to policies/business rules to stop the roll mechanism that existed within the consolidated allocation. Once the consolidated allocation was terminated, a new Public Assistance Fund linked allocation was established to assure compliance with federal requirements. Furthermore, Ohio Administrative Code rule 5101: 9-06-03 was amended to include the process for monitoring and tracking non-federal match funds for Federal Food Stamp and Medicaid Administration expenditures.

Anticipated Completion Date for Corrective Action
The termination of the consolidated allocation occurred on 8/19/2004.

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

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS02-018 Medicaid – Undocumented Disbursements

Corrective Action Plan
We disagree with the premise of this comment. The federal draw amounting to $8,750,360.00 from Letter of Credit 7081G on March 29, 2004, represented federal reimbursements due to the state GRF. The Federal SF-272 Report, the ODJFS internal ledger and discussions with the Division of Payment Management, as well as a reconciliation with the Payment Management System for that letter of credit, supported this draw.

We agree that the coding was incorrect on the state revenue document when depositing these funds. The grant number on the document should have been STFO. We agree that the funds should have been transferred to the state GRF.

In the future, management will ensure appropriate coding is applied to all deposits of federal dollars. We will analyze and monitor the status of state funds reimbursed by the federal government posted to fund R12 on a quarterly basis.

Anticipated Completion Date for Corrective Action
April 1, 2005, and ongoing.

Contact Person Responsible for Corrective Action
Stephen Boudinot, Chief, Bureau of Cost and Cash Management, Office of Fiscal Services , Ohio Department of Job and Family Services, 30 East Broad Street, 38th Floor, Columbus, Ohio 43215, Phone: (614) 387-0315, e-mail: boudis@odjfs.state.oh.us

2004-JFS03-019 FACSIS – Foster Care Duplicates

Corrective Action Plan
ISSUE 1: FACSIS duplicate payments

For State Fiscal Year 2004, 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.

In addition, ODJFS will work with MIS to ensure that the appropriate information (i.e., actual service dates, rather than first and last dates of the month) is available on the disbursements journal to the Auditor of State for review.

Note: Our initial review found that many of these questioned costs (totaling $552,532) are for claims which were made for the benefit periods of State Fiscal Years 2002 and 2003. Although the FACSIS system modification was effective for the service coverage periods of State Fiscal Year 2004 and later, because there is a 24 month time frame for claiming, claims relating to SFY 2002 and 2003 were paid. Therefore, we expect that the full affect of the FACSIS system modification that was designed to prevent duplicates will be realized in State Fiscal Year 2006 and thereafter.

ISSUE 2: FFP rates

For FY 2004, the Bureau of Accountability and Regulation will work with the Bureau of Automated Systems in order to ensure that the federal rates are updated in a timely manner in order to avoid having FY 2005 payments made based on the FY 2004 rates.

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS03-019 FACSIS – Foster Care Duplicates (Continued)

Anticipated Completion Date for Corrective Action
ISSUE 1: For SFY 2004 questioned cost amounts, notices to each county regarding the question costs associated with their county will be issued by June 30, 2005. The determination of overpayments will be completed by January 31, 2006, and the recovery of any overpayment will be completed by April 30, 2006.

Regarding necessary revisions to be made to the disbursement journal, OCF will meet with MIS by August 31, 2005, to identify the necessary revisions.

ISSUE 2: A plan for ensuring that the federal rates are updated will be in place by August 31, 2005.

Contact Persons Responsible for Corrective Action
Policy Questions:
Jessie M. Tower, Assistant Deputy Director, Office for Children and Families, Ohio Department of Job and Family Services, 255 East Main Street, 3rd Floor, Columbus, Ohio 43215, Phone: (614) 466-1213, e-mail: towerj@odjfs.state.oh.us

MIS/FACSIS Questions:
Nancy DeRoberts-Moore, Chief, Bureau of Automated Systems, Office for Children and Families, Ohio Department of Job and Family Services, 4200 East Fifth Avenue, Columbus, Ohio 43219, Phone: (614) 466-7233, e-mail: derobn@odjfs.state.oh.us

Michelle Burk, Bureau Chief, Office of Management Information Systems, Ohio Department of Job and Family Services, 4200 East Fifth Avenue, 1st Floor, Columbus, Ohio 43219, Phone: (614) 466-2303, e-mail: burkm@odjfs.state.oh.us

2004-JFS04-020 TANF – Subrecipient Monitoring – Hancock County

Corrective Action Plan
The agency will review a sampling of cases (10%) submitted for TANF reimbursement to assure that Help Me Grow vendor is getting signed PRC applications and that the families are eligible for services. The agency will also review cases to verify that the proper screening is completed and appropriate referrals are made for additional services. Cases will also be reviewed to assure that follow up is done based on the IFSP.

The sampling and review will be completed on a quarterly basis. The review will be completed by the end of the month following the end of the quarter. (April 30, July 31, October 31, January 31)

The agency has already reviewed the cases for July 2004-December 2004.

Anticipated Completion Date for Corrective Action
Reviews will be ongoing as long as agency contracts for TANF funded services.

Contact Person Responsible for Corrective Action
Michelle Miarer, Eligibility/Referral Supervisor 1, Ohio Department of Job and Family Services, P.O. Box 270, 7814 CR 140, Findlay, Ohio 45839, Phone: (419) 425-6375, Ext. 1400, e-mail: miarem@odjfs.state.oh.us

2004-JFS05-021 TANF – Refusal to Work Sanction – Lucas County

Corrective Action Plan
(A) IMCO staff will be trained regarding sanction policy, and sanctions will be reviewed by the Coordinator and Monitoring unit as referenced the response in 2004-JFS07-023.

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS05-021 TANF – Refusal to Work Sanction – Lucas County (Continued)

Corrective Action Plan (Continued)
(B) Effective January 1, 2005, LCDJFS implemented a comprehensive case monitoring activity for Ohio Works First Cases. The sample pull is at minimum a monthly pull of two OWF cases for each worker assigned to OWF cases. In addition, LCDJFS will require Family Area front line managers (Coordinators) to review all zero hour cases and monitor through a "zero hour report" for completion of any needed corrective action.

Anticipated Completion Date for Corrective Action
(A) Training will be completed by 7/15/2005. Implementation of sanction reviews to be implemented by 8/31/2005.

(B) OWF case monitoring – 01/01/2005; Family Area review of zero hour cases – 04/01/2005.

Contact Persons Responsible for Corrective Action
(A) Cindy Ginter, Program Support Manager, Ohio Department of Job and Family Services, 3210 Monroe Street, Toledo, Ohio 43699, Phone: (419) 213-8236, e-mail: gintec@odjfs.state.oh.us

(B) Jodi Bartelt, Family Area Manager, Ohio Department of Job and Family Services, 3210 Monroe Street, Toledo, Ohio 43699, Phone: (419) 213-8237, e-mail: bartej@odjfs.state.oh.us

2004-JFS06-022 Foster Care – Unallowed Costs

Corrective Action Plan
ISSUE #1: Foster Care Questioned Costs

ODJFS disagrees with the questioned costs on the Foster Care Journal for Lucas County. Although these amounts are identified on the Foster Care Disbursement Journal, the Office of Fiscal Services manually codes TANF related costs to TANF on the vouchers. As such, the costs were not charged to the foster care, but to TANF. The supporting documentation for these vouchers support the coding used to charge this amount to TANF. Therefore, the federal reports are consistent with the actual payments reported on the Foster Care vouchers.

ISSUE #2: Systems Modification

To eliminate the need for manual transactions, the Benefit Issuance System needs to be modified to default to an alternative reporting method to account for charges within the Central Accounting System (CAS). This reporting method would indicate the proper program and account to be charged for services rendered. The Office for Children and Families and the Office of Fiscal Services will work with MIS to identify the programming changes that are needed to correct any system defaults that are direct charging the Foster Care Disbursement Journal.

Anticipated Completion Date for Corrective Action
The Office for Children and Families, and the Office of Fiscal Services will work with the Office of Management Information Systems to identify the programming changes that are needed. A meeting to initiate the process and identify the necessary steps for any changes will take place by August 31, 2005.

Contact Person Responsible for Corrective Action
Michelle Burk, Bureau Chief, Office of Management Information Systems, Ohio Department of Job and Family Services, 4200 East Fifth Avenue, 1st Floor, Columbus, Ohio 43219, Phone: (614) 466-2303, e-mail: burkm@odjfs.state.oh.us

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS07-023 Child Support Non-Cooperation – Lucas County

Corrective Action Plan
To increase the accuracy and ensure that sanctions are handled correctly, Lucas County will pull cases for review by the newly established Monitoring Unit. Currently, a separate unit of workers (IMCO) implements and releases child support sanctions and their child support cases will be targeted for a monthly review. In addition, the Coordinator of this unit will review sanctions for accuracy on a weekly basis. The Coordinator shall review 2 sanctions per worker per week to ensure accuracy.

(A) Regarding child support sanctions that have been released prior to cooperation with CSEA, Lucas County will address this issue by training affected staff. Staff training will target reviewing CLRC documentation, alerts, and pertinent CRISE screens prior to reopening or recertifying a case in order to prevent releasing a sanction without compliance.

(B) Regarding processed sanctions, Lucas County will have the Coordinator review and monitor the completion of all requested sanctions. Sanctions will be posted and tracked in a central database to ensure implementation. Sanctions not implemented as requested will be audited to ensure decision to not take these sanctions is correct. Also, the Coordinator will create a database to track sanctions that need to be held in abeyance if they can not be implemented at the time of request.

Anticipated Completion Date for Corrective Action
(A) Staff training by 7/15/ 2005 & full implementation of monitoring reviews by 8/31/2005.
(B) Database and Coordinator sanction reviews to be implemented by 6/30/2005.

Contact Person Responsible for Corrective Action
Cindy Ginter, Program Support Manager, Ohio Department of Job and Family Services, 3210 Monroe Street, Toledo, Ohio 43699, Phone: (419) 213-8236, e-mail: gintec@odjfs.state.oh.us

2004-JFS08-024 Child Care – Missing Documentation – Cuyahoga County

Corrective Action Plan
The agency is continually using and enhancing a software application, the “Child Care Calculator,” implemented in December 2003, which assists the staff in determining eligibility and maintaining accurate case files. Additionally, the agency reached its goal of upgrading its “Imaging” system to the “Electronic Records Information Management System (eRIMS),” which allows users to complete required forms electronically, obtain electronic signatures if needed, and automatically store them in the system, increasing case file and documentation accessibility and availability. In addition, hard-copy case record materials are scanned and electronically stored in the eRIMS system.

Anticipated Completion Date for Corrective Action
The “Imaging” system’s upgrade to the “eRIMS” system was completed in the third quarter 2004, and agency staff began using the enhanced system in the fourth quarter 2004.

Contact Persons Responsible for Corrective Action
Michelle Latimore, Participant Services Manager, 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 Manager, Ohio Department of Job and Family Services, 1641 Payne Avenue, Cleveland, Ohio 44114, Phone: (216) 987-6387, e-mail: WardJ01@odjfs.state.oh.us

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS09-025 Medicaid – Ineligible Recipients

Corrective Action Plan
A Customer Service Request (CSR) was submitted to CRISE and MMIS to request development of CRISE and MMIS manuals, or some other official form of documentation, to document the different sequences of eligibility categories and case types for both Medicaid and SCHIP within the two systems as part of the Corrective Action Plan for 2003. Additionally, we also requested periodic testing to verify automated controls are functioning properly as part of this CSR. As requested by the auditor, the evaluation will include a sample selection of provider payments.

Since the last finding, documentation of a Medicaid Program Assignment Table has been created. Medicare Part D data files for the Centers for Medicare and Medicaid Services have required extensive documentation and testing for the new Part D program. Work continues on the documentation requirements and testing definitions and procedures are still to be established.

Anticipated Completion Date for Corrective Action
It is anticipated that the completion date for this corrective action will be October 31, 2005.

Contact Person Responsible for Corrective Action
Kathy Hoeffer, Medicaid Health Systems Administrator 3, Office of Ohio Health Plans, Ohio Department of Job and Family Services, 30 East Broad Street, 33rd Floor, Columbus, Ohio 43215, Phone: (614) 728-8479, e-mail: hoeffk@odjfs.state.oh.us

2004-JFS10-026 CSEA – Unallowed Activities – Defiance County

Corrective Action Plan
The water cooler was purchased because Defiance County periodically has high levels of nitrates in its water system, and it is not recommended for extended drinking. It is also not recommended for pregnant women who are employed by the CSEA.

The Defiance County CSEA finds it hard to understand how supplying safe drinking water to staff members is being described as not "necessary and reasonable".

The CSEA has continued to purchase the "safe" drinking water on a quarterly basis; however, it is being paid for by CSEA funds that are not subject to 66% Federal reimbursement.

Anticipated Completion Date for Corrective Action
Done

Contact Person Responsible for Corrective Action
Sandra D. Schappert, Assistant Director, Ohio Department of Job and Family Services, 500 Court Street, P. O. Box 246, Defiance, Ohio 43512, Phone: (419) 784-2123 ext 107, e-mail: schaps@odjfs.state.oh.us

2004-JFS11-027 TANF – Refusal to Work Sanction – Franklin County

Corrective Action Plan
We believe this was an isolated case of benefits being inappropriately issued. Supervisors will continue to monitor to ensure that case managers process sanctions and that the correct determination of benefits is made (including the termination of OWF benefits).

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS11-027 TANF – Refusal to Work Sanction – Franklin County (Continued)

Anticipated Completion Date for Corrective Action
Monitoring of work, including sanctions, is completed by supervisors on a daily basis.

Contact Person Responsible for Corrective Action
Esther Adkins, Assistant Director, Ohio Department of Job and Family Services, 80 East Fulton Street, Columbus, Ohio 43215, Phone: (614) 462-6066, e-mail: eadkins@fcdjfs.co.franklin.oh.us

2004-JFS12-028 Various Programs – Cost Allocation – Hamilton County

Corrective Action Plan
According to the GAO's yellow book of government auditing standards, conclusions should: "7.20 Auditors should report conclusions when called for by the audit objectives. Conclusions are logical inferences about the program based on the auditor's findings. Conclusion should be specified and not left to be inferred by the readers. The strength of the auditors' conclusions depends on the persuasiveness of the evidence supporting the findings and the convincingness of the logic used to formulate the conclusions." This finding does not adhere to this standard. This finding has no basis because the coding was corrected. This finding is not specified and the readers must draw their own conclusions. This finding is not supported by any evidence, but merely speculation.

This issue was first brought up in a SFY03 audit by ODJFS. Hamilton County JFS has acknowledged the error, has repeatedly offered to repay the federal earnings and other attempts at resolving this issue, all to no avail. We believe it is wrong to again site us for the same issue that ODJFS refuses to bring to conclusion.

Hamilton County JFS was informed by ODJFS in an August 23, 2004, letter to the Director of Hamilton County JFS, that our agency was charging "… purchased services through indirect cost pools…." It also went on to say that "Please be advised that your agency cannot continue this practice, and ODJFS is required to question such costs as inappropriate in any audits…" Hamilton County followed these instructions from ODJFS and reversed the charges from the social services cost pool to non reimbursable for SFY04 in a revised June financial report submitted on September 20, 2004.

Hamilton County JFS determined the amount to be reversed by looking at all the SFY04 service payments made to Magellan, Hamilton Choices, and Beech Acres to provide services for children. This sum of $26,282,317 was then used on the revised June financial report. No federal revenue was derived from any source for service expenditures. They were absorbed as a local expense.

Hamilton County JFS believes that a Corrective Action Plan needs to be submitted by ODJFS, not the county, as they have the ultimate authority for the conclusion of this matter. During the open period for correcting 2004 data, Hamilton JFS performed the generally accepted state accounting practice for rectifying the claim. This should not be an issue for the 2004 audit.

Anticipated Completion Date for Corrective Action
Hamilton County JFS has already corrected it.

Contact Person Responsible for Corrective Action
Michael Hiles, Fiscal Section Chief, Ohio Department of Job and Family Services, 222 East Central Parkway Room 3SW111, Cincinnati, Ohio 45202, Phone: (513) 946-1854, e-mail: hilesm@jfs.hamilton-co.org

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS13-029 IEVS – Due Dates

Corrective Action Plan
The Office of Research, Assessment and Accountability's Fraud Control Section is responsible for monitoring CDJFS staff to determine if IEVS alerts are processed timely and accurately. Match alerts are pulled from relevant online reports and reviewers examine applicable CRIS-E screens and case record files while on-site at the CDJFS'. Reviewers examine the action taken regarding the match for accuracy and the dates involved for timeliness.

Findings are discussed with CDJFS staff and corrective action plans are required within 30 days of report date. If sufficient corrective action is not taken, follow up is done on a case by case basis. Statewide training is regularly conducted to address general areas of concern. Individualized training is developed for counties showing significant problems. County IEVS Coordinators and other supervisory staff often attend this training and use it to develop better procedures within their counties.

Analysis of counties is done on a regular basis to ensure counties take steps to improve their procedures and timeliness. County review systems are examined for counties with poor timeliness or accuracy to ensure they are adequate.

Anticipated Completion Date for Corrective Action
Training will continue on an ongoing basis and will be subject to change as reasons for untimely completion are identified.

Contact Person Responsible for Corrective Action
Kevin Giangola, Assistant Deputy Director, Office of Research, Assessment and Accountability, Ohio Department of Job and Family Services, 4300 Kimberly Parkway, Columbus, Ohio 43232, Phone: (614) 644-2219, e-mail: giangk@odjfs.state.oh.us

2004-JFS14-030 Lack of Corrective Action

Corrective Action Plan
ODJFS has placed a priority on Audit Resolution and Corrective Action Plans. New Audit protocol procedures are being formulated to address procedures and open lines of communication among program offices. The ODJFS Executive Audit Committee will meet regularly to review status of all internal audits conducted by its ORAA/BOA unit and external audits conducted by State and Federal agencies.

Audit Case Management software will be instituted to assist and standardize operating procedures for internal function. The ability to track and account for all audits is currently being studied. Efforts to link the necessary fiscal, legal and MIS audit data elements are in work group.

ODJFS/OCI will focus on audit resolution, assist in the development of and review corrective action plans.

Anticipated Completion Date for Corrective Action
May 1, 2005 – new Audit Protocol and Policy
June 1, 2005 – Audit tracking work group recommendation
July 1, 2005 - AutoAudit case management software implemented by ORAA/BOA
September 15 – SSA CAP 1st Review

Contact Person Responsible for Corrective Action
Steve R. Huzicko, Assistant Deputy Director, Office of the Chief Inspector, Ohio Department of Job and Family Services, 30 East Broad Street, 32nd Floor, Columbus, Ohio 43215, Phone: (614) 995-7029, e-mail: huzics@odjfs.state.oh.us

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS15-031 TANF – Determining Population of Cases for Testing – Various Counties

Corrective Action Plan
ODJFS:

(A) Ohio does not have a code to indicate whether a person was sanctioned *because* they did not have affordable and appropriate child care because this is not a sanctionable offense. There may be situations where county staff might sanction an individual for not following through with obtaining appropriate supportive services necessary to participate in a work activity, although ODJFS discourages counties from imposing this type of sanction. However, individuals who are sanctioned for not obtaining necessary supportive services are identified on the sanction reports. What is more likely to happen is that county staff may sanction an individual for not participating in a *work activity,* and the person was unable to participate in the work activity because they did not have child care. Therefore, a code has been added to the GWP523RA, GWP523RB, and GWP524RC sanction reports to indicate whether the sanctioned individual had a child under the age of six at the time the sanction was imposed. This new code was added to the sanction reports effective December 2003.

(B) ODJFS issued a view flash bulletin on the statewide CRIS-E system on March 10, 2004, to remind counties of the availability of the sanction reports and informing counties of the new child under six code on the reports. In August 2004, edits were made to fix programming errors with the code. The code now works properly. The Work Activity Policy Section Chief has informed appropriate state personnel of the existence of the code and the availability of the sanction reports.

(C) In addition to system enhancements, ODJFS currently has in place a procedure to review a random sample of sanctioned cases in each county and to review the sanction reports in each county. Beginning July 1, 2004, a random sample of cases identified on the sanction reports as having a child under the age of six at the time of sanction were added to the county sanction review. As part of the sanction review, ODJFS staff review the county's procedures for ensuring that sanctions are appropriate.

When work activity policy staff conduct the sanction review at the county, staff will continue to remind county administrative staff of the availability of the sanction reports and will ensure that the administrative staff know how to access the reports.

Brown County: ODJFS issues monthly Control D reports GWP523RA (newly imposed sanctions from previous month) and GWP523RB (ongoing sanction report which is used by ODJFS to pull samples for review by Work Activity Policy Coordinator). These reports contain the indicator for whether there is a child under age six at the time of the failure. These monthly reports shall be maintained in a file to be available to pull samples for review. These reports will be used by Agency Supervisors to review sanctioned AG's to determine whether or not they claimed lack of child care. Also, the worker shall check AEIHH to check for a child under age 6 when running the sanction action.

Cuyahoga County: We believe corrective action is not required due to the following circumstances:

(A) The universe from which to draw the population is unattainable.

(B) The client tracking system, CRIS-E, does not have a specific location in the CRIS-E system to codify "good cause" reasons for a single parent with a child under six years of age who fails to engage in work activities.

(C) The CRIS-E system is governed and programmed by the Ohio Department of Job and Family Services (ODJFS). The County Department of Job and Family Services (CDJFS) can recommend programming changes, but has no administrative control in ensuring the change can and will happen.

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS15-031 TANF – Determining Population of Cases for Testing – Various Counties (Continued)

Corrective Action Plan (Continued)

Franklin County: ODJFS has developed reports after this audit period to assist CDJFSs in identifying this population. A new field was added on the sanction reports (GWP523RA, GWP523RB, and GWP523RC) to indicate if the assistance group included a child under the age of 6 at the time of the sanction. We will use this report to ensure that single parents with a child under 6 who do not have child care are not inappropriately sanctioned. In addition, during application and reapplication, all adults and minor heads of household are required to sign and comply with a self-sufficiency contract. Included in our self-sufficiency contract is a page that explains that if the single adult or minor head of household has a child under 6, s/he will not incur a sanction for failure to participate in a work activity if s/he has been unable to obtain appropriate child care. If child care is a problem, the case manager works with the individual to make child care arrangements.

Hamilton County: Program Quality Assurance currently reviews all recommended sanction requests prior to benefit reduction or termination. After we've confirmed the sanction is appropriate, we instruct the front line worker to impose the sanction. We capture the review results and the sanction recommendation and or good cause in a QA review database. We will revise the database and incorporate a data field that captures the following: Child under six. Reporting will be available to provide auditors with a list of adult single custodial parents caring for a child under the age of six whose benefits have been reduced or terminated.

Henry County: County agencies do not program CRIS-E as ODJFS staff has this responsibility. County agencies will continue to work with ODJFS on programming issues with state computer databases. Locally, the agency's work activity caseload is small enough to identify those cases affected by the 42 U.S. C 607 (e)(2). ODJFS Quality Control reviewers also review TANF work activity cases on a regular basis.

Highland County: HCDJFS has put in place the following corrective action in place: The Work Activity Supervisor of HCDJFS reviews the new sanction report monthly to ensure that the county is not sanctioning a single parent with a child under the age of six if federal funded child care is unavailable.

After the ODJFS issued a view flash bulletin on the statewide CRIS-E system on March 26, 2004, HCDJFS reviewed their procedures for determining a single custodial parent's inability to obtain needed child care, it is as follows:

(A) During the appraisal/assessment interview, every OWF household is asked the ages of the children and who will be providing the child care. This is documented in the case on the Work Program Profile and the child care coordinator is provided a copy of the form.

(B) On April 28, 2003, HCDJFS "Good Cause for OWF" was revised to include the CDJFS responsibility to inform single custodial parents caring for a child under six years of age ORC Section 5107.16(B)(1)(2)(3).

Lucas County: Although Lucas County has ample child care available for all OWF clients, Lucas County has made an extra effort to advise single parents with children under age six about their rights according to 5107.66 of the Ohio Revised Code. First, Lucas County revised our Self-Sufficiency Contract and Plan to include the specifics of the ORC 5107.66. Case Managers review this rule with their clients at assessment, and the document is signed and stored in the case file. In addition, 5107.66 is included as part of Lucas County's Good Cause Plan and is given to clients at assessment.

To ensure that a single parent with a child under age 6 is not sanctioned if they can not secure child care, the Coordinator responsible for implementing sanctions will review the GWP523RA report on a monthly basis to check the sanctioned cases for children under age 6 and make sure child care was made available to them.

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS15-031 TANF – Determining Population of Cases for Testing – Various Counties (Continued)

Anticipated Completion Date for Corrective Action
Brown County: March 22, 2005

Cuyahoga County: N/A

Franklin County: Since this audit period, ODJFS has developed a field on the sanction reports (GWP523RA, GWP523RB, and GWP523RC) to identify this population. Each Opportunity Center will monitor this list and will be responsible for reviewing a sample from this report each month to ensure that only appropriate sanctions are taken.

Hamilton County: We submitted the attached Information Systems request. Our internal IS will prioritize the request with other agency needs. We are hopeful that the database revision and reports could be implemented within three months (06/30/05).

Henry County: Ongoing

Highland County: Corrective action has been taken. HCDJFS will be involved in ongoing monitoring of this issue.

Lucas County: March 1, 2005

Contact Persons Responsible for Corrective Action
Brown County:
Tammy Wenninger, IM Supervisor, Ohio Department of Job and Family Services, 775 Mt. Orab Pike, Georgetown, Ohio 45121, Phone: (937) 378-6104, ext 112, e-mail: wennit@odjfs.state.oh.us

Cuyahoga County:
Michelle Latimore, Participant Services Manager, 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 Manager, Ohio Department of Job and Family Services, 1641 Payne Avenue, Cleveland, Ohio 44114, Phone: (216) 987-6387, e-mail: WardJ01@odjfs.state.oh.us

Franklin County:
Ester Adkins, Assistant Director, Ohio Department of Job and Family Services, 80 East Fulton Street, Columbus, Ohio 43215, Phone: (614) 462-6066, e-mail: eadkins@fcdjfs.co.franklin.oh.us

Hamilton County:
Amy Story, Program Quality Assurance Section Chief, Ohio Department of Job and Family Services, 6NW502, 222 East Central Parkway, Cincinnati, Ohio 45202, Phone: (513) 946-1474, e-mail: storya01@jfs.hamilton-co-org

Henry County:
Shannon Jones, Eligibility Referral Supervisor, Ohio Department of Job and Family Services, 104 East Washington, P.O. Box 527, Napoleon, Ohio 43545, Phone: (419) 592-0946, ext 109, e-mail: joness@odjfs.state.oh.us

Highland County:
Deborah K. Robbins, Director, Ohio Department of Job and Family Services, 1575 North High Street, Suite 100, Hillsboro, Ohio 45133, Phone: (937) 393-4278, ext. 215, e-mail: robbid@odjfs.state.oh.us

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS15-031 TANF – Determining Population of Cases for Testing – Various Counties (Continued)

Contact Persons Responsible for Corrective Action (Continued)
Lucas County:
Cindy Ginter, Program Support Manager, Ohio Department of Job and Family Services, 3210 Monroe Street, Toledo, Ohio 43699, Phone: (419) 213-8236, e-mail: gintec01@odjfs.state.oh.us

2004-JFS16-032 TANF – Subrecipient Monitoring

Corrective Action Plan

(A) ODJFS has multiple systems to track monies transferred to other state agencies. The first tracking system is that which the contract manager, for the interagency agreements, maintains based on invoices/interagency transfers submitted by the subrecipient state agencies. The contract manager must approve the transfers prior to payment and must assure that invoices are consistent with the interagency agreement. The second tracking system is maintained by the Office of Family Stability fiscal coordinator who obtains the Deputy's approval on all such transfers and tracks the transfers in relation to the original purchase orders. The third tracking system is maintained in the Office of Fiscal Services, which is responsible for processing the transfer of funds and must assure that payments are appropriate to the Agreement and Purchase Order, have all necessary approvals and are properly entered into the CAS system.

The ODJFS, Office of the Chief Inspector (OCI), will enhance its existing audit tracking program to add subrecipient A-133 audits of "sister agencies," will coordinate required timely management decisions as directed by the Executive Audit Committee, and will track the progress of corrective actions in accordance with A-133 guidelines.

(B) The corrective action includes responses from the Office of Research, Assessment and Accountability (ORAA) which is charged with monitoring subrecipient state agencies' compliance through a financial perspective and from the Office of Family Stability (OFS) who provides primary systematic oversight in regards to programmatic compliance.

ORAA: In determining the subrecipient state agencies to be subjected to fiscal compliance audits, ODJFS utilizes the requirements of OMB Circular A-133, as well as pertinent professional guidance set forth within the AICPA's "Audits of States, Local Governments, and Not-For-Profit Organizations Receiving Federal Awards."

Based on the foregoing guidance, ODJFS considered various risk factors (such as the relative size and complexity of the federal award administered by subrecipients, the entity's prior experience with each subrecipient, and the cost-effectiveness of various monitoring procedures) in determining which subrecipient state agencies would be included in ODJFS 2004 subrecipient monitoring audit plan.

In consideration of this guidance, ODJFS determined the amount of TANF funding passed-through to Development represented only 6.45% of the total TANF funding remitted to subrecipient state agencies. As no other risk factors were identified and there is involvement by ODJFS fiscal and program offices during the reimbursement of Development expenditures, this funding was designated as lower risk. Conversely, the portion of the TANF funding passed-through to the Ohio Department of Education (Education) represented approximately 93% of the total TANF funding passed-through to subrecipient state agencies. In addition, prior Single Audits had included material audit findings and questioned costs associated with these TANF funds. In light of these risk factors and the number of audit hours available, ODJFS selected Education for subrecipient monitoring.

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS16-032 TANF – Subrecipient Monitoring (Continued)

Corrective Action Plan (Continued)

While ODJFS will consider the single audit comments in developing future fiscal audit monitoring plans, it is the opinion of ODJFS that the audit approach being employed is substantiated by professional guidance and adheres to the requirements of OMB Circular A-133 as they pertain to a pass-through entity.

Office of Family Stability: During the period, Family Stability performed programmatic monitoring activities at the Departments of Development and Health. Monitoring activities included reviewing financial reports submitted by both departments and on-site visits to review records and observe operations. In addition, Family Stability had regular contacts with both agencies and made inquiries concerning program activities to provide assurance over compliance requirements.

(C) The department will assure that all future interagency agreements contain the CFDA number for TANF, coordinating with the Office of Contracts and Acquisitions.

Anticipated Completion Date for Corrective Action
July 1, 2005, and at the time of future interagency agreements.

Contact Person Responsible for Corrective Action
Steve R. Huzicko, Assistant Deputy Director, Office of the Chief Inspector, Ohio Department of Job and Family Services, 30 East Broad Street, 32nd Floor, Columbus, Ohio 43215, Phone: (614) 995-7029, e-mail: huzics@odjfs.state.oh.us

2004-JFS17-033 Medicaid/SCHIP – Subrecipient Monitoring

Corrective Action Plan

(A) The ODJFS, Bureau of Community Access has initiated procedures to monitor interagency agreements with the Ohio Department of Mental Health in SFY 2005, to better track purchase order amounts compared to submitted ISTVs. This enables the department to better monitor interagency agreements and to amend purchase order and contracted amounts timely.

(B) The ODJFS, Bureau of Community Access has initiated procedures to monitor interagency agreements and prepare purchase orders with the Ohio Department of Aging in SFY 2006. This will allow ODJFS to track and compare ISTV amounts to the purchase order amounts. This will also help the department to better monitor interagency agreements and to amend purchase order amounts and contracted amounts in a timely manner.

(C) The ODJFS, Office of the Chief Inspector (OCI) will enhance its existing audit tracking program to add subrecipient A-133 audits of "sister agencies," will coordinate required timely management decisions as directed by the Executive Audit Committee, and will track the progress of corrective actions in accordance with A-133 guidelines.

(D) All interagency agreements now include the associated CFDA information. The department will assure that all future interagency agreements contain the appropriate CFDA information, coordinating with the Office of Contracts and Acquisitions.

(E) We will document and inform sister agencies of the specific requirements in April 2005.

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS17-033 Medicaid/SCHIP – Subrecipient Monitoring (Continued)

Corrective Action Plan (Continued)

(F) Pursuant to the OMB Circular A-133 Compliance Supplement, under Title XXI, States may provide child health assistance primarily for obtaining health benefits coverage through (1) obtaining coverage under a separate child health program that meets specific requirements; (2) expanding benefits under the State's Medicaid plan under Title XIX of the Act; or (3) a combination of both. ODJFS has elected to follow option 2 by expanding the benefits provided under the State's Medicaid plan.

Although the SCHIP program has different eligibility requirements, it appears allowable services to program beneficiaries are the same as the Medicaid program. In development of the appropriate audit scope, ODJFS determined that SCHIP eligibility is determined by the County ODJFS Offices. As such, eligibility requirements are not applicable to the ODJFS's state agency subrecipients, so were not included within the audit scope. As services to SCHIP and Medicaid beneficiaries are the same, testing of applicable compliance requirements (e.g., subrecipient monitoring, cash management, and payroll) at ADA, DMR, and DMH, provided coverage over SCHIP and Medicaid program expenditures. For future monitoring engagements, ODJFS will determine whether there are additional compliance requirements that correspond solely to the SCHIP program and determine their affect on the nature, timing, and extent of testing performed at the subrecipient state agencies.

OHP will document and inform sister agencies of the specific requirements in April of 2005.

Anticipated Completion Date for Corrective Action
July 1, 2005, and at the time of future interagency agreements.

Contact Person Responsible for Corrective Action
Steve R. Huzicko, Assistant Deputy Director, Office of the Chief Inspector, Ohio Department of Job and Family Services, 30 East Broad Street, 32nd Floor, Columbus, Ohio 43215, Phone: (614) 995-7029, e-mail: huzics@odjfs.state.oh.us

2004-JFS18-034 Employment Services Reporting

Corrective Action Plan
The report contained the following finding: "....However, no documentation was maintained either electronically or in another form, to identify the detail which supported the information on these reports at the time of submission...."

The time period included in the audit included a time period before the SCOTT system was operational, or when the system first became operational. In the 17 months since the first report in the audit was created, SCOTT has continued to improve its operations and processes, and these have been documented. In January of 2005, the 9002 reports were modified to use the DOL supplied data validation software (Mathematica).

The processes that are currently in use are documented, and SCOTI staff will work with OWD staff to confirm the documentation meets DOL requirements. SCOTT staff will also strive to ensure all documentation is known to OWD and available to the auditors at the time of the audit.

In response to the finding: "...In addition, we were unable to recreate the reports from the underlying data within SCOTT because the information is being continuously updated.... This will require the Department to maintain a "snapshot" of the SCOTT system information at the time each report is prepared, or develop a method which would allow the information to be easily recreated, so appropriate supporting documentation is being maintained and can be evaluated timely

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS18-034 Employment Services Reporting (Continued)

Corrective Action Plan (Continued)
During this years audit, it was determined the auditor staff could not use the exports created by Oracle, and that "comma delimited text" files were required. New processes that create an export of the data (data extract used by the DOL supplied Mathematica software) were also deemed insufficient for the auditors purpose.

A new process will be developed to create a series of text files that capture the entire SCOTT data used in the report. This process will be run at the time the reports are generated. Due to the amount of data to be archived, the processing may require more than 25 Gigs (initial estimate) of free disk space, which will then be compressed and burned to DVD(s). OWD will be provided with a copy of the DVD(s) for their records. This will ensure the data is readily available.

The initial process will run on a Windows Workstation, provided by OWD. The final implementation will be a server based solution that may require additional hardware.

The finding also indicated "...We also recommend management periodically monitor the preparation and accuracy of these reports, and formally document their reviews...".

The reports created for the Department of Labor continue to be a high priority item for MIS staff. The 9002 reports have been substantially improved from the original implementation. The staff has worked hard to address any issues that have been raised, and continue to do so. These improvements include automating the reports and using the DOL supplied Mathematica software for calculating performance metrics.

OWD is evaluating options to verify the reports from a "User Acceptance Testing" perspective. MIS will assist this process by providing OWD the test environment required.

MIS state staff has taken ownership and responsibility from vendor staff of the processes required to generate these reports. While converting over to use the DOL supplied software, a relationship was formed between ODJFS staff and Mathematica staff as problems with the DOL supplied software were identified and resolved. This helps ensure long term viability of the processing required.

MIS will assist OWD staff to identify any additional monitoring/management required, and work together to fill any gaps.

Anticipated Completion Date for Corrective Action
The review of the documentation will be completed by June 30, 2005. Any gaps will be addressed by September 30, 2005.

The process to create a snapshot of SCOTT data as it exists at the approximate time the reports are generated will be completed by April 15, 2005. Future iterations of this process will be implemented thereafter.

MIS will need to supply the test environment, which should be ready by July 30, 2005 (some delay may be realized if additional hardware is required).

OWD will need to supply any time frames for when the testing or new management processes will be completed.

Contact Person Responsible for Corrective Action
JoEllen Supplee, IT Manager 1, SCOTT Section, Bureau of Employment Services, Office of MIS Services, Ohio Department of Job and Family Services, 4200 East Fifth Avenue, Columbus, Ohio 43219, Phone: (614) 387-8332, e-mail: suppl j@odjfs.state.oh.us

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS19-035 WIA – One-Stop Delivery Systems

Corrective Action Plan
ODJFS has taken steps to ensure that Ohio has 20 fully compliant One-Stop Systems identified within Areas #1 through #20 as of July 1, 2004 (NOTE: there are 12 regional sub-systems within Area # 7). As of October, 2004, all Memorandums of Understanding (MOU) have been signed. Twenty-seven (27) One-Stop systems have been fully certified with 5 only conditionally certified. The State plans to have One-Stops systems certified by June 30, 2005. However, all LWIAs have one-stop systems in full compliance with the requirements of that Act and Federal regulations. Ohio's certification project encourages LWIA to forge beyond the requirements of the program and is intended to ensure that employment and training is delivered in the State of Ohio in an innovative and holistic manner. In addition, the state's involvement in the MOU process ensures that all available and required partners are part of the MOU and are present in the One-Stop systems. The Office of Workforce Development will continue to work with the U.S. Department of Labor regarding the structure of WIA and to ensure our plan continues to meet federal expectations and requirements.

Anticipated Completion Date for Corrective Action
Corrective action related to this finding has been completed. All One-Stops are compliant and operational and the MOUs for all areas have been executed as of 10/30/04. This finding is monitored on an on-going basis, at least once annually.

Contact Person Responsible for Corrective Action
Steve Clayborn, Grants and Audits Section Chief, Office of Workforce Development, Ohio Department of Job and Family Services, 145 South Front Street, 6th Floor, Columbus, Ohio 43215, Phone: (614) 644-8826, e-mail: claybs@odjfs.state.oh.us

2004-JFS20-036 CORe Processing of WIA

Corrective Action Plan
A great deal of work occurred in SFY 2004 to develop and implement a separate WIA subsystem within CORe. The new WIA subsystem was fully implemented July 1, 2004, and this problem is now corrected. Additionally, there is now a WIA Unit within the Bureau of County Finance and Technical Assistance (BCFTA) to assure full compliance with federal requirements.

Anticipated Completion Date for Corrective Action
The new WIA-subset plus the new organization of the county agencies into areas and how they will report to BCFTA will eliminate the shared split. This was effective July 1, 2004.

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 Fl., Columbus, Ohio 43215, Phone: (614) 644-6598, e-mail: fosted@odjfs.state.oh.us

2004-JFS21-037 CORe Advance Calculation

Corrective Action Plan
The contract with Maximus for SFY 2005 includes a scope of work to correct this problem beginning July 1, 2005. As of February 22, 2005, Maximus has completed the initial programming to correct the issues identified, and the Bureau of County Finance and Technical Assistance (BCFTA) is in the process of testing the changes.

Anticipated Completion Date for Corrective Action
The BCFTA plans on implementing the corrections to CORe beginning July 1, 2005, which will allow time for testing the changes and allow time to train the counties on the changes that have been implemented.

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS21-037 CORe Advance Calculation (Continued)

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

2004-JFS22-038 DP – Manual Overrides of CRIS-E (Fiats)

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.

Anticipated Completion Date for Corrective Action
May 30, 2005. Updated status of CSR's to include CSR's completed, CSR's scheduled and CSR's requiring further detail.

Contact Person Responsible for Corrective Action
Keith Krautter, Acting CRIS-E Section Chief, Ohio Department of Job and Family Services, 4200 East Fifth Avenue, Columbus, Ohio 43219, Phone: (614) 387-8780, e-mail: krautka@odjfs.state.oh.us

2004-JFS23-039 DP- Internal Reviews of Automated Systems

Corrective Action Plan
The most cost-effective way for the Department to address this finding is to obtain the expertise of contracted resources to perform this function. The Offices of Management Information Services (MIS) and Research Assessment and Accountability (ORAA) will jointly define the requirements for the scope of work for a contracted resource to provide internal auditing services.

Anticipated Completion Date for Corrective Action
MIS will determine and complete the scope of work as it relates to MIS functions by October 1, 2005. The scope of work will be shared with ORAA for completion of the overall audit findings.

Contact Person Responsible for Corrective Action
Kimberly Liston, Deputy Director, Management Information Services, Ohio Department of Job and Family Services, 4200 East Fifth Avenue, Columbus, Ohio 43219, Phone: (614) 466-2303, e-mail: listok@odjfs.state.oh.us

2004-JFS24-040 TANF – County Monitoring

Corrective Action Plan
Formal testing of TANF cash assistance cases is currently being conducted by Office of Research, Assessment, and Accountability (ORAA) staff from the Bureau of Program Integrity. A pilot eligibility review was conducted during SFY 2004 and a pilot work participation review was conducted during the first part of SFY 2005. A statistically valid statewide review of TANF cash assistance cases began February 14, 2005. This review

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS24-040 TANF – County Monitoring (Continued)

Corrective Action Plan (Continued)
includes testing of all components of TANF cash assistance eligibility and includes work activities. It determines whether information input into the CRIS-E system corresponds to source documentation and whether CRIS-E accurately evaluates the information provided by the county agency workers.

Staff of ORAA's Bureau of Audit, will be expanding TANF compliance testing beyond the PRC program. The audit approach will be altered to include more real-time monitoring audit testing that will provide counties with more immediate feedback on their performance and compliance with federal regulations governing TANF. In addition, audit staff will implement TANF eligibility testing for cash assistance and anticipate expanding TANF eligibility testing over non-cash assistance TANF payments to recipients beyond those currently performed for the PRC program. Additional staff resources will be made available to focus monitoring audit testing on the TANF program and increase the frequency of monitoring audit coverage of counties.

In addition, Office of Research, Assessment, and Accountability has established communications with the Office of Management Information Systems to develop a process for providing independent audits of automated systems, which would include CRIS-E. This process should ultimately ensure that the CRIS-E system is operating as intended to assist county staff in accurately determining TANF eligibility and to accurately disburse TANF cash payments to eligible recipients.

Note that the auditor's report indicates that "ODJFS has entered into a partnership agreement with each county to provide incentives to the counties to reduce the number of assistance groups on the welfare rolls." This is not accurate. The partnership agreements were eliminated in the 04-05 biennial budget. The TANF incentives, including the caseload reduction incentive, were stopped effective March 31 2002, reference Administrative Procedure Manual Transmittal Letter (APMTL) number 239.

Anticipated Completion Date for Corrective Action
It is anticipated that audit monitoring changes will become effective on July 1, 2005. Eligibility testing began February 14, 2005.

Contact Person Responsible for Corrective Action
Kevin Giangola, Assistant Deputy Director, Office of Research, Assessment and Accountability, Ohio Department of Job and Family Services, 4300 Kimberly Parkway, Columbus, Ohio 43232, Phone: (614) 644-2219, e-mail: giangk@odjfs.state.oh.us

2004-JFS25-041 IEVS – Policies and Procedures Manual

Corrective Action Plan
In early 2002, policy specialists and IT staff began meeting to discuss improving the ODJFS IEVS system. When IT resources became available in February 2003, redesign of the alert system began. The first changes were moved to production in August 2003; the most recent changes were implemented in February 2005. Work on this project will continue into mid-2005. Redesign work has required cooperation, communication, and understanding between program policy staff, information systems analysts, and programmers.

Although we have not yet issued a "centralized policy or procedure manual to reflect the current procedures," we have carefully kept IEVS workers apprised of all the changes as they occurred. As each improvement was made, applicable View Flash Bulletins have been posted on the CRIS-E system. Revision of the entire official policy/procedure will occur once we have completed revision of the automated system later this year.

Anticipated Completion Date for Corrective Action
December 2005

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS25-041 IEVS – Policies and Procedures Manual (Continued)

Contact Person Responsible for Corrective Action
Kevin Giangola, Assistant Deputy Director, Office of Research, Assessment and Accountability, Ohio Department of Job and Family Services, 4300 Kimberly Parkway, Columbus, Ohio 43232, Phone: (614) 644-2219, e-mail: giangk@odjfs.state.oh.us

2004-JFS26-042 Contracts/Relationships with County Agencies

Corrective Action Plan
ODJFS has entered into 2004-2005 Fiscal Agreements with all eighty-eight counties. These Agreements require compliance with all applicable state laws and rules, federal laws and regulations, and require that the county monitor all entities to which it sub grants federal funds received from ODJFS.

Additionally, over the past several months ODJFS leadership and staff have met with county agency representatives to review the requirements of OMB Circular A-133. However, the United States Department of Health and Human Services, in agreement with the Auditor of State of Ohio, determined shortly after the enactment of the Single Audit Act that HHS funds should be excluded from the scope of the OMB Circular A-133 audits of county governments in Ohio. Instead, the Auditor of State, with the annual concurrence of John Fisher, HHS/OIG/OAS, has audited these funds in the State Single Audit, requiring their inclusion on the Schedule of Federal Awards Expended for the State of Ohio. Under this arrangement, the Auditor of State performs limited testing in six of the eighty-eight Ohio counties, covering approximately 50–60% of HHS funds passed-through by ODJFS directly to counties.

ODJFS recently responded to issues raised by HHS about monitoring. In that response ODJFS indicated that until such time as we are otherwise directed, we will assume that the arrangement between HHS and the Auditor of State remains in effect, and we are not to treat county human services funds as subject to inclusion in the county Single Audit. The special consideration that has been approved annually, effectively exempts counties from sub recipient status.

Anticipated Completion Date for Corrective Action
Until such time as ODJFS is otherwise directed, we will assume that the arrangement between HHS and the Auditor of State remains in effect, and we are not to treat county human services funds as subject to inclusion in the county Single Audit.

Contact Person Responsible for Corrective Action
Rick Tully, Assistant Deputy Director, Office of Fiscal Services, Ohio Department of Job and Family Services, 30 East Broad Street, 37th Floor, Columbus, Ohio 43215, Phone: (614) 752-9839, e-mail: tullyr@odjfs.state.oh.us

2004-JFS27-043 Various Programs – Coding Errors

Corrective Action Plan
We agree that there were coding inconsistencies during SFY04. We do not believe that these inconsistencies resulted in inaccurate federal reporting or funding.

The Office of Fiscal Services has developed a new process that includes identifying and communicating coding inconsistencies to program and fiscal staff, and follow up activities/communications to ensure coding errors are corrected on all transactions, promptly. Templates were developed for communicating the inconsistencies to the appropriate agency staff.

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS27-043 Various Programs – Coding Errors (Continued)

Corrective Action Plan (Continued)
Management will use quarterly grant reconciliation data to monitor and test the effectiveness of this new process. Additional processes and procedures will be implemented as necessary to reduce and/or eliminate inconsistencies in the coding of revenue and expenditure transactions in the future.

Anticipated Completion Date for Corrective Action
The new process in its entirely will be implemented April 1, 2005, and ongoing.

Contact Persons Responsible for Corrective Action
Robin Harris, Chief, Bureau of Accounting, Office of Fiscal Services, Ohio Department of Job and Family Services, 30 East Broad Street, 38th Floor, Columbus, Ohio 43215, Phone: (614) 466-4303, e-mail: harrir@odjfs.state.oh.us

Stephen Boudinot, Chief, Bureau of Cost and Cash Management, Fiscal Services, Ohio Department of Job and Family Services, 30 East Broad Street, 38th Floor, Columbus, Ohio 43215, Phone: (614) 387-0315, e-mail: boudis@odjfs.state.oh.us

2004-JFS28-044 Adoption Assistance – Voucher Summary Support Detail

Corrective Action Plan
We will review the programs and processes used in the preparation of voucher summary benefit payments for Adoption Assistance to identify the rationale for using the various numbers and how they are created. We will also assess whether there is a need to create a cross-walk between all possible identification numbers for each client/recipient by creating a field within FACSIS or CRIS so the appropriate individual can be directly identified within the systems based on the supporting documentation for the disbursement.

Anticipated Completion Date for Corrective Action
OCF will conduct its review by August 31, 2005.

Contact Persons Responsible for Corrective Action
Fran Rembert, Bureau Chief, Bureau of Family Services, Office for Children and Families, Ohio Department of Job and Family Services, 255 East Main Street, Columbus, Ohio 43215, Phone: (614) 742-6260, e-mail: rembef@odjfs.state.oh.us

Michelle Burk, Bureau Chief, Office of Management Information Systems, Ohio Department of Job and Family Services, 4200 East 5th Avenue, Columbus, Ohio 43219, Phone: (614) 466-2303, e-mail: burkm@odjfs.state.oh.us

2004-JFS29-045 TANF – Data Report

Corrective Action Plan
We disagree with the finding; no corrective action is required. Of the 111 cases from the audit working papers that had indications of being in error, the Department review found 12 (or 10.8%) that had incomplete data related to the SSN. The average monthly number of TANF recipients for the two quarters reviewed during the audit is 193,876. These 12 incomplete cases represent one incomplete SSN data element for every 16,156 individuals or a rate of .00618% for the caseload. The audit finding recommends that the Department ". . . develop and implement control procedures to provide reasonable assurance that the federal TANF Data report is accurate, complete, and in compliance with federal requirements. . ." Our review of these 111 cases, resulting in a .00168% error rate for one incomplete data element related to the SSN, validates that the Department has reasonable assurances in place related to the accuracy of the TANF Data Report. Documentation supporting our

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS29-045 TANF – Data Report (Continued)

Corrective Action Plan (Continued)
conclusions for the 111 cases is on file in the ODJFS Office of the Chief Inspector and is available for review. Our complete explanation and specific reasons follow:

(A) Child Level Data Records: The Department received the working papers and found that Auditor of State listed 88 cases in the Child Level Data for review not 58 as reported. The department identified the 88 cases, noted the sample month and the recipient number. We queried the 3734 for the sample month to verify that a SSN did not exist for the child. For those children that do not have a SSN in 3734, we queried the CRIS-E *Application Entry Individual Demographic (AEIID)* screen for the review month or the most recent action prior to the review month (Note: CRIS-E historically files information for the case by the most recent action prior to the month being queried. Therefore, if the information was in the system prior to the sample month, it would be part of the case record for the sample month). We also queried *the Inquiry Subsystem Individual Eligibility History (IQEL)* and CRIS-E *Caseload Management Subsystem Add/Display Running Record Comments (CLRC)* as necessary to determine recipient eligibility for the review month.

Of the 88 Child Level Data cases we find the following:

(1) In 16 cases we found a SSN existed in the 3734 during the sample month and verified the accuracy of the number in CRISE via the AEIID screen. We find these cases to be correct.

(2) In 23 cases the child listed was under one year of age. The Auditor's finding states that the identified cases were ". . . examined utilizing audit software to identify records where the date of birth preceded the reporting month date by more than one year since TANF eligibility redeterminations are to occur at least once annually." These 23 identified children had not reached their first birthday by the sample month and therefore should not be part of the finding. We find these cases should be excluded from the Auditor's finding as they do not meet the criteria used.

(3) In 12 cases we found that the child was over 1 year old but the application for assistance for the child was less than a year old. For example, the courts award custody of a child over the age of one to an aunt. The aunt applies for assistance in July and completes an application for a Social Security Number (SS-5) or a duplicate number at the time of application. This could be the result of the non-custodial parent(s) not applying for a SSN for the child or the non-custodial parent(s) refusing to provide the SSN to the custodial aunt. For the sample month of February 2004, the recipient/department had not received the number. However, based on the matching process utilized by the Auditor, the case would be identified as an error since the child is older than one and does not have the SSN. Our review of these cases found all 12 cases to be correct as procedures were properly followed.

(4) In seven (7) cases, we found that the worker at the local County Department of Job and Family Services (CDJFS) attempted to input the SSN provided by the applicant for the child. CRISE would not accept the number with the message that the data (i.e. the SSN) already existed. This indicates that the number provided was already in use in CRISE and requires that resolution on a case-by-case basis. However, the recipient cannot be denied benefits pending this resolution. In six (6) of these seven (7) cases, the time between the identification of the duplication and the sample month was less than one year. In the other case, an application for a SSN, the SS-5, was noted at the time of application and pending awaiting resolution of the discrepant information. We find that procedures were properly followed for cases with the message that the number already exists and conclude that these should be considered correct.

(5) In 19 cases we found that an adult had made application and the child in the case did not have a SSN or the adult did not have verification of the child's SSN. The agency completed the SS-5 in accordance with regulation approved benefits for the child pending the issuance of a SSN by the Social Security Administration (SSA). Since state policy related to applying for a SSN was followed

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS29-045 TANF – Data Report (Continued)

Corrective Action Plan (Continued)

in these cases and the timing of the issuance of SSN is determined by SSA, we have determined that these should be considered correct.

(6) In 11 cases, we found that no SS-5 or SSN existed in the case and benefits were issued for the review month. These cases would be considered incomplete for the review month.

(B) Individual Level Data Records: The Department received the working papers and found that Auditor of State listed 23 cases in the Individual Level Data for review not 27 as reported. The department identified the 23 cases, noted the sample month and the recipient number. We queried the 3734 for the sample month to verify that a SSN did not exit for the individual. For all 23 cases a SSN did not exist in the 3734. We queried the CRIS-E *Application Entry Individual Demographic (AEIID)* screen for the review month or the most recent action prior to the review month (see note above on historical data in CRISE. We also queried *the Inquiry Subsystem Individual Eligibility History (IQEL)* and CRIS-E *Caseload Management Subsystem Add/Display Running Record Comments (CLRC)* as necessary to determine recipient eligibility for the review month.

Of the 23 cases we find the following:

(1) In 11 cases the adult applicant was an undocumented alien and therefore ineligible for benefits. However, children in the household were eligible recipients. A SSN did not exist for the adult due to their alien status. We find these cases were properly excluding the individual and no SSN should be listed on the 3734. We conclude that these cases to be correct for the review month.

(2) In 10 cases we found that the individual applying was over 18, were new applicants to CRISE and did not have a SSN or verification of the SSN. The recipient requested duplicate information from SSA and the agency approved benefits pending the verified number. Our detailed review found all 11 cases to be correct as procedures were properly followed.

(3) In one (1) case we found that the worker at the local County Department of Job and Family Services (CDJFS) attempted to input the SSN provided by the individual. CRISE would not accept the number. The agency acted to resolve the system failure. Benefits were approved pending resolution of the issue. We find that procedures were properly followed for this case and that it should be considered correct.

(4) In one (1) case, we found that no SS-5 or SSN existed in the case and benefits were issued for the review month. These cases would be considered incomplete for the review month.

Anticipated Completion Date for Corrective Action
N/A

Contact Person Responsible for Corrective Action
William Severns, Bureau of Audit, ORAA, Ohio Department of Job and Family Services, 4300 Kimberly Parkway, Columbus, Ohio 43232, Phone: (614) 644-2219, e-mail: severnb@odjfs.state.oh.us

2004-JFS30-046 Medicaid/SCHIP – Third-party Liabilities

Corrective Action Plan
ODJFS believes the control in place does ensure that information from documents are entered into the TPL database accurately. This procedure includes batching documents in order by a system-assigned Document

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS30-046 Medicaid/SCHIP – Third-party Liabilities (Continued)

Corrective Action Plan (Continued)
Control Number and subjecting the documents to a random quality check by a staff examiner (other than the one who prepared the batch). The consumer health insurance information changes frequently.

Anticipated Completion Date for Corrective Action
OHP will follow up with the Auditors to seek assistance in defining a more comprehensive control in this area. This will be done by May '05.

Contact Person Responsible for Corrective Action
Sheila J. Fujii, Bureau Chief, Bureau of Plan Operations, Office of Ohio Health Plans, Ohio Department of Job and Family Services, 255 East Main Street, Columbus, Ohio 43215, Phone: (614) 466-2365, e-mail: fujiis@odjfs.state.oh.us

2004-JFS31-047 Medicaid/SCHIP – Drug Rebate Payments

Corrective Action Plan

- For 40 of 40 invoices tested, the rebate invoices were not mailed within 60 days following the end of the quarter.

  The first calendar quarter of 2003 invoices were supposed to be mailed on or about 6-1-03 (60 days from the end of the quarter); but the CMS tape due 5-15-03, was not received in a useable fashion until 5-30-03. The invoices were mailed within 14 days of receipt of the CMS tape.

  The second calendar quarter of 2003 invoices were supposed to be mailed on or about 9-1-03, but there were delays in getting the tape from CMS and further delays in getting the transition reports from MIS. It took eight days to get the PHS transition report from MIS due to their internal problems.

  The third calendar quarter of 2003 invoices that were supposed to be mailed on or about 12-1-03, had delays caused by illness of the person responsible (Bob Reid) as there was a nine day gap between completion of the PHS transition report and the Conversion report.

  The fourth calendar quarter of 2003 invoices supposed to be mailed on or about 3-1-03, had delays caused by the 7 days it took MIS to transmit the PHS report to Bob Reid and another 7 day gap between his completion of the transition reports and the receipt of the invoices for mailing.

  Typically, Mr. Reid returns the transition reports to MIS the same day that he receives them.

- For 18 of 40 invoices tested, payment was not received within 38 days after the mailing.

  We have added an enhancement to send out second notices when approximately 52 days have elapsed without payment. We are also sending registered mail notices to manufacturers when they don't pay timely beyond 90 days. Both notices state the requirement that the manufacturer must calculate and submit interest in accordance with federal guidelines.

  Because of the administrative complexity involved with pursuing the interest due on late rebate payments, the state has not found it cost effective to develop a more aggressive strategy to date. Our corrective action plan to assure the timely invoicing and collection of interest due is to contract out the rebate administration function as part of our pharmacy point of sale contract. The vendor will be responsible for invoicing all pharmacy rebates due to the Ohio Medicaid program. They will pursue all interest due and reconcile all disputes. We believe that this will effectively address the concerns of the auditor.

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS31-047 Medicaid/SCHIP – Drug Rebate Payments (Continued)

Anticipated Completion Date for Corrective Action
The RFP for the pharmacy contract is being released the week of March 21, 2005, with an anticipated award date of the fall of 2005.

Contact Person Responsible for Corrective Action
Robert Reid, Pharmacy Administrator, Office of 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: Reidr01@odjfs.state.oh.us

2004-JFS32-048 MMIS Provider Statuses

Corrective Action Plan
Although this finding was notated as being MIS related, it appears that the solution resides with the program area, OHP. MIS will set up meetings with the appropriate OHP staff to discuss this audit finding and to assist in any way to set up processes to correctly and thoroughly gather and apply all licensure updates. Any changes to the current processing of Medical Board files will be updated to reflect these new procedures.

Anticipated Completion Date for Corrective Action
June 30, 2005

Contact Person Responsible for Corrective Action
Michael Reynolds, Information Technology Manager 1, Office of Management Information Services, Ohio Department of Job and Family Services, 4200 East 5th Avenue, Columbus, Ohio 43219, Phone: (614) 387-8423, e-mail: reynom@odjfs.state.oh.us

2004-JFS33-049 MMIS Provider Master File Changes

Corrective Action Plan
Although this finding was notated as being MIS related, it appears that the solution resides with the program area, OHP. MIS will set up meetings with the appropriate OHP staff to discuss this audit finding and to assist in any way to set up processes to correct the noted errors, but most changes will remain an OHP issue. It may be possible that additional online editing of Provider Files updates will be deemed necessary.

Anticipated Completion Date for Corrective Action
June 30, 2005

Contact Person Responsible for Corrective Action
Michael Reynolds, Information Technology Manager 1, Office of Management Information Services, Ohio Department of Job and Family Services, 4200 East 5th Avenue, Columbus, Ohio 43219, Phone: (614) 387-8423, e-mail: reynom@odjfs.state.oh.us

2004-JFS34-050 MMIS Edit Changes

Corrective Action Plan
(A) OHP reviewed the functions of all staff who were identified with the capacity to update data. Additionally, the office implemented a procedure (Jan 2005) whereby changes to MIS edits requires the signature of two bureau chiefs prior to any changes in the transaction of data sets.

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS34-050 MMIS Edit Changes (Continued)

Corrective Action Plan (Continued)
(B) MMIS intends to remove all access to the MMIS Text and Exception Code subsystem from MMIS staff and will rely upon OHP staff to follow appropriate change procedures to modify this information, MMIS will re-activate the report that lists changes to the edit file and ensure OFL staff receive this report at appropriate intervals to support their change procedures.

Anticipated Completion Date for Corrective Action
(A) Implemented January 2005

(B) 05/01/2005 - Remove all MMIS staff access to Text and Exception Code subsystem
06/01/2005 - Determine OHP reporting requirements for monitoring changes to edit file
07/01/2005 - Implement process for reporting of edit file changes

Contact Persons Responsible for Corrective Action
(A) Sheila J. Fujii, Bureau Chief, Bureau of Plan Operations, Office of Ohio Health Plans, Ohio Department of Job and Family Services, 255 East Main Street, Columbus, Ohio 43215, Phone: (614) 466-2365, e-mail: fujiis@odjfs.state.oh.us

(B) Michael Reynolds, Information Technology Manager I, Office of Management Information Services, Ohio Department of Job and Family Services, Phone: (614) 387-8423, e-mail: reynom@odjfs.state.oh.us

2004-JFS35-051 WIA – Reporting/CORe Time Periods

Corrective Action Plan
The Bureau of County Finance and Technical Assistance (BCFTA) has included a deliverable in the SFY 06/07 contract with Maximus to include this reporting capability within CORe, and it will be included as a part of CORe in SFY 07.

Anticipated Completion Date for Corrective Action
December 31, 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

2004-JFS36-052 CORe Business Resumption Plan

Corrective Action Plan
The business resumption plan will be reviewed and deficiencies noted will be addressed, updated and tested on an annual basis.

Anticipated Completion Date for Corrective Action
The business resumption plan should be reviewed, updated and tested by December 31, 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

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS37-053 CORe Reporting of Accruals and Obligations

Corrective Action Plan
The Bureau of County Finance and Technical Assistance will work with Maximus to create an error report when counties have reported expenditures in line codes that are to be used for accruals and obligations.

Anticipated Completion Date for Corrective Action
June 30, 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

2004-JFS38-054 SSBG – Incomplete Monitoring

Corrective Action Plan
Issue 1: Subrecipient Monitoring

As it relates to contracts/procurement and sub recipient monitoring, the ODJFS Bureau of Audit (BOA) currently performs the following audit procedures/tests:

- Isolates all Title XX contracts from the general population of contracts and select contracts to cover a minimum of 20% of all expended contract funds.
- Ensures contract services are contained within the Title XX Social Services Plan.
- Confirms contract payments made, and tests them to ensure they meet the contract requirements for allowable services, unit rate, and contract face value.
- Tests to make sure all vouched payments had a valid contract in existence for the period billed.
- Document the county's monitoring process to ensure the counties have procedures in place to meet the pass-through responsibilities established in OMB Circular A-133.
- Note any weaknesses detected in the process itself.
- Reviews monitoring documentation to ensure the county is properly monitoring the sub recipients in accordance with the monitoring controls in place, any deficiencies are noted.
- Tests to determine if the county monitored the performance standards established within the agreement.

These processes were implemented in state fiscal year 2003, and were applied in state fiscal year 2004, as well.

Therefore, we disagree with the statement in the Management Letter that there were no appropriate monitoring procedures in place during SFY04. If AOS believes that additional audit procedures are warranted, then please advise accordingly, so that the tests may be altered to do so.

Issue 2: Eligibility Test

Effective SFY2006, when reviewing Title XX contracts, BOA auditors will identify recipients receiving services under the paid vouchers. The BOA auditors will sample a portion of those recipients, and they will determine whether documentation exists to substantiate their eligibility for Title XX services. BOA will also re-perform eligibility to determine whether eligibility was correctly determined and whether the recipients were, in fact, eligible for Title XX services.

Anticipated Completion Date for Corrective Action
State Fiscal Year 2006

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS38-054 SSBG – Incomplete Monitoring (Continued)

Contact Person Responsible for Corrective Action
John Maynard, External Auditor Supervisor, Bureau of Audit, ORAA, Ohio Department of Job and Family Services, 4300 Kimberly Parkway, Columbus, Ohio 43232, Phone: (614) 995-9058, e-mail: maynaj@odjfs.state.oh.us

2004-JFS39-055 Missing Documentation – Various Counties

Corrective Action Plan
Brown County:

- The Foster Care/Adoption Assistance Coordinator created an Adoption Assistance checklist to ensure that all required forms/documents are maintained in each Adoption Assistance (AA) case file. The checklist is also maintained in the case file. She also created checklists for State Adoption Assistance Maintenance Subsidy (SAMS) and Post Adoption Special Services Subsidy (PASSS) case files.

- The Fiscal Specialist will review all invoices for correctness and that appropriate documentation including an application is attached to the voucher prior to submission to the County Auditor for payment. Her initials and date will indicate review has been completed.

Cuyahoga County:
The Agency has upgraded to the "Electronic Records Information Management System (eRIMS)," which allows users to complete required forms electronically, obtain electronic signatures if needed, and automatically store them in the system, increasing case file and documentation accessibility and availability. In addition, hard-copy case record materials are scanned and electronically stored in the eRIMS system.

Franklin County:
Our agency has begun the process of document imaging. Forms and documentation in case records are being scanned and it is our intent to have them available electronically. Going forward, the problem of missing documentation in our case records should be minimized.

Hamilton County:
The Section Chief of the Consumer Documentation Section has developed a Systems Requirement Document that requests an upgrade to the MTrak application. The MTrak application is an ACCESS ® database records management system that currently tracks the location of Children Services case records and Public Assistance records. The system is designed to assign the requesting worker's CRIS-E user ID code to the case record at the time the record is "charged out" to the requesting party. The record is then "charged in" upon its return to the records department. The upgrade would expand the system to include the Child Support Records and add additional reporting capabilities that include, the part record charged out to, date charged out, length of time records was out. Combining the Child Support records in MTrak would enable the department to make obsolete the mainframe tracking system that has limited functionality. The tracking report is designed to run on demand and list cases out 30-60-90 and 90+ days from charge out. As cases are assigned to different units based on type of case, the identification of interstate cases would be done by caseload [worker charged out to].

Lucas County:
(A) All PRC applications are reviewed for completeness and accuracy by the area Coordinator who signs the voucher to attest to its completeness and accuracy. In order to ensure that the worker completing the voucher has all the required documents needed to submit a case for review, a PRC voucher review project will be conducted by the monitoring Unit. The Monitoring Unit will pull a random sampling of 70-100 voucher packets for review to identify case errors and identify if any missing information in the packet. After the review, a monitor will meet with the Coordinator who signed the voucher, as well as the Casework Aide who completed the packet to discuss their findings.

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS39-055 Missing Documentation – Various Counties (Continued)

Corrective Action Plan (Continued)

Lucas County expects that random pull of voucher packets will raise the awareness of the area Coordinators to the importance of a thorough PRC voucher review and eliminate instances of missing signatures or documentation or incomplete documentation.

(B) The records unit is behind on filing documentation into cases due to a significant reduction in staff in that area in anticipation of document imaging. In addition, the records unit has depleted its storage space to file cases and case documentation. To make sure filing of case information is done in a timely manner; Lucas County is in the process of hiring three temporary staff to file cases and case documentation and is in the process of expanding the current storage area to accommodate the volume of filing filtering to our Records department.

Lucas County will image all documentation belonging to a given record. Therefore, documentation can be located in electronic storage in the future, thus eliminating the need to search for hard copies of verifications.

(C) Lucas County DJFS is in the process of implementing a case file imaging project. Case files will be imaged on a "day forward" basis and will incorporate a screening tool to ensure that all required documents are in the case file. The purpose of the imaging system is to better ensure the integrity of case file maintenance. This approach has proven effective in other counties in Ohio.

Regarding the lack of a signed Employability Contract and Plan <u>for the time frame tested</u>, per Ohio Department of Job and Family Services Cash Assistance Manual, there is no time limit to the Employability Plan (Lucas County's version of the required Self Sufficiency Contract and Plan). New Plans are developed and signed as changes in case status and progress require.

(D) Lucas County disputes this finding under the following circumstances:

Lucas County recognizes that a self-sufficiency contract and plan need to be in place before a CSEA sanction can occur. The plan states that a TANF recipient must cooperate with CSEA in order to get benefits, however, it is a Lucas County practice to have the plan updated every six months or yearly for case maintenance, but it does not mean that it is required that this timeframe be adhered to in order for a self-sufficiency contract and plan to be considered current. In fact, self-sufficiency contract only needs to be updated and signed by a client if a client is participating in an activity not listed on the last self-sufficiency contract/plant that the client signed. Moreover, if client at any time has signed a self-sufficiency contract/plan where it clearly states that they need to cooperate with child support to receive TANF, then clearly the client was informed and has agreed upon these conditions to accept TANF. These conditions do not "expire" and remain a stipulation of receipt of TANF from the date of the signed self-sufficiency contract.

If these two cases did not contain a self-sufficiency contract/plan at all or if the client went off assistance and returned and did not sign a new contract, this finding would be valid. In those instances, the person taking the sanction would need to review the case to see if a self-sufficiency contract exists. Lucas County will incorporate this circumstance as part of the effort to retrain affected staff on sanctions.

(E) Given that sanction was processed it is clear that the referral form was received by the Program Inquiry Unit for processing but was misplaced. Lucas CDJFS will continue to use the 1505 Referral Form and utilize the Work Activity sanction referral tracking tools to log in referrals as they are received by the Program Inquiry Unit. The log will provide further documentation of receipt of referral.

(F) The records unit experienced a significant reduction in work force during the audit period. Inadequate storage space also compounded the problems of delays in filing of closed cases. The delays contributed to misplaced case files. Lucas CDJFS will implement a short term and long term strategy:

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS39-055 Missing Documentation – Various Counties (Continued)

Corrective Action Plan (Continued)

Short Term – Lucas CDJFS is hiring temporary staff to assist with filing backlog. In addition, the records storage area is being expanded into adjacent office space.

Long Term – The case file Imaging Project will be able to be supported by the current permanent staffing complement in the records unit and will eliminate back log problem. It will also eliminate the case file storage problems.

(G) Given that the re-determination occurred, this appears to be a problem of case file maintenance. Monitoring reviews of SCHIP cases will be implemented in May of 2005. This will identify and ensure the correction of any case file maintenance problems. When cases are reviewed the case is held by the Monitoring Unit until all required documents and verifications are placed in the file.

(H) Regarding the case file maintenance of the three Medicaid cases, again the case file imaging system is the Lucas CDJFS action plan, combined with the ongoing case review as stated in CAP for 5D-23. When the Monitoring Unit pulls a case, the case is reviewed for all benefits issued. Should there be any missing verifications, the case is held until all verifications are received and placed in the file.

Anticipated Completion Date for Corrective Action

<u>Brown County</u>:

(A) July 2004 – Date FCM/AA Coordinator created checklists and began maintaining in case files.
(B) February 28, 2005

<u>Cuyahoga County</u>:

Staff began using the enhanced system in the fourth quarter 2004.

<u>Franklin County</u>:

The document imaging project will continue until the entire process in the appropriate areas of the agency is completed.

<u>Hamilton County</u>:

The system upgrade request is pending approval by the Priority Board.

<u>Lucas County</u>:

(A) Random review to be completed by July 31, 2005.

(B) The hiring of temporary workers is anticipated by May 31, 2005. Storage space expansion target completion date is July 31, 2005. Imaging is to commence on May 1, 2005, but the project completion date is expected to take until April 30, 2009.

(C) Imaging Project – initial implementation May 1, 2005 (files imaged on a “day forward” basis), and completion is anticipated by April 30, 2009.

(D) Staff training to be completed by July 15, 2005.

(E) April 1, 2005

(F) Short Term – Temporary staff by May 1, 2005
Records Area Expansion by July 1, 2005
Long Term – Implement Imaging Project, May 1, 2005 – April 30, 2009

(G) May 1, 2005

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS39-055 Missing Documentation – Various Counties (Continued)

Anticipated Completion Date for Corrective Action (Continued)

(H) Monitoring of Medicaid Case Files – April 1, 2005
Imaging Project – Initial implementation May 1, 2005 (files imaged on a "day forward" basis); Completion estimated by April 30, 2009.

Contact Persons Responsible for Corrective Action

Brown County:

Laura N. Moore Sutton, Foster Care/Adoption Assistance Coordinator, Ohio Department of Job and Family Services, 775 Mt. Orab Pike, Georgetown, Ohio 45121, Phone: (937) 378-6104, Ext. 144, e-mail: moorel11@odjfs.state.oh.us

Mary Ann Beasley, Fiscal Specialist, Ohio Department of Job and Family Services, 775 Mt. Orab Pike, Georgetown, Ohio 45121, Phone: (937) 378-6104, Ext. 140, e-mail: beaslm@odjfs.state.oh.us

Cuyahoga County:

Michelle Latimore, Participant Services Manager, 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 Manager, Ohio Department of Job and Family Services, 1641 Payne Avenue, Cleveland, Ohio 44114, Phone: (216) 987-6387, e-mail: WardJ01@odjfs.state.oh.us

Franklin County:

Esther Adkins, Assistant Director, Ohio Department of Job and Family Services, 80 East Fulton Street, Columbus, Ohio 43215, Phone: (614) 462-6066, e-mail: eadkins@fcdjfs.co.franklin.oh.us

Hamilton County:

Paul Cohen, Section Chief, Consumer Documentation, Ohio Department of Job and Family Services, 222 East Central Parkway, Cincinnati, Ohio, 45202, Phone: (513) 946-1866, e-mail: cohenp@jfs.hamilton-co.org

Lucas County:

Cindy Ginter, Program Support Manager, Ohio Department of Job and Family Services, 3210 Monroe Street, Toledo, Ohio 43699, Phone: (419) 213-8236, e-mail: gintec@odjfs.state.oh.us

Jan Pipes, Employment Services Manager, Ohio Department of Job and Family Services, 3210 Monroe Street, Toledo, Ohio 43699, Phone: (419) 213-8790, e-mail: pipesj@co.lucas.oh.us

2004-JFS40-056 Late County Reports – Various Counties

Corrective Action Plan

Brown County:

(A) The Fiscal Officer has created a "Report Spreadsheet" indicating all required reports and their deadlines. At the beginning of each month, the spreadsheet is reviewed to determine what reports are required for that month and the deadlines associated with these reports. As reports are completed and submitted to ODJFS, the date of submission is entered on the Report Spreadsheet. Individuals responsible for completing the reports will be advised of approaching deadlines. The FNS250 report was added to the "Report Spreadsheet" as of February 17, 2005.

(B) The Fiscal Officer has created a "Report Spreadsheet" indicating all required reports and their deadlines. At the beginning of each month, the spreadsheet is reviewed to determine what reports are required for that month and the deadlines associated with these reports. As reports are completed and submitted to ODJFS,

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS40-056 Late County Reports – Various Counties (Continued)

Corrective Action Plan (Continued)

the date of submission is entered on the Report Spreadsheet. As of January 3, 2005, the date of submission for the month are highlighted in red. The red highlight is removed upon submission.

Cuyahoga County:
Client Support Services will implement the suggested checklist as a guideline for submitting the FNS 46 and FNS 250 report on a timely basis. If the timeline, based on our current procedure, cannot be met, a written extension or waiver from ODJFS will be requested.

Hamilton County:
This function will be monitored by creating a monthly/quarterly matrix that is regularly reviewed (monthly) by the Assistant Director with the individual responsible for completing the report.

Highland County:
Highland CDJFS will make every effort to submit all reports in a timely manner. A tickler file system will be implemented to ensure Hamilton CDJFS personnel are aware of approaching report deadlines. If, for some reason, the reports cannot be submitted within the timeframes established, Highland CDJFS management will request an extension from ODJFS.

Lucas County:

(A) The majority of the Title IV-E Foster Care Maintenance reimbursement received by Lucas County Children Services (CCS) is not claimed via the ODJFS 1925 process. As a result, a majority (if not all) of the Title IV-E Foster Care Maintenance received by Lucas CCS is received on a timely basis.

Although Lucas CCS recognizes the cut-off date and works to submit the ODJFS on a timely basis, it is more important, in our opinion, to submit information that is both accurate and complete. Information included on the ODJFS 1925 is derived from payments made by Lucas CCS to Purchased Family Foster Care providers and Residential Child Care providers along with Lucas County Juvenile Court Title IV-E cases. To help ensure that accurate information is being received from providers, invoices are not received by Lucas CCS from providers until the 5^{th} of the month following the month for which payment is being requested. That information is then reviewed by Lucas CCS accounting personnel for accuracy and completeness before payments to the providers are processed.

Beginning in 2004, the Lucas CCS Information Services department has developed a process to generate a preliminary ODJFS 1925 based on provider payment information. The preliminary ODJFS 1925 is forwarded to the Lucas CCS Entitlements Supervisor who reviews the report and makes the necessary adjustments. This eliminates the need to manually enter data into the Excel application that was previously used. It reduces the turnaround time while also decreasing the chance of error. Since July 2004, the ODJFS 1925 has been submitted twice on the 10^{th} working day of the month and never beyond five days late.

(B) The staff person who had submitted the reports left the agency through early retirement and in the transition of her duties, the Title XX Social Services Block Grant Report was overlooked. The responsibility was promptly re-assigned upon notification by ODJFS of a missing report and those responsibilities are currently fulfilled.

Anticipated Completion Date for Corrective Action
Brown County:

(A) February 17, 2005
(B) January 3, 2005

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS40-056 Late County Reports – Various Counties (Continued)

Anticipated Completion Date for Corrective Action (Continued)
Cuyahoga County:
June 30, 2005

Hamilton County:
April 1, 2005

Highland County:
Highland CDJFS has developed the tickler file system as of November 15, 2005. Implementation and completion will occur with the second quarter (Oct.-Dec.) reporting period due on February 14, 2005.

Lucas County:
(A) July 1, 2004
(B) January 1, 2005

Contact Persons Responsible for Corrective Action
Brown County:
Suanne S. Cochran, Fiscal Officer, Ohio Department of Job and Family Services, 775 Mt. Orab Pike, Georgetown, Ohio 45121, Phone: (937) 378-6104, Ext. 145, e-mail: cochrs01@odjfs.state.oh.us

Cuyahoga County:
Arnell Hurt, Administrator, Client Support Services, Ohio Department of Job and Family Services, 1641Payne Avenue, Room 420 East, Cleveland, Ohio 44114, Phone: (216) 987-7597, e-mail: hurta@odjfs.state.oh.us

Hamilton County:
Lora Jollis, Assistant Director, Ohio Department of Job and Family Services, 222 East Parkway, Cincinnati, Ohio 45202, Phone: (513) 946-1238, e-mail: jollil@jfs.hamilton-co.org

Moira Weir, Ohio Department of Job and Family Services, 222 East Parkway, Cincinnati, Ohio 45202, Phone: (513) 946-7475, e-mail: weirm@jfs.hamilton-co.org

Highland County:
Deborah K. Robbins, Director, Ohio Department of Job and Family Services, 1575 North High Street, Hillsboro, Ohio 45133, Phone: (937) 393-4278, Ext. 215, e-mail: robbid@odjfs.state.oh.us

Lucas County:
David Sigler, Associate Director, Administrative Services, Ohio Department of Job and Family Services, 705 Adams Street, Toledo, Ohio 43624, Phone: (419) 213-3252, e-mail: dsigler@co.lucas.oh.us

Alphonzio Prude, Adult Services Manager, Ohio Department of Job and Family Services, 3210 Monroe Street, Toledo, Ohio 43699, Phone: (419) 213-8809, e-mail: prudea@odjfs.state.oh.us

2004-JFS41-057 Report Processing, Reviews, Inaccuracies – Various Counties

Corrective Action Plan
Brown County:
- All SSBG invoices will include a line for the recipient to sign indicating that the service was provided. The Fiscal Specialists will review the invoices for correctness and recipient signature prior to submission of the voucher to the County Auditor for payment. Her initials and date will indicate review has been completed.

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS41-057 Report Processing, Reviews, Inaccuracies – Various Counties (Continued)

Corrective Action Plan (Continued)

- The Fiscal Specialist reviews all invoices for correctness prior to submission of the vouchers to the County Auditor for payment. Her initials and date will indicate review has been completed.

Cuyahoga County:
The Agency has upgraded to the "Electronic Records Information Management System (eRIMS)," which allows users to complete required forms electronically, obtain electronic signatures if needed, and automatically store them in the system, increasing case file and documentation accessibility and availability. In addition, hard-copy case record materials are scanned and electronically stored in the eRIMS system.

Franklin County:
The processing of payroll is performed in batches. Payroll recap sheets are utilized by staff as each batch is processed to verify entry of data into Munis. After the entire payroll is entered into Munis, a final set of recap sheets is printed and compared to each Munis entry before it is finalized. In the future, the staff conducting the final review will date and sign the final set of payroll recap sheets indicating the groups that they checked. This corrective action will be uniform among all staff processing payroll records and serve as evidence of documenting internal controls assuring accuracy of data entered into Munis.

Hamilton County:
Meet with all timekeepers/supervisors responsible for submission of timesheets to review current protocol for initialing of timesheets and submission to the Payroll Unit. Furthermore, the Payroll Unit will closely monitor for supervisory/timekeeper approval (initials) prior to keying time on a daily basis.

Henry County:
(A) The Agency's Account Clerk II responsible for the completion of the 4282 Report will meet with the Children Services workers and supervisor to review the information that is reported to assure that the number of ongoing or new cases is reported correctly. Children Services workers will verify that the number of ongoing cases are correct for the month and that new cases reported match the intake log for the month prior to submission of the 4282.

(B) Agency agrees that random supervisory review is needed and supervisor does periodically review SCHIP cases to determine accuracy of the eligibility determination. If this case would have been reviewed by the supervisor, the data entry error would have been corrected with no change to the eligibility. Additionally, ODJFS Quality Control randomly reviews SCHIP eligibility. SCHIP customers are informed that they may contact the customer service hotline (state 800#) at any time they have concerns or questions about the status of their case.

Lucas County:
(A) Since disclosure of this finding, LCJFS implemented new policies, performance measures and trained staff on the guidelines for reviewing RMS forms for completeness, including employee signatures as required by APM. 7933:3. Also, the ODJFS Area Fiscal Analyst conducted audit of our RMS processes and found that we are in compliance with mandated requirements.

(B) All PRC applications are reviewed for completeness and accuracy by the area Coordinator who signs the voucher to attest to its completeness and accuracy. In order to ensure that the worker completing the voucher has all the required documents needed to submit a case for review, a PRC voucher review project will be conducted by the Monitoring Unit. The Monitoring Unit will pull a random sampling of 70-100 voucher packets for review to identify case errors and identify any missing information in the packet. After the review, a monitor will meet with the Coordinator who signed the voucher, as well as the Casework Aide who completed the packet, to discuss their findings.

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS41-057 Report Processing, Reviews, Inaccuracies – Various Counties (Continued)

Corrective Action Plan (Continued)

Lucas County expects that random pull of voucher packets will raise the awareness of the area Coordinators to the importance of a thorough PRC voucher review and eliminate instances of missing signatures or documentation or incomplete documentation.

(C) Concerning a checklist not being used in two cases, in the case that contained all verifications, the worker met the compliance requirements for case file maintenance. Regarding the case that had the checklist but not all verifications, the worker's handling of the case was not in compliance with case file maintenance standards. LCDJFS is in the process of implementing a case file imaging project. Case files will be imaged on a "day forward" basis and will incorporate a screening tool to ensure that all required documents are in the case file. The purpose of implementing the imaging system is to better ensure the integrity of case file maintenance. This approach has proven effective in other counties in Ohio.

(D) Lucas County does not agree with the totality of these findings in this category. In July of 2003, the "Needs Appraisal" was replaced with a new assessment procedure. Though some files may have contained the "Needs Appraisal," this control should have been eliminated for audit year 2004.

Lucas County also disputes the findings of fact around the self-sufficiency contract update timing. Though one of the three cases had self-sufficiency contract dated for November 2001, this plan may not have been required to be updated if the client was still participating in the activities listed on the contract. Contracts are required to be updated only in cases when a client is going to participate in an activity not covered by the last self sufficiency contract and plan signed by the client.

Missing documentation is likely the result of records filing backlog due to the reduction of staff in the audit period and lack of storage for case files and concomitant case documentation. (CAP for TANF – PRC Missing Documentation, 5D-14 and 5D-9).

For cases where the auditor could not identify if the client was actually assigned to and participating in work activity, Lucas County Coordinators are monitoring the GWP518RA report to ensure that managers are assigning and required work activity cases. In addition, a review of work activity cases by the Monitoring Unit began in January 2005, to augment the Coordinator's monitoring of these cases for appropriate assignment. The monitors review a random sample of individual worker cases to make sure that:

- The client is referred to an activity;
- The client is participating for the required number of hours; and
- The client is attending the activity reported on WPAS on CRIS-E.

The combination of report monitoring and case review should reduce or eliminate cases where work activity can not be identified.

Anticipated Completion Date for Corrective Action

Brown County:

(A) February 28, 2005
(B) February 28, 2005

Cuyahoga County:

Staff began using the enhanced system in the fourth quarter 2004.

Franklin County:

March 21, 2005

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS41-057 Report Processing, Reviews, Inaccuracies – Various Counties (Continued)

Anticipated Completion Date for Corrective Action (Continued)
Hamilton County:
May 1, 2005

Henry County:
(A) January 2005 (First report filed following audit recommendation)
(B) Ongoing – Supervisor will continue to randomly review SCHIP cases.

Lucas County:
(A) May 1, 2004
(B) Random review to be completed by July 31, 2005.
(C) Imaging Project – initial implementation May 1, 2005, (files imaged on a "day forward" basis)
(D) Reviewing of cases by the Monitoring Unit commenced on January 15, 2005, and is ongoing.

Contact Persons Responsible for Corrective Action
Brown County:
Mary Ann Beasley, Fiscal Specialist, Ohio Department of Job and Family Services, 775 Mt. Orab Pike, Georgetown, Ohio 45121, Phone: (937) 378-6104, ext. 140, e-mail: beaslm@odjfs.state.oh.us

Cuyahoga County:
Michelle Latimore, Participant Services Manager, 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 Manager, Ohio Department of Job and Family Services, 1641 Payne Avenue, Cleveland, Ohio 44114, Phone: (216) 987-6387, e-mail: WardJ01@odjfs.state.oh.us

Franklin County:
James T. Craig, Accounting and Reporting Manager, Ohio Department of Job and Family Services, 80 East Fulton, 4th Floor, Columbus, Ohio 43212, Phone: (614) 462-4306, e-mail: jcraig@fcdjfs.co.franklin.oh.us

Hamilton County:
Barbara Turner, Payroll Manager, Ohio Department of Job and Family Services, 222 East Central Parkway, 3rd Floor, Cincinnati, Ohio 45202, (513) 946-1492, e-mail: turneb@jfs.hamilton-co.org

Henry County:
Ann Hale, Account Clerk II, Ohio Department of Job and Family Services, 104 East Washington, P.O. Box 527, Napoleon, Ohio 43545, Phone: (419) 592-4210, ext. 110, e-mail: halea@odjfs.state.oh.us

Shannon Jones, Eligibility Referral Supervisor, Ohio Department of Job and Family Services, 104 East Washington, P.O. Box 527, Napoleon, Ohio 43545, Phone: (419) 592-0946, Ext. 109, e-mail: joness@odjfs.state.oh.us

Lucas County:
Eniko Atkins, Fiscal Manager, Ohio Department of Job and Family Services, 3210 Monroe Street, Toledo, Ohio 43699, Phone: (419) 213-8871, e-mail: atkine@odjfs.state.oh.us

Cindy Ginter, Program Support Manager, Ohio Department of Job and Family Services, 3210 Monroe Street, Toledo, Ohio 43699, Phone: (419) 213-8236, e-mail: gintec@odjfs.state.oh.us

Jodi Walker, Manager, Family Area, Ohio Department of Job and Family Services, 3210 Monroe Street, Toledo, Ohio 43699, Phone: (419) 213-8237, e-mail: bartej@odjfs.state.oh.us

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS42-058 DP – Loss of WRS Archived Data

Corrective Action Plan
The audit finding centers around the issue from the perspective that the information was lost between the two systems during conversion caused by an issue for employees with more than two employers. The two employer issue was resolved in the data update routines utilized during the recovery process, these routines were not part of the original conversion process. The issue that caused the information to not be present during the conversion of the first quarter data for 2003, was not directly related to the conversion process itself. It was originally caused by an additional execution of a production run during the standard quarterly roll/purge process on the legacy system. The quarterly m11/purge process shifts quarterly data making room for the incoming quarter. If the employee/employer record no longer contains any remaining quarterly data, it is removed from the system. During the recovery process those records that remained in the database after the roll purge were successfully recovered. Those that did not have any remaining quarters were not reloaded successfully at the time of the initial recovery effort. The conversion ran without the records present. It was discovered after the fact, and as stated in the audit finding, recovery of the information was possible on both the legacy and OJI side.

Anticipated Completion Date for Corrective Action
The recommended steps as identified for current and future conversion efforts are being incorporated into the ERIC effort. ERIC itself will again deal with the wage record data and have eventual impact on the OJI application. Steps to confirm the successful conversion of data are inherent to the conversion plan in place for ERIC. ERIC is to have fully converted data in place prior to the system testing phase, as well as, the user test phase providing two separate verification points prior to production cutover. This requirement for conversion data within the ERIC project early on is a proactive action to ensure successful production implementation.

Corrective action was taken at the time of discovery to restore the information from historical backups onto both the legacy system, as well as, the OJI application. The recommendation that ODJFS perform a comparison of original and converted files was accomplished to ensure consistency between the original data and that of the converted data base. The philosophy of sending wage data over to the OJI application from the legacy system calls for all wage data to be sent when and if any change occurs to an employee on the legacy side. For each change occurring on the legacy side, regardless of whether it has impact on the OJI determination process, the entire current online 6 quarters of information is delivered for update to OR. The historical two quarters are not delivered as they are no longer changeable on the legacy side. OJI routines determine if actual updates are required. The ERIC application will be responsible for the wage record tables upon implementation removing the requirement to move data between the two systems as OJI and ERIC will share the tables themselves.

Currently file counts are produced on both the legacy and OJI side during the process and are utilized to ensure proper processing of the extracted files for OJI updating.

A follow-up verification of counts for each quarter will be performed before March 30th, 2005, to ensure integrity between the two applications. Additionally, a random review of records will be performed between the data structures.

Contact Person Responsible for Corrective Action
John Suminski, I.T. Consultant 3, Office of Management Information Services, Ohio Department of Job and Family Services, 4200 East 5th Avenue, Columbus, Ohio 43219, Phone: (614) 387-8777, e-mail: suminj@odjfs.state.oh.us

2004-JFS43-059 DP – MMIS & CRIS-E Missing Change Request Forms

Corrective Action Plan
Both the Eligibility Systems section (CRIS-E) and the Medical Systems section use change management software to assist in the tracking of project-related artifacts. This software allows us to track the progress of each piece of work throughout the software development life cycle (SDLC) using Customer Service Requests (CSR's), Work

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS43-059 DP – MMIS & CRIS-E Missing Change Request Forms (Continued)

Corrective Action Plan (Continued)
Requests (W'R's) and Release Packages (RP's). The release package document contains all of the related documentation and artifacts that are produced for each project, along with approvals implied by the role of the person `action'-ing the RP forward for implementation into the production system.

MIS tracks software releases through the entire SDLC, from the initial customer request through production implementation, and maintains a repository for historical information regarding all software development projects. The CSR form contains a mandatory `REQ COMPLETION' date field. This field must be filled out in order to action a CSR forward after initial entry.

MIS has instituted a process for providing the customer an Impact Analysis of each CSR that is entered within ten (10) business days of receiving it. The Impact Analysis statement will determine the scope of the request. and will provide an estimated number of work hours required to complete the work. At that time, a required completion date may need to be renegotiated. The required completion date is also tracked within each section's Quarterly Deliverables Activities (QDA) work plan(s).

Anticipated Completion Date for Corrective Action
Medical Systems: 07/01/2005
Eligibility Systems: Complete

Contact Person Responsible for Corrective Action
Keith Krautter, Acting CRIS-E Section Chief, Office of Management Information Services, Ohio Department of Job and Family Services, 4200 East Fifth Avenue, Columbus, Ohio 43219, Phone: (614) 387-8780, e-mail: krautkc@odjfs.state.oh.us

2004-JFS44-060 DP – MMIS Program Change Testing Documentation

Corrective Action Plan
MMIS is forming a Testing unit that will implement new testing procedures similar to the Testing unit currently in place for the CRIS-E system. This new unit will implement standardized testing procedures and documentation to be used for changes in the MMIS system. User acceptance testing will be included in the testing process for changes to MMIS.

Anticipated Completion Date for Corrective Action
05/01/2005- Define and Establish New MMIS Testing Unit
06/01/2005 - Establish Testing Standards and Procedures
07/01/2005 - Train Testing Staff on Standards and Procedures
08/01/2005 - Implement Testing Procedures on New Projects

Contact Person Responsible for Corrective Action
Larry Prohs, Project Manager, Office of Management and Information Services, Ohio Department of Job and Family Services, 4200 East 5th Avenue, Columbus, Ohio 43218, Phone: (614) 466-2303, e-mail: prohsl@odjfs.state.oh.us

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS45-061 DP – SETS System Documentation

Corrective Action Plan
We disagree with this audit finding.

Within SETS, there exists a standing procedure for the creation of batch Processing Flows'. These flows are created by the SETS JCL Team and depict each batch job, the program executed, any additional steps to be processed, the databases read and updated, the input files, the output files created and any additional modules called by the program. Additionally, SETS maintains frequency flows for the daily, weekly, monthly, quarterly and annual processing. The flow pictorially illustrate each batch job, how it is executed and its relationship to other jobs. This entire process supplies the support staff with the information needed to effectively and efficiently fix some program abends, or complete some programs changes without going thought the arduous task of researching the program from its inception from the original design documents and program tacking tools.

Modifications to SETS programs are based on current processing functionality and customer requirements. Program changes would not be based on the program's current state by re-assembly of all related changes from inception. A SETS programming standard requires that the remarks section of a program be documented with a high level explanation of the program's functionality, a log of all changes made to the program with the date and author of the change, a short description of the change and the number of the authorizing document.

Also, SETS program modifications are made or reviewed by highly competent and experienced state staff members. These staff members average over four years experience working on the SETS project and more than twelve years of data processing expertise in analysis and system development. Utilizing SETS experience, existing system documentation and system tools such as PC animation and Expeditor, program staff can efficiently ascertain system abends or changes and implement effective corrections.

Currently SETS uses a `Peer Review' process to validate system modifications. After unit testing, all changes must be reviewed by a proficient SETS staff member not directly involved with the original system change. This review ensures the accuracy and thoroughness of the changes. After the `Peer Review', program changes are then put through integration testing then system testing and ultimately, user acceptance testing. These coding procedures offer multiple points of review, confirmation and validation.

Additionally, SETS utilizes system tools that links user requirements to actual programming work assignments. This allows project management to track program changes to ensure that they match the desired customer requirements.

With the existing tools and procedures, SETS effectively addresses the audit finding.

Anticipated Completion Date for Corrective Action
N/A

Contact Person Responsible for Corrective Action
Sylvan Wilson, SETS Section Chief, Office of Management Information Services, Ohio Department of Job and Family Services, 4200 East 5th Avenue, Columbus, Ohio 43219, Phone: (614) 387-8468, e-mail: wilsos@odjfs.state.oh.us

2004-JFS46-062 DP – MMIS, CRIS-E, & SETS Comment Log Documentation

Corrective Action Plan
MSS management will address the procedure deficiency by the following:

- By May 1, 2005 - Review procedures for accurately and completely making proper comments

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS46-062 DP – MMIS, CRIS-E, & SETS Comment Log Documentation (Continued)

Corrective Action Plan (Continued)

- By June 1, 2005 - Communicate proper procedures to all programming staff

- By July 1, 2005 - Establish process for regular reviews of the remarks and comment logs as post project review processes.

Starting with the CRIS-E MA-C Delink project in late 2003, it has been a requirement that projects implemented into production have the appropriate documentation attached to the promotion packet. The Eligibility Systems section (CRIS-E) uses the change management software as our implementation tool. This software allows us to track the progress of each piece of work throughout the software development life cycle (SDLC) using Customer Service Requests (CSR's), Work Requests (WR's) and Release Packages (RP's). The release package document contains all of the related documentation and artifacts that are produced for each project.

SETS will address the procedure deficiency by the following:

- By June 30, 2005 - All SETS development staff will attend at least one Standards Review session that will stress all coding and peer review standards including the requirement to update the program remarks section with this audit finding.

- By May 30, 2005 - The updating of the program remarks sections will be added as an item to all subsequent SQA plans. By putting this as an item in the SQA plan, project management over-sight will be provided and the SQA audit will confirm the adherence the procedure.

- Ongoing for MMIS and CRIS-E. For SETS, see above.

Anticipated Completion Date for Corrective Action

- By May 1, 2005 – Review procedures for accurate and complete comments
- By June 1, 2005 – Communicate proper procedures to all programming staff
- By July 1, 2005 – Establish process for regular reviews of remarks and comment logs
- By May 30, 2005 – The updating of the program remarks
- By June 30, 2005 – All SETS development staff will attend one Standards Review
- Ongoing for MMIS and CRIS-E.

Contact Person Responsible for Corrective Action

Michelle Burk, Bureau Chief, Office of Management Information Systems, Ohio Department of Job and Family Services, 4200 East Fifth Avenue, 1st Floor, Columbus, Ohio 43219, Phone: (614) 466-2303, e-mail: burkm@odjfs.state.oh.us

2004-JFS47-063 DP – SCOTI Programmers' Access to Production

Corrective Action Plan

(A) If any SCOTI staff accounts still exist on the production application or database servers, they will be removed. This transition effort is already in place. Access methodologies have been implemented to ensure critical processing is enabled in a controlled manner.

(B) BISS to assume responsibilities regarding the deployment to production of DDL related changes (from vendor/SCOTI staff). This will greatly reduce the SCOTI staff interaction with the production database. Currently, there are discussions to work out the details and timeframes for this transition.

(C) SCOTI staff to retain necessary support roles within the SCOTI application in a read only fashion.

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS47-063 DP – SCOTI Programmers' Access to Production (Continued)

Corrective Action Plan (Continued)

Critical pieces of automated processing are maintained from within the SCOTI application, and requires access to maintain these functions. These functions, because of their impact, are only accessible to technical (MIS) staff. SCOTI security and access levels are based on Oracle access roles. The application will need to be changed in order to ensure these roles only have access required to the maintenance screens.

(D) SCOTI staff currently fulfills Office of Workforce Development's (OWD) requests for data corrections and modifications. OWD maintains business rules that prevent users from completing these changes from within the SCOTI application. Changes made are tracked by user ID. A review will be made to determine only the appropriate staff are able to complete this changes.

Anticipated Completion Date for Corrective Action

(A) Ongoing
(B) March 31, 2005
(C) July 30, 2005
(D) June 30, 2005

Contact Person Responsible for Corrective Action

Rick Copley, Chief Security Officer, Office of Management Information Services, Ohio Department of Job and Family Services, 4200 East 5th Avenue, Columbus, Ohio 43219, Phone: (614) 387-8126, e-mail: copler@odjfs.state.oh.us

2004-JFS48-064 DP – Periodic Access Reconciliations

Corrective Action Plan

ODJFS/MIS working with each program area, develop ODJFS policies and procedures to review on an annual basis their associated automated systems. MIS will maintain the documentation of these reviews on file for a period of no less than 7 years.

Anticipated Completion Date for Corrective Action

December 2005 for the policies to complete clearance.

Contact Person Responsible for Corrective Action

Rick Copley, Chief Security Officer, Office of Management Information Services, Ohio Department of Job and Family Services, 4200 East 5th Avenue, Columbus, Ohio 43219, Phone: (614) 387-8126, e-mail: copler@odjfs.state.oh.us

2004-JFS49-065 DP – Terminated Employees with Access to Unemployment Applications

Corrective Action Plan

ODJFS/CSO will work with the Information Security Unit Manager to develop Termination Procedures to address the 21 recommendations identified in this finding.

Anticipated Completion Date for Corrective Action

December 31, 2005

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS49-065 DP – Terminated Employees with Access to Unemployment Applications (Continued)

Contact Person Responsible for Corrective Action
Rick Copley, Chief Security Officer, Office of Management Information Services, Ohio Department of Job and Family Services, 4200 East 5th Avenue, Columbus, Ohio 43219, Phone: (614) 387-8126, e-mail: copler@odjfs.state.oh.us

2004-JFS50-066 DP – Security Violations Reports

Corrective Action Plan
We do not agree with these findings. The systems identified do currently have security violations logged via their respective security systems. For IvIMIS, SETS, CRISE and FACSIS, RACF logons are required and as stated in the finding there is a log produced for all RACF violations and is monitored by both ODJFS and DAS security staff. For SCOTI, the AIX UNIX logs identify any system security errors on the Application and DB server layer, while the DAS DMZ staff monitor any security violations at the HTTPlPresentation layer. They are required to notify the ODJFS Chief Security Officer immediately if a security violation is logged. If the findings are referring to application security, all of these systems were designed to specifications that were reviewed by federal teams and passed their respective reviews. This functionality has not changed.

Anticipated Completion Date for Corrective Action
None

Contact Person Responsible for Corrective Action
Rick Copley, Chief Security Officer, Office of Management Information Services, Ohio Department of Job and Family Services, 4200 East 5th Avenue, Columbus, Ohio 43219, Phone: (614) 387-8126, e-mail: copler@odjfs.state.oh.us

2004-JFS51-067 DP – Lists of Third Party Contractors and Their Access

Corrective Action Plan
ODJFS is currently working on a plan to add an entry within our central LDAP database to uniquely identify all contract staff working for the organization. This is part of a project that is pending completion of the charter and assignment to a PM.

Anticipated Completion Date for Corrective Action
July 31, 2005 - to complete planning and implementation of new entry in LDAP.
November 30, 2005 - to have all contractors entered into LDAP.

Contact Person Responsible for Corrective Action
Rick Copley, Chief Security Officer, Office of Management Information Services, Ohio Department of Job and Family Services, 4200 East 5th Avenue, Columbus, Ohio 43219, Phone: (614) 387-8126, e-mail: copler@odjfs.state.oh.us

2004-JFS52-068 DP – Access to SCOTI Production Servers

Corrective Action Plan
At the time of the audit, SCOTI was still being transitioned into Production. The access has been cleaned up since then. An annual review of access will be performed once the procedure identified in our response to finding 2004-JFS48-064 is fully implemented.

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS52-068 DP – Access to SCOTI Production Servers (Continued)

Anticipated Completion Date for Corrective Action
December 2005 – to complete policy for annual access reviews through our program areas.

Contact Person Responsible for Corrective Action
Rick Copley, Chief Security Officer, Office of Management Information Services, Ohio Department of Job and Family Services, 4200 East 5th Avenue, Columbus, Ohio 43219, Phone: (614) 387-8126, e-mail: copler@odjfs.state.oh.us

2004-JFS53-069 DP – Password Parameters not Set to Standards

Corrective Action Plan
We do not agree with this finding specific to MMIS. MMIS is protected by RACF. RACF locks a user out of their session upon 3 consecutive unsuccessful attempts and logs this in the syslog. Upon the 5th attempt, the user is revoked. The ODJFS Security Policy states "…limiting the number of unsuccessful logon attempts allowed to three before action is taken to record the unsuccessful attempt." This is in line with our security policy.

A review will be performed and completed by June 30th, to ensure all Unix ID's are in compliance with the ODJFS Information Security policy.

The UNISYS system is to be shutdown by the end of 2006. ODJFS chooses to accept the risk associated with this finding until this system is decommissioned in 2006.

Anticipated Completion Date for Corrective Action
June 30, 2005; December 2006.

Contact Person Responsible for Corrective Action
Rick Copley, Chief Security Officer, Office of Management Information Services, Ohio Department of Job and Family Services, 4200 East 5th Avenue, Columbus, Ohio 43219, Phone: (614) 387-8126, e-mail: copler@odjfs.state.oh.us

2004-JFS54-070 DP – Access to Sensitive SETS & SCOTI Profiles

Corrective Action Plan
We agree with this audit finding.

Only the State Security Coordinator can design and/or modify user profiles. The State Security Coordinator, County Security Coordinator and County Administrator can assign existing user profiles and security levels to individuals with a valid user ID obtained from the state after an individual has signed a security agreement.

The Security Coordinators have to be tasked with the responsibility of ensuring that only the appropriate staff members are restricted to the appropriate profile access to perform their duties. However, additional reporting capabilities within the system will facilitate that responsibility.

By June 30, 2005, SETS will create two new reports that will list, by county, all users with their associated security profiles and all profiles with their associated users.

Additionally, SETS/MIS will work with the Office of Child Support to stress the criticality of using the new reports to perform periodic security access reviews.

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS54-070 DP – Access to Sensitive SETS & SCOTI Profiles (Continued)

Anticipated Completion Date for Corrective Action
June 30, 2005

Contact Person Responsible for Corrective Action
Sylvan Wilson, SETS Section Chief, Office of Management Information Services, Ohio Department of Job and Family Services, 4200 East 5th Avenue, Columbus, Ohio 43219, Phone: (614) 387-8468, e-mail: wilsos@odjfs.state.oh.us

2004-JFS55-071 DP – Physical Access to the Computer Room

Corrective Action Plan
(A) Give quarterly report of key card access log to MIS Operations Manager for his review.

(B) We have audited for duplicate cards and eliminated them.

(C) We should report that an audit of access is underway.

Anticipated Completion Date for Corrective Action
(A) June 30, 2005
(B) Completed, December 17, 2004.
(C) Anticipated completion date for access audit – August 31, 2005

Contact Person Responsible for Corrective Action
Michael Thomas, Administrative Officer, Bureau of Security, OCI, Ohio Department of Job and Family Services, 255 East Main Street, Columbus, Ohio 43215, Phone: (614) 752-6271, e-mail: Thomam10@odjfs.state.oh.us

2004-JFS56-072 DP – SCOTI Disaster Recovery Test

Corrective Action Plan
ODJFS MIS Operations is meeting with the SCOTI Team on a weekly basis to assist them in building their DR Recovery Plan. ODJFS has a 2 year cycle for testing each of our critical production applications. SCOTI will be added to this rotation and can expect their first test to occur April 2006.

All of our major systems have their backups taken and rotated to a secure offsite storage facility on a cycle determined on the frequency of system update - generally daily, weekly, monthly and/or yearly. ODJFS currently uses SunGard (multiple contracts) to provide testing and recovery services for all systems covered by a DR Plan. In addition to the 2 year testing rotation noted above for critical production systems, peripheral non-critical systems are scheduled for inclusion based on time/space available. At the conclusion of each exercise, any deficiencies or areas for improvement are noted, assigned to an area/person and followed until completion/correction.

Anticipated Completion Date for Corrective Action
April 2006

Contact Person Responsible for Corrective Action
Rick Copley, Chief Security Officer, Office of Management Information Services, Ohio Department of Job and Family Services, 4200 East 5th Avenue, Columbus, Ohio 43219, Phone: (614) 387-8126, e-mail: copler@odjfs.state.oh.us

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2004-JFS57-073 DP – Accuracy of CRIS-E Input

Corrective Action Plan
Issues pertaining to edits, validation checks and alert notifications to system users are addressed on an ongoing basis. Counties will call in errors or improvement opportunities to the CRIS-E Help Desk where all issues are recorded and tracked. Customer Service Requests (CSR) to request modification of programs are written as necessary. Additionally, the County CRIS-E Liaison Committee will share edit, validation and alert enhancement needs with state staff. During the first quarter of calendar year 2005, the County CRIS-E Liaison Committee was instrumental in prioritizing issues with the 301 alert to improve the accuracy of ease data. As indicated, CRIS-E is a large diverse system, supporting multiple programs. As such, it is constantly being reviewed, modified and enhanced. The process of review for additional edits will be an ongoing process that will continue the involvement of county input.

ODJFS will solicit edit, validation cheeks and alert improvement modifications at each quarterly county CRIS-E Liaison Committee meeting. CSRs will be written from that input and will be prioritized with other system maintenance, fix or enhancement work. Prioritization is based on policy mandates, client impact, program impact, system impact and financial impact. Higher priority CSRs are requested to be addressed first.

Anticipated Completion Date for Corrective Action
Effort will be ongoing. However, results of this effort will be evaluated January 31, 2006.

Contact Person Responsible for Corrective Action
Michael McCreight, Chief, Bureau of Operations, Office of Family Stability, Ohio Department of Job and Family Services, 145 South Front Street, Columbus, Ohio 43215, Phone: (614) 466-7073, e-mail: mccreim@odjfs.state.oh.us

OHIO DEPARTMENT OF MENTAL HEALTH

2004-DMH01-074 Subrecipient Monitoring

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 state fiscal year 2006.

OHIO DEPARTMENT OF MENTAL HEALTH (Continued)

2004-DMH01-074 Subrecipient Monitoring (Continued)

Contact Person Responsible for Corrective Action
Donald C. Anderson, Deputy Director, Administrative Services Division, Ohio Department of Mental Health, 30 East Broad Street, 7th Floor, Columbus, Ohio 43215, Phone: (614) 466-2176, e-mail: andersondc@mh.state.oh.us

OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES

2004-DMR 01-075 Social Services Block Grant – Payroll

Corrective Action Plan
ODMRDD conducts a Medicaid time study. Beginning March 20, 2005, all employees who do not work 100% on an activity will participate in the time study. The time study will be conducted one week per month. This information will be used to allocate costs across different grants and GRF.

Anticipated Completion Date for Corrective Action
The process will be in place beginning March 20, 2005.

Contact Person Responsible for Corrective Action
Ann Rengert, Deputy Director for Fiscal Administration, Ohio Department of Mental Retardation and Developmental Disabilities, 30 East Broad Street, 13th floor, Columbus, Ohio 43215, Phone: (614) 466-1962, e-mail: arengert@dmr.state.oh.us

2004-DMR02-076 Medicaid – Subrecipient Monitoring

Corrective Action Plan
The Department has developed and implemented an interim protocol that will provide a monitoring process for CAFS and SCHIP sub-recipients. The Department's review of CAFS claims began back in February of 2004. The Department's has established a monitoring cycle where individuals' records for approximately 75-80 sub-recipients are reviewed each year over a five-year period until all 400 sub-recipients are reviewed. This protocol will match the individual's to the payments made to the provider of services thereby determining if the payment was authorized and allowable. This protocol will also review and establish whether the provider is certified to provide the services for which they were paid.

In the longer term, the Department will develop a system of prior authorization for CAFS services. This will require the agency developing the service plan for the individual to identify to the Department the CAFS services identified on the individual's plan, the service provider authorized to provide the service, and the authorized number of billable units. All claims will be compared to the prior authorization, and no claims will be paid unless the service and service provider have been authorized. In addition, the total number of units paid will not exceed the total authorized amount.

Anticipated Completion Date for Corrective Action
The Community Alternative Funding System (CAFS) program will be restructured to a "fee for service" reimbursement system as of July 1, 2005. The Department is also working on compiling/developing an annual summary report to be sent out after the close of each fiscal year. The summary report will identify/describe the federal award. The plan is to distribute the final version of the report in August of this year. The Department is also working with ODJFS on a mass audit settlement for the CAFS audits that would include the settlement of all CAFS providers that are the responsibility of the Department that have not yet been performed.

The Department plans to implement the prior authorization for CAFS services system in 12 to 18 months.

OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES (Continued)

2004-DMR02-076 Medicaid – Subrecipient Monitoring (Continued)

Contact Person Responsible for Corrective Action
Gregory A. Mason, Deputy Director, Division of Audits, Ohio Department of Mental Retardation and Developmental Disabilities, 30 East Broad Street, 12th Floor, Columbus, Ohio 43215, Phone: (614) 728-0129, e-mail: greg.mason@dmr.state.oh

2004-DMR03-077 Medicaid – Provider Certifications

Corrective Action Plan
The use of the checklist will be continued as a tool for tracking outstanding items. In addition, a management review checklist has been created and a review of files will be conducted on a periodic basis. A completed checklist of each file reviewed will be maintained in an office log.

An administrative rule was promulgated for the monitoring and compliance of waiver certified providers. A protocol to implement these standards was developed by a workgroup of providers, county boards and ODMR/DD staff. Provider compliance reviews are underway as of January 1, 2005.

Notwithstanding the development of these rules, it was determined that the Department does not have the statutory authority to require renewal of a provider's certification.

Language has been drafted to give authority to ODMR/DD for time limited licenses. The language must now be sponsored by a legislator, and introduced and passed by the legislature. Anticipated completion date – October 2005.

Anticipated Completion Date for Corrective Action
October 1, 2005

Contact Person Responsible for Corrective Action
Ernie Fischer, Assistant Deputy Director, Office of Provider Standards, Ohio Department of Mental Retardation and Developmental Disabilities, 35 East Chestnut Street 5th Floor, Columbus, Ohio 43215, Phone: (614) 644-5965, e-mail: ernie.fischer@dmr.state.oh.us

2004-DMR04-078 DP – Transfer into the Live Environment

Corrective Action Plan
The agency recognizes the potential risk inherent in an unsupported network operating system, unfortunately budget constants precluded action prior to NT status changing. 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 13 domain controllers calls for the conversion of one domain at a time, then rolling on the next site. 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
October 31, 2005

Contact Person Responsible for Corrective Action
F. Gregory Schneller, Deputy Director of Information Systems, 30 East Broad Street, 12th Floor, Columbus, Ohio 43215, Phone: (614) 466-2201, e-mail: greg.schneller@dmr.state.oh.us

OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES (Continued)

2004-DMR05-079 DP – Network Operating Systems

Corrective Action Plan
The agency has begun to institute changes to shore up the process of MBS code migration. We are currently in the process of implementing another MBS devoted CPU, which will allow for additional formal testing procedures. We have also assigned additional staff to the application who, once trained, will conduct peer review of all modification to the edit routines within edit module. We also plan to have management approve all production changes. However our staff size and budgetary constraints make in impractical to provide a dedicated production control staff for an environment, which lies outside our current technical direction.

Anticipated Completion Date for Corrective Action
July 1, 2005

Contact Person Responsible for Corrective Action
F. Gregory Schneller, Deputy Director of Information Systems, 30 East Broad Street, 12th Floor, Columbus, Ohio 43215, Phone: (614) 466-2201, e-mail: greg.schneller@dmr.state.oh.us

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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
MARCH 31, 2005