STATE OF OHIO

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2002

Auditor of State
Betty Montgomery

STATE OF OHIO

SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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NOTE:

The State of Ohio *Comprehensive Annual Financial Report* for fiscal year ended June 30, 2002, 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/

The State of Ohio's Corrective Action Plan has been submitted separately to the federal clearing house. You can obtain a copy of this document from the Ohio Office of Budget and Management after March 31, 2003.

FINANCIAL SECTION

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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, 2002, 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: Capital 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; and Variable College Savings Plan.

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

Discretely Presented Component Units: Bowling Green State University; Central State University; Cleveland State University; Kent State University; Miami University; The 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, Police and Fire Pension Fund, State Teachers Retirement System, and School Employees Retirement System, whose assets are held by the Treasurer of State and are included as part of the State's Aggregate Remaining Fund Information. These financial statements reflect the following percentages of total assets and revenues or additions of the indicated opinion units:

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Revenues / Additions
Governmental Activities	1%	0%
Business-Type Activities	86%	33%
Aggregate Discretely Presented Component Units	74%	87%
Aggregate Remaining Fund Information	96%	26%
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.

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, 2002, and respective changes in financial position and cash flows, where applicable, and respective budgetary comparison for the major governmental funds thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, during the year ended June 30, 2002, the State of Ohio implemented a new financial reporting model and the following pronouncements as required by the provisions of Governmental Accounting Standards Board's Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments;* No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities;* No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus;* No. 38*, Certain Financial Statement Note Disclosures; and* Governmental Accounting Standards Board's Interpretation No. 6*, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

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 January 27, 2003, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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 as required by OMB Circular A-133 and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole, except for CFDA #93.767-State Children's Insurance Program which is understated as described in finding number 2001-JFS02-023 in the accompanying schedule of findings and questioned costs on page 180.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

January 27, 2003

State of Ohio

Management's Discussion and Analysis

(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, 2002. 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.

Fiscal year 2002 was the first year for the State of Ohio to implement the new reporting provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. The State has not restated government-wide financial data for fiscal year 2001 for purposes of providing extensive comparative data in this management's discussion and analysis because certain prior-year data is unavailable. Consequently, the foregoing discussion contains few financial comparisons with the previous year. In future years, however, as prior-year information becomes available, a comparative analysis of the government-wide data will be presented.

Financial Highlights

Government-wide Financial Statements

Net assets of the State's primary government reported in the amount of $21.4 billion, as of June 30, 2002, decreased $4.4 billion since the previous year. Net assets of the State's component units reported in the amount of $9.2 billion, as of June 30, 2002, increased $192.3 million since the end of last fiscal year.

Fund Financial Statements

Governmental funds reported combined ending fund balances of $4.55 billion that was comprised of $565.9 million reserved for specific purposes, such as for debt service, state and local government highway construction, and federal programs; $4.67 billion reserved for nonappropriable items, such as encumbrances, noncurrent loans, loan commitments, and inventories; $321.9 million in designations for budget stabilization and compensated absences; and a $1.01 billion deficit.

As of June 30, 2002, the General Fund's fund balance was approximately $875.4 million, including $226.2 million reserved for specific purposes; $329.8 million reserved for nonappropriable items; and $307 million and $12.4 million in designations for budget stabilization and compensated absences, respectively. The General Fund's fund balance declined by $1.23 billion or 58.5 percent during fiscal year 2002. Despite weaker-than-expected tax revenue for fiscal year 2002, the General Fund ended the year with an overall positive fund balance. This was primarily due to lower-than-budgeted spending, the availability of $687.7 million for spending in fiscal year 2002 from resources designated for budget stabilization and human services budget stabilization purposes (also known as "Rainy Day" funds), as of the end of fiscal year 2001, in the amounts of $587.7 and $100 million, respectively, and various transfers-in from other funds, including a $289.6 million transfer from the Tobacco Settlement Fund.

Proprietary funds reported net assets of $3.93 billion, as of June 30, 2002, a decrease of $3.12 billion since June 30, 2001. Most of the decline was due to the $2.63 billion, $353.7 million, and $135.5 million net losses reported for the Workers' Compensation, Unemployment Compensation, and Tuition Trust Authority enterprise funds, respectively. The net loss for the Workers' Compensation Enterprise Fund is attributable to $1.47 billion in premium dividend reductions and refund expenses, a $430.1 million investment loss, and benefits and claims expenses that exceeded premium and assessment income by $571.7 million. For the Unemployment Compensation Enterprise Fund, benefits and claims expenses of $1.66 billion exceeded total operating and nonoperating revenues by approximately $350.9 million. The Tuition Trust Authority's decline was due to tuition benefit expenses exceeding income from the sale of tuition credits by $112.4 million and investment losses totaling $16.8 million.

Long-Term Debt — Bonds and Notes Payable and Certificates of Participation Obligations:

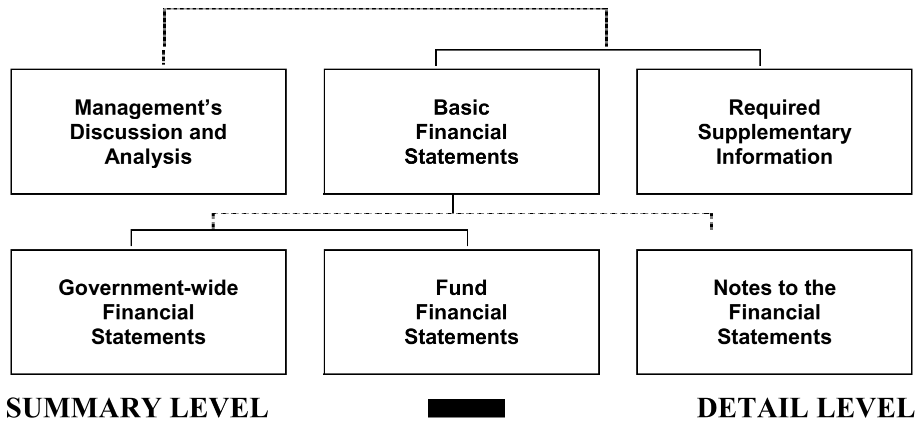
Overall, the total long-term debt for the State's primary government increased $458.8 million or 5.6 percent during fiscal year 2002 to end the fiscal year with a reported balance of $8.66 billion in long-term debt. During the year, the State issued $975 million in general obligation bonds, $100 million in revenue bonds, and $466.5 million in special obligation bonds, of which $341.4 million were refunding bonds. Changes in the primary government's long-term debt for fiscal year 2002 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 and the fiduciary 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 62 through 120 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 122 and 123 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

		Fund Statements		
	Government-wide Statements	**Governmental Funds**	**Proprietary Funds**	**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 Net Assets • Statement of Cash Flows	• Statement of 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 17 through 20 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, 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, 21 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 41 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 21 through 32 of this report while the combining fund statements and schedules can be found on pages 125 through 187 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 33 through 40 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, STAROhio 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 41 through 44 of this report.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Assets. During fiscal year 2002, as shown in the table on the following page, the combined net assets of the State's primary government decreased $4.40 billion or 17 percent. Net assets reported for governmental activities decreased $1.28 billion or 6.9 percent and business-type activities decreased $3.12 billion or 44.3 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, 2002
(dollars in thousands)

	Governmental Activities	Business-Type Activities	Total Primary Government
Assets:			
Current and Other Noncurrent Assets	$10,846,122	$25,759,077	$36,605,199
Capital Assets	21,619,224	238,338	21,857,562
Total Assets	32,465,346	25,997,415	58,462,761
Liabilities:			
Current and Other Liabilities	6,011,055	4,593,419	10,604,474
Noncurrent Liabilities	8,987,221	17,473,966	26,461,187
Total Liabilities	14,998,276	22,067,385	37,065,661
Net Assets:			
Invested in Capital Assets, Net of Related Debt	18,653,976	24,197	18,678,173
Restricted	1,878,515	3,918,679	5,797,194
Unrestricted	(3,065,421)	(12,846)	(3,078,267)
Total Net Assets	$17,467,070	$3,930,030	$21,397,100

As of June 30, 2002, the primary government's investment in capital assets (i.e., land, buildings, land improvements, machinery and equipment, state vehicles, infrastructure, and construction-in-progress), less related outstanding debt, was $18.68 billion. Restricted net assets were approximately $5.80 billion, resulting in a $3.08 billion deficit. Net assets are restricted when constraints on their use are 1.) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2.) legally imposed through constitutional or enabling legislation. Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The government-wide Statement of Net Assets reflects a $3.07 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 $8.16 billion of outstanding general obligation and special obligation debt at June 30, 2002, $4.4 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, 2002, the State's governmental activities have significant unfunded liabilities for compensated absences in the amount of $381.9 million and a $598.3 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 Activities, which reports how the net assets of the State's primary government changed during fiscal year 2002, follows.

Primary Government
Statement of Activities
For the Fiscal Year Ended June 30, 2002
(dollars in thousands)

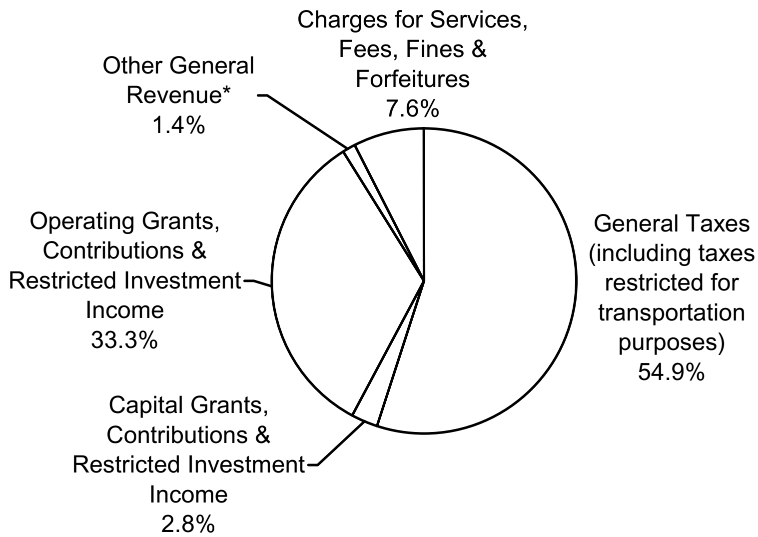
	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues:			
Program Revenues:			
Charges for Services, Fees, Fines and Forfeitures	$ 2,518,155	$5,766,327	$8,284,482
Operating Grants, Contributions and Restricted Investment Income/(Loss)	11,136,352	(59,232)	11,077,120
Capital Grants, Contributions and Restricted Investment Income/(Loss)	942,200	—	942,200
General Revenues:			
General Taxes	16,911,481	—	16,911,481
Taxes Restricted for Transportation Purposes	1,451,767	—	1,451,767
Tobacco Settlement	368,588	—	368,588
Escheat Property	50,745	—	50,745
Unrestricted Investment Income	56,990	—	56,990
Federal Grants	—	346,891	346,891
Other	33	2,449	2,482
Total Revenues	**33,436,311**	**6,056,435**	**39,492,746**
Expenses:			
Primary, Secondary and Other Education	8,171,648	—	8,171,648
Higher Education Support	2,604,961	—	2,604,961
Public Assistance and Medicaid	11,953,033	—	11,953,033
Health and Human Services	2,844,671	—	2,844,671
Justice and Public Protection	2,499,689	—	2,499,689
Environmental Protection and Natural Resources	386,400	—	386,400
Transportation	1,532,680	—	1,532,680
General Government	747,474	—	747,474
Community and Economic Development	902,628	—	902,628
Intergovernmental	3,617,678	—	3,617,678
Interest on Long-Term Debt (excludes interest charged as program expense)	203,811	—	203,811
Workers' Compensation	—	4,565,493	4,565,493
Lottery Commission	—	1,467,203	1,467,203
Unemployment Compensation	—	1,660,148	1,660,148
Ohio Building Authority	—	33,724	33,724
Tuition Trust Authority	—	284,960	284,960
Liquor Control	—	339,294	339,294
Underground Parking Garage	—	2,336	2,336
Office of Auditor of State	—	78,302	78,302
Total Expenses	**35,464,673**	**8,431,460**	**43,896,133**
Excess (Deficiency) Before Special Items and Transfers	(2,028,362)	(2,375,025)	(4,403,387)
Special Items	—	26	26
Transfers-Internal Activities	743,821	(743,821)	—
Increase (Decrease) in Net Assets	**(1,284,541)**	**(3,118,820)**	**(4,403,361)**
Net Assets, July 1	**18,751,611**	**7,048,850**	**25,800,461**
Net Assets, June 30	**$17,467,070**	**$3,930,030**	**$21,397,100**

Governmental Activities

The $1.28 billion decrease in net assets during fiscal year 2002 primarily resulted from lower-than-expected tax revenues and increased spending in the various functions of state government that required the State to spend $687.7 million in resources, which had been designated for budget and human services stabilization purposes, as of the end of fiscal year 2001. The State attributes most of the decline in tax revenues to a slowdown in the economy. Also, increased spending in the State's largest public assistance-related program, Medicaid, most likely resulted from a slowdown in the economy and overall increases in health care costs.

The following chart illustrates revenue sources of governmental activities as percentages of total revenues reported for the fiscal year ended June 30, 2002.

Governmental Activities — Sources of Revenue
Fiscal Year 2002

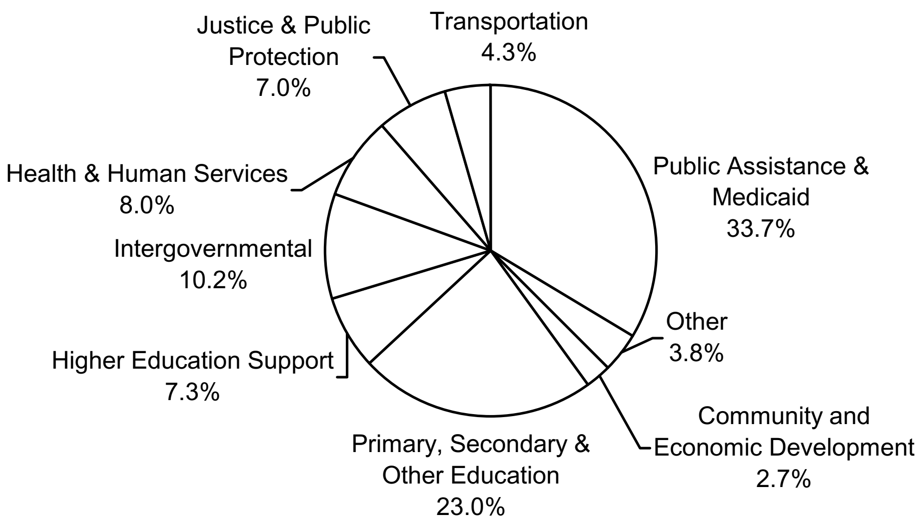


*Other General Revenue includes Escheat Property, Tobacco Settlement and Unrestricted Investment Earnings

Total FY 02 Revenue for Governmental Activities = $33.44 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, 2002.

Governmental Activities — Expenses by Program
Fiscal Year 2002



Total FY 02 Program Expenses for Governmental Activities = $35.46 Billion

The following table presents the total expenses and net cost of each of the State's governmental programs. 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, escheat property, tobacco settlement revenues, and unrestricted investment income.

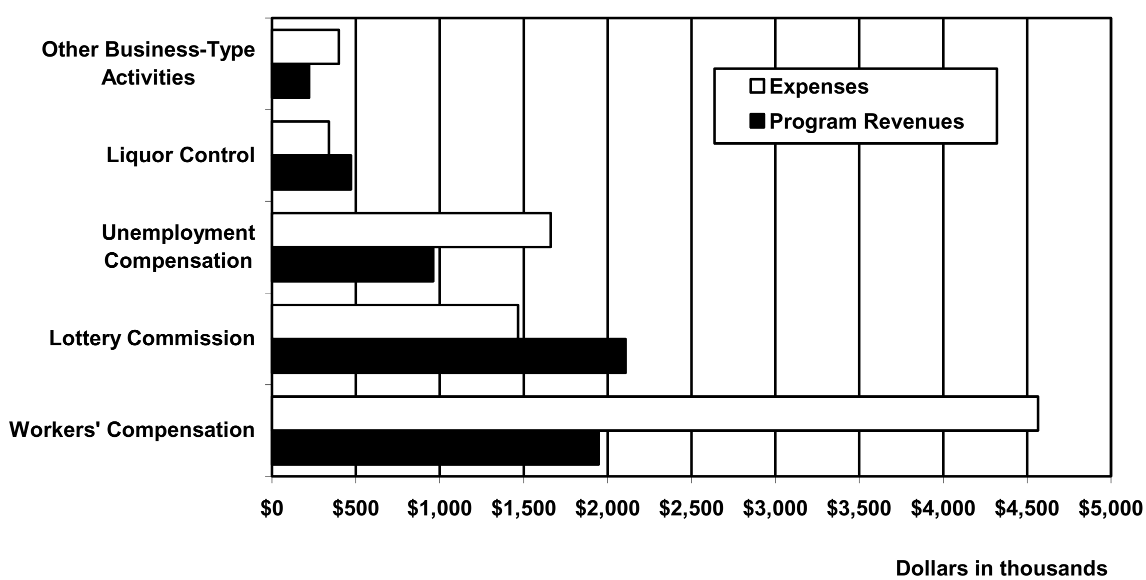
Program Expenses and Net Costs of Governmental Activities by Program
For the Fiscal Year Ended June 30, 2002
(dollars in thousands)

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	$ 8,171,648	$6,922,682	84.7%	19.5%
Higher Education Support	2,604,961	2,542,710	97.6	7.2
Public Assistance and Medicaid	11,953,033	3,734,966	31.3	10.5
Health and Human Services	2,844,671	1,253,152	44.1	3.5
Justice and Public Protection	2,499,689	1,628,249	65.1	4.6
Environmental Protection and Natural Resources	386,400	135,575	35.1	.4
Transportation	1,532,680	480,200	31.3	1.4
General Government	747,474	191,445	25.6	.5
Community and Economic Development	902,628	294,950	32.7	.8
Intergovernmental	3,617,678	3,480,226	96.2	9.8
Interest on Long-Term Debt	203,811	203,811	100.0	.6
Total Governmental Activities	$35,464,673	$20,867,966	58.8	58.8%

Business-Type Activities

The State's enterprise funds reported net assets of $3.93 billion, as of June 30, 2002, as compared to $7.05 billion in net assets, as of June 30, 2001. These results were caused in part by the Workers' Compensation Fund, which reported net assets of $1.89 billion, as of June 30, 2002, as compared to $4.52 billion in net assets, as of June 30, 2001, a 58.2 percent decrease. Also contributing to the decline in business-type activities was the Unemployment Compensation Fund, which reported net assets of $1.91 billion, as of June 30, 2002, as compared to $2.27 billion, a 15.6 percent decrease. Finally, the Tuition Trust Authority Fund reported a 207.7 percent decrease in net assets since June 30, 2001, ending fiscal year 2002 with a $70.3 million deficit. The chart below compares program expenses and program revenues for business-type activities.

Business-Type Activities — Expenses and Program Revenues
Fiscal Year 2002



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 year ended June 30, 2002 (dollars in thousands).

	General Fund	Other Major Funds	Nonmajor Governmental Funds	Total Governmental Funds
Unreserved/Undesignated Fund Balance (Deficit)	$ —	$(1,203,678)	$190,251	$(1,013,427)
Designated Fund Balance for Budget Stabilization	307,028	—	—	307,208
Designated Fund Balance for Compensated Absences	12,393	—	2,487	14,880
Total Fund Balance	875,457	1,105,579	2,567,502	4,548,538
Total Revenues	20,497,230	9,549,135	2,999,212	33,045,577
Total Expenditures	21,777,207	9,762,821	5,036,062	36,576,090

General Fund

Fund balance for the General Fund, the main operating fund of the State, had decreased by $1.23 billion during the current fiscal year. Key factors for the decline were lower personal income and corporate franchise tax collections resulting from a slowdown in the economy and mandated spending increases in the Medicaid Program and for primary and secondary education, which were largely due to changes in funding methods prompted by the DeRolph court case.

General Fund Budgetary Highlights

The State ended the first year of its biennial budget period on June 30, 2002 with a General Fund budgetary fund balance (i.e., cash less encumbrances) of $847.6 million. Total budgetary sources for the General Fund (including $404.6 million in transfers from other funds) in the amount of $21.9 billion were below final estimates by $372.7 million or 1.7 percent during fiscal year 2002, while total tax receipts were below final estimates by $791.2 million or 4.9 percent. The weaker-than-expected revenue picture primarily resulted from lower-than-anticipated receipts from sales and use tax, personal income tax, and corporate franchise tax. Total budgetary uses for the General Fund (including $57.3 million in transfers to other funds) in the amount of $23.4 billion were below final estimates by $648.3 million or 2.7 percent for fiscal year 2002.

Weak economic conditions continuing into fiscal year 2002 necessitated revisions to the State's estimated fiscal year 2002 revenues for the General Fund. In October 2001, the Ohio Office of Budget and Management (OBM) officially revised its fiscal year 2002 revenue estimates downward by $628.7 million for the General Revenue Fund (GRF). The GRF is the largest, non-GAAP, budgetary-basis operating fund included in the State's General Fund. Also, in October 2001, because of the projected decline in revenues, state agency spending budgets for fiscal year 2002 were adjusted downward when Governor Taft ordered approximately $224 million in GRF appropriation reductions, a six-percent cut across most state agencies. Later during the fiscal year, the Governor also ordered a statewide hiring freeze, imposed a moratorium on year-end equipment purchases, and placed restrictions on employee travel to further control costs.

Additionally, with legislative authorization, OBM made the following significant resource reallocations to fill the existing gap between actual spending and actual revenues caused by revenue shortfalls during fiscal year 2002:

- $587.7 million and $100 million, which had been designated in the General Fund for budget stabilization and human services budget stabilization purposes, respectively, were reallocated for spending. The actual amount OBM reallocated for spending in fiscal year 2002 from resources designated for budget stabilization purposes was $65 million less than the amount authorized in Senate Bill 261. As of June 30, 2002, fund balance designated in the General Fund for budget stabilization purposes on a GAAP basis was $319.4 million; on a budgetary basis, $427.9 million of the General Fund's budgetary fund balance was designated for budget stabilization purposes, as of June 30, 2002. For the General Fund, the fund balance designation for budget stabilization is lower on a GAAP basis because the State's reported designation for budget stabilization could not exceed the amount of residual fund balance that remained after the posting of reserves for specific purposes and nonappropriable items. There was no designation of fund balance in the General Fund for human services budget stabilization purposes, as of June 30, 2002.
- $289.6 million from tobacco settlement revenues and $60 million in earned federal revenues accounted for in the Special Revenue Fund were transferred to the General Fund.

Other Major Governmental Funds

Fund balance for the Job, Family and Other Human Services Fund, as of June 30, 2002, totaled $143.3 million, a slight increase of $4.9 million since June 30, 2001. Revenues exceeded expenditures by $95.6 million, and of the excess of revenues over expenditures, $90.7 million in net transfers-out were made to other funds. During fiscal year 2002, the State began accounting for the major federal program, Temporary Assistance to Needy Families in the Job, Family and Other Human Services Fund. Prior to fiscal year 2002, this program had been accounted for in the State's General Fund.

Fund balance for the Education Fund, as of June 30, 2002, totaled $28.7 million, a decrease of $20 million since June 30, 2001. Fiscal year 2002 net transfers-in for the fund in the amount of $616.9 million was not enough to cover the excess of expenditures over revenues reported for the fund in the amount of $637 million.

Fund balance for the Highway Operating Fund, as of June 30, 2002, totaled $814.7 million, a decrease of $132.6 million since June 30, 2001. The decline was caused by increased transportation spending of $1.86 billion for fiscal year 2002 compared with $1.71 billion during the previous fiscal year as the fund's revenues remained mostly unchanged since the last fiscal year and net transfers-in for fiscal year 2002 decreased by more than $72.7 million when compared to fiscal year 2001 results.

Fund balance for the Revenue Distribution Fund, as of June 30, 2002, totaled $118.8 million, a slight decrease of $8.4 million since June 30, 2001. Fiscal year 2002 transfers-out to other governmental funds of $731.3 million were higher than the $728.2 million transfers-out reported for fiscal year 2001, thus contributing to the decrease 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 decrease in net assets was primarily due to premium reductions and refund expenses of $1.47 billion, benefits and claims expenses of $2.93 billion exceeded total operating and nonoperating revenues by approximately $558.1 million, and a $1.1 billion decrease in the fair value of the fund's investment portfolio caused by downturns in world equity markets.

The Workers Compensation Oversight Commission approved a one-time 75-percent premium reduction for Ohio private employers for the policy year July 1, 2001 through June 30, 2002, which produced estimated savings of $1.3 billion to these employers. The Oversight Commission also approved a one-time 50-percent premium reduction for public taxing district employers for their policy year beginning January 1, 2002, which produced estimated savings of $144 million to these employers through December 31, 2002. Additionally, public taxing district employers qualified for an additional 25-percent cash refund by attending a Public Employer Summit, hosted by the Bureau of Workers' Compensation. Approximately $66.5 million will be returned to employers who attended the meetings. These reductions and refunds follow the January 1, 2001 policy year's one-time 75-percent premium reduction, which produced an estimated $200 million in savings for public employer taxing districts.

In fiscal year 2002, premium and assessment income for the Workers' Compensation Fund increased $341 million, primarily due to growth in the payroll base and an increase in assessment rates for administrative costs. Workers' compensation benefits and claims expenses were $2.93 billion in fiscal year 2002 as compared to $2.50 billion in fiscal year 2001. The increase in workers' compensation benefits is due in part to increased utilization of medical services and medical cost inflation. A decline in the number of newly awarded permanent total disability claims has helped to reduce the impact of the increased medical costs. Additionally, the Bureau of Workers' Compensation Fund experienced a net investment loss of $430.1 million or a decline of 183.6 percent when compared to net investment income of $514.6 million reported in the previous fiscal year. The fund's investment losses are due to declines in the world equity markets during the period.

The Unemployment Compensation Enterprise Fund reported a net loss of $353.7 million during fiscal year 2002. Unemployment benefits and claims expenses of $1.66 billion exceeded total operating and nonoperating revenues by approximately $350.9 million. Investment income for the fund during fiscal year 2002 was $125 million, down $24.9 million or 16.6 percent from fiscal year 2001. The fund's net loss resulted despite the deposit of an additional $130.5 million in federal funds received during fiscal year 2002 for the payment of extended unemployment benefits to laid-off workers in Ohio for an additional 13 weeks and the national Reed Act distribution of $346.9 million to Ohio for deposit in the State's unemployment trust account in Washington D.C. in March 2002. The Reed Act provides for the distribution of funds from federal unemployment accounts to the state trust funds in times when the balances in the federal accounts would exceed their statutory ceilings, resulting in federal employer tax overpayments being returned to the states. The Reed Act funds can be used to reduce taxes on employers and to pay unemployment benefits and costs the states incur for the administration of unemployment services, veteran employment services, and some Bureau of Labor Statistics programs.

For the Tuition Trust Authority Fund, the $70.3 million deficit, as of June 30, 2002, resulted when the fund reported a net loss of $135.5 million for fiscal year 2002. By June 30, 2002, tuition benefits payable had dramatically increased because of the estimated increase in future tuition growth and lower-than-projected investment returns. The fund's investment loss for fiscal year 2002 was $16.8 million, a decrease of 215 percent when compared with investment income reported at $14.6 million (as restated) for fiscal year 2001. The fund also reported an increase in benefits and claims expense for fiscal year 2002 resulting from higher sales in conjunction with higher-than-expected tuition growth and the estimated increase in projected future tuition growth. For fiscal year 2002, the benefits and claims expense was $278.7 million, a 124.8 percent increase over the $124 million in benefits and claims expenses reported for fiscal year 2001.

The Lottery Commission Fund reported approximately $640 million in income before transfers of $635.2 million and $140 thousand to the Education and General funds, respectively, posting a modest $4.7 million gain in the fund's net assets during fiscal year 2002 while all other proprietary funds posted net losses for the year. The Liquor Control Fund reported a net loss of $350 thousand after transferring $112 million to the General Fund and $19.6 million to other governmental funds. In fiscal year 2002, transfers from the proprietary funds to the governmental funds totaled $807.4 million, up $41.5 million or 5.4 percent when compared to the $765.9 million in transfers-out reported for fiscal year 2001.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2002 and June 30, 2001, the State had invested $21.86 billion and $21.18 billion, net of accumulated depreciation of $1.71 billion and $1.57 billion, respectively, in a broad range of capital assets, as follows.

Capital Assets, Net of Depreciation
As of June 30, 2002 with comparatives as of June 30, 2001
(dollars in thousands)

	As of June 30, 2002			As of June 30, 2001		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Land	$ 1,479,858	$ 12,631	$1,492,489	$ 1,403,664	$ 12,631	$1,416,295
Buildings	1,886,367	136,066	2,022,433	1,925,278	143,268	2,068,546
Land Improvements	87,207	19	87,226	79,492	20	79,512
Machinery and Equipment	102,831	78,341	181,172	98,998	31,911	130,909
State Vehicles	121,077	2,454	123,531	120,667	2,550	123,217
Infrastructure:						
Highway Network:						
General Subsystem	8,049,949	—	8,049,949	7,982,451	—	7,982,451
Priority Subsystem	6,351,727	—	6,351,727	6,099,567	—	6,099,567
Bridge Network	2,223,044	—	2,223,044	2,171,228	—	2,171,228
Parks, Recreation, and Natural Resources System	14,662	—	14,662	—	—	—
	20,316,722	229,511	20,546,233	19,881,345	190,380	20,071,725
Construction-in-Progress	1,302,502	8,827	1,311,329	1,103,942	1,123	1,105,065
Total Capital Assets, Net	$21,619,224	$238,338	$21,857,562	$20,985,287	$191,503	$21,176,790

As a result of the implementation of GASB 34's new reporting requirements for fiscal year 2002, the State, for the first time, included infrastructure assets in its capital assets balances and recognized $152.8 million in annual depreciation expense relative to its other general governmental capital assets.

Additionally, the State completed construction on a variety of projects at various state facilities during fiscal year 2002 totaling approximately $473.5 million. The total increase in the State's capital assets, net of accumulated depreciation, for the current fiscal year was 3.2 percent (a 3 percent increase for governmental activities and a 24.5 percent increase for business-type activities). As further detailed in NOTE 19D. of the notes to the financial statements, the State had $227.9 million in major construction commitments (unrelated to infrastructure).

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 42,601 in lane miles of highway (12,114 in lane miles for the priority highway subsystem and 30,487 in lane miles for the general highway subsystem) and approximately 81 million square feet of deck area that comprises approximately 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 2001, indicates that only 4.2 percent and 3.0 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 2001, indicates that only 3.3 percent and .04 percent of the number of square feet of bridge deck area were considered to be in "fair" and "poor" conditions, respectively.

Total actual maintenance and preservation costs for the priority and general subsystems were $319.5 million and $152 million, respectively, compared to estimated costs of $251.2 million for the priority system and $111 million for the general system. Total actual maintenance and preservation costs for the bridge network was $210.1 million compared to estimated costs of $192.1 million.

More detailed information on the State's capital assets can be found in NOTE 8 to the financial statements.

Debt — Bonds and Notes Payable and Certificates of Participation Obligations
As of June 30, 2002 and June 30, 2001, the State had total debt of $8.66 billion and $8.20 billion, respectively, as follows.

Bonds and Notes Payable and Certificates of Participation
As of June 30, 2002 with comparatives for June 30, 2001
(dollars in thousands)

	As of June 30, 2002			As of June 30, 2001		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Bonds and Notes Payable:						
General Obligation Bonds	$3,771,129	$ —	$3,771,129	$3,034,037	$ —	$3,034,037
Revenue Bonds and Notes	297,638	190,723	488,361	218,900	202,614	421,514
Special Obligation Bonds	4,389,102	—	4,389,102	4,731,842	—	4,731,842
Certificates of Participation	9,900	—	9,900	12,305	—	12,305
Total Debt	$8,467,769	$190,723	$8,658,492	$7,997,084	$202,614	$8,199,698

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 2002, the State issued $975 million in general obligation bonds, $100 million in revenue bonds, and $466.5 million in special obligation bonds, of which $341.4 million were refunding bonds. The total increase in the State's debt obligations for the current fiscal year was 5.6 percent (a 5.9 percent increase for governmental activities and a 5.9 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.

State obligations (issued by the Ohio Building Authority and the Treasurer of State) secured by General Revenue Fund appropriations are rated Aa2 by Moody's and AA by S&P and Fitch.

Moody's on December 5, 2001 and S&P on June 5, 2002 changed their "credit outlook" on the State from "stable" to "negative." The change in credit outlook is not a precursor to a rating change, but is an indication over the intermediate to longer term of a potential change.

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 OBA 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
For the past two years, Ohio's economy has been in a recession that has been characterized by layoffs and falling corporate profits. Through December 2002, actual tax revenues for fiscal year 2003 continued to lag behind the Office of Budget and Management's projections for fiscal year 2003. In addition to increasing demands for more government spending on human services programs such as Medicaid, in response to the weakened economy, the State's personal income, corporate franchise, and sales tax revenues have been unable to reach projected levels of collections.

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.

In light of projected revenue shortfalls for the General Fund in fiscal year 2003, the State has implemented the following measures to help ensure fund balance remains positive, as of June 30, 2003.

On July 1, 2002, Governor Taft through Executive Order 2002-08T ordered $374.8 million in reductions to GRF appropriations for fiscal year 2003. For some agencies, the budget cuts represent up to 15 percent of their originally approved appropriation levels. The executive order also directed state agencies to limit hiring to essential employees and contract positions, to reduce travel expenses, and to forego major purchases, remodeling, renovations and other purchases that had not yet been contracted. The executive order did not cut fiscal year 2003 appropriations for the basic aid component of primary and secondary education, entitlements, debt service, property tax rollbacks, homestead exemptions, tangible personal property tax exemptions, and pension payments by the Treasurer of State.

Later, on January 22, 2003, Governor Taft ordered state departments to trim their budgets by an average of 2.5 percent to achieve $121 million in GRF spending reductions for fiscal year 2003.

Additionally, Senate Bill 261, which was enacted in June 2002, mandated $41.4 million in GRF budget reductions for fiscal year 2003, including $30 million in administrative costs at the Department of Education, $10 million at the Department of Rehabilitation and Correction, and $1.4 million for the Multi-Agency Radio Communications System. Through Senate Bill 261, the General Assembly also approved a 31-cent increase in the cigarette tax to 55 cents a pack, effective July 1, 2002, to enhance future revenues for the General Fund.

Finally, if needed by the General Fund for spending in fiscal year 2003, Senate Bill 261 contains provisions that allow OBM to reallocate up to $427.9 million designated in the fund for budget stabilization purposes, as of June 30, 2002, on the budgetary basis of accounting, and to transfer up to an additional $285 million from tobacco settlement revenues in the Special Revenue Fund.

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.

BASIC FINANCIAL STATEMENTS

STATE OF OHIO
STATEMENT OF NET ASSETS
JUNE 30, 2002
(dollars in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS:				
Cash Equity with Treasurer	$ 4,710,788	$ 57,899	$ 4,768,687	$ 495,708
Cash and Cash Equivalents	40,751	2,398,570	2,439,321	525,984
Investments	797,510	14,953,217	15,750,727	3,943,662
Collateral on Lent Securities	1,494,388	2,130,095	3,624,483	154,539
Deposit with Federal Government	—	1,812,201	1,812,201	—
Taxes Receivable	1,287,534	—	1,287,534	—
Intergovernmental Receivable	1,387,156	6,642	1,393,798	33,893
Premiums and Assessments Receivable	—	725,343	725,343	—
Investment Trade Receivable	—	1,014,193	1,014,193	—
Loans Receivable, Net	790,821	—	790,821	224,671
Receivable from Primary Government	—	—	—	33,701
Receivable from Component Units	29	104,428	104,457	—
Other Receivables	273,834	382,518	656,352	601,261
Inventories	50,813	25,750	76,563	44,063
Other Assets	12,498	13,202	25,700	340,851
Restricted Assets:				
Cash Equity with Treasurer	—	6,439	6,439	47,777
Cash and Cash Equivalents	—	17,402	17,402	74,234
Investments	—	1,686,544	1,686,544	866,692
Collateral on Lent Securities	—	420,368	420,368	14,926
Loans Receivable, Net	—	—	—	2,336,776
Other Receivables	—	4,266	4,266	—
Capital Assets Being Depreciated, Net	2,212,144	216,880	2,429,024	5,137,859
Capital Assets Not Being Depreciated	19,407,080	21,458	19,428,538	896,604
TOTAL ASSETS	**32,465,346**	**25,997,415**	**58,462,761**	**15,773,201**
LIABILITIES:				
Accounts Payable	540,286	45,989	586,275	329,235
Accrued Liabilities	216,519	3,650	220,169	338,914
Medicaid Claims Payable	996,225	—	996,225	—
Obligations Under Securities Lending	1,494,388	2,550,463	4,044,851	169,465
Investment Trade Payable	—	2,433,261	2,433,261	—
Intergovernmental Payable	1,202,337	1,278	1,203,615	6,869
Internal Balances	597,420	(597,420)	—	—
Payable to Primary Government	—	—	—	104,457
Payable to Component Units	33,701	—	33,701	—
Deferred Revenue	183,114	1,680	184,794	160,773
Benefits Payable	—	13,821	13,821	—
Refund and Other Liabilities	747,065	140,697	887,762	12,571
Noncurrent Liabilities:				
Bonds and Notes Payable:				
Due in One Year	797,218	13,531	810,749	592,684
Due in More Than One Year	7,660,651	177,192	7,837,843	2,687,572
Certificates of Participation:				
Due in One Year	2,530	—	2,530	1,175
Due in More Than One Year	7,370	—	7,370	8,810
Other Noncurrent Liabilities:				
Due in One Year	85,666	2,242,207	2,327,873	948,771
Due in More Than One Year	433,786	15,041,036	15,474,822	1,168,860
TOTAL LIABILITIES	**14,998,276**	**22,067,385**	**37,065,661**	**6,530,156**

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

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
NET ASSETS:				
Invested in Capital Assets,				
Net of Related Debt....................................	18,653,976	24,197	18,678,173	4,392,633
Restricted for:				
Primary, Secondary and Other Education	5,759	—	5,759	—
Transportation and Highway Safety..........	819,829	—	819,829	—
State and Local Government				
Highway Construction............................	124,957	—	124,957	—
Federal Programs......................................	48,997	—	48,997	—
Coal Research				
and Development Program....................	17,340	—	17,340	—
Clean Ohio Program..................................	51,358	—	51,358	—
Debt Service...	—	—	—	1,706,422
Intergovernmental and Capital Purposes..	810,275	—	810,275	47,777
Workers' Compensation............................	—	1,880,808	1,880,808	—
Deferred Lottery Prizes.............................	—	97,040	97,040	—
Unemployment Compensation..................	—	1,912,422	1,912,422	—
Ohio Building Authority..............................	—	28,003	28,003	—
Auditor of State's Office.............................	—	406	406	—
Nonexpendable for				
Colleges and Universities......................	—	—	—	1,707,745
Expendable for				
Colleges and Universities......................	—	—	—	1,097,799
Unrestricted (Deficits)....................................	(3,065,421)	(12,846)	(3,078,267)	290,669
TOTAL NET ASSETS................................	**$ 17,467,070**	**$ 3,930,030**	**$ 21,397,100**	**$ 9,243,045**

STATE OF OHIO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(dollars in thousands)

		PROGRAM REVENUES			
FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES, FEES, FINES AND FORFEITURES	OPERATING GRANTS, CONTRIBUTIONS AND RESTRICTED INVESTMENT INCOME/(LOSS)	CAPITAL GRANTS, CONTRIBUTIONS AND RESTRICTED INVESTMENT INCOME/(LOSS)	NET (EXPENSE) REVENUE
PRIMARY GOVERNMENT:					
GOVERNMENTAL ACTIVITIES:					
Primary, Secondary and Other Education	$ 8,171,648	$ 60,794	$ 1,188,172	$ —	$ (6,922,682)
Higher Education Support	2,604,961	52,894	9,357	—	(2,542,710)
Public Assistance and Medicaid	11,953,033	509,184	7,708,883	—	(3,734,966)
Health and Human Services	2,844,671	108,586	1,478,761	4,172	(1,253,152)
Justice and Public Protection	2,499,689	702,145	164,811	4,484	(1,628,249)
Environmental Protection and Natural Resources	386,400	173,942	75,642	1,241	(135,575)
Transportation	1,532,680	35,067	91,090	926,323	(480,200)
General Government	747,474	449,942	100,107	5,980	(191,445)
Community and Economic Development	902,628	299,599	308,079	—	(294,950)
Intergovernmental	3,617,678	126,002	11,450	—	(3,480,226)
Interest on Long-Term Debt (excludes interest charged as program expense)	203,811	—	—	—	(203,811)
TOTAL GOVERNMENTAL ACTIVITIES	**35,464,673**	**2,518,155**	**11,136,352**	**942,200**	**(20,867,966)**
BUSINESS-TYPE ACTIVITIES:					
Workers' Compensation	4,565,493	2,376,252	(430,147)	—	(2,619,388)
Lottery Commission	1,467,203	1,988,124	119,039	—	639,960
Unemployment Compensation	1,660,148	694,090	267,810	—	(698,248)
Ohio Building Authority	33,724	31,695	793	—	(1,236)
Tuition Trust Authority	284,960	163,809	(16,822)	—	(137,973)
Liquor Control	339,294	470,515	—		131,221
Underground Parking Garage	2,336	2,654	95	—	413
Office of Auditor of State	78,302	39,188	—	—	(39,114)
TOTAL BUSINESS-TYPE ACTIVITIES	**8,431,460**	**5,766,327**	**(59,232)**	**—**	**(2,724,365)**
TOTAL PRIMARY GOVERNMENT	**$ 43,896,133**	**$ 8,284,482**	**$ 11,077,120**	**$ 942,200**	**$ (23,592,331)**
COMPONENT UNITS:					
School Facilities Commission	$ 599,818	$ 26	$ 34,410	$ —	$ (565,382)
Ohio Water Development Authority	88,288	119,884	151,882	—	183,478
Ohio State University	2,311,109	1,268,264	358,722	20,917	(663,206)
University of Cincinnati	734,791	259,736	154,100	5,827	(315,128)
Other Component Units	3,376,752	1,653,848	521,676	21,041	(1,180,187)
TOTAL COMPONENT UNITS	**$ 7,110,758**	**$ 3,301,758**	**$ 1,220,790**	**$ 47,785**	**$ (2,540,425)**

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	$ (20,867,966)	$ (2,724,365)	$ (23,592,331)	$ (2,540,425)
General Revenues:				
Taxes:				
Income	7,961,718	—	7,961,718	—
Sales	6,413,916	—	6,413,916	—
Corporate and Public Utility	1,640,433	—	1,640,433	—
Other	895,414	—	895,414	—
Restricted for Transportation Purposes:				
Motor Vehicle Fuel Taxes	1,451,767	—	1,451,767	—
Total Taxes	18,363,248	—	18,363,248	—
Tobacco Settlement	368,588	—	368,588	—
Escheat Property	50,745	—	50,745	—
Unrestricted Investment Income	56,990	—	56,990	(14,155)
State Assistance	—	—	—	2,489,429
Federal Grants	—	346,891	346,891	—
Other	33	2,449	2,482	200,655
Contributions	—	—	—	57,479
Special Items	—	26	26	(730)
Transfers-Internal Activities	743,821	(743,821)	—	—
TOTAL GENERAL REVENUES CONTRIBUTIONS, SPECIAL ITEMS AND TRANSFERS	**19,583,425**	**(394,455)**	**19,188,970**	**2,732,678**
CHANGE IN NET ASSETS	**(1,284,541)**	**(3,118,820)**	**(4,403,361)**	**192,253**
NET ASSETS, JULY 1	18,751,611	7,048,850	25,800,461	9,050,792
NET ASSETS, JUNE 30	**$ 17,467,070**	**$ 3,930,030**	**$ 21,397,100**	**$ 9,243,045**

STATE OF OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2002
(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	JOB, FAMILY AND OTHER HUMAN SERVICES	EDUCATION
ASSETS:			
Cash Equity with Treasurer	$ 1,464,192	$ 181,052	$ 71,459
Cash and Cash Equivalents	13,388	5,167	301
Investments	198,117	33,987	5,568
Collateral on Lent Securities	467,350	58,354	22,734
Taxes Receivable	974,426	—	—
Intergovernmental Receivable	490,716	450,162	150,425
Loans Receivable, Net	18,103	—	10,466
Interfund Receivable	230,729	6	—
Receivable from Component Units	29	—	—
Other Receivables	198,777	35,521	539
Inventories	20,445	—	—
Other Assets	186	—	3,706
TOTAL ASSETS	**$ 4,076,458**	**$ 764,249**	**$ 265,198**
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts Payable	$ 161,826	$ 44,797	$ 2,201
Accrued Liabilities	77,457	9,326	1,006
Medicaid Claims Payable	994,725	1,500	—
Obligations Under Securities Lending	467,350	58,354	22,734
Intergovernmental Payable	356,777	242,236	96,784
Interfund Payable	390,669	12,316	1,496
Payable to Component Units	6,967	1,282	319
Deferred Revenue	89,651	242,065	111,915
Refund and Other Liabilities	647,808	9,014	—
Liability for Escheat Property	7,771	—	—
TOTAL LIABILITIES	3,201,001	620,890	236,455
FUND BALANCES:			
Reserved for:			
Debt Service	1,735	—	—
Encumbrances	303,278	755,207	10,540
Noncurrent Portion of Loans Receivable	16,442	—	10,269
Loan Commitments	—	—	—
Inventories	10,108	—	—
State and Local Highway Construction	—	—	—
Federal Programs	—	651	8,188
Other	224,473	—	—
Unreserved/Designated	319,421	—	—
Unreserved/Undesignated (Deficits):			
Special Revenue Funds	—	(612,499)	(254)
Debt Service Funds	—	—	—
Capital Projects Funds	—	—	—
TOTAL FUND BALANCES	875,457	143,359	28,743
TOTAL LIABILITIES AND FUND BALANCES	**$ 4,076,458**	**$ 764,249**	**$ 265,198**

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

	HIGHWAY OPERATING	REVENUE DISTRIBUTION	NONMAJOR GOVERNMENTAL FUNDS	TOTAL
	$ 900,537	$ 269,066	$ 1,824,482	$ 4,710,788
	379	4,155	17,361	40,751
	—	—	559,838	797,510
	281,646	83,982	580,322	1,494,388
	53,605	253,980	5,523	1,287,534
	79,651	—	216,202	1,387,156
	51,430	—	710,822	790,821
	67	—	3,685	234,487
	—	—	—	29
	3,763	85	35,149	273,834
	30,368	—	—	50,813
	—	—	1,999	5,891
	$ 1,401,446	**$ 611,268**	**$ 3,955,383**	**$ 11,074,002**
	$ 132,164	$ —	$ 199,298	$ 540,286
	14,455	—	22,930	125,174
	—	—	—	996,225
	281,646	83,982	580,322	1,494,388
	1,107	322,058	163,686	1,182,648
	115,743	195	311,488	831,907
	541	—	24,084	33,193
	41,098	15,859	83,783	584,371
	—	70,389	2,290	729,501
	—	—	—	7,771
	586,754	492,483	1,387,881	6,525,464
	—	—	100,931	102,666
	1,316,870	—	1,446,901	3,832,796
	50,901	—	636,800	714,412
	—	—	85,169	85,169
	31,674	—	—	41,782
	—	124,957	—	124,957
	—	—	25,075	33,914
	—	—	79,888	304,361
	—	—	2,487	321,908
	(584,753)	(6,172)	521,631	(682,047)
	—	—	(21)	(21)
	—	—	(331,359)	(331,359)
	814,692	118,785	2,567,502	4,548,538
	$ 1,401,446	**$ 611,268**	**$ 3,955,383**	**$ 11,074,002**

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STATE OF OHIO
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2002
(dollars in thousands)

Total Fund Balances for Governmental Funds	***$ 4,548,538***
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 $24 accumulated depreciation	*16,639,382*
Land	*1,479,858*
Buildings and Improvements, net of $1,042,555 accumulated depreciation	*1,886,367*
Land Improvements, net of $108,422 accumulated depreciation	*87,207*
Machinery and Equipment, net of $258,862 accumulated depreciation	*102,831*
State Vehicles, net of $98,017 accumulated depreciation	*121,077*
Construction-in-Progress	*1,302,502*
	21,619,224
Some of the State's revenues are collected after year-end but are not available soon enough to pay for the current period's (within 60 days of year-end) expenditures, and therefore, are deferred in the funds.	
Taxes Receivable	*87,355*
Intergovernmental Receivable	*304,225*
Other Receivables:	
Accounts	*8,335*
Interest	*1,342*
	401,257
Unamortized bond issue costs are not financial resources, and therefore, are not reported in the funds.	*6,607*
The following liabilities are not due and payable in the current period, and therefore, are not reported in the funds.	
Accrued Liabilities:	
Interest Payable	*(88,092)*
Other	*(3,253)*
Intergovernmental Payable	*(19,689)*
Payable to Component Units	*(508)*
Refund and Other Liabilities	*(17,564)*
Bonds and Notes Payable:	
General Obligation Bonds	*(3,771,129)*
Revenue Bonds	*(297,638)*
Special Obligation Bonds	*(4,389,102)*
Certificates of Participation	*(9,900)*
Other Noncurrent Liabilities:	
Compensated Absences	*(381,929)*
Capital Leases Payable	*(3,933)*
Litigation Liabilities	*(30,000)*
Liability for Escheat Property	*(95,819)*
	(9,108,556)
Total Net Assets of Governmental Activities	***$ 17,467,070***

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, 2002

(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	JOB, FAMILY AND OTHER HUMAN SERVICES	EDUCATION
REVENUES:			
Income Taxes	$ 7,129,512	$ —	$ —
Sales Taxes	6,066,023	—	—
Corporate and Public Utility Taxes	1,276,159	—	—
Motor Vehicle Fuel Taxes	—	—	—
Other Taxes	838,236	5,201	—
Licenses, Permits and Fees	100,858	376,052	662
Sales, Services and Charges	51,211	—	428
Federal Government	4,563,370	3,547,749	1,074,623
Tobacco Settlement	—	—	—
Escheat Property	52,628	—	—
Investment Income	145,483	12,870	4,733
Other	273,750	148,447	15,516
TOTAL REVENUES	**20,497,230**	**4,090,319**	**1,095,962**
EXPENDITURES:			
CURRENT OPERATING:			
Primary, Secondary and Other Education	6,421,251	232	1,700,826
Higher Education Support	2,106,349	573	15,538
Public Assistance and Medicaid	8,311,043	3,543,294	—
Health and Human Services	1,122,893	422,296	139
Justice and Public Protection	1,855,869	22,503	16,418
Environmental Protection and Natural Resources	120,253	—	—
Transportation	41,782	—	—
General Government	441,768	2,588	—
Community and Economic Development	126,400	1,773	—
INTERGOVERNMENTAL	1,227,313	—	—
CAPITAL OUTLAY	—	1,439	—
DEBT SERVICE	2,286	—	—
TOTAL EXPENDITURES	**21,777,207**	**3,994,698**	**1,732,921**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	**(1,279,977)**	**95,621**	**(636,959)**
OTHER FINANCING SOURCES (USES):			
Bond Proceeds	400,000	—	—
Refunding Bond Proceeds	—	—	—
Payment to Refunded Bond Escrow Agents	—	—	—
Bond Premiums	6,029	—	—
Bond Discounts	—	—	—
Capital Leases	1,451	—	—
Transfers-in	617,185	12,689	646,941
Transfers-out	(977,731)	(103,398)	(29,998)
TOTAL OTHER FINANCING SOURCES (USES)	**46,934**	**(90,709)**	**616,943**
NET CHANGE IN FUND BALANCES	**(1,233,043)**	**4,912**	**(20,016)**
FUND BALANCES, JULY 1 (as restated)	2,108,395	138,447	48,759
Increase (Decrease) for Changes in Inventories	105	—	—
FUND BALANCES, JUNE 30	**$ 875,457**	**$ 143,359**	**$ 28,743**

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

HIGHWAY OPERATING	REVENUE DISTRIBUTION	NONMAJOR GOVERNMENTAL FUNDS	TOTAL
$ —	$ 848,810	$ 4,139	$ 7,982,461
—	303,346	15,879	6,385,248
—	350,924	13,350	1,640,433
363,152	1,040,388	48,227	1,451,767
—	14,052	37,925	895,414
67,474	342,885	633,805	1,521,736
1,364	—	41,594	94,597
959,856	—	1,588,838	11,734,436
—	—	368,588	368,588
—	—	—	52,628
42,104	2,093	75,174	282,457
26,318	88	171,693	635,812
1,460,268	**2,902,586**	**2,999,212**	**33,045,577**
—	—	20,663	8,142,972
—	—	327,154	2,449,614
—	—	245	11,854,582
—	—	1,247,562	2,792,890
—	—	483,330	2,378,120
—	—	235,323	355,576
1,855,566	—	459	1,897,807
—	—	289,235	733,591
—	—	620,012	748,185
—	2,179,636	156,357	3,563,306
—	—	464,404	465,843
—	—	1,191,318	1,193,604
1,855,566	**2,179,636**	**5,036,062**	**36,576,090**
(395,298)	**722,950**	**(2,036,850)**	**(3,530,513)**
—	—	800,000	1,200,000
—	—	341,451	341,451
—	—	(339,042)	(339,042)
—	—	31,095	37,124
—	—	(2)	(2)
—	—	29	1,480
512,755	2	1,414,008	3,203,580
(250,099)	(731,349)	(367,184)	(2,459,759)
262,656	**(731,347)**	**1,880,355**	**1,984,832**
(132,642)	**(8,397)**	**(156,495)**	**(1,545,681)**
947,334	127,182	2,723,997	6,094,114
—	—	—	105
$ 814,692	**$ 118,785**	**$ 2,567,502**	**$ 4,548,538**

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, 2002
(dollars in thousands)

Net Change in Fund Balances -- Total Governmental Funds		***$ (1,545,681)***
Change in Inventories		*105*
		(1,545,576)
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	*786,744*	
Depreciation Expense	*(152,807)*	
Excess of Capital Outlay Over Depreciation Expense		*633,937*
Bond 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	*(975,000)*	
Revenue Bonds	*(100,000)*	
Special Obligation Bonds	*(125,000)*	
Refunding Bonds, including Bond Premium/Discount, Net	*(341,451)*	
Premiums and Discounts, net:		
General Obligation Bonds	*(28,544)*	
Revenue Bonds	*(5,451)*	
Special Obligation Bonds	*(2,536)*	
Total Bond Proceeds		*(1,577,982)*
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:		
General Obligation Bonds	*280,305*	
Revenue Bonds	*25,750*	
Special Obligation Bonds	*474,951*	
Certificates of Participation	*2,405*	
Capital Lease Payments	*789*	
Payments to Bond Refunding Agent	*317,320*	
Total Long-Term Debt Repayment		*1,101,520*
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.		*105,019*

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.....................................	*6,607*	
Increase in Accrued Interest and Other Accrued Liabilities.................................	*(21,782)*	
Increase in Payable to Component Units..	*(508)*	
Amortization of Bond Premiums/Accretion of Bond Discount, Net.......................	*6,566*	
Increase in Intergovernmental Payables...	*(7,891)*	
Increase in Compensated Absences..	*(20,351)*	
Decrease in Liabilities for Judgments, Claims, and Settlements.........................	*47,783*	
Increase in Litigation Liabilities...	*(10,000)*	
Increase in Liability for Escheat Property..	*(1,883)*	
Total additional expenditures...		*(1,459)*
Change in Net Assets of Governmental Activities...		***$ (1,284,541)***

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, 2002

(dollars in thousands)

	GENERAL			
	BUDGET			VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES:				
Income Taxes	$ 8,215,100	$ 7,890,101	$ 7,304,144	$ (585,957)
Sales Taxes	6,242,800	5,984,402	6,037,959	53,557
Corporate and Public Utility Taxes	1,583,000	1,555,005	1,295,781	(259,224)
Motor Vehicle Fuel Taxes	—	—	—	—
Other Taxes	845,240	837,941	838,359	418
Licenses, Permits and Fees	111,612	111,612	107,716	(3,896)
Sales, Services and Charges	50,598	50,598	51,396	798
Federal Government	4,371,542	4,371,542	4,452,657	81,115
Tobacco Settlement	—	—	—	—
Investment Income	139,103	129,103	83,123	(45,980)
Other	1,032,985	1,032,985	1,327,199	294,214
TOTAL REVENUES	**22,591,980**	**21,963,289**	**21,498,334**	**(464,955)**
BUDGETARY EXPENDITURES:				
CURRENT OPERATING:				
Primary, Secondary and Other Education	6,301,262	6,303,405	6,171,483	131,922
Higher Education Support	2,255,353	2,134,783	2,128,291	6,492
Public Assistance and Medicaid	8,682,054	8,796,651	8,614,471	182,180
Health and Human Services	1,321,003	1,325,417	1,271,665	53,752
Justice and Public Protection	2,025,911	2,005,480	1,919,540	85,940
Environmental Protection and Natural Resources	166,796	160,065	150,288	9,777
Transportation	93,927	91,212	88,800	2,412
General Government	703,892	712,562	597,178	115,384
Community and Economic Development	255,046	243,443	226,553	16,890
INTERGOVERNMENTAL	1,256,552	1,285,773	1,226,103	59,670
CAPITAL OUTLAY	—	—	—	—
DEBT SERVICE	942,764	942,764	902,322	40,442
TOTAL BUDGETARY EXPENDITURES	**24,004,560**	**24,001,555**	**23,296,694**	**704,861**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES	**(1,412,580)**	**(2,038,266)**	**(1,798,360)**	**239,906**
OTHER FINANCING SOURCES (USES):				
Bond Proceeds	—	—	—	—
Transfers-in	308,332	312,332	404,609	92,277
Transfers-out	(740)	(740)	(57,287)	(56,547)
TOTAL OTHER FINANCING SOURCES (USES)	**307,592**	**311,592**	**347,322**	**35,730**
NET CHANGE IN FUND BALANCES	**(1,104,988)**	**(1,726,674)**	**(1,451,038)**	**275,636**
BUDGETARY FUND BALANCES (DEFICITS), JULY 1 (as restated)	1,515,069	1,515,069	1,515,069	—
Outstanding Encumbrances at Beginning of Fiscal Year	783,531	783,531	783,531	—
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30	**$ 1,193,612**	**$ 571,926**	**$ 847,562**	**$ 275,636**

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/	BUDGET			VARIANCE WITH FINAL BUDGET POSITIVE/
ORIGINAL	FINAL	ACTUAL	(NEGATIVE)	ORIGINAL	FINAL	ACTUAL	(NEGATIVE)
		$ —				$ —	
		—				—	
		—				—	
		—				—	
		5,201				—	
		357,197				662	
		—				428	
		2,893,800				1,028,076	
		—				—	
		11,261				4,501	
		219,782				23,716	
		3,487,241				**1,057,383**	
$ 259	$ 259	243	$ 16	$ 2,089,706	$ 2,161,379	1,671,406	$ 489,973
2,424	2,424	1,743	681	10,609	12,665	11,155	1,510
4,024,226	4,230,086	3,887,153	342,933	—	—	—	—
543,420	549,019	496,393	52,626	210	210	156	54
50,343	50,668	25,569	25,099	29,320	30,009	20,023	9,986
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
1,895	1,973	1,848	125	—	—	—	—
5,200	5,200	5,200	—	—	—	—	—
—	—	—	—	—	—	—	—
6,212	16,568	11,046	5,522	—	—	—	—
—	—	—	—	—	—	—	—
$ 4,633,979	**$ 4,856,197**	**4,429,195**	**$ 427,002**	**$ 2,129,845**	**$ 2,204,263**	**1,702,740**	**$ 501,523**
		(941,954)				**(645,357)**	
		—				—	
		2				635,828	
		(66,458)				(378)	
		(66,456)				**635,450**	
		(1,008,410)				**(9,907)**	
		(731,347)				(294,347)	
		908,667				362,347	
		$ (831,090)				**$ 58,093**	

(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, 2002
(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			362,911	
Other Taxes			—	
Licenses, Permits and Fees			67,375	
Sales, Services and Charges			1,364	
Federal Government			975,088	
Tobacco Settlement			—	
Investment Income			42,642	
Other			56,950	
TOTAL REVENUES			**1,506,330**	
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	3,444,522	4,243,130	3,316,410	926,720
General Government	—	—	—	—
Community and Economic Development	—	—	—	—
INTERGOVERNMENTAL	—	—	—	—
CAPITAL OUTLAY	—	—	—	—
DEBT SERVICE	43,669	61,686	41,685	20,001
TOTAL BUDGETARY EXPENDITURES	**$ 3,488,191**	**$ 4,304,816**	**3,358,095**	**$ 946,721**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES			**(1,851,765)**	
OTHER FINANCING SOURCES (USES):				
Bond Proceeds			—	
Transfers-in			532,625	
Transfers-out			(207,831)	
TOTAL OTHER FINANCING SOURCES (USES)			**324,794**	
NET CHANGE IN FUND BALANCES			**(1,526,971)**	
BUDGETARY FUND BALANCES (DEFICITS), JULY 1 (as restated)			(544,062)	
Outstanding Encumbrances at Beginning of Fiscal Year			1,512,859	
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30			**$ (558,174)**	

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)
		$ 848,810	
		303,346	
		334,376	
		1,041,549	
		14,370	
		523,100	
		—	
		—	
		—	
		2,053	
		87	
		3,067,691	
$ —	$ —	—	$ —
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
2,388,277	2,390,370	2,291,310	99,060
—	—	—	—
—	—	—	—
$ 2,388,277	**$ 2,390,370**	**2,291,310**	**$ 99,060**
		776,381	
		—	
		2	
		(719,441)	
		(719,439)	
		56,942	
		206,107	
		—	
		$ 263,049	

STATE OF OHIO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS -- ENTERPRISE
JUNE 30, 2002
(dollars in thousands)

	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer	$ 1,905	$ 33,387	$ —
Cash and Cash Equivalents	2,375,148	12,083	2,250
Investments	—	—	39,506
Collateral on Lent Securities	2,111,450	11,226	2,813
Deposit with Federal Government	—	—	1,812,201
Intergovernmental Receivable	—	—	6,642
Premiums and Assessments Receivable	362,918	—	13,093
Investment Trade Receivable	1,014,193	—	—
Interfund Receivable	32,851	—	—
Other Receivables	260,921	31,680	57,162
Inventories	—	—	—
Other Assets	2,103	3,633	6,777
TOTAL CURRENT ASSETS	**6,161,489**	**92,009**	**1,940,444**
NONCURRENT ASSETS:			
Restricted Assets:			
Cash Equity with Treasurer	—	6,439	—
Cash and Cash Equivalents	12,911	—	—
Investments	—	1,084,279	—
Collateral on Lent Securities	—	420,368	—
Other Receivables		4,266	—
Investments	14,824,856	—	—
Premiums and Assessments Receivable	349,332	—	—
Interfund Receivable	574,057	—	—
Receivable from Component Units	104,428	—	—
Other Receivables	—	—	—
Capital Assets Being Depreciated, Net	144,195	59,137	—
Capital Assets Not Being Depreciated	21,458	—	—
TOTAL NONCURRENT ASSETS	**16,031,237**	**1,574,489**	**—**
TOTAL ASSETS	**22,192,726**	**1,666,498**	**1,940,444**
CURRENT LIABILITIES:			
Accounts Payable	11,635	11,217	—
Accrued Liabilities	—	—	—
Obligations Under Securities Lending	2,111,450	11,226	2,813
Investment Trade Payable	2,433,261	—	—
Intergovermental Payable	—	—	911
Liabilities Payable from Restricted Assets:			
Deferred Prize Awards Payable	—	79,836	—
Obligations Under Securities Lending	—	420,368	—
Benefits Payable	—	—	—
Interfund Payable	—	204	—
Deferred Revenue	14,263	1,488	—
Benefits Payable	1,631,590	—	13,821
Refund and Other Liabilities	546,785	40,440	10,477
Bonds and Notes Payable	10,000	—	—
TOTAL CURRENT LIABILITIES	**6,758,984**	**564,779**	**28,022**
NONCURRENT LIABILITIES:			
Liabilities Payable from Restricted Assets:			
Deferred Prize Awards Payable	—	918,108	—
Benefits Payable	—	—	—
Interfund Payable	—	3,397	—
Deferred Revenue	398,823	—	—
Benefits Payable	11,635,582	—	—
Refund and Other Liabilities	1,351,077	46,060	—
Bonds and Notes Payable	158,770	—	—
TOTAL NONCURRENT LIABILITIES	**13,544,252**	**967,565**	**—**
TOTAL LIABILITIES	**20,303,236**	**1,532,344**	**28,022**
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	8,682	1,967	—
Restricted for:			
Workers' Compensation	1,880,808	—	—
Deferred Lottery Prizes	—	97,040	—
Unemployment Compensation	—	—	1,912,422
Ohio Building Authority	—	—	—
Auditor of State's Office	—	—	—
Unrestricted (Deficits)	—	35,147	—
TOTAL NET ASSETS (DEFICITS)	**$ 1,889,490**	**$ 134,154**	**$ 1,912,422**

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
$ —	$ 38	$ 11,375	$ 2,185	$ 9,009	$ 57,899
327	702	7,691	—	369	2,398,570
28,178	—	—	—	—	67,684
2	342	3,578	684	—	2,130,095
—	—	—	—	—	1,812,201
—	—	—	—	—	6,642
—	—	—	—	—	376,011
—	—	—	—	—	1,014,193
—	—	10	—	1,470	34,331
5,005	618	—	42	8,668	364,096
—	—	25,750	—	—	25,750
567	—	122	—	—	13,202
34,079	**1,700**	**48,526**	**2,911**	**19,516**	**8,300,674**
—	—	—	—	—	6,439
—	4,491	—	—	—	17,402
—	602,265	—	—	—	1,686,544
—	—	—	—	—	420,368
—	—	—	—	—	4,266
—	60,677	—	—	—	14,885,533
—	—	—	—	—	349,332
—	—	—	—	—	574,057
—	—	—	—	—	104,428
18,422	—	—	—	—	18,422
—	164	1,005	6,919	5,460	216,880
—	—	—	—	—	21,458
18,422	**667,597**	**1,005**	**6,919**	**5,460**	**18,305,129**
52,501	**669,297**	**49,531**	**9,830**	**24,976**	**26,605,803**
1,841	290	19,779	48	1,179	45,989
371	68	649	51	2,511	3,650
2	342	3,578	684	—	2,130,095
—	—	—	—	—	2,433,261
—	—	367	—	—	1,278
—	—	—	—	—	79,836
—	—	—	—	—	420,368
—	55,800	—	—	—	55,800
—	—	2,398	1	262	2,865
186	—	—	6	—	15,943
—	—	—	—	—	1,645,411
112	680	2,079	12	830	601,415
3,531	—	—	—	—	13,531
6,043	**57,180**	**28,850**	**802**	**4,782**	**7,449,442**
—	—	—	—	—	918,108
—	682,400	—	—	—	682,400
—	—	903	17	3,786	8,103
—	—	—	—	—	398,823
—	—	—	—	—	11,635,582
—	—	2,404	121	6,461	1,406,123
18,422	—	—	—	—	177,192
18,422	**682,400**	**3,307**	**138**	**10,247**	**15,226,331**
24,465	**739,580**	**32,157**	**940**	**15,029**	**22,675,773**
—	164	1,005	6,919	5,460	24,197
—	—	—	—	—	1,880,808
—	—	—	—	—	97,040
—	—	—	—	—	1,912,422
28,003	—	—	—	—	28,003
—	—	—	—	406	406
33	(70,447)	16,369	1,971	4,081	(12,846)
$ 28,036	**$ (70,283)**	**$ 17,374**	**$ 8,890**	**$ 9,947**	**$ 3,930,030**

STATE OF OHIO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(dollars in thousands)

	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
OPERATING REVENUES:			
Charges for Sales and Services	$ —	$ 1,983,103	$ 26,602
Premium and Assessment Income	2,362,685	—	660,358
Federal Government	—	—	142,304
Investment Income	—	—	125,004
Other	13,567	5,021	7,130
TOTAL OPERATING REVENUES	**2,376,252**	**1,988,124**	**961,398**
OPERATING EXPENSES:			
Costs of Sales and Services	—	—	—
Administration	53,878	87,514	—
Premium Dividend Reductions and Refunds	1,473,880	—	—
Bonuses and Commissions	—	126,597	—
Prizes	—	1,148,126	—
Benefits and Claims	2,934,353	—	1,659,664
Depreciation	18,302	15,996	—
Other	85,080	142	484
TOTAL OPERATING EXPENSES	**4,565,493**	**1,378,375**	**1,660,148**
OPERATING INCOME (LOSS)	**(2,189,241)**	**609,749**	**(698,750)**
NONOPERATING REVENUES (EXPENSES):			
Investment Income	(430,147)	119,038	502
Interest Expense	—	(3,835)	—
Federal Grants	—	—	346,891
Other	—	(84,966)	—
TOTAL NONOPERATING REVENUES (EXPENSES)	**(430,147)**	**30,237**	**347,393**
INCOME (LOSS) BEFORE TRANSFERS	**(2,619,388)**	**639,986**	**(351,357)**
TRANSFERS:			
Transfers-in	—	—	812
Transfers-out	(7,140)	(635,290)	(3,170)
TOTAL TRANSFERS	**(7,140)**	**(635,290)**	**(2,358)**
NET INCOME (LOSS)	**(2,626,528)**	**4,696**	**(353,715)**
NET ASSETS, JULY 1 (as restated)	4,516,018	129,458	2,266,137
NET ASSETS (DEFICITS), JUNE 30	**$ 1,889,490**	**$ 134,154**	**$ 1,912,422**

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
$ 27,608	$ 166,258	$ 469,365	$ 2,654	$ 38,744	$ 2,714,334
—	—	—	—	—	3,023,043
—	—	—	—	—	142,304
—	(16,822)	—	—	—	108,182
4,087	—	1,150	—	444	31,399
31,695	**149,436**	**470,515**	**2,654**	**39,188**	**6,019,262**
27,245	—	290,998	—	64,899	383,142
3,295	6,172	47,409	1,789	8,599	208,656
—	—	—	—	—	1,473,880
—	—	—	—	—	126,597
—	—	—	—	—	1,148,126
—	278,675	—	—	—	4,872,692
—	113	368	547	3,852	39,178
1,491	—	519	—	65	87,781
32,031	**284,960**	**339,294**	**2,336**	**77,415**	**8,340,052**
(336)	**(135,524)**	**131,221**	**318**	**(38,227)**	**(2,320,790)**
793	—	—	95	—	(309,719)
(1,693)	—	—	—	(5)	(5,533)
—	—	—	—	—	346,891
—	—	—	—	(882)	(85,848)
(900)	**—**	**—**	**95**	**(887)**	**(54,209)**
(1,236)	**(135,524)**	**131,221**	**413**	**(39,114)**	**(2,374,999)**
28,513	—	3	—	34,237	63,565
(29,327)	—	(131,574)	(773)	(112)	(807,386)
(814)	**—**	**(131,571)**	**(773)**	**34,125**	**(743,821)**
(2,050)	**(135,524)**	**(350)**	**(360)**	**(4,989)**	(3,118,820)
30,086	65,241	17,724	9,250	14,936	7,048,850
$ 28,036	**$ (70,283)**	**$ 17,374**	**$ 8,890**	**$ 9,947**	**$ 3,930,030**

STATE OF OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(dollars in thousands)

	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	$ —	$ 1,989,380	$ 32,698
Cash Received from Premiums and Assessments	717,642	—	673,372
Cash Received from Quasi-External Transactions with Other Funds	148	153	—
Cash Received from the Federal Government for Extended Benefits	—	—	130,450
Other Operating Cash Receipts	13,160	4,869	6,873
Cash Payments to Suppliers for Goods and Services	(75,960)	(59,738)	—
Cash Payments to Employees for Services	(235,122)	(23,286)	—
Cash Payments for Benefits and Claims	(1,964,515)	—	(1,667,968)
Cash Payments for Lottery Prizes	—	(1,285,611)	—
Cash Payments for Bonuses and Commissions	—	(126,575)	—
Cash Payments for Premium Reductions and Refunds	(73,034)	—	—
Cash Payments for Quasi-External Transactions with Other Funds	(4)	(344)	—
Other Operating Cash Payments	—	(142)	(14,952)
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	**(1,617,685)**	**498,706**	**(839,527)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers-in	—	—	812
Transfers-out	(7,140)	(635,290)	(3,170)
Federal Grants	—	—	346,891
NET CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	**(7,140)**	**(635,290)**	**344,533**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal Payments on Bonds and Capital Leases	(9,000)	(12,318)	—
Interest Paid	(8,571)	(3,835)	—
Acquisition and Construction of Capital Assets	(13,378)	(654)	—
Principal Receipts on Capital Leases Receivable	—	—	—
Proceeds from Sales of Capital Assets	65	137	—
NET CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(30,884)**	**(16,670)**	**—**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of Investments	(39,633,271)	(171,697)	(6,987,989)
Proceeds from the Sales and Maturities of Investments	41,323,284	279,955	7,360,229
Investment Income Received	755,949	36,724	125,004
Borrower Rebates and Agent Fees	(100,111)	(10,642)	—
NET CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES	**2,345,851**	**134,340**	**497,244**
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	**690,142**	**(18,914)**	**2,250**
CASH AND CASH EQUIVALENTS, JULY 1 (as restated)	1,699,822	70,823	—
CASH AND CASH EQUIVALENTS, JUNE 30	**$ 2,389,964**	**$ 51,909**	**$ 2,250**

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
$ 27,052	$ 163,809	$ 469,191	$ 2,068	$ 38,726	$ 2,722,924
—	—	—	—	—	1,391,014
1,077	—	14	590	413	2,395
—	—	—	—	—	130,450
2,840	—	1,140	—	813	29,695
(31,393)	(1,379)	(319,030)	(525)	(8,931)	(496,956)
(1,101)	(3,722)	(16,714)	(1,287)	(64,250)	(345,482)
—	(25,805)	—	—	—	(3,658,288)
—	—	—	—	—	(1,285,611)
—	—	—	—	—	(126,575)
—	—	—	—	—	(73,034)
—	(70)	(4)	—	(1)	(423)
—	—	(179)	(19)	(207)	(15,499)
(1,525)	**132,833**	**134,418**	**827**	**(33,437)**	**(1,725,390)**
28,513	—	3	—	33,476	62,804
(29,327)	—	(131,574)	(773)	—	(807,274)
—	—	—	—	—	346,891
(814)	**—**	**(131,571)**	**(773)**	**33,476**	**(397,579)**
(3,359)	—	—	—	(142)	(24,819)
(1,565)	—	—	—	(5)	(13,976)
—	(80)	(440)	(32)	(1,372)	(15,956)
3,359	—	—	—	—	3,359
—	—	54	—	—	256
(1,565)	**(80)**	**(386)**	**(32)**	**(1,519)**	**(51,136)**
(76,710)	(1,511,941)	—	—	—	(48,381,608)
80,040	1,364,534	—	—	—	50,408,042
666	19,589	—	91	—	938,023
—	—	—	—	—	(110,753)
3,996	**(127,818)**	**—**	**91**	**—**	**2,853,704**
92	**4,935**	**2,461**	**113**	**(1,480)**	**679,599**
235	296	16,605	2,072	10,858	1,800,711
$ 327	**$ 5,231**	**$ 19,066**	**$ 2,185**	**$ 9,378**	**$ 2,480,310**

(continued)

STATE OF OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(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)	$ (2,189,241)	$ 609,749	$ (698,750)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Investment Income	—	—	(125,004)
Depreciation	18,302	15,996	—
Provision for Uncollectible Accounts	66,553	—	—
Amortization of Premiums and Discounts	298	—	—
Interest on Bonds, Notes and Capital Leases	8,571	—	—
Miscellaneous Nonoperating Revenues (Expenses)	—	—	—
Decrease (Increase) in Assets:			
Premiums and Assessments Receivable	(122,682)	—	1,783
Intergovernmental Receivable	—	—	(5,758)
Other Receivables	(71,217)	5,556	(257)
Interfund Receivable	(151,902)	—	—
Receivables from Component Units	(10,279)	—	—
Inventories	—	—	—
Other Assets	(310)	1,539	447
Increase (Decrease) in Liabilities:			
Accounts Payable	(2,807)	1,021	—
Accrued Liabilities	—	—	—
Intergovernmental Payable	—	—	912
Interfund Payable	—	1,453	—
Deferred Revenue	(14,931)	721	—
Benefits Payable	761,197	—	13,811
Refund and Other Liabilities	90,763	6,997	(26,711)
Liabilities Payable from Restricted Assets	—	(144,326)	—
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	**$ (1,617,685)**	**$ 498,706**	**$ (839,527)**
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Change in Fair Value of Investments	$ (1,067,016)	$ 35,761	$ —

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
$ (336)	$ (135,524)	$ 131,221	$ 318	$ (38,227)	$ (2,320,790)
—	16,822	—	—	—	(108,182)
—	113	368	547	3,852	39,178
—	—	—	—	(22)	66,531
(170)	—	—	—	—	128
—	—	—	—	—	8,571
—	(24)	—	—	—	(24)
—	—	—	—	—	(120,899)
—	—	—	—	—	(5,758)
(599)	(540)	—	9	274	(66,774)
—	—	(3)	—	—	(151,905)
—	—	—	—	—	(10,279)
—	—	1,079	—	—	1,079
(160)	—	41	—	—	1,557
(211)	83	852	(97)	(285)	(1,444)
—	13	(7)	10	1,035	1,051
—	—	367	—	—	1,279
—	—	46	18	(64)	1,453
(57)	—	—	2	—	(14,265)
—	—	—	—	—	775,008
8	490	454	20	—	72,021
—	251,400	—	—	—	107,074
$ (1,525)	**$ 132,833**	**$ 134,418**	**$ 827**	**$ (33,437)**	**$ (1,725,390)**
$ —	$ (35,332)	$ —	$ —	$ —	$ (1,066,587)

STATE OF OHIO
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2002
(dollars in thousands)

	PENSION TRUST	PRIVATE-PURPOSE TRUST	INVESTMENT TRUST
	STATE HIGHWAY PATROL RETIREMENT SYSTEM (as of 12/31/01)	VARIABLE COLLEGE SAVINGS PLAN	STAROHIO
ASSETS:			
Cash Equity with Treasurer	$ —	$ —	$ —
Cash and Cash Equivalents	30,855	110,679	—
Investments (at fair value):			
U.S. Government and Agency Obligations	38,426	—	5,911,440
Common and Preferred Stock	339,613	—	—
Corporate Bonds and Notes	42,558	—	—
Foreign Stocks and Bonds	—	—	—
Commercial Paper	—	—	370,081
Repurchase Agreements	—	—	599
Mutual Funds	—	1,621,798	—
Real Estate	82,843	—	—
Venture Capital	—	—	—
Direct Mortgage Loans	38,017	—	—
State Treasury Asset Reserve of Ohio (STAROhio)	—	—	—
Collateral on Lent Securities	17,081	—	447,268
Employer Contributions Receivable	2,095	—	—
Employee Contributions Receivable	1,745	—	—
Investment Trade Receivable	—	14,885	—
Other Receivables	1,709	3,462	172
Other Assets	46	—	—
Capital Assets, Net	187	—	—
TOTAL ASSETS	**595,175**	**1,750,824**	**6,729,560**
LIABILITIES:			
Accounts Payable	1,134	—	—
Accrued Liabilities	968	3,207	—
Obligations Under Securities Lending	17,081	—	447,268
Investment Trade Payable	—	18,095	—
Intergovernmental Payable	—	—	—
Refund and Other Liabilities	36	—	421
TOTAL LIABILITIES	**19,219**	**21,302**	**447,689**
NET ASSETS:			
Held in Trust for:			
Employees' Pension Benefits	492,214	—	—
Employees' Postemployment Healthcare Benefits	83,742	—	—
Individuals, Organizations and Other Governments	—	1,729,522	—
Pool Participants	—	—	6,281,871
TOTAL NET ASSETS	**$ 575,956**	**$ 1,729,522**	**$ 6,281,871**

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

AGENCY
$ 166,073
183,516
5,651,958
53,031,494
12,140,417
21,302,311
1,205,295
119,774
2,138,637
12,421,996
1,147,335
8,193,824
16,828
96,070
—
—
—
1,515
429,153
—
118,246,196
—
—
96,070
—
80,776
118,069,350
118,246,196
—
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STATE OF OHIO
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(dollars in thousands)

	PENSION TRUST	PRIVATE-PURPOSE TRUST	INVESTMENT TRUST
	STATE HIGHWAY PATROL RETIREMENT SYSTEM (as of 12/31/01)	VARIABLE COLLEGE SAVINGS PLAN	STAROHIO
ADDITIONS:			
Contributions from:			
Employer	$ 17,423	$ —	$ —
Employees	7,042	—	—
Plan Participants	—	1,475,427	—
Other	999	—	—
Total Contributions	25,464	1,475,427	—
Investment Income:			
Net Depreciation in Fair Value of Investments	(33,858)	(139,587)	—
Interest, Dividends and Other	15,357	24,182	195,694
Total Investment Income	(18,501)	(115,405)	195,694
Less: Investment Expense	2,319	8,213	5,655
Net Investment Income	(20,820)	(123,618)	190,039
Capital Share and Individual Account Transactions:			
Shares Sold	—	—	22,247,042
Reinvested Distributions	—	—	190,039
Shares Redeemed	—	—	(24,552,873)
Net Capital Share and Individual Account Transactions	—	—	(2,115,792)
TOTAL ADDITIONS	**4,644**	**1,351,809**	**(1,925,753)**
DEDUCTIONS:			
Pension Benefits Paid to Participants or Beneficiaries	29,457	—	—
Healthcare Benefits Paid to Participants or Beneficiaries	6,179	—	—
Refunds of Employee Contributions	307	—	—
Administrative Expense	615	—	—
Transfers to Other Retirement Systems	448	—	—
Distributions to Shareholders and Plan Participants	—	50,019	190,039
TOTAL DEDUCTIONS	**37,006**	**50,019**	**190,039**
CHANGE IN NET ASSETS HELD FOR:			
Employees' Pension Benefits	(26,714)	—	—
Employees' Postemployment Healthcare Benefits	(5,648)	—	—
Individuals, Organizations and Other Governments	—	1,301,790	(2,115,792)
NET ASSETS, JULY 1	608,318	427,732	8,397,663
NET ASSETS, JUNE 30	**$ 575,956**	**$ 1,729,522**	**$ 6,281,871**

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, 2002
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY	OHIO STATE UNIVERSITY
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer	$ 483,833	$ 24	$ —
Cash and Cash Equivalents	—	16	324,034
Investments	—	95,905	435,502
Collateral on Lent Securities	150,826	—	—
Intergovernmental Receivable	—	397	6,139
Loans Receivable, Net	—	5,539	11,500
Receivable from Primary Government	—	—	12,827
Other Receivables	1,013	15	257,170
Inventories	—	—	19,050
Other Assets	—	—	35,479
TOTAL CURRENT ASSETS	**635,672**	**101,896**	**1,101,701**
NONCURRENT ASSETS:			
Restricted Assets:			
Cash Equity with Treasurer	—	—	—
Cash and Cash Equivalents	—	19,455	24,343
Investments	—	815,683	—
Collateral on Lent Securities	—	—	—
Loans Receivable, Net	—	2,336,776	—
Investments	—	25,128	1,011,568
Loans Receivable, Net	—	16,812	50,809
Other Receivables	—	—	56,260
Other Assets	—	16,252	—
Capital Assets Being Depreciated, Net	40	539	1,620,851
Capital Assets Not Being Depreciated	—	—	141,963
TOTAL NONCURRENT ASSETS	**40**	**3,230,645**	**2,905,794**
TOTAL ASSETS	**635,712**	**3,332,541**	**4,007,495**
CURRENT LIABILITIES:			
Accounts Payable	6,911	48,096	125,194
Accrued Liabilities	137	6,139	135,308
Obligations Under Securities Lending	150,826	—	—
Intergovernmental Payable	682,558	6,851	—
Payable to Primary Government	3	—	3,642
Deferred Revenue	—	—	93,775
Refund and Other Liabilities	149	—	57,503
Bonds and Notes Payable	—	181,280	278,676
Certificates of Participation	—	—	925
TOTAL CURRENT LIABILITIES	**840,584**	**242,366**	**695,023**
NONCURRENT LIABILITIES:			
Intergovernmental Payable	661,176	—	—
Payable to Primary Government	78	—	49,846
Deferred Revenue	—	—	10,000
Refund and Other Liabilities	333	—	164,324
Bonds and Notes Payable	—	1,239,640	272,643
Certificates of Participation	—	—	7,880
TOTAL NONCURRENT LIABILITIES	**661,587**	**1,239,640**	**504,693**
TOTAL LIABILITIES	**1,502,171**	**1,482,006**	**1,199,716**
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	40	539	1,181,708
Restricted for:			
Debt Service	—	1,706,422	—
Intergovernmental and Capital Purposes	—	—	—
Nonexpendable:			
Scholarships and Fellowships	—	—	—
Research	—	—	—
Endowments and Quasi-Endowments	—	—	751,317
Affiliated Organizations	—	—	—
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	—	—	6,650
Endowments and Quasi-Endowments	—	—	141,632
Current Operations	—	—	276,907
Affiliated Organizations	—	—	—
Loans, Grants and Other College and University Purposes	—	—	32,332
Unrestricted (Deficits)	(866,499)	143,574	417,233
TOTAL NET ASSETS (DEFICITS)	**$ (866,459)**	**$ 1,850,535**	**$ 2,807,779**

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
$ —	$ 11,851	$ 495,708
11,954	189,980	525,984
187,389	818,244	1,537,040
—	3,713	154,539
—	27,357	33,893
3,844	21,167	42,050
794	20,080	33,701
57,768	198,216	514,182
4,316	20,697	44,063
29,561	45,337	110,377
295,626	**1,356,642**	**3,491,537**
—	47,777	47,777
—	30,436	74,234
—	51,009	866,692
—	14,926	14,926
—	—	2,336,776
996,191	373,735	2,406,622
26,065	88,935	182,621
23,732	7,087	87,079
207,526	6,696	230,474
768,485	2,747,944	5,137,859
163,964	590,677	896,604
2,185,963	**3,959,222**	**12,281,664**
2,481,589	**5,315,864**	**15,773,201**
36,317	112,717	329,235
60,187	137,143	338,914
—	18,639	169,465
—	18	689,427
580	2,413	6,638
11,467	176,578	281,820
31,141	68,944	157,737
70,329	62,399	592,684
250	—	1,175
210,271	**578,851**	**2,567,095**
—	—	661,176
7,557	40,338	97,819
—	1,589	11,589
193,531	137,907	496,095
357,355	817,934	2,687,572
930	—	8,810
559,373	**997,768**	**3,963,061**
769,644	**1,576,619**	**6,530,156**
557,920	2,652,426	4,392,633
—	—	1,706,422
—	47,777	47,777
92,001	16,108	108,109
80,299	1,580	81,879
464,476	102,346	1,318,139
189,904	—	189,904
—	9,714	9,714
31,712	36,190	67,902
92,042	31,110	123,152
24,718	31,931	56,649
397	12,269	12,666
29,295	3,109	32,404
8,179	7,771	15,950
1,890	95,873	104,413
—	207	141,839
—	—	276,907
26,645	—	26,645
112,467	94,473	239,272
—	596,361	290,669
$ 1,711,945	**$ 3,739,245**	**$ 9,243,045**

STATE OF OHIO
COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY	OHIO STATE UNIVERSITY
EXPENSES:			
Primary, Secondary and Other Education	$ 5,198	$ —	$ —
Community and Economic Development	—	—	—
Intergovernmental	594,620	550	—
Cost of Services	—	76,821	—
Administration	—	9,599	—
Education and General:			
Instruction and Departmental Research	—	—	540,454
Separately Budgeted Research	—	—	272,504
Public Service	—	—	113,516
Academic Support	—	—	83,990
Student Services	—	—	58,097
Institutional Support	—	—	102,531
Operation and Maintenance of Plant	—	—	77,927
Scholarships and Fellowships	—	—	37,384
Auxiliary Services	—	—	148,489
Hospitals	—	—	701,310
Interest on Long-Term Debt	—	—	15,821
Depreciation	—	252	147,775
Other	—	1,066	11,311
TOTAL EXPENSES	**599,818**	**88,288**	**2,311,109**
PROGRAM REVENUES:			
Charges for Services, Fees, Fines and Forfeitures	26	119,884	1,268,264
Operating Grants, Contributions and Restricted Investment Income	34,410	151,882	358,722
Capital Grants, Contributions and Restricted Investment Income	—	—	20,917
TOTAL PROGRAM REVENUES	**34,436**	**271,766**	**1,647,903**
NET PROGRAM (EXPENSE) REVENUE	**(565,382)**	**183,478**	**(663,206)**
GENERAL REVENUES:			
Unrestricted Investment Income	—	5,764	23,271
State Assistance	539,968	—	496,457
Other	—	—	41,030
TOTAL GENERAL REVENUES	**539,968**	**5,764**	**560,758**
CONTRIBUTIONS TO ENDOWMENTS AND PERMANENT FUND PRINCIPAL	**—**	**—**	**32,429**
SPECIAL ITEMS	**—**	**—**	**—**
CHANGE IN NET ASSETS	**(25,414)**	**189,242**	**(70,019)**
NET ASSETS (DEFICITS), JULY 1	(841,045)	1,661,293	2,877,798
NET ASSETS (DEFICITS), JUNE 30	**$ (866,459)**	**$ 1,850,535**	**$ 2,807,779**

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
$ —	$ 79,016	$ 84,214
—	1,988	1,988
—	14,348	609,518
—	—	76,821
—	—	9,599
228,140	1,121,491	1,890,085
113,035	132,261	517,800
44,520	103,922	261,958
55,676	256,731	396,397
27,270	182,780	268,147
69,993	287,894	460,418
40,991	214,573	333,491
12,755	131,238	181,377
67,677	410,208	626,374
—	169,131	870,441
16,664	41,470	73,955
53,213	196,759	397,999
4,857	32,942	50,176
734,791	**3,376,752**	**7,110,758**
259,736	1,653,848	3,301,758
154,100	521,676	1,220,790
5,827	21,041	47,785
419,663	**2,196,565**	**4,570,333**
(315,128)	**(1,180,187)**	**(2,540,425)**
(63,983)	20,793	(14,155)
217,188	1,235,816	2,489,429
100,022	59,603	200,655
253,227	**1,316,212**	**2,675,929**
23,947	**1,103**	**57,479**
—	**(730)**	**(730)**
(37,954)	**136,398**	**192,253**
1,749,899	3,602,847	9,050,792
$ 1,711,945	**$ 3,739,245**	**$ 9,243,045**

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Ohio, as of June 30, 2002, 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.

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.

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

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

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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* 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 are 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, 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, investment trust, private-purpose trust, and agency funds.

Operating revenues for the State's proprietary funds mainly consist of charges for sales and services, premium and assessment income, and revenue from the federal government for extended unemployment benefits when 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 is also reported as operating income for the Unemployment Compensation Fund and Tuition

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Trust Authority Fund since this revenue source provides significant funding for the payment of unemployment compensation benefits and tuition benefits, respectively. Nonoperating revenues for the proprietary funds result from nonexchange transactions or ancillary activities; nonoperating revenues are primarily comprised of investment earnings and federal operating grants.

Proprietary fund operating expenses 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.

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, 2001.

Private-Purpose Trust Fund — The Private-Purpose Trust Fund accounts for trust arrangements under

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

which principal and income benefit participants in the Variable College Savings Plan, which is administered by the Tuition Trust Authority.

Investment Trust Fund — The STAROhio 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.

Component Units Funds — The State reports the following major component unit funds:

The *School Facilities Commission* is a discretely presented governmental component unit that uses special revenue fund reporting.

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 are presented for the fiscal year ended December 31, 2001.

C. Measurement Focus and Basis of Accounting

Government-wide, Proprietary 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.

For revenue arising from exchange transactions (i.e., charges for goods and services), the State defers revenue recognition when resources are received in advance of the exchange.

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.

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 deferred 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 all revenues reported in the governmental funds to be available when the revenues are collected within 60 days after year-end or soon enough thereafter to be used to pay liabilities of the current period.

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

- Personal income taxes
- Sales and use taxes
- Motor vehicle fuel taxes
- Charges for goods and services
- Federal government grants
- 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 60-day availability period.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

State meeting eligibility requirements are reported as deferred revenue. Also, the State defers revenue recognition for reimbursement-type grant programs if the reimbursement is not received during the availability period (within 60-days of year-end or soon enough thereafter to be used to pay liabilities of the current period).

For revenue arising from exchange transactions (i.e., charges for goods and services), the State defers revenue recognition when resources are received in advance of the exchange.

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. All proposed expenditures for the State and estimated revenues and borrowings for a biennium comprise the budget, which includes those funds of the State subject to appropriation pursuant to state law.

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.

Biennially, the General Assembly approves operating and capital appropriations. The legislature specifies operating appropriations in annual amounts and capital appropriations in two-year amounts.

The State's Controlling Board, comprised of six members of the General Assembly and the director of the Office of Budget and Management (OBM) or an employee of OBM designated by the director, can transfer or increase a line-item appropriation within the limitations set under Sections 127.14 and 131.35, Ohio Revised Code. As provided by Sections 127.14 and 127.16, Ohio Revised Code, the Board has delegated to the director of OBM authority to approve transfers within a state agency among items of appropriations for the same fiscal year not to exceed a cumulative fiscal year transfer of $50,000 (or $75,000 for certain institutional departments) from each item of appropriation. The OBM director cannot make transfers for the purpose of effecting new or changed levels of program service not authorized by the General Assembly.

All governmental funds are budgeted except the following activities within the debt service fund type:

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

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.

As an extension of formal budgetary integration in the accounting system, the State employs encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded as a reserve of the applicable appropriations. At fiscal year end, the State reports outstanding encumbrances in the General, special revenue, and capital projects funds as reservations of fund balance for expenditure in subsequent years.

Operating encumbrances are generally canceled five months after the fiscal year-end while capital

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

encumbrances are generally canceled two years after the biennial period for which they were appropriated. Unencumbered appropriations lapse at the end of the biennium budget period.

The *Detailed Appropriation Summary by Fund Report*, which is available for public inspection at the Ohio Office of Budget and Management, 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 budgeted revenues and other financing sources and uses for the General Fund only; the State does not budget revenue and other financing sources and uses for the major special revenue funds or its budgeted nonmajor governmental funds.

While the State formally estimates revenue and other financing sources and uses for the General Revenue Fund, the largest budgetary operating fund reported in the General Fund, the State does not have updated, budgeted revenue and other financing sources and uses amounts for other budgetary funds also included in the General Fund. Therefore, the State has included "actual" revenue and other financing sources and uses amounts under the "Original" and "Final" budget columns presented on the budgetary basis financial statement for the other budgetary funds included in the General Fund.

Additionally, in the non-GAAP budgetary basis financial statement, "actual" budgetary expenditures include cash disbursements against the current fiscal year's appropriations and outstanding encumbrances, as of June 30, 2002, that were committed during the current fiscal year. Encumbrance reversions represent lapses of prior years' appropriations.

The Variable College Savings Plan Private-Purpose Trust Fund, State Highway Patrol Retirement System Pension Trust Fund, and the STAROhio 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, Lottery Commission, and Tuition Trust Authority enterprise funds and the Medical College of Ohio and the Columbus State Community College component unit funds.

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 (STAROhio) investment pool, the State reports investments at fair value based on quoted market prices. STAROhio 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

J. Restricted Assets
The primary government reports assets restricted for payment of workers' compensation benefits, deferred prize awards (Ohio Lotto), and tuition benefits in the enterprise funds for the Bureau of Workers' Compensation, 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 fixed 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. Infrastructure assets are reported using the "modified approach," as discussed below, and therefore are not depreciable. Individual works of art and historical treasures 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 fixed 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 improve-

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ments are capitalized. Interest costs associated with the acquisition of capital assets purchased using governmental fund resources are not capitalized; while those associated with acquisitions purchased using enterprise and fiduciary fund resources are capitalized.

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

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

The State has established the following capitalization thresholds:

Buildings	$ 15,000
Building Improvements	100,000
Land	All, regardless of cost
Land Improvements	15,000
Machinery and Equipment	15,000
State 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
State Vehicles	5-15 years
Park and Natural Resources Infrastructure Network	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 "Refunds 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 when an employee's right to receive compensation is attributable to services already rendered and it is

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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 plan 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 and in the component unit funds as a payable to primary government (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 year ended June 30, 2002, the State implemented the provisions of the following pronouncements of the Governmental Accounting Standards Board (GASB):

- GASB Statement No. 34*, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*
- GASB Statement No. 35*, Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*
- GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*
- GASB Statement No. 38, *Certain Financial Statement Note Disclosures*
- GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

These new standards resulted in significant changes to the State's financial statements and related notes for both the primary government and component units for the fiscal year ended June 30, 2002.

GASB Statement No. 34 establishes new accounting and financial reporting standards that fundamentally affect the presentation of a general purpose government's basic financial statements and related required supplementary information.

GASB Statement No. 35 establishes new accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of GASB Statement No. 34. This standard has been applied to the presentation of certain of the State's component units' basic financial statements.

GASB Statement No. 37 amends certain provisions of GASB Statement No. 34 and GASB Statement No. 21, *Accounting for Escheat Property*.

GASB Statement No. 38 establishes and modifies disclosure requirements related to the summary of significant accounting policies, actions taken to address violations of significant finance-related legal and contractual provisions, debt and lease obligations, short-term debt, disaggregation of receivable and payable balances, and interfund balances and transfers.

GASB Interpretation No. 6 clarifies the application of existing accounting standards for distinguishing the respective portions of certain liabilities that should be reported as governmental fund liabilities and as general long-term liabilities of a government.

In May 2002, the GASB amended GASB Statement No. 14, *The Financial Reporting Entity*, and established additional guidance on the application of existing standards for the assessment of potential component units in determining a government's financial reporting entity when it issued GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The provisions of GASB Statement No. 39 are effective for financial statements presented for periods beginning after June 15, 2003. Management has not yet determined the impact that GASB Statement No. 39 will have on the State's financial statements.

Restatements for the primary government and its component units resulting from the implementation of the new GASB accounting standards, corrections, fund reclassifications, changes in accounting principles, and changes in reporting entity are detailed in the following tables.

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

B. Restatements — Primary Government

Restatements of fund balances/net assets, as of June 30, 2001, for the primary government are presented in the following tables (dollars in thousands).

	Governmental Activities						
	General	Job, Family and Other Human Services	Education	Highway Operating	Revenue Distribution	Nonmajor Govern-mental Funds	Total
Fund Balance, as of June 30, 2001, As Previously Reported	$1,880,898	$146,665	$56,252	$1,033,741	$127,182	$2,896,615	$ 6,141,353
Restatements Due to Implementation of New Accounting Standards:							
Increase/(Decrease) to Assets:							
Cash Equity with Treasurer	14,290	1,482	160	2,356	—	4,152	22,440
Investments	—	—	—	—	—	(8,670)	(8,670)
Intergovernmental Receivable	(21,950)	—	—	2,305	—	—	(19,645)
Interfund Receivable	(2,828)	—	—	—	—	—	(2,828)
Other Receivable	—	—	—	—	—	(38)	(38)
(Increase)/Decrease to Liabilities:							
Accounts Payable	(26,518)	(2,335)	(471)	(4,963)	—	(18,744)	(53,031)
Medicaid Claims Payable	(106,844)	—	—	—	—		(106,844)
Intergovernmental Payable	—	—	—	—	—	(18,496)	(18,496)
Interfund Payable	(263,643)	(6,401)	(1,372)	(81,414)	—	(61,478)	(414,308)
Fund Reclassification of Net Assets:							
Unclaimed Funds Expendable Trust	437,541	—	—	—	—	—	437,541
	30,048	(7,254)	(1,683)	(81,716)	—	(103,274)	(163,879)
Corrections:							
Increase/(Decrease) to Assets:							
Cash and Cash Equivalents	—	—	—	—	—	3,808	3,808
Intergovernmental Receivable	146,239	—	—	14,774	—	—	161,013
Loans Receivable, Net	—	—	—	—	—	(1,430)	(1,430)
(Increase)/Decrease to Liabilities:					—		
Accounts Payable	3,027	(964)	5	(19,465)	—	(1,907)	(19,304)
	149,266	(964)	5	(4,691)	—	471	144,087
Fund Reclassification of Net Assets:							
Internal Service Funds:							
Information Technology	27,760	—	—	—	—	—	27,760
Ohio Penal Industries	29,072	—	—	—	—	—	29,072
Office of Support Services	7,569	—	—	—	—	—	7,569
Ohio Building Authority Capital Projects Fund	—	—	—	—	—	(1,620)	(1,620)
	64,401	—	—	—	—	(1,620)	62,781
Change in Reporting Entity:							
Arts and Sports Facilities Commission	(718)	—	—	—	—	(68,185)	(68,903)
SchoolNet Commission	(15,500)	—	(5,815)	—	—	(10)	(21,325)
	(16,218)	—	(5,815)	—	—	(68,195)	(90,228)
Increase/(Decrease) for Restatement	227,497	(8,218)	(7,493)	(86,407)	—	(172,618)	(47,239)
Fund Balance, July 1, 2001, As Restated	$2,108,395	$138,447	$48,759	$ 947,334	$127,182	$2,723,997	6,094,114

GASB 34-Related Adjustments to Reconcile with Net Assets Reported for Governmental Activities, as of July 1, 2001:

Increase/(Decrease) to Assets:	
Capital Assets, Net	20,985,287
(Increase)/Decrease to Liabilities:	
Accounts Payable	15,004
Accrued Liabilities	(84,567)
Intergovernmental Payable	(11,798)
Deferred Revenue	296,238
Bonds and Notes Payable	(7,984,779)
Certificates of Participation	(12,305)
Compensated Absences	(361,578)
Capital Leases	(4,722)
Judgments, Settlements and Claims	(65,347)
Litigation Liabilities	(20,000)
Liability for Escheat Property	(93,936)
Net Assets for Governmental Activities, July 1, 2001	$18,751,611

(Continued)

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

	Business-Type Activities				
	Workers' Compen-sation	Lottery Commission	Unemploy-ment Compen-sation	Ohio Building Authority	Tuition Trust Authority
Net Assets, as of June 30, 2001, As Previously Reported	$4,516,018	$131,606	$ —	$ —	$56,240
Restatements Due to Implementation of New Accounting Standards:					
Increase/(Decrease) to Assets:					
Cash Equity with Treasurer	—	—	—	—	—
(Increase)/Decrease to Liabilities:					
Interfund Payable	—	(2,148)	—	—	—
Fund Reclassification of Net Assets:					
Ohio Building Authority Internal Service Fund	—	—	—	28,466	—
Unemployment Compensation Expendable Trust Fund	—	—	2,266,137	—	—
	—	(2,148)	2,266,137	28,466	—
Corrections:					
Increase/(Decrease) to Assets:					
Capital Assets, Net	—	—	—	—	—
(Increase)/Decrease to Liabilities:					
Accounts Payable	—	—	—	—	9,001
	—	—	—	—	9,001
Change in Accounting Principle:					
Change in Capitalization Threshold for Capital Assets	—	—	—	—	—
Fund Reclassification of Net Assets:					
Ohio Building Authority Capital Projects Fund	—	—	—	1,620	—
Increase/(Decrease) for Restatement	—	(2,148)	2,266,137	30,086	9,001
Net Assets, July 1, 2001, As Restated	$4,516,018	$129,458	$2,266,137	$30,086	$65,241

	Business-Type Activities (Continued)			
	Liquor Control	Underground Parking Garage	Office of Auditor of State	Total
Net Assets, as of June 30, 2001, As Previously Reported	$19,866	$8,955	$19,439	$4,752,124
Restatements Due to Implementation of New Accounting Standards:				
Increase/(Decrease) to Assets:				
Cash Equity with Treasurer	111	—	—	111
(Increase)/Decrease to Liabilities:				
Interfund Payable	(782)	—	(4,086)	(7,016)
Fund Reclassification of Net Assets:				
Ohio Building Authority Internal Service Fund	—	—	—	28,466
Unemployment Compensation Expendable Trust Fund	—	—	—	2,266,137
	(671)	—	(4,086)	2,287,698
Corrections:				
Increase/(Decrease) to Assets:				
Capital Assets, Net	—	295	—	295
(Increase)/Decrease to Liabilities:				
Accounts Payable	—	—	—	9,001
	—	295	—	9,296
Change in Accounting Principle:				
Change in Capitalization Threshold for Capital Assets	(1,471)	—	(417)	(1,888)
Fund Reclassification of Net Assets:				
Ohio Building Authority Capital Projects Fund	—	—	—	1,620
Increase/(Decrease) for Restatement	(2,142)	295	(4,503)	2,296,726
Net Assets, July 1, 2001, As Restated	$17,724	$9,250	$14,936	$7,048,850

(Continued)

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

		Fiduciary Activities					
		Expendable Trust Funds					
	Internal Service Funds	Unclaimed Funds	Unemploy-ment Compen-sation	Variable College Savings Plan	Variable Savings Private-Purpose Trust Fund	Other Trust Funds	Total
Net Assets, as of June 30, 2001, As Previously Reported	$138,906	$343,619	$2,285,549	$427,732	$ —	$9,005,981	$12,062,881
Restatements Due to Implementation of New Accounting Standards:							
Increase/(Decrease) to Assets:							
Cash Equity with Treasurer	—	1	—	—	—	—	1
Investments	(10,593)	—	—	—	—	—	—
Unemployment Taxes Receivable	—	—	(136,476)	—	—	—	(136,476)
Intergovernmental Receivable	(347)	—	859	—	—	—	859
Premiums and Assessments Receivable	—	—	14,876	—	—	—	14,876
Interfund Receivable	(33,499)	(14)	—	—	—	—	(14)
Other Receivables	(282)	—	56,905	—	—	—	56,905
Other Assets	(30)	—	—	—	—	—	—
Capital Assets, Net	(26,010)	—	—	—	—	—	—
(Increase)/Decrease to Liabilities:							
Accounts Payable	10,645	—	—	—	—	—	—
Accrued Liabilities	7,423	—	—	—	—	—	—
Interfund Payable	4,025	—	—	—	—	—	—
Deferred Revenue	—	(1)	—	—	—	—	(1)
Benefits Payable	—	—	44,927	—	—	—	44,927
Refund and Other Liabilities	—	—	(503)	—	—	—	(503)
Liability for Escheat Property	—	93,936	—	—	—	—	93,936
Fund Reclassification of Net Assets:							
General Fund	—	(437,541)	—	—	—	—	(437,541)
Enterprise Funds:							
Ohio Building Authority	(28,466)	—	—	—	—	—	—
Unemployment Compensation	—	—	(2,266,137)	—	—	—	(2,266,137)
Variable College Savings Plan	—	—	—	(427,732)	427,732	—	—
	(77,134)	(343,619)	(2,285,549)	(427,732)	427,732	—	(2,629,168)
Corrections:							
Increase/(Decrease) to Assets:							
Other Receivables	2,056	—	—	—	—	—	—
(Increase)/Decrease to Liabilities:							
Accounts Payable	69	—	—	—	—	—	—
Revenue Bonds and Notes Payable	504	—	—	—	—	—	—
	2,629	—	—	—	—	—	—
Fund Reclassification of Net Assets: General Fund	(64,401)	—	—	—	—	—	—
Increase/(Decrease) for Restatement	(138,906)	(343,619)	(2,285,549)	(427,732)	427,732	—	(2,629,168)
Net Assets, July 1, 2001, As Restated	$ —	$ —	$ —	$ —	$427,732	$9,005,981	$ 9,433,713

Significant corrections to opening balances reported by the primary government include the following:

- For the General Fund, the "Other" receivable balance reported, as of June 30, 2001, was increased by $146.2 million to properly reflect a reduction in Medicaid expenditures resulting from outstanding rebates receivable from drug manufacturers under the Medicaid Program.
- For the Highway Operating Fund, the opening accounts payable balance was increased $19.5 million, since the liability was not properly identified subsequent to the year ended June 30, 2001. The opening intergovernmental receivable balance was also increased $14.8 million for the portion of the accounts payable adjustment that qualified for federal reimbursement.

Fund balance totaling $90.2 million reported for the governmental funds, as of June 30, 2001, has been reclassified and presented under the discretely presented nonmajor component unit columns as a change in reporting entity for the Arts and Sports Facilities Commission and SchoolNet Commission in the amounts of $68.9 million and $21.3 million, respectively.

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

C. Restatements — Component Unit Funds

Restatements of net assets, as of June 30, 2001, are summarized for the discretely presented component unit funds below (dollars in thousands).

	Major Component Units					
	School Facilities Commission	Ohio Water Development Authority (12/31/01)	Ohio State University	University of Cincinnati	Nonmajor Component Units	Total
Net Assets, as of June 30, 2001, As Previously Reported	$(280,625)	$1,661,293	$4,365,081	$2,351,045	$5,908,294	$14,005,088
Restatements Due to Implementation of New Accounting Standards:						
Increase/(Decrease) to Assets:						
Cash Equity with Treasurer	19	—	—	—	—	19
Other Receivables	—	—	—	(11,446)	—	(11,446)
Capital Assets, Net	31	—	(1,397,337)	(559,430)	(2,365,465)	(4,322,201)
(Increase)/Decrease to Liabilities:						
Payable to Primary Government	(42)	—	(57,175)	(5,893)	(31,270)	(94,380)
Deferred Revenue	1,334	—	1,992	—	(29,805)	(26,479)
Refund and Other Liabilities	(296)	—	(34,763)	(24,377)	(34,849)	(94,285)
	1,046	—	(1,487,283)	(601,146)	(2,461,389)	(4,548,772)
Corrections:						
Increase/(Decrease) to Assets:						
Other Receivables	—	—	—	—	399	399
(Increase)/Decrease to Liabilities:						
Intergovernmental Payable	(561,466)	—	—	—	—	(561,466)
Refund and Other Liabilities	—	—	—	—	(578)	(578)
	(561,466)	—	—	—	(179)	(561,645)
Change in Reporting Entity:						
Arts and Sports Facilities Commission's Fund Balance, as of June 30, 2001, As Reported	—	—	—	—	68,903	68,903
GASB 34 Full-Accrual Basis Adjustments:						
Increase/(Decrease) to Assets:						
Capital Assets, Net	—	—	—	—	64,429	64,429
(Increase)/Decrease to Liabilities:						
Deferred Revenue	—	—	—	—	136	136
Refund and Other Liabilities	—	—	—	—	(50)	(50)
Arts and Sports Facilities Commission's Net Assets, July 1, 2001	—	—	—	—	133,418	133,418
SchoolNet Commission's Fund Balance, as of June 30, 2001, As Reported	—	—	—	—	21,325	21,325
GASB 34 Full-Accrual Basis Adjustments:						
Increase/(Decrease) to Assets:						
Capital Assets, Net	—	—	—	—	1,900	1,900
(Increase)/Decrease to Liabilities:						
Deferred Revenue	—	—	—	—	10	10
Refund and Other Liabilities	—	—	—	—	(532)	(532)
SchoolNet Commission's Net Assets, July 1, 2001	—	—	—	—	22,703	22,703
Total Change in Reporting Entity	—	—	—	—	156,121	156,121
Increase/(Decrease) for Restatement	(560,420)	—	(1,487,283)	(601,146)	(2,305,447)	(4,954,296)
Net Assets, July 1, 2001, As Restated	$(841,045)	$1,661,293	$2,877,798	$1,749,899	$3,602,847	$ 9,050,792

For the School Facilities Commission Fund, the intergovernmental payable balance, as of June 30, 2002, was increased by $561.5 million to properly report expenditures/expenses related to long-term funding agreements 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 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 2002.

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 2002, whenever signed into law or otherwise legally authorized.

For fiscal year 2002, 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, 2002
(dollars in thousands)

		Major Special Revenue Funds			
	General	Job, Family, and Other Human Services	Education	Highway Operating	Revenue Distribution
Total Fund Balances - GAAP Basis	$875,457	$ 143,359	$28,743	$ 814,692	$118,785
Less: Reserved Fund Balances	(556,036)	(755,858)	(28,997)	(1,399,445)	(124,957)
Less: Designated Fund Balances	(319,421)	—	—	—	—
Unreserved/Undesignated Fund Balances — GAAP Basis	—	(612,499)	(254)	(584,753)	(6,172)
Revenue Accruals/Adjustments:					
Cash Equity with Treasurer	(28,857)	(4,001)	(920)	(12,963)	(6,016)
Taxes Receivable	(974,426)	—	—	(53,605)	(253,980)
Intergovernmental Receivable	(490,716)	(450,162)	(150,425)	(79,651)	—
Loans Receivable	(18,103)	—	(10,466)	(51,430)	—
Interfund Receivable	(230,729)	(6)	—	(67)	—
Receivable from Component Units	(29)	—	—	—	—
Other Receivables	(198,777)	(35,521)	(539)	(3,763)	(85)
Inventories	(20,445)	—	—	(30,368)	—
Other Assets	(186)	—	(3,706)	—	—
Deferred Revenue	89,651	242,065	111,915	41,098	15,859
Total Revenue Accruals/Adjustments	(1,872,617)	(247,625)	(54,141)	(190,749)	(244,222)
Expenditure Accruals/Adjustments:					
Accounts Payable	161,826	44,797	2,201	132,164	—
Accrued Liabilities	77,457	9,326	1,006	14,455	—
Medicaid Claims Payable	994,725	1,500	—	—	—
Intergovernmental Payable	356,777	242,236	96,784	1,107	322,058
Interfund Payable	390,669	12,316	1,496	115,743	195
Payable to Component Units	6,967	1,282	319	541	—
Refund and Other Liabilities	647,808	9,014	—	—	70,389
Liability for Escheat Property	7,771	—	—	—	—
Total Expenditure Accruals/Adjustments	2,644,000	320,471	101,806	264,010	392,642
Other Adjustments:					
Fund Balance Reclassifications:					
From Unreserved (Non-GAAP Budgetary Basis) to Reserved for:					
Debt Service	1,735	—	—	—	—
Noncurrent Portion of Loans Receivable	16,442	—	10,269	50,901	—
Inventories	10,108	—	—	31,674	—
Federal Programs	—	651	8,188	—	124,957
Other	224,473	—	—	—	—
From Undesignated (Non-GAAP Budgetary Basis) to Designated	319,421	—	—	—	—
Cash and Investments Held Outside of State Treasury	(211,505)	(39,154)	(5,869)	(379)	(4,155)
Other	—	1	1	—	(1)
Total Other Adjustments	360,674	(38,502)	12,589	82,196	120,801
Total Basis Differences	1,132,057	34,344	60,254	155,457	269,221
TIMING DIFFERENCES					
Encumbrances	(284,495)	(252,935)	(1,907)	(128,878)	—
Budgetary Fund Balances (Deficits) — Non-GAAP Basis	$847,562	$(831,090)	$58,093	$(558,174)	$263,049

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;
- Interim deposits in the eligible institutions applying for interim moneys;
- Bonds and other obligations of the State of Ohio;
- The Treasurer of State's investment pool;
- 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 135.74, Ohio Revised Code;
- Reverse repurchase 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;
- 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, rated in one of the two highest rating categories by two nationally recognized rating agencies and not exceeding five percent of the investment portfolio;
- Bankers' acceptances maturing in 270 days or less and not exceeding 10 percent of the investment portfolio;
- Debt of domestic corporations and foreign nations diplomatically recognized by the United States, rated investment grade by nationally recognized rating agencies and, in the aggregate, not exceeding five percent of the investment portfolio; and
- No-load money market funds consisting of U.S. government and agency obligations 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 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, mortgage loans, limited partnerships, venture capital, real estate, and/or other investments.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

B. State-Sponsored Investment Pool
The Treasurer of State is the investment advisor and administrator of the State Treasury Asset Reserve of Ohio (STAROhio), a statewide external investment pool authorized under Section 135.45, Ohio Revised Code. STAROhio 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, or by calling (614) 466-2160.

C. Deposits

1. Primary Government
As of June 30, 2002, the carrying amount of deposits was (dollars in thousands) $1,082,770, and the bank balance was $1,193,470. Of the bank balance, $167,129 was fully insured or collateralized with securities held by the primary government or its agent in the primary government's name (Category 1), $971,455 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 $54,886, although meeting legal collateralization requirements, was categorized as uninsured and uncollateralized (Category 3).

2. Component Units
As of June 30, 2002, the carrying amount of deposits was (dollars in thousands) $590,080, and the bank balance was $695,479. Of the bank balance, $54,410 was fully insured or collateralized with securities held by the respective component units or their agents in the component unit's name (Category 1), $543,224 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 $97,845, 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 mortgage loans, life insurance, investment contracts, 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, 2002, are detailed in the tables on the following page.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Primary Government
(dollars in thousands)

	Category 1	Category 2	Category 3	Total Fair Value
U.S. Government & Agency Obligations:				
Not on Securities Loan	$ 22,094,973	$55,000	$ 6,475,208	$ 28,625,181
On Securities Loan	—	—	230,991	230,991
Common and Preferred Stock	51,666,431	—	3,599,635	55,266,066
Corporate Bonds and Notes:				
Not on Securities Loan	13,046,757	—	1,575,294	14,622,051
On Securities Loan	—	—	73,453	73,453
Foreign Stocks and Bonds	21,393,700	—	1,313,343	22,707,043
Commercial Paper	1,928,461	—	2,363,385	4,291,846
Repurchase Agreements	120,387	26,228	333	146,948
Securities Lending Collateral:				
U.S. Government & Agency Obligations	49,937	—	1,131,283	1,181,220
Repurchase Agreements	1,104,461	—	—	1,104,461
Common and Preferred Stock	—	—	433,267	433,267
Corporate Bonds and Notes	544,989	—	362,415	907,404
Foreign Stocks and Bonds	—	—	183,886	183,886
Commercial Paper	641,810	—	—	641,810
	$112,591,906	$81,228	$17,742,493	130,415,627
Investments Held by Broker-dealers under Securities Loans with Cash Collateral:				
U.S. Government and Agency Obligations				3,723,519
Common and Preferred Stock				425,842
Corporate Bonds and Notes				354,727
Foreign Stocks and Bonds				187,202
Mutual Funds				6,816,221
Real Estate				12,350,099
Venture Capital				1,147,335
Limited Partnerships				359,562
Investment Contracts				888
Securities Lending Collateral — Mutual Funds				322,794
Deposit with Federal Government				1,812,201
Component Units' Equity in State Treasurer's Cash and Investment Pool (including associated Collateral on Lent Securities)				(712,949)
Component Units' Equity in the State Treasury Asset Reserve of Ohio (STAROhio)				(507,520)
Total Investments — Primary Government				$156,695,548

Component Units
(dollars in thousands)

	Category 1	Category 2	Category 3	Total Fair Value
U.S. Government & Agency Obligations	$ 275,029	$ 609,070	$349,175	$1,233,274
Common and Preferred Stock	573,876	787,775	9,286	1,370,937
Corporate Bonds and Notes	170,877	134,923	39,068	344,868
Foreign Stocks and Bonds	25,486	—	—	25,486
Commercial Paper	—	9,911	—	9,911
Repurchase Agreements	1,510	175,659	183,760	360,929
Municipal Obligations	15,046	—	24	15,070
Negotiable Certificates of Deposit	834	22,000	28,030	50,864
	$1,062,658	$1,739,338	$609,343	3,411,339
Mutual Funds				758,576
Investment in State Treasurer's Cash and Investment Pool (including associated Collateral on Lent Securities)				712,949
Investment in the State Treasury Asset Reserve of Ohio (STAROhio)				507,520
Real Estate				54,323
Life Insurance				20,502
Limited Partnerships				5,901
Investment Contracts				62,329
Total Investments — Component Units				$5,533,439

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The total carrying amount of deposits and investments, as of June 30, 2002, reported for the primary government and its component units is (dollars in thousands) $163,516,480. The total carrying amount of deposits and investments categorized and disclosed in this note is $163,901,837. A reconciliation of the difference is presented in the table below.

E. Securities Lending Transactions
The Treasurer of State and the Bureau of Workers' Compensation (BWC) participate in securities lending programs for securities included in the "Cash Equity with Treasurer" and "Investments" accounts and the STAROhio 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 market value. Consequently, as of June 30, 2002, 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, not more than 10 percent of the State's cash and investment portfolio, which is reported as "Cash Equity with Treasurer," can be lent to a single broker-dealer. For the STAROhio program, not more than 25 percent of the STAROhio investment pool may be lent at any one time, and not more than 10 percent of the investment pool may be subject to term loans in excess of one business day.

The State cannot sell securities received as collateral unless the borrower defaults. Consequently, these amounts are not reflected in the financial statements. 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. Loan contracts do not provide any loss indemnification by securities lending agents in cases of borrower default; however, during fiscal year 2002, 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 STAROhio program lent U.S. government and agency obligations in exchange for collateral consisting of cash and/or other U.S. government obligations. The BWC lent fixed maturities and equity securities in exchange for cash, broker-provided, and letters of credit collateral.

Reconciliation of Deposit and Investments Disclosures
With Financial Statements
As of June 30, 2002
(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	$4,710,788	$ 57,899	$ 495,708	$ 166,073	$ 5,430,468
Cash and Cash Equivalents	40,751	2,398,570	525,984	325,050	3,290,355
Investments	797,510	14,953,217	3,943,662	125,815,244	145,509,633
Collateral on Lent Securities	1,494,388	2,130,095	154,539	560,419	4,339,441
Deposit with Federal Government	—	1,812,201	—	—	1,812,201
Restricted Assets:					
Cash Equity with Treasurer	—	6,439	47,777	—	54,216
Cash and Cash Equivalents	—	17,402	74,234	—	91,636
Investments	—	1,686,544	866,692	—	2,553,236
Collateral on Lent Securities	—	420,368	14,926	—	435,294
Total Reporting Entity	$7,043,437	$23,482,735	$6,123,522	$126,866,786	$163,516,480

Primary Government:	
Deposits	$ 1,082,770
Investments	156,695,548
	157,778,318
Component Units:	
Deposits	590,080
Investments	5,533,439
	6,123,519
	163,901,837
Outstanding Warrants and Other Reconciling Items	(385,357)
Total Reporting Entity	$163,516,480

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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.

During fiscal year 2002, the Bureau of Workers' Compensation Enterprise Fund held certain mortgage and asset-backed securities (included under the "U.S. Government and Agency Obligations" investment type in the amount of approximately $5.4 billion at fair value, as of June 30, 2002), which the fund classified as derivatives. The overall return or yield on mortgage-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-backed securities generally depend on when the underlying mortgage loan principal and interest are repaid. If the market rates fall below a mortgage loan's contractual rate, it is generally to the borrower's advantage to repay the existing loan and obtain new lower financing.

Through the use of international money managers, the Bureau of Workers' Compensation also entered into various forward currency contracts to manage exposure to changes in foreign currency exchange rates on its foreign portfolio holdings. The international money managers may also enter into foreign currency exchange contracts to provide a quantity of foreign currency needed at a future time at the current exchange rates, if rates are expected to change dramatically. A forward exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated 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 by the Bureau was $803 thousand, as of June 30, 2002.

Additionally, during the reporting period, the Ohio Public Employees Retirement System, Ohio Police and Fire Pension Fund, School Employees Retirement System of Ohio, and the State Teachers Retirement System of Ohio, the investments of which are held in the Treasurer of State's custody and are reported in the Retirement Systems Agency Fund, had investments in derivatives and similar debt and investment transactions. 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
The following table summarizes taxes receivable for the primary government (dollars in thousands).

	Governmental Activities				
	Major Governmental Funds			Nonmajor Governmental Funds	Total Primary Government
	General	Highway Operating	Revenue Distribution		
Current-Due Within One Year:					
Income Taxes	$295,269	$ —	$ 42,350	$ 147	$ 337,766
Sales Taxes	597,481	—	28,655	1,380	627,516
Motor Vehicle Fuel Taxes	—	46,405	147,897	2,165	196,467
Public Utility Taxes	52,992	—	31,713	—	84,705
Other Taxes	—	7,200	—	1,831	9,031
	945,742	53,605	250,615	5,523	1,255,485
Noncurrent-Due in More Than One Year:					
Income Taxes	28,684	—	3,365	—	32,049
Taxes Receivable, Net	$974,426	$53,605	$253,980	$5,523	$1,287,534

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, 2002, approximately $87.4 million of the net taxes receivable balance is also reported as deferred revenue on the governmental funds' balance sheet, of which $78.2 million is reported in the General Fund and $9.2 million is reported in the Revenue Distribution Special Revenue Fund. Refund liabilities for income, corporation franchise, and sales taxes, totaling approximately $718.2 million, are reported for governmental activities as "Refunds and Other Liabilities" on the Statement of Net Assets, of which, $647.8 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.

NOTE 5 RECEIVABLES (Continued)

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, consisted of the following, as of June 30, 2002 (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	$ 475,359	$ 7,429	$ —	$ 7,928	$ 490,716
Job, Family and Other Human Services	321,388	128,774	—	—	450,162
Education	82,366	68,059	—	—	150,425
Highway Operating	79,651	—	—	—	79,651
Nonmajor Governmental Funds	201,911	11,836	—	2,455	216,202
Total Governmental Activities	1,160,675	216,098	—	10,383	1,387,156
Business-Type Activities:					
Unemployment Compensation	—	—	6,642	—	6,642
Intergovernmental Receivable	$1,160,675	$216,098	$6,642	$10,383	$1,393,798

C. Loans Receivable

Loans receivable for the primary government and its discretely presented component units, as of June 30, 2002, 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 Governmental Funds	Total Primary Government
School District Solvency Assistance	$ 2,593	$ —	$ —	$ —	$ 2,593
Vocational Education	313	88	—	—	401
Wayne Trace Local School District	5,008	—	—	—	5,008
Vocational School Assistance	—	9,619	—	—	9,619
Physician Loan Repayment	—	488	—	—	488
Nurses Education Assistance	—	271	—	—	271
Office of Minority Financial Incentives	2,321	—	—	—	2,321
Rail Development	—	—	—	4,808	4,808
Office of Business Development	—	—	—	268,006	268,006
Ohio Housing Finance Agency	—	—	—	222,674	222,674
Small Government Fire Departments	261	—	—	—	261
Higher Education Research Investment Loans	—	—	—	1,882	1,882
Highway, Transit, & Aviation Infrastructure Bank	—	—	51,430	—	51,430
Natural Resources	—	—	—	291	291
Local Infrastructure Improvements	—	—	—	213,161	213,161
Columbiana County Economic Stabilization	2,104	—	—	—	2,104
State Workforce Development	5,308	—	—	—	5,308
Professional Development	1,156	—	—	—	1,156
Loans Receivable, Gross	19,064	10,466	51,430	710,822	791,782
Estimated Uncollectible	(961)	—	—	—	(961)
Loans Receivable, Net	$18,103	$10,466	$51,430	$710,822	$790,821
Current-Due Within One Year	$ 6,204	$ 1,554	$ 4,685	$155,199	$167,642
Noncurrent-Due in More Than One Year	11,899	8,912	46,745	555,623	623,179
Loans Receivable, Net	$18,103	$10,466	$51,430	$710,822	$790,821

NOTE 5 RECEIVABLES (Continued)

Component Units — Loans Receivable

Loan Program	Ohio Water Development Authority (12/31/01)	Ohio State University	University of Cincinnati	Other Component Units	Total Component Units
Water and Wastewater Treatment (including restricted portion)	$2,359,127	$ —	$ —	$ —	$2,359,127
Student	—	71,214	33,617	119,643	224,474
Other	—	—	643	753	1,396
Loans Receivable, Gross	2,359,127	71,214	34,260	120,396	2,584,997
Estimated Uncollectible	—	(8,905)	(4,351)	(10,294)	(23,550)
Loans Receivable, Net	$2,359,127	$62,309	$29,909	$110,102	$2,561,447
Current-Due Within One Year	$ 5,539	$11,500	$ 3,844	$ 21,167	$ 42,050
Noncurrent-Due in More Than One Year	2,353,588	50,809	26,065	88,935	2,519,397
Loans Receivable, Net	$2,359,127	$62,309	$29,909	$110,102	$2,561,447

D. Other Receivables

Other receivables for the primary government, as of June 30, 2002, consisted 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	Revenue Distribution	Nonmajor Govern-mental Funds	Total
Accounts	$ 3,150	$ —	$428	$ —	$—	$13,683	$ 17,261
Drug Manufacturers' Rebates	173,423	—	—	—	—	—	173,423
Women, Infants and Children Program Rebates	—	—	—	—	—	16,691	16,691
Health Facility Bed Assessments	—	31,819	—	—	—	—	31,819
Interest	1,942	105	111	1,821	85	4,748	8,812
Miscellaneous	20,262	3,597	—	1,942	—	27	25,828
Other Receivables, Net-Due Within One Year	$198,777	$35,521	$539	$3,763	$85	$35,149	$273,834

	Business-Type Activities						
Type of Receivable	Workers' Compen-sation	Lottery Commis-sion	Unemploy-ment Compen-sation	Ohio Building Authority	Office of Auditor of State	Other Proprietary Funds	Total
Accounts	$725,845	$ —	$57,896	$ 1,053	$8,709	$ —	$793,503
Interest and Dividends (including restricted portion)	100,383	4,266	—	421	—	23	105,093
Leases	—	—	—	21,953	—	—	21,953
Lottery Sales Agents	—	32,000	—	—	—	—	32,000
Miscellaneous	—	—	—	—	—	637	637
Other Receivables, Gross	826,228	36,266	57,896	23,427	8,709	660	953,186
Estimated Uncollectible	(565,307)	(320)	(734)	—	(41)	—	(566,402)
Other Receivables, Net	$260,921	$35,946	$57,162	$23,427	$8,668	$660	$386,784
Current-Due Within One Year	$260,921	$31,680	$57,162	$ 5,005	$8,668	$660	$364,096
Noncurrent-Due in More Than One Year	—	4,266	—	18,422	—	—	22,688
Other Receivables, Net	$260,921	$35,946	$57,162	$23,427	$8,668	$660	$386,784
Total Primary Government							$660,618

NOTE 5 RECEIVABLES (Continued)

Primary Government — Other Receivables (Continued)

Type of Receivable	Fiduciary Funds: State Highway Patrol Retirement System Pension Trust (12/31/01)	College Savings Program Private-Purpose Trust	STAROhio Investment Trust	Agency	Total
Interest and Dividends	$1,664	$ —	$172	$ 407	$2,243
Tuition Units Sold	—	3,462	—	—	3,462
Miscellaneous	45	—	—	1,108	1,153
Other Receivables, Gross	1,709	3,462	172	1,515	6,858
Estimated Uncollectible	—	—	—	—	—
Other Receivables, Net	$1,709	$3,462	$172	$1,515	$6,858
Current-Due Within One Year	$1,709	$3,462	$172	$1,515	$6,858

Under long-term direct financing leases with local governments for office space, the Ohio Building Authority, a blended component unit, 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 the Ohio Building Authority Enterprise Fund, net of executory costs, are as follows (dollars in thousands):

Year Ending June 30,	Leases Receivable
2003	$ 4,924
2004	4,927
2005	4,924
2006	4,922
2007	4,860
Thereafter	2,719
Total minimum lease payments	27,276
Amount representing interest	(5,323)
Present value of net minimum lease payments	$21,953

Other receivables for the State's discretely presented component units, as of June 30, 2002, consisted of the following (dollars in thousands).

Component Units — Other Receivables

Type of Receivable	School Facilities Commission	Ohio State University	University of Cincinnati	Other Component Units	Total Component Units
Accounts	$ —	$339,960	$21,179	$167,913	$529,052
Interest	1,013	14,025	6,598	6,738	28,374
Pledges	—	70,909	38,931	11,465	121,305
Miscellaneous	—	—	16,182	52,010	68,192
Other Receivables, Gross	1,013	424,894	82,890	238,126	746,923
Estimated Uncollectible	—	(111,464)	(1,390)	(32,808)	(145,662)
Other Receivables, Net	$1,013	$313,430	$81,500	$205,318	$601,261
Current-Due Within One Year	$1,013	$257,170	$57,768	$198,231	$514,182
Noncurrent-Due in More Than One Year	—	56,260	23,732	7,087	87,079
Other Receivables, Net	$1,013	$313,430	$81,500	$205,318	$601,261

NOTE 6 PAYABLES

A. Accrued Liabilities

Details on accrued liabilities for the primary government and its discretely presented component units, as of June 30, 2002, 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	$ 70,398	$ 7,059	$ —	$ —	$ 77,457
Job, Family and Other Human Services	8,549	777	—	—	9,326
Education	940	66	—	—	1,006
Highway Operating	13,020	1,435	—	—	14,455
Nonmajor Governmental Funds	20,081	2,270	579	—	22,930
	112,988	11,607	579	—	125,174
Reconciliation of balances in fund financial statements to government-wide financial statements due to basis differences	—	—	88,092	3,253	91,345
Total Governmental Activities	112,988	11,607	88,671	3,253	216,519
Business-Type Activities:					
Ohio Building Authority	—	—	371	—	371
Tuition Trust Authority	68	—	—	—	68
Liquor Control	592	57	—	—	649
Underground Parking Garage	46	5	—	—	51
Office of Auditor of State	2,310	201	—	—	2,511
Total Business-Type Activities	3,016	263	371	—	3,650
Total Primary Government	$116,004	$11,870	$89,042	$3,253	$220,169

	Wages	Health Benefit Claims	Management and Admini-strative Expenses	Total Accrued Liabilities
Fiduciary Activities:				
State Highway Patrol Retirement System Pension Trust (12/31/01)	$87	$881	$ —	$ 968
Variable College Savings Plan Private-Purpose Trust	—	—	3,207	3,207
Total Fiduciary Activities	$87	$881	$3,207	$4,175

Component Units — Accrued Liabilities

	Wages and Employee Benefits	Accrued Interest	Other	Total Accrued Liabilities
Major Component Units:				
School Facilities Commission	$ 137	$ —	$ —	$ 137
Ohio Water Development Authority (12/31/01)	—	6,139	—	6,139
Ohio State University	86,716	—	48,592	135,308
University of Cincinnati	50,622	—	9,565	60,187
Nonmajor Component Units	118,591	5,338	13,214	137,143
Total Component Units	$256,066	$11,477	$71,371	$338,914

NOTE 6 PAYABLES (Continued)

B. Intergovernmental Payable

The intergovernmental payable balances for the primary government and its discretely presented component units, as of June 30, 2002, are comprised of the following (dollars in thousands).

Primary Government — Intergovernmental Payable

	Local Government				
	Shared Revenue and Local Permissive Taxes	Subsidies and Other	Federal Government	Other State Govern-ments	Total
Governmental Activities:					
Major Governmental Funds:					
General	$222,568	$134,209	$ —	$ —	$ 356,777
Job, Family and Other Human Services	—	241,780	456	—	242,236
Education	—	96,478	306	—	96,784
Highway Operating	—	1,107	—	—	1,107
Revenue Distribution	319,649	—	—	2,409	322,058
Nonmajor Governmental Funds	—	163,651	35	—	163,686
	542,217	637,225	797	2,409	1,182,648
Reconciliation of balances in fund financial statements to government-wide financial statements due to basis difference	—	—	19,689	—	19,689
Total Governmental Activities	542,217	637,225	20,486	2,409	1,202,337
Business-Type Activities:					
Unemployment Compensation	—	780	131	—	911
Liquor Control	—	367	—	—	367
Total Business-Type Activities	—	1,147	131	—	1,278
Total Primary Government	$542,217	$638,372	$20,617	$2,409	$1,203,615
Fiduciary Activities:					
Holding and Distribution Agency Fund	$ —	$ —	$3,572	$6,389	$ 9,961
Payroll Withholding and Fringe Benefits Agency Fund	—	355	—	—	355
Other Agency Fund	55,944	14,516	—	—	70,460
Total Fiduciary Activities	$55,944	$14,871	$3,572	$6,389	$80,776

Component Units — Intergovernmental Payable

	Local Government			
	Subsidies to Local Government	Other	Federal Arbitrage	Total
Major Component Units:				
School Facilities Commission	$1,343,734	$ —	$ —	$1,343,734
Ohio Water Development Authority (12/31/01)	—	—	6,851	6,851
Nonmajor Component Units	—	18	—	18
	1,343,734	18	6,851	1,350,603
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the government-wide financial statements	(1,343,734)	—	—	(1,343,734)
Total Component Units	$ —	$18	$6,851	$ 6,869

C. Refund and Other Liabilities

Refund and other liabilities for the primary government and its discretely presented component units, as of June 30, 2002, were comprised of the following (dollars in thousands).

NOTE 6 PAYABLES (Continued)

Primary Government — Refund and Other Liabilities

Governmental Activities:	Estimated Tax Refund Claims: Personal Income Tax	Corporation Franchise Tax	Sales and Use Tax	Total Tax Refund Liabilities	Other	Total
Major Governmental Funds:						
General	$477,305	$158,350	$12,109	$647,764	$ 44	$647,808
Job, Family and Other Human Services	—	—	—	—	9,014	9,014
Revenue Distribution	64,766	5,623	—	70,389	—	70,389
Nonmajor Governmental Funds	—	—	—	—	2,290	2,290
	542,071	163,973	12,109	718,153	11,348	729,501
Reconciliation of balances in fund financial statements to government-wide financial statements due to basis differences	—	—	—	—	17,564	17,564
Total Governmental Activities	$542,071	$163,973	$12,109	$718,153	$28,912	$747,065

Business-Type Activities:	Reserve for Compen-sation Adjustment	Refund & Security Deposits	Compensated Absences	Capital Leases	Other	Total
Workers' Compensation	$1,620,334	$147,811	$20,903	$ —	$108,814	$1,897,862
Lottery Commission	—	—	2,388	57,171	26,941	86,500
Unemployment Compensation	—	10,477	—	—	—	10,477
Ohio Building Authority	—	—	112	—	—	112
Tuition Trust Authority	—	—	148	—	532	680
Liquor Control	—	—	2,884	—	1,599	4,483
Underground Parking Garage	—	—	133	—	—	133
Office of Auditor of State	—	48	7,243	—	—	7,291
	1,620,334	158,336	33,811	57,171	137,886	2,007,538
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the government-wide financial statements	(1,620,334)	(81,272)	(33,551)	(57,171)	(74,513)	(1,866,841)
Total Business-Type Activities	$ —	$ 77,064	$ 260	$ —	$ 63,373	$ 140,697

Fiduciary Activities:	Child Support Collections	Refund & Security Deposits	Payroll Withholdings	Retirement Systems' Assets	Other	Total
State Highway Patrol Retirement System Pension Trust (12/31/01)	$ —	$ —	$ —	$ —	$ 36	$ 36
STAROhio Investment Trust	—	—	—	—	421	421
Agency Funds	100,722	470,072	60,915	117,386,479	51,162	118,069,350
Total Fiduciary Activities	$100,722	$470,072	$60,915	$117,386,479	$51,619	$118,069,807

Component Units — Refund and Other Liabilities

Major Component Units:	Refund & Security Deposits	Compensated Absences	Capital Leases	Obligations Under Annuity Life Agreements	Other	Total
School Facilities Commission	$ —	$ 411	$ —	$ —	$ 71	$ 482
Ohio State University	77,112	61,327	20,982	44,686	17,720	221,827
University of Cincinnati	29,693	56,662	138,317	—	—	224,672
Nonmajor Component Units	35,754	91,786	42,806	—	36,505	206,851
	142,559	210,186	202,105	44,686	54,296	653,832
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the government-wide financial statements	(139,897)	(206,265)	(202,082)	(44,686)	(48,331)	(641,261)
Total Component Units	$ 2,662	$ 3,921	$ 23	$ —	$ 5,965	$ 12,571

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

A. Interfund Balances

Interfund balances, as of June 30, 2002, consisted of the following (dollars in thousands):

	Due to				
	Governmental Activities				
	Major Governmental Funds				
Due from	General	Job, Family and Other Human Services	Highway Operating	Nonmajor Governmental Funds	Total
Major Governmental Funds:					
General	$ —	$ 6	$32	$3,102	$ 3,140
Job, Family and Other Human Services	2,197	—	—	—	2,197
Education	145	—	—	—	145
Highway Operating	370	—	—	33	403
Revenue Distribution	—	—	—	195	195
Nonmajor Governmental Funds	225,639	—	35	355	226,029
Total Governmental Activities	228,351	6	67	3,685	232,109
Business-Type Activities:					
Lottery Commission	—	—	—	—	—
Liquor Control	2,343	—	—	—	2,343
Underground Parking Garage	—	—	—	—	—
Office of Auditor of State	35	—	—	—	35
Total Business-Type Activities	2,378	—	—	—	2,378
Total Primary Government	$230,729	$ 6	$67	$3,685	$234,487

	Business-Type Activities				
	Workers' Compensation	Liquor Control	Office of Auditor of State	Total	Total Primary Government
Major Governmental Funds:					
General	$386,049	$10	$1,470	$387,529	$390,669
Job, Family and Other Human Services	10,119	—	—	10,119	12,316
Education	1,351	—	—	1,351	1,496
Highway Operating	115,340	—	—	115,340	115,743
Revenue Distribution	—	—	—	—	195
Nonmajor Governmental Funds	85,459	—	—	85,459	311,488
Total Governmental Activities	598,318	10	1,470	599,798	831,907
Business-Type Activities:					
Lottery Commission	3,601	—	—	3,601	3,601
Liquor Control	958	—	—	958	3,301
Underground Parking Garage	18	—	—	18	18
Office of Auditor of State	4,013	—	—	4,013	4,048
Total Business-Type Activities	8,590	—	—	8,590	10,968
Total Primary Government	$606,908	$10	$1,470	$608,388	$842,875

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 $223 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 $195.6 million is not expected to be collected in the subsequent fiscal year.

Additionally, the State's primary government and its component units are permitted to pay their workers' compensation liability on a terminal-funding (pay-as-you-go) basis. As a result, the Workers' Compensation Enterprise Fund recognized $606.9 million as an interfund receivable and $104.4 million as an amount due from component units for the unbilled premium due for the primary government's and the component units' shares of the Bureau's actuarially determined liability for compensation, respectively. In the Statement of Net Assets, the State includes the liability totaling $598.3 million in the internal balance reported for governmental activities. For component units, the $104.4 million liability is reported as "Payable to Primary Government."

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, 2002, consisted 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 Governmental Funds	Total
Major Governmental Funds:							
General	$ —	$ 9,458	$ 10,291	$ 130	$2	$ 898,498	$ 918,379
Job, Family and Other Human Services	100,586	—	1,500	—	—	500	102,586
Education	29,937	61	—	—	—	—	29,998
Highway Operating	878	—	—	—	—	249,221	250,099
Revenue Distribution	14,919	—	—	512,614	—	203,816	731,349
Nonmajor Governmental Funds	351,473	—	—	11	—	12,299	363,783
Total Governmental Activities	497,793	9,519	11,791	512,755	2	1,364,334	2,396,194
Business-Type Activities:							
Workers' Compensation	7,140	—	—	—	—	—	7,140
Lottery Commission	140	—	635,150	—	—	—	635,290
Unemployment Compensation	—	3,170	—	—	—	—	3,170
Ohio Building Authority	—	—	—	—	—	29,327	29,327
Liquor Control	112,000	—	—	—	—	19,574	131,574
Underground Parking Garage	—	—	—	—	—	773	773
Office of Auditor of State	112	—	—	—	—	—	112
Total Business-Type Activities	119,392	3,170	635,150	—	—	49,674	807,386
Total Primary Government	$617,185	$12,689	$646,941	$512,755	$2	$1,414,008	$3,203,580

	Business-Type Activities					
	Unemployment Compensation	Ohio Building Authority	Liquor Control	Office of Auditor of State	Total	Total Primary Government
Major Governmental Funds:						
General	$ —	$25,112	$3	$34,237	$59,352	$ 977,731
Job, Family and Other Human Services	812	—	—	—	812	103,398
Education	—	—	—	—	—	29,998
Highway Operating	—	—	—	—	—	250,099
Revenue Distribution	—	—	—	—	—	731,349
Nonmajor Governmental Funds	—	3,401	—	—	3,401	367,184
Total Governmental Activities	812	28,513	3	34,237	63,565	2,459,759
Business-Type Activities:						
Workers' Compensation	—	—	—	—	—	7,140
Lottery Commission	—	—	—	—	—	635,290
Unemployment Compensation	—	—	—	—	—	3,170
Ohio Building Authority	—	—	—	—	—	29,327
Liquor Control	—	—	—	—	—	131,574
Underground Parking Garage	—	—	—	—	—	773
Office of Auditor of State	—	—	—	—	—	112
Total Business-Type Activities	—	—	—	—	—	807,386
Total Primary Government	$812	$28,513	$3	$34,237	$63,565	$3,267,145

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 2002, the component units reported $2.49 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.

Finally, "Community and Economic Development" expenses reported for governmental activities includes amounts that the primary government provided to the Arts and Sports Facilities Commission for its capital construction projects.

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.

Intra-entity Balances and Activity
Primary Government and Discretely Presented Component Units
As of and for the Year Ended June 30, 2002
(dollars in thousands)

			Program Expenses for State Assistance to Component Units			
Primary Government	Receivable from Component Units	Payable to Component Units	Primary, Secondary and Other Education Function	Higher Education Support Function	Community and Economic Development Function	Total State Assistance to Component Units
Major Governmental Funds:						
General	$ 29	$ 7,475	$428,580	$1,669,959	$331	$2,098,870
Job, Family and Other Human Services	—	1,282	—	—	—	—
Education	—	319	8,838	—	—	8,838
Highway Operating	—	541	—	—	—	—
Nonmajor Governmental Funds		24,084	133,939	247,782	—	381,721
Total Governmental Activities	29	33,701	571,357	1,917,741	331	2,489,429
Business-Type Activities:						
Workers' Compensation	104,428	—	—	—	—	—
Total Primary Government	$104,457	$33,701	$571,357	$1,917,741	$331	$2,489,429

			State Assistance Funded by Governmental Activities of the Primary Government			
Component Unit	Receivable from Primary Government	Payable to Primary Government	Primary, Secondary and Other Education Function	Higher Education Support Function	Community and Economic Development Function	Total State Assistance from Primary Government
Major Component Units:						
School Facilities Commission	$ —	$ 81	$539,968	$ —	$ —	$ 539,968
Ohio State University	12,827	53,488	—	496,457	—	496,457
University of Cincinnati	794	8,137	—	217,188	—	217,188
Nonmajor Component Units	20,080	42,751	31,389	1,204,096	331	1,235,816
Total Component Units	$33,701	$104,457	$571,357	$1,917,741	$331	$2,489,429

NOTE 8 CAPITAL ASSETS

Capital asset activity reported for the primary government and its discretely presented component units, for the year ended June 30, 2002, was as follows (dollars in thousands):

	Primary Government			
	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	$ 1,403,664	$ 76,500	$ 306	$ 1,479,858
Construction-in-Progress	1,103,942	671,593	473,033	1,302,502
Infrastructure:				
Highway Network:				
General Subsystem	7,982,451	67,498	—	8,049,949
Priority Subsystem	6,099,567	252,473	313	6,351,727
Bridge Network	2,171,228	51,816	—	2,223,044
Total Capital Assets Not Being Depreciated	18,760,852	1,119,880	473,652	19,407,080
Other Capital Assets:				
Buildings	2,899,786	47,813	18,677	2,928,922
Land Improvements	184,625	15,622	4,618	195,629
Machinery and Equipment	327,072	50,951	16,330	361,693
State Vehicles	206,896	25,247	13,049	219,094
Infrastructure:				
Parks, Recreation and Natural Resources Network	—	14,686	—	14,686
Total Other Capital Assets at historical cost	3,618,379	154,319	52,674	3,720,024
Less Accumulated Depreciation for:				
Buildings	974,508	82,647	14,600	1,042,555
Land Improvements	105,133	7,660	4,371	108,422
Machinery and Equipment	228,074	43,092	12,304	258,862
State Vehicles	86,229	19,384	7,596	98,017
Infrastructure:				
Parks, Recreation and Naturals Resources Network	—	24	—	24
Total Accumulated Depreciation	1,393,944	152,807	38,871	1,507,880
Other Capital Assets, Net	2,224,435	1,512	13,803	2,212,144
Governmental Activities-Capital Assets, Net	$20,985,287	$1,121,392	$487,455	$21,619,224

For fiscal year 2002, the State charged depreciation expense to the following governmental functions:

Governmental Activities:	
Primary, Secondary and Other Education	$ 665
Higher Education Support	38
Public Assistance and Medicaid	2,639
Health and Human Services	27,251
Justice and Public Protection	50,061
Environmental Protection and Natural Resources	8,651
Transportation	22,328
General Government	38,650
Community and Economic Development	2,524
Total Depreciation Expense for Governmental Activities	$152,807

NOTE 8 CAPITAL ASSETS (Continued)

	Primary Government			
	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Business-Type Activities:				
Capital Assets Not Being Depreciated:				
Land	$ 12,631	$ —	$ —	$ 12,631
Construction-in-Progress	1,123	8,155	451	8,827
Total Capital Assets Not Being Depreciated	13,754	8,155	451	21,458
Other Capital Assets:				
Buildings	242,695	778	—	243,473
Land Improvements	66	—	—	66
Machinery and Equipment	109,158	77,194	15,236	171,116
State Vehicles	4,929	616	618	4,927
Total Other Capital Assets at historical cost	356,848	78,588	15,854	419,582
Less Accumulated Depreciation for:				
Buildings	99,427	7,980	—	107,407
Land Improvements	46	1	—	47
Machinery and Equipment	77,247	26,173	10,645	92,775
State Vehicles	2,379	642	548	2,473
Total Accumulated Depreciation	179,099	34,796	11,193	202,702
Other Capital Assets, Net	177,749	43,792	4,661	216,880
Business-Type Activities-Capital Assets, Net	$191,503	$51,947	$5,112	$238,338

For fiscal year 2002, the State charged depreciation expense to the following business-type functions:

Business-Type Activities:	
Workers' Compensation	$18,302
Lottery Commission	15,996
Tuition Trust Authority	113
Liquor Control	368
Underground Parking Garage	547
Office of Auditor of State	3,852
Total Depreciation Expense for Business-Type Activities	39,178
Losses on Capital Asset Disposals Included in Depreciation	(4,382)
Fiscal Year 2002 Increases to Accumulated Depreciation	$34,796

	Component Units			
	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital Assets Not Being Depreciated:				
Land:				
Ohio State University	$ 37,891	$ —	$ 237	$ 37,654
University of Cincinnati	17,912	—	—	17,912
All Other Component Units	182,841	9,896	933	191,804
Total Land	238,644	9,896	1,170	247,370
Land Improvements:				
All Other Component Units	11,490	136	—	11,626
Total Land Improvements	11,490	136	—	11,626

(Continued)

NOTE 8 CAPITAL ASSETS (Continued)

	Component Units (Continued)			
	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Construction-in-Progress:				
Ohio State University	153,915	—	49,606	104,309
University of Cincinnati	76,065	67,535	1,812	141,788
All Other Component Units	262,376	238,501	131,807	369,070
Total Construction-in-Progress	492,356	306,036	183,225	615,167
Collections of Works of Art and Historical Treasures:				
University of Cincinnati	3,522	764	22	4,264
All Other Component Units	18,066	111	—	18,177
Total Collections of Works of Art and Historical Treasures	21,588	875	22	22,441
Total Capital Assets Not Being Depreciated	764,078	316,943	184,417	896,604
Other Capital Assets:				
Buildings:				
Ohio State University	1,910,113	179,696	4,702	2,085,107
University of Cincinnati	1,003,110	41,085	4,771	1,039,424
All Other Component Units	3,461,413	193,588	12,944	3,642,057
Total Buildings	6,374,636	414,369	22,417	6,766,588
Land Improvements:				
Ohio State University	170,020	14,797	4,526	180,291
University of Cincinnati	20,047	1,544	—	21,591
All Other Component Units	122,016	7,693	—	129,709
Total Land Improvements	312,083	24,034	4,526	331,591
Machinery, Equipment and Vehicles:				
Ohio State University	681,674	79,076	80,575	680,175
University of Cincinnati	130,322	10,635	8,014	132,943
All Other Component Units	783,227	96,881	52,577	827,531
Total Machinery, Equipment and Vehicles	1,595,223	186,592	141,166	1,640,649
Library Books and Publications:				
Ohio State University	151,281	9,097	615	159,763
University of Cincinnati	101,984	8,116	311	109,789
All Other Component Units	344,798	18,005	2,539	360,264
Total Library Books and Publications	598,063	35,218	3,465	629,816
Infrastructure:				
University of Cincinnati	52,737	1,896	—	54,633
All Other Component Units	260,945	17,766	5,676	273,035
Total Infrastructure	313,682	19,662	5,676	327,668
Total Other Capital Assets at historical cost	9,193,687	679,875	177,250	9,696,312
Less Accumulated Depreciation for:				
Buildings:				
Ohio State University	742,232	63,800	4,609	801,423
University of Cincinnati	360,653	34,368	4,771	390,250
All Other Component Units	1,447,652	90,473	7,374	1,530,751
Total Buildings	2,550,537	188,641	16,754	2,722,424

(Continued)

NOTE 8 CAPITAL ASSETS (Continued)

	Component Units (Continued)			
	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Land Improvements:				
Ohio State University	88,780	7,602	4,526	91,856
University of Cincinnati	3,594	955	—	4,549
All Other Component Units	49,567	6,247	—	55,814
Total Land Improvements	141,941	14,804	4,526	152,219
Machinery, Equipment and Vehicles:				
Ohio State University	463,932	69,205	60,424	472,713
University of Cincinnati	90,386	9,509	7,990	91,905
All Other Component Units	528,896	74,864	44,693	559,067
Total Machinery, Equipment and Vehicles	1,083,214	153,578	113,107	1,123,685
Library Books and Publications:				
Ohio State University	111,940	7,168	615	118,493
University of Cincinnati	65,546	5,573	312	70,807
All Other Component Units	213,885	17,771	2,426	229,230
Total Library Books and Publications	391,371	30,512	3,353	418,530
Infrastructure:				
University of Cincinnati	29,576	2,808	—	32,384
All Other Component Units	103,940	9,299	4,028	109,211
Total Infrastructure	133,516	12,107	4,028	141,595
Total Accumulated Depreciation	4,300,579	399,642	141,768	4,558,453
Other Capital Assets, Net	4,893,108	280,233	35,482	5,137,859
Component Units-Capital Assets, Net	$5,657,186	$597,176	$219,899	$6,034,463

For fiscal year 2002, depreciation expense for the State's component units was as follows:

Component Units:	
School Facilities Commission — *Primary, Secondary and Other Education*	$ 13
Arts and Sports Facilities Commission — *Community and Economic Development*	1,339
SchoolNet Commission — *Primary, Secondary and Other Education*	485
Depreciation Expense Included in Governmental Functions	1,837
Ohio State University	147,775
University of Cincinnati	53,213
Other Component Units	197,011
Depreciation Reported as Depreciation Expense	397,999
Total Depreciation Expense for Component Units	399,836
Net Gains/(Losses) on Capital Asset Disposals Included in Depreciation	(194)
Fiscal Year 2002 Increases to Accumulated Depreciation	$399,642

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

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

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

A. Ohio Public Employees Retirement System (OPERS)

Pension Benefits
OPERS is a cost-sharing, defined benefit multiple-employer public employee retirement system.

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.

Regular employees may retire after 30 years of credited service regardless of age, at age 55 or after with 25 years of credited service, or at age 60 or after with five years of credited service. Regular employees retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit amounts. Law enforcement employees may retire at age 48 with 25 or more years of credited service.

The retirement allowance 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.

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 calendar year 2001 were as follows:

	Contribution Rates	
	Employee Share	Employer Share
Regular Employees	8.50%	13.31%
Law Enforcement Employees	10.10%	16.70%
Public Safety Employees	9.00%	16.70%

Employer contributions required and made for the last three years follow (dollars in thousands).

Primary Government

For the Year Ended December 31,	Employer's Contribution for Regular Employees	Employer's Contribution for Law Enforcement Employees
2001	$236,188	$3,649
2000	159,528	2,994
1999	221,791	3,094

Component Units

For the Year Ended June 30,	Employer's Contribution for Regular Employees
2002	$109,668
2001	72,686
2000	101,154

Recent legislation also grants OPERS the authority to establish a defined contribution plan as an alternative to the current defined benefit plan. OPERS is currently developing such a plan, which is expected to become operational sometime in early calendar year 2003. Law enforcement employees will not be eligible to participate in the alternative plan, which will cover classes of employees not currently eligible to participate in the existing OPERS alternative retirement plan, as discussed further in Note 9D.

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) 466-2085 or 1-800-222-PERS.

Other Postemployment Benefits
All age and service retirees with 10 or more years of service credit qualify for healthcare coverage under OPERS. Healthcare coverage for disability recipients and primary survivor recipients is also available. Chapter 145, Ohio Revised Code, provides the statutory authority for employer contributions. For calendar year 2001, the portion of the employer rate that is used to fund healthcare is 4.3 percent of covered payroll for law enforcement and regular em-

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

ployees. Employees do not fund any portion of healthcare costs.

Benefits are advance-funded using the entry-age, normal cost method. Significant actuarial assumptions, based on the latest actuarial review performed as of December 31, 2000 (the latest information available), include a rate of return on investments of 7.75 percent, an annual increase in total payroll for active employees of 4.75 percent compounded annually (assuming no change in the number of active employees), and an additional increase in total payroll of between .54 percent and 5.1 percent based on additional annual pay increases. Healthcare premiums were assumed to increase 4.75 percent annually.

Net assets available for payment of benefits at December 31, 2000 were $11.7 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were $14.3 billion and $2.6 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.

The State's actuarially required and actual contributions for the OPERS healthcare plan are as follows (dollars in thousands):

Primary Government:	
(for the year ended December 31, 2001)	
Regular Employees	$112,720
Law Enforcement and Public Safety Employees..............	1,265
Total...	$113,985
Component Units:	
(for the year ended June 30, 2002)..........	$ 51,964

The number of active contributing participants for the primary government was 60,238, as of December 31, 2001.

B. State Teachers Retirement System of Ohio (STRS)

Pension Benefits
STRS is a cost-sharing, defined benefit multiple-employer public employee retirement system.

Participants in STRS, 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" or the "money-purchase benefit" calculation.

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 30 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.

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. 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 percent and 10 percent, respectively, and are based on percentages of covered employees' gross salaries, which are calculated annually by the retirement system's actuary.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Contribution rates for fiscal year 2002 were 14 percent for employers and 9.3 percent for employees. For STRS, 9.5 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.

Employer contributions required and made for the last three years are as follows (dollars in thousands):

Year Ended June 30,	Primary Government	Component Units
2002	$5,420	$88,184
2001	5,177	93,410
2000	3,028	59,841

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. 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 4.5 percent of covered payroll are allocated to pay for healthcare benefits.

The employer contribution is financed on a pay-as-you-go basis. As of June 30, 2001 (the most recent information available), net assets available for future healthcare benefits were $3.3 billion. Net healthcare costs paid by the primary government and its component units, for the year ended June 30, 2002, totaled approximately $2.6 million and $41.8 million, respectively. The number of eligible benefit recipients for STRS as a whole was 116,512, as of June 30, 2001; a breakout of the number of eligible recipients for the primary government and its component units, as of June 30, 2002, is unavailable.

C. State Highway Patrol Retirement System (SHPRS)

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 for calendar year 2001 are as follows:

Contribution Rates	
Employee Share	Employer Share
9.50%	23.50%

During calendar year 2001, all of the employees' contributions funded pension benefits while 18.75 percent of the employer's contributions funded pension benefits. The difference in the total employer rates charged and the employer rates applicable to the funding of pension benefits is applied to the funding of postemployment healthcare benefits.

SHPRS's 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.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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 the estimated current value and 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):

Year Ended December 31,	Primary Government	Percentage of Employer's Annual Pension Cost Contributed
2001	$13,765	100%
2000	11,686	100%
1999	13,351	100%

SHPRS used the entry-age, normal actuarial cost method for the Schedule of Funding Progress for the actuarial valuation, dated December 31, 2001. Assumptions used in preparing the Schedule of Funding Progress and in determining the annual required contribution include: an eight percent rate of return on investments; projected salary increase of 4.5 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 three percent a year; and postretirement increases each year equal to the increase in the Consumer Price Index (not to exceed three percent).

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

The Schedule of Funding Progress for the last three years is presented in the table below. 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, 2001, was 1,520. The cost of retiree healthcare benefits is recognized as claims are incurred and premiums are paid. The calendar year 2001 expense was $6.2 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 premiums would increase at a rate of 4.5 percent, compounded annually, due to inflation was also used in the valuation. Net assets available for benefits allocated to healthcare costs at December 31, 2001 were $93.8 million, and included investments carried at fair value, as previously described.

As of December 31, 2001, the 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 $51.6 million; the actuarial accrued liability for healthcare benefits at that date was $145.4 million.

Employer contributions are made in accordance with actuarially determined requirements. The employer contribution requirement was approximately $3.5 million or 4.75 percent of active member payroll for the period, January 1 through December 31, 2001.

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)
2001	$636,715	$551,279	$85,436	86.6%	$76,344	111.9%
2000 (a)	594,223	570,040	24,183	95.9	69,028	35.0
2000	607,411	570,040	37,371	93.8	69,028	54.1
1999 (b)	577,010	546,511	30,499	94.7	66,017	46.2
1999	564,673	546,511	18,162	96.8	66,017	27.5

(a) Change in assumption or method.
(b) The plan was amended in 1999.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

D. Alternative Retirement Plan (ARP)

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

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

Ohio law requires that employee contributions be made to the ARP in an amount equal to those that would otherwise have been required by the retirement system that applies to the employee's position. Therefore, employees who would have otherwise been enrolled in STRS or OPERS would contribute 9.3 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, 2002 to STRS in cases when the employee would have otherwise been enrolled in STRS.

For the year ended June 30, 2002, 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.

Employer and employee contributions required and paid for the year ended June 30, 2002 totaled $53.2 million and $37 million, respectively.

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, 2002, the General Assembly had authorized the issuance of $1.25 billion in Common Schools Capital Facilities Bonds, of which $740 million had been issued and $711.9 million was outstanding. As of June 30, 2002, the General Assembly had also authorized the issuance of $1.21 billion in Higher Education Capital Facilities Bonds, of which $775 million had been issued and $739.4 million was outstanding.

Through approval of the November 1995 amendment, voters authorized the issuance of Highway

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

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, 2002, the General Assembly had authorized the issuance of approximately $1.35 billion in Highway Capital Improvements Bonds, of which $1 billion had been issued and $702.5 million was outstanding.

A 1987 constitutional amendment provided for the issuance of $1.2 billion of general obligation bonds for infrastructure improvements (Infrastructure Bonds), of which no more than $120 million may be issued in any calendar year. As of June 30, 2002, the General Assembly had authorized $1.2 billion of these bonds to be sold, of which approximately $1.2 billion had been issued and $818.4 million (net of unaccreted discount of $90.9 million on deep-discount bonds issued) was outstanding.

In November 1995, voters approved another constitutional amendment that provided for the issuance of an additional $1.2 billion of Infrastructure Bonds, of which no more than $120 million (plus any prior years' principal amounts not issued under the new authorization) may be sold in any state fiscal year. As of June 30, 2002, the General Assembly had authorized $600 million in Infrastructure Bonds to be issued under the provisions of the 1995 constitutional amendment, of which $480 million had been issued and $445.9 million (including $2.9 million in unamortized premium) was outstanding.

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, 2002, for Highway Obligations, was approximately $1.75 billion, all of which had been issued and $87 million was outstanding.

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, 2002, the General Assembly had authorized the issuance of $150 million in Coal Research and Development Bonds, of which $137 million had been issued and $49.5 million was outstanding. Legislative authorizations for the issuance of Natural Resources Capital Facilities Bonds totaled $272 million, as of June 30, 2002, of which $210 million had been issued and $165.2 million was outstanding.

During fiscal year 2002, the State issued $50 million in Conservation Projects Bonds for the first time. Not more than $50 million in Conservation Projects Bonds may be issued in a fiscal year and not more than $200 million may be issued.

General obligation bonds outstanding and bonds authorized but unissued, as of June 30, 2002, are presented in the table below.

For the year ended June 30, 2002, NOTE 15 summarizes changes in general obligation bonds.

Primary Government-Governmental Activities
General Obligation Bonds
As of June 30, 2002
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Common Schools Capital Facilities	2000-02	4.5%-5.4%	2023	$ 711,923	$ 510,000
Higher Education Capital Facilities	2000-02	4.5%-5.4%	2023	739,428	436,310
Highway Capital Improvements	1997-01	4.1%-5.0%	2011	702,500	350,000
Infrastructure Improvements	1990-02	3.3%-7.6%	2022	1,264,379	120,014
Highway Obligations	1993-97	4.5%-4.8%	2005	87,000	—
Coal Research and Development	1992-02	4.0%-5.6%	2013	49,515	13,000
Natural Resources Capital Facilities	1995-02	4.5%-5.6%	2018	165,224	62,000
Conservation Projects	2002	4.3%	2017	51,160	—
Total General Obligation Bonds				$3,771,129	$1,491,324

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

Future general obligation debt service requirements, as of June 30, 2002, are as follows (dollars in thousands):

Year Ending June 30,	Principal	Interest	Total
2003	$ 301,110	$ 169,986	$ 471,096
2004	310,775	158,341	469,116
2005	281,640	144,967	426,607
2006	270,180	132,818	402,998
2007	268,025	121,171	389,196
2008-2012	1,149,745	435,374	1,585,119
2013-2017	789,935	203,973	993,908
2018-2022	436,490	54,965	491,455
2023-2027	26,340	668	27,008
	3,834,240	1,422,263	5,256,503
Net Unamortized Premium/ (Discount)	(63,111)	—	(63,111)
Total	$3,771,129	$1,422,263	$5,193,392

As of June 30, 2002, the outstanding balance reported for Infrastructure Improvement Bonds included approximately $63.9 million in variable rate bonds that were issued during fiscal year 2002. The adjustable interest rate on the bonds is reset weekly at a rate determined by the remarketing agent, not to exceed 12 percent. The rate for these bonds was 1.15 percent, as of June 30, 2002.

In prior years, the Treasurer of State defeased certain Infrastructure Improvement 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, 2002, $45.1 million of Infrastructure Improvement Bonds 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 Business Development, and the Ohio Department of Transportation. Major issuers for the State's component units include the Ohio Water Development Authority, the Ohio State University, the University of Cincinnati, and Kent State University.

A. Primary Government

Economic development bonds, issued by the Treasurer of State for the Office of Business Development'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.

Since fiscal year 1998, the Treasurer of State has issued a total of $190 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, 2002, are presented in the table at the top of the following page.

For the year ended June 30, 2002, NOTE 15 summarizes changes in revenue bonds.

NOTE 11 REVENUE BONDS AND NOTES (Continued)

Primary Government
Revenue Bonds
As of June 30, 2002
(dollars in thousands)

	Fiscal Year Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
Governmental Activities:				
Treasurer of State:				
Economic Development	1997	6.7%-7.7%	2022	$144,760
State Infrastructure Bank	1998-02	4.5%-5.0%	2009	152,878
Total Governmental Activities				297,638
Business-Type Activities:				
Bureau of Workers' Compensation	1994	3.3%-5.1%	2014	168,770
Ohio Building Authority	1986-97	4.8%-9.8%	2008	21,953
Total Business-Type Activities				190,723
Total Revenue Bonds				$488,361

Future bond service requirements for revenue bonds of the primary government, as of June 30, 2002, are presented in the table below.

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, 2002, no obligation for the refunding bonds has been included in the financial statements.

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

Primary Government
Future Funding Requirements for Revenue Bonds
As of June 30, 2002
(dollars in thousands)

	Governmental Activities			Business-Type Activities			Total		
Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2003	$ 26,505	$ 17,819	$ 44,324	$ 13,531	$ 9,569	$ 23,100	$ 40,036	$ 27,388	$ 67,424
2004	27,290	16,454	43,744	14,731	8,930	23,661	42,021	25,384	67,405
2005	28,155	14,968	43,123	15,887	9,686	25,573	44,042	24,654	68,696
2006	29,055	13,453	42,508	17,321	8,767	26,088	46,376	22,220	68,596
2007	30,035	11,843	41,878	18,506	6,431	24,937	48,541	18,274	66,815
2008-2012	68,670	40,263	108,933	81,640	19,184	100,824	150,310	59,447	209,757
2013-2017	36,490	26,244	62,734	31,255	2,209	33,464	67,745	28,453	96,198
2018-2022	46,950	9,533	56,483	—	—	—	46,950	9,533	56,483
	293,150	150,577	443,727	192,871	64,776	257,647	486,021	215,353	701,374
Net Unamortized Premium/(Discount)	4,488	—	4,488	(2,148)	—	(2,148)	2,340	—	2,340
Total	$297,638	$150,577	$448,215	$190,723	$64,776	$255,499	$488,361	$215,353	$703,714

NOTE 11 REVENUE BONDS AND NOTES (Continued)

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, 2001, approximately $649.9 million in bonds were outstanding for this program.

Future bond service requirements for the Water Pollution Control Loan Program revenue bonds, as of December 31, 2001, are as follows (dollars in thousands):

Year Ending December 31,	Principal	Interest	Total
2002	$113,840	$ 30,182	$144,022
2003	32,175	27,801	59,976
2004	33,355	26,032	59,387
2005	34,555	24,176	58,731
2006	35,590	22,283	57,873
2007-2011	195,855	81,945	277,800
2012-2016	171,180	31,143	202,323
2017-2021	32,975	2,285	35,260
	649,525	245,847	895,372
Net Unamortized Premium/(Discount)	4,657	—	4,657
Unamortized Loss	(4,309)	—	(4,309)
Total	$649,873	$245,847	$895,720

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 residence educational 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.

Future bond service requirements for revenue bonds and notes reported for the discretely presented component units, as of June 30, 2002, are presented in the table below, which also continues on the following page.

Of the outstanding revenue bonds and notes reported for the OWDA component unit fund, $5.9 million in bonds had an adjustable interest rate that is reset weekly at a rate determined by the remarketing agency, not to exceed 10 percent. The rate for these notes was 1.71 percent, as of December 31, 2001.

Component Units
Future Funding Requirements for Revenue Bonds
As of June 30, 2002
(dollars in thousands)

	Ohio Water Development Authority (12/31/01)			Ohio State University			University of Cincinnati		
Year Ending December 31 or June 30,	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2002	$ 181,390	$ 71,130	$ 252,520						
2003	103,270	65,451	168,721	$278,676	$ 16,584	$295,260	$ 70,329	$ 21,011	$ 91,340
2004	113,105	59,917	173,022	15,253	13,342	28,595	13,626	19,003	32,629
2005	97,680	54,807	152,487	16,030	12,644	28,674	15,426	18,353	33,779
2006	97,875	48,951	146,826	15,068	11,947	27,015	17,545	17,570	35,115
2007	—	—	—	15,585	11,260	26,845	17,550	16,670	34,220
2007-2011	422,550	172,578	595,128	—	—	—	—	—	—
2008-2012	—	—	—	76,811	45,082	121,893	78,280	70,415	148,695
2012-2016	312,720	69,825	382,545	—	—	—	—	—	—
2013-2017	—	—	—	42,886	29,758	72,644	82,045	49,658	131,703
2017-2021	95,910	14,111	110,021	—	—	—	—	—	—
2018-2022	—	—	—	36,545	19,351	55,896	63,490	27,804	91,294
2022-2026	14,400	1,323	15,723	—	—	—	—	—	—
2023-2027	—	—	—	26,325	11,152	37,477	44,375	14,870	59,245
2028-2032	—	—	—	28,140	3,382	31,522	31,720	3,465	35,185
	1,438,900	558,093	1,996,993	551,319	174,502	725,821	434,386	258,819	693,205
Net Unamortized Premium/(Discount)	(5,195)	—	(5,195)	—	—	—	(6,702)	—	(6,702)
Unamortized Loss	(12,785)	—	(12,785)	—	—	—	—	—	—
Total	$1,420,920	$558,093	$1,979,013	$551,319	$174,502	$725,821	$427,684	$258,819	$686,503

(Continued)

NOTE 11 REVENUE BONDS AND NOTES (Continued)

Component Units
Future Funding Requirements for Revenue Bonds
As of June 30, 2002
(Continued)
(dollars in thousands)

Year Ending December 31 or June 30,	Kent State University Principal	Kent State University Interest	Kent State University Total	Other Component Units Principal	Other Component Units Interest	Other Component Units Total	Total Component Units Principal	Total Component Units Interest	Total Component Units Total
2002							$ 181,390	$ 71,130	$ 252,520
2003	$ 3,980	$ 12,121	$ 16,101	$ 58,355	$ 29,368	$ 87,723	514,610	144,535	659,145
2004	1,815	11,946	13,761	31,838	27,448	59,286	175,637	131,656	307,293
2005	1,860	11,860	13,720	31,309	25,957	57,266	162,305	123,621	285,926
2006	1,715	11,771	13,486	30,103	24,480	54,583	162,306	114,719	277,025
2007	2,790	11,688	14,478	30,438	23,892	54,330	66,363	63,510	129,873
2007-2011	—	—	—	—	—	—	422,550	172,578	595,128
2008-2012	18,005	56,310	74,315	141,567	96,497	238,064	314,663	268,304	582,967
2012-2016	—	—	—	—	—	—	312,720	69,825	382,545
2013-2017	38,560	49,409	87,969	123,303	58,787	182,090	286,794	187,612	474,406
2017-2021	—	—	—	—	—	—	95,910	14,111	110,021
2018-2022	49,830	38,421	88,251	74,175	31,313	105,488	224,040	116,889	340,929
2022-2026	—	—	—	—	—	—	14,400	1,323	15,723
2023-2027	54,900	24,835	79,735	56,188	14,316	70,504	181,788	65,173	246,961
2028-2032	104,915	10,671	115,586	23,400	1,650	25,050	188,175	19,168	207,343
	278,370	239,032	517,402	600,676	333,708	934,384	3,303,651	1,564,154	4,867,805
Net Unamortized Premium/(Discount)	—	—	—	1,287	—	1,287	(10,610)	—	(10,610)
Unamortized Loss	—	—	—	—	—	—	(12,785)	—	(12,785)
Total	$278,370	$239,032	$517,402	$601,963	$333,708	$935,671	$3,280,256	$1,564,154	$4,844,410

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, 2002, are presented in the table on the top of the following page.

NOTE 12 SPECIAL OBLIGATION BONDS (Continued)

Primary Government-Governmental Activities
Special Obligation Bonds
As of June 30, 2002
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Ohio Building Authority	1986-02	3.3%-9.8%	2021	$2,317,964	$615,910
Treasurer of State:					
Chapter 154 Bonds:					
Higher Education Facilities	1992-01	4.3%-6.1%	2014	1,517,695	—
Mental Health Facilities	1993-02	4.1%-6.0%	2016	275,721	103,915
Parks and Recreation Facilities	1993-02	4.0%-5.5%	2017	115,447	26,100
Elementary and Secondary Education	1995-99	3.7%-5.8%	2008	162,275	—
Total Special Obligation Bonds				$4,389,102	$745,925

For the year ended June 30, 2002, NOTE 15 summarizes changes in special obligation bonds.

Future special obligation debt service requirements, as of June 30, 2002, are as follows (dollars in thousands):

Year Ending June 30,	Principal	Interest	Total
2003	$ 465,789	$ 212,472	$ 678,261
2004	463,560	190,470	654,030
2005	441,348	176,011	617,359
2006	430,984	153,396	584,380
2007	428,364	124,009	552,373
2008-2012	1,494,574	358,768	1,853,342
2013-2017	543,300	97,515	640,815
2018-2022	130,445	11,284	141,729
	4,398,364	1,323,925	5,722,289
Net Unamortized Premium/ (Discount)	(9,262)	—	(9,262)
Total	$4,389,102	$1,323,925	$5,713,027

During fiscal year 2002, the OBA had three separate advance refundings as follows:

- The OBA issued approximately $250 million in refunding bonds with an average interest rate of 4.38 percent to defease approximately $250 million in principal and interest on the special obligation bonds being refunded ($213 million *in substance*). At the date of the refunding, the refunded bonds had an average interest rate of 5.98 percent. The refunding resulted in an economic gain of $10 million.
- The OBA issued approximately $13 million in refunding bonds with an average interest rate of 3.84 percent to defease approximately $13 million in principal and interest on the special obligation bonds being refunded ($6.6 million defeased *in substance*). At the date of the refunding, the refunded bonds had an average interest rate of 6.34 percent. The refunding resulted in an economic gain of $405 thousand.
- The OBA issued approximately $59 million in refunding bonds with an average interest rate of 3.88 percent to defease *in substance* approximately $56 million in principal and interest on the special obligation bonds being refunded. At the date of the refunding, the refunded bonds had an average interest rate of 5.79 percent. The refunding resulted in an economic gain of $2.5 million.

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, 2002, $417.4 million and $380.5 million of OBA and Chapter 154 special obligation bonds, respectively, are considered defeased and no longer outstanding.

NOTE 13 CERTIFICATES OF PARTICIPATION

As of June 30, 2002, approximately $9.9 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 million in COP obligations to finance state assistance to the Greater Cleveland Regional Transit Authority for a share of the Cleveland Waterfront Transit Line Project's construction cost, and $10.2 million in 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, 2002, are presented in the first table below.

As of June 30, 2002, the primary government's future commitments under the COP financing arrangements are as follows (dollars in thousands):

Year Ending June 30,	Principal	Interest	Total
2003	$ 2,530	$ 558	$ 3,088
2004	890	465	1,355
2005	945	408	1,353
2006	1,005	348	1,353
2007	800	285	1,085
2008-2012	3,730	851	4,581
Total	$9,900	$2,915	$12,815

For the year ended June 30, 2002, NOTE 15 summarizes changes in COP obligations.

For the State's component units, approximately $10 million in COP obligations are reported in the component unit funds. The obligations finance building construction costs at the Ohio State University and University of Cincinnati.

As of June 30, 2002, future commitments under the COP financing arrangements for the State's component units are detailed in the second table below.

Primary Government — Governmental Activities
Certificate of Participation Obligations
As of June 30, 2002
(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	$5,890
Waterfront Transit Line Project	1996	4.8%	2003	1,695
Rickenbacker Port Authority Improvements	1996	6.1%	2007	2,315
Total Certificates of Participation				$9,900

Component Units
Future Funding Requirements for Certificate of Participation Obligations
As of June 30, 2002
(dollars in thousands)

	Ohio State University			University of Cincinnati			Total Component Units		
Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2003	$ 925	$ 401	$ 1,326	$ 250	$ 63	$ 313	$1,175	$ 464	$ 1,639
2004	980	361	1,341	90	51	141	1,070	412	1,482
2005	720	321	1,041	90	46	136	810	367	1,177
2006	355	293	648	90	41	131	445	334	779
2007	360	277	637	90	36	126	450	313	763
2008-2012	2,130	1,105	3,235	475	105	580	2,605	1,210	3,815
2013-2017	2,710	513	3,223	95	5	100	2,805	518	3,323
2018-2022	625	16	641	—	—	—	625	16	641
Total	$8,805	$3,287	$12,092	$1,180	$ 347	$1,527	$9,985	$3,634	$13,619

NOTE 14 OTHER NONCURRENT LIABILITIES

As of June 30, 2002, in addition to bonds and certificate 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	$ 381,929
Capital Leases Payable	3,933
Litigation Liabilities	30,000
Liability for Escheat Property	103,590
Total Governmental Activities	519,452
Business-Type Activities:	
Compensated Absences	12,648
Capital Leases Payable	57,171
Workers' Compensation:	
Deferred Revenue	413,086
Benefits Payable	13,267,172
Other (includes compensated absences totaling $20,903)	1,797,022
Deferred Prize Awards Payable	997,944
Tuition Benefits Payable	738,200
Total Business-Type Activities	17,283,243
Total Primary Government	$17,802,695
Component Units:	
Compensated Absences	$ 206,265
Capital Leases Payable	202,082
Intergovernmental Payable	1,343,734
Deferred Revenue	132,637
Other	232,913
Total Component Units	$ 2,117,631

For the year ended June 30, 2002, 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, 2002, was $415.5 million, of which $381.9 million is allocable to governmental activities and $33.6 million is allocable to business-type activities.

As of June 30, 2002, $206.3 million of the "Other Noncurrent Liabilities" balance reported for component units represents compensated absences.

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 2002 were approximately $94.4 million.

Future minimum lease commitments for operating leases and capital leases judged to be noncancelable, as of June 30, 2002, are as follows (dollars in thousands):

Primary Government

Year Ending June 30,	Operating Leases
2003	$5,952
2004	13
Total minimum lease payments	$5,965

	Capital Leases		
Year Ending June 30,	Governmental Activities	Business-Type Activities	Total
2003	$1,982	$16,123	$18,105
2004	1,270	16,108	17,378
2005	725	16,107	16,832
2006	347	16,107	16,454
2007	156	—	156
Total Minimum Lease Payments	4,480	64,445	68,925
Amount for interest	(547)	(7,274)	(7,821)
Present Value of Net Minimum Lease Payments	$3,933	$57,171	$61,104

NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

As of June 30, 2002, the primary government had the following capital assets (net of accumulated depreciation for proprietary funds) under capital leases (dollars in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Equipment	$8,481	$55,596	$64,077
Vehicles	113	—	113
Total	$8,594	$55,596	$64,190

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 component unit funds, as of June 30, 2002, are presented in the table below.

C. Litigation Liabilities

In instances when the unfavorable outcome of pending litigation has been assessed to be probable, liabilities are recorded in the financial statements. As of June 30, 2002, $30 million in liabilities ultimately payable from various governmental funds has been recorded for this purpose.

For information on the State's loss contingencies arising from pending litigation, see NOTE 19.

D. Liability for Escheat Property

The State records a liability for escheat property to the extent that it is probable that the escheat property will be reclaimed and paid to claimants. As of June 30, 2002, this liability totaled approximately $103.6 million.

E. Workers' Compensation

Deferred Revenue

Deferred revenue in the amount of $413.1 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, 2002, in the amount of approximately $13.3 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.

Component Units
Future Funding Requirements for Capital Lease Obligations
and Capital Assets Acquired Under Leases
As of June 30, 2002
(dollars in thousands)

Year Ending June 30,	Ohio State University	University of Cincinnati	Other Component Units	Total Component Units
2003	$ 6,277	$ 10,140	$12,531	$ 28,948
2004	4,955	11,047	9,386	25,388
2005	4,294	11,047	5,836	21,177
2006	4,150	11,198	4,792	20,140
2007	2,814	11,647	3,490	17,951
2008-2012	614	60,755	14,214	75,583
2013-2017	—	48,584	519	49,103
2018-2022	—	67,289	—	67,289
Total Minimum Lease Payments	23,104	231,707	50,768	305,579
Amount for Interest	(2,122)	(93,390)	(7,985)	(103,497)
Present Value of Net Minimum Lease Payments	$20,982	$138,317	$42,783	$202,082
Land	$ —	$ —	$ 140	$ 140
Buildings	—	135,361	6,658	142,019
Land Improvements	—	—	11,145	11,145
Equipment	28,543	—	50,717	79,260
Total	$28,543	$135,361	$68,660	$232,564

NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

Other Workers' Compensation Liabilities
Also, the Workers' Compensation Enterprise Fund reports approximately $1.8 billion in other noncurrent liabilities, as of June 30, 2002, of which 1.) $1.62 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.) $81.2 million represents premium payment security deposits collected in advance from private employers to reduce credit risk for premiums collected in subsequent periods, and 3.) $95.4 million consists of other miscellaneous liabilities, including $20.9 million in compensated absences.

F. Deferred Prize Awards Payable
Deferred prize awards payable in installments over future years totaling approximately $997.9 million, as of June 30, 2002, are reported as "Liabilities Payable from Restricted Assets" 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.

The present value of future payments of unpaid prize awards, as of June 30, 2002, is as follows (dollars in thousands):

Year Ending June 30,	
2003	$ 145,307
2004	142,228
2005	136,113
2006	126,735
2007	115,626
2008-2012	382,229
2013-2017	315,351
2018-2022	219,580
	1,583,169
Unamortized Discount	(585,225)
Net Prize Liability	$ 997,944

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

G. Tuition Benefits Payable
The actuarial present value of future tuition benefits payable from the Tuition Trust Authority Enterprise Fund totaling $738.2 million, as of June 30, 2002, are recorded as "Liabilities Payable from Restricted Assets." 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 plan participation.

The following assumptions were used in the actuarial determination of tuition benefits payable: 7.5 percent rate of return, compounded annually, on the investment of current and future assets; a projected annual tuition increase of 11 percent for 2003, 10 percent for 2004, nine percent for 2005 and 6.5 percent annually thereafter; and a 2.5 percent Consumer Price Index inflation rate. The projected tuition growth rates represent a change in the assumption for annual tuition growth from the constant annual 8.2 percent growth rate assumption previously applied. The 6.5 percent assumption for 2006 and later years approximates the average real increase in tuition annually from 1975 through 2005 (adjusted for inflation) assuming the indicated increases in tuition from 2003 through 2005 combined with the actuary's 2.5 percent assumption for future inflation. This change in actuarial assumption is summarized below (dollars in millions):

Actuarial Surplus, as of June 30, 2001	$68.6
Adjustment to Prior Fiscal Year's Surplus	3.0
Interest on the Surplus at 7.5 Percent	5.4
Recognition of Shortfall in Investment Returns	(23.3)
Additional Surplus from New Unit Purchases	(8.5)
Credits Redeemed at Lower Rate	0.2
Higher-Than-Assumed Tuition Increase	(28.8)
Budget Savings	0.1
Lower-Than-Expected Units/Credits Redeemed	(4.0)
Interest Gain on Late Tuition Payouts	0.3
Changes in Actuarial Assumptions	(35.9)
Other	(0.9)
Actuarial Surplus, as of June 30, 2002 -Before Actuarial Present Value (APV) Basis Points Revenue	(23.8)
APV of Payments from Variable Program	23.8
Actuarial Surplus, as of June 30, 2002	$ 0.0

As of June 30, 2002, the actuarial value of net assets available for payment of the tuition benefits payable was $714.4 million. In determining the actuarial value of net assets available, the Authority has applied the smoothed methodology. This methodology recognizes annually one-third of the difference between assets at fair value and the expected assets based on the actuarial investment return

NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

assumption. Consequently, the assets used to determine the program's surplus are not the same as the market or cost value of the program's assets reported in the Authority's financial statements.

H. Intergovernmental Payable

As of June 30, 2002, the School Facilities Commission Component Unit Fund reports an intergovernmental payable balance totaling approximately $1.34 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 15 CHANGES IN NONCURRENT LIABILITIES

Primary Government

Changes in noncurrent liabilities, for the year ended June 30, 2002, are presented for the primary government in the following table.

Primary Government
Changes in Noncurrent Liabilities
For the Fiscal Year Ended June 30, 2002
(dollars in thousands)

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Amount Due Within One Year
Governmental Activities:					
Bonds and Notes Payable:					
General Obligation Bonds (NOTE 10)	$ 3,034,037	$1,018,158	$ 281,066	$ 3,771,129	$ 300,974
Revenue Bonds (NOTE 11)	218,900	105,451	26,713	297,638	30,335
Special Obligations (NOTE 12)	4,731,842	449,558	792,298	4,389,102	465,909
Total Bonds and Notes Payable	7,984,779	1,573,167	1,100,077	8,457,869	797,218
Certificates of Participation (NOTE 13)	12,305	—	2,405	9,900	2,530
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences	361,578	318,725	298,374	381,929	48,068
Capital Leases Payable	4,722	1,479	2,268	3,933	1,735
Litigation Liabilities	20,000	30,000	20,000	30,000	—
Liability for Escheat Property	102,218	35,299	33,927	103,590	35,863
Total Other Noncurrent Liabilities	488,518	385,503	354,569	519,452	85,666
Governmental Activities-Noncurrent Liabilities	8,485,602	1,958,670	1,457,051	8,987,221	885,414
Business-Type Activities:					
Bonds and Notes Payable:					
Revenue Bonds (NOTE 11)	202,614	468	12,359	190,723	13,531
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences	11,547	9,595	8,494	12,648	1,725
Capital Leases Payable	199	69,657	12,685	57,171	13,048
Workers' Compensation:					
Deferred Revenue	428,017	8,483	23,414	413,086	14,263
Benefits Payable	12,505,975	2,881,197	2,120,000	13,267,172	1,631,590
Other:					
Adjustment Expenses Liability	1,606,719	51,615	38,000	1,620,334	437,955
Premium Payment Security Deposits	80,081	3,449	2,258	81,272	—
Miscellaneous	91,551	27,332	23,467	95,416	7,990
Deferred Prize Awards Payable	1,067,945	80,225	150,226	997,944	79,836
Tuition Benefits Payable	486,800	278,675	27,275	738,200	55,800
Total Other Noncurrent Liabilities	16,278,834	3,410,228	2,405,819	17,283,243	2,242,207
Business-Type Activities-Noncurrent Liabilities	16,481,448	3,410,696	2,418,178	17,473,966	2,255,738
Total Primary Government	$24,967,050	$5,369,366	$3,875,229	$26,461,187	$3,141,152

NOTE 15 CHANGES IN NONCURRENT LIABILITIES (Continued)

As reported in the separately issued financial report for the Workers' Compensation Enterprise Fund, the noncurrent portion of the "Other Liabilities-Miscellaneous" account presented in the table on the previous page for workers' compensation includes compensated absences in the amount (dollars in thousands) of $20,903 and $19,932, as of June 30, 2002 and 2001, respectively.

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 will primarily liquidate the other noncurrent liabilities balance attributable to governmental activities.

For fiscal year 2002, the State included interest expense on its debt issues that support the State's governmental activities in the following governmental functions rather than reporting it as direct interest expense. The related borrowings were essential to the creation or continuing existence of the programs they finance (dollars in thousands).

Governmental Activities:	
Primary, Secondary and Other Education	$ 35,805
Higher Education Support	105,067
Health and Human Services	28
Environmental Protection and Natural Resources	140
Transportation	4
General Government	9,040
Community and Economic Development	13,337
Intergovernmental	65,530
Total Interest Expense Charged to Governmental Functions	$228,951

Component Units

Changes in noncurrent liabilities, for the year ended June 30, 2002 (December 31, 2001 for the Ohio Water Development Authority), are presented in the following table for the State's discretely presented component units.

Component Units
Changes in Noncurrent Liabilities
For the Fiscal Year Ended June 30, 2002
(dollars in thousands)

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Amount Due Within One Year
Bonds and Notes Payable:					
Revenue Bonds (NOTE 11):					
Ohio Water Development Authority	$1,398,142	$ 245,745	$ 222,967	$1,420,920	$ 181,280
Ohio State University	395,150	264,465	108,296	551,319	278,676
University of Cincinnati	428,068	12,018	12,402	427,684	70,329
All Other Component Units	825,612	88,550	33,829	880,333	62,399
Total Bonds and Notes Payable	3,046,972	610,778	377,494	3,280,256	592,684
Certificates of Participation (NOTE 13):					
Ohio State University	9,675	—	870	8,805	925
University of Cincinnati	1,430	—	250	1,180	250
Total Certificates of Participation	11,105	—	1,120	9,985	1,175
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences:					
Ohio State University	55,439	10,386	4,498	61,327	4,976
University of Cincinnati	54,406	3,601	1,345	56,662	28,086
All Other Component Units	84,360	19,306	15,390	88,276	23,300
Total Compensated Absences	194,205	33,293	21,233	206,265	56,362
Capital Leases Payable:					
Ohio State University	7,812	17,965	4,795	20,982	5,471
University of Cincinnati	141,252	—	2,935	138,317	3,055
All Other Component Units	39,575	15,833	12,625	42,783	10,542
Total Capital Leases Payable	188,639	33,798	20,355	202,082	19,068
Intergovernmental Payable:					
School Facilities Commission	1,560,739	555,131	772,136	1,343,734	682,558
Deferred Revenue:					
Ohio State University	83,697	402,775	382,697	103,775	93,775
All Other Component Units	27,857	1,836	831	28,862	27,273
Total Deferred Revenue	111,554	404,611	383,528	132,637	121,048

(Continued)

NOTE 15 CHANGES IN NONCURRENT LIABILITIES (Continued)

Component Units
Changes in Other Noncurrent Liabilities *(Continued)*
For the Fiscal Year Ended June 30, 2002
(dollars in thousands)

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Amount Due Within One Year
Other Liabilities:					
Ohio State University	138,960	7,633	7,075	139,518	47,056
University of Cincinnati	27,532	83,135	80,974	29,693	—
All Other Component Units	55,514	22,693	14,505	63,702	22,679
Total Other Liabilities	222,006	113,461	102,554	232,913	69,735
Total Other Noncurrent Liabilities	2,277,143	1,140,294	1,299,806	2,117,631	948,771
Component Units-Noncurrent Liabilities	$5,335,220	$1,751,072	$1,678,420	$5,407,872	$1,542,630

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, 2002, revenue bonds and notes outstanding that represent "no commitment" debt for the State are as follows (dollars in thousands):

Organization	Outstanding Amount
Ohio Department of Development:	
Ohio Housing Finance Agency	$2,423,074
Ohio Enterprise Bond Program	109,115
Hospital Facilities Bonds	21,110
Total No Commitment Debt	$2,553,299

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, 2002 (dollars in thousands):

Primary Government:	
Major Funds:	
Tuition Trust Authority Enterprise Fund	($70,283)
Nonmajor Governmental Funds:	
Mental Health and Retardation Special Revenue Fund	($44,151)
Commons Schools Capital Facilities General Obligations Debt Service Fund	(21)
Total	($44,172)
Component Units:	
School Facilities Commission Fund	($866,459)

B. "Other" Fund Balance Reserves and Designations

Details on the "Reserved for Other" account reported for the governmental funds, as of June 30, 2002, are presented in the table on the following page.

As of June 30, 2002, $307 million and $12.4 million of the General Fund's unreserved fund balance is designated for budget stabilization and compensated absences, respectively. The unreserved fund balance for nonmajor special revenue funds is designated for compensated absences in the amount of $2.5 million, as of June 30, 2002.

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

Primary Government
Governmental Funds — Reserved for Other
As of June 30, 2002
(dollars in thousands)

	General Fund	Nonmajor Special Revenue Funds	Nonmajor Debt Service Funds	Total Governmental Funds
Other Assets — Prepaids	$ 186	$ 194	$ —	$ 380
Advances to Local Governments	3,452	—	—	3,452
Department of Development's Office of Minority Financial Incentives — Mini-Loan Program Deposits	269	—	—	269
Noncurrent Portion of Interfund Receivables	220,566	—	—	220,566
Assets in Excess of Debt Service Requirements	—	—	285	285
Ohio Enterprise Bond Program	—	10,000	—	10,000
Coal Research and Development Program	—	4,944	—	4,944
Special Purpose Restrictions:				
Health and Human Services	—	13,138	—	13,138
Environmental Protection and Natural Resources	—	6,357	—	6,357
Community and Economic Development	—	44,970	—	44,970
Total Reserved for Other	$224,473	$79,603	$285	$304,361

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 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 $165 thousand for the year ended December 31, 2001) 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, 2001 (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.

NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

Summary financial information for the GLPF, for the fiscal year ended December 31, 2001, is as follows (dollars in thousands):

Cash and Investments	$118,838
Other Assets	511
Total Assets	$119,349
Total Liabilities	$ 1,532
Total Fund Equity	117,817
Total Liabilities and Fund Equity	$119,349
Total Revenues and Other Additions*	$ (7,797)
Total Expenditures	(5,589)
Net Decrease in Fund Equity	$ (13,386)

*Includes $13,493 for unrealized loss on investments.

In the event of the Fund's dissolution, the State of Ohio would receive a 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. The governing boards of the technical colleges consist of either seven or nine trustees, of whom 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 2002 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	$ 45,228	$15,874	$ 61,102
Jefferson Community College	3,976	20	3,996
Lakeland Community College	15,322	586	15,908
Lorain County Community College	22,194	2,105	24,299
Rio Grande Community College	4,442	447	4,889
Sinclair Community College	42,008	3,777	45,785
Total Local Community Colleges	133,170	22,809	155,979
Technical Colleges:			
Belmont Technical College	5,119	3	5,122
Central Ohio Technical College	4,357	119	4,476
Hocking Technical College	17,592	4,588	22,180
Lima Technical College	7,454	270	7,724
Marion Technical College	3,756	350	4,106
Muskingum Technical College	5,449	1,228	6,677
North Central State College	7,240	1,676	8,916
Stark State College of Technology	11,206	1,948	13,154
Total Technical Colleges	62,173	10,182	72,355
Total	$195,343	$32,991	$228,334

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 Ohio Air Quality Development Authority, 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 2002, the State had the following related-party transactions with its related organizations:

- The primary government distributed $2.4 million in motor vehicle fuel excise tax collections from the Revenue Distribution Fund to the Ohio Turnpike Commission. Also, the primary government paid the Commission approximately $2.2 million from the Highway

NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

Operating Fund to cover some of its capital project costs.

- Separate funds, established for the Petroleum Underground Storage Tank Release Compensation Board, the Ohio Air Quality Development Authority, 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 $673 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 2002, the Ohio Legal Assistance Foundation received approximately $716 thousand 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) 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; plaintiff's petition for certiorari was not granted by the U.S. Supreme Court. 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. Discovery is completed, and trial for liability only commenced January 13, 2003. 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 2001 State of Ohio Single Audit (completed in March 2002), $29.6 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, 2002.

C. Tax Refund Claims

As of June 30, 2002, sales and use tax refund claims estimated in the amount of $18.6 million were pending an official determination of the Tax Commissioner at the Ohio Department of Taxation. The claims arose from refund claims taxpayers filed during fiscal year 2002 for tax periods occurring in fiscal year 2002 and in prior years. No liability has been reported in the financial statements for this matter.

NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

D. Construction Commitments

As of June 30, 2002, the Ohio Department of Transportation had total contractual commitments of approximately $1.78 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 $840.1 million, $433.4 million, $449 million, and $56.6 million, respectively. As of June 30, 2002, other major non-highway construction commitments for the primary government's budgeted capital projects funds are as follows (dollars in thousands):

Mental Health/Mental Retardation Facilities Improvements	$ 37,521
Parks and Recreation Improvements	25,212
Administrative Services Building Improvements	49,022
Youth Services Building Improvements	41,000
Adult Correctional Building Improvements	46,943
Highway Safety Building Improvements	7,732
Ohio Parks and Natural Resources	20,437
Total	$227,867

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
2003	$ 422,746	$ —	$ 422,746
2004	352,827	—	352,827
2005	352,827	—	352,827
2006	352,827	—	352,827
2007	352,827	—	352,827
2008-2012	1,799,147	119,750	1,918,897
2013-2017	1,799,147	119,750	1,918,897
2018-2022	2,016,011	—	2,016,011
2023-2025	1,209,607	—	1,209,607
Total	$8,657,966	$239,500	$8,897,466

During fiscal year 2002, Ohio received $368.6 million, which was approximately $50.2 million or 12 percent less than the pre-adjusted base payment for the year. For the last three 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 $1.1 billion, which is approximately $114.8 million or 9.5 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. Before the end of fiscal year 2002, the State transferred $289.6 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 2002. Also, the General Assembly has authorized the transfer of up to an additional $285 million in tobacco settlement revenues, if needed to balance the fiscal year 2003 budget in the event of continued revenue shortfalls in the General Fund.

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 injuries, disease, or death.

The "Benefits Payable" account balance reported in the Workers' Compensation Enterprise Fund, as of June 30, 2002, in the amount of approximately $13.3 billion includes reserves for indemnity and medical claims, including actuarial estimates for both reported claims and claims incurred but not reported. The estimate for this liability is based on historical claims experience data and assumptions and projections as to future events, including claims frequency, severity, persistency, and inflationary trends for medical claim reserves. The compensation adjustment expenses liability, which is included in "Other Liabilities" in the amount of approximately $1.6 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 reported liability estimates are adequate; however, the ultimate liabilities may vary from amounts provided. While management uses available information to estimate the liabilities, 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 and updated quarterly based upon 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 5.8 percent to reflect the present value of future benefit payments. The undiscounted reserves for the benefits and compensation adjustment expenses totaled $30.6 billion, as of June 30, 2002, and $29.5 billion, as of June 30, 2001. For additional information, refer to the Fund's separate audited financial report, for the fiscal year ended June 30, 2002.

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. Ohio Med Health Plan
Employees of the primary government have the option of participating in the Ohio Med Health Plan, which is a fully self-insured health benefit plan established July 1, 1989. Medical Mutual of Ohio administers the plan under a claims administration contract with the primary government.

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 plan's actuary calculates estimated claims liabilities based on prior claims data, employee enrollment figures, medical trends, and experience.

Primary Government
Changes in Workers' Compensation Benefits Payable
and Compensation Adjustment Expenses Liability
Last Two Fiscal Years
(dollars in millions)

	Fiscal Year 2002	Fiscal Year 2001
Benefits Payable and Compensation Adjustment Expenses Liability, as of July 1	$14,112	$13,638
Incurred Compensation and Compensation Adjustment Benefits	2,662	2,494
Incurred Compensation and Compensation Adjustment Benefit Payments	(2,158)	(2,020)
Change in Liability Due to Decrease in Discount Rate	272	—
Benefits Payable and Compensation Adjustment Expenses Liability, as of June 30	$14,888	$14,112

NOTE 20 RISK FINANCING (Continued)

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 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, 2002, approximately $33.8 million in assets was available in the Agency Fund 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):

	Fiscal Year 2002	Fiscal Year 2001
Claims Liabilities, as of July 1	$ 33,830	$ 24,154
Incurred Claims	164,109	131,798
Claims Payments	(151,464)	(122,122)
Claims Liabilities, as of June 30	$ 46,475	$ 33,830

As of June 30, 2002, the estimated claims liability exceeded the resources on deposit in the Payroll Withholding and Fringe Benefits Agency Fund for the payment of claims by approximately $12.7 million, thereby, resulting in a funding deficit. The net claims liability, which is payable from expendable financial resources in the governmental funds, as of June 30, 2002, is 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, 2002 (December 31, 2001 for the Ohio Water Development Authority), the State issued major debt as detailed in the table below and on the following page.

Debt Issuances
Subsequent to June 30, 2002
(dollars in thousands)

	Date	Interest Coupon Rates	Amount
Primary Government:			
Ohio Public Facilities Commission-General Obligation Bonds:			
Common Schools, Series 2002B	August 2002	3.0%-5.0%	$ 200,000
Natural Resources Refunding, Series H	August 2002	2.5%-4.0%	17,640
Higher Education, Series 2002B	October 2002	2.0%-5.3%	175,000
Higher Education Refunding, Series 2002C	November 2002	5.3%-5.5%	54,975
			447,615
Treasurer of State-General Obligation Bonds:			
Infrastructure Improvement Refunding, Series 2002A	August 2002	5.4%-5.5%	59,920
Infrastructure Improvement, Series 2002B	October 2002	2.0%-5.3%	120,000
Highway Capital Improvements, Series G	November 2002	1.6%-5.3%	135,000
			314,920
Treasurer of State-Revenue Bonds:			
Major New State Infrastructure Project, Series 2002-1	September 2002	2.0%-5.0%	135,000
Revitalization Project, Series 2002A	October 2002	3.0%-5.0%	50,000
			185,000

(Continued)

NOTE 21 SUBSEQUENT EVENTS (Continued)

	Date	Interest Coupon Rates	Amount
Primary Government: ***(Continued)***			
Treasurer of State-Chapter 154 Special Obligation Bonds:			
Mental Health Capital Facilities, Series II-2002A	August 2002	2.3%-5.3%	30,000
Mental Health Capital Facilities Refunding, Series II-2002B	August 2002	3.0%-5.3%	38,065
Higher Education Capital Facilities Refunding, Series II-2002A	August 2002	2.0%-5.5%	253,275
Parks and Recreation Capital Facilities Bonds, Series II 2002B	August 2002	2.5%-3.0%	9,675
			331,015
Ohio Building Authority Special Obligation Bonds:			
Adult Correctional Building Fund Projects, 2002 Series A	September 2002	2.0%-5.0%	50,000
Adult Correctional Building Fund Projects Refunding, 2002 Series B	September 2002	2.0%-5.3%	90,560
			140,560
Total Primary Government			$1,419,110
Component Units:			
Ohio Water Development Authority Revenue Bonds and Notes:			
Water Pollution Control Loan Fund-Water Quality, Series 2002	February 2002	2.5%-5.3%	$200,115
Water Development Adjustable Rate, RD Loan Advance Series 2002-A	April 2002	Variable	7,975
Drinking Water Assistance, State Match Series 2002	May 2002	3.0%-5.0%	30,000
Drinking Water Assistance, Leverage Series 2002	May 2002	3.0%-5.0%	60,000
Pure Water Refunding, Series 2002	August 2002	1.8%-5.0%	99,615
Fresh Water Improvement Revenue Bonds, Series 2002	August 2002	3.0%-5.4%	106,780
Pure Water Refunding Variable Rate, Series 2002B	November 2002	Variable	108,000
			612,485
University of Cincinnati Revenue Bonds:			
Millennium Research Institute and Power House, Series 2002F	July 2002	2.5%-5.4%	46,090
Total Component Units			$658,575

As specified in legislation passed prior to June 30, 2002, the General Assembly approved the following increases in bond issue authorizations that became effective after June 30, 2002 (dollars in thousands):

Common Schools Capital Facilities	$345,000
Higher Education Capital Facilities	50,000
Infrastructure Improvements	240,000
Total	$635,000

B. DeRolph Case — State School Funding Plan

Litigation, similar to that in other states, has been pending in Ohio courts since 1991 questioning the constitutionality of Ohio's system of school funding and compliance with the constitutional requirement that the State provide a "thorough and efficient system of common schools." On December 11, 2002, the Ohio Supreme Court, in a 4-3 decision on a motion to reconsider its own decision rendered in September 2001, concluded (as it had in its 1997 and 2000 opinions in that litigation) that the State did not comply with that requirement, even after again noting and crediting significant State steps in recent years. The Court directed the General Assembly "to enact a school-funding scheme that is thorough and efficient, as explained in [its prior decisions in 1997 and 2000], and the accompanying concurrences."

It is not possible at this time to state what or when the General Assembly's further responses will be, or what effect they or any related actions may have on the State's overall financial condition (particularly in the current biennium) or on specific state operations or functions.

C. Workers' Compensation — Intentional Tort Program Refunds

On September 24, 1992, the U.S. District Court issued an order prohibiting the Bureau of Workers' Compensation from disbursing assets for its Intentional Tort Program until such order was lifted or amended by the court. On August 26, 2002, the U.S. Sixth Circuit Appeals Court denied the contention that employers were entitled to reimbursement from the program for amounts paid by employers to settle intentional tort lawsuits that occurred between 1986 and 1991. The Bureau's management is developing a plan to refund the total assets of the Intentional Tort Program to the employers, which will be distributed after the period for appealing the decision to the U.S. Supreme Court has passed. As of June 30, 2002, the amount of total assets to be refunded to employers was $66 million.

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REQUIRED SUPPLEMENTARY INFORMATION

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 2002	
	PCR	Lane-Miles	%
Excellent....................	85-100	6,753	55.74%
Good..........................	75-84	2,688	22.19
Fair	65-74	2,162	17.85
Poor...........................	Less than 65	511	4.22
		12,114	100.00%

General Subsystem:

	PCR	Lane-Miles	%
Excellent....................	85-100	10,635	34.89%
Good..........................	75-84	6,547	21.47
Fair	55-74	12,393	40.65
Poor...........................	Less than 55	912	2.99
		30,487	100.00%

Comparison of Estimated-to-Actual Maintenance/Preservation Costs

(dollars in thousands)

	Fiscal Year 2002
Priority Subsystem:	
Estimated	$251,216
Actual	319,518
General Subsystem:	
Estimated	$110,956
Actual	151,978

Bridge Network
The Ohio Department of Transportation conducts annual inspections of all bridges in the State's Bridge Network. The inspections cover major structural items such as piers and abutments, and assign a general appraisal condition rating from 0 (minimum) to 9 (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 2002	
	General Appraisal Rating	Square Feet of Deck Area	%
Excellent....................	7-9	43,395,068	53.56%
Good	5-6	34,898,954	43.08
Fair	3-4	2,687,455	3.32
Poor...........................	0-2	30,112	.04
		81,011,589	100.00%

Comparison of Estimated-to-Actual Maintenance/Preservation Costs
(dollars in thousands)

	Fiscal Year 2002
Estimated	$192,105
Actual	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, 2002

FEDERAL AGENCY	
U.S. Department of Health and Human Services	$7,826,492,512
U.S. Department of Labor	1,819,415,699
U.S. Department of Agriculture	1,314,660,272
U.S. Department of Transportation	996,945,152
U.S. Department of Education	837,120,316
U.S. Environmental Protection Agency	407,897,198
U.S. Department of Housing and Urban Development	145,453,085
Social Security Administration	90,048,359
U.S. Department of Justice	64,707,563
U.S. Department of the Interior	20,860,722
U.S. Department of Defense	18,736,695
U.S. Department of Energy	17,444,687
U.S. Department of Veterans Affairs	11,516,612
Federal Emergency Management Agency	10,257,987
Corporation for National and Community Service	7,826,916
National Foundation on the Arts and the Humanities	6,175,066
U.S. Department of Commerce	3,772,755
U.S. Small Business Administration	3,250,592
U.S. Equal Employment Opportunity Commission	2,459,298
U.S. Appalachian Regional Commission	664,253
U.S. Department of Treasury	20,163
U.S. Nuclear Regulatory Commission	2,593
U.S. Consumer Product Safety Commission	149
TOTAL EXPENDITURES	**$13,605,728,644**

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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, 2002

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Agriculture		
Food Stamp Cluster:		
10.551	Food Stamps	$689,561,122
10.561	State Administrative Matching Grants for Food Stamp Program	114,989,270
	Total Food Stamp Cluster	804,550,392
Child Nutrition Cluster:		
10.553	School Breakfast Program	36,540,353
10.555	National School Lunch Program	169,622,672
10.556	Special Milk Program for Children	930,663
10.559	Summer Food Service Program for Children	5,912,046
	Total Child Nutrition Cluster	213,005,734
10	Cooperative Pest Recordkeeping Contract	19,130
10	Beef Quality Assurance	38,845
10.025	Plant and Animal Disease, Pest Control, and Animal Care	103,123
10.064	Forestry Incentives Program	337,590
10.153	Market News	50,000
10.163	Market Protection and Promotion	1,552,168
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	4,825,241
10.550	Food Donation	30,570,921
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	190,652,789
10.558	Child and Adult Care Food Program	52,737,192
10.560	State Administrative Expenses for Child Nutrition	3,558,761
10.565	Commodity Supplemental Food Program	73,292
10.568	Emergency Food Assistance Program (Administrative Costs)	2,355,431
10.570	Nutrition Services Incentive	7,906,804
10.572	WIC Farmers' Market Nutrition Program (FMNP)	249,394
10.573	Homeless Children Nutrition Program	93,160
10.574	Team Nutrition Grants	137,236
10.576	Senior Farmers Market Nutrition Program	429,467
10.664	Cooperative Forestry Assistance	1,265,842
10.665	School and Roads -- Grants to States	58,632
10.769	Rural Business Enterprise Grants	89,128
	Total U.S. Department of Agriculture	**$1,314,660,272**
U.S. Department of Commerce		
11	Cooperative Agreement - Fish Inspection	$20,684
11.307	Economic Adjustment Assistance	34,885
11.419	Coastal Zone Management Administration Awards	3,132,444
11.420	Coastal Zone Management Estuarine Research Reserves	474,742
11.420	* Coastal Zone Management Estuarine Research Reserves	110,000
	Total U.S. Department of Commerce	**$3,772,755**
U.S. Department of Defense		
12	FUSRAP Oversight: Diamond Magnesium Site and Luckey Beryllim Site	$61,398
12.002	Procurement Technical assistance for Business Firms	260,374
12.112	Payments to States in Lieu of Real Estate Taxes	238,802
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	821,207
12.401	National Guard Military Operations and Maintenance (O&M) Projects	17,268,818
12.630	Basic, Applied, and Advanced Research in Science and Engineering	86,096
	Total U.S. Department of Defense	**$18,736,695**
U.S. Department of Housing and Urban Development		
14.182	Lower Income Housing Assistance Program -- Section 8 Moderate Rehabilitation	$52,622,477

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Housing and Urban Development (Continued		
14.227	Community Development Block Grants\Special Purpose Grants\ Technical Assistance Program	30,000
14.228	Community Development Block Grants/State's Program	60,611,529
14.231	Emergency Shelter Grants Program	2,610,490
14.238	Shelter Plus Care	129,580
14.239	HOME Investment Partnerships Program	27,913,064
14.241	Housing Opportunities for Persons with AIDS	846,283
14.401	Fair Housing Assistance Program -- State and Local	689,662
	Total U.S. Department of Housing and Urban Development	**$145,453,085**
U.S. Department of the Interior		
Fish and Wildlife Cluster:		
15.605	Sport Fish Restoration	$5,383,175
15.611	Wildlife Restoration	4,419,855
	Total Fish and Wildlife Cluster	9,803,030
15.250	Regulation of Surface Coal Mining and Surface Effect of Underground Coal Mining	1,742,968
15.252	Abandoned Mine Land Reclamation (AMLR) Program	8,860,062
15.615	Cooperative Endangered Species Conservation Fund	4,762
15.615	* Cooperative Endangered Species Conservation Fund	7,586
15.616	Clean Vessel Act	72,410
15.808	* U.S. Geological Survey -- Research and Data Acquisition	20,734
15.810	National Cooperative Geologic Mapping Program	349,170
	Total U.S. Department of the Interior	**$20,860,722**
U.S. Department of Justice		
16.007	State Domestic Preparedness Equipment Support Program	$1,402,798
16.523	Juvenile Accountability Incentive Block Grants	7,732,546
16.523	* Juvenile Accountability Incentive Block Grants	23,115
16.540	Juvenile Justice and Delinquency Prevention -- Allocation to States	589,939
16.548	Title V -- Delinquency Prevention Program	1,043,564
16.549	Part E -- State Challenge Activities	242,046
16.550	State Justice Statistics Program for Statistical Analysis Centers	49,099
16.554	National Criminal History Improvement Program (NCHIP)	817,360
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	139,476
16.560	* National Institute of Justice Research, Evaluation, and Development Project Grants	6,815
16.564	Crime Laboratory Improvement -- Combined Offender DNA Index Syster Backlog Reduction	602,675
16.575	Crime Victim Assistance	14,179,247
16.576	Crime Victim Compensation	5,095,500
16.579	Byrne Formula Grant Program	17,251,892
16.579	* Byrne Formula Grant Program	1,313,971
16.585	Drug Court Discretionary Grant Program	25,433
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	2,862,419
16.588	Violence Against Women Formula Grants	4,595,788
16.589	Rural Domestic Violence and Child Victimization Enforcement Grant Program	210,296
16.592	Local Law Enforcement Block Grants Program	1,170,080
16.593	Residential Substance Abuse Treatment for State Prisoners	1,410,251
16.606	State Criminal Alien Assistance Program	594,808
16.607	Bulletproof Vest Partnership	1,307
16.609	Community Prosecution and Project Safe Neighborhoods	10,817
16.710	Public safety Partnership and community Policing Grant	2,359,724
16.727	Enforcing Underage Drinking Laws Program	351,597

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Justice (Continued)		
16.733	National Incident Based Reporting System (NIBRS)	625,000
	Total U.S. Department of Justice	**$64,707,563**
U.S. Department of Labor		
Employment Services Cluster:		
17.207	Employment Service	$23,809,044
17.801	Disabled Veterans' Outreach Program (DVOP)	4,793,581
17.804	Local Veterans' Employment Representative Program	5,044,169
	Total Employment Services Cluster	33,646,794
WIA Cluster:		
17.258	WIA Adult Program	43,474,092
17.259	WIA Youth Activities	28,400,951
17.260	WIA Dislocated Workers	26,719,311
	Total WIA Cluster	98,594,354
17.002	Labor Force Statistics	2,131,823
17.005	Compensation and Working Conditions	30,480
17.203	Labor Certification for Alien Workers	360,108
17.225	Unemployment Insurance	1,646,341,183
17.235	Senior Community Service Employment Program	3,926,186
17.245	Trade Adjustment Assistance -- Workers	7,584,491
17.246	Employment and Training Assistance -- Dislocated Workers	10,275,456
17.249	Employment Services and Job Training Pilots -- Demonstration and Research	1,203,537
17.250	Job Training Partnership Act	11,962,836
17.253	Welfare-to-Work Grants to States and Localities	224,392
17.263	Youth Opportunity Grants	303,142
17.504	Consultation Agreements	1,412,598
17.600	Mine Health and Safety Grants	534,249
17.802	Veterans' Employment Program	884,070
	Total U.S. Department of Labor	**$ 1,819,415,699**
U.S. Department of Transportation		
Federal Transit Cluster:		
20.500	Federal Transit -- Capital Investment Grants	$24,575,086
20.507	Federal Transit -- Formula Grants	1,478,200
	Total Federal Transit Cluster	26,053,286
*Highway Planning and Construction Cluster:***		
20.205	Highway Planning and Construction	924,041,320
20.205	* Highway Planning and Construction	3,195,383
23.003	Appalachian Development Highway System	365,449
	Total Highway Planning and Construction Cluster	927,602,152
20.005	Boating Safety Financial Assistance	2,517,094
20.106	Airport Improvement Program	9,548
20.218	National Motor Carrier Safety	5,794,164
20.219	Recreational Trails Program	786,175
20.505	Federal Transit -- Metropolitan Planning Grants	9,215,311
20.509	Formula Grants for Other Than Urbanized Areas	10,371,258
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	1,219,998
20.600	State and Community Highway Safety	12,891,370
20.700	Pipeline Safety	365,285
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	484,960
	Total U.S. Department of Transportation	**$997,310,601**

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Treasury		
21	Counter Drug Asset Forfeiture Program	$20,163
	Total U.S. Department of Treasury	**$20,163**
U.S. Appalachian Regional Commission		
23.002	Appalachian Area Development (Supplemental and Direct Grants)	$147,939
23.011	Appalachian State Research, Technical Assistance, and Demonstration Projects	150,865
	Total U.S. Appalachian Regional Commission	**$298,804**
U.S. Equal Employment Opportunity Commission		
30.002	Employment Discrimination -- State and Local Fair Employment Practices Agency Contracts	$2,459,298
	Total U.S. Equal Employment Opportunity Commission	**$2,459,298**
National Foundation on the Arts and the Humanities		
45.025	Promotion of the Arts -- Partnership Agreements	$552,800
45.027	Promotion of the Arts -- Challenge America Grants	40,000
45.310	State Library Program	5,582,266
	Total National Foundation on the Arts and the Humanities	**$6,175,066**
U.S. Small Business Administration		
59.037	Small Business Development Center	$3,250,592
	Total U.S. Small Business Administration	**$3,250,592**
U.S. Department of Veterans Affairs		
64.005	Grants to States for Construction of State Home Facilities	$2,170,188
64.014	Veterans State Domiciliary Care	1,519,162
64.015	Veterans State Nursing Home Care	7,250,784
64.124	All-Volunteer Force Educational Assistance	576,478
	Total U.S. Department of Veterans Affairs	**$11,516,612**
U.S. Environmental Protection Agency		
66.001	Air Pollution Control Program Support	$3,956,816
66.032	State Indoor Radon Grants	333,775
66.419	Water Pollution Control: State and Interstate Program Support	4,553,528
66.432	State Public Water System Supervision	2,644,764
66.433	State Underground Water Source Protection	121,674
66.454	Water Quality Management Planning	762,033
66.458	Capitalization Grants for State Revolving Funds	299,719,212
66.460	Nonpoint Source Implementation Grants	3,955,936
66.460	* Nonpoint Source Implementation Grants	300,551
66.461	Wetlands Protection -- Development Grants	129,617
66.461	* Wetlands Protection -- Development Grants	36,035
66.463	Water Quality Cooperative Agreemen	407,216
66.468	Capitalization Grants for Drinking Water State Revolving Fund	77,746,516
66.469	Great Lakes Program	72,765
66.470	Hardship Grants Program for Rural Communities	566,399
66.472	Beach Monitoring and Notification Program Development Grants	7,361
66.500	Environmental Protection -- Consolidated Research	110,731
66.606	Surveys, Studies, Investigations and Special Purpose Grants	1,628,597
66.608	State Information Grants	221,583
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	926,946
66.707	TSCA Title IV State Lead Grants -- Certification of Lead-Based Paint Professionals	428,541
66.708	Pollution Prevention Grants Program	4,313
66.801	Hazardous Waste Management State Program Support	4,819,901

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Environmental Protection Agency (Continued		
66.802	Superfund State, Political Subdivision, and Indian Tribe Site - Specifice Cooperative Agreements	2,969,744
66.804	State and Tribal Underground Storage Tanks Program	186,800
66.805	Leaking Underground Storage Tank-Trust Fund	1,279,620
66.808	Solid Waste Management Assistance	5,990
66.811	Brownfield Pilots Cooperative Agreements	234
	Total U.S. Environmental Protection Agency	**$407,897,198**
U.S. Nuclear Regulatory Commission		
77.30-83-646	Nuclear Regulatory Commision	$2,593
	Total U.S. Nuclear Regulatory Commission	**$2,593**
U.S. Department of Energy		
81	Cost Recovery Grants: Environmental Research	$2,075,541
81	Petroleum Violation Escrow Funds	1,457,267
81.DEFC2600NT41010	* Energy Smart Schools Research	59,571
81.DEFC4597R530365	Affordable Housing Training	10,228
81.041	State Energy Program	2,736,870
81.042	Weatherization Assistance for Low-Income Persons	10,051,988
81.079	* Regional Biomass Energy Program	24,978
81.086	Conservation Research and Development	345,647
81.104	Office of Science and Technology Developmer for Environmental Management	428,087
81.105	National Industrial Competitiveness through Energy, Environment, and Economics	132,294
81.119	State Energy Program Special Projects	122,216
	Total U.S. Department of Energy	**$17,444,687**
Federal Emergency Management Agency		
83	Comprehensive Environment	$8,500
83.516	Disaster Assistance	353,281
83.536	Flood Mitigation Assistance	99,703
83.541	Disaster Unemployment Assistance	3,270
83.543	Individual and Family Grants	5,084
83.544	Public Assistance Grants	4,459,892
83.547	First Responder Counter-Terrorism Training	230,362
83.548	Hazard Mitigation Grant	975,502
83.551	Project Impact - Building Disaster Resistant Communities	116,405
83.552	Emergency Management Performance Grant	4,005,988
	Total Federal Emergency Management Agency	**$10,257,987**
U.S. Department of Education		
Special Education Cluster:		
84.027	Special Education -- Grants to States	$175,213,972
84.173	Special Education -- Preschool Grants	11,960,535
	Total Special Education Cluster	187,174,507
84.002	Adult Education -- State Grant Program	16,942,250
84.010	Title I Grants to Local Educational Agencies	285,289,879
84.011	Migrant Education -- State Grant Program	2,128,734
84.013	Title I Program for Neglected and Delinquent Children	1,932,625
84.026	Media and Captioning Services for Individuals with Disabilities	2,000
84.048	Vocational Education -- Basic Grants to States	43,026,218
84.069	Leveraging Educational Assistance Partnership	2,200,606
84.126	Rehabilitation Services -- Vocational Rehabilitation Grants to States	90,839,755
84.161	Rehabilitation Services -- Client Assistance Program	378,133
84.162	Immigrant Education	501,609
84.169	Independent Living -- State Grants	780,062

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Education (Continued)		
84.177	Rehabilitation Services -- Independent Living Service for Older Individuals Who Are Blind	589,619
84.181	Special Education -- Grants for Infants and Families with Disabilities	16,022,714
84.185	Byrd Honors Scholarships	1,669,250
84.186	Safe and Drug-Free Schools and Communities -- State Grants	15,331,498
84.186	* Safe and Drug-Free Schools and Communities -- State Grants	73,000
84.187	Supported Employment Services for Individuals with Severe Disabilities	1,478,671
84.194	Bilingual Education Support Services	78,400
84.196	Education for Homeless Children and Youth	1,115,245
84.206	Javits Gifted and Talented Students Education Grant Program	100,000
84.213	Even Start -- State Educational Agencies	5,155,653
84.215	Fund for the Improvement of Education	309,713
84.216	Capital Expenses	654,757
84.240	Program of Protection and Advocacy of Individual Rights	494,090
84.243	Tech-Prep Education	3,636,936
84.265	Rehabilitation Training -- State Vocational Rehabilitation Unit	145,774
84.276	Goals 2000 -- State and Local Education Systemic Improvement Grants	5,874,228
84.281	Eisenhower Professional Development State Grants	14,139,802
84.282	Charter Schools	15,858,769
84.298	Innovative Education Program Strategies	13,300,913
84.314	Even Start -- Statewide Family Literacy Program	73,495
84.318	Technology Literacy Challenge Fund Grants	17,880,822
84.323	Special Education -- State Program Improvement Grants for Children with Disabilities	733,930
84.330	Advanced Placement Program	245,417
84.331	Grants to States for Incarcerated Youth Offenders	548,797
84.332	Comprehensive School Reform Demonstration Program	7,629,892
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	1,284,724
84.334	* Gaining Early Awareness and Readiness for Undergraduate Programs	55,000
84.336	Teacher Quality Enhancement Grants	394,833
84.338	Reading Excellence	13,347,010
84.340	Class Size Reduction	60,600,347
84.342	Preparing Tomorrow's Teachers to Use Technology	166,325
84.342	* Preparing Tomorrow's Teachers to Use Technology	100,000
84.343	Assistive Technology - State Grants for Protection and Advocacy	39,364
84.346	Occupational and Employment Information State Grants	50,368
84.348	Title I Accountability Grants	5,033,220
84.352	School Renovation Grants	1,711,362
	Total U.S. Department of Education	**$837,120,316**
U.S. Consumer Product Safety Commission		
87.CPSC-M-01-0014	Consumer Product Safety Commission	$149
	Total U.S. Consumer Product Safety Commission	**$149**
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	$15,930,361
93.045	Special Programs for the Aging -- Title III, Part C -- Nutrition Services	21,481,107
	Total Aging Cluster	37,411,468
Child Care Cluster:		
93.575	Child Care and Development Block Grant	106,052,090
93.596	Child Care Mandatory and Matching Funds of the Child Care & Development Fund	206,677,362
	Total Child Care Cluster	312,729,452

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE

U.S. Department of Health and Human Services (Continued

Medicaid Cluster:		
93.775	State Medicaid Fraud Control Units	2,269,012
93.777	State Survey and Certification of Health Care Providers and Suppliers	20,748,095
93.778	Medical Assistance Program (Medicaid)	5,610,467,404
93.778	* Medical Assistance Program (Medicaid)	572,781
	Total Medicaid Cluster	5,634,057,292
93	Food Sanitation Inspection Contract	215,773
93	Tissue Residue Contract	15,657
93	* State Assessment Study	425,742
93	Medicated Feed Inspection	48,345
93	Ohio G Force Meeting	2,500
93.003	Public Health and Social Services Emergency Fund	45,560
93.006	State and Territorial and Technical assistance Capacity Developmen Minority HIV/Aids Demonstration Program	157,240
93.041	Special Programs for the Aging -- Title VII, Chapter 3 -- Programs foi Prevention of Elder Abuse, Neglect, and Exploitation	190,272
93.042	Special Programs for the Aging -- Title VII, Chapter 2 -- Long Term Care Ombudsman Services for Older Individuals	379,869
93.043	Special Programs for the Aging -- Title III, Part D -- Disease Prevention and Health Promotion Services	867,575
93.048	Special Programs for the Aging -- Title IV and Title II- Discretionary Projects	83,617
93.05-0005-OH-5002	Clinical Laboratory Improvement Amendment	5
93.05-0105-OH-5002	Clinical Laboratory Improvement Amendment	35,426
93.05-0205-OH-5002	Clinical Laboratory Improvement Amendment	347,756
93.052	National Family Caregiver Support Program	3,815,338
93.110	Maternal and Child Health Federal Consolidated Programs	342,409
93.118	Acquired Immunodeficiency Syndrome (AIDS) Activity	1,028,377
93.119	Grants for Technical Assistance Activities Related Block Grants for Community Mental Health Services - Technical Assistance Centers for Evaluation	66,456
93.127	Emergency Medical Services for Children	145,242
93.130	Primary Care Services -- Resource Coordination and Development	319,316
93.136	Injury Prevention & Control and State & Community Based Programs	108,057
93.138	Protection and Advocacy for Individuals with Mental Illness	1,116,768
93.150	Projects for Assistance in Transition from Homelessness (PATH)	1,326,853
93.1523.2	Breath Testing Training	7,508
93.161	Health Program for Toxic Substances and Disease Registry	81,325
93.197	Childhood Lead Poisoning Prevention Projects -- State and Loca Childhood Lead Poisoning Prevention and Surveillance of Bloo Lead Levels in Children	1,381,278
93.2000-07236	Health Statistics	656,217
93.200-98-7265	National Death Index	300,080
93.217	Family Planning -- Services	4,241,462
93.223-00-4434	Mammography Quality Standard Act Inspections	326,119
93.230	Consolidated Knowledge Development Application (KD&A) Program	636,474
93.234	Traumatic Brain Injury -- State Demonstration Grant Program	331,929
93.235	Abstinence Education	2,383,803
93.240	State Capacity Building	141,616
93.241	State Rural Hospital Flexibility Program	319,227
93.251	Universal Newborn Hearing Screening	86,928
93.252	Community Access Program	495,714
93.262	Occupational Safety and Health Research Grants	96,375
93.268	Immunization Grants	4,564,479

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Health and Human Services (Continued)		
93.283	Centers for Disease Control and Prevention -- Investigations and Technical Assistance	4,896,723
93.556	Promoting Safe and Stable Families	9,846,302
93.558	Temporary Assistance for Needy Families	640,520,440
93.563	Child Support Enforcement	216,364,601
93.566	Refugee and Entrant Assistance -- State Administered Programs	2,468,411
93.568	Low-Income Home Energy Assistance	99,829,203
93.569	Community Services Block Grant	25,278,765
93.571	Community Services Block Grant Discretionary Award - Community Food and Nutrition	142,491
93.576	Refugee and Entrant Assistance -- Discretionary Grants	554,386
93.584	Refugee and Entrant Assistance -- Targeted Assistance	429,748
93.586	State Court Improvement Program	199,973
93.590	Community-Based Family Resource and Support Grants	644,343
93.595	* Welfare Reform Research, Evaluations, and National Studies	16,597
93.597	Grants to States for Access and Visitation Programs	277,962
93.600	Head Start	238,056
93.603	Adoption Incentive Payments	539,669
93.630	Developmental Disabilities Basic Support and Advocacy Grants	4,453,332
93.631	Developmental Disabilities Projects of National Significance	50,781
93.643	Children's Justice Grants to States	177,131
93.645	Child Welfare Services -- State Grants	6,882,374
93.658	Foster Care -- Title IV-E	196,293,759
93.659	Adoption Assistance	136,088,553
93.667	Social Services Block Grant	185,399,251
93.669	Child Abuse and Neglect State Grants	576,215
93.671	Family Violence Prevention and Services/Grants for Battered-Women's Shelters Grants to States and Indian Tribes	2,830,850
93.674	Chafee Foster Care Independent Living	3,354,697
93.767	State Children's Insurance Program	131,932,579
93.779	Centers for Medicare and Medicid Services Research, for Demonstrations and Evaluations	777,296
93.913	Grants to States for Operation of Offices of Rural Health	46,289
93.917	HIV Care Formula Grants	10,793,920
93.919	Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	4,199,323
93.926	Healthy Start Initiative	22,511
93.940	HIV Prevention Activities -- Health Department Based	5,312,442
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	667,786
93.945	Assistance Programs for Chronic Disease Prevention and Control	379,979
93.958	Block Grants for Community Mental Health Services	17,516,098
93.959	Block Grants for Prevention and Treatment of Substance Abuse	68,333,473
93.965	Coal Miners Respiratory Impairment Treatment Clinics and Services	587,308
93.977	Preventive Health Services -- Sexually Transmitted Diseases Control Grants	3,022,915
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	691,591
93.991	Preventative Health and Health Services Block Grant	8,186,406
93.994	Maternal and Child Health Services Block Grant to the States	24,333,959
93.HCFA-99-0914	Behavioral Risk Factor for Older Adults	1,125
	Total U.S. Department of Health and Human Services	**$7,826,492,512**
Corporation for National and Community Service		
94.003	State Commissions	$487,694
94.004	Learn and Serve America -- School and Community Based Programs	1,027,960
94.006	AmeriCorps	5,523,193
94.007	Planning and Program Development Grants	141,391

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
Corporation for National and Community Service (Continued		
94.009	Training and Technical Assistance	150,551
94.011	Foster Grandparent Program	496,127
	Total Corporation for National and Community Service	**$7,826,916**
Social Security Administration		
96	Program Income for Rehabilitating Recipients of Social Security Income & Supplemental Security Income -- Vocational Rehabilitation Program (CFDA# 84.126)	$22,427,176
96.001	Social Security -- Disability Insurance	66,242,076
96.007	Social Security -- Research and Demonstration	486,094
96.008	Social Security -- Benefits Planning, Assistance, and Outreach Program	115,817
96.0600-01-60051	Vital Statistics -- Social Security Contract	21,490
96.0600-98-32688	Vital Statistics -- Social Security Contract	156,705
96.0600-98-32782	Vital Statistics -- Social Security Enumeration Contract	599,001
	Total Social Security Administration	**$90,048,359**
	TOTAL EXPENDITURES	**$13,605,728,644**

* These programs are a part of the Research and Development Cluster, as defined by OMB Circular A-133. Se 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# 20.003. In accordance with OMB Circular A-133, CFDA# 20.003 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 30, 1997, 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, 2002. 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 Commodities (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.

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 2002, 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, 2002, outstanding loans for the Capitalization Grants for Revolving Loan Funds programs totaled approximately $821 million.

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

Capitalization Grant Loan Balance, as of 6/30/01	$740,996,333
Loans without Compliance Requirements	(446,712,164)
Net Loan Balance (Loans with Compliance Requirements)	294,284,169
New Loans Disbursed in FY 2002	91,317,777
Net Principal Repayments Received in FY 2002	(15,447,457)
Capitalized Interest Earned in FY 2002	3,773,054
Current Loan Activity	79,643,374
Ending Loan Balance (Loans with Compliance Requirements)	373,927,543
Administrative Costs in FY 2002	864,718
Administrative Trustee Fee	1,102
Loan Account Trustee Fee	4,815
Source Water Account Costs	943,230
Source Water Account Trustee Fee	1,047
Small System Technical Assistant	472,334
Small System Technical Assistant Trustee Fee	2
Wellhead	1,380,091
Wellhead Trustee Fee	159
Administrative Interest Earned	(7,459)
Loan Account Interest Earned	(116,544)
Source Water Account Interest Earned	(4,886)
Small System Technical Assistant Interest Earned	(8)
Wellhead Interest Earned	(416)
Total Federal Assistance for FY 2002	$377,465,728

The total federal assistance for fiscal year 2002, as reported by the Ohio Environmental Protection Agency, for the Clean Water Revolving Fund and the Drinking Water Revolving Fund were $299,719,212 and $77,746,516 respectively.

NOTE 3 INVENTORY BALANCES FOR NON-CASH FEDERAL ASSISTANCE PROGRAMS

As of June 30, 2002, the outstanding inventory balances for the non-cash federal assistance programs are as follows:

CFDA#	Non-Cash Program	Outstanding Balance, as of 6/30/02
10.551	Food Stamp Coupons	$10,589,880
10.550	Food Commodities	3,706,192
39.003	Federal Surplus Personal Property	-
	Total	$14,296,072

NOTE 4 HOME INVESTMENT PARTNERSHIPS PROGRAM (CFDA# 14.239)

During fiscal year 2002, the State's Supplementary Schedule shows the State spent approximately $27.9 million on the Home Investment Partnerships Program.

Other Ohio governmental entities outside the State's reporting entity also benefited under this program during fiscal year 2002 by drawing an additional $2 million directly from the U.S. Department of Housing and Urban Development. Because the State does not participate directly in this facet of the program, it does not account for this financial activity on its accounting system. Consequently, the Ohio local governments' participation in this program has not been included in the State's Supplementary Schedules.

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, 2002, outstanding FHA-insured loans approximated $2.4 million and mortgage loans guaranteed by the VA approximated $246 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, 2002, OHFA allocated approximately $21.3 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, 2002, OHFA did not issue/commit any federal tax credits under this program.

NOTE 7 RESEARCH AND DEVELOMENT 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
11.420	Coastal Zone Management Estuarine Research Reserves	$ 110,000
15.615	Cooperative Endangered Species Conservative Fund	7,586
15.808	U.S. Geological Survey -- Research and Data Acquisition	20,734
16.523	Juvenile Accountability Incentive Block Grants	23,115
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	6,815
16.579	Byrne Formula Grant Program	1,313,971
20.205	Highway Planning and Construction	3,195,383

NOTE 7 RESEARCH AND DEVELOMENT CLUSTER (Continued)

CFDA#	Program	Amount
66.460	Nonpoint Source Implementation Grants	300,551
66.461	Wetlands Protection -- Development Grants	36,035
81.079	Regional Biomass Energy Program	24,978
81.DEFC260 0NT41010	Energy Smart Schools Research	59,571
84.186	Safe and Drug-Free Schools and Communities – State Grants	73,000
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	55,000
84.342	Preparing Tomorrow's Teachers to Use Technology	100,000
93	State Assessment Study	425,742
93.595	Welfare Reform Research, Evaluations and National Studies	16,597
93.778	Medicaid Assistance Program	572,781
	Total Research and Development Cluster	**$ 6,341,859**

NOTE 8 TRANSFERS BETWEEN FEDERAL PROGRAMS

During fiscal year 2002, the State made allowable transfers of approximately $223 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 $640 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 2002 and the amounts transferred to the Social Services Block Grant and the Child Care and Development Block Grant programs.

Temporary Assistance for Needy Families	$ 863,402,820
Social Services Block Grant	(119,722,598)
Child Care and Development Block Grant	(103,159,782)
Total Temporary Assistance for Needy Families	**$ 640,520,440**

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AUDITORS' REPORTS ON COMPLIANCE AND INTERNAL CONTROLS

Auditor of State
Betty Montgomery

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REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

We have audited the accompanying financial statements of the governmental activities, 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, 2002, 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: Capital 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; and Variable College Savings Plan.

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

Discretely Presented Component Units: Bowling Green State University; Central State University; Cleveland State University; Kent State University; Miami University; The 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, Police and Fire Pension Fund, State Teachers Retirement System, and School Employees Retirement System, whose assets are held by the Treasurer of State and are included as part of the State's Aggregate Remaining Fund Information. These financial statements reflect the following percentages of total assets and revenues or additions of the indicated opinion units:

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Revenues / Additions
Governmental Activities	1%	0%
Business-Type Activities	86%	33%
Aggregate Discretely Presented Component Units	74%	87%
Aggregate Remaining Fund Information	96%	26%
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.

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.

Compliance

As part of obtaining reasonable assurance about whether the State of Ohio's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported 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 were 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.

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 opinion on the financial statements and not to provide assurance 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 eight reportable conditions are identified in the schedule of findings and questioned costs on pages 140 through 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 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 in amounts that would be material in relation to the financial statements 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 financial reporting would not necessarily disclose all matters in the internal controls 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 considered three items identified in the schedule of findings and questioned costs on page 139 to be 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.

This report is intended for the information and use of management, the State Legislature, and the federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

January 27, 2003

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REPORT OF INDEPENDENT ACCOUNTANTS 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, 2002. 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 finding numbers 2002-JFS19-040, 2002-JFS20-041, and 2002-JFS22-043 in the accompanying schedule of findings and questioned costs on pages 199 through 207, the State of Ohio's Department of Job & Family Services was not in compliance with the following Codes of Federal Regulations related to eligibility:

7 CFR 272.8(a)(1)	7 CFR 272.8(g)(4)	7 CFR 272.8(i)(3)
7 CFR 272.8(e)	7 CFR 273.2(f)(6)	42 CFR 435.952(f)
45 CFR 205.51(a)	45 CFR 205.56(a)(1)	45 CFR 205.56(a)(1)(v)
45 CFR 205.56(a)(iv)		

As a result, we were unable to gain assurance the Department's Income and Eligibility Verification System (IEVS) and Client Registry Information System - Enhanced (CRIS - E) were functioning to ensure proper determinations of eligibility and continued eligibility of recipients were being made. In our opinion, the State of Ohio's compliance with these requirements is necessary for the State of Ohio to comply with the requirements applicable to the following programs:

10.551/10.561 – Food Stamp Cluster	93.767 – State Children's Insurance Program
93.558 – Temporary Assistance for Needy Families	93.775/93.777/93.778 – Medicaid Cluster

As described in finding numbers 2002-EDU01-006, 2002-EDU06-011, 2002-JFS27-048, and 2002-JFS32-053 in the accompanying schedule of findings and questioned costs on pages 157, 164, 216 and 222, the State of Ohio's Department of Education and Department of Job & Family Services did not have sufficient procedures in place to monitor the activities of their subrecipients. As a result, we were unable to gain assurance the Departments complied with the subrecipient monitoring requirements of 34 CFR 80.40 (a) and OMB Circular A-133 §___.400 (d). In our opinion, the State of Ohio's compliance with these requirements is necessary for the State of Ohio to comply with the requirements applicable to the following programs:

17.258/17.259/17.260 – WIA Cluster	84.048 - Vocational Education
93.558 – Temporary Assistance for Needy Families	93.767 – State Children's Insurance Program
93.775/93.777/93.778 – Medicaid Cluster	

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, 2001.

The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that 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 148 through 150 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 148 through 150 and described in the accompanying schedule of findings and questioned costs.

A material weakness is a 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 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 148 through 150 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.

This report is intended for the information of management, the State Legislature, the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

February 21, 2003

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

STATE OF OHIO
JUNE 30, 2002

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)?*	Yes
(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 144 through 147
(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	2002-JFS36-057

INTERNAL CONTROL - MATERIAL WEAKNESS

See federal finding # 2002-JFS36-057 on page 227; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2002-JFS38-059

INTERNAL CONTROL - MATERIAL WEAKNESS

See federal finding # 2002-JFS38-059 on page 229; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2002-JFS42-063

INTERNAL CONTROL - MATERIAL WEAKNESS

See federal finding # 2002-JFS42-063on page 233; this finding is also required to be reported in accordance with GAGAS

Finding Number	2002-JFS70-001
State Agency	Ohio Department of Job and Family Services

GAAP PACKAGE SCHEDULES

INTERNAL CONTROL – REPORTABLE CONDITION

Each year, ODJFS is required by the Office of Budget and Management (OBM) to complete various "GAAP Package" schedules which are used by OBM in preparing the State of Ohio Financial Statements. It is imperative these schedules be accurate and complete to avoid misstating the financial statements. It is management's responsibility to ensure control procedures are in place and operating effectively to prevent errors in these schedules.

Revised GAAP Package Schedules had to be submitted to OBM for fiscal year 2002 because the original schedules were incomplete or contained errors, identified by the auditors, as noted below:

- GAAP Schedule B-1: Intergovernmental Receivable/Federal (GRF – Medicaid and State Children's Insurance Program (SCHIP)) – This schedule calculates the amount of Medicaid and SCHIP funds receivable from the federal government by subtracting federal receipts from the federal share of amounts paid in June, 2002. As a result of the errors below, the federal receivable on the original B-1 Schedule (for Medicaid claims) was overstated by $7,881,516:

    - The June 5, 2002 Medicaid EFT draw amount was incorrectly calculated using the enhanced federal financial participation (FFP) rate (71.15% used to calculate SCHIP draws), rather than the blended FFP rate (56.53% used to calculate Medicaid draws), resulting in an original overstatement of Medicaid funds receivable of $14,177,966. However, the client was able to provide documentation to evidence that $6,296,450 of the overdrawn funds were used to offset Medicaid draws that would have been made on June 12 and 13, 2002. Therefore, the balance remaining to be refunded resulted in a $7,881,516 overstatement of the Medicaid Federal Receivable.

    - The B-1 Schedule did not contain any evidence to indicate the schedule was reviewed or approved by an authorized individual.

- GAAP Schedule F-1: Food Stamps Electronic Benefits Transfer (EBT) Activity (Fund 384) – This schedule reports the total net dollar amount of EBT benefits issued during the fiscal year, as reported the monthly Food & Nutrition Services (FNS) – 46 reports. The errors identified below resulted in an overstatement of the net dollar value of EBT benefits issued during the fiscal year of $11,944,738:

    - The total dollar value of EBT benefits issued during SFY02 was reported as a gross amount rather than the net amount as required. The amount on the schedule was reduced by the value of non-participating recipients (occurs when EBT benefits are issued to eligible recipients, but the recipient never activates their EBT card), which caused the original EFT benefit issuance amount to be overstated by $11,944,738.

    - The F-1 Schedule did no contain any evidence to indicate the schedule was reviewed or approved by an authorized individual.

GAAP PACKAGE SCHEDULES (Continued)

- GAAP Schedule A-3: Benefits Account – Cash with Custodian/Investments for the UTF Fund - This schedule summarizes the annual financial activity of the Benefits Account on a cash basis, and reports ending cash and investment balances at year-end.

  - JFS initially reported the amount for Child Support Intercept Payments as $32,821,523, which was $981,604 less than the actual amount of $33,803,127. In addition, the amount of Claimant Payments was reported as $1,487,819,359 but should have been $1,486,837,755, resulting in an overstatement of $981,604. The initial understatement in Child Support Intercept Payments was offset by the initial overstatement in Claimant Payments.

- GAAP Schedule B-2: Intergovernmental Receivable (Other States) and Intergovernmental Payable (Other States) for the UTF Fund – This schedule reports Intergovernmental Receivable and Intergovernmental Payable from other states as of year-end. The Intergovernmental Receivable is unemployment compensation paid to people who have earned the compensation in other states but are now living in Ohio. Intergovernmental Payable is unemployment compensation paid to other states who have people that have earned the unemployment compensation in Ohio but now live in that state. The schedule initially prepared by JFS and submitted to OBM was not accurate because the schedule did not identify the full amount of either of these numbers.

  - For Intergovernmental Receivable JFS initially reported $142,150, based on using the quarter ending March 31 instead of June 30. The correct amount was $6,641,575. The error resulted in an understatement of $6,499,425.

  - For Intergovernmental Payable JFS initially reported $0, which was based on the amount due as of the day the schedule was completed, 8/14/02 instead of 6/30/02. The correct amount was $1,056,534. The error resulted in an understatement of $1,056,534.

As a result ODJFS was not in compliance with the State of Ohio Financial Reporting Policy Manual. In addition, these errors required a significant amount of time by ODJFS personnel, audit staff, and OBM for investigation and/or to correct the amounts reported. These delays could have impeded the preparation of the Financial Statements and could have impacted the submission of the State's Comprehensive Annual Financial Report to the Government Finance Officer's Association. In addition, errors in the information submitted to OBM in the GAAP Package schedules could have resulted in misstatements in the amounts reported in the State of Ohio's Financial Statements.

The preparers of the B-1 and F-1 schedules indicated the errors identified were oversights. In addition, the supervisor indicated her failure to evidence her review and approval of the schedules was an oversight since to the GAAP Supervisor's signature line, present in prior years, was not included in the schedules by OBM. The Supervisor indicated she spoke with OBM to request the signature line be added back to the schedules for SFY03. The preparer of the A-3 schedule indicated the error identified was due to an addition error. The preparer of the B-2 schedule indicated the error identified was due to not including all the outstanding quarters in the calculation.

We recommend ODJFS implement the necessary controls to ensure their GAAP package schedules are prepared in a consistent manner and are completed accurately and in compliance with the GAAP package instructions provided by OBM. These controls should encompass a supervisory review and recalculation/reconciliation of the schedules to the support documentation used in preparing the GAAP package schedules. The supervisory review should also include ensuring the rationale and data used in preparing these schedules are in accordance with the State of Ohio Financial Reporting Policies, as documented in the instructions for each schedule. All reviews should be documented with the reviewer's signature and date on each GAAP package schedule. We also recommend management thoroughly review and evaluate the OBM policies related to each schedule on an annual basis to ensure they are appropriate and reasonable given the nature of the transactions involved and coordinate with OBM if any changes to the instructions, based on this review, are necessary. Management should provide the necessary training to the individuals responsible fore preparing the schedules to help ensure they are aware of the policies and required information necessary to complete the forms.

Finding Number	2002-EDU01-006

INTERNAL CONTROL - REPORTABLE CONDITION

See federal finding # 2002-EDU01-006 on page 157; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2002-JFS22-043

INTERNAL CONTROL - REPORTABLE CONDITION

See federal finding # 2002-JFS22-043 on page 207; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2002-JFS25-046

INTERNAL CONTROL - REPORTABLE CONDITION

See federal finding # 2002-JFS25-046 on page 213; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2002-JFS27-048

INTERNAL CONTROL - REPORTABLE CONDITION

See federal finding # 2002-JFS27-048 on page 216; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2002-JFS35-056

INTERNAL CONTROL - REPORTABLE CONDITION

See federal finding # 2002-JFS35-056 on page 225; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2002-JFS37-058

INTERNAL CONTROL - REPORTABLE CONDITION

See federal finding # 2002-JFS37-058 on page 228; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2002-JFS41-062

INTERNAL CONTROL - REPORTABLE CONDITION

See federal finding # 2002-JFS41-062 on page 232; 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 148 through 150.

The questioned costs are summarized by federal agency, program, and amount on page 151.

The findings and questioned costs are detailed by state agency on pages 152 through 278.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL AWARDS PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
U.S. Department of Agriculture			
10.550	Food Distribution		
	Ohio Department of Education	$30,570,921	
	Total CFDA # 10.550	$30,570,921	0.22%
Food Stamp Cluster			
10.551/10.561			
	Ohio Department of Job & Family Services	$804,544,059	
	Other Agencies	6,333	
	Total Food Stamp Cluster	$804,550,392	5.91%
Nutrition Cluster			
10.553/10.555/10.556/10.559			
	Ohio Department of Education	$209,644,690	
	Other Agencies	3,361,044	
	Total Nutrition Cluster	$213,005,734	1.57%
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children		
	Ohio Department of Health	$190,652,789	
	Total CFDA # 10.557	$190,652,789	1.40%
10.558	Child and Adult Care Food Program		
	Ohio Department of Education	$52,737,192	
	Total CFDA # 10.558	$52,737,192	0.39%
U.S. Department of Housing and Urban Development			
14.182	Lower Income Housing Assistance Program - Section 8		
	Ohio Department of Development	$52,622,477	
	Total CFDA # 14.182	$52,622,477	0.39%
14.228	Community Development Block Grant/State's Program		
	Ohio Department of Development	$60,611,529	
	Total CFDA # 14.228	$60,611,529	0.45%
U.S. Department of Justice			
16.579	Byrne Formula Grant Program		
	Ohio Office of the Attorney General	$1,465,922	
	Ohio Office of Criminal Justice Services	15,220,074	
	Other Agencies	1,879,867	
	Total CFDA # 16.579	$18,565,863	0.14%
U.S. Department of Labor			
Employment Services Cluster			
17.207/17.801/17.804			
	Ohio Department of Job & Family Services	$33,646,794	
	Total Employment Services Cluster	$33,646,794	0.25%
17.225	Unemployment Insurance		
	Ohio Department of Job & Family Services	$1,646,341,183	
	Total CFDA # 17.225	$1,646,341,183	12.10%

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL AWARDS PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
U.S. Department of Labor			
Workforce Investment Act (WIA) Cluster			
17.258/17.259/17.260			
	Ohio Department of Job & Family Services	$98,521,985	
	Other Agencies	72,369	
	Total WIA Cluster	$98,594,354	0.72%
U.S. Department of Transportation			
Highway Planning and Construction Cluster			
20.205/23.003			
	Ohio Department of Transportation	$927,594,597	
	Other Agencies	7,555	
	Total Highway Planning and Construction Cluster	$927,602,152	6.82%
U.S. Environmental Protection Agency			
66.458	Capitalization Grants - State Revolving Fund		
	Ohio Environmental Protection Agency	$299,791,212	
	Total CFDA # 66.458	$299,791,212	2.20%
66.468	Capitalization Grants for Drinking Water - State Revolving Fund		
	Ohio Environmental Protection Agency	$77,746,516	
	Total CFDA # 66.468	$77,746,516	0.57%
U.S. Department of Education			
84.010	Title I Grants to Local Education Agencies		
	Ohio Department of Education	$285,289,879	
	Total CFDA # 84.010	$285,289,879	2.10%
Special Education Cluster			
84.027/84.173			
	Ohio Department of Education	$184,920,158	
	Other Agencies	$2,254,349	
	Total Special Education Cluster	$187,174,507	1.38%
84.048	Vocational Education - Basic Grants to States		
	Ohio Department of Education	$42,248,214	
	Other Agencies	778,004	
	Total CFDA # 84.048	$43,026,218	0.32%
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States		
	Ohio Rehabilitation Services Commission	$90,839,755	
	Total CFDA # 84.126	$90,839,755	0.67%
84.340	Class Size Reduction		
	Ohio Department of Education	$60,600,347	
	Total CFDA # 84.340	$60,600,347	0.45%

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL AWARDS PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
U.S. Department of Health and Human Services			
93.558	Temporary Assistance for Needy Families (TANF)		
	Ohio Department of Job & Family Services	$562,822,261	
	Ohio Department of Education	76,150,592	
	Other Agencies	1,547,587	
	Total CFDA # 93.558	$640,520,440	4.71%
93.563	Child Support Enforcement		
	Ohio Department of Job & Family Services	$216,364,601	
	Total CFDA # 93.563	$216,364,601	1.59%
93.568	Low-Income Home Energy Assistance Program (HEAP)		
	Ohio Department of Development	$99,557,430	
	Other Agencies	271,773	
	Total CFDA # 93.568	$99,829,203	0.73%
Child Care Cluster			
93.575/93.596			
	Ohio Department of Job & Family Services	$312,118,261	
	Other Agencies	611,191	
	Total Child Care Cluster	$312,729,452	2.30%
93.658	Foster Care - Title IV-E		
	Ohio Department of Job & Family Services	$194,207,295	
	Other Agencies	2,086,464	
	Total CFDA # 93.658	$196,293,759	1.44%
93.659	Adoption Assistance		
	Ohio Department of Job & Family Services	$136,088,553	
	Total CFDA # 93.659	$136,088,553	1.00%
93.667	Social Services Block Grant		
	Ohio Department of Job & Family Services	$167,935,149	
	Ohio Department of Mental Health	7,076,735	
	Ohio Department of Mental Retardation and Developmental Disabilities	10,387,367	
	Total CFDA # 93.667	$185,399,251	1.36%
93.767	State Children's Insurance Program (SCHIP)		
	Ohio Department of Job & Family Services	$113,087,241	
	Ohio Department of Mental Health	11,444,759	
	Ohio Department of Mental Retardation and Developmental Disabilities	3,614,366	
	Other Agencies	3,786,213	
	Total CFDA # 93.767	$131,932,579	0.97%

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL AWARDS PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
U.S. Department of Health and Human Services			
Medicaid Cluster			
93.775/93.777/93.778			
	Ohio Department of Aging	$129,640,473	
	Ohio Department of Job & Family Services	4,831,354,899	
	Ohio Department of Mental Health	191,251,257	
	Ohio Department of Mental Retardation and Developmental Disabilities	436,165,122	
	Other Agencies	45,645,541	
	Total Medicaid Cluster	$5,634,057,292	41.41%
93.959	Block Grants for the Prevention and Treatment of Substance Abuse		
	Ohio Department of Alcohol and Drug Addiction	$67,963,391	
	Other Agencies	370,082	
	Total CFDA # 93.959	$68,333,473	0.50%
Social Security Administration			
96.001	Social Security - Disability Insurance		
	Ohio Rehabilitation Services Commission	$66,242,076	
	Total CFDA # 96.001	$66,242,076	0.49%
Total Major Federal Programs		$12,861,760,493	94.53%
Other Federal Programs		$743,968,151	5.47%
Total Federal Awards Expenditures		$13,605,728,644	100.00%

STATE OF OHIO
SUMMARY OF FINDINGS AND QUESTIONED COSTS
JULY 1, 2001 THROUGH JUNE 30, 2002

The findings listed below represent items which are being reported in the Report of Independent Accountants 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 NUMBER
Office of the Attorney General (AGO)			
1. Expenditures Made After the Period of Availability	2002-AGO01-002	Questioned Cost	152
Office of Criminal Justice Services (CJS)			
1. Expenditures Made After the Period of Availability	2002-CJS01-003	Questioned Costs	153
Ohio Department of Development (DEV)			
1. Federal Schedule	2002-DEV01-004	Noncompliance	154
2. HEAP-Suspension and Debarment	2002-DEV02-005	Noncompliance	155
Ohio Department of Education (EDU)			
1. TANF - Monitoring of Head Start Expenditures	2002-EDU01-006	Questioned Cost	157
2. Expenditure Made After the Period of Availability	2002-EDU02-007	Questioned Cost	160
3. Earmarking-Vocational Ed State Admin Allocation Exceeded	2002-EDU03-008	Questioned Cost	161
4. Earmarking-Special Ed State Admin Allocation Exceeded	2002-EDU04-009	Questioned Cost	162
5. On-site Reviews	2002-EDU05-010	Noncompliance	163
6. Subrecipient Monitoring	2002-EDU06-011	Noncompliance	164
7. Reporting	2002-EDU07-012	Noncompliance	165
8. On-Site Reviews - Special Education Cluster	2002-EDU08-013	Noncompliance	166
9. Special Education Capacity Building Minimums Not Met	2002-EDU09-014	Noncompliance	167
10. Schedule of Expenditures of Federal Awards	2002-EDU10-015	Noncompliance	168
11. Disbursement Process	2002-EDU11-016	Reportable Condition	170
12. Grant Administration Payment System	2002-EDU12-017	Reportable Condition	171
13. Reimbursement Process	2002-EDU13-018	Reportable Condition	172
14. DP - Application Development & Maintenance	2002-EDU14-019	Reportable Condition	173
Ohio Department of Health (DOH)			
1. Subrecipient Monitoring	2002-DOH01-020	Noncompliance	174
2. DP - Business Resumption Plan	2002-DOH02-021	Reportable Condition	176
Ohio Department of Job & Family Services (JFS)			
1. Cash Management Average Clearance	2002-JFS01-022	Questioned Cost	178
2. Medicaid/SCHIP ISTV Coding Errors	2002-JFS02-023	Questioned Cost	180
3. Foster Care – Duplicates	2002-JFS03-024	Questioned Cost	181
4. TANF - Subrecipient Monitoring-Hancock County	2002-JFS04-025	Questioned Cost	183
5. Social Services Block - Period of Availability	2002-JFS05-026	Questioned Cost	184
6. TANF - Refusal to Work Sanction-Lucas County	2002-JFS06-027	Questioned Cost	185
7. Medicaid/SCHIP - Incorrect Grant Numbers Charged	2002-JFS07-028	Questioned Cost	186
8. Child Care - Missing Documentation-Cuyahoga Co.	2002-JFS08-029	Questioned Cost	187
9. Child Care - Undocumented Eligibility-Cuyahoga Co.	2002-JFS09-030	Questioned Cost	188
10. TANF - Missing Documentation-Lucas County	2002-JFS10-031	Questioned Cost	189
11. TANF - Child Support Non-cooperation -Lucas County	2002-JFS11-032	Questioned Cost	190
12. Medicaid/SCHIP - Drug Rebate Payments	2002-JFS12-033	Questioned Cost	191
13. Child Support - Entertainment Cost Reimb.-Lucas Co.	2002-JFS13-034	Questioned Cost	192
14. TANF - Missing Documentation-Cuyahoga County	2002-JFS14-035	Questioned Cost	193
15. TANF - Benefits Overpayments-Lucas County	2002-JFS15-036	Questioned Cost	195

STATE OF OHIO
SUMMARY OF FINDINGS AND QUESTIONED COSTS
JULY 1, 2001 THROUGH JUNE 30, 2002

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE NUMBER
Ohio Department of Job & Family Services (JFS)			
16. SCHIP - Ineligible Recipient	2002-JFS16-037	Questioned Cost	196
17. TANF - Unallowable Payment-Cuyahoga County	2002-JFS17-038	Questioned Cost	197
18. Various Programs-Payroll Overpayment-Cuyahoga Co.	2002-JFS18-039	Questioned Cost	198
19. IEVS - Due Dates	2002-JFS19-040	Noncompliance	199
20. IEVS - Inadequate Documentation	2002-JFS20-041	Noncompliance	203
21. IEVS Return Information Access	2002-JFS21-042	Noncompliance	204
22. IEVS - Monitoring by the Department	2002-JFS22-043	Noncompliance	207
23. Federal Schedule	2002-JFS23-044	Noncompliance	208
24. Unapproved Indirect Cost Allocation Amendment	2002-JFS24-045	Noncompliance	211
25. Lack of Corrective Action	2002-JFS25-046	Noncompliance	213
26. TANF – Sanctions	2002-JFS26-047	Noncompliance	214
27. Medicaid/SCHIP - Subrecipient Monitoring	2002-JFS27-048	Noncompliance	216
28. Child Support - Statewide Monitoring of CSENet	2002-JFS28-049	Noncompliance	218
29. Child Support - Intrastate Central Registry	2002-JFS29-050	Noncompliance	219
30. Social Services Block Grant – Reporting	2002-JFS30-051	Noncompliance	220
31. WIA - Cash Management	2002-JFS31-052	Noncompliance	221
32. WIA - Subrecipient Monitoring	2002-JFS32-053	Noncompliance	222
33. WIA - One-Stop Delivery Systems	2002-JFS33-054	Noncompliance	223
34. WIA – Reporting	2002-JFS34-055	Noncompliance	224
35. IEVS - Monitoring by Counties	2002-JFS35-056	Material Weakness	225
36. DP - Internal Testing of Automated Controls	2002-JFS36-057	Material Weakness	227
37. DP - Accuracy of CRIS-E Input	2002-JFS37-058	Material Weakness	228
38. DP - Manual Overrides of CRIS-E (Fiats)	2002-JFS38-059	Material Weakness	229
39. DP - CORe Processing	2002-JFS39-060	Material Weakness	230
40. DP - SETS Program Change for Federal Regulations	2002-JFS40-061	Material Weakness	231
41. Food Stamp Cluster-Review of EBT Vendor Reports	2002-JFS41-062	Material Weakness	232
42. TANF – Monitoring	2002-JFS42-063	Material Weakness	233
43. Foster Care – Contracts	2002-JFS43-064	Material Weakness	234
44. Child Support Processing & Reconciliations	2002-JFS44-065	Material Weakness	235
45. SSBG - Incomplete Monitoring	2002-JFS45-066	Material Weakness	236
46. Federal Revenue Control Weaknesses	2002-JFS46-067	Reportable Condition	237
47. Voucher Summary Weakness/Coding Errors	2002-JFS47-068	Reportable Condition	238
48. Contracts/Relationships with Co. Agencies	2002-JFS48-069	Reportable Condition	239
49. Various Programs - Coding Errors	2002-JFS49-070	Reportable Condition	241
50. IEVS - Evidence of Data Exchange Controls	2002-JFS50-071	Reportable Condition	242
51. TANF - ISTV Coding Errors	2002-JFS51-072	Reportable Condition	243
52. TANF - Data Report	2002-JFS52-073	Reportable Condition	244
53. Medicaid/SCHIP - Third-party Liabilities	2002-JFS53-074	Reportable Condition	246
54. Medicaid/SCHIP-Duplicate Physician/Osteopath Pmts.	2002-JFS54-075	Reportable Condition	247
55. Medicaid/Child Support - 272 Reports	2002-JFS55-076	Reportable Condition	248
56. Adoption Assistance-Voucher Summary Support Detail	2002-JFS56-077	Reportable Condition	249
57. UI - Documentation of Non-profit Organizations Status	2002-JFS57-078	Reportable Condition	250
58. WIA - 269 Reports	2002-JFS58-079	Reportable Condition	251
59. Structure of the WIA Program	2002-JFS59-080	Reportable Condition	252
60. WIA Charging of Certain Costs	2002-JFS60-081	Reportable Condition	253
61. Missing Documentation - Various Counties	2002-JFS61-082	Reportable Condition	254
62. Late County Reports - Various Counties	2002-JFS62-083	Reportable Condition	258
63. Report Processing, Review, Inaccuracies-Various Co.	2002-JFS63-084	Reportable Condition	260

STATE OF OHIO
SUMMARY OF FINDINGS AND QUESTIONED COSTS
JULY 1, 2001 THROUGH JUNE 30, 2002

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE NUMBER
Ohio Department of Job & Family Services (JFS)			
64. DP - MMIS & CRIS-E Application Documentation	2002-JFS64-085	Reportable Condition	265
65. DP - Systems Development Life Cycle	2002-JFS65-086	Reportable Condition	266
66. DP - CORe Program Change Standards	2002-JFS66-087	Reportable Condition	268
67. DP - Centralized Computer Security	2002-JFS67-088	Reportable Condition	269
68. DP - SETS System Documentation	2002-JFS68-089	Reportable Condition	269
69. DP - MMIS & CRIS-E Program Change Document.	2002-JFS69-090	Reportable Condition	270
Ohio Department of Mental Health (DMH)			
1. Subrecipient Monitoring	2002-DMH01-091	Noncompliance	272
2. Subrecipient Monitoring Control Weakness	2002-DMH02-092	Material Weakness	274
Ohio Department of Mental Retardation/DD (DMR)			
1. Medicaid - Subrecipient Monitoring	2002-DMR01-093	Noncompliance	276
2. Medicaid - Allowable Costs	2002-DMR02-094	Reportable Condition	277
3. Medicaid - Provider Certifications	2002-DMR03-095	Reportable Condition	278

The findings listed below are also reported in the Report of Independent Accountants on Compliance and on Internal Control Required by Government Auditing Standards.

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE NUMBER
Ohio Department of Education (EDU)			
1. TANF - Monitoring of Head Start Expenditures	2002-EDU01-006	Reportable Condition	157
Ohio Department of Job & Family Services (JFS)			
22. IEVS - Monitoring by the Department	2002-JFS22-043	Reportable Condition	207
25. Lack of Corrective Action	2002-JFS25-046	Reportable Condition	213
27. Medicaid/SCHIP - Subrecipient Monitoring	2002-JFS27-048	Reportable Condition	216
35. IEVS - Monitoring by Counties	2002-JFS35-056	Reportable Condition	225
36. DP - Internal Testing of Automated Controls	2002-JFS36-057	Material Weakness	227
37. DP - Accuracy of CRIS-E Input	2002-JFS37-058	Reportable Condition	228
38. DP - Manual Overrides of CRIS-E (Fiats)	2002-JFS38-059	Material Weakness	229
41. Food Stamp Cluster-Review of EBT Vendor Reports	2002-JFS41-062	Reportable Condition	232
42. TANF – Monitoring	2002-JFS42-063	Material Weakness	233
70. GAAP Package Schedules	2002-JFS70-001	Reportable Condition	140

STATE OF OHIO
SUMMARY OF QUESTIONED COSTS BY FEDERAL AGENCY
JULY 1, 2001 THROUGH JUNE 30, 2002

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE	PAGE NUMBER(S)	QUESTIONED COSTS
U.S. DEPARTMENT OF JUSTICE		
16.579 – Byrne Formula Grant Program	152, 153	$246,303
Total U.S. Department of Justice		$246,303
U.S. DEPARTMENT OF EDUCATION		
84.010 – Title I Grants to Local Education Agencies	160	$68,388
84.027/84.173 – Special Education Cluster	160, 162	171,760
84.048 – Vocational Education	161	371,942
Total U.S. Department of Education		$612,090
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
93.558 – Temporary Assistance for Needy Families	157,183,185,189, 190,193,195,197	$76,427,523
93.563 – Child Support	192	1,564
93.575/93.596 – Child Care Cluster	187, 188	20,805
93.658 – Foster Care	181	2,854,359
93.659 – Adoption Assistance	178	585,084
93.667 – Social Services Block Grant	184	66,992
93.767 – State Children's Insurance Program	186, 196	24,069
93.775/93.777/93.778 – Medicaid Cluster	178,180,191,198	70,984,008
Total U.S. Department of Health and Human Services		$150,964,404
TOTAL QUESTIONED COSTS - STATE OF OHIO		**$151,822,797**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OFFICE OF THE ATTORNEY GENERAL

1. EXPENDITURES MADE AFTER THE PERIOD OF AVAILABILITY

Finding Number	2002-AGO01-002
CFDA Number and Title	16.579 – Byrne Formula Grant
Federal Agency	Department of Justice

QUESTIONED COSTS $14,934

28 CFR 66.23 states, in part:

> (a) Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period…
>
> (b) A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period… The Federal agency may extend this deadline at the request of the grantee.

During fiscal year 2002, the Attorney General's Office (AGO) disbursed approximately $1,465,922 in federal funds related to the Byrne Formula Grant received via a pass-through agreement with the Office of Criminal Justice Services (CJS). The AGO used these monies to fund approximately eight projects related to this program. However, certain disbursements were not made within the award's period of availability. The Office disbursed $14,934 from its Byrne Formula Grant Law Enforcement Enhancement Project, totaling $523,944, during the period January 11, 2002 through March 26, 2002. The period of availability specified in the Sub-grantee Award document from the Office of Criminal Justice Services for this project was from September 1, 2001 through September 30, 2001, and required liquidation by December 31, 2001. In addition, there was no indication an extension of the available period had been requested or received.

Failure to liquidate its obligations within the time limits established by Federal regulations and/or the grant agreement could subject the Office to fines, penalties, and/or loss of federal funding. The Fiscal Officer indicated the payment of these funds beyond the available period was an oversight.

We recommend AGO personnel review grant project balances prior to the expiration of the availability period to determine if any unpaid obligations exist. If it appears obligations will not be liquidated within the require time frame, the AGO should submit a written request for an extension. We also recommend AGO management more closely monitor cash requests and subsequent expenditures to help ensure funds are spent within the grant's period of availability.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OFFICE OF CRIMINAL JUSTICE SERVICES

1. EXPENDITURES MADE AFTER PERIOD OF AVAILABILITY

Finding Number	2002-CJS01-003
CFDA Number and Title	16.579 - Byrne Formula Grant Program
Federal Agency	Department of Justice

QUESTIONED COSTS - UNALLOWABLE $231,369

28 CFR 66.23(b) states, in part:

> *Liquidation of Obligations*. A grantee must liquidate all obligations incurred under the award no later than 90 days after the end of the funding period. . . . The Federal agency may extend this deadline at the request of the grantee.

We noted the Office of Criminal Justice Services (CJS) made eight disbursements totaling $231,369.39 to the 1998 Byrne Formula Grant subrecipients after the period of availability elapsed. For the 1998 Byrne Formula Grant, the period of availability was from October 1, 1997 to September 30, 2000, with a one year extension from October 1, 2000 to September 30, 2001, so liquidation of all obligations was required by December 31, 2001. Total 1998 Byrne Formula Grant expenditures made during SFY 2002 were $2,044,780.

Failure by CJS to liquidate its obligations within the time limits prescribed by Federal regulations could result in the Office being required to repay those funds to the Federal government unless an extension is obtained. According to agency management, the delay in making the disbursements was caused by a delay in receiving the final quarterly financial report and/or supporting documentation from the subrecipients.

We recommend CJS closely monitor expenditures to help ensure that funds are spent within the period of availability by reviewing fund balances in Federal grant accounts prior to the expiration of the period of availability. Additionally, we recommend the Office ensure its subrecipients are aware of the time frames that Federal funds are available for obligation and liquidation.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF DEVELOPMENT

1. FEDERAL SCHEDULE

Finding Number	2002-DEV01-004
CFDA Number and Title	14.228 – Community Development Block Grant 93.568 – Low-Income Home Energy Assistance
Federal Agency	Department of Housing and Urban Development Department of Health and Human Services

<u>NONCOMPLIANCE</u>

OMB Circular A-133 subpart 310 states, in part:

(b) <u>Schedule of Expenditures of Federal Awards</u>. The auditee shall also prepare a schedule of federal awards. At minimum, the schedule shall:

(1) List individual Federal programs by Federal agency.
(3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.

It is management's responsibility to implement controls procedures and policies to reasonably ensure the Department's portion of the Schedule of Expenditures of Federal Awards submitted to the Office of Budget and Management (OBM) for compilation of the State's overall Schedule is accurate, complete, and in compliance with the above requirements. Typically, these control policies and procedures require a review of the Schedule and supporting documentation be performed, and documented in some manner, prior to submission to verify the information reported is accurate, complete, and representative of Departmental activities.

The original Schedule of Expenditures of Federal Awards submitted to OBM for the Department's Fiscal Year 2002 federal programs contained the following errors/omissions. Upon identification by the auditors, appropriate adjustments were made to correct these items and revised schedules were submitted to OBM.

- $7,330,902 in Low-Income Home Energy Assistance Program (HEAP - CFDA# 93.568) expenditures related to CAS Grant # H270 was incorrectly included in the Community Services Block Grant (CSBG - CFDA# 93.569) expenditure total. This resulted in an overstatement of CSBG expenditures and an understatement of HEAP expenditures.

- The Community Development Block Grant (CDBG - CFDA# 14.228) expenditures included two amounts from fund 308 totaling $797,263 (Grant# H585 totaling $417,522; and Grant# H587 totaling $379,741). These amounts were not related to CDBG and should have been included in CFDA# 14.231 and CFDA#14.241, respectively. This error resulted in an overstatement of $797,263 for the CDBG program and an understatement in the other two programs.

Reporting inaccurate and incomplete amounts on the Department's Schedule of Federal Awards greatly increases the risk that the State of Ohio's Schedule of Expenditures of Federal Awards may be materially misstated. This, in turn, may result in a reduction of program funds and/or fines and penalties from the federal grantor agency. In addition, numerous revisions due to inaccurate reporting may delay the release of Ohio's Single Audit, subjecting the State to undue scrutiny.

1. FEDERAL SCHEDULE (Continued)

These misclassifications appeared to be caused by coding errors in the Department's chart of accounts. The incorrect CFDA numbers were assigned to these individual grants when the Department originally entered them into the Central Accounting System (CAS). Management indicated the coding errors were an oversight and the Fiscal Office was under-staffed during this period which may have resulted in a reduced amount of checks and reviews related to the information entered into CAS.

We recommend the Department update the chart of accounts to accurately reflect the CFDA number and federal program for each of the grants recorded in CAS, and develop a checklist or other local tool to help identify funds not recorded on CAS and other special consideration items. This will assist the Department in accurately tracking direct and indirect disbursements as they pertain to each federal program and help ensure all program activity is properly identified and reported. In, addition, we recommend the Department's management more closely review and monitor the compilation of the Federal Schedule to minimize the risk of errors and omissions, and reasonably ensure all federal activity is accurately and completely reported. This review should include a comparison of the schedule to CAS, federal financial reports, outside accounts, and/or other appropriate supporting documentation related to the program awards and sub-awards.

2. HEAP – SUSPENSION AND DEBARMENT

Finding Number	2002-DEV02-005
CFDA Number and Title	93.568 – Low-Income Home Energy Assistance
Federal Agency	Department of Health and Human Services

<u>NONCOMPLIANCE</u>

45 CFR 76.200 states, in part:

> Persons who are debarred or suspended shall be excluded from primary covered transactions as either participants or principals throughout the Federal Government. Accordingly, no agency shall enter into primary covered transactions with such excluded persons during such period. Persons who have been proposed for debarment shall be excluded from participating as either participants or principals in all lower tier covered transactions.

It is management's responsibility to implement policies and control procedures to reasonably ensure federal funds are not paid to parties who have been suspended or debarred. Typically, this is done through a certification from vendors, subrecipients, and/or their principals stating they are not suspended or debarred, unless there is information suggesting the certification is erroneous.

The Department currently administers the Low-Income Home Energy Assistance Program (HEAP) in two components; regular and emergency. Emergency HEAP, totaling approximately $55.6 million in fiscal year 2002, is passed through to 53 local Community Action Agencies (CAAs) across the State. Each CAA is considered a subrecipient and is required to submit a completed Operation/Administration grant agreement. However, during our audit period, the Department did not obtain suspension and debarment certifications from the CAAs nor did they include such clauses in their agreements. Regular HEAP is administered and operated by the Office of Community Services. Payments for Regular HEAP, totaling approximately $38.4 million in fiscal year 2002, are made to vendors via direct credit, voucher coupon, or warrants. All vendors are required to submit completed vendor agreements. However, the Department did not obtain suspension and debarment certifications from the vendors nor did they include such clauses in their vendor agreements.

2. HEAP – SUSPENSION AND DEBARMENT (Continued)

By not obtaining the necessary suspension and debarment certifications, the Department risks providing federal awards to entities that are suspended or debarred from participation in federal programs. This could potentially result in disallowed costs, repayment of federal funds, fines or penalties, and/or termination of the award. The Chief Fiscal Officer and the Fiscal Officer of Grants for the Office of Community Services indicated they were unaware of the need to include a clause in the vendor agreements. The Fiscal Officer also indicated the CAA agreements have been revised to include a suspension and debarment clause and was able to provide an example of the new agreement. However, these changes were not effective until after the end of our audit period.

We recommend the Department of Development implement policies and procedures to provide reasonable assurance they do not enter into contracts with or make sub-awards to parties who are suspended or debarred, or whose principals are suspended or debarred. These policies and procedures should require all subrecipients and vendors receiving federal funds from the Department to certify at the time of application, either through their agreements or a separate document, they are not suspended or debarred from participating in federal programs and are in compliance with the laws and regulations pertaining to suspension and debarment. These certifications should be re-evaluated on a periodic basis to reasonably ensure the information is current and accurate.

1. TANF – MONITORING OF HEAD START EXPENDITURES

Finding Number	2002-EDU01-006
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $76,150,592

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 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 or grant agreements and that performance goals are achieved.
>
> (4) Ensure that subrecipients expending $300,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.
>
> . . .

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.

Sub. H.B. 299, Section 63.09 states, in part:

> There is hereby established the Title IV-A Education 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 with incomes at or below 200 per cent of the federal poverty guidelines under a Title IV-A program 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."

1. TANF - MONITORING OF HEAD START EXPENDITURES (Continued)

Interagency agreement A-02-06-0557, Article IV (B), between the Ohio Department of Job and Family Services and the Ohio Department of Education (ODE), states ODE'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 purposes of this agreement, TANF eligibility for Head Start services is a family that is in receipt of OWF cash assistance or employed with income at or below 200% of the federal poverty guideline per Sub. H.B. 299, Section 63.09.

During the audit period, the Ohio Department of Education (ODE), Office of Early Childhood Education, operated a Head Start program through 52 subrecipient Head Start providers. Funding for this program was provided from the federal TANF program (CFDA #93.558) if the provider determined the children met the additional TANF eligibility requirements, otherwise the providers were instructed to obtain Federal Head Start funding (CFDA #93.600) directly from the federal government or to use the state funds that were allocated to them at the beginning of the fiscal year. ODE received monthly requests for reimbursement from the providers for expenditures related to services provided to Head Start children who were determined to be TANF eligible by the providers. However, the providers' requests did not break out what specific services were provided; they merely consisted of a single line with an aggregate dollar amount for the applicable month along with data tallying the number of TANF eligible children served. As a result, it could not be determined what costs the Department reimbursed during the state fiscal year and whether or not they were allowable. In addition, these reimbursement requests did not document how the costs claimed for reimbursement were allocated or related to the number of TANF eligible children identified. ODE then requested payment from the Ohio Department of Job and Family Services (ODJFS) for the TANF funds requested by the providers, totaling $76,150,592 during fiscal year 2002. ODJFS, in accordance with the interagency agreement, drew down these funds from the United States Department of Health and Human Services, deposited them into CAS fund 3V6, and then transferred these funds to the State's General Revenue Fund (GRF) for ODE to make disbursements to its Head Start subrecipients.

Additionally, the Department required each Head Start provider to submit a budget as part of their application to document their planned use of Federal TANF funds. These budgets presented planned expenditures in categories ranging from salaries and fringe benefits to office supplies and rent. Providers were also instructed to submit reports to the Department that compared actual expenditures of TANF funds to the original budgeted amounts. While these expenditure reports are useful for fiscal management, they do not provide adequate detail to identify direct and allocated indirect TANF costs subject to reimbursement.

During fiscal year 2002, ODE conducted on-site reviews of all 52 of these Head Start providers. Performance of these reviews was typically documented on a standardized on-site monitoring instrument. While the reviewers 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 allowability was substantiated. During the performance of these 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. In addition, many of the on-site review files had eligibility determination worksheets that identified TANF ineligible children; however, no corrective action existed in the files to demonstrate whether Federal funds were recovered or deducted from future reimbursement requests. The Head Start providers typically adjusted the number of reported TANF eligible children at their center based on these on-site reviews; however, no financial impact could be shown in the Department's records.

1. TANF - MONITORING OF HEAD START EXPENDITURES (Continued)

Furthermore, the Department was not 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 52 Head Start providers during the fiscal year. The Department did not receive 13 of 33 (39%) audit reports required to be submitted by their Head Start providers. These 13 providers had fiscal year ends ranging from October 31, 2001 to April 30, 2002. These reports, based on the providers' fiscal year ends, had due dates ranging from July 31, 2002 to January 30, 2003. Even though 20 audit reports were obtained by the Department, 14 (70%) of these 20 reports had Schedules of Expenditures of Federal Awards that did not report Federal TANF funds passed-through from the Department. A total of $7,170,792 of Federal TANF funds were identified on six of the twenty-two reports. The aggregate effect of these two errors is that 27 (82%) out of 33 required A-133 reports were either not received by the Department or did not properly identify TANF Federal funds on their Schedules of Expenditures of Federal Awards. The A-133 report files contained no documented correspondence with the providers to request submission of late audit reports and contained no documentation requiring providers to resubmit their reports with TANF funds reported on their Schedule of Expenditures of Federal Awards. The applications provided by the Department and submitted by the Head Start providers did not identify TANF as federal funds and did not instruct the providers of their responsibility to obtain an audit in accordance with OMB Circular A-133. Furthermore, the list of assurances attached to the application required the providers to operate their Head Start programs, funded by TANF, in accordance with Federal Head Start regulations codified at 45 CFR 1301 to 1306 and 1308. The assurances did not instruct the providers to follow Federal TANF regulations. We reviewed documents that displayed efforts by the Department to communicate the Federal TANF requirements to the subrecipients; however, the actions by the subrecipients reflect a breakdown in their understanding.

Since the monitoring activities and reimbursement procedures performed by ODE did not ensure the providers' reimbursements were for allowable costs provided to TANF-eligible children, these costs are being questioned. During the audit period, ODE actually disbursed $69,180,885 of TANF funds to providers; however, since TANF is a reimbursement-based program, receipt of the federal revenue constitutes a federal expenditure resulting in questioned costs for the total $76,150,592 requested by ODE and transferred to the GRF during fiscal year 2002.

Without performing 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 receipt and review of A-133 audit reports is necessary to provide management additional assurance on the use of Federal funds and to ensure the Department is in compliance with the provisions of OMB Circular A-133. Without requiring Head Start providers to submit reimbursement requests that clearly document the categories of costs allocated to TANF, the Department cannot be assured they are reimbursing their Head Start providers only for allowable TANF costs. According to a Consultant and the Director of the Office of Early Childhood Education, the on-site reviews were devised to meet the monitoring requirements of several different programs simultaneously and, as a result the samples of children selected were not necessarily those funded by TANF. In addition, 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.

We recommend the Department establish on-site monitoring procedures to include the review of separate samples of children supported by TANF funds to reasonably ensure the Head Start providers properly determined eligibility and that charges allocated to TANF were for allowable costs incurred for providing services to TANF eligible children. Reviewers should ensure their eligibility testing corresponds to the providers' reimbursement requests to ensure only costs associated with TANF eligible children were claimed. Upon discovery of a TANF ineligible child for which TANF reimbursement was received, the Department should take action to recover these funds and initiate procedures to return them to ODJFS.

1. TANF - MONITORING OF HEAD START EXPENDITURES (Continued)

We recommend that A-133 audit reports be obtained and evaluated for all providers exceeding the $300,000 Federal expenditure threshold and the Department ensure that TANF funds are properly reported on the providers' Schedule of Expenditures of Federal Awards. Furthermore, we recommend the Department require their Head Start providers to submit more detailed reimbursement requests to identify what types of costs are being reimbursed to reasonably ensure they are allowable in accordance with TANF regulations and the provisions of OMB Circular A-87. This reimbursement request could include columns to document the total costs incurred in a category and the amount to be reimbursed by TANF in that category. Columns could also be included documenting the number of total children served versus the total number of TANF children served so the Department can review the requests to obtain assurance that charges allocated to TANF are reasonable.

2. EXPENDITURES MADE AFTER THE PERIOD OF AVAILABILITY

Finding Number	2002-EDU02-007
CFDA Number and Title	84.010 – Title 1 84.027 / 84.173 – The Special Education Cluster
Federal Agency	Department of Education

QUESTIONED COSTS $80,573

34 CFR 80.23(b) states:

> A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period…The Federal agency may extend this deadline at the request of the grantee.

The Department disbursed $68,388 to a subrecipient from the 2000 Title 1 award on June 5, 2002. The period of availability for this grant year, with the carryover provision, was July 1, 1999 through September 30, 2001and required the liquidation of all obligations by December 31, 2001. In addition, the Department disbursed $5,051 of 1999 Special Education – Part B grant funds and $7,134 of 2000 Special Education – Part B grant funds beyond their allowed periods of availability. The Department requested and received from the United States Department of Education an extension to liquidate obligations from the 1999 Special Education – Part B award year until July 2, 2001 and an extension to liquidate obligations from the 2000 Special Education – Part B award year until July 1, 2002. The original obligation periods for the 1999 and 2000 Special Education – Part B award years remained unchanged. The payments from the 1999 Special Education – Part B award year totaling $5,051 were liquidated on July 9, 2001 and November 28, 2001, beyond the extension granted by the United States Department of Education. The payments from the 2000 Special Education – Part B award year totaling $7,134 were all disbursed prior to the extended liquidation date of July 1, 2002; however, all of these payments were obligated between October and November 2001, past the required obligation date of September 30, 2001. As a result, the Title I expenditure of $68,388 and the Special Education – Part B expenditures of $12,185, a grand total of $80,573, represent payments that are unallowed in accordance with 34 CFR 80.23(b). The total expenditures for Title I and the Special Education Cluster during the audit period were $285,941,101 and $189,012,172; 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. The Department did not appear to have an effective control in place to ensure grant payments are made within the available period or to notify subrecipients and Department personnel of approaching expiration dates.

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

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 more closely monitor cash requests and subsequent expenditures to help ensure that funds are spent within the grant's period of availability.

3. EARMARKING – STATE ADMINISTRATION ALLOCATION EXCEEDED

Finding Number	2002-EDU03-008
CFDA Number and Title	84.048 – Vocational Education
Federal Agency	Department of Education

<u>QUESTIONED COSTS</u> $371,942

20 USC 2322(a) states, in part:

> From the amount allotted to each State under section 2321 of this title for a fiscal year, the State board (hereinafter referred to as the eligible agency) shall make available-
>
> . . .
>
> (3) an amount equal to not more than 5 percent, or $250,000, whichever is greater, for administration of the State plan.
>
> . . .

The Ohio Department of Education's (the Department) 2000 Vocational Education award was for $42,750,001. According to Federal regulations, the Department was permitted to disburse $250,000 or five percent of the $42,750,001 award, whichever was greater, for state administrative purposes. Five percent of the Department's award totaled $2,137,500 which is greater than $250,000. As a result, the Department was allowed to disburse up to $2,137,500 for administration of the state plan. The Department disbursed $2,509,442 of their 2000 Vocational Education grant award on administration which exceeded their allowable allocation by $371,942. These additional disbursements for administration have resulted in questioned costs of $371,942.

Failure to follow Federal earmarking regulations pertaining to the Vocational Education grant could result in the Department being required to repay grant funds to the United States Department of Education. In addition, an over-allocation of funds for administrative purposes could result in reduced funding for subrecipients and other statewide vocational education initiatives. Through discussions with the Director of the Office of Career Technical and Adult Education, the employee responsible for monitoring these earmarking requirements retired during the fiscal year. In addition, the Director stated that staff could have miscoded disbursements in the accounting system.

We recommend the Department establish formal monitoring procedures over the earmarking regulations for the Vocational Education program. These monitoring procedures should be performed at a level with sufficient authority to ensure the administrative cap is not exceeded. In addition, management should review vouchers prior to payment to provide reasonable assurance that all grant payments have been properly coded and to ensure that enough funds remain within a particular allocation category, including administration, before a payment is charged to that category.

4. EARMARKING – STATE ADMINISTRATION ALLLOCATION EXCEEDED

Finding Number	2002-EDU04-009
CFDA Number and Title	84.027 / 84.173 – Special Education Cluster
Federal Agency	Department of Education

<u>QUESTIONED COSTS</u> $159,575

20 USC 1411(f)(1)(A) and (B) states, in part:

> Each State may retain not more than the amount described in subparagraph (B) for administration and other State – level activities in accordance with paragraphs (2) and (3). For each fiscal year, the Secretary shall determine and report to the State educational agency an amount that is 25 percent of the amount the State received under this section for fiscal year 1997, cumulatively adjusted by the lesser of (i) the percentage increase, if any, from the preceding fiscal year in the State's allocation under this section; or (ii) the rate of inflation, as measured by the percentage increase in the Consumer Price Index For All Urban Consumers, published by the Bureau of Labor Statistics of the Department of Labor.

20 USC 1411(f)(2)(A) states, in part:

> For the purpose of administering this subchapter, including section 1419 of this title (including the coordination of activities under this subchapter with, and providing technical assistance to, other programs that provide services to children with disabilities) (i) each State may use not more than twenty percent of the maximum amount it may retain under paragraph (1)(A) for any fiscal year or $500,000, whichever is greater.
>
> . . .

The Ohio Department of Education's (the Department) 2000 Preschool Grant was allocated $604,024 for administrative purposes and the 2001 award was allocated a total of $619,492. Since both of these amounts exceeded $500,000, the Department was authorized to disburse $604,024 from its 2000 grant and $619,492 from its 2001 grant. The Department disbursed $718,165 of their 2000 Preschool Grant award on administration which exceeded their allowable allocation by $114,141. The Department disbursed $664,926 from its 2001 Preschool Grant award which exceeded their allowable allocation by $45,434. As a result, these additional administrative expenditures have resulted in total questioned costs of $159,575.

Failure to follow Federal earmarking regulations pertaining to the Preschool Grant could result in the Department being required to repay grant funds to the United States Department of Education. In addition, an over-allocation of funds for administrative purposes could result in reduced funding for subrecipents. The Assistant Director of the Center for Students, Families, and Communities stated that the amount disbursed for administration was exceeded since their payroll indicator was not turned off at the end of the grant years resulting in additional payroll disbursements being allocated to the grants.

We recommend the Department establish formal monitoring procedures over the earmarking regulations for the Preschool Grant. These monitoring procedures should be performed at a level with sufficient authority to ensure the administrative cap is not exceeded. In addition, management should review vouchers prior to payment to provide reasonable assurance that all grant payments have been properly coded and to ensure that enough funds remain within a particular allocation category, including administration, before a payment is charged to that category.

5. ON-SITE REVIEWS

Finding Number	2002-EDU05-010
CFDA Number and Title	10.558 – Child and Adult Care Food Program
Federal Agency	Department of Agriculture

NONCOMPLIANCE

7 CFR 226.6(l) states, in part:

> Documentation of supervisory assistance activities, including reviews conducted, corrective actions prescribed, and follow-up efforts, shall be maintained on file by the State agency.
>
> . . .

7 CFR 226.6(l) states, in part:

> State agencies shall annually review 33.3 percent of all institutions [sponsoring organization, child care center, outside-school-hours care center, or adult day care center]. State agencies shall also ensure that each institution is reviewed according to the following schedule. (1) Independent centers, sponsoring organizations of centers, and sponsoring organizations of day care homes with 1 to 200 homes shall be reviewed at least once every four years. Reviews of sponsoring organizations shall include reviews of 15 percent of their child care, adult day care, and outside-school-hours care centers and 10 percent of their day care homes. (2) Sponsoring organizations with more than 200 homes shall be reviewed at least once every two years. Reviews of such sponsoring organizations shall include reviews of 5 percent of the first 1,000 homes and 2.5 percent of all homes in excess of 1,000. (3) Reviews shall be conducted for newly participating sponsoring organizations with five or more child care facilities or adult day care facilities within the first 90 days of program operations.
>
> . . .

The Department did not adequately monitor its 711 Child and Adult Care Food Program sponsors, as noted by the following deficiencies:

- Only 220 on-site reviews, representing 30.9 percent of grant participants, were completed from October 1, 2000 through September 30, 2001. In order to maintain a schedule for meeting compliance, the Department should have completed 17 additional on-site reviews.

- The Department does not have a system to track newly participating sponsoring organizations to ensure that reviews are conducted for new sponsors with five or more facilities within the first 90 days program operations. As a result, compliance with this regulation could not be determined.

- Six out of fourteen (42.9%) sponsors with 1 to 200 homes did not have an on-site review performed within the four year requirement.

Without performing a sufficient number of on-site reviews, as required, there is increased risk that institutions not operating the Child and Adult Care Food Program in accordance with program regulations will not be detected in a timely manner and will continue to administer the program to the potential detriment of the children and adults for whom the program is intended to serve. During the audit period, the Department disbursed $52,079,830 to Child and Adult Care Food Program participants.

5. ON-SITE REVIEWS (Continued)

According to an Assistant Director in the Division of Child Nutrition, the Department has been working on attaining the 33.3% review requirement; however, they have not been able to successfully schedule and complete the required number of reviews within the program year as of yet.

We recommend the Department revise their on-site review schedule to provide for a sufficient number of reviews in order to meet regulatory requirements. If necessary, the Department should reassign on-site reviews to program consultants to ensure that an appropriate number of reviews will be completed.

6. SUBRECIPIENT MONITORING

Finding Number	2002-EDU06-011
CFDA Number and Title	84.048 – Vocational Education
Federal Agency	Department of Education

NONCOMPLIANCE

34 CFR 80.40(a), states:

> Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

The Department did not effectively monitor its 93 subrecipients of Vocational Education program funds due to weaknesses in their monitoring system. These included:

- Having no standardized documentation to identify what procedures were performed during their on-site visits and what material laws and regulations were evaluated for compliance during those visits.
- Not requiring subrecipients to submit a corrective action plan to ensure compliance with program regulations.
- Not having a system to track subrecipients that require corrective action.

Without an effective system in place to review and evaluate compliance with regulations or to monitor corrective action taken by program participants, institutions may be operating noncompliant programs to the potential detriment of those intended to be served. During the audit period, the Department disbursed $37,262,748 to its subrecipients. The Director of the Office of Career Technical and Adult Education stated the Office is currently in the process of developing a monitoring plan based on the prior year's recommendations and have not, as of yet, fully implemented the revised procedures.

We recommend the Department revise the on-site monitoring policies and procedures to include the review of required program regulations to determine if subrecipients are in compliance with applicable regulations as well as performance standards. In order to provide reasonable assurance that material compliance areas are consistently addressed during the reviews, we recommend that management develop a standardized on-site review checklist to be completed during the review process. The checklist would provide consultants the material laws and regulations that need to be evaluated during the review in order to ensure the subrecipient is in compliance. We further recommend these procedures include a management review of all reports to ensure reviews are properly performed and a method for identifying and approving necessary corrective actions. Corrective actions that include Department imposed fiscal sanctions should be communicated in a timely manner to the appropriate fiscal personnel in a timely manner to ensure prompt recovery of Federal funds.

7. REPORTING

Finding Number	2002-EDU07-012
CFDA Number and Title	10.553, 10.555, 10.556, 10.559 – The Child Nutrition Cluster 10.558 – Child and Adult Care Food Program
Federal Agency	Department of Agriculture

NONCOMPLIANCE

7 CFR 3015.61(a) states, in part:

> Complete, accurate, and current disclosure of the financial results of each USDA sponsored project or program shall be made in accordance with the financial reporting requirements set forth in the grant or subgrant.
>
> . . .

7 CFR 226.7(d) states, in part:

> Each State agency shall submit to FNS the final Report of the Child and Adult Care Food Program (FNS-44) for each month which shall be limited to claims submitted in accordance with § 226.10(e).
>
> . . .

7 CFR 225.8(b) states, in part:

> Each State agency shall submit to FNS a final report on the Summer Food Service Program Operations (FNS-418) for each month no more than 90 days following the last day of the month covered by the report.
>
> . . .

During our review of all five SF-269 reports, eleven FNS-44 reports, and four FNS-418 reports, we noted the following deficiencies:

- The SF-269 reports did not agree to CAS, the official State accounting record. The individual program variances included:
  - National School Lunch Program (Fund 3L6) – under reported by $1,904,276
  - School Breakfast Program (Fund 3L7) – over reported by $774,526
  - Summer Food and Special Milk programs (Fund 367) – under reported by a combined total of $779,851
  - Child and Adult Care Food Program (Fund 3L8) – under reported by $24,918.

- Three of eleven (27%) FNS-44 reports tested presented meal count information that could not be traced to summary report data. While there were no summary reports, there were no errors noted in the testing of the individual subrecipient claims. These individual claims could not be traced to the FNS-44 reports.
- Three out of four (75%) FNS-418 reports tested presented meal count information that could not be traced to summary report data. While there were no summary reports, there were no errors noted in the testing of the individual subrecipient claims. These individual claims could not be traced to the FNS-418 reports.

7. REPORTING (Continued)

Without appropriate documentation to support amounts reported on the SF-269, FNS-44, and FNS-418 reports, it is possible that incorrect or incomplete data may have been transmitted to the USDA. If the USDA would question the amounts reported, the Department would not be able to provide the appropriate documents to support the figures. Since the FNS-44 and FNS-418 reports are utilized by the USDA to determine future funding for the State, inaccurate or unsupported numbers could potentially result in a reduction of federal funding. According to the Data Processing Supervisor, the Department's Claims Reimbursement Reporting System (CRRS) did not create supporting documents that could be retained to present the summary data used to prepare the FNS-44 and FNS-418 reports. Department personnel could offer no explanation why the SF-269 reports did not agree to CAS.

We recommend the Department file all supporting documentation with the appropriate report to ensure that numbers reported to the USDA are adequately supported. Prior to submission to the USDA, someone other than the preparer should verify the validity of the figures reported by comparing the current report to the prior year's report for the same period and by agreeing the supporting detail to the report. SF-269 reports should be reconciled to CAS to ensure the report is consistent with State accounting records and prepared in accordance with the correct accounting basis. All reviews and reconciliations should be appropriately documented to provide assurance to management that the procedures were completed.

8. ON-SITE REVIEWS – SPECIAL EDUCATION CLUSTER

Finding Number	2002-EDU08-013
CFDA Number and Title	84.027 / 84.173 – The Special Education Cluster
Federal Agency	Department of Education

<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 of grant agreements and that performance goals are achieved.
>
> . . .

34 CFR 80.40(a), states:

> Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

The Ohio Department of Education has implemented a self-prescribed seven year on-site review cycle of its Special Education – Part B subrecipients. The following were noted during the audit period:

8. ON-SITE REVIEWS – SPECIAL EDUCATION CLUSTER (Continued)

- The Office for Exceptional Children completed 23 on-site reviews out of 740 (3%) total subrecipients of the Special Education – Part B grant during the audit period. The Department does not keep a master listing of all of their subrecipients to determine which have been reviewed and those that need to be reviewed and has no process to track participants requiring corrective action.
- Two out of the 23 (8.7%) on-site reviews that the Office for Exceptional Children was to have performed had no on-site review report on file to provide evidence these reviews were conducted.
- The Office for Exceptional Children did not have a standardized format for documenting their reviews to indicate which compliance requirements were tested for the Special Education – Part B program.
- All seven (100%) of the Special Education – Part B on-site reviews that required corrective action had no documentation on file to indicate whether the Office for Exceptional Children had received or approved a corrective action plan to address the noted deficiencies.

Without completing on-site reviews in accordance with management's approved review cycle, noncompliance issues at the subrecipient level may go undetected for a lengthy period of time to the potential detriment of the State's students. In addition, by not maintaining a complete on-site review log with all subrecipients the Office for Exceptional Children cannot be reasonably assured that all subrecipients will be reviewed within the review cycle. Furthermore, by failing to obtain and document management's approval of the subrecipient's corrective action plan, agreement with the plan or status of the corrective action cannot be determined. The Department risks not evaluating all subrecipients for compliance with grant regulations in a consistently applied manner if the documentation of the on-site reviews performed varies between reviewers.

We recommend the Department communicate to all employees the expectations they are to meet with regards to the on-site review process, such as distributing a written policies and procedures manual or providing periodic training. We also recommend the Department create a complete subrecipient monitoring log with all of their Special Education – Part B subrecipients and allocate their resources in a manner that allows them to ensure that all of their subrecipients are reviewed timely. Contained within the tracking log should be a field for reviews requiring corrective action, as well as the date due and date received, so that the Department can ensure corrective action plans are submitted and approved in a timely manner. In order to provide reasonable assurance that all material grant requirements are consistently reviewed, a standardized monitoring instrument could be utilized by reviewers. On-site review reports and corrective actions should be reviewed by management to determine if Department policies are being followed.

9. SPECIAL EDUCATION CLUSTER – CAPACITY BUILDING MINIMUM NOT MET

Finding Number	2002-EDU09-014
CFDA Number and Title	84.027 / 84.173 – The Special Education Cluster
Federal Agency	Department of Education

<u>NONCOMPLIANCE</u>

20 USC 1411(f)(4)(A), states, in part:

> . . .
>
> In any fiscal year in which the percentage increase in the State's allocation under this section exceeds the rate of inflation, each State shall reserve, from its allocation under this section, the amount described in subparagraph (B) to make subgrants to local educational agencies, unless that amount is less than $100,000, to assist them in providing direct services and in making systemic change to improve results for children with disabilities through one or more of the following: (i) direct

9. SPECIAL EDUCATION CLUSTER – CAPACITY BUILDING MINIMUM NOT MET (Continued)

> services, including alternative programming for children who have been expelled from school, and services for children in correctional facilities, children enrolled in State-operated or State-supported schools, and children in charter schools. (ii) Addressing needs or carrying out improvement strategies identified in the State's Improvement Plan under part A of subchapter IV of this chapter. (iii) Adopting promising practices, materials, and technology based on knowledge derived from education research and other sources. (iv) Establishing, expanding, or implementing interagency agreements between local educational agencies and other agencies or organizations concerning the provision of services to children with disabilities and their families. (v) Increasing cooperative problem-solving between parents and school personnel and promoting the use of alternative dispute resolution.
>
> . . .

The Ohio Department of Education (the Department) was required by the United States Department of Education to disburse a minimum of $3,090,601 of its 2000 Special Education – Part B award allocation for capacity building as defined in 20 USC 1411(f)(4)(A). The Department disbursed a total of $1,620,911 of its 2000 grant award for capacity building purposes which was $1,469,690 or 47.6% short of the minimum required. The period of availability for the 2000 Special Education – Part B grant, including the carryover provision, expired on September 30, 2001.

As a result of not disbursing the minimum amount required by the United States Department of Education for capacity building, the Department is not in compliance with 20 USC 1411(f)(4)(A). In addition, potential capacity building projects at local educational agencies could have benefited from these additional funds to provide for the continual improvement of their special education programs. According to a consultant in the Office for Exceptional Children, amounts charged to capacity building could have been miscoded making it difficult for the Department to determine what subprograms could have been considered capacity building.

We recommend the Department contact the United States Department of Education to determine if additional funds can be obtained from the federal government to fund capacity building subgrants. In addition, we recommend the Department establish a monitoring control system to periodically evaluate the Department's progress toward meeting these capacity building requirements and promptly investigate any potential shortfalls in order to effectively direct federal funds to their appropriate destination.

10. SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Finding Number	2002-EDU10-015
CFDA Number and Title	All Federal Programs Administered by the Department
Federal Agency	Department of Education, Department of Agriculture, and Department of Health and Human Services

<u>NONCOMPLIANCE</u>

OMB Circular A-133 §___.310 states, in part:

> (b) <u>Schedule of Expenditures of Federal Awards.</u> The auditee shall also prepare a schedule of federal awards. At a minimum, the schedule shall:
>
> . . .

10. SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

(3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.

. . .

It is management's responsibility to implement control policies and procedures to reasonably ensure the Department's portion of the Schedule of Expenditures of Federal Awards submitted to the Office of Budget and Management (OBM) for compilation of the State's overall schedule is accurate and complete. Typically, these control policies and procedures require a review of the Schedule and supporting documentation be performed prior to submission to verify the information reported is accurate, complete, and representative of the Department's activities.

The original Schedule of Expenditures of Federal Awards submitted to OBM for the Department's fiscal year 2002 federal programs contained the following errors. Appropriate adjustments were made to correct these items and a revised schedule was submitted to OBM.

- The Department did not report federal TANF (CFDA #93.558) expenditures of $76,150,592 on their schedule.
- School Breakfast Program (CFDA #10.553) expenditures were overstated by $33,016.
- National School Lunch Program (CFDA #10.555) expenditures were overstated by $12,046.
- Special Milk Program (CFDA #10.556) expenditures were overstated by $1,665.
- Summer Food Service Program (CFDA #10.559) expenditures were overstated by $17,602.
- Child and Adult Care Food Program (CFDA #10.558) expenditures were overstated by $42,595.
- Title 1 (CFDA #84.010) expenditures were overstated by $34,680.
- Special Education – Grants to States (CFDA #84.027) expenditures were overstated by $54,454.
- Vocational Education – Grants to States (CFDA #84.048) expenditures were overstated by $975.
- Special Education – Preschool Grants (CFDA #84.173) expenditures were understated by $726,503.

Reporting inaccurate or incomplete amounts on the Department's Schedule of Federal Awards increases the risk that the State of Ohio's Schedule of Expenditures of Federal Awards may be materially misstated. This, in turn, may result in a reduction in program funds and/or fines and penalties from the federal grantor agency. According to the Fiscal Officer in Department Accounts, some of the errors were due to discrepancies between the Department's internal system, ORACLE, and the Central Accounting System (CAS) in the earlier part of the fiscal year. Many of the errors resulted from a failure to deduct federal recoveries and warrant cancellations. In addition, the Fiscal Officer stated that individual fiscal specialists assigned to federal programs are responsible for reporting the correct disbursement amounts to her and that she does not perform a review of the work prepared by them to ensure the amounts they reported are accurate.

We recommend the Department complete a year-end reconciliation between ORACLE and CAS to ensure all transactions were captured in both systems. In addition, we recommend that management communicate to all schedule preparers what types of adjustments are typically required to be made in order to accurately reflect their program's federal expenditures. A supervisory review of the schedule should be performed to provide assurance that all of the Department's federal expenditures are accurately reflected and that all federal assistance programs are included on the schedule.

11. DISBURSMENT PROCESS

Finding Number	2002-EDU11-016
CFDA Number and Title	84.027 / 84.173 – The Special Education Cluster 84.340 – Class Size Reduction 84.048 – Vocational Education
Federal Agency	Department of Education

INTERNAL CONTROL - REPORTABLE CONDITION

An entity's internal control structure is placed in operation and maintained by management to prevent or detect misstatements in the accounting records; to help ensure compliance with laws and regulations; and to provide a basis for measuring whether program objectives have been achieved. To be effective, the performance of an internal control procedure should be evidenced in some manner to provide assurance to other parties involved in the process that the prescribed policy was followed.

During our review of the Class Size Reduction program, the Vocational Education program, and the Special Education Cluster, we noted the following deviations from the Department's established control procedures relating to disbursements:

- 60 out of 60 (100%) Class Size Reduction vendor bypass vouchers (VBV) summary sheets did not have the corresponding series of warrant numbers and EFTs to evidence the fiscal specialist's reconciliation of the VBVs to the warrant journals to ensure the completeness and accuracy of the payments. All 60 (100%) Special Education VBVs reviewed did not contain evidence of this reconciliation as well.
- Four out of 60 (7%) Special Education Cluster applications and/or budget revisions were not signed by the Director or a designee as evidence of their review and authorization.
- 28 out of 47 (60%) timesheets for employees charged to the Vocational Education grant were not reconciled by the Payroll Manager to approved leave forms to ensure accuracy as evidenced by check marks on the leave sheet.
- For two out of eighteen (11.1%) personnel service contracts tested and charged to the Vocational Education grant, the contract checklists were not initialed by a representative of the legal department as evidence of their authorization and review.

The Comptroller stated that some employees attached the warrant journals to the VBV summary sheets in lieu of documenting the series of warrants and EFTs. According to the Payroll Manager, reconciliations of the timesheets to the leave forms were not performed on a consistent basis during the fiscal year due to time being allocated to other job duties. With regards to the contract checklists, no explanation could be offered by the Department.

Without consistently performing reconciliation control procedures, employees could accrue leave at an incorrect rate and leave balances reported by the Department may not accurately represent the State's liability for accrued absences. If leave balances are not correctly reduced for leave taken, additional hours could be charged to the federal grant resulting in questioned costs. If the Department does not perform appropriate authorization control procedures, there is an increased risk that incorrect or unallowable payments may be processed. In addition, without documentation to evidence the performance of key control procedures management cannot effectively evaluate whether Department employees are adhering to established policies.

11. DISBURSMENT PROCESS (Continued)

We recommend the Department consistently follow established control procedures to obtain reasonable assurance that transactions are processed accurately and in accordance with appropriate laws and regulations. Management should periodically monitor transaction evidence to ensure Department employees are adhering to prescribed internal control procedures. In addition, we recommend management continually evaluate the effectiveness of their internal control procedures and modify the system as the Department's business environment continues to evolve. Internal control procedures should be communicated to Department personnel in writing to provide additional assurance that employees are aware of the appropriate procedures for processing transactions.

12. GRANT ADMINISTRATION PAYMENT SYSTEM

Finding Number	2002-EDU12-017
CFDA Number and Title	84.010 – Title 1 84.027 / 84.173 – The Special Education Cluster 84.048 – Vocational Education 84.340 – Class Size Reduction
Federal Agency	Department of Education

INTERNAL CONTROL - REPORTABLE CONDITION

An entity's internal control structure is placed in operation and maintained by management to prevent or detect misstatements in the accounting records; to help ensure compliance with laws and regulations; and to provide a basis for measuring whether program objectives have been achieved. To be effective, the performance of an internal control procedure should be evidenced in some manner to provide assurance to other parties involved in the process that the prescribed policy was followed.

Department Accounts within the Ohio Department of Education (the Department) established a reconciliation procedure to ensure that federal funds drawn down from the United States Department of Education via the Grant Administration Payment System (GAPS) were accurately reflected within the Department's accounting records. The procedure was to be performed on a quarterly basis by a Fiscal Officer within Department Accounts; however, only one reconciliation was performed at the end of the state fiscal year. In addition, it was noted that the reconciliation was between GAPS and a spreadsheet maintained by the Fiscal Officer. There was no documentation of a reconciliation from GAPS to the official state accounting system, the Central Accounting System (CAS), to ensure that federal revenues were accurately posted to the correct federal program.

Without sufficient monitoring activities which include reconciling transactions to CAS, the Department cannot reasonably ensure the accuracy of cash draws made through GAPS for federal grants or the amount available for those grants. Potentially, federal funds could be misappropriated resulting in lost opportunities to fund local educational projects throughout the State of Ohio. Should federal funds from a program be coded to another program's CAS fund, subsequent expenditures from that fund could result in federal questioned costs. During the audit period it was noted that the Department drew down $98,053 from the Title VI Innovative Strategy program. While the revenue should have been recorded in CAS fund 3M1, the fund established for the Innovative Strategy program, they were recorded in CAS fund 3T6, the fund established for the Class Size Reduction program. These funds were subsequently disbursed for Class Size Reduction purposes. Upon notification of this variance, the Department transferred $98,053 from the Class Size Reduction program to the Innovative Strategy program in GAPS. As such, the $98,053 was not questioned.

We recommend the Department reconcile GAPS-reported amounts with CAS amounts periodically in order to monitor and correct transactions posted to both systems. The reconciliation and any subsequent adjustments should be properly documented and approved by management to ensure allowability.

13. REIMBURSEMENT PROCESS

Finding Number	2002-EDU13-018
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

INTERNAL CONTROL - REPORTABLE CONDITION

OMB Circular A-133, Subpart C, § ____.300(b) states that the auditee shall:

> Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

The following internal control weaknesses were noted during the review of the Child Nutrition Cluster and the Child and Adult Care Food Program:

- 40 out of 60 (66.7%) Child Nutrition Cluster vendor bypass vouchers (VBV) tested were not initialed by the fiscal officer as evidence of their review and approval.
- 60 out of 60 (100%) Child Nutrition Cluster VBVs tested did not contain documentation of the fiscal specialist's reconciliation of the warrant journals to the VBVs to ensure the payments were complete and accurate.
- Six out of 40 (15%) Child Nutrition Cluster disbursement journals and VBV summary sheets selected for testing could not be located by the Department.
- 30 out of 60 (50%) Child and Adult Care Food Program vendor bypass vouchers (VBV) tested were not initialed by the fiscal officer as evidence of their review and approval.
- 59 out of 60 (98.3%) Child and Adult Care Food Program VBVs tested did not contain documentation of the fiscal specialist's reconciliation of the warrant journals to the VBVs to ensure the payments were complete and accurate.
- Six out of 40 (15%) Child and Adult Care Food Program disbursement journals and VBV summary sheets selected for testing could not be located by the Department.

Failure to implement and follow effective internal control procedures to ensure expenditures are accurate, allowable, and properly authorized could lead to a misappropriation of funds or could result in a program participant being over or under-compensated. A combined total of $265,901,972 was disbursed for the programs within the Child Nutrition Cluster and the Child and Adult Care Food Program during state fiscal year 2002. According to the Fiscal Specialist, the responsibilities for the CAS funds used for the Child and Adult Care Food Program and the four programs within the Child Nutrition Cluster were reassigned during the fiscal year. As a result of these assignment changes, not all procedures were completed or documented in consistent manner. In addition, a review of the VBVs was not incorporated until these assignment changes were finalized.

We recommend the Department establish effective internal control procedures over the authorization, input, maintenance, and output of disbursement transactions pertaining to the Child Nutrition Cluster and the Child and Adult Care Food Program. These controls should include, but not be limited to, prior authorization of disbursements, ensuring accuracy and proper coding of disbursements, and periodic reconciliations of disbursements to meals reimbursed. Furthermore, we recommend management periodically monitor the performance of established control procedures to ensure the Department's objectives are achieved.

14. DATA PROCESSING - APPLICATION DEVELOPMENT AND MAINTENANCE

Finding Number	2002-EDU14-019
CFDA Number and Title	All Programs Administered by the Department
Federal Agency	Departments of Agriculture and Education

INTERNAL CONTROL - REPORTABLE CONDITION

The use of formal, well documented procedures for computer application maintenance is vital for communicating management's operational goals and intentions to programming personnel as well as training new staff. Such 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 ODE 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 EMIS application. Federal funding for school meal reimbursements, as processed and reported by CRRS could be affected. Finally, the integrity of school spending and payments processed by School Foundation and Voc-Ed systems could be affected. According to the Director of ITO, due to time and cost constraints, the Department's programming management has not developed and implemented formal standards for the various stages of the application program change process. Instead, the procedures are maintained informally.

We recommend the Department develop and implement formal standards 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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

1. SUBRECIPIENT MONITORING

Finding Number	2002-DOH01-020
CFDA Number and Title	10.557 – Special Supplemental Food Program for Women, Infants and Children
Federal Agency	Department of Agriculture

<u>NONCOMPLIANCE</u>

The Ohio Department of Health is responsible for monitoring their subrecipients' activities to provide reasonable assurance that subrecipients are aware of federal requirements imposed on them and that subrecipients administer federal awards in compliance with those requirements. These regulations are defined in Office of Management and Budget's Circular A-133, which states, in part:

Subpart C--Auditees
§___.320 Report submission.

(a) **General**. The audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

. . .

Subpart D--Federal Agencies and Pass-Through Entities
§___.400 Responsibilities.

. . .

(d) **Pass-through entity responsibilities**. A pass-through entity shall perform the following for the federal awards it makes:

. . .

3. Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

4. Ensure that subrecipients expending $300,000 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.

1. SUBRECIPIENT MONITORING (Continued)

The Department has established the audit requirement for all local agencies (subrecipients) that receive Federal assistance, including WIC grants, from it regardless of whether they are required to have a Single Audit or a financial statement audit. We selected 40 of 76 local agencies that received a WIC award for grant year 2000 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. Only three of subrecipients selected submitted their audit reports to the Department within the required time. The audit for a fourth agency selected had not been completed as of October 15, 2002, the date of testing. These reports were received late from 2 to 402 days, with the average being 84 days;

- Twenty-one management decisions were issued late. In addition, a management review could not be performed on another subrecipient because the audit report had not been released yet. The management review was delayed on another subrecipient while waiting for the audit report of another related entity because audit report desk reviews are submitted to management in batches;

- Thirty-five agencies selected did not submit a corrective action response to the Department within six months following the date of the audit report;

- The Department did not document the effects of the agencies' noncompliance on the Department for any of the subrecipients tested.

- The Department disbursed approximately $13,918,083 in program expenditures to the subrecipients tested.

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 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 Internal Audit Unit Chief and 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.

The Department has been 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 Administration 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.

1. SUBRECIPIENT MONITORING (Continued)

In addition, the Department has recently initiated a progressive disciplinary policy that is designed to encourage subrecipients to comply with all administrative and audit requirements associated with applying for, receiving, and spending Federal awards. In general, those awardees that fail to meet certain requirements are granted less flexibility and independence in conducting their business that is funded with Federal award dollars. The Department expects this new policy to serve as an incentive for subrecipients to comply.

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 perfomed in a timely manner; 3) subrecipients submit their corrective action responses to the Department within six months after the date of the audit report; and 4) the Department considers the effects of subrecipient noncompliance on the Department and documents such in the its records. We also recommend the Department should consider withholding future awards to subrecipients who are not in compliance with the federal audit provisions.

2. DATA PROCESSING - BUSINESS RESUMPTION PLAN

Finding Number	2002-DOH02-021
CFDA Number and Title	10.557 – Special Supplemental Food Program for Women, Infants and Children
Federal Agency	Department of Health

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 did not have a formalized business resumption plan during the audit period, either for the agency in general or for significant computerized applications, such as the Special Supplemental Food Program for Women, Infants, and Children (WIC) program. Expenditures in the WIC program were $191,496,817 and represent 61 percent of all agency federal program expenditures and 32 percent of total agency expenditures. The WIC program processes data and transactions via a FoxPro program and an internal server interfacing with the state data center’s mainframe. No documented procedures were available to restore either the FoxPro or server mainframe interface for WIC programs and data after extended interruptions.

2. DATA PROCESSING - BUSINESS RESUMPTION PLAN (Continued)

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 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. National events have resulted in a heightened awareness of the possibility of real disruptions to business operations.

The Office of Management Information Services (OMIS) Chief indicated OMIS has drafted a working copy of a disaster recovery plan and plan to have it in place by the end of calendar year 2002.

We recommend the Department finalize and implement their business resumption plan. The Department should ensure their plan is comprehensive, consistent with the Department's overall objectives, and reflects current recovery operations including:

- Recovery Terms, Definitions, and Personnel Responsibilities
- Recovery (Hot/Cold/Reciprocal) Site Information and Procedures
- Off-site Materials and Backup Tape/Dataset Listings
- 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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

1. CASH MANAGEMENT – AVERAGE CLEARANCE

Finding Number	2002-JFS01-022
CFDA Number and Title	93.775/93.777/93.778 – Medicaid Cluster 93.659 – Adoption Assistance
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $57,853,580

The Treasury-State Agreement implementing the Cash Management Improvement Act (CMIA) effective for the time period July 1, 1999 through June 30, 2004, as amended, identified the three funding techniques utilized by Ohio as follows: Pre-Issuance, Average Clearance, and the Zero Balance Methodology. The Ohio Department of Job and Family Services (ODJFS) follows the Average Clearance Methodology for the Medicaid Cluster and Adoption Assistance Federal Programs when drawing funds for benefits payments. The Average Clearance Methodology states, in part:

> The state shall request funds such that they are deposited by ACH on the dollar weighted average day of clearance for the disbursement, in accordance with the clearance pattern specified in the CMIA's Exhibit II:

Business Days After Issue	Medicaid Cluster	Adoption Assistance
0	0.0%	3.3%
1	0.6%	30.0%
2	9.5%	14.5%
3	0.0%	8.3%
4	0.6%	8.3%
5	7.4%	3.0%
6	35.9%	3.0%
7	22.6%	11.2%
8	9.9%	6.0%
9	4.0%	3.2%
10	0.0%	0.0%
11	0.0%	0.0%
12	0.0%	0.0%
13	0.0%	0.0%
14	0.0%	0.0%
15	9.5%	9.2%
Total	100.0%	100.0%

> The request for funds shall be made in accordance with the appropriate Federal agency cut off time specified in the CMIA's Exhibit I. The amount of request shall be for the exact amount of that disbursement.

Federal regulations require recipients to maintain internal controls over federal programs that provide reasonable assurance they are in compliance with laws, regulations, and the provisions of contracts or grant agreements; and the activity is accurately and completely recorded in the financial statements and the federal schedule. It is management's responsibility to monitor these control procedures to verify they are operating effectively and to provide reasonable assurance their agency abides by all requirements set forth in the cash management agreement.

1. CASH MANAGEMENT – AVERAGE CLEARANCE (Continued)

Currently, the Fiscal Specialist enters the Medicaid and Adoption Assistance benefit amounts from the voucher summary expenditures into a Quattro Pro Spreadsheet formulated with the CMIA's Exhibit II percentages which calculates the amount of federal reimbursements to be drawn over a 15 day period. However, there is no supervisory review performed to help ensure the formulas used or the amounts calculated by the spreadsheet are accurate and complete. The auditor reviewed two quarterly Quattro Pro Spreadsheets for the Medicaid Cluster and Adoption Assistance to ensure the percentages used agreed with the CMIA's Exhibit II – Average Clearance Funding Schedule. During our initial review of the Average Clearance Calculations, we verified the correct Average Clearance Percentages were being utilized for the Medicaid Cluster and Adoption Assistance Programs; however, we identified an additional draw of 9.5% calculated on several occasions. Instead of the 15 day period totaling 100% as specified in the CMIA's Exhibit II, the Quattro Pro Spreadsheet calculation spanned a 16 day period totaling 109.5%. Upon further review of all four quarterly Quattro Pro Spreadsheets for both programs, the following errors were noted:

- For 17 of 53 (32.08%) Medicaid Cluster draw down calculations tested, the percentages utilized by ODJFS did not correspond to the percentages specified in the CMIA's Exhibit II. For 16 of the 17 errors noted, the 15th day of the average clearance funding schedule percentage was repeated once; and for one of the 17 errors noted, the 15th day of the average clearance funding schedule percentage was repeated twice. These errors resulted in federal reimbursable share of the expenditures being overdrawn by $29,774,290.

- For 1 of 53 (1.87%) Medicaid Cluster draw down calculations tested, the average clearance funding schedule percentages were applied to an incorrect voucher amount, resulting in a $27,494,206 over draw of the federal share of the related expenditures.

- For 26 of 141 (18.44%) Adoption Assistance draw down calculations tested, the percentages utilized by ODJFS did not correspond to the percentages specified in the CMIA's Exhibit II. The 15th day of the average clearance funding schedule percentage was repeated, causing a $585,084 over draw of the federal share of the related expenditures.

Without an effective system of internal controls, the ODJFS can not be reasonably assured that federal funds drawn are in compliance with the CMIA. As a result of overdrawing $57,268,496 for the Medicaid Cluster and overdrawing $585,084 from Adoption Assistance, the total amount of $57,853,580 is being questioned. The overdrawn amounts on these reimbursement grants represent funds ODJFS was not entitled to receive since the draw requests were not supported by underlying expenditures. This condition could potentially reduce the amount of program funding available to the Department and subject them to potential fines or penalties. According to the Bureau of Cost Allocation and Financial Reporting Unit Supervisor, the errors noted for the average clearance funding methodology were due to a clerical error in the calculation in the Quattro Pro spreadsheets. The clerical error was not corrected during the audit period since the client was unaware that it existed. The draw downs were checked on a daily basis in the revenue document approval process, but the client assumed the formulas within the spreadsheet were correct.

We recommend ODJFS management implement and/or strengthen controls to reasonably ensure all requests for federal reimbursement are in accordance with the guidelines set forth in the CMIA Treasury-State Agreement, and are based on actual expenditures processed. Alternative review and approval procedures should be developed to reasonably ensure the CMIA's Average Clearance Funding Schedule Percentages are reflected accurately within the Department's Quattro Pro Spreadsheet before conducting the federal draw. We also recommend ODJFS management strengthen procedures which periodically reconcile federal expenditures to federal revenue receipts for accuracy, completeness, and to verify that all variances and reconciling items noted were properly addressed within the fiscal year.

2. MEDICAID/SCHIP – ISTV CODING ERROR

Finding Number	2002-JFS02-023
CFDA Number and Title	93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $13,713,546

Office of Management and Budget 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 criteria:
   (a) Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
   . . .

Federal regulations also require recipients to maintain internal controls over federal programs that provide reasonable assurance they are in compliance with laws regulations, and the provisions of contracts or grant agreements. It is management's responsibility to monitor these control procedures to verify they are designed and operating in a manner consistent with federal regulations and the program's objectives.

ODJFS utilizes intra-state transfer vouchers (ISTVs) to process reimbursement of Federal funds to subrecipient state agencies for the Medicaid Cluster and State Children's Insurance Program (SCHIP), totaling $24.8 million. The Department has established a chart of accounts which includes the Fund, Spending Authority Code (SAC), Responsibility Center, Grant number, Object Code, and Reporting Category to identify expenditures by program and area which is used to enter information into the State's Central Account System (CAS). However, for 16 of 22 SCHIP/Medicaid ISTVs tested, the SCHIP portion of the ISTV was charged improperly to a Medicaid grant number in CAS. Upon further review, we determined the entire population of SCHIP ISTVs processed between July 2001 and February 2002 was improperly coded and the related federal draw downs, totaling $13,713,546, were erroneously made from the Medicaid Cluster, resulting in questioned costs. In addition, the Healthy Start portion of Medicaid was coded incorrectly to a SCHIP Spending Authority Code for 9 of the 22 SCHIP/Medicaid ISTVs tested, totaling $236,677. However, this coding error did not result in questioned costs since the amount had been coded to a Medicaid grant number and Federal Funds were appropriately drawn from Medicaid. Although the Bureau of Federal Financial Reporting identifies various coding errors during their reconciliation of ISTVs and support documentation to the Payment Appropriation Report for a majority of Medicaid/SCHIP ISTVs, the information is not consistently forwarded to the Cash Management or the Accounting Information Sections to help prevent similar errors in the future.

Inaccurate grant coding results in data errors which could adversely impact management's decisions about the cost effectiveness and the overall effectiveness of Medicaid, SCHIP and other federal programs. In addition these errors could result in inaccurate reporting to the federal government which may subject the Department to sanctions or a reduction in Federal Funding. The Accounting Information Section Chief and the Budget Analysis Section Chief indicated they were aware of the grant number coding errors and, as a result, the Department had established a separate and unique grant code for SCHIP, which was utilized after February 2002.

We recommend management evaluate and strengthen the control procedures to reasonably ensure they are designed to detect improper coding and include a through review of documentation prior to processing. These controls must also include monitoring procedures to ensure the established controls are operating effectively, and may involve reconciliations in order to determine that expenditures are drawn from the proper program. Errors identified through reconciliations or other procedures should be communicated to all Bureaus involved in the ISTV processing to prevent repeat coding errors.

3. FOSTER CARE – DUPLICATE PAYMENTS/NO HISTORICAL PAYMENT DATA IN FACSIS

Finding Number	2002-JFS03-024
CFDA Number and Title	93.658 – Foster Care 93.659 – Adoption Assistance
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $2,854,359

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.

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 ODHS 1925 and 1659) and Adoption Assistance (via the ODHS 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. However, FACSIS retains no historical cost information which could be used to prevent claims from being reimbursed more than once, or exceeding the allowable limits (related to clothing, legal expenses, etc.) set forth in the Ohio Administrative Code. In addition, the Department did not have adequate procedures in place to track or monitor the receipt of monthly ODHS 1925 reports from each county to avoid duplicate submissions. As part of our testing, the auditor performed an electronic data match on state fiscal year 2002 Foster Care expenditures, as reported in the IV-E Disbursement Journals, to determine if any duplicate payments were made. In addition, the auditor also obtained the IV-E Disbursement Journals for July and August of 2002 to reasonably identify adjustments to duplicate payments subsequent to fiscal year end. This analysis identified several matches in payments for the same child and dates of service, as detailed below.

3. FOSTER CARE – DUPLICATE PAYMENTS/NO HISTORICAL PAYMENT DATA IN FACSIS (Continued)

CATEGORY	NUMBER OF MATCHES	AMOUNT REIMBURSED
Same child/service period-multiple providers & amounts	1,536	$1,417,975
Same child/service period/provider/amount	992	$973,539
Same child/service period	470	$498,845
TOTAL	2,998	$2,854,359

Of the duplicated Child/Service Dates and corresponding reimbursements identified, 953 or approximately 32% of the Child/Service Dates representing $1,809,972 or approximately 63% of reimbursements were private providers (i.e. ODHS 1925), and 2,045 or 68% of the Child/Service Dates representing $1,044,387 or approximately 37% of reimbursements were public providers (i.e. ODHS 1659).

To verify the accuracy of this computer match, we reviewed the disbursement detail as documented in the Title IV-E Disbursement Journals for 51 items tested that appeared to contain duplicate reimbursements. Several of the items identified included multiple reimbursements for the same child and time period of service, with one child's charges for one month being reimbursed 12 times from the same request. Although the data in our total match file includes the original allowed amount, we were unable to efficiently determine the actual overpayment amount because several items were paid more than twice. Therefore, we have questioned the total amount of the files identifying potential duplicate payments ($2,854,359) for the Foster Care Program.

Additionally, during testing we noted in some cases it appeared as though the dates of service noted for reimbursements may have not reflected the actual dates of service. For instance, the reimbursement duplicated 12 times was entirely comprised of reimbursement amounts under $20. However, the dates of service noted for each reimbursement covered the entire month. Finally, the Transaction (TRN) code utilized to identify reimbursements for allowable costs other than maintenance and administrative payments, appeared to be used inconsistently. For many of the duplicates tested, there was no TRN code identified after the initial payment. In these cases it is possible that the initial payment was followed by a clothing, graduation, or some other payment, however, the applicable TRN code was not used.

In the absence of internal controls to monitor reimbursement requests, the risk that amounts claimed for federal reimbursement are overstated is greatly increased. Overstating federal claims could subject the Department to possible federal sanctions, limiting the amount of funding available for program activities.

We recommend ODJFS take the necessary steps to recover amounts overpaid to counties, and devise and implement internal control procedures which 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, which 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 ODHS 1925 has been received only once. Finally, we recommend the Department develop and implement policies and procedures to reasonably ensure data maintained in the Title IV-E Disbursement Journal is accurate.

4. TANF – MONITORING SUBRECIPIENTS – HANCOCK COUNTY

Finding Number	2002-JFS04-025
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $ 237,388

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, 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. Therefore, amounts disbursed to the provider during the audit period resulted in questioned costs totaling $237,388.

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 provider determines eligibility for recipients which are referred directly to them by outside sources and have not had an eligibility determination completed by the county.

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

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. SOCIAL SERVICES BLOCK GRANT – PERIOD OF AVAILABILITY

Finding Number	2002-JFS05-026
CFDA Number and Title	93.667 – Social Services Block Grant
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $66,992

45 CFR '96.14(b) states, in part:

> Expenditure. No limitations exist on the time for expenditure of block grant funds, except those imposed by statute with respect to the . . . social services block grants.

42 USC '1397a states:

> . . .
>
> (c) Expenditure of funds
>
> Payments to a State from its allotment for any fiscal year must be expended by the State in such fiscal year or in the succeeding fiscal year.
>
> . . .

During fiscal year 2002, ODJFS disbursed approximately $167 million in federal funds related to the Social Services Block Grant for federal fiscal years 2000, 2001, and 2002 awards. The period of availability for expenditures related to the 2000 award, per the above regulations, was October 1, 1999 through September 30, 2001. However, $490,730 in expenditure transactions and $2,243,029 in revenue coded to this award year (funds GRF and 396, CAS grant number H692) were posted to the Central Accounting System (CAS) between October 1, 2001 and June 21, 2002. Of the revenue coded and drawn outside the period of availability, $66,992 was not supported by underlying documentation to indicate the draw was for expenditures within the proper period; therefore, we have questioned the corresponding costs for the Social Services Block Grant.

5. SOCIAL SERVICES BLOCK GRANT – PERIOD OF AVAILABILITY (Continued)

Failure to liquidate its obligations within the time limits established by Federal regulations and/or the grant agreement could subject the Department to fines, penalties, and/or loss of federal funding. ODJFS management indicated they believed the disbursements were coded to incorrect grant numbers; thereby, making it appear they occurred outside the period of availability.

We recommend ODJFS review grant award balances prior to the expiration of the availability period to determine if any unpaid obligations exist. If it appears obligations will not be liquidated within the required time frame, the Department should submit a written request for an extension. We also recommend ODJFS management more closely monitor cash requests and subsequent expenditures to help ensure funds are spent within the grant's period of availability, and design and implement periodic reconciliations between the revenues/draws by award to the disbursements by award to reasonably ensure disbursements are coded correctly.

6. TANF – REFUSAL TO WORK SANCTIONS – LUCAS COUNTY

Finding Number	2002-JFS06-027
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $29,109

45 CFR 261.14(a) states:

> If an individual refuses to engage in work required under section 407 of the Act, the State must reduce or terminate the amount of assistance payable to the family, subject to any good cause or other exceptions the State may establish. Such a reduction is governed by the provisions of CFR 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. . . .

During testing of the sanction process for refusal to work, we selected twenty OWF assistance groups (AG), out of approximately 6,300, and noted the following:

- The GWP518RB report, All Family Participation Detail Report, listed one individual as having no work activity since November 2001; however, she received benefits throughout the remainder of the fiscal year. Therefore, we are questioning costs for payments made from November 1, 2001 through June 30, 2002, totaling $2,262 (projected to be more than $10,000).

- One AG's self employment income was not considered when eligibility was determined, therefore, we were unable to determine if the benefit payment amounts were appropriately calculated and/or if this individual was eligible to receive any benefits. Therefore, we are questioning costs for the amount of payments made during the fiscal year, totaling $4,690 (projected to be more than $10,000).

- Five AGs showed no work or work toward self-sufficiency activities and were not sanctioned for refusal to work; however, they continued to receive benefit payments. Therefore, we are questioning costs from the date of no work activity, as reported on the GWP518RB report, to the end of the fiscal year, totaling $16,892.

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

- Three AGs were not in compliance with work activities; however, LCDJFS failed to properly assign or follow up on client participation in work activities. As a result, these individuals were not sanctioned and we are questioning costs from the date of no work activity, as reported on the GWP518RB report, to the end of the fiscal year, totaling $5,265 (projected to be more than $10,000).

Without proper policies and procedures to reasonably assure compliance with federal requirements, management cannot be fully assured that only eligible recipients are receiving benefits. If LCDJFS is making payments during periods when AGs should be sanctioned, there is an increased risk of potential questioned costs which could jeopardize future funding.

Management stated LCDJFS underwent departmental restructuring 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 LCDJFS management implement internal controls and procedures to ensure that only eligible individuals receive assistance and promote adherence to the specific compliance requirements. Additionally, procedures should be implemented so that referrals are processed and sanctions are issued to ensure payments are not made to assistant groups during a period of noncompliance.

7. MEDICAID/SCHIP - INCORRECT GRANT NUMBERS CHARGED

Finding Number	2002-JFS07-028
CFDA Number and Title	93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $23,246

Office of Management and Budget Circular A-87 "Cost Principles for State, Local, and Indian Tribal Governments," Attachment A, subsection C states, in part:

2. 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.

   . . .

The Centers for Medicare and Medicaid Services "Financing Provisions of the Child Health Insurance Program (CHIP) and Related Medicaid Program Provisions," Attachment 1, states in part:

> Under section 1903(a)(5) of title XIX of the Act, the Federal matching rate under Title XIX for family planning services expenditures is at 90 percent, NOT the regular Medicaid FMAP rate, and NOT the Title XXI enhanced FMAP rate. Therefore, Federal matching payments for States' Medicaid expenditures under Title XIX for Family planning would be federally matched at the 90 percent rate and such expenditures would not be charged against the States' title XXI allotment.

7. MEDICAID/SCHIP - INCORRECT GRANT NUMBERS CHARGED (Continued)

ODJFS utilizes voucher summaries to process reimbursement of Federal funds for Medicaid Cluster and State Children's Insurance Program (SCHIP) benefit payments. The Department has established a chart of accounts which includes the Fund, Spending Authority Code (SAC), Responsibility Center, Grant Number, Object, and Reporting Category to identify expenditures by program and area, and is used to enter the information into the State's Central Accounting System (CAS). However, improper grant numbers were used for three of ten (30%) voucher summaries totaling $1.5 billion selected for testing from $7.7 billion in Medicaid and SCHIP voucher summary benefit payments during fiscal year 2002. Two of these errors related to SCHIP Family Planning payments (chargeable to Medicaid per the above regulations) which were improperly charged to a SCHIP grant number in CAS, totaling $22,947. One of these errors noted included the SCHIP Family Planning payments charged to an improper SCHIP grant number but also identified state funds only in the same voucher summary line items in CAS, totaling $299. Combined, these errors resulted in $23,246 in questioned costs for SCHIP.

Inaccurate grant coding results in data errors which could adversely impact management's decisions about the cost and operational effectiveness of the Medicaid, SCHIP, and other federal programs. In addition, these errors could result in inaccurate reporting to the federal government which may subject the Department to sanctions or a reduction in federal funding.

According to the Budget Management and Analysis Bureau Chief, incorrect coding in the CAS Edit Table caused one of the errors. The Bureau of Accounting Chief stated the SCHIP voucher summaries were miscoded and the error was an oversight.

We recommend ODJFS management thoroughly review the chart of accounts associated with Medicaid and SCHIP to ensure proper coding structures are being utilized for each federal program. We also recommend management evaluate and strengthen control procedures to reasonably ensure they are designed to detect improper coding and include a thorough review of documentation prior to processing. These controls should also include monitoring procedures to ensure the established controls are operating effectively.

8. CHILD CARE – MISSING DOCUMENTATION – CUYAHOGA COUNTY

Finding Number	2002-JFS08-029
CFDA Number and Title	93.575/93.596 – Child Care Cluster
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $11,922

45 CFR 74.53 (b) states, in part:

> Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report. . . .

It is management's responsibility to create and implement control policies and procedures to provide reasonable assurance that only eligible individuals receive assistance and the information reported to ODJFS is accurate and complete. It is imperative that appropriate supporting documentation is maintained for all amounts reported, and case files contain all pertinent information relating to the case and be readily accessible for review and/or reference.

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

We selected twenty vouchers for testing, totaling to $160,652, out of approximately 25,638 Day Care Placement and Payment cases, with annual expenditures of approximately $138,351,727. Three of the twenty vouchers and the supporting documentation, totaling $11,922, could not be located by CCDJFS for testing, therefore, we were unable to determine if the expenditures were allowable. We, therefore, question costs of $11,922.

Missing reports and documentation increase the risk the amounts and other information reported to the federal grantor agencies and/or on the State's financial statements may not reflect actual program activities. Without consistently obtaining or maintaining the required documentation on file, 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 the payments could be made to ineligible clients or for unallowable activities. The Manager of Business Services stated after the State provider rate increased, CCDJFS was required to pull every voucher and recalculate them to determine any retroactive payments due to the providers; therefore, the vouchers may have been misfiled after this procedure was performed.

We recommend CCDJFS management review current grant eligibility requirements with appropriate staff and the related internal controls CCDJFS has established to ensure that files are complete and accessible. Additional procedures should be added, as necessary, to reasonably ensure proper eligibility determinations are made and appropriately documented in the county's 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 to the personnel responsible for reviewing, approving, or maintaining case files.

9. CHILD CARE – UNDOCUMENTED ELIGIBILITY – CUYAHOGA COUNTY

Finding Number	2002-JFS09-030
CFDA Number and Title	93.575/93.596 – Child Care Cluster
Federal Agency	Department of Health and Human Services

<u>QUESTIONED COSTS</u> $8,883

45 CFR 98.20 (a) states, in part:

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 option of the Lead Agency, be under age 19 and physically or mentally incapable of caring for himself or herself, or under court supervision;

(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.

. . .

9. CHILD CARE – UNDOCUMENTED ELIGIBILITY – CUYAHOGA COUNTY (Continued)

We selected twenty case files for testing, totaling $9,760, out of approximately 25,638 Day Care Placement and Payment cases, with annual expenditures of approximately $138,351,727. Two of the twenty case files and their supporting documentation, could not be located for eligibility requirement testing as noted above, therefore, since we were unable to determine payments were made to eligible recipients, we will question costs for all benefits received during the fiscal year, totaling $8,883, projected to be more than $10,000.

Without consistently obtaining or maintaining the appropriate supporting documentation, CCDJFS may not be able to support or ensure payments were made on behalf of eligible recipients, and cannot substantiate that federal funds were used for authorized purposes in compliance with laws and regulations or that program objectives were met.

The Manager of Business Services stated the missing vouchers were due to incorrect re-filing from the State's retroactive provider increase in which all vouchers were pulled and re-calculated to determine retroactive payments due to the providers.

We recommend CCDJFS management review current grant eligibility requirements with appropriate staff and the related internal controls CCDJFS has established to ensure that files are complete and accessible. Additional procedures should be added, as necessary, to reasonably ensure proper eligibility determinations are made and appropriately documented in the county's 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 to the personnel responsible for reviewing, approving, or maintaining case files.

10. TANF – MISSING DOCUMENTATION – LUCAS COUNTY

Finding Number	2002-JFS10-031
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

<u>QUESTIONED COSTS</u> $5,062

45 CFR Section 74.53 (b) states, in part:

> Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report. . . .

It is management's responsibility to create and implement control policies and procedures to provide reasonable assurance that only eligible individuals receive assistance and the information reported to ODJFS is accurate and complete. It is imperative that appropriate supporting documentation is maintained for all amounts reported, and case files contain all pertinent information relating to the case and be readily accessible for review and/or reference.

Two of twenty case files, out of approximately 6,300, could not be located for testing; therefore, we were unable to determine if those recipients were appropriately sanctioned for OWF benefits when there was a refusal to work. Additionally, since the case files were missing, we were unable to determine the recipients were eligible to receive benefits. Therefore, we are questioning costs for all payments made during the fiscal year, totaling $5,062 ($1,754 + $3,308 = $5,062) (projected to be more than $10,000).

10. TANF – MISSING DOCUMENTATION – LUCAS COUNTY (Continued)

Missing reports and documentation increase the risk the amounts and other information reported to the federal grantor agencies and/or on the State's financial statements may not reflect actual program activities. Without consistently obtaining or maintaining the required documentation on file, management may not be able to fully support or ensure payments were made only to or on behalf of eligible recipients. The lack of supporting documentation could result in questionable benefit payments and increase the risk the payments could be made to ineligible clients or for unallowable activities. The IM Coordinator stated the missing case files were a department personnel oversight.

We recommend LCDJFS management review current grant eligibility requirements with appropriate staff and the related internal controls LCDJFS has established to ensure that files are complete and accessible. Additional procedures should be added, as necessary, to reasonably ensure proper eligibility determinations are made and appropriately documented in the county's 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 to the personnel responsible for reviewing, approving, or maintaining case files.

11. TANF – CHILD SUPPORT NON–COOPERATION COMPLIANCE – LUCAS COUNTY

Finding Number	2002-JFS11-032
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

<u>QUESTIONED COSTS</u> $3,050

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

> If the agency responsible for administering the State plan approved under part D of this subchapter 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 percent 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.

During testing of ten, out of approximately 1,360, CSEA referrals to be sanctioned for child support non-cooperation, we noted the following:

- One of ten referrals was processed and released prior to the recipient's date of compliance with CSEA. As a result, benefit payments were made during the thirteen months after the sanction was released, despite the recipient's noncompliance. We, therefore, question costs for the amount of payments made from the sanction release date through the end of the fiscal year, totaling $3,050 (projected to be more than $10,000).

11. TANF – CHILD SUPPORT NON–COOPERATION COMPLIANCE – LUCAS COUNTY (Continued)

Without proper policies and procedures to reasonably assure compliance with federal requirements, management cannot be fully assured that only eligible recipients are receiving benefits. If LCDJFS is making payments during sanction periods, there is a risk of potential questioned costs which could jeopardize future funding. LCDJFS management stated this was an oversight made by department personnel.

We recommend LCDJFS management implement internal controls and/or strengthen current procedures to provide reasonable assurance that payments are not made to individuals not cooperating with CSEA. In addition, procedures such as supervisory reviews would provide added assurance that payments are not made during sanction periods.

12. MEDICAID/SCHIP – DRUG REBATE PAYMENTS

Finding Number	2002-JFS12-033
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

<u>QUESTIONED COSTS</u> $1,781

OMB Circular A-87, Attachment A requires charges to federal programs be net of all applicable credits. "Applicable credits refer to those receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs. Example of such transactions include purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credit accruing to or received by the governmental unit relate to allowable costs, they shall be credited to the Federal award either as a cost reduction or cash refund, as appropriate." The Pharmacy Services Unit follows the Center for Medicaid and Medicare Services (CMS) guidance on all Medicaid drug rebate issues. The CMS release No. 26 requires manufacturers to calculate and pay interest "for all rebates not paid in a timely manner." The release also places the responsibility to collect interest due and report those amounts to CMS with the State. As such, it is management's responsibility to design and implement control procedures to reasonably ensure all rebate payments have been properly calculated, submitted timely, and include any interest owed.

Of the 20 drug rebate receipts selected for testing from the 1,353 processed during the audit period, seven were not paid within the 38 days of mailing, as required. For four of these late payments, interest was not calculated and paid by the labeler, and for two of the seven only part of the interest was paid, resulting in total questioned costs of $1,781 (projected to be more than $10,000). Based on the documentation provided, we were unable to determine the amounts related to each of these programs, therefore, the entire amount has been questioned for the Medicaid Cluster. In addition, internal controls over drug rebates totaling approximately $275 million were not being consistently applied to ensure timely billing and collection, as indicated below:

- For four of the four quarters tested, the rebate invoices were not mailed within 60 days after the end of the quarter.

- Monitoring procedures requiring a sampling and cross review of the labelers' adjustments by the Pharmacy Program Administrator and Pharmacologist are not completed on a consistent basis.

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

By failing to collect the late drug rebate interest from manufacturers, the Department forfeits revenue to which it is entitled, directly reducing the amount of funding available to finance operations and/or programs activities. In addition, any penalties that may be imposed by CMS for noncompliance with program procedures could further reduce available funding. The Pharmacy Program Administrator indicated they are aware of the late mailings and noted many times the cause related to MIS unit having delays in getting the tape out to them within their time frame, CMS being late, or vacations. He noted the number of late payments without interest has decreased since the fiscal unit began the process of sending a late payment notice to the labelers who have not yet sent in payment letting them know they must calculate and include interest. In addition to the current letter, the Department is considering sending a letter to labelers who pay the invoice late, but do not include the interest, requesting that the interest be calculated and mailed to the Department.

We recommend ODJFS implement and/or strengthen control policies and procedures related to the collection of interest on late drug rebate payments to provide reasonable assurance that all interest is properly calculated and submitted by the manufacturers in accordance with the CMS Release No. 26. This would include ensuring all related information is received timely, invoices are mailed 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.

13. ENTERTAINMENT COST REIMBURSEMENT – LUCAS COUNTY

Finding Number	2002-JFS13-034
CFDA Number and Title	93.563 – Child Support Enforcement
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $1,564

45 CFR 304.20 (a) states, in part:

> 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. . . .

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

> . . .
>
> 17. **Employee morale, health, and welfare costs.** The costs of health or first-aid clinics and/or infirmaries, recreational facilities, employee counseling services, employee information publications, and any related expenses incurred in accordance with a governmental unit's policy are allowable. Income generated from any of these activities will be offset against expenses.
>
> 18. **Entertainment**. Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.
>
> . . .

13. ENTERTAINMENT COST REIMBURSEMENT – LUCAS COUNTY (Continued)

For our testing, we selected $129,078 program direct expenditures out of approximately $11,491,192. In October 2001, the LCCSEA held an employee recognition lunch which was attended by CSEA employees and other members of the community. The $1,564 in costs associated with this dinner (including catered food, decorations, and miscellaneous items) were charged directly to the Child Support Enforcement Program on the ODHS 2750 report. These costs, however, do not appear to be allowable under OMB Circular A-87; therefore, we have questioned the $1,564 expended for the Child Support Enforcement Program (projected to be more than $10,000).

Noncompliance with federal program guidance could result in sanctions and/or adversely affect future funding. Also, use of federal funds for unauthorized purposes may cause program objectives not to be met.

According to LCCSEA Director, all the employees make a great contribution every day in their jobs and should be recognized for it since they all are improving the system greatly. The Board of Commissioners pre-approved the resolution and considered these to be within the guidelines as set forth by the ODHS Administrative Procedures Manual Sections 7184 and 1505.4.

We recommend LCCSEA management obtain and refer to the most recent Administrative Procedure Manual, and work with ODJFS to reasonably ensure the policies and procedures established in the Administrative Procedure Manual and other such guidance are in compliance with federal guidelines. Policies and procedures which are not in compliance with these guidelines should be revised or a written waiver obtained from the federal grantor agency exempting them from the requirement.

14. TANF – MISSING DOCUMENTATION – CUYAHOGA COUNTY

Finding Number	2002-JFS14-035
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $1,150

42 USC Section 602(a)(1)(A) requires the state to submit a written document that outlines how the state intends to do the following:

(i) Conduct a program, designed to serve all political subdivisions in the State (not necessarily in a uniform manner), that provides assistance to needy families with (or expecting) children and provides parents with job preparation, work, and support services to enable them to leave the program and become self-sufficient.

(ii) Require a parent or caretaker receiving assistance under the program to engage in work (as defined by the State) once the State determines the parent or caretaker is ready to engage in work, or once the parent or caretaker has received assistance under the program for 24 months (whether or not consecutive), whichever is earlier, consistent with section 607(e) (2) of this title.

. . .

14. TANF – MISSING DOCUMENTATION – CUYAHOGA COUNTY (Continued)

Ohio Revised Code Section 5108.06 states, in part:

> Each county department of job and family services shall either adopt the model design for the prevention, retention, and contingency program the Department of Job and Family Services develops under section 5108.05 of the Revised Code or develop its own policies for the program. To develop its own polices, a county department shall adopt a written statement of the policies governing the program. The policies may be a modification of the model design, different from the model design, or a combination. A county department may amend its statement of policies to modify, terminate, and establish new policies.
>
> . . .

Cuyahoga County used the state Prevention, Retention, and Contingency (PRC) model and made modifications to fit the County's needs. Their PRC model, as amended March 1, 2002, states:

> Federal and State law (42 U.S.C. 608 sections 431 of PRWORA and the ORC) prohibit the issuance of PRC:
>
> 1) To families without a minor child.
> 2) To a single individual, unless the individual is pregnant as verified by a licensed physician.
> 3) For medical services except for pre-pregnancy family planning services.
> 4) To an individual who is not a citizen of the United States or a qualified alien.
> 5) To fugitive felons.
> 6) To families that fraudulently receive or have received assistance under OWF and PRC programs until repayment, in full, occurs (also known as an Intentional Program Violation).

To test eligibility criteria, we selected ten case files representing $9,833 out of 42,000 active TANF cases with annual TANF PRC expenditures of $6,016,203. Three of the files tested, totaling $1,150, were missing required documentation which, in turn, did not enable us to determine if the recipients were eligible to receive the benefits. We, therefore, question the entire amounts disbursed to the three recipients during fiscal year 2002, totaling $1,150, projected to be more than $10,000.

Without all of the required documentation, CCDJFS cannot substantiate these federal funds were used for authorized purposes in compliance with laws and regulations or that program objectives were met. In addition, without consistently obtaining or maintaining the appropriate supporting documentation, CCDJFS cannot fully support or ensure payments were made only to or on behalf of eligible recipients or within the limits prescribed in the PRC plan.

The Cuyahoga County Work and Training Regulatory Compliance Manager stated that missing documents arise from caseworkers incorrectly compiling case files and filing them. The case worker error rate may have increased due to larger case loads.

We recommend CCDJFS management review current policies and procedures with all staff and implement and enforce control procedures which will reasonably assure the case files for TANF PRC program recipients have adequate documentation to support the subsidy payments made to the recipients. One method to provide reasonable assurance that all 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 ensure the proper supporting documentation is included within the file.

15. TANF – BENEFIT OVERPAYMENTS – LUCAS COUNTY

Finding Number	2002-JFS15-036
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $ 950

Ohio Revised Code Section 5108.03 state, in part:

> Under the prevention, retention, and contingency program, a county department of job and family services shall provide benefits and services that individuals need to overcome immediate barriers to achieving or maintaining self sufficiency and personal responsibility. . . .

The ODJFS PRC Implementation Guidelines state, in part:

> . . . Prevention, Retention, and Contingency (PRC) is a critical tool created for counties to encourage employment and prevent people from sliding out of the work force and onto public assistance. Counties have the flexibility to choose how much money to spend on this effort and are empowered to design the PRC Program in a way that fits local conditions and personal circumstances. . . .

Governmental units assume responsibility for administering federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the federal award. Office of Management and Budget 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.
>
>   . . .

During eligibility testing of ten PRC vouchers totaling $5,429, out of approximately 7,023 PRC vouchers totaling $2,200,000, the PRC voucher packets and the CRIS-E system did not have documented evidence that disapproving the PRC voucher would create a hardship for the family and/or threaten the stability of the family for the following:

- One voucher paid for shelter on behalf of an eligible recipient in which a voucher had already been issued during the same time frame causing the total disbursement to the recipient to exceed the $600 county threshold by $560. Therefore, we question costs of $560, projected to be more than $10,000.

- One voucher was issued for three beds which exceeded the $200 county per bed/threshold by $390. We, therefore, question costs of $390, projected to be more than $10,000.

If adequate supporting documentation is not maintained to support payments made to eligible recipients, the risk of benefits made to ineligible recipients is greatly increased. If PRC threshold amounts are not monitored, the risk of overpayments to recipients is increased. Benefit overpayments may subject LCDJFS 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.

15. TANF – BENEFIT OVERPAYMENTS – LUCAS COUNTY (Continued)

The IM Coordinator stated she didn't believe payment for the bedding would be a problem since it exceeded the threshold by only a minimal amount. Additionally, she stated the PRC thresholds are guidelines and the county plan provides the ability to approve an application if the denial of the application would create a hardship for the family and threaten the stability of the family.

We recommend LCDJFS management develop and implement procedures to provide reasonable assurance that appropriate supporting documentation is maintained to support all benefit payments made on behalf of eligible recipients. A tracking system should also be implemented to monitor payments made on behalf of eligible recipients to ensure the threshold is not exceeded. In addition, procedures such as supervisory reviews would provide added assurance that benefit payments are made in accordance with program requirements.

16. SCHIP – INELIGIBLE RECIPIENT

Finding Number	2002-JFS16-037
CFDA Number and Title	93.767 – State Children's Insurance Program
Federal Agency	Department of Health and Human Services

<u>QUESTIONED COSTS</u> $823

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 contributed regularly to all eligible individuals until they are found ineligible. . . .

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 SCHIP claims from subrecipient state 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. When partial eligibility exists for one claim, MMIS is programmed with an edit to ensure the line item service dates which fall within a period of eligibility are paid, and those that fall outside an eligible period are denied. However, for one claim ($1,664) from the 60 claims tested totaling $15,855.05, the recipient had only partial eligibility, per CRIS-E and MMIS, and was not eligible to receive benefits for all line item service dates in the claim. Further investigation identified a problem with the recipient eligibility logic of claims adjudication, or interaction among edits on the MMIS system. This error resulted in a total questioned cost for the claim of $823 (projected to be more than $10,000).

The lack of sufficient edit and validation checks increase the risk of errors during processing of SCHIP 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 implementation of an enhancement to the edits caused two edits to post together in the same claim resulting in the payment of all line items instead of limiting payment to service dates which fell within a period of eligibility. The Department was not aware of the occurrence; however, they indicated the problem would be corrected as soon as possible.

16. SCHIP – INELIGIBLE RECIPIENT (Continued)

We recommend ODJFS perform periodic testing to help ensure the 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.

17. TANF – UNALLOWABLE PAYMENTS – CUYAHOGA COUNTY

Finding Number	2002-JFS17-038
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

<u>QUESTIONED COSTS</u> $222

45 CFR 201.2 states:

> The State plan is a comprehensive statement submitted by the State agency describing the nature and scope of its program and giving assurance that it will be administered in conformity with the specific requirements stipulated in the pertinent title of the Act, the regulations in subtitle A and this chapter of this title, and other applicable official issuances of the Department. The State plan contains all information necessary for the Administration to determine whether the plan can be approved, as a basis for Federal financial participation in the State program.

Ohio Revised Code Section 5107.16 states, in part:

(A) 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 as follows:

(1) For a first failure or refusal, the county department shall deny or terminate the assistance group's eligibility to participate in Ohio works first for one payment month or until the failure or refusal ceases, whichever is longer;

(2) For a second failure or refusal, the county department shall deny or terminate the assistance group's eligibility to participate in Ohio works first for three payment months or until the failure or refusal ceases, whichever is longer;

(3) For a third or subsequent failure or refusal, the county department shall deny or terminate the assistance group's eligibility to participate in Ohio works first for six payment months or until the failure or refusal ceases, whichever is longer.

(B) Each county department of job and family services shall establish standards for the determination of good cause for failure or refusal to comply in full with a provision of a self-sufficiency contract.

. . .

Cuyahoga County Department of Job and Family Services policies for Ohio Works First (OWF) are the same as specified in Ohio Revised Code Section 5107.16.

17. TANF – UNALLOWABLE PAYMENTS – CUYAHOGA COUNTY (Continued)

We tested ten TANF OWF cases, totaling $313,779, out of 42,000 active TANF cases and noted one unallowable payment for Sanction Code 445 (Refusal to Work) totaling $222. Since the recipient received TANF OWF benefits during a sanction period, we question costs of $222, projected to be more than $10,000.

Without adequate monitoring, CCDJFS may disburse federal funds for unauthorized purposes and increase the risk of noncompliance with laws and regulations governing the OWF federal awards. The Cuyahoga County Work and Training Regulatory Compliance Manager indicated the unallowable payment was caused by the county policy that allows a participant a hearing before entering the sanction code into the CRIS-E system. Consequently, the county permits payments to occur during the period before the hearing. However, during review of the CRIS-E system, there was no evidence that a hearing was requested or took place.

We recommend CCDJFS management review current policies and procedures with all staff and implement and/or enforce control procedures which will reasonably assure that recipients do not receive benefits during the period after the sanction period is declared and before the hearing. One method to ensure these unallowable payments are not made is to create computer controls that either prohibit payments from being made or alert county personnel to hold any checks issued after a sanction period is declared. Additionally, establishing adequate monitoring procedures by management may reduce the risk of error.

18. CENTRALIZED TESTING OF PAYROLL – PAYROLL OVERPAYMENT – CUYAHOGA COUNTY

Finding Number	2002-JFS18-039
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.563 – Child Support Enforcement 93.575/93.596 – Child Care Cluster 93.658 – Foster Care 93.659 – Adoption Assistance 93.667 – Social Services Block Grant 93.775/93.777/93.778 – Medicaid Cluster 93.767 – State Children’s Insurance Program
Federal Agency	Department of Agriculture Department of Health and Human Services

<u>QUESTIONED COSTS</u> $185

OMB Circular A-87, Attachment B, section 11 states, in part:

. . .

h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.

(1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

. . .

18. CENTRALIZED TESTING OF PAYROLL – PAYROLL OVERPAYMENT – CUYAHOGA COUNTY (Continued)

During payroll testing of ten employees (totaling $13,935), out of approximately $95,865,321, we noted the following errors resulting in total questioned costs of $185. Since we cannot effectively allocate these costs to the individual programs, the entire amount has been questions for the Medicaid Cluster.

- One employee's time sheet was designated code ALX (Administrative Leave Without Pay) for 8 hours; however, the employee was paid for a full 80 hours. We were not provided with documentation to support an adjustment was made in a subsequent pay period. Based on these facts, the employee was improperly paid $126 for eight hours on August 6, 2001 for the pay period ending August 25, 2001; therefore, we are questioning the costs for $126, projected to be more than $10,000.

- One employee worked and was paid for 9 hours of overtime ($14.66 x 1.5 x 9 = $197.91); however, used 8 hours of sick leave during the same pay period. Per the union contract, an employee's use of sick leave during a pay period will only allow overtime/compensatory time to be paid at straight time until 40 work hours is reached. The employee should have been paid for 8 hours straight time ($14.66 x 8 = $117.28), plus one hour of overtime ($14.66 x 1 x 1.5 = $21.99), for a total of $139.27. Therefore, we are questioning costs of $59 ($197.91 – $139.27 = $58.64), projected to be more than $10,000.

If payroll expenditures are made for hours that are not chargeable, the risk of employees being paid for services not rendered is increased. Additionally, this could result in inaccurate reporting to the federal government which may subject the CCDJFS to sanctions or a reduction in federal funding. The Business Service Manager stated the Payroll Clerk made an error between the timesheet and the union contract.

We recommend CCDJFS management review the current policies and the procedures with all staff and implement and/or enforce current control procedures to provide reasonable assurance that transactions are being processed in accordance with prescribed laws and regulations and are properly recorded in the accounting records. Additionally, management reviews of timesheets and leave forms should be thorough to increase assurance employees' actual hours worked are reflected.

19. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – DUE DATES

Finding Number	2002-JFS19-040
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>NONCOMPLIANCE</u>

Federal regulations require states to maintain an IEVS system, as indicated below:

7 CFR 272.8(a)(1) states, in part:

> State agencies shall maintain and use an income and eligibility verification system (IEVS), . . . as specified in this section.

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

7 CFR 272.8(i)(3) requires the State plan to include:

> For each of the data sources specified in paragraphs (c) and (f) of this section, a separate description of how the State agency will select (target) information items for the actions specified in paragraph (g)(1) of this section [which requires state agencies to take action on these items].

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 ODJFS 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

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

We selected six large counties representing approximately 48% of the nearly 2.4 million annual IEVS alerts in state fiscal year 2002 for testing related to the timely completion of IEVS alerts in accordance with the JFS standards set forth in "Flash #61"; the results are summarized below:

Type of Alert	No. Tested	No. Delinquent	Delinquency Rate
High Priority	125	40	32.0%
Medium Priority	55	11	20.0%
Total	180	51	28.3%

Tardiness ranged from two to 373 days on high priority alerts and six to 302 days for medium priority alerts, with an average delinquency of 108 days. In addition, ten of the 40 delinquent high priority alerts and five of the 11 medium priority alerts had not been addressed as of the date of our testing.

We also reviewed the match dates (date the alert was generated) and compliance due dates (calculated by the system to indicate the deadline to complete the match) maintained in CRIS-E and listed in the IEVS download (approximately 2.4 million alerts) for 180 selected alerts matched prior to March 31, 2002. For 17 of these items, one or both dates did not agree between CRIS-E and the IEVS download. For the remaining 161 items matched prior to March 31, 2002, several instances were noted where the compliance due dates listed in the CRIS-E and the IEVS download were in excess of the time limits established by "Flash #61," as detailed below:

- 20 of 51 high priority Food Stamp matches contained compliance due dates which were seven to 71 days (for an average of 17 days) greater than the 90 day limit.
- 22 of 53 high priority Medicaid/SCHIP and TANF matches contained compliance due dates which were one to 78 days (for an average of 25 days) greater than the 45 day limit.
- 35 of 59 medium priority Food Stamp, Medicaid/SCHIP and TANF matches contained compliance due dates which were from two to three days (for an average of two days) greater than the 120 day limit.

Additionally, of the 17 items where one or both of the dates did not agree between CRIS-E and the IEVS download, the compliance due dates maintained in CRIS-E were in excess of the time limits established by "Flash #61", as detailed below:

- Six of the nine high priority Food Stamp matches contained compliance due dates which were from five to 145 days (for an average of 44 days) greater than the 90 day limit.
- Three of the seven high priority Medicaid/SCHIP and TANF matches contained compliance due dates which were from one to 77 days (for an average of 51 days) greater than the 45 day limit.

ODJFS management indicated the generation of the compliance due date had been corrected in the CRIS-E as of June 2, 2002. Therefore, we selected an additional 180 alerts occurring between June 2, 2002 and July 31, 2002. For 25 of these items, one or both dates did not agree between CRIS-E and the IEVS download. For the remaining 155 items, several instances were noted where the compliance due dates listed in the CRIS-E and IEVS download were in excess of time limits established by "Flash #61", as detailed below:

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

- Two of 50 high priority Food Stamp matches contained compliance due dates which were 30 days greater than the 90 day limit.

- One of 51 high priority Medicaid/SCHIP and TANF matches contained a compliance due date which was 75 days greater than the 45 day limit.

- One of 54 medium priority Food Stamp, Medicaid/SCHIP and TANF matches contained a compliance due date which was 35 days greater than the 120 day limit.

Additionally, of the 25 items where one or both of the dates did not agree between CRIS-E and the IEVS download, the compliance due dates maintained in CRIS-E were in excess of the time limits established by “Flash #61”, as detailed below:

- Four of the 10 high priority Food Stamp matches contained compliance due dates which were from seven to 90 days (for an average of 39 days) greater than the 90 day limit.

- Eight of the nine high priority Medicaid/SCHIP and TANF matches contained compliance due dates which were from one to 78 days (for an average of 11 days) greater than the 45 day limit.

- Five of six medium priority Food Stamp, Medicaid/SCHIP and TANF matches contained compliance due dates which were from two to 365 days (for an average of 87 days) greater than the 120 day limit.

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”. In addition, these results indicate the Department has began to address their computer system’s calculation of the compliance due date intended to track compliance with IEVS matches; however, it appears although not as frequently as in the prior year, the Department’s computer system continues to generate erroneous compliance due dates. This increases the risk that benefits (totaling approximately $683.5 million for Food Stamps, $1.2 billion for TANF, $159.5 million for SCHIP, and $9.2 billion for Medicaid in fiscal year 2002) given to ineligible recipients for inappropriate amounts may not be properly or timely identified. Failure to comply with the requirements related to IEVS could result in federal sanctions or penalties.

ODJFS personnel stated they were aware of the issues identified and are addressing these issues in an update of IEVS. They further stated the update should contain more stringent match criteria which will reduce the number and duplication of IEVS alerts and increase the relevancy of the alerts generated. In addition, the update should rectify the compliance due date to where the due date coincides, when compared to the match date, to the required compliance dates set forth in “Flash #61".

We recommend ODJFS 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. In addition, we recommend the Department continue to review and revise the processes utilized to derive the compliance due date generated within CRIS-E to reasonably ensure this date is in accordance with Flash #61” requirements so delinquencies can be correctly identified.

20. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – INADEQUATE DOCUMENTATION

Finding Number	2002-JFS20-041
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>NONCOMPLIANCE</u>

7 CFR 272.8(e) states:

> The State agency must document, as required by § 273.3(f)(6), information obtained through the IEVS both when an adverse action is and is not initiated.

7 CFR 273.2(f)(6) states:

> Case files must be documented to support eligibility, ineligibility, and benefit level determinations. Documentation shall be in sufficient detail to permit a reviewer to determine the reasonableness and accuracy of the documentation.

45 CFR 205.56(a)(iv) states, in part:

> For individuals who are recipients when the information is received or for whom a decision could not be made prior to authorization of benefits, the State agency shall . . . initiate a notice of case action or entry in the case record that no case action is necessary . . .

Ohio Admin Code Section 5101:1-1-36(E)(3) states:

> Once the CDHS completes the IEVS match process, the results will be recorded in CRIS-E history.

The Income and Eligibility Verification System (IEVS) compares income, as reported by the recipients, to information maintained by outside sources. Information which does not appear to agree is communicated in the form of a CRIS-E alert, which is forwarded to the appropriate county for investigation. The following errors were noted in the IEVS documentation testing at six selected counties:

- For 81 of 180 alerts tested, the counties did not maintain adequate documentation within the CRIS-E system and/or the recipient case file to verify the alert was accurately resolved. Fifty-six of the 180 test items and 20 of the 81 errors related to information derived from the IRS/Unearned matches. Due to 26 USC §6103 (see comment 2002-JFS21-042), we were not permitted to view the federal return information associated with the alert, and adequate information was not maintained within the CRIS-E running comment history screen (CLRC) or case file to verify these alerts were resolved.

- For 16 of 125 alerts tested which involved multiple programs, adequate documentation was not maintained in CRIS-E and/or case file to indicate the alert information was properly considered in determining the recipient's eligibility and benefits for each program.

20. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – INADEQUATE DOCUMENTATION (Continued)

Without adequate documentation, a reviewer cannot determine if an IEVS alert has been resolved accurately, which may lead to benefits being issued to ineligible recipients or benefits being paid in inappropriate amounts. This noncompliance appears to be caused by the large volume of alerts, coupled with insufficient guidance by ODJFS, inadequate policies and procedures for operating IEVS, and inadequate supervision at the county level to assure that detailed documentation for each alert resolution is in the case file and/or CRIS-E.

We recommend the Ohio Department of Job and Family Services work with counties to develop and implement:

- A more thorough and consistent supervisory review process on the documentation of IEVS alert resolutions. The performance of this supervisory review should be documented to provide assurance to county and ODJFS management the control is being performed.

- A support screen that would retain past history information on the resolution of all alerts relating to IRS/Unearned Income benefits normally reflected on the related Data Exchange CRIS-E screens.

- Formal policies and procedures which detail what is required for caseworkers to adequately document IEVS alert resolutions.

We also recommend county IEVS coordinators periodically review a sample of alerts to help ensure supporting documentation is sufficient to evidence the alert has been processed correctly and is in compliance with the established policies and procedures, and 26 USC §6103.

21. INCOME ELIGIBILITY VERIFICATION SYSTEM – RETURN INFORMATION ACCESS

Finding Number	2002-JFS21-042
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>NONCOMPLIANCE</u>

26 USC §6103(b)(2) states:

The term "return information" means –

(A) a taxpayer's identity, the nature, source, or amount of his income, payments, receipts, deductions, exemptions, credits, assets, liabilities, net worth, tax liability, tax withheld, deficiencies, over-assessments, or tax payments, whether the taxpayer's return was, is being, or will be examined or subject to other investigation or processing, or any other data, received by, recorded by, prepared by, furnished to, or collected by the Secretary with respect to a return or with respect to the determination of the existence, or possible existence, of liability (or the amount thereof) of any person under this title for any tax, penalty, interest, fine, forfeiture, or other imposition, or offense,

21. INCOME ELIGIBILITY VERIFICATION SYSTEM – RETURN INFORMATION ACCESS (Continued)

(B) any part of any written determination or any background file document relating to such written determination (as such terms are defined in section 6110(b)) which is not open to public inspection under section 6110,
(C) any advance pricing agreement entered into by a taxpayer and the Secretary and any background information related to such agreement or any application for an advance pricing agreement, and
(D) any agreement under section 7121, and any similar agreement, and any background information related to such an agreement or request for such an agreement, but such term does not include data in a form which cannot be associated with, or otherwise identify, directly or indirectly, a particular taxpayer. Nothing in the preceding sentence, or in any other provision of law, shall be construed to require the disclosure of standards used or to be used for the selection of returns for examination, or data used or to be used for determining such standards, if the Secretary determines that such disclosure will seriously impair assessment, collection, or enforcement under the internal revenue laws.

26 USC §6103(l)(7)(C) states:

The Commissioner of Social Security and the Secretary shall disclose return information under subparagraphs (A) and (B) only for the purpose of, and to the extent necessary in, determining eligibility for, or the correct amount of, benefits under a program listed in subparagraph (D).

26 USC §6103(l)(7)(D) states, in part:

(i) aid to families with dependent children provided under a State plan approved under part A of title IV of the Social Security Act;

(ii) medical assistance provided under a State plan approved under title XIX of the Social Security Act;

(iii) supplemental security income benefits provided under title XVI of the Social Security Act, and federally administered supplementary payments of the type described in section 1616(a) of such Act (including payments pursuant to an agreement entered into under section 212(a) of Public Law 93-66);

(iv) any benefits provided under a State plan approved under title I, X, XIV, or XVI of the Social Security Act (as those titles apply to Puerto Rico, Guam, and the Virgin Islands);

. . .

(vi) assistance provided under the Food Stamp Act of 1977;

(vii) State-administered supplementary payments of the type described in section 1616(a) of the Social Security Act (including payments pursuant to an agreement entered into under section 212(a) of Public Law 93-66);

26 USC §6103(a) states, in part:

Returns and return information shall be confidential, and except as authorized by this title -

. . .

(2) no officer or employee of any State, any local child support enforcement agency, or any local agency administering a program listed in subsection (l)(7)(D) who has or had access to returns or return information under this section, shall disclose any return or return information obtained by him in any manner in connection with his service as such an officer or an employee or otherwise or under the provisions of this section. For purposes of this subsection, the term 'officer or employee' includes a former officer or employee. [NOTE: no exemption was permitted for audit purposes, based on an IRS ruling.]

21. INCOME ELIGIBILITY VERIFICATION SYSTEM – RETURN INFORMATION ACCESS (Continued)

In addition, Ohio Admin Code Section 5101:1-1-36(G) states in part:

(1) Match information which contains federal tax data must be protected from disclosure to unauthorized persons. . .

. . .

(8) The IEVS match information may be disclosed only under the following circumstances:

. . .

(e) IEVS match information may be given to another state or local agency or official who needs the information for the purpose of determining eligibility or investigating alleged or suspected fraud or abuse for the programs…This includes court officials, prosecutors, and investigators.

ODJFS utilizes CRIS-E to document all information related to IEVS matches, including the results of Bendix, IRS/Unearned, and UC/SDX Benefit matches covered by 26 USC §6103 (also referred to as IRC §6103). During fiscal year 2002, the Auditor of State personnel (auditor) and various ODJFS and county personnel who were not necessary in determining eligibility and/or benefit amounts for the Food Stamp, TANF, SCHIP, and Medicaid programs had access to the return information maintained in the CRIS-E system. Access to selected CRIS-E screens was restricted for the auditors in August 2002; however, this was not completed for all non-essential personnel as of the date of our testing. In addition, for 10 of 56 IEVS alerts tested which involved a match with one of the above sources, federal return information, as defined by 26 USC §6103, was included in the paper case file and/or in the running records comments screen (CLRC) within CRIS-E which cannot be restricted.

Violations of this statute could result in personal fines and or penalties imposed by the Internal Revenue Service. In addition, such violations may result in fines and/or penalties imposed by the grantor agencies, or reductions in federal funding to the state. ODJFS management indicated they are aware of this issue and are working to limit the level of CRIS-E access to comply with 26 USC §6103. They are currently in the process of identifying which employees do not need access to the return information screens.

We recommend ODJFS continue to make the necessary revisions to the CRIS-E so that access to the federal return information can be restricted for employees not necessary in, determining eligibility for, or the correct amount of, benefits under a program listed in 26 USC §6103(l)(7)(D). This will require the Department to complete its identification of those State and county level personnel with CRIS-E access who are not essential in the eligibility/benefit determination process, properly revise the level of access necessary for those employees, and develop/revise the procedures for granting CRIS-E access to the information restricted by 26 USC §6103. These procedures must be formally documented, communicated to the employees, and include monitoring by management to ensure the return information is accessible only to the persons determining recipient eligibility and/or program benefit amounts. We also recommend formal county policies and procedures be implemented which detail what is required for caseworkers to adequately document IEVS alert resolutions and recipient eligibility. These county-level procedures should specifically address what level of detail is and is not permitted to be documented as a result of 26 USC §6103 and where this information should be maintained.

22. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – MONITORING BY THE DEPARTMENT

Finding Number	2002-JFS22-043
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services

NONCOMPLIANCE

7 CFR 272.8(g)(4) states:

> State agencies shall use appropriate procedures to monitor the timeliness requirements in paragraph (g)(2) of this section.

42 CFR 435.952(f) states:

> The agency must use appropriate procedures to monitor the timeliness requirements of this section.

45 CFR 205.56(a)(1)(v) states:

> The State agency shall use appropriate procedures to monitor the timeliness requirements specified in this subparagraph;

We noted the following weaknesses with regard to monitoring by ODJFS of the nearly 2.4 million Income and Eligibility Verification System (IEVS) alerts forwarded to the counties during the fiscal year 2002:

- There are no internal reviews performed over Medicaid/SCHIP and TANF IEVS alerts at the state or county level.
- ODJFS does not track, coordinate, collect or compile state and/or county level cost data to track the statewide cost effectiveness of the IEVS. The ODJFS CRIS-E system cannot generate reports on tracking match resolution outcomes or the cost associated with working matches.
- ODJFS has provided few standardized procedures for processing IEVS alerts at the county level. Each county may follow different procedures. The procedures issued by ODJFS have not been updated since the issuance of Flash #61 July 1, 1992.
- ODJFS has provided limited information specifically designed to enhance and standardize the efforts of the county IEVS coordinators and assist them in monitoring local level activities.

Without sufficient or accurate data, ODJFS cannot make informed management decisions about the cost effectiveness or overall effectiveness of IEVS. ODJFS also cannot be reasonably assured that IEVS is being utilized at the county level as intended due to the divergent operating procedures at different counties. Federal fiscal sanctions in the form of fines and penalties against ODJFS for high eligibility error rates could result. Based on discussions with ODJFS management, it appears the Department is tracking the timeliness of alert processing by county; however, management has not implemented changes in the IEVS system to track overall IEVS effectiveness (i.e., tracking of alert resolution and cost) due to budget constraints.

22. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – MONITORING BY THE DEPARTMENT (Continued)

Based on the weaknesses identified, we recommend ODJFS:

- Continue to work on the cost-benefit analysis of IEVS;
- Work with County IEVS Coordinators to establish standards for work processing and review at the county level;
- Include a review of IEVS as part of the Bureau of Audits county-level audits;
- Include a review of IEVS operations at the state level by the Bureau of Audits or other appropriate personnel;
- Assist counties in developing standard performance measures regarding error rates, time required to complete an alert, etc., to be used by each of the 88 counties; and
- Provide updated processing procedures to be used by all 88 counties in the administration of IEVS.

23. FEDERAL SCHEDULE

Finding Number	2002-JFS23-044
CFDA Number and Title	All Programs Administered by the Department
Federal Agency	Department of Agriculture Department of Health and Human Services Department of Labor

NONCOMPLIANCE

OMB Circular A-133 §__.310 states, in part:

. . .

(b) Schedule of expenditures of Federal Awards. The auditee shall also prepare a schedule of expenditures of Federal awards. . . . At a minimum, the schedule shall:

(1) List individual Federal programs by Federal agency.

(2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.

(3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.

. . .

(5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.

. . .

23. FEDERAL SCHEDULE (Continued)

It is management's responsibility to implement control policies and procedures to reasonably ensure the Department's portion of the Schedule of Expenditures of Federal Awards submitted to the Office of Budget and Management is in compliance with the above requirements. Sound internal controls would require a review of the reports be performed and documented in some manner, prior to submission, to verify information reported is accurate and complete.

The original Schedule of Expenditures of Federal Awards submitted to the Office of Budget and Management (OBM) for ODJFS' fiscal year 2002 federal programs contained the following errors/omissions which were identified by the Auditors. Appropriate adjustments were made to correct these items and a revised schedule was submitted. These issues suggest the ODJFS personnel responsible for the schedule were not fully aware of the applicable federal requirements, and/or the supervisory review of the federal schedule was not thorough and complete.

- $160,913 in activity related to Medicaid (CFDA #93.778) was erroneously excluded from the total Medicaid expenditures reported because the preparer did not identify receipts from sources other than the federal government. Refunds from two subrecipient state agencies which were used to reduce Medicaid draws were not included in the expenditure amount.

- $13,713,546 of federal funds passed-through from the State Children's Insurance Program (SCHIP – CFDA #93.767) to three subrecipient state agencies was incorrectly coded to the Medicaid Cluster under grants J100 and J593.

- $54,223,669 in federal funds passed-through from the Temporary Assistance for Needy Families Program (TANF – CFDA #93.558) to the Ohio Department of Education to reimburse Head Start expenses was not identified. These payments were incorrectly coded by ODJFS as reimbursements of state funds.

- $3,217,036 in transfers of federal funds from TANF (CFDA #93.558) to the Social Services Block Grant (SSBG – CFDA #93.667) was not reported on the original worksheets

- A $2,285,748 adjustment to Foster Care (Fund 3N0, grant J071) was omitted from the original worksheets, causing an overstatement in program expenditures.

- $45,734,291 in federal funds was reported under the Workforce Investment Act (WIA) CFDA #17.255. However, this CFDA number was eliminated from the Catalog of Federal Domestic Assistance in state fiscal year 2002 and replaced by the WIA State & Local Government Programs Cluster (CFDA #17.258 – WIA Adult Program; #17.259 – WIA Youth Activities; and #17.260 – WIA Dislocated Workers). This amount should have been reallocated amongst the three CFDA numbers in the WIA Cluster, by the program activity name.

In addition to the above items, we also noted the following with regard to the federal programs from the U.S. Department of Labor (DOL) after the revised schedule was submitted. However, these items did not result in a material misstatement of the amounts reported, therefore, revisions were not required.

- The Unemployment Insurance Benefits amount reported under CFDA #17.225 was understated by $8,023,044 (0.4% of the Unemployment Insurance program). A portion of the Temporary Extended Unemployment Compensation Benefits (TEUCB) was erroneously excluded from the total benefits reported. These omissions had been acknowledged by the program personnel but never communicated to the schedule preparer.

- ODJFS elected to report all DOL programs based on revenues received rather than expenditures made (which was the basis used in prior years). However, since these are not reimbursement-type programs, as are the other programs administered by the Department, this method does not appear appropriate. It appears the total DOL programs are understated by approximately $34 million (1.9%), based on the expenditures coded to these programs in CAS.

23. FEDERAL SCHEDULE (Continued)

Reporting inaccurate and incomplete amounts on the Department's portion of the Schedule of Expenditures of Federal Awards greatly increases the risk that the State of Ohio's Schedule of Expenditures of Federal Awards may be materially misstated. This, in turn, may result in a reduction in program funds and/or fines and penalties from the federal grantor agency. In addition, revisions due to inaccurate reporting may delay the release of Ohio's Single Audit, subjecting the State to undue scrutiny.

The Preparer indicated he was not aware of the miscoded SCHIP, TANF/Head Start reimbursements, or the adjustments to the Unemployment Benefits amounts; nor was he aware of the necessity to break out the old WIA CFDA #17.255 funds into the new WIA Cluster. In addition, the preparer stated he had backed out the Medicaid refund amounts from the total Medicaid awards because they were not reported in his ledgers, which include only what ODJFS draws from the federal government. The Bureau Chief of Financial Reporting indicated they believed the change in methods for reporting DOL programs was appropriate since they use a similar process to draw the funds. The preparer indicated the remaining errors were due to oversight.

We recommend ODJFS:

- review and update their policies and procedures, chart of accounts, and other pertinent financial records to verify all federal funds are properly identified by CFDA, accurately identify each individual pass-through relationship, and all potential funding sources are included.

- develop a checklist or other tool to help identify funds not recorded in CAS and other special consideration items. This checklist should include a reconciliation of the preparer's ledgers to all activity in CAS which is coded to revenue category code '04' – Federal Revenue or other applicable codes related to refunds, etc. to ensure all types of federal funds are considered beyond the draws made from federal grant awards. Any variances between CAS and the preparer's ledgers should be investigated to determine the impact on the Federal Schedule.

- note the reason for all adjustments made to the Schedule which reduce or increase the amount of federal funds reported. This will assist the Department in accurately tracking direct and indirect disbursements as they pertain to individual federal programs and help ensure all program activity is properly identified and reported.

- report all DOL programs listed on the Federal Schedule on an expenditure basis or obtain written approval from DOL to report using revenues.

- management more closely review and monitor the compilation of the Federal Schedule to minimize the risk of errors and omissions, and reasonably ensure all federal activity is accurately and completely reported. This review should include a comparison of the schedule to financial reports to the federal government, outside accounts, and other appropriate supporting documentation related to the program awards and sub-awards.

- require program area personnel to communicate any adjustments made to program amounts which might impact the Federal Schedule to the schedule preparer in a timely manner.

24. UNAPPROVED INDIRECT COST ALLOCATION AMENDMENTS

Finding Number	2002-JFS24-045
CFDA Number and Title	Various Programs Administered by the Department
Federal Agency	Department of Agriculture Department of Labor Department of Health and Human Services

NONCOMPLIANCE

Indirect costs are those costs that benefit common activities and, therefore, cannot be readily assigned to a specific direct cost objective or project. In order to recover indirect costs, organizations must prepare cost allocation plans (CAPs) or indirect cost rate proposals (IDCRPs) in accordance with the guidelines provided in the OMB Circular A-87 and submit them to the Federal cognizant cost negotiation agency for approval. These plans are required by the terms of 45 CFR part 95, which incorporates OMB Circular A-87 by reference, and they must be revised and resubmitted to the federal government whenever an organizational or programmatic change invalidates the currently-approved allocation method. Specifically, 45 CFR 95.509 states:

(a) The State shall promptly amend the cost allocation plan and submit the amended plan to the Director, DCA [Division of Cost Allocation] if any of the following events occur:

. . .

(3) The State plan for public assistance is amended so as to affect the allocation of costs.

. . .

The Department's approved cost allocation plan for fiscal year 2002 identified various cost pools which captured expenditure data using selected reporting categories and spending responsibility centers (from the State's Central Accounting System) to allocate approximately $137 million in indirect costs to various federal programs for the fourth quarter tested. However, five of the five cost pools tested for indirect charges included numerous instances where the spending responsibility centers actually charged did not agree with those identified in the CAP for that particular pool, the CAP actually charged did not agree with the Summary Report, and the spending responsibility centers actually charged did not agree to cost pool charged as detailed below. Although these costs may have been allowable for allocation, there was no evidence to indicate these changes had been approved by the federal government.

Cost Pool	Major Program CFDA #	Spending Responsibilities Charged Not Included in the CAP
5	Various	LC10
6	Various	IA14, IA34, IA40, LG00, CA10, CI20, CI30
30	Various	IA50, MS12, MS22, MS26, MS17
36	Various	FI10, IA32, IA62, IA66

24. UNAPPROVED INDIRECT COST ALLOCATION AMENDMENTS (Continued)

Cost Pool	Major Program CFDA #	Spending Responsibilities Charged (SRC) to CAP Not Included in the Summary
30	Various	MS62
36	Various	DR00, IA67, IA71

Cost Pool	Major Program CFDA #	SRC	Cost Pool That Should Have Been Charged According to The CAP
5	Various	IA30	36
5	Various	LC00	44
5	Various	LC20	44
6	Various	FI00	36
6	Various	IA00	36
6	Various	IA33	36
6	Various	IA35	36
30	Various	IA00	36
30	Various	MS30	58
36	Various	MS00	37
36	Various	MS40	37
36	Various	IA01	6
36	Various	IA10	6
36	Various	CI00	6
44	Various	IA00	36
44	Various	MS00	37
44	Various	MS60	30

24. UNAPPROVED INDIRECT COST ALLOCATION AMENDMENTS (Continued)

As a result, the risk is greatly increased that indirect costs could be allocated to incorrect federal programs or for improper amounts, which could subject the Department to fines and/or penalties from the grantor agencies. The Fiscal Specialist stated that it appears those responsible for coding expenses to cost pools are not using the correct codes consistently. They are aware there has been some miscoding and are working to resolve the issue.

We recommend ODJFS amend its current practice of including expenditures in cost pools related to spending responsibility centers not specifically listed in the CAP for that pool. The Department should either identify in their initial CAP the list of spending responsibility centers which relate solely to the identified cost pools and those which may apply to varying cost pools; or submit a revised CAP for approval by the federal government which would include all possible spending responsibility centers chargeable to each pool. We also recommend the Department establish and/or strengthen policies and procedures to reasonably ensure the reporting categories and spending responsibility centers used in allocating indirect charges coincide directly with those listed in the approved CAP for each cost pool. These procedures should include monitoring at an appropriate supervisory level.

25. LACK OF CORRECTIVE ACTION

Finding Number	2002- JFS25-046
CFDA Number and Title	10.551/10.561 - Food Stamp Cluster 93.558 - Temporary Assistance for Needy Families 93.658 - Foster Care 93.775/93.777/93.778 - Medicaid Cluster
Federal Agency	Department of Agriculture 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.

. . .

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 70 comments included in the fiscal year 2002 State of Ohio Single Audit Report for ODJFS, 49 relate to comments which were included in the prior year's report; many of these comments have been repeated for several years. This indicates that appropriate corrective actions were not taken to correct these items. The table below lists the most significant of these recurring issues:

25. LACK OF CORRECTIVE ACTION (Continued)

COMMENT AREA	PROGRAM INVOLVED	COMMENT TYPE
Foster Care Duplicates/Historical Data	Foster Care	Questioned Costs
IEVS - Due Dates	Food Stamps, TANF, Medicaid	Noncompliance
IEVS - Inadequate Documentation	Food Stamps, TANF, Medicaid	Noncompliance
IEVS - Monitoring by JFS	Food Stamps, TANF, Medicaid	Noncompliance
Sanctions Documentation	TANF	Noncompliance
IEVS - Monitoring by Counties	Food Stamps, TANF, Medicaid	Material Weakness
Accuracy of CRIS-E Input	Food Stamps, TANF, Medicaid	Material Weakness
Manual Overrides of CRIS-E	Food Stamps, TANF, Medicaid	Material Weakness
Inadequate Monitoring	TANF	Material Weakness

Without appropriate corrective actions on audit report comments, the risk ODJFS will be subjected to fines or penalties or that funding will be reduced is increased. 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, including budgeting and staffing 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 newly formed 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.

26. TANF – SANCTIONS

Finding Number	2002-JFS26-047
CFDA Number and Title	93.558 –Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

<u>NONCOMPLIANCE</u>

42 USC section 607(e) states, in part:

(1) In general – Except as provided in paragraph (2), if an individual in a family receiving assistance under the State program funded under this part refuses to engage in work required in accordance with this section, the State shall –
   (A) reduce the amount of assistance . . . or
   (B) terminate such assistance, subject to good cause and other exceptions as the State may establish.

26. TANF – SANCTIONS (Continued)

(2) Exception – Notwithstanding paragraph (1), a State may not reduce or terminate assistance under the State program funded under this part based on the 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 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.

42 USC section 608(a)(2) states, in part:

> . . . If the agency responsible for administering the State plan approved under part D of this subchapter 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 percent 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.

During fiscal year 2002, ODJFS did not have adequate procedures in place to ensure compliance with the sanctions requirements related to the Temporary Assistance for Needy Families (TANF) program. ODJFS has developed a listing which identifies specific sanctions imposed for TANF by county. However, ODJFS management indicated the procedures they developed in March 2002 to select samples of sanctions from each county and test them to ensure compliance with these requirements did not result in a thorough review of the sanctions. Therefore, management delayed further testing until the proper revisions could be made.

Without implementing adequate monitoring procedures, ODJFS cannot make informed management decisions regarding the effectiveness of TANF program policies, nor reasonably assure compliance with these program requirements. This increases the risk of benefits being paid to individuals who are not eligible to receive them, or for improper amounts, which could result in Federal fiscal sanctions in the form of fines and penalties. The Bureau Chief of the Office of TANF Program Policy indicated that when they determined the review form implemented in late March 2002 did not result in a thorough review, the use of the monitoring tool was put on hold. The Bureau Chief also indicated the TANF technical assistance area was reorganized in May 2002, and the review form and monitoring process were revised and re-implemented early in fiscal year 2003.

We recommend ODJFS:

- continue to maintain the sanctions listing reports which identify, by county and type, the sanctions imposed against TANF recipients;

- ensure all appropriate personnel, including staff at the county level, are aware of and have access to the reports;

26. TANF – SANCTIONS (Continued)

- ensure procedures are in place to reasonably assure compliance with the TANF sanctions requirements. These procedures must include monitoring at both the state and county levels to verify sanctions are imposed when warranted and/or benefits are not mistakenly reduced or terminated when not warranted; and could be performed on a sample basis. These procedures should also include a review and comparison of the sanctions reports by ODJFS management on a regular basis to monitor the number and type of sanctions occurring in each county to identify potential weaknesses or problem areas.

- formally document and communicate to state and county-level personnel the policies and procedures established to help ensure the process is being completed uniformly by the appropriate individuals.

27. MEDICAID/SCHIP – SUBRECIPIENT MONITORING

Finding Number	2002-JFS27-048
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>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 or more in Federal awards during the subrecipients's fiscal year have met the audit requirements 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.

27. MEDICAID/SCHIP – SUBRECIPIENT MONITORING (Continued)

During state fiscal year 2002, approximately $761million in Federal Medicaid and $25 million in State Children's Insurance Program (SCHIP) funding was processed through Intra-State Transfer Vouchers (ISTVs), the majority of which went to four state agencies determined to be subrecipients by the Department. During this period, the Department implemented on-site reviews of the Ohio Department of Aging's (ODA) Passport agencies, however, this review focused on ODA Passport Agency providers and was programmatic in nature. The review did not address allowable costs, eligibility or other critical audit compliance requirements. In addition, the Department has created a Bureau whose focus is to enhance subrecipient monitoring procedures performed, including the design and implementation of subrecipient monitoring procedures which will address critical audit compliance requirements. However, the Bureau was not in place during our audit period nor were adequate procedures in place to monitor the activities of subrecipients beyond the computer reviews performed by MMIS and CRIS-e of individual and provider eligibility/service eligibility. In addition, the inter-agency agreements between the Department and the three state agencies determined to be significant subrecipients for SCHIP do not list the CFDA number for SCHIP, nor has the Department adequately informed subrecipients of the requirement to report SCHIP separately from the Medicaid program.

As a result, ODJFS was not in compliance with the subrecipient monitoring requirements of OMB circular A-133 for the fiscal year 2002, and may not be reasonably assured these agencies have met the requirements of the Medicaid and SCHIP programs. The Assistant Deputy Director of the Office of Ohio Heath Plans indicated that JFS has created a Bureau whose focus is subrecipient monitoring. The Bureau is expected to expand on-site monitoring to other agencies and implement procedures which will encompass all critical audit compliance requirements.

We recommend the Department review OMB Circular A-133 and implement the necessary procedures to fulfill their responsibilities for all subrecipients. These procedures should, at a 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 included 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 appropriate corrective actions are taken to address errors or weakness identified.

We also recommend ODJFS revise the agreements with their subrecipients to clearly identify the CFDA titlte and number, award name and number, award year, if the award is R&D, and the name of the Federal agency for each federal program covered by the agreements. These agreements should also 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). Training and/or other appropriate correspondence should be provided to the subrecipients as necessary to reasonably ensure they are aware of the requirements and their responsibilities related to these awards.

28. CHILD SUPPORT - STATEWIDE MONITORING OF CSNET

Finding Number	2002-JFS28-049
CFDA Number and Title	93.563 - Child Support Enforcement
Federal Agency	Department of Health and Human Services

NONCOMPLIANCE

45 CFR 303.7(a) requires the State's Interstate Central Registry (ICR) to be responsible for receiving, distributing and responding to all incoming IV-D cases. Furthermore, federal regulations require management to devise and implement an adequate internal control structure capable of providing them with reasonable assurance these objects are being achieved. It is the Department's responsibility to monitor the activities of the 88 county Child Support Enforcement Agencies (CSEA) for overall compliance with federal requirements and program objectives. Controls must be included which reasonably ensure interstate cases are processed accurately, completely, and in compliance with federal laws and regulations.

Under Ohio's structure, the processes and procedures required to implement the Child Support Enforcement Program, including interstate case activities, are segregated between the State and the 88 county CSEAs. Each of the CSEAs has established varying relationships with the county courts and implemented a wide variety of processes, based on the demographics of their county population, to address the specific regulations related to interstate cases. The State's ICR does not, however, monitor the policies and procedures established by the CSEAs, or monitor overall CSEA compliance with federal child support enforcement rules and regulations. As such, the Department is not in compliance with federal regulations. Furthermore, the lack of statewide monitoring greatly increases the risk that CSEAs will receive and distribute incorrect information based on data obtained from the ICR. This could result in misinforming clients and other interested parties. ICR personnel indicated JFS' County Review Team will review, monitor and record CSEA activity on a monthly basis.

We recommend that ICR management review the various roles and responsibilities of the county Child Support Enforcement Agencies with regard to interstate cases and develop appropriate policies, procedures, and tools to monitor CSEA operations and compliance with federal rules and regulations. In developing these monitoring tools, management should consider existing information within SETS or from other sources so that resource gaps can be identified and addressed. The monitoring policies, procedures, and tools implemented should, at a minimum,:

- provide information, by CSEA, to allow ICR personnel to identify potential weaknesses as statewide, regional, or local issues and address them appropriately by providing ongoing or one-time training, guidance, or other assistance.
- evaluate compliance with all federal regulations identified above, along with any other state and/or federal requirements deemed significant.
- be performed on a regular basis.
- be adequately documented to provide management with some assurance they are being performed timely and consistently.
- require the CSEA and/or the State take appropriate corrective actions to remedy the issues identified.

The overall interstate monitoring effort should be periodically evaluated against pre-established goals to gauge the process' effectiveness. Bases on the results of such analysis, and any changes in federal or State regulations, the monitoring/oversight procedures and tools should be modified to provide management with a thorough and complete understanding of the interstate process at the CSEA level.

29. CHILD SUPPORT ENFORCEMENT – INTERSTATE CENTRAL REGISTRY

Finding Number	2002-JFS29-050
CFDA Number and Title	93.563 – Child Support Enforcement
Federal Agency	Department of Health and Human Services

NONCOMPLIANCE

45 CFR 303.7, Provision of services in interstate IV-D cases states, in part;

(a) Interstate central registry. (1)The State IV-D agency must establish an interstate central registry (ICR) responsible for receiving, distributing and responding to inquiries on all incoming interstate IV-D cases.

(2) Within 10 working days of receipt of an interstate IV-D case from an initiating State, the central registry must:

(i) Ensure that the documentation submitted with the case has been reviewed to determine completeness;

(ii) Forward the case for necessary action either to the State PLS [parent locator service] for location services or to the appropriate agency for processing;

(iii) Acknowledge receipt of the case and ensure that any missing documentation has been requested from the initiating State; and

(iv) Inform the IV-D agency in the initiating State where the case was sent for action.

. . .

To comply with these regulations, ICR personnel review the Interstate Action Request and related documentation submitted by the initiating state. The request is date-stamped, indicating when the request was received. Information and documentation is then forwarded to the appropriate County, where the case will be administered. Finally, a letter is sent to the initiating state indicating receipt of the request and to which agency (County) the case was sent. The information received and reviews performed are entered into the ICR database (Paradox) using sequential tracking numbers, and an electronic application is completed. This application contains necessary information that will be uploaded into the state's Support Enforcement Tracking System (SETS).

Of the 60 Interstate Central Registry Cases examined, we noted the following:

- For 11 cases, we could not verify the interstate requests were processed in a timely manner by the ICR department due to incorrect or missing dates on the letters sent to the initiating party indicating when the request was received.

- 26 cases contained instances where the information listed in the ICR database did not agree to the information listed in SETS. These errors included the SETS number missing from the ICR database and from the letter sent to initiating party (23 instances), date of receipt of letter and/or date of application (10 instances), and name listed (one instance).

29. CHILD SUPPORT ENFORCEMENT – INTERSTATE CENTRAL REGISTRY (Continued)

During our review of the ICR database records, we found an additional 84 cases that contained missing dates, incorrect dates, empty data fields, duplicate case numbers used, and/or no case number assigned.

Without complete and accurate data, ODJFS cannot be reasonably assured it is meeting all of the standards for program operations. Additionally, failure to comply with all federal regulations regarding the receiving, processing, recording, and forwarding of Interstate IV-D cases could cause needed support payments to be made in an untimely manner. The ICR supervisor indicated the errors were primarily a result of lack of communication, and efforts are being made to ensure similar instances are avoided in the future.

We recommend ODJFS management implement and/or strengthen controls to ensure all Interstate Action Requests are received, processed, recorded, and forwarded in accordance with federal rules and regulations. Controls should include, but not be limited to, supervisory review of procedures performed by ICR personnel. Additionally, ODJFS program supervisors or appropriate personnel should periodically select a sample of cases from the database to ensure compliance with federal guidelines has occurred.

30. SOCIAL SERVICES BLOCK GRANT - REPORTING

Finding Number	2002-JFS30-051
CFDA Number and Title	93.667- Social Services Block Grant
Federal Agency	Department of Health and Human Services

<u>NONCOMPLIANCE</u>

Federal regulations require management to establish and enforce internal control procedures over Federal programs to provide assurance of the reliability and timeliness of financial reporting. The Ohio Department of Job and Family Services currently operates the Social Services Block Grant (SSBG) Program. Therefore, the Department is responsible for ensuring that the SSBG annual report submitted to the public is reliable, accurate, and timely.

45 CFR 96.17 states, in part:

> Annual reporting requirements. (a) . . . a state must make public and submit to the Department each annual report required by statute: (1) Within six months of the end of the period covered by the report; . . .2(b) These reports are required annually for. . . the social services block grant (42 U.S.C. 1397e(a)). . .

During our testing, we noted the SSBG Annual Expenditure Report was due to the U.S. Department of Health and Human Services (HHS) by December 31, 2001; however, the report was not filed until July 10, 2002.

Without appropriate internal controls, management cannot reasonably assure the accuracy or timing of financial information. The Department indicated that Core reports were submitted late by County Finance Section, thus causing the annual report to not be prepared by the due date.

We recommend that upper level management ensure that Core has the ability to generate timely monthly reports. Management also needs to confirm that these Core reports can be promptly forwarded to individuals who utilize these reports to provide important information to public sources.

31. WIA – CASH MANAGEMENT

Finding Number	2002-JFS31-052
CFDA Number and Title	17.258/17.259/17.260 – WIA Cluster
Federal Agency	Department of Labor

NONCOMPLIANCE

The Workforce Investment Act (WIA) program is not one of the federal programs included within the Cash Management Improvement Act (CMIA) Agreement between the State of Ohio and the US Treasury. When a program is not covered by a Treasury-State agreement, such programs must comply with the federal regulations contained within Subpart B of 31 CFR 205 for cash management purposes. § 205.20 (a) relates to cash advances and states:

> Cash advances to a State shall be limited to the minimum amounts needed and shall be timed to be in accord only with the actual, immediate cash requirements of the State in carrying out a program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual cash outlay by the State for direct program costs and the proportionate share of any allowable indirect costs.

During the first half of SFY02, ODJFS disbursed a total of $46,696,646 to its WIA subrecipients. However, the total amount of expenditures reported by the subrecipients was $37,686,477. This resulted in the Department disbursing $9,010,169 or 23.9 percent more than the immediate needs of the subrecipients for the first half of SFY02.

When this condition exists, ODJFS can not ensure the federal requirements have been met. Additionally, 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. Department management stated advances were made to the counties based on budgeted expenditures. Later, when the actual expenditures were known, ODJFS can determine if funds were over or under advanced; then, an adjustment would be made to the next advance. However, the adjustment for the July to September quarter would not be made until the end of the following quarter.

We recommend ODJFS establish procedures to comply with the cash management requirement. These procedures may require the Department to replace the current advance funding process with a method that more closely matches advances with expenditures on a timelier basis. These control procedures should include performing risk assessments of program noncompliance, ensuring that draw downs are limited to the immediate needs of ODJFS and its subrecipients, and that funds are disbursed in accordance with the cited federal regulation.

32. WIA - SUBRECIPIENT MONITORING

Finding Number	2002-JFS32-053
CFDA Number and Title	17.258/17.259/17.260 – WIA Cluster
Federal Agency	Department of Labor

NONCOMPLIANCE

The Department is responsible for monitoring their subrecipients' activities to provide reasonable assurance that subrecipients are aware of federal requirements imposed on them and that subrecipients administer federal awards in compliance with those requirements. These regulations are defined in Office of Management and Budget's Circular A-133, which states, in part:

> **Subpart C--Auditees**
> **§___.320 Report submission**.
>
> . . .
>
> (a) **General**. The audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.
>
> . . .
>
> **Subpart D--Federal Agencies and Pass-Through Entities**
> **§___.400 Responsibilities.**
>
> (d) **Pass-through entity responsibilities**. A pass-through entity shall perform the following for the federal awards it makes:
>
> . . .
>
> 3. Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
>
> 4. Ensure that subrecipients expending $300,000 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.
>
> . . .

ODJFS has 64 subrecipients of the WIA program; all of these subrecipients met the requirements to be audited under Circular A-133. We noted ODJFS did not receive the required WIA program subrecipient audit report from nine of the ten subrecipients tested within the required time frames. The reports were submitted from six to nine months after they were due. We also noted the Department's tracking log did not correct identify the due date of the reports since the log assumed the longer nine-month deadline after the subrecipient's fiscal year and did not consider the "within 30 days" phrase contained in the OMB Circular. All of the reports were received by the subrecipient before the nine-month deadline. ODJFS did not send reminder letters to the subrecipients, communicating the federal requirement.

32. WIA - SUBRECIPIENT MONITORING (Continued)

None of the subrecipients tested listed the WIA program on their Schedule of Expenditures of Federal Awards. The Department did not 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 for any of the ten subrecipients tested. Final Determinations were issued by the Department from seven to fifteen months after the Department received the subrecipients' reports.

When this condition exists, the Department cannot ensure the requirements of Circular A-133 have been met. Additionally, if the Department is not in compliance, federal funding could be reduced or taken away, or sanctions could be 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. Department management stated it is the informal policy of the Department to phone the subrecipient inquiring about past due audit reports. After several phone conversations, the Department will send formal letters of noncompliance to the subrecipient. Department management stated they were not aware of the "within 30 days" phrase contained in the OMB Circular.

We recommend ODJFS correctly communicate the report submission requirement to the subrecipients. Also, we recommend the Department assess the adequacy of their controls over subrecipient monitoring to determine if the controls are sufficient to comply with the federal requirements. These control procedures should include performing risk assessments of program noncompliance, ensuring that audit reports are received timely from subrecipients, and issuing timely management decisions. Next, we recommend ODJFS formally document (via telephone logs, letters, or other documentation) its "good faith" efforts to comply with the Subrecipient Monitoring requirements to remind subrecipients of the Circular A-133 requirements or to obtain reasons from the subrecipients for potential noncompliance well in advance of the due date and before the noncompliance occurs. In addition, we recommend training be provided on the A-133 Circular to all those employees involved in the subrecipient monitoring aspect of the program to help ensure they know and understand the requirements. Lastly, we recommend the Department consider withholding future awards to subrecipients which are not in compliance with the federal audit provisions.

33. WIA ONE-STOP DELIVERY SYSTEMS

Finding Number	2002-JFS33-054
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 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 that there be 19 required partners and 5 optional partners in the delivery system and that the relationship be documented by a memorandum of understanding (WIA Act sec.121 (a)).

As of the end of the audit fiscal year, no memorandums of understanding had been executed for any of the eight LWIAs in the state. In addition, there was not "one physical center" established in any of the local areas to offer the complete set of required programs, services, and activities.

33. WIA ONE-STOP DELIVERY SYSTEMS (Continued)

The U.S. Department of Labor (DOL) raised concerns to the Director of the Department (ODJFS) about the structure of the WIA program as administered by the state in a letter, dated October 31, 2001. In the Department's written response to DOL, dated February 13, 2002, the Department stated "After extensive internal system reviews that include numerous meetings and regular discussions with officials from the USDOL, we recognize that problems exist in Ohio and fully appreciate the need for change." The body of the letter acknowledges nonconformity to the Act in the lack of the One-Stop Delivery Systems. Since that time, the Department has had on-going discussions with the federal government about the noted concerns and ways to resolve DOL's concerns.

Noncompliance with the requirements of the WIA Act could result in federal funding being reduced or taken away, sanctions imposed by the federal grantor agency, or the Department having to repay part or all of the grant awards to the federal government. Department management stated they believed the Department was complying with the requirements of the WIA Act when the WIA program for Ohio was designed originally.

We recommend ODJFS continue to communicate with the U. S. Department of Labor to work toward a mutually acceptable solution to the concerns raised by the federal agency. Such discussions should include representatives from the local areas, those already designated and those that may be designated in the future.

34. WIA – REPORTING

Finding Number	2002-JFS34-055
CFDA Number and Title	17.258/17.259/17.260 – WIA Cluster
Federal Agency	Department of Labor

NONCOMPLIANCE

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.
>>
>> . . .

In LWIA # 7, WIA program expenditures are reported by each county within the Area, rather than by the board itself. Counties use the Quarterly Information Consolidation (QuIC) system to transmit and upload their financial data into the Department's Central Office Reporting (CORe) system. However, the CORe system maintains this information by individual county level and is not designed to summarize and report financial data for LWIA #7 as a whole. In addition, the CORe system lacks the capacity to track the local area expenditures by year of appropriation and cost category. Since the Department can not report financial data for LWIA #7 and can not track local expenditures by year of appropriation, the Department is not in compliance with the WIA Act.

34. WIA – REPORTING (Continued)

Noncompliance with the cited regulation may result in termination or suspension of WIA funding, sanctions, or repayment of any misspent funds (WIA Act, Title I, sec. 184). Department management stated that WIA expenditures are reported in one of two ways, depending on the Local Workforce Investment Area. In LWIA # 7, expenditures are reported by each county; in LWIA's 1 through 6 and 8, expenditures are reported by the Local Workforce Investment Board. Area #7 was designed to report financial data at the sub-area level, which have been determined to be the counties.

We recommend ODJFS devise and implement procedures to ensure compliance with the cited regulation. This process may entail the Department re-assessing the appropriate design of LWIA #7 and making a change in that design. See comment 2002-JFS59-080 on the WIA Structure.

35. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – MONITORING BY COUNTIES

Finding Number	2002-JFS35-056
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 – MATERIAL WEAKNESS</u>

Sound internal control procedures require management at the County Departments of Job and Family Services to monitor and oversee operations of the Income and Eligibility Verification System (IEVS) at the county level to provide assurance that IEVS is functioning as intended to promptly identify improper eligibility determinations made and/or improper benefits paid as the result of erroneous recipient income data.

As a part of our testing, we examined the internal control systems surrounding IEVS at six County Departments of Job & Family Services (CDJFS). We identified the following internal control weaknesses which indicate the processing of IEVS alerts was not performed consistently at the county level:

- In two of six counties tested, controls were not in place to reasonably ensure all IEVS alerts assigned to the CDJFS were received and processed.
    - One county (Lucas) did not utilize the GDE007RA - IEVS alerts listing or other similar tool to reasonably ensure all IEVS alerts were received and processed.
    - One county (Cuyahoga) indicated they utilized the GDE007RA - IEVS Alert Listing throughout the period to reasonably ensure all IEVS alerts were received and processed, however, adequate physical evidence was not maintained to document these procedures.
- In three of six counties tested, monitoring controls were not in place to reasonably ensure IEVS alerts were processed timely.
    - One county (Cuyahoga) did not maintain any physical evidence to indicate comprehensive IEVS documentation was reviewed to ensure the timeliness of IEVS processing (Applicable for only the Health and Nutrition division);

35. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – MONITORING BY COUNTIES (Continued)

  - One county (Franklin) compiled comprehensive data (monthly delinquency statistics) regarding the timeliness of IEVS alert processing, however, this data was not utilized to reasonably ensure future IEVS alerts were processed timely or identify potential problem areas;

  - One county (Lucas) was not tracking overall IEVS alert timeliness in any fashion.

- In two of six counties tested (Cuyahoga and Lucas), monitoring procedures were not in place to reasonably ensure IEVS delinquencies were prevented and detected.

  - One county (Cuyahoga), the Work and Training division compiled reports derived from the IEVS alert listing, however, county personnel indicated these documents were shredded after use for safeguarding purposes leaving no evidence to indicate the procedures were performed consistently during the period. The Health and Nutrition division had no prevention or detection procedures in place;

  - One county (Lucas) indicated the supervisors performed periodic reviews of caseworkers' alert hits and the DEDT screen to prevent delinquency of alerts and to reasonably ensure IEVS alerts were being processed timely. However, no evidence of these reviews was retained, nor were there any countywide policies and/or procedures in place to reasonably ensure all supervisors were monitoring alerts in a consistent manner.

- Two of six counties tested (Cuyahoga and Lucas) maintained no physical evidence to indicate IEVS alerts were monitored to reasonably ensure they were accurately resolved and adequately documented. In addition, one county (Lucas) established no guidelines for reviews.

- In six of six counties tested (Cuyahoga, Franklin, Hamilton, Lucas, Montgomery and Summit), the county did not adequately maintain and/or did not consistently update general policies and procedures to promote consistent monitoring of IEVS alerts.

- For one of six counties (Hamilton), the county's procedures for processing IEVS alerts did not agree to the county's documented policies. As IEVS alerts were received by the county, the alerts were evaluated for accuracy to ensure they were actual alerts. Alerts verified as accurate and requiring third-party income/resource verification were marked as resolved in CRIS-E prior to actual resolution (i.e., initiation and/or receipt of third-party verification) and forwarded to an Overpayment Specialist. This would prohibit ODJFS, county management, or other interested parties from determining whether required timeframes for actual resolution were met.

As a result of the overall lack of monitoring and management oversight, IEVS has not being utilized as intended. Specifically, IEVS alerts are not being followed up on and resolved accurately, completely, or timely (see comment #s - due dates and inadequate documentation). As a result, eligibility error rates may increase, resulting in federal fines and penalties against ODJFS.

Through discussions with county management, IEVS coordinators, and case workers, we identified several causes for these IEVS-related control weaknesses for the six counties tested, as follows:

- County departments re-organized their divisions to become more efficient in handling cases, resulting in tasks being lost or forgotten in the initial organization shuffle.

- Supervisors consider the number of alerts to be too voluminous to effectively monitor each alert.

- County policies and procedures do not adequately address/promote the monitoring of IEVS operations.

35. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – MONITORING BY COUNTIES (Continued)

We recommend:

- County management consistently develop and utilize written policies and procedures, which incorporate the procedures established by ODJFS, to assist case workers and supervisors in the IEVS process and to document the organizational structure of the county. In addition, the policies and procedures should identify key controls the county utilizes to reasonably ensure IEVS alerts received are complete, processed timely and accurately, and delinquencies are prevented and/or detected.

- A mandatory supervisory review of IEVS alerts be implemented at the county level. The performance of the review should be documented by the supervisor to provide assurance they are completed. Counties could develop a review “checklist” to document the required review steps. Appropriate corrective actions should be taken when IEVS errors are noted.

- Counties implement a tracking system (or expand their current tracking system) to effectively identify the status of all alerts assigned to each case worker.

- Counties consistently develop and utilize performance standards, which incorporate the standards developed by ODJFS, to assist case workers and supervisors in the IEVS process.

- Counties implement ongoing IEVS-specific training for employees (new and current) to help assure all updates to IEVS are known by employees and issues that arise are quickly resolved.

36. DATA PROCESSING - INTERNAL TESTING OF AUTOMATED CONTROLS

Finding Number	2002-JFS36-057
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 – MATERIAL WEAKNESS</u>

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. In addition, federal regulations require states to perform a periodic risk analysis to ensure appropriate, cost effective safeguards are incorporated on all new and existing systems.

The Department places significant reliance on a number of complex information systems (CRIS-E, FACSIS, MMIS, SETS, and CORe) 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 auditors or other individuals assigned to independently evaluate the accuracy and effectiveness of these automated systems.

36. DATA PROCESSING - INTERNAL TESTING OF AUTOMATED CONTROLS (Continued)

Instead, management relied heavily on the Department's Management Information Systems (MIS) personnel and outside contractors to review, monitor, and trouble shoot problems as they arise, even though these individuals may not have the necessary knowledge of program requirements, and may lack the necessary objectivity and independence because they are responsible for programming and operating these critical systems. In addition, MIS completed the risk analysis of the data processing systems in conjunction with the Department's overall Internal Accounting Controls (IACP) review in 2001; however, it was not clear if this analysis met all the requirements specified in the federal regulations, and the reliability of the information may be questionable since it was not prepared by an independent party.

Without sufficient, experienced internal auditors possessing the technical skills necessary to independently analyze, evaluate, and test their complex information systems, management may not be reasonably assured these systems are processing transactions accurately, completely, and in accordance with federal compliance requirements. This increases the risk of noncompliance with federal regulations and of material errors or misstatements within the data processed, resulting in inappropriate determinations regarding eligibility, allowability, and/or benefit amounts.

The Bureau Chief of Production Systems indicated ODJFS has relied on external reviews by the Auditor of State, Health and Human Services, Internal Revenue Service, and other federal agencies, and has not put a high priority on maintaining internal Information Systems Auditors. 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 laws and regulations addressing the internal review of significant computer systems (CRIS-E, FACSIS, MMIS, SETS, and CORe) used to process and maintain critical information. Auditing and review procedures should be implemented to provide management with reasonable assurance these systems, which are so heavily relied upon in administering major federal programs, are operating effectively and in accordance with program guidelines.

We also recommend management review the risk analysis requirements related to data processing systems and implement/amend procedures as necessary to reasonably ensure their compliance. The analysis and audits could be conducted by internal information systems auditors or other independent personnel with the necessary technical skills. All test procedures, working papers, etc. related to the analysis and audits should be maintained and the results and recommendations be communicated, in writing, to the Director and/or other appropriate upper management. They should evaluate the results and ensure timely corrective action is taken to address risk areas and/or weaknesses identified.

37. DATA PROCESSING - ACCURACY OF CRIS-E INPUT

Finding Number	2002-JFS37-058
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 – MATERIAL WEAKNESS</u>

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

37. DATA PROCESSING - ACCURACY OF CRIS-E INPUT (Continued)

The Client Registry Information System-Enhanced (CRIS-E) has numerous screens a caseworker must complete to determine if an applicant is eligible for public assistance benefits totaling approximately $684 million for Food Stamps, $1.2 billion for Temporary Assistance for Needy Families (TANF), $160 million for SCHIP, and $9.2 billion for Medicaid in fiscal year 2002. 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:

- In the event that there is more than one client living at a residence, the Detail Shelter Cost screen (AEFSC) 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 case worker. No alerts or reminders are given to the caseworker to have the shelter costs recalculated.

- The Detail Utility Cost screen (AEFUC) does not have an edit check to verify that the "Standard Utility Allowance" field does not exceed 100 percent. If there is more than one assistance group sharing heating/cooling expenses, the system could erroneously allow 100% for each group. Also, if the client pays less than 100% of the heating/cooling expense, the system does not require the remaining percentage be accounted for by the caseworker. Thus, there is the possibility of error.

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.

ODJFS indicated 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; however, work has not yet begun to correct this issue.

We recommend the BSD 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.

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

Finding Number	2002-JFS38-059
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

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

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.

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

ODJFS uses the Client Registry Information System-Enhanced (CRIS-E) to determine eligibility and benefit amounts for public assistance programs totaling approximately $684 million for Food Stamps, $1.2 billion for Temporary Assistance for Needy Families (TANF), $160 million for SCHIP, and $9.2 billion for Medicaid in fiscal year 2002. 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. The FIAT Coordinator indicated there were 170 open CSRs as of August 17, 2001, requesting program modification to alleviate FIAT situations encountered by county staff; 12% of these CSRs were initiated prior to 1995. However, there was no effective way to document if this information was correct. Due to staffing adjustments, these statistics were unavailable for the 2002 fiscal year.

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 Chief of Production Systems stated the Medicaid Group that is charged to resolve FIAT issues is still working on eliminating the need for FIATs. To date, no FIAT policy changes have occurred.

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.

39. DATA PROCESSING - CORe PROCESSING

Finding Number	2002-JFS39-060
CFDA Number and Title	All Programs Administered by the Counties
Federal Agency	Department of Agriculture Department of Health and Human Services

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 be documented to provide management with assurance they are being performed timely and consistently. When a computer system is used to process transactions, the controls must also include sufficient edit and validation checks to help ensure client data is being entered and/or files imported into the system accurately and completely.

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 $1.4 billion in state fiscal year 2002), and prepare reconciliations related to these transactions. However, the procedures in place during the audit period contained the following weaknesses:

39. DATA PROCESSING - CORe PROCESSING (Continued)

- Counties implement ongoing IEVS-specific training for employees (new and current) to help assure all updates to IEVS are known by employees and issues that arise are quickly resolved.

- County upload files that contain errors and/or cannot be read are skipped, preventing their import into CORe. These error conditions include files that are corrupt, files with incorrect file names, files that contain no records, or the file names changed outside of the system. During the audit period, however, these skipped files were not logged or otherwise tracked to help ensure they were corrected and subsequently included in the CORe system.

- The Shared Portion of 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 that the mapping codes indicated. 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.

According to ODJFS, the request was made more than two years ago to the application vendor, Maximus, Inc., to provide the skipped files, but the request has not yet been completed. County Finance management also indicated that meetings were being held between County Directors, County Finance Management, and DMG to find a solution to properly report WIA Administration. The planned implementation date for this fix is FY03.

We recommend ODJFS implement policies and procedures that provide reasonable assurance the financial information maintained, processed, and reported by CORe is accurate and complete. This would require all skipped file information to be captured and reported and WIA expenditures reviewed, analyzed, and corrected within CORe.

40. DATA PROCESSING - SETS PROGRAM CHANGE FOR FEDERAL REGULATIONS

Finding Number	2002-JFS40-061
CFDA Number and Title	93.563 – Child Support Enforcement
Federal Agency	Department of Health and Human Services

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

Effective project management and system development standards allow monitoring and tracking of the key development or program change milestones, progress, resources, and related documentation. The documentation should provide evidence of compliance that all the system requirements have implemented as designed in a timely manner, with a prescribed number of resources, and in compliance with internal and external standards.

A formal process is not in place to ensure all federal child support Program statutes and regulations issued by the federal Office of Child Support are accountable in the remediation, testing, approval, and implementation phases of the SETS maintenance. The Family Support Act of 1988 (FSA) and the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PWORA) regulations and statutes are not consistently cross referenced in any of the requirements, design, test, or program documentation during this implementation life cycle.

40. DATA PROCESSING - SETS PROGRAM CHANGE FOR FEDERAL REGULATIONS (Continued)

Ineffective monitoring of all code of federal regulations throughout the design and implementation phases could lead to the absence of required regulations and statutes, jeopardizing the timely completion of the project. Without the proper documentation of the implemented program regulations and statutes, the potential of missing certain federal functional requirements is increased. This could result in untimely or erroneous child support payments to custodial parents and unnecessary financial penalties to the agency.

The Child Support program area and MIS for SETS have jointly planned to implement a new project process that requires the review, analysis and tracking of federal and state-legislated regulations. This process will allow any Federal or State regulations to be tracked from policy interpretation through the SDLC process into production.

MIS agrees that process improvement involving both MIS-internal processes, as well as our processes for dealing with state and local child support software users, needs to be improved across all projects. ODJFS has targeted review completion and publishing the results by the end of January, 2003. ODJFS will develop a process improvement plan based upon those findings.

ODJFS has targeted completion of the process improvement review and publishing of the results by the end of January, 2003. ODJFS will develop a process improvement plan based upon those findings.

We recommend ODJFS complete, formalize, and implement their new process to track all individual federal child support program regulations and statutes to be implemented into SETS throughout key development and implementation approval stages.

41. FOOD STAMP CLUSTER – REVIEW OF EBT REPORTS FROM VENDOR

Finding Number	2002-JFS41-062
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster
Federal Agency	Department of Agriculture

INTERNAL CONTROL – MATERIAL WEAKNESS

When administering federal grant awards, it is management's responsibility to provide reasonable assurance that federal programs are reported in compliance with rules and requirements established by the federal government. This includes monitoring the activities performed and information provided by any outside vendors to provide assure they are in compliance with program and contract requirements. A strong system of internal controls includes documenting the review and approval of any independently prepared reports to reasonably ensure they are accurate and complete.

Stored Value Systems currently processes the financial activities related to Electronic Benefit Transfer (EBT) benefits for the Food Stamp program (approximately $675 million in fiscal year 2002). Stored Value Systems (SVS) submits EBT Reconciliations and Food Stamp Activity Reports to JFS to document compliance with Food Stamp requirements. Historically, these documents have not been retained by the Department due to their size. During the last several days of the audit period the Department began receiving various SVS Food Stamp Activity Reports including a customer service log, an operator call analysis report, a deposit adjustment credit notice, a manual purchase / representation / delivery debit paid transaction notice, etc. However, the Department was in the process of reviewing reports to determine their significance for management review. Therefore, controls had not been designed or implemented to adequately review vendor information as of the end of the audit period.

41. FOOD STAMP CLUSTER – REVIEW OF EBT REPORTS FROM VENDOR (Continued)

Without adequately performing reviews of vendor information, errors and/or instances of noncompliance by the vendor may not be detected in a timely manner. This may reduce the level of reliability which can be placed on transactions processed by the vendor and could result in inaccurate or incomplete information being reported to the federal government. The EBT Project Manager indicated SVS reports were not available until the end of the state fiscal year due to technical issues concerning their compilation.

We recommend ODJFS continue to develop policies and procedures to provide reasonable assurance that reviews of the various vendor-prepared reports related to Food Stamp EBT transactions are properly performed and documented by the reviewer in a timely manner; and that appropriate follow-up is made for any discrepancies or unusual items. This documentation could be in the form of the reviewer's signature or initials and date on the report, with notations or attachments describing the resolution of any follow-up actions.

42. TANF – MONITORING

Finding Number	2002-JFS42-063
CFDA Number and Title	93.558 –Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

INTERNAL CONTROL – MATERIAL WEAKNESS

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 $513 million for Ohio Works First (OWF) and $139 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 roles. However, as of the date of our audit, ODJFS had not instituted monitoring procedures to determine whether information input into CRIS-E corresponded to source documentation, or if CRIS-E was accurately evaluating the information provided by county agency case workers. Although ODJFS attempted to review TANF sanctions (see comment 2002-JFS26-047), and the Office of Audits completed reviews of county activities which were limited primarily to the PRC portion of the TANF program (did not include the specific testing of compliance requirements for the OWF portion of the program), these procedures were not considered sufficient to monitor the overall TANF program.

Without an adequate monitoring process, ODJFS 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. The Bureau Chief of the Office of Program Integrity indicated a control process designed to specifically review the compliance requirements for TANF was not implemented because the federal regulations do not specifically require ODJFS to monitor the county agencies. In addition, the Section Chief of Audit Performance and Consultation indicated his office has considered the inclusion of more specific TANF requirements into their reviews of the counties; however, an under-staffed office and numerous assignments have resulted in postponing this consideration.

42. TANF – MONITORING (Continued)

We recommend ODJFS continue to implement monitoring policies and procedures which sufficiently provide reasonable assurance the 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 test and provisions requirements included in the OMB 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 partnership 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. In addition, we recommend a strong communication link be established between the Department's Bureau of Audits and the Bureau of TANF Program Policy to ensure all major issues identified through the county audits are brought to the attention of Program Policy where issues can be evaluated to determine if any policy changes need made to the program.

43. FOSTER CARE – CONTRACTS

Finding Number	2002-JFS43-064
CFDA Number and Title	93.658 – Foster Care
Federal Agency	Department of Health and Human Services

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

Sound business practices require contracts be prepared to document the requirements and responsibilities of each party in carrying out the terms of the agreement. To be effective, the contracts must be very clear and specific with regard to what is allowable/unallowable and how results are to be measured and verified. This is particularly important when the agreements involve the use of federal funds or require fulfillment of specific federal program compliance requirements.

Under the current system, ODJFS operates a State-supervised, county-administered system for many of their federal programs, including Foster Care. The county agencies in turn solicit private vendors to fulfill some of their Foster Care requirements. ODJFS provides contracts to be entered into by the counties and providers. The contract details laws, regulations, and other requirements specific to the Foster Care program. ODJFS maintains a listing of these contracts, segregated by county and provider. However, the Department does not monitor the contract process, nor does it receive copies of completed contracts. Additionally, there is no evidence of detailed contracts in place between ODJFS and the counties. Under these conditions, the risk of noncompliance with program requirements and/or the use of federal funds for unallowable costs or activities are greatly increased due to the Department's sole reliance on the counties to enforce contract requirements. Additionally, without adequate internal controls in place and operating effectively management cannot reasonably assure and/or monitor the Department's compliance with all of the program's requirements. ODJFS indicated contract requirements and approved rates are posted on its web site, training over the contract process has been provided to each county, and the Department's internal audit group performs desk reviews over contracts between the counties and providers. ODJFS also indicated it is not administratively required to retain copies of the contracts between the counties and providers.

We recommend ODJFS implement policies and procedures which would require the Department's review and retention of contracts entered into by the counties and providers with regard to Title IV-E Foster Care Program services to be provided. Additionally, the Department should have in place contracts with counties that specify a) the roles and responsibilities of each party, b) the laws and regulations which must be followed, c) costs or activities which are allowable and unallowable under the program, d) how the counties will monitor the activities and compliance of the providers, and e) how the Department will monitor the counties to ensure overall compliance with all laws and regulations regarding the Foster Care Program. Similar contracts should be considered for other federal programs, as well; and may be considered in conjunction with the recommendation detailed in comment 2002-JFS48-069.

44. CHILD SUPPORT - CHILD SUPPORT PROCESSING AND RECONCILIATION

Finding Number	2002-JFS44-065
CFDA Number and Title	93.563 - Child Support Enforcement
Federal Agency	Department of Health and Human Services

INTERNAL CONTROL - MATERIAL WEAKNESS

In order to reasonably ensure the accuracy of accounting records, an adequate system of internal controls requires an entity to perform periodic reconciliations of their accounts and records which are reviewed and approved by a supervisory level employee. To be effective, these reconciliation procedures must be performed regularly and include a thorough investigation and follow-up of all significant reconciling items.

ODJFS has contracted with Bank One to receive child support payments, input the collection data for daily upload into SETS, investigate unpostable items, and transmit information regarding the various CSPC accounts to ODJFS for reconciliation purposes. These accounts include the master account and 89 sub-accounts (one for each of the 88 counties and one for unpostable items). Current procedures require ODJFS personnel to reconcile the master account to bank activity on a daily basis. However, we noted the following in our review of master account reconciliations:

- The county ledgers are not compared to the master account for accuracy. In addition there are 600 to 700 manual entries made on the master account daily, many of these same manual entries are made for the county reconciliations. However, these numbers are not forwarded to the master account. With the amount of manual entry required, the possibility of errors is increased.

- There is no tracking of outstanding items in SETS. Instead, reliance is placed upon Bank One reports and a formula to determine outstanding items. Previously there was a report which tracked outstanding items within SETS, however, the Department informed us this report no longer exists.

- Voids, Stops, and Pulls are entered from a Bank One report. This report is not compared to information maintained within SETS. Instead, complete reliance is placed on Bank One Reports.

- Bank account entries and other information were misposted due to Defiance and Delaware counties not being listed in alphabetical order.

- If Electronic Fund Transfers (EFTs) redeemed and the EFTs issued do not match, the policy requires that EFTs redeemed be adjusted to reflect the same amount as EFTs issued. It does not appear the difference is ever researched.

- None of the reconciliations reviewed contained any “out of balance” conditions or reconciling items. This does not seem reasonable given the complexities and large volume of transactions processed through this system, and suggests the accounts are forced to balance. This is supported by the policy regarding EFTs, noted above, and by statements made by the Account Examiners during our walk-through of the process indicating they obtained data from varying sources each time, depending on what was needed to balance.

Without performing a thorough and complete reconciliation between the various bank accounts and internal records, ODJFS cannot reasonably ensure the accuracy and completeness of accounting records. In addition, without procedures in place to track undeposited items, payments may be lost, stolen, or misappropriated without detection. ODJFS management indicated they did not consider the procedures for the master account to be a reconciliation, but rather a tracking tool for money flowing through the system. Additionally, ODJFS is developing reconciliation procedures to be implemented with the new CSPC contract.

44. CHILD SUPPORT - CHILD SUPPORT PROCESSING AND RECONCILIATION (Continued)

We recommend ODJFS management develop a cash journal within SETS and/or other specific SETS reports to accumulate the total cash balance of undistributed child support payments by each balance component, including outstanding checks, amounts on hold, and other critical information. The Department should also comply with current policies and procedures to reasonably ensure reconciliations are performed timely and accurately. These procedures must include a true "book to bank" reconciliation of the overall CSPC master account, SETS, and bank activity and balances.

45. SOCIAL SERVICES BLOCK GRANT - INCOMPLETE MONITORING

Finding Number	2002-JFS45-066
CFDA Number and Title	93.667 – Social Services Block Grant
Federal Agency	Department of Health and Human Services

INTERNAL CONTROL - MATERIAL WEAKNESS

Federal regulations require management to devise and implement an adequate internal control structure capable of providing them with reasonable assurance their objectives are being achieved. The Ohio Department of Job and Family Services currently operates the Social Service Block Grant (SSBG) Program using a State-supervised, county administered approach. It is the Department's responsibility to monitor the activities of the 88 county agencies for overall compliance with federal requirements and program objectives.

During fiscal year 2002, ODJFS paid counties approximately $133 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. There were no periodic on-site reviews conducted at county agencies to reasonably ensure they were properly determining eligibility, performing required monitoring of subrecipients, meeting county SSBG Plan goals, or accurately and completely preparing the ODJFS 4282 and other required reports.

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. The Unit Supervisor of Title XX stated that the Department has considered implementing monitoring control procedures over SSBG program expenditures.

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.

46. FEDERAL REVENUE CONTROL WEAKNESSES

Finding Number	2002-JFS46-067
CFDA Number and Title	All Federal Programs Administered by the Department
Federal Agency	Department of Agriculture Department of Health and Human Services Department of Labor

INTERNAL CONTROL – REPORTABLE CONDITION

It is management's responsibility to design and implement internal control policies and procedures to reasonably ensure specific financial objectives will be achieved. To be effective, the performance of an internal control procedure should be evidenced in some manner to provide assurance to the other parties involved that the prescribed policy was followed timely and consistently. In addition, the State and Federal government share program costs at pre-determined rates. The U.S. Department of Health and Human Services (HHS) calculates and publishes the federal financial participation rate (FFP), as required by the Social Security Act, for each federal fiscal year. The FFP is the maximum allowable amount which can be paid from federal funds for the qualifying program expenditures. It is management's responsibility to implement control policies and procedures which reasonably ensure claims for federal reimbursement are made in accordance with these requirements or other federally approved methods.

Current control procedures at ODJFS require all revenue receipts to be reviewed and approved by the appropriate level of management prior to the draw of federal funds via the Smartlink System and/or Automated Standard Application for Payments (ASAP). Once the payment request is completed, a supervisor reviews and approves the transactions to ensure account numbers and dollar amounts were accurately requested and received, as evidenced by initialing the draw confirmation. However:

- For nine of 60 (15%) revenue receipts tested, there was no evidence to document the review of the revenue receipt to the Smartlink Confirmation Amount to ensure the amounts corresponded and the account codes were accurate and complete.

- For three of 30 (10%) revenue receipts tested, an improper Federal Financial Participation Rate and/or Medicaid Blended Rate was applied to the federal draw resulting in an under draw of $423,053.62. During state fiscal year 2001, ODJFS began drawing federal Medicaid reimbursement amounts at a calculated "blended rate", instead of using the published FFP rate. The errors noted above were isolated to the Medicaid program. For two of the three errors noted, it appears as though an improper blended rate percentage was pulled from the Medicaid Blended Rate Calculation when conducting the federal draw.

Without adequate documentation of internal controls being performed, management cannot be reasonably assured the intended control procedures are in place and operating effectively. If appropriate internal controls are not in place and/or documented, management may not be reasonably assured federal draws are in accordance with laws, regulations, and management's intentions. Under these conditions, there is an increased risk the State will not request or receive reimbursement for federal program costs which are representative of the actual federal liability.

The Cash Management Section Chief stated despite the Department's failure to initial the documents as evidence of the review; a compensating control is in place within the fiscal office in which revenue receipts are reconciled at least weekly to Smartlink for all federal grants. In addition, the Revenue Oversight Unit Supervisor indicated the Medicaid Blended Rate percentage utilized from July through September 2001 did not take into consideration adjustments for transfers to other state agencies and was correct based on the philosophy at that time. Furthermore, the Cash Management Section Chief agreed the Medicaid Blended Rate applied to the federal draw from April through June 2002 was not the blended rate calculated for the quarter ended March 2002.

46. FEDERAL REVENUE CONTROL WEAKNESSES (Continued)

We recommend ODJFS evaluate the existing internal control structure encompassing the federal revenue draw process and implement additional procedures to ensure the proper FFP and/or Medicaid Blended Rate is being applied to determine the correct draw amount. We recommend the Department establish policies and procedures to ensure the Medicaid Blended Rate calculated quarterly by the Bureau of Federal Financial Reporting is communicated to the Bureau of Accounting's Cash Management Section on a timely basis to avoid the possible under/over draws of federal monies. In addition, we recommend management periodically monitor the activities of Department personnel to help ensure controls are in place and operating as intended.

47. VOUCHER SUMMARY CONTROL WEAKNESSES/CODING ERRORS

Finding Number	2002-JFS47-068
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.563 – Child Support Enforcement 93.658 – Foster Care 93.659 – Adoption Assistance 93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services

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

Federal regulations require recipients to maintain internal controls over federal programs that provide reasonable assurance they are in compliance with laws, regulations, and the provisions of contracts or grant agreements; and the activity is accurately and completely recorded in the financial statements and the federal schedule. To be effective, the performance of an internal control procedure should be evidenced in some manner to provide assurance to other parties involved in the process that established procedures have been followed. It is management's responsibility to monitor these control procedures to verify they are operating effectively.

Currently, ODJFS utilizes voucher summaries to process benefit payments for the Food Stamps Cluster, TANF, Child Support Enforcement, Foster Care, Adoption Assistance, SCHIP, and Medicaid Cluster programs. During the audit period, internal controls over the disbursement of federal program monies were not consistently applied, as indicated below:

- The current procedures in place at ODJFS require the Accounts Payable Account Examiner 3 to complete and attach a voucher summary checklist documenting the completion of various control procedures identified; however, five of 60 (8.33%) items tested did not include any evidence to show completion of the voucher summary checklist. For four of the five exceptions noted, the checklist was not attached to the voucher summary.

- The Accounts Payable Unit Supervisor is required to initial a certification stamp on the voucher summary report to ensure a comparison was made of the Quattro Pro Spreadsheet, Voucher Summary Report, and Voucher Summary Checklist; however, two of 60 (3.33%) items tested did not include the Unit Supervisor's initials or other evidence of approval.

- The Accounts Payable Unit Supervisor is required to initial the voucher summary to evidence his review and approval of each voucher summary and support documentation including the Last Receipt Date; however, one of 60 (1.67%) items tested did not include the Unit Supervisor's initials or other evidence of approval.

47. VOUCHER SUMMARY CONTROL WEAKNESSES/CODING ERRORS (Continued)

ODJFS has established a chart of accounts which includes: Fund, Spending Authority Code (SAC), Responsibility Centers, Grant Numbers, and Reporting Categories to identify expenditures by program area. Two of ten (20%) voucher summaries totaling $1.5 billion selected for testing from $7.6 billion in Medicaid and SCHIP voucher summary benefit payments during fiscal year 2002, contained nine items recorded to an incorrect reporting category within CAS Fund GRF totaling $421,051 (errors related to Medicaid totaled $404,988 and errors related to SCHIP totaled $16,063). In addition to the reporting category errors noted, one of the voucher summaries tested had an incorrect object category, administrative responsibility code, and spending authority code used within CAS Fund GRF totaling $168 which related to Medicaid. Although these errors did not result in expenditures being coded to the wrong federal program, they may indicate the established control procedures over the review of voucher summary documents for accuracy and completeness are not operating consistently.

If control procedures are not performed and documented thoroughly and consistently, ODJFS management may not be reasonably assured payments are accurate and complete. In addition, management may not be able to readily identify their thought processes and/or actions taken should questions arise regarding particular aspects of the reviews or modifications, particularly if there is turnover in supervisory positions performing the controls. Inaccurate expenditure coding may result in inaccurate data regarding Medicaid, SCHIP, and other federal programs which could adversely impact management's decisions about the cost effectiveness and the overall effectiveness of the programs. The Accounts Payable Unit Supervisor indicated even though the voucher summary checklist was not completed or attached to the documents; there was evidence that other review procedures were performed. As for the other control deficiencies and coding errors noted, the Accounts Payable Unit Supervisor stated these errors were oversights on the Department's behalf.

We recommend ODJFS consistently follow established control procedures to obtain reasonable assurance transactions are processed accurately and in accordance with the appropriate laws and regulations. Management should periodically monitor transaction evidence to ensure the Department personnel are adhering to internal control procedures. In addition, to comply with the federal requirements pertaining to the proper coding of Medicaid, SCHIP, and other federal expenditures, management should evaluate and strengthen control procedures to ensure they are effective in detecting improper coding and include a thorough review of documentation prior to payment.

48. CONTRACTS/RELATIONSHIPS WITH COUNTY AGENCIES

Finding Number	2002-JFS48-069
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;

48. CONTRACTS/RELATIONSHIPS WITH COUNTY AGENCIES (Continued)

(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.

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. However, there are no written contracts with the counties which identify the nature of their relationships with ODJFS, 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. This greatly increases the risk that federal funds could be used improperly or that other program compliance requirements would not be met. 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.

We recommend ODJFS 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. ODJFS should promptly implement or revise contracts 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. 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.

49. VARIOUS PROGRAMS – CODING ERRORS

Finding Number	2002-JFS49-070
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

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 efficiently and effectively analyze and 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 and for each program as a whole.

We identified the following errors/inconsistencies in the chart of accounts and expenditure or revenue coding for state fiscal year 2002:

- Approximately $3.4 million in disbursements were recorded in the Central Accounting System (CAS) using Reporting Categories which were not listed on the Department's chart of accounts and required further investigation to determine the description of the disbursement;

- For two of the Employment Services Cluster programs, the Disabled Veteran's Outreach Program (DVOP) and the Local Veteran's Employment Representative Program (LVER), the grant numbers recorded in CAS between revenue and the corresponding expenditures did not agree. $3,109,001 of DVOP and LVER expenditures were recorded to fiscal year 2001 grant numbers J023 and J024, respectively. Conversely, the corresponding DVOP and LVER revenues were drawn and recorded to fiscal year 2002 grant numbers J558 and J557, respectively;

- For the Social Services Block Grant, $423,738 of state fiscal year 2002 expenditures occurring subsequent to September 30, 2001 were recorded as disbursements from the federal fiscal year 2000 grant H692 in CAS. However, revenue draws supporting these expenditures originated from the federal fiscal year 2001 award, grant number J088.

Additionally, during the reconciliation between the recorded CAS revenues and the federal awarding agency conformations, we determined that payments in the amount of $665,170 were improperly coded to fund 398, federal revenue source category 04 and revenue source 4335. The funds were refunds to ODJFS for non-custodial child support payments which are used to offset past expenditures and reduce future federal draws. Since the refunds are reported on the ODJFS expenditure reports as reductions to expenditures, recording the refunds as federal revenue was inappropriate.

As a result of these errors, a significant amount of time was required by Department personnel, audit staff, and OMB to investigate and/or identify the correct program(s) and/or classifications related to these activities. These delays significantly impeded the finalization of the Department's Schedule of Expenditures of Federal Awards and could have impacted the submission of the State's Single Audit. An inaccurate or incomplete chart of accounts greatly 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 reduce future federal funding. Management indicated they were aware of coding issues during the audit period and the cause of the coding issues ranged from human error to the inability to utilize proper grant numbers until approved by the Office of Budget and Management.

49. VARIOUS PROGRAMS – CODING ERRORS (Continued)

We recommend ODJFS review and revise the current chart of accounts to verify it is accurate, complete, and provides for a representative accounting of all program activities. Ongoing changes should be made and documented, as needed, to reasonably ensure a comprehensive chart of accounts with a sufficient level of detail is maintained and available for use/reference. We also recommend 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.

50. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – EVIDENCE DATA EXCHANGE CONTROL

Finding Number	2002-JFS50-071
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 system of internal controls consists of the policies and procedures established by management to provide reasonable assurance specific operational objectives will be achieved. These policies establish the authorization level for financial and operational transactions to be executed and set the tone for management's commitment to the accomplishment of their goals and professional and statutory requirements. The performance of an internal control must be evidenced in some manner to provide assurance to management and essential third parties, such as auditors, that the control is in place and functioning as intended.

As part of the Income and Eligibility Verification System (IEVS) process, the ODJFS Office of Management Information Services performs periodic automated matches between internal CRIS-E recipient records and third-party federal and state resource databases as required by 45 CFR '205.55(a)(1) through (5). The matches are performed to validate recipient income amounts used to help determine Public Assistance and Food Stamp benefits. Once completed, the matches are forwarded to the CDJFS' as alerts. Currently, the ODJFS Data Exchange Unit prepares a production schedule each month that is utilized to plan the data exchanges during the following month. ODJFS personnel indicated that production schedules are reviewed and verbally approved for accuracy and completeness prior to initiation; and once the data exchanges have been executed, the Data Exchange Unit reviews the results to ensure the exchanges occurred as scheduled. However, there is no documentation to evidence these controls are performed. Without adequate documentation to evidence controls are performed, management cannot be reasonably assured the control procedures are operating as intended. If controls are not in place, the frequency and sources of matches with outside data may not comply with mandated requirements and possibly result in fines, penalties, and/or a reduction in federal funding. Additionally, this could result in an increase in the number of ineligible recipients inappropriately receiving benefits. Management indicated they were not aware of the need to document these reviews.

50. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – EVIDENCE DATA EXCHANGE CONTROL (Continued)

We recommend management update its policies and procedures to ensure the accurate, complete, and timely, exchange of IEVS data with the required sources; and require adequate evidence to document the procedures have been performed. This evidence may be in the form of initials, signatures, tick marks or other appropriate notations to indicate the key procedure was completed as required. We also recommend management monitor these procedures periodically to reasonably ensure they are operating as intended.

51. TANF – ISTV CODING ERROR

Finding Number	2002-JFS51-072
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>

Office of Management and Budget 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.

   . . .

   (e) Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

Federal regulations require recipients to maintain internal controls over federal programs which provide reasonable assurance they are in compliance with laws, regulations, and the provisions of contracts or grant agreements, and the activity is accurately and completely recorded in the financial statements and the federal schedule. It is management’s responsibility to monitor these control procedures to verify they are operating effectively.

In accordance with the interagency agreement established between ODJFS and the Ohio Department of Education (ODE) to fund Head Start services for TANF eligible children or families, ODJFS was to reimburse up to $76,156,175 for allowable TANF expenditures, as requested by ODE for SFY02. ODJFS drew these funds from the US Department of Health and Human Services (HHS) based on the ODE request, and credited the receipts to fund 3V6, then transferred them to the General Revenue Fund for ODE use via an intrastate transfer voucher (ISTVs). However, our testing of the 11 ISTVs, totaling $76,150,592 for SFY02, prepared by ODJFS to reimburse the GRF for TANF Head Start expenditures, contained the following coding errors:

- Eight of 11 ISTVs, totaling $54,223,669, recorded the transfers as object code 953 - *Transfer of Cash between Agencies and/or Funds (ISTV)*. However, this object code does not properly identify the funds being transferred as federal.

- Upon entering into the agreement with ODE, ODJFS had established a new revenue source code specific to these reimbursement transactions: 7085 – *Legislated Transfers/Reimbursement to GRF*. However, three of the 11 ISTVs tested, totaling $21,926,923, were erroneously coded to revenue source, 7058 - *Federal Pass Thru ISTV.*

51. TANF – ISTV CODING ERROR (Continued)

Inaccurate coding may result in inaccurate data regarding the TANF, TANF/Head Start, and other federal programs which could adversely impact management's decisions about the cost effectiveness and the overall effectiveness of the programs. In addition, coding errors could result in misstatements in amounts included on any internal or external reports, including the State of Ohio Financial Statements and the Schedule of Expenditures of Federal Awards, which may subject the Department to fines and/or sanctions or reduce future federal funding. ODJFS ISTVs are entered into CAS by the Office of Budget and Management (OBM). ODJFS management indicated, although ODJFS originally coded the ISTVs to object code 953 which is linked to the correct revenue source 7085, the OBM staff mistakenly identified the transaction as an interagency federal pass-thru and, as a result, changed the ISTV to object code 960. Within the CAS system, object code 960 is automatically linked to the incorrect revenue source code 7058. ODJFS management indicated changes have been made to the TANF/Head Start ISTV process for SFY03. These changes include the ISTV preparer indicating the ISTV is specific to TANF/Head Start in response to H.B. 299 in the description box of the ISTV in order to alert the OBM staff that the 7085 revenue source code needs to be used.

We recommend ODJFS management coordinate with OBM to thoroughly evaluate the current classification of the TANF/Head Start reimbursements to ODE to determine if the coding assigned for this program is appropriate and representative of the transactions taking place. ODJFS should make any changes necessary to ensure the coding structure can separately identify and properly account for these transactions as federal funds. ODJDS should also consider requesting ODE prepare their portion of the ISTV and enter ODE-specific coding. These changes will make these transactions easier to track for both agencies when issuing reports to federal, state, and/or other non-governmental agencies. We also recommend ODJFS management evaluate and strengthen control procedures to ensure they are effective in detecting improper coding and include a thorough review of documentation prior to payment; and continue to implement monitoring procedures to determine the expenditures are being properly recorded into CAS.

52. TANF – DATA REPORT

Finding Number	2002-JFS52-073
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

<u>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.
. . .

In addition, 45 CFR ' 265.4 states, in part:

(a) Each State must file the TANF Data Report . . . within 45 days following the end of the quarter . . .
. . .

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.

52. 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 Level Data, and Child Level Data. However, there are no procedures in place to review and evaluate the reports prior to submission. In addition, we noted the following in our testing of critical line items (as identified in the OMB Circular A-133 Compliance Supplement):

- For the Child Level Data, 11 of 60 items selected indicated only one child for the assistance group on the TANF Data Report, yet a second child was identified in CRIS-E;

- For the Assistance Group Level Data participant receiving subsidized child care, five of 60 items selected did not agree to the data provided in CRIS-E. For two of the five errors noted, the TANF Data Report indicated no subsidized child care was received, yet CRIS-E indicate subsidized child care was received. For the remaining three of the five errors noted, the TANF Data Report indicated subsidized child care was received, yet CRIS-E indicated either federal or state subsidized child care had been received; and

- For the Child Level Data dates of birth and relationships to the head-of-household, two of 60 items selected were not able to be verified to CRIS-E since the social security number was all zeros. It appeared these children were newborns and may not have been assigned a social security number. Therefore, 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. Of the 18,642 Child Level Data records within the two quarterly TANF Data Reports selected for testing, 825 records contained at least one social security number comprised of all zeroes with populated dates of birth and relationships to the head-of-household. For 111 of these 825 records, the date of birth preceded the reporting month date between four and 6,184 days (an average of 1,460 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 to reasonably 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 Program System Manager of the Information Delivery Section, Office of Management Information Systems, indicated he is unsure why the information on the TANF Data Report could not be traced to the CRIS-E system since the TANF Universe file is extracted from CRIS-E. He also indicated ODJFS began performing monitoring controls over the report in SFY03, however, these new procedures were not within the scope of our testing.

We recommend ODJFS verify control procedures are in place to provide reasonable assurance that federal TANF Data Reports are accurate, complete, and in compliance with federal requirements. 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.

53. MEDICAID/SCHIP – THIRD PARTY LIABILITY

Finding Number	2002-JFS53-074
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 requires the state to take reasonable measures to determine the legal liability of third parties for payment of services furnished under the State plan. At a minimum, the Department must obtain health insurance information from providers, follow up on such information, and maintain sufficient documentation to reasonably ensure legal third-party liabilities are identified and claim recoveries are made in a timely manner, as required.

To facilitate the identification of potential third-party liabilities, ODJFS has established a Third-Party Liability Unit who primarily uses three methods for obtaining insurance carrier information from providers. First, the Unit receives "Health Insurance Fact Forms" (ODJFS 6614's) containing third-party (insurance carrier) liability information. Providers are instructed in their provider agreements to submit this form if they become aware there may be a potential third-party liability. Second, the Medicaid Management Information System (MMIS) generates a weekly Cost Avoidance Exception Report which identifies all claims paid by Medicaid/SCHIP for which the provider indicated partial payment was received from a third party. For each line item over $1,000, a Cost Avoidance Worksheet requesting third-party information is prepared and mailed to the provider. Third, the county agency completes Health Insurance Information Forms (ODJFS 6612's). These files are sorted separately from the rest of the public assistance groups because the verification of insurance information has already been attached by the county agency. All third-party liability information obtained by the Third-Party Liability Unit is verified with the appropriate insurance carrier and a third-party liability file is created within MMIS to prevent payments for claims that would otherwise be the responsibility of a third party. However, for 1 of 20 third party liability forms tested, the insurance coverage dates in MMIS did not agree with those listed on the verification form and could not be verified. In addition, the unit implemented a reconciliation of items received to items processed to help ensure completeness of processing for all documents received by the Cost Avoidance Unit. However, the reconciliation is not adequately documented. The number of items received by the unit did not consistently equal the number processed and there was no documentation to verify all differences had been adequately researched and identified.

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 would 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. The Cost Avoidance/Third Party Supervisor indicated the dates entered onto the system, in relation to the dates on the verification form, were equivalent to the lifespan for recoupment by an insurance policy. The Supervisor indicated that, at one time, procedures required claims be entered in this way. In addition, management indicated because the reconciliation process is a new procedure, they were unaware of the amount of supporting documentation needed to sufficiently evidence their revisions.

We recommend initial training be given to all newly hired personnel regarding the established procedures and their responsibilities related to third-party liabilities, and ongoing training be conducted to provide reasonable assurance that all changes or updates to procedures are properly communicated. We also recommend ODJFS complete a review process of all files created within MMIS to ensure they agree to the corresponding documentation. In addition, we recommend the Department maintain adequate documentation to support any revisions that are made as a result of reconciliations performed.

54. MEDICAID/SCHIP – DUPLICATE PHYSICIAN AND OSTEOPATH PAYMENTS

Finding Number	2002-JFS54-075
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 – MATERIAL WEAKNESS

Governmental units assume responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award. According to Office of Management and Budget Circular A-87, "Cost principles for State, Local, and Indian Tribal Governments", Attachment A, subsection C, for costs to be allowable under Federal awards, they must be necessary and reasonable for proper and efficient performance and administration of Federal awards.

In addition, according to 42 CFR 447.45(f), it is the agencies' responsibility to "conduct payment review consisting of verification that the claim does not duplicate or conflict with one reviewed previously or currently being reviewed". It is management's responsibility to reasonable ensure costs are allowable, in compliance with the program requirements, and are not duplicated.

Under the current operating structure, ODJFS relies on the automated Medicaid Management Information System (MMIS) to determine whether payments for medical services are allowable and to verify the claim does not duplicate a service previously paid. However, ODJFS has not implemented appropriate procedures to monitor the payments beyond the computer reviews performed by MMIS to ensure duplicate payments are rejected. In the prior audit, a number of potential duplicate payments for physician and osteopath services were identified during an electronic data match of Medicaid and SCHIP expenditures. As a follow-up to the prior year audit finding, a meeting was initiated by a representative from Centers for Medicare and Medicaid Services (CMS) with representatives from the Auditor of State (AOS) and ODJFS to clarify ODJFS' prior year corrective action plan since it did not appear to agree to or specifically address the finding. Based on the discussions, both the AOS and ODJFS agreed the prior year audit finding did not represent a definitive overpayment. It represented an amount where the allowability of the disbursements was in question because neither the auditor nor ODJFS could determine, with any degree of certainty, if the payments were duplicated without examining the physical claim for each item. This would require the services of a specialist, such as a physician, and did not appear to be an efficient solution. Therefore, ODJFS proposed to CMS the following three tiered approach to address the prior year finding:

- ODJFS will select and examine the top ten potential duplicate providers from an internally derived population of potential duplicates. The Department will request information from the provider to thoroughly examine the claim at the physical claim level;

- If any of the selected claims are determined to be actual duplicate payments, ODJFS will expand the examination of their population to include a statistical sample of potential duplicated payments;

- Based on the results of the findings from the examination, ODJFS will determine the feasibility of implementing additional edit checks within MMIS (i.e., in conjunction with the implementation of Title II of the Health Insurance Portability and Accountability Act of 1996 (HIPPA) required data structures for claims), to eliminate the duplicates prior to payment or, at the very least, identify the duplicates for post claim payment follow-up.

The CMS representative agreed this solution would suffice as a corrective action for the prior year finding and not require the ODJFS to repay the prior year questioned costs related to this area. Based on this plan, an electronic data match was not run to identify potential duplicate physician and osteopath claims for 2003.

54. MEDICAID/SCHIP – DUPLICATE PHYSICIAN AND OSTEOPATH PAYMENTS (Continued)

Without adequate monitoring controls in place over the payment of claims, ODJFS may not be reasonably assured Medicaid and SCHIP claims are not duplicated. The lack of sufficient monitoring and edit/validation checks increases the risk of errors during processing of Medicaid and SCHIP claims resulting in inappropriate benefit 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 requirement to provide Medicaid benefits to those in need. The Health Plan Policy Bureau Chief indicated ODJFS did not have adequate resources to evaluate each duplicate to the physical claim level, and had not implemented additional automated edit/validation checks due to the impending implementation of HIPPA and the potential of denying appropriate claims. However, since the CMS representative agreed the plan discussed would be adequate, ODJFS plans to implement procedures as identified above.

We recommend ODJFS implement internal controls which provide reasonable assurance reimbursements are made only for allowable program costs. This would include obtaining written approval from CMS for their planned corrective action and implementing the approved plan. In addition, we recommend the Department continue to perform periodic testing to help ensure the automated controls are functioning properly and the system is appropriately determining the allowability and payment amount for medical services.

55. MEDICAID/CHILD SUPPORT ENFORCEMENT – 272 REPORT

Finding Number	2002-JFS55-076
CFDA Number and Title	93.775/93.777/93.778 – Medicaid Cluster 93.563 – Child Support Enforcement –
Federal Agency	Department of Health and Human Services

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

45 CFR 92.41 states in part:

…

(c) Federal Cash Transactions Report--(1) Form. (i) For grants paid by letter or credit, Treasury check advances or electronic transfer of funds, the grantee will submit the Standard Form 272, Federal Cash Transactions Report, and when necessary, its continuation sheet, Standard Form 272a, unless the terms of the award exempt the grantee from this requirement.

(ii) These reports will be used by the Federal agency to monitor cash advanced to grantees and to obtain disbursement or outlay information for each grant from grantees.

…

The ODJFS (the Department) utilizes file downloads from the Central Accounting System (CAS) to aid in the preparation of the quarterly PSC-272 report. Accordingly, the amounts reported on CAS and the PSC-272 report should generally agree. Should these reports not agree, the Department must be able to provide adequate supporting documentation that would serve to reconcile the difference. The U.S. Department of Health and Human Services (HHS) uses these reports to monitor certain aspects of the program. And as a result, the information reported to the HHS should be as complete and accurate as is administratively possible. During the review of the 4th quarter PSC-272 report for the Federal Fiscal Year 2001, we identified an error in the supporting documentation. The Federal summary worksheet was incorrect. Specifically, the 4th quarter figures were inaccurate, resulting in a reporting error of $14,756,805. This error could have been prevented if a County Finance Supervisor would have reviewed the worksheet; however, there was no evidence of such a review. Additionally, the Department was not able to provide an adequate reconciliation of the difference.

55. MEDICAID/CHILD SUPPORT ENFORCEMENT – 272 REPORT (Continued)

As a result, we were unable to altogether determine whether the quarterly PSC-272 report was accurate, complete, and in compliance with federal rules and regulations. Additionally, the risk is greatly increased that information being reported is not representative of actual activity and/or is not in accordance with federal requirements. Reporting inaccurate or incomplete information could subject the Department to federal sanctions, possibly limiting the amount of funding for program activities. The Financial Reporting Supervisor Unit Supervisor indicated the difference was the result of a computer systems link not being able to recognize change in federal grant numbers. This is expected to be corrected by June 2003.

We recommend ODJFS devise and implement control procedures which would provide reasonable assurance that the federal PSC-272 reports are accurate, complete, and in compliance with federal requirements. This could be achieved by reviewing and agreeing line items contained within the reports to the historical information maintained within CAS. We also recommend ODJFS maintain evidence of such reviews to provide management and other interested parties with assurances that these procedures were performed.

56. ADOPTION ASSISTANTCE – VOUCHER SUMMARY SUPPORT DETAIL

Finding Number	2002-JFS56-077
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 $143 million in Adoption Assistance expenditures made by ODJFS 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).

56. ADOPTION ASSISTANTCE – 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 can not 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.

57. UI - DOCUMENTATION OF NONPROFIT ORGANIZATION STATUS

Finding Number	2002-JFS57-078
CFDA Number and Title	17.225 – Unemployment Insurance
Federal Agency	Department of Labor

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

Ohio Rev. Code 4141.01 (X) states *"Nonprofit organization" means an organization, or group of organizations, described in section 501(c)(3) of the "Internal Revenue Code of 1954," and exempt from income tax under section 501(a) of that code.* A 501(c)(3) status letter or other documentation from the Internal Revenue Service (IRS) serves as proof of an employer's tax exempt status. The Department is required to obtain this documentation before granting reimbursing status to an employer. Retention of this documentation serves as evidence that the Department has complied with this requirement.

ODJFS did not consistently apply their internal control process and have a 501(c)(3) status letter on file for two of the 20 reimbursing employers tested in a current year revenue receipts test. Failure to obtain an employer's 501(c)(3) status letter could result in granting reimbursing status to an ineligible organization and noncompliance with Ohio Rev. Code 4141.241, regarding the Department granting reimbursing employer status. Such status allows the organization to be treated with more favorable tax preference. The Department's Determination Supervisor stated the 501(c)(3) status letters were probably misfiled or lost. Upon discovery of the missing status letters, ODJFS called the IRS to verify the status of the organizations in question and learned they were nonprofit organizations.

57. UI - DOCUMENTATION OF NONPROFIT ORGANIZATION STATUS (Continued)

We recommend ODJFS implement a mechanism to accurately and consistently document and retain evidence of employer status to ensure that employers are properly classified and to help ensure compliance with Ohio Rev. Code 4141.241. One method the Department could use to determine an organization's non-profit status is the following IRS website http://www.irs.ustreas.gov/charities/article/0,,id=96136,00.html. Since an entity's status as a non-profit organization could change, we also recommend the Department periodically determine and retain evidence that a designated reimbursing employer continues to qualify for such status.

58. WIA – 269 REPORT

Finding Number	2002-JFS58-079
CFDA Number and Title	17.258/17.259/17.260 – WIA Cluster
Federal Agency	Department of Labor

INTERNAL CONTROL - REPORTABLE CONDITION

29 CFR 97.41 states in part,

. . .

(b) Financial Status Report--(1) Form. Grantees will use Standard Form 269 or 269A, Financial Status Report, to report the status of funds for all nonconstruction grants and for construction grants when required in accordance with Sec. 97.41(e)(2)(iii) of this section.

. . .

(c) (ii) These reports will be used by the Federal agency to monitor cash advanced to grantees and to obtain disbursement or outlay information for each grant from grantees.

. . .

ODJFS utilizes file downloads from the Central Office Reporting System (CORe) to aid in the preparation of the quarterly WIA-269 report. Accordingly, the amounts maintained in CORe and the WIA-269 report should generally agree. Should these reports not agree, the Department must be able to provide adequate supporting documentation that would serve to reconcile the difference.

During the review of the 4th quarter WIA-269 report for Federal Fiscal Year 2001, it was discovered that not all programs listed in the report agreed to the corresponding CORe reports. The differences discovered were related to the Local Adult, Local Youth, Local Administration and Dislocated Workers Programs, as follows;

Program

Report	**Local Adult**	**Local Youth Activities**	**Local Administration**	**Dislocated Worker**	**Totals**
WIA-269	$1,087,962	$11,692,758	$2,087,962	$1,772,587	$16,641,269
CORe	4,381,011	8,740,577	752,601	2,013,607	15,887,796
Totals	($3,293,049)	$2,952,181	$1,335,361	($241,020)	**$753,473**

Additionally, the Department was not able to provide an adequate reconciliation of the differences.

58. WIA – 269 REPORT (Continued)

As a result, we were unable to altogether determine whether the quarterly WIA-269 report was accurate, complete, and in compliance with federal rules and regulations. Additionally, the risk is greatly increased that information being reported is not representative of actual activity and/or is not in accordance with federal requirements. Reporting inaccurate or incomplete information could subject the Department to federal sanctions, possibly limiting the amount of funding for program activities. The County Finance Section Chief indicated the differences were attributable to the Department requiring the counties to report expenditures on a First-In-First-Out basis. However, not all counties complied with this requirement. Accordingly, it was necessary for ODJFS to make required adjustments to CORe.

We recommend ODJFS devise and implement control procedures which would provide reasonable assurance that the federal WIA-269 reports are accurate, complete, and in compliance with federal requirements. This could be achieved by reviewing and agreeing line items contained within the reports to the historical information maintained within CORe. We also recommend ODJFS maintain evidence of such reviews to provide management and other interested parties with assurances that these procedures were performed.

59. STRUCTURE OF THE WIA PROGRAM

Finding Number	2002-JFS59-080
CFDA Number and Title	17.258/17.259/17.260 – WIA Cluster
Federal Agency	Department of Labor

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

The Workforce Investment Act (WIA) of 1998 is the legal authority for the WIA program. Section 116 (a)(1)(B) identifies the criteria to be used for the designation of Local Workforce Investment Areas (LWIA).

> . . .
> (B) Considerations.--In making the designation of local areas, the Governor shall take into consideration the following:
> (i) Geographic areas served by local educational agencies and intermediate educational agencies.
> (ii) Geographic areas served by postsecondary educational institutions and area vocational education schools.
> (iii) The extent to which such local areas are consistent with labor market areas.
> (iv) The distance that individuals will need to travel to receive services provided in such local areas.
> (v) The resources of such local areas that are available to effectively administer the activities carried out under this subtitle.

Under the current structure of the program as administered by the Department, eight LWIAs have been designated throughout the state. Seven of the LWIAs were created as local areas through the automatic designation provision of the Act (WIA Act sec. 116 (a)(2)). The remainder of the state was designated as one LWIA. This LWIA, referred to as Ohio Option Area #7, includes the majority of the geographic area of the state, comprises an area with 78 counties, and has 57 sub-areas. A LWIA the size of Area #7 is contrary to the intention of the Act and the required considerations to be used in designating <u>local</u> areas. While there is a Local Workforce Investment Board (LWIB) for Area #7 as required by the Act, the Board did not have the authority during the audit period to "set policy for the portion of the statewide workforce investment system within the local area" (WIA Act sec. 117 (a)). Instead, the Department served as the fiscal agent for the Area #7 and in effect set policy for the area. In addition, the LWIB for Area #7 does not seem to meet the minimum representative membership requirements of the local area, as required by the Act, since the membership comes from only 20 of the 78 counties in the area.

59. STRUCTURE OF THE WIA PROGRAM (Continued)

The U.S. Department of Labor (DOL) raised concerns to the Director of the Department (ODJFS) about the structure of the WIA program as administered by the State of Ohio in a letter, dated October 31, 2001. In the Department's written response to DOL, dated February 13, 2002, the Department stated "After extensive internal system reviews that include numerous meetings and regular discussions with officials from the USDOL, we recognize that problems exist in Ohio and fully appreciate the need for change." The body of the letter acknowledges nonconformity to the Act in the structure of Area #7 and its Local Area Workforce Investment Board. Since that time, the Department has had on-going discussions with the federal government about the noted concerns and ways to resolve DOL's concerns.

Noncompliance with the requirements of the WIA Act could result in federal funding being reduced or taken away, sanctions imposed by the federal grantor agency, or the Department having to repay part or all of the grant awards to the federal government. Department management stated they believed the Department was complying with the requirements of the WIA Act when the WIA program for Ohio was designed originally.

We recommend the Department continue to communicate with the U. S. Department of Labor to work toward a mutually acceptable solution to the concerns raised by the federal agency. Such discussions should include representatives from the local areas, those already designated and those that may be designated in the future.

60. WIA – CHARGING OF CERTAIN COSTS

Finding Number	2002-JFS60-081
CFDA Number and Title	17.258/17.259/17.260 – WIA Cluster
Federal Agency	Department of Labor

INTERNAL CONTROL - REPORTABLE CONDITION

OMB Circular A-87 attachment A section F.1 states the following:

> General. Indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. The term "indirect costs," as used herein, applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs within a governmental unit department or in other agencies providing services to a governmental unit department. Indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

ODJFS currently uses cost pools to allocate administrative costs to various grants, including the WIA program. Random Moment Sampling is used as a basis to determine the amounts allocated to each grant. The current cost allocation process does not provide assurance that costs are distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived. This deficiency can be illustrated through examples from the National Reserve Account and National Emergency Grant programs of the WIA program. The Quarto Mining grant had $800,992 of program expenditures between July 1, 2000 and December 31, 2001 but no pooled costs were charged to the grant during that period. Conversely, between January 1, 2002 and March 31, 2002, no program expenditures were reported but $23 of pooled costs was charged. In addition, the ITA Demo Pilot Project grant was charged pooled costs during the January to March 2002 quarter, even though no costs were reported.

60. WIA – CHARGING OF CERTAIN COSTS (Continued)

Without an accurate matching of pooled indirect costs to appropriate supporting documentation, the risk exists that mis-charges or over-charges could occur, which could result in the disallowance of costs. In addition, the maximum allowed indirect costs may not be charged to the program. ODJFS management said there were instances, during SFY01, when the administrative cost charged to certain NEG grants was an unreasonably high amount, using the Department's cost allocation plan. In an attempt to correct the problem, indirect administrative costs are no longer charged to the smaller grants such as the NEG's. The indirect administrative costs are now charged to the grant where the employee works the majority of their time. These costs are determined using random moment sampling (RMS). Administrative costs are only charged directly to a program if the employee spends 100% of their time on one grant.

We recommend ODJFS devise and implement a system which ensures that pooled costs are distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived. To achieve this objective, ODJFS may need to re-define the specific cost pools associated with individual programs or use a different allocation method, beside the pool approach, to determine indirect costs for individual programs.

61. MISSING DOCUMENTATION – VARIOUS COUNTIES

Finding Number	2002-JFS61-082
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.563 – Child Support Enforcement 93.575/93.596 – Child Care Cluster 93.658 – Foster Care 93.659 – Adoption Assistance 93.667 – Social Services Block Grant 93.775/93.777/93.778 – Medicaid Cluster 93.767 – State Children's Insurance Program
Federal Agency	Department of Agriculture Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

When administering federal grant awards for ODFJS, 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.

61. MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

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.

Five of the eight counties tested during the audit period were missing required case file or other documentation, as detailed below:

COUNTY	CFDA #	MISSING DOCUMENTATION
Cuyahoga	10.551/ 10.561	We noted the following missing documentation during Food Stamp reporting control testing of 20, out of approximately 1,839, benefit recovery claims: • One Investigator's Memorandum form. • Two Overpayment Computation forms. • One Overpayment Determination form.

	93.558	We noted the following missing documentation during TANF eligibility control testing of 20, out of approximately 42,000, case files:
		
		• Three PRC applications were not in the case file. These applications require the following signatures:
		  o Applicant: To attest to the accuracy of the information on the application.
		  o Caseworker: As evidence the caseworker reviewed the application for completeness.
		• Three PRC forms were not in the case files. These forms require the Supervisor's signature as evidence the supervisor reviewed the application and form for accuracy.
		• Three notices, which are mailed to the applicants to notify of eligibility, were not copied and filed in the case file.
		
		Additionally, we noted one of 20, out of approximately 105, case files could not be located for control testing of TANF custodial parent with a child under six where child care was not available compliance requirement.
		
		We noted the following missing documentation during Child Care eligibility control testing of 20, out of approximately 25,638, cases:
		
		• Seven case files did not contain an Application/Redetermination form signed by the supervisor.
		• Thirteen case files did not contain a Notice of Approval or Application for Assistance signed/approved by the case manager.
		• Nine case files did not contain a Rights and Responsibilities form signed by the client.
		• Six case files did not contain a Notice of Day Care Placement and Payment signed by the caseworker.

	93.575/ 93.569	We noted the following missing documentation during activities allowed or unallowed control testing of 20, out of approximately 25,638, case files: • Three rosters/listings for the supporting documentation. • Three COAP vouchers and the supporting documentation.
	93.767	We noted six of 20, out of approximately 13,971, case files could not be located for SCHIP eligibility control testing.

61. MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

COUNTY	CFDA #	MISSING DOCUMENTATION
Hamilton	93.563	We noted one of 20, out of approximately 56,768, child support case files did not contain a medical court order and/or supporting documentation on SETS identifying the person responsible for medical support.
Hancock	10.551/ 10.561 93.558 93.563 93.575/ 93.569 93.658 93.659 93.667 93.767 93.775/ 93.777/ 93.778	During review of the centralized payroll process, several documents required to validate the accuracy of payroll expenditures could not be located for testing. For two of ten employees tested, the leave request forms were not on file to support the amount of leave used per the Payroll Summary Sheets.
Lucas	93.558	We noted the following missing documentation during TANF eligibility control testing of 21, out of approximately 7,023, PRC Voucher Packets: • One Voucher Packet could not be located. We noted the following missing documentation during TANF eligibility control testing of ten, out of approximately 6,300, case files: • One application/reapplication was not available for review. As a result, we were unable to determine if the information agreed to CRIS-E and we could not identify the income verification for employment. • One verification checklist was not available for review.
	93.558	We noted the following missing documentation during TANF special tests and provisions control testing of 20, out of approximately 6,300, case files: • Three Work Activities Job Assessment Info Sheets (LCHS form 1186) or the Needs Appraisal (LCJFS 1662) could not be located in the case file. • Three Self Sufficiency Contracts and Plans could not be located in the case file. • Four case files did not contain identification of referrals made by the case manager. • Seven case files did not contain attendance sheets applicable to the period tested. • Four case files did not contain copies of the notices sent to the benefit recipient that indicate they should contact Work Activities.

61. MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

COUNTY	CFDA #	MISSING DOCUMENTATION
Warren	93.575/ 93.569	We noted one of 20, out of approximately 320, licensed child care center contracts could not be located for Child Care activities allowed or unallowed control testing.
	93.667	We noted the following documentation could not be located for SSBG eligibility control testing of twenty, out of approximately 138, case files: • Eight case files were missing a completed investigative report determining if allegations of abuse, neglect or exploitation was valid. • Twelve case files were missing a plan for provision of protective services. • Four case files were missing a narrative documenting, chronologically, all activities performed during the investigation. • Four case files were missing the statistical information sheet which captures all data needed to complete a quarterly report.

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.

Cuyahoga County management indicated the missing documents were the result of incorrect compiling of case files, misfiling, and large case loads. Hamilton County management could not identify an explanation why the required documentation was not in the case file. Hancock County management indicated the forms were either misplaced or occurred due to oversight. The Lucas County IM Coordinator indicated the voucher packets should be kept within the IM Case File and it was a departmental oversight; the missing TANF files were probably misfiled. Warren County management indicated the SSBG missing documents were due to a shortage of caseworkers and the Child Care missing contracts were due to oversight.

To address the specific weaknesses noted at the counties tested, we recommend:

<u>CUYAHOGA & LUCAS</u>

We recommend CCDJFS and LCDJFS 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.

<u>HAMILTON</u>

We recommend the HCDJFS review its current monitoring procedures to ensure all documents which support medical coverage determinations are properly maintained and readily accessible for review and/or reference. One method to help 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 quickly provide the status of the case and to help ensure the proper supporting documentation is included in the file.

61. MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

HANCOCK

We recommend the HCDJFS management establish and implement an effective method of retaining payroll leave request forms. In addition, we recommend management periodically review a sample of payroll files to ensure established internal control and record retention procedures are followed by personnel.

WARREN

We recommend WCDJFS management implement internal controls and/or strengthen current procedures to provide reasonable assurance that eligibility documentation is properly completed and placed in recipient case files. In addition, procedures such as supervisory reviews would provide added assurance that eligibility reports and other documentation are being maintained in the case files.

62. LATE COUNTY REPORTS – VARIOUS COUNTIES

Finding Number	2002-JFS62-083
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.563 – Child Support Enforcement 93.575/93.596 – Child Care Cluster 93.658 – Foster Care 93.659 – Adoption Assistance 93.667 – Social Services Block Grant 93.775/93.777/93.778 – Medicaid Cluster 93.767 – State Children's Insurance Program
Federal Agency	Department of Agriculture Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

County agencies are advanced or reimbursed federal monies to administer various programs on behalf of the ODJFS. 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) must be received by the food stamp/TEFAP section by the twentieth day of the month following the end of the report month. [Food Stamp Supervisor (FSS) Handbook Section 8000]
>
> 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 2820 Monthly Financial Statement (children services programs) must be submitted no later than the 20th day of the month following the expenditure month. [ODHS Administrative Procedure Manual Section 7901]

62. LATE COUNTY REPORTS – VARIOUS COUNTIES (Continued)

The ODHS 2827 Monthly Financial Statement (public assistance programs) must be submitted on diskette or by electronic mail to ODHS no later than the 20th of the month following the expenditure month. [ODHS Administrative Procedure Manual Section 7902]

The ODHS 4234 Child Support Enforcement Annual FTE Report must be submitted annually to ODJFS no later than October 15th. [Child Support Enforcement Manual Section 5320(C)]

The ODHS 4282 Title XX Social Services Block Grant Report is completed monthly by the CDJFS and must be submitted no later than 45 days after the end of the month. This report must be submitted monthly even if SSBG direct services were not provided and/or purchased services expenditures were not made during the month. [The Administrative Procedure Manual Section 5501]

Of the eight counties tested during the audit period, seven submitted one or more reports beyond the required due dates, as detailed below:

Report: FNS-250 Program Affected: Food Stamps		
COUNTY	**# LATE / # TESTED**	**DAYS LATE**
Warren	2/4	40 - 57

Report: ODHS 1925 Program Affected: Foster Care		
COUNTY	**# LATE / # TESTED**	**DAYS LATE**
Lucas	4/4	4 - 29
Ross	4/4	19 - 40
Warren	1/4	24

Report: ODHS 2820 Programs Affected: Foster Care and Adoption Assistance		
COUNTY	**# LATE / # TESTED**	**DAYS LATE**
Lucas	3/4	1 - 4

Report: ODHS 2827 Programs Affected: Food Stamps, TANF, SSBG, Child Care, SCHIP & Medicaid		
COUNTY	**# LATE / # TESTED**	**DAYS LATE**
Warren	2/4	2 - 11

Report: ODHS 4234 Program Affected: Child Support Enforcement		
COUNTY	**# LATE / # TESTED**	**DAYS LATE**
Franklin	1/1	12
Hancock	1/1	184

62. LATE COUNTY REPORTS – VARIOUS COUNTIES (Continued)

Report: ODHS 4282 Program Affected: Social Services Block Grant		
COUNTY	**# LATE / # TESTED**	**DAYS LATE**
Hamilton	¼	3
Lucas	7/12	83 - 255
Cuyahoga	¼	13

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, department oversights, insufficient staffing, delays in receiving the proper information to prepare the report, other departments late submission of reports utilized to prepare ODJFS reports or the county could not identify a cause.

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.

63. REPORTING PROCEDURES, REVIEWS, & INACCURACIES – VARIOUS COUNTIES

Finding Number	2002-JFS63-084
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.575/93.596 – Child Care Cluster 93.658 – Foster Care 93.659 – Adoption Assistance 93.667 – Social Services Block Grant 93.775/93.777/93.778 – Medicaid Cluster 93.767 – State Children's Insurance Program
Federal Agency	Department of Agriculture Department of Health and Human Services

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

County agencies are advanced or reimbursed federal monies to administer various programs on behalf of the ODJFS. 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.

63. REPORTING PROCEDURES, REVIEWS, & INACCURACIES – VARIOUS COUNTIES (Continued)

COUNTY	CFDA #	REPORT/WEAKNESSES NOTED
Columbiana		We noted the following during testing of monthly reports:
	93.658 93.659	• Three of the four 2820 reports and seven of the eight 2820 reports observed were not signed or dated by the Director.
	10.551/ 10.561 93.558 93.575/ 93.569 93.667 93.775/ 93.777/ 93.778 93.767	• Three of the four 2827 reports were not signed or dated by the Director.
	93.558	Of the 20 PRC transactions (totaling $10,210) selected for testing, out of approximately 345 transactions (totaling $481,762) processed during the year, we noted the following: • Three PRC applications were not signed by the supervisor. • Two PRC applications were not signed by either the caseworker or the supervisor. • Two PRC applications were not logged in by the receptionist.
	93.575/ 93.569	During testing over Child Care vouchers, we noted nine of twenty vouchers were not approved by the Director, and five of twenty invoices were not stamped when received by the CCDJFS.
Cuyahoga	10.551/ 10.561	During testing of 20, out of approximately 1,839, Food Stamp benefit recovery claims, we noted: • One Investigator Overpayment Summary Sheet was not signed by the investigator. • One Investigator Overpayment Summary Sheet was not signed by the supervisor to indicate supervisory review. • One of the Overpayment Determination Forms was not signed by the supervisor to indicate supervisory review.
	93.558	During TANF eligibility testing of 20, out of approximately 42,000, active TANF-PRC cases, we noted: • Five PRC Applications were not signed by the applicant to attest to the truthfulness of all the information the applicant provided to CCDJFS. • Seven PRC Applications were not signed by a caseworker indicating that a review of the form and determination supporting eligibility documentation was performed. • Nine PRC Applications were not signed by an immediate supervisor, manager, or coordinator indicating supervisory review. • Nine PRC Notices were not filed in the case file.

63. REPORTING PROCEDURES, REVIEWS, & INACCURACIES – VARIOUS COUNTIES (Continued)

COUNTY	CFDA #	REPORT/WEAKNESSES NOTED
Cuyahoga	93.558	During TANF special test and provisions Adult Custodial Parent With A Child Under Six testing of 20, out of approximately 105, case files we noted: • Eight cases where the self-sufficiency coach did not inform all participants meeting the criteria of protection from sanction for a lack of child care. • Nine cases where the self-sufficiency coach did not identify the participants as having a child under six in the CRIS-E system. • Seventeen cases where the self-sufficiency coach did not update the self-sufficiency plan to include the nonparticipation for the lack of child care. • Ten cases where the self-sufficiency coach did not complete the CLRC case notes with appropriate comments. Procedures over child support and refusal to work sanctions are the same to ensure proper processing. During testing of 20, out of approximately 42,000, active TANF cases, we noted: • Eight self-sufficiency contracts were not signed by the participants and self-sufficiency coaches. • Eleven self-sufficiency plans were not signed by the participants and self-sufficiency coaches. • One instance where the child support sanction code was not reported in the CRIS-E system. • Sixteen Sanction Intervention Letters were not signed by the self-sufficiency coach. • Eighteen Sanction Notification Letters were not signed by the self-sufficiency coach.
Franklin	93.658	During Foster Care reporting testing, we noted the Accountant did not review the ODHS 1925 Exception Processing Report for errors so that necessary corrections could be made to the following month's 1925 report. County management indicated this report was not received from ODJFS; however, they performed a similar function using an internal monthly reconciliation process.
Hamilton	93.558 93.667	One of 20 vouchers was not signed by the client to evidence their review. Four of four monthly 4282 reports selected for testing contained no evidence to determine if the reports had been reviewed and approved by the appropriate level of management before submission to ODJFS. For one of twenty vouchers tested, the invoice did not contain evidence of the review and approval of management prior to payment.
Hancock	93.568 93.569 93.667	For one of the two ODHS 4281 reports tested, the information reported did not agree to supporting documentation, as follows: • The number of children with Life Skills was understated by two (Part 1); • The average number of children in substitute care placement was overstated by four (Part 2); • The average number of children in subsidized adoption maintenance agreements was understated by one (Part 2); and • The average number of children who are program eligible for Title IV-E Foster Care Maintained was overstated by four (Part 2). For one of twenty vouchers tested, three time sheets were turned in for payment and two of the three time sheets were not signed by the person providing the service.

63. REPORTING PROCEDURES, REVIEWS, & INACCURACIES – VARIOUS COUNTIES (Continued)

COUNTY	CFDA #	REPORT/WEAKNESSES NOTED
Lucas	10.551/ 10.561 93.558 93.667 93.775/ 93.777/ 93.778 93.767	None of the twenty IMRMS forms tested, out of approximately 9,600, had the employees' signature or initials on the form and the IMRMS Coordinator did not perform the observation interview.
	93.558	During testing of 21 PRC vouchers, out of approximately 7,023, four voucher packets did not indicate the method of income eligibility determination on the PRC application.
	93.667	Five of the monthly 4282 reports selected for testing did not have a date indicating when report was submitted to ODJFS; therefore, we could not determine if the reports were submitted timely.
		During testing, we noted the Statistician Supervisor did not date three of the four 4282 reports (Purchased Services section) selected for testing and one of the four 4282 reports (Direct Services section) tested.

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 given by county personnel regarding these issues including inexperienced staff, no established policies for review, oversight errors, untimely resources, and original reports were signed, dated, and submitted timely; however, copies maintained at the CDJFS were not signed.

We recommend:

<u>COLUMBIANA</u>

We recommend CCDJFS management maintain signed copies of the 2820 and 2827 reports to support the Director's review and approval of the respective month's expenditures and evidence of the submission date.

<u>CUYAHOGA</u>

We recommend CCDJFS management implement and/or enforce procedures which require appropriate signatures be included on all pertinent documents as evidence of review and approval, and supervisory reviews of case files to reasonably ensure the files/documents are accurate, complete, and in compliance with federal regulations. The performance of the supervisory reviews should be documented in the form of the reviewer's signature or initials and the date.

<u>FRANKLIN</u>

We recommend FCPCSA management ensure additional efforts are made to obtain documentation from ODJFS in order to complete their review of the ODHS 1925 report. Additionally, management should develop and implement compensating controls to ensure the completeness and accuracy of the ODHS 1925 report.

63. REPORTING PROCEDURES, REVIEWS, & INACCURACIES – VARIOUS COUNTIES (Continued)

HAMILTON

We recommend HCDJFS management develop, implement, and/or strengthen internal control policies and procedures to provide reasonable assurance the ODHS 4282 reports are reviewed and documented by the reviewer in a timely manner and appropriate follow-up is made for any discrepancies or unusual items noted. This documentation could be in the form of the reviewer's signature or initials and date on the report, with notations or attachments describing the resolution of any follow-up actions.

Additionally, we recommend HCDJFS management strengthen and implement policies and procedures requiring a review and approval of direct program expenditures for TANF vouchers and SSBG invoices prior to payment and to evidence their review in a sufficient manner. Alternative review and approval procedures should be developed to reasonably ensure the accuracy and completeness of invoices in the absence of the assigned individual. Management should also periodically monitor transaction evidence to ensure the HCDJFS personnel are adhering to internal control procedures.

HANCOCK

We recommend HCDJFS management devise and implement internal controls which provide reasonable assurance information reported on the ODHS 4281 reports is accurate and complete. This would include procedures verifying the information reported is traceable to appropriate supporting documentation. Since the data used from FACSIS can only be accessed as of the current date, all applicable pages of the FACSIS reports should be retained to ensure all amounts reported are traceable to appropriate supporting documentation.

Additionally, we recommend HCDJFS management create and implement policies and procedures requiring a review of Homemaker Time Sheets prior to payment and to evidence the review in a sufficient manner. Alternative review and approval procedures should be developed to reasonably ensure the accuracy and completeness of Homemaker Time Sheets in the absence of the assigned individual. Management should also periodically monitor transaction evidence to ensure the HCDJFS personnel are adhering to internal control procedures.

LUCAS

We recommend LCDJFS management maintain signed and dated copies of the 4282 reports to support the Statistician Supervisor's review and approval of each month's expenditures and evidence of the submission date.

We recommend LCDJFS management implement and/or strengthen policies and procedures of documenting income eligibility determinations to reasonably ensure the appropriateness of eligibility determinations/denials and accuracy of benefits paid. 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 to the personnel responsible for reviewing, approving, or maintaining case files.

We recommend LCDJFS management review the requirements outlined within the ODJFS Policy and Procedural Manual and ascertain that LCDJFS policies promote the accomplishment of these procedural requirements and are in place and operating. These policies and procedures should include the verification of appropriate signatures, performance of observation interviews, maintenance of all RMS listings and other required documentation, and periodic monitoring by senior management to determine if the control procedures are functioning as intended.

64. DATA PROCESSING - MMIS AND CRIS-E APPLICATION DOCUMENTATION

Finding Number	2002-JFS64-085
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

Sound internal control procedures require implemented systems and their operational features be documented to facilitate systems maintenance, systems modifications, or systems recoveries. Documentation of the procedures and decision rules for each computer application should be clear and meaningful to a knowledgeable user of the system.

Systems documentation for the Medicaid Management Information System (MMIS) and the Client Registry Information System-Enhanced (CRIS-E) did not accurately reflect the actual systems processing currently in operation. In addition, no procedures were in place to reasonably ensure systems documentation was reviewed and updated either on a regular basis or as changes were made. ODJFS has placed reliance on the memories of a few key personnel to maintain the documentation for the application processes performed by these critical systems. The CRIS-E and MMIS applications provide ODJFS with the ability to determine eligibility and benefit amounts of approximately $684 million for Food Stamps, $1.2 billion for TANF, $160 million for SCHIP, and $9.2 billion for Medicaid in fiscal year 2002.

As a result, an information systems professional who is unfamiliar with these systems could not use the current information to obtain an understanding of these critical application processes without extreme difficulty, if at all. This increases the risk of substantial time and financial burdens to the State in the event of turnover in key Management Information Systems positions or systems failures. In addition, management may not be able to identify and monitor key control functions of these systems, increasing the risk of unauthorized and/or unallowed transactions being processed. ODJFS indicated that due to the cutbacks in the budget for the 2002 and 2003 fiscal years, this documentation update project was put on hold. The current plan for CRIS-E is to include in the QDA for the 2cd quarter of 2003 tasks to determine the format of job/procedure/program documentation and use the Benefit Issuance sub-system as a pilot system to begin the documentation process.

We recommend ODJFS update all current systems documentation to reflect the current processes and procedures of their MMIS and CRIS-E computer applications. In addition, a comprehensive evaluation and revision of the current documentation procedures should be conducted. Primary emphasis should be placed on reviewing the type of documentation provided to users and the procedures for preparing such documentation. Standards for documentation should be approved by appropriate management and should be adequate to provide information necessary to efficiently and effectively utilize systems resources. Elements of documentation that should be included are:

- application flowcharts
- record and report layouts
- program source listings
- operator and user instructions
- program narratives (may include program change documentation)
- business application rules
- listing/location of all key automated (input, processing, and output) controls
- test data/results
- user manual

65. DATA PROCESSING - SYSTEM DEVELOPMENT LIFE CYCLE

Finding Number	2002-JFS65-086
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.563 – Child Support Enforcement 93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

Sound internal control procedures require a systems development and methodology plan for new applications be formalized and documented. The methodology adopted by the agency should establish and document the roles and responsibilities of the IT department, user departments and counties, and others for planning, developing, testing, reviewing, implementing, documenting, and auditing the end product of the system development process. Having a formalized system development life cycle (SDLC) provides many positives to an agency that develops a new data processing system such as:

- Provides a logical order of events for conducting system development where these events can be controlled, measured, documented and ultimately improved.
- Helps identify the technical and management issues
- Helps redefine the risks of failure during development
- Discloses related system development costs
- Identifies key deadlines for important internal or external compliance due dates

ODJFS used the 1994 MIS: 018 Policy for Systems Development Life Cycle Methodology as a guide to develop and implement the Support and Enforcement Tracking System (SETS) system. The purpose of this policy was "to serve as a guide for the eventual implementation of a fully structured SDLC methodology for MIS." The development and maintenance of SETS, CRIS-E and MMIS was completed in adherence to the guidelines of MIS: 018 Policy for Systems Development Life Cycle Methodology, requiring proper processes and procedures be followed for the Initiation, Analysis, Development, User Acceptance, Implementation and Audit Phase. Outlined within each of these phases are the required deliverables that must be completed; this includes formal documentation throughout each phase, up to and including sign-off.

Documentation was available for many of the design and development activities for SETS. However, no formal system development methodology was issued by the Department to guide the planning, remediation, testing, approval and implementation of the SETS application. An approval process was not in place during the design and implementation of SETS. The process also lacked sufficient detail to provide timely and effective project management and a lack of sign-offs by the user community.

Without formal procedures for systems development life cycle stages, critical data processing applications could be improperly designed or modified. Applications developed without an adequate or documented systems development methodology could be considered at risk when the controls over developing those systems are insufficient or not adequately followed. Public funds may not be processed in accordance with governmental or user standards and requirements. In addition, improper management of the SETS systems development has led to:

- The user community's lack of confidence in the system.
- Significant program changes occurring after the roll-out
- Limited testing prior to live production due to time pressures and resource constraints
- Federal sanctions as a result of the project delays

65. DATA PROCESSING - SYSTEM DEVELOPMENT LIFE CYCLE (Continued)

The Bureau Chief of Production Systems indicated that SDLC management is working on the deliverables and creation of business issues and CCM certification. MIS is preparing to submit an RFP to solicit a vendor to assist MIS in evaluating their project development processes and deliverables with the goal of improving their CMM certification level to 3.0. Completion of this certification effort will shore up many of the shortcomings noted in their project management and communication processes. A full MIS implementation target date is set to the last calendar quarter, 2003.

MIS has initiated the following actions in an effort to remedy this situation:

- Create a Change Control Review Board for each project that includes county representation.
- As new systems are planned, form an Executive Leadership Committee, or equivalent, that has county representation of a sufficient level to sign-off on a deliverable. These are in place for eICMS, SACWIS and SETS.
- Initiated a project to evaluate the current level (1.45) of the Capability Maturity Model (CMM), and identify sub-projects to bring MIS up to CMM Level 2 or above

We recommend ODJFS continue their efforts to enhance, formalize, and document their system development life cycle procedures as a means for structuring and controlling all phases of the development process for all future computerized information systems. Because system development projects are among the most demanding, effective and timely project management of the entire life cycle is essential for successful implementation. The methodology should include provisions for, but not be limited to, the following project guidelines.

- Describe the phases or stages and tasks or activities required, including project management techniques and processes, for successfully planning and completing a software development project.

- Identify each task as being either required (mandated) or optional.

- Define the procedural and approval responsibilities of functional department users and IT staff and management.

- Describe the expected deliverables from each phase of the project.

- Define guidelines for using software development, conversion, testing, and maintenance tools and techniques.

- Describe the criteria for automated and manual controls, security and audit trails.

- Define guidelines for software quality, usability, and maintainability.

These guidelines and directives should become standards and procedures the data processing staff and system users should follow daily for the entire implementation.

66. DATA PROCESSING - CORe PROGRAM CHANGE STANDARDS

Finding Number	2002-JFS66-087
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

Proper program change controls help prevent unauthorized changes to production programs. Effective control procedures would include an audit trail with key authorizations and related documentation of significant control processes along the program change life cycle.

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 $1.4 billion in state fiscal year 2002), and prepare reconciliations related to these transactions. The Department currently makes all program changes regarding CORe mapping codes, used to identify activity for each federal program and category of expenditure. These changes are being submitted on a change form; however, the changes are not being signed-off on when completed, nor are they verified or reviewed. ODJFS contracted with DMG Maximus to perform all other necessary program changes and updates to the CORe system. Formal program change procedures are in place for DMG to implement these necessary program changes; however, the program change forms, designed to contain key ODJFS approval signatures and change documentation, were not properly completed.

Without standardized, documented, and enforced procedures, unauthorized or erroneous system software upgrades may be implemented. This increases the risk that transactions may be processed improperly, or the application will not function as the users had intended. Lack of sufficient monitoring of program changes could lead to incomplete, inefficient, or unauthorized program modifications.

According to the Section Chief of County Finance, due to staffing and time constraints, the mapping code changes are discussed in meetings but not reviewed after implementation into the CORe. Also, DMG system change requests are completed when submitted to DMG but are not completed by DMG with actual change support data, nor are they reviewed by County Finance once the change has been implemented.

We recommend that each CORe mapping code alteration and each DMG program change be properly documented, reviewed, and approved by ODJFS to provide a tangible audit trail. We also recommend the Department implement formal user acceptance and review of all modifications to CORe mapping codes and program changes and monitor whether the procedures are consistently performed.

67. DATA PROCESSING - CENTRALIZED COMPUTER SECURITY

Finding Number	2002-JFS67-088
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

Sound business practices dictate the organization ensure the security administration of significant applications be assigned to trained and authorized security employees.

Administering computer security is not compliant with the Department's Information Technology Plan for 2001. The Information Technology Plan for 2001 (updated September 2001) states that the Bureau of Information Systems Support (BISS) is responsible for administering all aspects of computer security. In addition to the mainframe and network security administration duties performed by BISS for state and county users, the Bureau of Network Support (BNS) moves, deletes and modifies Novell network accounts and has the ability to create new accounts. The significant software applications (including CRIS-E, SETS, MMIS, FACSIS, and CORe) provide the Department with the ability to determine eligibility for welfare benefits, provide reimbursements to Medicaid providers, track child welfare information, and collect county financial information for federal reporting responsibilities.

The risk of unauthorized profile changes increases when multiple and untrained internal units are involved in the security administration of a material application. Inconsistent access authorities may net the user unwarranted computer resource authorities.

Data Security personnel indicated that upon the separation of BNS and BISS, BNS maintained the responsibilities of the MOVE, DELETE, and MODIFY functions of the Novell Network. It has been agreed that BNS will not create accounts regardless of capability.

We recommend ODJFS comply with their IT Technology Plan for 2001 and administer all computer security administration within BISS. Compliance with the Plan allows the BNS to focus on duties and functions relevant to the effective administration of the Department's network system and operational customer support for its users.

68. DATA PROCESSING - SETS SYSTEM DOCUMENTATION

Finding Number	2002-JFS68-089
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 should ensure that there is appropriate system documentation created and maintained. Program logic, functionality, and relationships should 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 should be comprehensive and accurate enough to allow state-level employees or future contractors to effectively and efficiently resume the current contractor's roles and IT functions in the event the current contractors leave ODJFS.

68. DATA PROCESSING - SETS SYSTEM DOCUMENTATION (Continued)

There is 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. If no contractors are hired after the current contractors leave, less than 1/4 of the 84 Systems Development group are state employees. Less than 1/3 of the 61 System Test group are state employees. All 6 member of the Release Management group and all 9 members Production Support are contractors. 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, without current, complete and accurate program documentation on the basic logic, program relationships and functionality of all SETS programs, a significant increase occurs in the risk that the programming staff could not effectively and efficiently fix some program abends, nor 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 this documentation could allow program development or maintenance to erroneously affect other programs in SETS. The integrity of the child support payment process could be seriously jeopardized.

SETS maintains program processing flows, which provide the system documentation that illustrates inputs, outputs and processing sequence for the execution of each batch program. MIS agrees the program documentation for SETS, as well as the remaining development areas must be improved to include specific program logic as well as flows. MIS is currently completing a process improvement review for all systems.

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 recommend all SETS program documentation, along with all key input, processing, and output information, include all program interrelationships and data dependencies between programs.

69. DATA PROCESSING - MMIS AND CRIS-E PROGRAM CHANGE DOCUMENTATION

Finding Number	2002-JFS69-090
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>

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 should be designed to gain adequate assurance over the application programming logic. Furthermore, documentation should exist of all testing of program changes along with evidence of user acceptance of the results.

69. DATA PROCESSING - MMIS AND CRIS-E PROGRAM CHANGE DOCUMENTATION (Continued)

ODJFS currently has a policy in place addressing the issue of program changes for their significant applications, including CRIS-E and 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 CSR/SRF form. However, the following exception was noted during testing:

- Although all 20 of the CSRs reviewed had a software submittal form signed and approved by the System Test Group indicating that the change was tested and ready for migration to the production environment, no testing documentation was available 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.

The Bureau Chief of Production Systems indicated programmers do not always maintain the testing documentation during the testing process. He also stated they are developing a system to electronically document the entire program change process for each project.

We recommend ODJFS follow the established program change standards and/or enhance these standards to reasonably ensure all program changes are made properly, timely, and to the user's satisfaction. This should include requiring documentation of the testing performed for all program changes be maintained. In addition, user acceptance should be obtained for all changes to help ensure the applications are operating as intended.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF MENTAL HEALTH

1. SUBRECIPIENT MONITORING

Finding Number	2002-DMH01-091
CFDA Number and Title	93.667 - Social Services Block Grant 93.767 - State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

NONCOMPLIANCE

The Ohio Department of Mental Health is responsible for monitoring their subrecipients' activities to provide reasonable assurance that subrecipients are aware of federal requirements imposed on them and that subrecipients administer federal awards in compliance with those requirements. These regulations are defined in Office of Management and Budget's Circular A-133, which states, in part:

Subpart C--Auditees
§___.320 Report submission.

(a) **General**. The audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

. . .

Subpart D--Federal Agencies and Pass-Through Entities
§___.400 Responsibilities.

. . .

(d) **Pass-through entity responsibilities**. A pass-through entity shall perform the following for the federal awards it makes:

. . .

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 or grant agreements and that performance goals are achieved.

4. Ensure that subrecipients expending $300,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

5. Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

. . .

1. SUBRECIPIENT MONITORING (Continued)

The Department has two types of subrecipients, Community Mental Health Boards, which are direct subrecipients of the Department, and Provider Agencies, which are subrecipients to the Boards. Section 2.2.2 of the Department's *Revised Financial and Compliance Audit Guidelines* states that "For purposes of these Guidelines, all Providers are considered subrecipients of Department funds as defined under section .210 (b) of OBM Circular A-133. As the prime recipient of Federal dollars, the Department passes funds to PROVIDERS either through the BOARDS or directly."

The Department did not receive on a timely basis all the required audit reports from either its 52 Board or 336 Provider subrecipients. Review and testing of the agency's "Annual Compliance Audits for FY'01: Subrecipient Review" log indicated the following conditions:

- The Department did not receive audit reports for 191 or 57 percent of the Provider subrecipients timely in accordance with Circular A-133 requirements. This percentage becomes larger (99 percent), if the Department's *Guidelines* is used, since it requires the subrecipient report to be submitted within six months instead of nine months.

- The Department did not receive audit reports for 4 or 8 percent of the Provider subrecipients timely in accordance with Circular A-133 requirements. One of these subrecipients had not submitted a report as of December 20, 2002. The three subrecipients who submitted a report submitted the report six to seven months after the due date.

- The Department did not require one of the 18 Board subrecipients tested (six percent) to implement corrective action within the required six month period. Corrective action was made in the seventh month.

- Review of the Office of Fiscal Administration's Call List doesn't evidence any efforts on the Department's part to follow-up and contact the Local Area Providers to document reasons for the delay in submitting an audit report.

Without sufficient monitoring procedures being practiced, the Department cannot ensure the requirements of Circular A-133 have been met. Additionally, 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.

The Community Audit Manager emphasized the Department's belief that it was the County Mental Health Boards' responsibility to monitor the Local Area Provider Agencies and not the Department.

We recommend the Department assess the adequacy of their controls over subrecipient monitoring to determine if the controls are sufficient to comply with the federal requirements. We recommend these control procedures should include ensuring its employees are aware of and practice the correct audit report submission requirements, and revise the "Annual Compliance Audits for FY'XX: Subrecipient Review" log to identify the report due date. The Department should also document (via telephone logs, letters, etc.) on a consistent basis any action it takes to remind subrecipients of the Circular A-133 requirements and the *Revised Financial and Compliance Guidelines* requirements, or to document subrecipients noncompliance. We also recommend the Department consider withholding future awards to subrecipients who are not in compliance with the federal audit provisions. If the Department does not think the Provider subrecipients are direct subrecipients to the Department, then we recommend the Department revise its *Guidelines*.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF MENTAL HEALTH

2. SUBRECIPIENT MONITORING CONTROL WEAKNESSES

Finding Number	2002-DMH02-092
CFDA Number and Title	93.667 - Social Services Block Grant 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 – MATERIAL WEAKNESS

The Department has established certain internal controls related to monitoring of its subrecipients. One control is the Department sends a letter to a subrecipient requesting a Corrective Action Plan for a deficiency noted in the subrecipient's audit report; a second control is updating an electronic logbook to document both the date of the Department's acceptance of a subrecipient's response to an audit exception and the date of any correspondence between the Department and the subrecipients; and, a third control is the Chief of Fiscal Administration quarterly reviews, then signs and dates the Subrecipient Review List. To be effective, the performance of an internal control must be evidenced in some manner to provide assurance to management and essential third parties, such as auditors, that the control is in place and functioning as intended.

We tested FY 2001 audit reports for 18 of the Department's subrecipients. Of the eight controls we identified and tested for subrecipient monitoring, we noted one exception for the first control (letter) and three exceptions for the second control (logbook) described previously. These errors represent an error rate of 6 and 17 percent for the two controls, respectively. In addition, we noted the Subrecipient Review List did not document a review of two of the four quarters. This error represents an error rate of 50 percent of the control.

The Department has two types of subrecipients, Community Mental Health Boards and Provider Agencies. The Department's Financial and Compliance Audit Guidelines require subrecipients have one of two types of audits performed, depending on the amount of expenditures by the subrecipient. The Department refers to these two types of audits as Type I (agreed-upon procedures) and Type II (OBM Circular A-133). The Department has not established a control to track when a Provider Agency receives its audit report so that the Department can monitor whether the subrecipient audit report was received timely. Also, the Department has not established a control to identify in their records whether a subrecipient is required to have a Type I, Type II, or no audit performed.

If control procedures are not established or if the occurrence of controls is not documented, it is not certain whether the procedures were actually performed, and the reviews and approvals were performed or obtained. If control procedures are not implemented or consistently applied, there is an increased risk that management's policies and procedures may not be working as intended, which increases the risk the Department may not be compliant with state and federal requirements. The Community Audit Manager stated that other priorities precluded him from submitting the letter, requesting a Plan of Correction from the subrecipient and updating the electronic logbook in a timely manner. As of 10/28/02 the electronic logbook has been updated to evidence the performance of the control procedure for two of the three subrecipients in question. The former Chief-Office of Fiscal Administration retired during the audit period. Therefore, supervisory review of the Community Audit Manager's monitoring procedures was not being performed as a result of the vacancy. Staff is aware that the Department should identify in their records whether a Board or Provider Agency is required to have a Type I or Type II audit.

2. SUBRECIPIENT MONITORING CONTROL WEAKNESSES (Continued)

We recommend the Department emphasize to managers and staff the importance of using the control procedures over subrecipient monitoring and assess the adequacy of these controls to determine if the controls are sufficient to comply with the federal requirements and their departmental guidelines. Controls that were performed by a former employee should be reassigned to a current employee, if the control is going to be retained. We also recommend the Department periodically monitor whether the controls are being consistently fully implemented and followed.

Specific controls the Department should to consider include updating the electronic logbook (Annual Compliance Audits for FY XX: Subrecipient Review) to identify both the type of audit (Type I or Type II) the Boards and Provider Agencies are required to have performed and also when the subrecipients have received the final audit report from their auditors. The Hamilton County Mental Health Board has modified the Department's Mental Health Provider Agency Compliance Audit Review Summary form to identify the type of audit required by the Department's *Revised Financial and Compliance Audit Guidelines*. The Department should determine if the modification made to the Audit Review Summary document is applicable and can be adopted for use by all Mental Health Boards.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES

1. MEDICAID - SUBRECIPIENT MONITORING

Finding Number	2002-DMR01-093
CFDA Number and Title	93.775/ 93.777/93.778 - Medicaid Cluster
Federal Agency	Department of Health and Human Services

NONCOMPLIANCE

OMB Circular A-133, Subpart D, §__.400 (d) states, in part, that a pass-through entity shall perform the following for the Federal awards it makes:

> . . .
>
> (d) (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 (DMR) and the Ohio Department of Job and Family Services (ODJFS) states that DMR shall assure that a mechanism is created that establishes review and monitoring systems for an ongoing selected sample of providers.

DMR disbursed to subrecipients a reported $191,568,747 during fiscal year 2002 for services associated with the Medicaid/Community Alternative Funding System (CAFS) program. The DMR's only method of monitoring subrecipients for compliance with CAFS program requirements is by reviewing the entity's Single Audit report. There are approximately 400 subrecipients for the CAFS program. These include 259 school districts, 88 County Boards of MRDD, and the remainder are private providers. This program is generally only audited as a major federal program at the larger metropolitan areas. We reviewed 51 Single Audits reports for the school districts which included all districts receiving over $200,000 in CAFS funding and nine reports for the county boards to determine if the program had been tested. We noted the CAFS program was tested at 13 of the school districts and six of the county boards, 25% and 67% respectively. It should be noted, however, the 13 school districts where the program was audited represented 68% of the dollar amount in our sample. Additionally, there are no monitoring procedures in place for private providers receiving CAFS funding.

The Single Audit process requires the auditor to test subrecipient's compliance with program requirements for certain major programs. Therefore, there is the potential for many programs to go unaudited. 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. If there were 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. Additionally, he stated that it would not be cost beneficial to implement monitoring procedures at this time because the CAFS program will eventually be discontinued, however, the time frame is unknown.

We recommend the Department review OMB Circular A-133 requirements and implement the necessary monitoring procedures over subrecipients for all their federal programs, including CAFS. These procedures should at a minimum include onsite visits and/or desk reviews designed to provide reasonable assurance the subrecipients are in compliance with program laws, regulations and requirements. These procedures should be performed on a regular and on-going basis and provide assurance appropriate corrective actions are taken to address errors or weaknesses identified.

2. MEDICAID – ALLOWABLE COSTS

Finding Number	2002-DMR02-094
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 CONTROLS - REPORTABLE CONDITION

Federal regulations require funding recipients to establish and maintain adequate internal controls over federal programs to provide reasonable assurance they are in compliance with laws, regulations, and the provisions of agreements. It is management's responsibility to monitor these control procedures to verify they are operating effectively and that specific operational objectives are being achieved. The Department is responsible to reasonably ensure amounts claimed for federal reimbursement are allowable under approved guidelines.

The Ohio Department of Mental Retardation and Developmental Disabilities (DMR) processes claims from service providers under the Medicaid/ Community Alternative Funding System (CAFS) program and State Children's Health Insurance Program (SCHIP). Providers submit electronic claims that are entered into the Medicaid Billing System (MBS) which verifies the provider has an active certified provider number before the claims are paid from DMR funds. The Department then submits a request for federal reimbursement to the Ohio Department of Job & Family Services who processes the claims through their Medicaid Management Information System (MMIS). MMIS will verify that both provider and recipient are currently eligible to receive Medicaid/SCHIP funds. No questioned costs were identified during our testing. However, there are no controls within MMIS or in MBS to verify the type/level of services for which the recipient may be eligible prior to making payments for the related claims. In addition, the Department does not reasonably ensure the billing provider is certified to perform the services claimed.

Without proper control procedures in place over the payment of claims for these two programs, DMR may not be reasonably assured program costs were for allowable/eligible services, thereby increasing the risk of questioned costs. Specifically, management may not be reasonably assured that providers were authorized to provide the particular service billed. Additionally, there is no assurance they are in compliance with applicable laws and regulations which could result in penalties and sanctions. The Assistant Deputy Director for the Division of Fiscal Administration stated they are aware of the problems with the current system but the Department will eventually be phasing out the CAFS program.

We recommend the Department devise and implement internal controls which provide reasonable assurance that reimbursements are made only for allowable program costs. This would include the determination that the recipient is eligible to receive the service provided and the provider is certified to provide the billed services.

3. MEDICAID – PROVIDER CERTIFICATION

Finding Number	2002-DMR03-095
CFDA Number and Title	93.775/ 93.777/ 93.778 - Medicaid Cluster
Federal Agency	Department of Health and Human Services

INTERNAL CONTROLS - REPORTABLE CONDITION

The Interagency Agreement between the Ohio Department of Mental Retardation and Developmental Disabilities (DMR) and the Ohio Department of Job and Family Services (ODJFS) states that the DMR, 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 receive Medicaid payments. The agreement also states the DMR 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 DMR 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 never again verified.

Without a certification renewal process, the Department cannot be reasonably assured that providers remain eligible to render service under the Medicaid program. Required licenses may become invalid, insurance requirements may be unfulfilled, education requirements unmet and/or a criminal record may be undetected. Allowing unqualified individuals to remain Medicaid providers may result in recipients not receiving the appropriate level of care or even endangering their well-being. Additionally, the DMR may be subject to fines or sanctions as a result. The Assistant Deputy Director in the Office of Accreditation stated that the Department is aware of the problem and is currently working on updating policies.

We recommend the DMR devise and implement procedures requiring periodic renewal 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.

SUPPLEMENTAL INFORMATION

STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
JULY 1, 2001 THROUGH JUNE 30, 2002

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Alcohol and Drug Addiction	2000-ADA01-002 2001-ADA01-002 **Subrecipient Monitoring**	Yes	
Ohio Department of Aging	2001-AGE01-003 **Medicaid – Edit Controls**	No	The finding is no longer 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 Aging.
Ohio Office of Criminal Justice Services	2000-CJS02-004 2001-CJS01-004 **Expenditures Made After Period of Availability**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-CJS01-003.
	2000-CJS03-005 2001-CJS02-005 **Deficit Cash Balance**	Yes	
	2000-CJS04-006 2001-CJS03-006 **Payroll Expense Distribution**	Yes	
Ohio Department of Education	2000-EDU03-009 2001-EDU01-007 **Vocational Education Contracts with Universities**	Yes	

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Education (Continued)	1999-EDU03-007 2000-EDU01-007 2001-EDU02-008 **Grant Administration Payment System Reports**	No	The finding is no longer considered a questioned cost finding 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 2002-EDU12-017.
	1999-EDU04-008 2000-EDU02-008 2001-EDU03-009 **Expenditure Made After Period of Availability**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-EDU02-007.
	2001-EDU04-010 **Transfers Made After Period of Availability**	Yes	
	1998-EDU04-006 1999-EDU06-010 2000-EDU05-011 2001-EDU05-011 **On-site Review**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-EDU05-010.
	1999-EDU07-011 2000-EDU06-012 2001-EDU06-012 **On-site Monitoring**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-EDU06-011.
	1999-EDU08-012 2000-EDU07-013 2001-EDU07-013 **Suspension and Debarment**	Yes	
	2000-EDU08-014 2001-EDU08-014 **Reporting**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-EDU07-012.
	2000-EDU09-015 2001-EDU09-015 **Reimbursement Process**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-EDU13-018.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Education (Continued)	2000-EDU10-016 2001-EDU10-016 **On-Site Reviews**	No	The finding has been re-peated in the FY 2002 Single Audit. See 2002-EDU05-010.
	2001-EDU11-017 **Segregation of Duties**	Yes	
	2001-EDU12-018 **Disbursement Process**	No	The finding has been re-peated in the FY 2002 Single Audit. See 2002-EDU11-016.
	2001EDU13-019 **Adjustments to Grant Awards**	Yes	
	1997-EDU03-005 1998-EDU08-010 1999-EDU09-013 2000-EDU11-017 2001-EDU14-020 **DP — Application Documentation and Maintenance**	No	The finding has been re-peated in the FY 2002 Single Audit. See 2002-EDU14-019.
Ohio Environmental Protection Agency	2001-EPA01-021 **Missing SF-269 Reports**	Yes	
Ohio Department of Health	1997-DOH01-012 1998-DOH01-017 1999-DOH01-019 2000-DOH01-021 2001-DOH01-022 **Subrecipient Monitoring**	No	The finding has been re-peated in the FY 2002 Single Audit. See 2002-DOH01-020.
	2001-DO02-023 **DP – Business Resumption Plan**	No	The finding has been re-peated in the FY 2002 Single Audit. See 2002-DOH02-021.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Health (Continued)	2001-DOH03-024 **DP – User Access Security**	No	The finding is no longer 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 Health.
	2001-DOH04-025 **DP – Computer security Administration**	No	The finding is no longer 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 Health.
Ohio Department of Job and Family Services*	2001-JFS01-026 **Medicaid/SCHIP ISTV Coding Errors**	No	The finding has been re-peated in the FY 2002 Single Audit. See 2002-JFS02-023.
	2001-JFS02-027 **TANF Subrecipient Monitoring – Lucas County**	Yes	
	2000-HUM01-022 2001-JFS03-028 **Foster Care – Duplicate**	No	The finding has been re-peated in the FY 2002 Single Audit. See 2002-JFS03-024.
	2000-HUM12-033 2001-JFS04-029 **Lack of SSBG Elig Doc/Support - Hamilton**	Yes	

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2000-HUM02-023 2001-JFS05-030 **Medicaid /SCHIP– Duplicates Physician & Osteopath Payments**	No	The finding is no longer considered a questioned cost finding 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 2002-JFS54-075.
	2000-HUM03-024 2001-JFS06-031 **Medicaid – Prior Authorization**	Yes	
	1997-HUM20-033 1998-HUM21-038 1999-HUM03-022 2000-HUM04-025 2001-JFS07-032 **Medicaid/SCHIP – Late Drug Rebate Payments**	No	The finding has been re-peated in the FY 2002 Single Audit. See 2002-JFS12-033.
	2001-JFS08-033 **TANF – Unallowable Payments - Cuyahoga**	No	The finding has been re-peated in the FY 2002 Single Audit. See 2002-JFS17-038.
	2000-HUM09-030 2001-JFS09-034 **Child Care – Undocumented Eligibility – Cuyahoga**	No	The finding has been re-peated in the FY 2002 Single Audit. See 2002-JFS09-030.
	2000-HUM10-031 2001-JFS10-035 **TANF – Missing Documentation - Cuyahoga**	No	The finding has been re-peated in the FY 2002 Single Audit. See 2002-JFS14-035.
	2000-HUM07-028 2001-JFS11-036 **Medicaid – Missing Medicare Documentation**	Yes	

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2001-JFS12-037 **Adoption Assistance – Undocumented Eligibility - Cuyahoga**	Yes	
	2001-JFS13-038 **TANF – Benefit Overpayments**	Yes	
	2001-JFS14-039 **SCHIP – Ineligible Recipient**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-JFS16-037.
	1997HUM06-019 1998-HUM04-021 1999-HUM12-031 2000-HUM18-039 2001-JFS15-040 **IEVS — Due Dates**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-JFS19-040.
	1997-HUM07-020 1998-HUM05-022 1999-HUM13-032 2000-HUM19-040 2001-JFS16-041 **IEVS — Inadequate Documentation**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-JFS20-041.
	2001-JFS17-042 **IEVS Return Information Access**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-JFS21-042.
	1997-HUM11-024 1998-HUM06-023 1999-HUM14-033 2000-HUM20-041 2001-JFS18-043 **IVES- Monitoring by the Department**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-JFS22-043.
	2001-JFS19-044 **Federal Schedule**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-JFS23-044.

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 **Unapproved Indirect Cost Allocation Amendment**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-JFS24-045.
	1999HUM16-035 2000-HUM22-043 2001-JFS21-046 **Lack of Corrective Action**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-JFS25-046.
	2000-HUM25-046 2001-JFS22-047 **TANF – Cash Management**	Yes	
	1998-HUM07-024 1999-HUM15-034 2000-HUM026-047 2001-JFS23-048 **TANF – Sanctions**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-JFS026-047.
	2000-HUM27-048 2001-JFS24-049 **TANF – Data Report**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-JFS052-073.
	1998-HUM18-035 1999-HUM18-037 2000-HUM28-049 2001-JFS25-050 **Medicaid/SCHIP – Subrecipient Monitoring**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-JFS27-048.
	2001-JFS26-051 **Medicaid/SCHIP Provider Overpayments Reporting Errors**	Yes	
	2001-JFS27-052 **Child Support – Statewide Monitoring of CSENet**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-JFS28-049.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2000-HUM30-051 2001-JFS28-053 **Child Support – Unsupported OCSE 34A Report**	Yes	
	2001-JFS29-054 **Untimely Eligibility Redeterminations – Various Counties**	No	The finding is no longer a noncompliance finding 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-HUM12-025 1998-HUM10-027 1999-HUM22-041 2000-HUM32-053 2001-JFS30-055 **IVES — Monitoring by Counties**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-JFS35-056.
	1999-HUM45-064 2000-HUM33-054 2001-JFS31-056 **DP - Internal Audits – Testing Automated Controls**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-JFS36-057.
	1997-HUM09-022 1998-HUM12-029 1999-HUM24-043 2000-HUM34-055 2001-JFS32-057 **DP – Accuracy of CRIS-E Input**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-JFS37-058.
	1997-HUM10-023 1998-HUM13-030 1999-HUM25-044 2000-HUM35-056 2001-JFS33-058 **DP – Manual Overrides of CRIS-E (Fiats)**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-JFS38-059.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2000-HUM36-057 2001-JFS34-059 **DP – CORe Processing**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-JFS39-060.
	2001-JFS35-060 **DP – SETS Program Changes for Federal Regulations**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-JFS40-061.
	1999-HUM28-047 2000-HUM37-058 2001-JFS36-061 **Review – Food Stamp EBT Vendor Reports**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-JFS41-062.
	1998-HUM14-031 1999-HUM26-045 2000-HUM038-059 2001-JFS37-062 **TANF – Monitoring**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-JFS42-063.
	1999-HUM29-048 2000-HUM40-061 2001-JFS38-063 **Foster Care - Contracts**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-JFS43-064.
	2000-HUM49-070 2001-JFS39-064 **Child Support Processing & Reconciliations**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-JFS44-065.
	2000-HUM43-064 2001-JFS40-065 **SSBG – Incomplete Monitoring**	No	This finding has been repeated in the FY 2002 Single Audit. See 2002-JFS45-066.
	1999-HUM36-055 2000-HUM45-066 2001-JFS41-066 **Contracts/ Relationships with County Agencies**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-JFS48-069.

STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (Continued)
JULY 1, 2001 THROUGH JUNE 30, 2002

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2001-JFS42-067 **Various Programs – Coding Errors**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-JFS49-070.
	1997-HUM13-026 1998-HUM11-028 1999-HUM23-042 2000-HUM31-052 2001-JFS43-068 **IVES — Training**	No	The finding is no longer 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.
	2001-JFS44-069 **Payroll Documentation**	No	The finding is no longer 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.
	2001-JFS45-070 **WIA – Cash Management**	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 noncompliance finding under the provisions of OMB Circular A-133. See 2002-JFS31-052.
	2001-JFS46-071 **TANF – ACF – 196 Report**	Yes	
	2001-JFS47-072 **Medicaid – Long Term Care Audits**	Yes	

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2001-JFS48-073 **Medicaid – Hospital Audits**	No	The finding is no longer 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.
	2000-HUM06-027 2001-JFS49-074 **Medicaid – Take Backs**	No	The finding is no longer 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.
	2001-JFS50-075 **Medicaid – Blended Federal Financial Participation Rate**	Yes	
	1997-HUM18-031 1998-HUM20-037 1999-HUM38-057 2000-HUM46-067 2001-JFS51-076 **Medicaid/SCHIP – Third-Party Liabilities**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-JFS53-074.
	1998-HUM16-033 1999-HUM35-054 2000-HUM47-068 2001-JFS052-077 **Medicaid/SCHIP – Coding Errors**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-JFS07-028.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	1997-HUM14-027 1998-HUM15-032 1999-HUM34-053 2000-HUM44-065 2001-JFS53-078 **Adoption Assistance - Voucher Summary Support Detail**	No	The finding has been re-peated in the FY 2002 Single Audit. See 2002-JFS56-077.
	2001-JFS54-079 **Social Services Block Grant – Reporting**	No	The finding has been re-peated in the FY 2002 Single Audit. See 2002-JFS30-051.
	2001-JFS55-080 **Child Support – Date Evidenced for Receipt of Payments**	Yes	
	2001- JFS56-081 **Child Support – Monetary Unprocessable Item Documentation**	Yes	
	1999-HUM44-063 2000-HUM50-071 2001-JFS57-082 **Child Care – Monitoring Procedures**	No	The finding is no longer 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.
	2001-JFS58-083 **TANF – PRC Voucher Transactions – Lucas County**	No	The finding has been re-peated in the FY 2002 Single Audit. See 2002-JFS63-084.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	1997-HUM24-037 1997-HUM25-038 1997-HUM28-041 1998-HUM31-048 1999-HUM47-066 2000-HUM53-074 2001-JFS59-084 **Missing Documentation – Various Counties**	No	The finding has been re-peated in the FY 2002 Single Audit. See 2002-JFS61-082.
	2000-HUM51-072 2001-JFS60-085 **Late County Reports – Various Counties**	No	This finding has been repeated in the FY 2002 Single Audit. See 2002-JFS62-083.
	2000-HUM52-073 2001-JFS61-086 **Report Procedures, Reviews, Inaccuracies – Various Counties**	No	The finding has been re-peated in the FY 2002 Single Audit. See 2002-JFS63-084.
	1997-HUM31-044 1998-HUM38-055 1999-HUM52-071 2000-HUM57-078 2001-JFS62-087 **DP – MMIS & CRIS-E Application Documentation**	No	The finding has been re-peated in the FY 2002 Single Audit. See 2002-JFS64-085.
	1999-HUM33-052 2000-HUM58-079 2001-JFS63-088 **DP – Systems Development Life Cycle**	No	The finding has been re-peated in the FY 2002 Single Audit. See 2002-JFS65-086.
	2000-HUM59-080 2001-JFS64-089 **DP– CORe Program Change Standards**	No	The finding has been re-peated in the FY 2002 Single Audit. See 2002-JFS66-087.
	2001-JFS65-090 **DP – Centralized Computer Security**	No	The finding has been re-peated in the FY 2002 Single Audit. See 2002-JFS67-088.

STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (Continued)
JULY 1, 2001 THROUGH JUNE 30, 2002

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2001-JFS66-091 **DP – SETS System Documentation**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-JFS68-089.
	2001-JFS67-092 **DP – SETS Trailer Record Control**	Yes	
	2000-HUM60-081 2001-JFS68-093 **DP - MMIS/CRIS-E Program Change Documentation**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-JFS69-090.
	1998-HUM40-002 1999-HUM53-001 2000-HUM61-001 2001-JFS69-001 **GAAP Package Schedules**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-JFS70-001.
Ohio Department of Mental Health	2001-DMH01-094 **Subrecipient Monitoring**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-DMH01-091.
Ohio Department of Mental Retardation and Developmental Disabilities	2001-DMR01-095 **Medicaid – Subrecipient Monitoring**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-DMR01-093.
	2001-DMR02-096 **Medicaid/SCHIP – Allowable Costs**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-DMR02-094.
	2001-DMR03-097 **Medicaid – Provider Certifications**	No	The finding has been repeated in the FY 2002 Single Audit. See 2002-DMR03-095.
Ohio Rehabilitation Services Commission	2001-RSC01-098 **Reporting**	Yes	

STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS (Continued)
JULY 1, 2001 THROUGH JUNE 30, 2002

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Transportation	1997-DOT03-047 1998-DOT01-058 1999-DOT01-072 2000-DOT02-083 2001-DOT01-099 **Monitoring of Prevailing Wage Laws**	No	The finding is no longer 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 Transportation.

* 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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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
FEBRUARY 27, 2003