STATE OF OHIO

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2007

Mary Taylor, CPA
Auditor of State

STATE OF OHIO

SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

TABLE OF CONTENTS

STATE OF OHIO

SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

TABLE OF CONTENTS

Page

INDEPENDENT ACCOUNTANTS' REPORTS ON COMPLIANCE AND INTERNAL CONTROLS

SUPPLEMENTAL INFORMATION

NOTE:

The State of Ohio *Comprehensive Annual Financial Report* for fiscal year ended June 30, 2007, 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/

Mary Taylor, CPA
Auditor of State

EXECUTIVE SUMMARY
2007 STATE OF OHIO SINGLE AUDIT

AUDIT OF BASIC FINANCIAL STATEMENTS

There are 12 separate opinion units included in the basic financial statements of the State of Ohio for the fiscal year ended June 30, 2007. Four of the 12 opinion units are audited entirely or in part by independent accounting firms under contract with the Auditor of State. The remaining eight opinion unit audits are performed by audit staff of the Auditor of State. This division of responsibility is described on page 1 in our Independent Accountants' Report.

We audited the basic financial statements of the State of Ohio as of and for the period ended June 30, 2007, following auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the Single Audit Act Amendments of 1996, and the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The objective of our audit was to express our opinion concerning whether the financial statements present fairly, in all material respects, the financial position of the State of Ohio, and the results of its operations, and cash flows of the proprietary and similar trust funds, in conformity with accounting principles generally accepted in the United States of America. We issued an unqualified opinion on the 12 opinion units.

In addition to our opinions on the basic financial statements, we issued an Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*. This letter is commonly referred to as the yellow book letter. The letter for the fiscal year ended June 30, 2007, included eight significant deficiencies from four separate state agencies. All eight significant deficiencies related to internal control weaknesses over information technology. They are summarized on page 170 of this report.

It should be noted the American Institute of Certified Public Accountants issued Statement on Auditing Standards (SAS) number 112, titled *Communicating Internal Control Related Matters Identified in an Audit,* which revised the previous reportable conditions terminology to significant deficiencies. This change, effective for the 2007 State of Ohio Single Audit, clearly defined issues meeting the definition of significant deficiency and has typically led to more comments in the yellow book letter than in previous years. The past three State of Ohio yellow book letters have identified two reportable conditions in each audit, while this year's letter resulted in eight significant deficiencies.

88 E. Broad St. / Tenth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

AUDIT RESPONSIBILITIES AND REPORTING UNDER OMB CIRCULAR A-133

The Single Audit Act requires an annual audit of the State's federal financial assistance programs. The specific audit and reporting requirements are set forth in U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The Schedule of Expenditures of Federal Awards (the Schedule) reports federal expenditures for each federal financial assistance program by federal agency, as identified by the Catalog of Federal Domestic Assistance (CFDA) number. As detailed on pages 135 through 145, the State administered 338 federal programs from 22 Federal agencies with total federal expenditures of $17.2 billion in fiscal year 2007.

The Schedule is used for identifying Type A and Type B programs. For fiscal year 2007, Type A federal programs for the State of Ohio were those programs with annual federal expenditures exceeding $30 million. There were 32 programs at or above this amount. The remaining 306 programs were classified as Type B programs. The identification of Type A and B programs is used to determine which federal programs will be tested in detail for compliance with federal laws and regulations. Under Circular A-133, the auditor uses a risk-based approach to testing. Once programs are classified as Type A or B, they are then assessed as either high or low risk programs. All high-risk Type A programs are considered major programs and are tested in detail for compliance with federal regulations. One high-risk Type B program is then selected for testing to replace each low-risk Type A program. Low-risk Type A programs must be tested at least once every three years. The State of Ohio had 26 high-risk Type A programs and seven high-risk Type B programs selected for testing as major programs in fiscal year 2007.

With the approval of our federal cognizant agent, the Auditor of State includes the Ohio Department of Job & Family Services' programs administered at the county level as part of State Single Audit even though county financial information is not otherwise incorporated into the State's financial statements. We selected six of the 88 counties in fiscal year 2007 and performed testing related to the Ohio Department of Job and Family Services' major programs. The results of our county level audit procedures are included in the Schedule of Findings and Questioned Costs. Additionally, our federal cognizant agent approved the exclusion of the State's colleges and universities' federal financial assistance from the State's Schedule although the financial activities are included in State's financial statements (Discretely Presented Component Units). The State's colleges and universities are subject to separate audits under OMB Circular A-133.

In accordance with A-133, we issued an Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133. Our report on compliance includes our opinion on compliance with the 33 major federal financial assistance programs and describes instances of noncompliance with Federal requirements we detected that require reporting per Circular A-133. This report also describes any significant deficiencies we identified related to controls used to administer Federal financial assistance programs, and any significant deficiencies we determined to be material weaknesses.

As described on page 158, we identified three federal programs where compliance objectives were not met. The compliance requirement for subrecipient monitoring was not achieved for the Ohio Department of Education's Twenty-First Century Community Learning Centers program. Additionally, the reporting requirements for the Ohio Department of Development's Home Energy Assistance Program and the Ohio Department of Public Safety's Homeland Security Cluster were not met.

SUMMARY OF FINDINGS AND QUESTIONED COSTS

The fiscal year 2007 Schedule of Findings and Questioned Costs, beginning on page 161, contains 53 findings related to 10 state agencies. Of these findings, 18 resulted in questioned costs, nine were noncompliance, six were identified as material weaknesses, and 20 were significant deficiencies. The 18 findings with questioned costs totaled to $7,428,461. This is the lowest total questioned cost amount in our State Single Audit report since 1998. The majority of the total questioned costs amount related to the following comment:

- The Ohio Department of Job & Family Services had questioned costs of $6,188,020 related to the Medicaid Cluster and State Children's Insurance Program (SCHIP). The Ohio Administrative Code (OAC) identifies the maximum amounts allowable for certain medical supplies which are subject to reimbursement by Medicaid and SCHIP providers. The Department placed edits within its electronic payment system to prevent providers from being reimbursed above the maximum limits set in the OAC. We found the edits for 353 medical supply codes were either not designed or not functioning properly, which allowed providers to be reimbursed for any amount for these supplies. This is a significant finding since the Department has the opportunity to recoup the overpayments from providers. It should be noted that our questioned costs includes both the original payment amount plus the amount of payments in excess of the limit for each procedure code. The finding and related client corrective action plan are included on page 203.

The schedule below identifies the number of reportable conditions included in the State of Ohio Single Audit from fiscal year 2002 through 2006, as well as the number of significant deficiencies identified in this report. The U.S. Office of Management and Budget Circular A-133 also changed the previous definition of reportable conditions to significant deficiencies for the 2007 State Single Audit. The schedule is divided by state agency and does include findings which were repeated over a number of years.

State Agency	2007	2006	2005	2004	2003	2002
Ohio Dept. of Job & Family Services	34	36	47	57	62	70
Ohio Department of Education	5	4	3	6	6	14
Ohio Department of Health	3	4	6	6	3	2
Ohio Department of Mental Retardation	0	0	3	5	4	3
Ohio Department of Development	2	1	1	0	0	2
Ohio Department of Mental Health	1	1	1	1	1	2
Ohio Department of Public Safety	3	0	1	0	0	0
Other State Agencies	5	3	0	4	2	2
Total	**53**	**49**	**62**	**79**	**78**	**95**

In addition to the significant deficiencies included in this report, the State of Ohio and each state agency receive a management letter which may include internal control and compliance deficiencies that do not rise to the level of a significant deficiency. These management letters are not part of this report.

FINANCIAL SECTION

INDEPENDENT ACCOUNTANTS' REPORT

The Honorable Ted Strickland, 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, 2007, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following organizations:

Primary Government: Office of the Auditor of State; Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio; Office of Financial Incentives; State Treasury Asset Reserve of Ohio; Treasurer of State Lease Revenue Bonds; and Tuition Trust Authority.

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

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

In addition, we did not audit the financial statements of the Public Employees Retirement System, Police and Fire Pension Fund, State Teachers Retirement System, and School Employees Retirement System, whose assets are held by the Treasurer of State and are included as part of the State's Aggregate Remaining Fund Information.

These financial statements reflect the following percentages of total assets and revenues or additions of the indicated opinion units:

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Revenues / Additions
Governmental Activities	2%	1%
Business-Type Activities	92%	58%
Aggregate Discretely Presented Component Units	96%	92%
Aggregate Remaining Fund Information	97%	38%
Workers' Compensation	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.

88 E. Broad St. / Tenth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. 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 upon our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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, 2007, and respective changes in financial position and cash flows, where applicable, and respective budgetary comparisons for the general and major special revenue funds thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated April 25, 2008, on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the State's basic financial statements. The accompanying Supplementary Schedule of Expenditures of Federal Awards Summarized by Federal Agency and Supplementary Schedule of Expenditures of Federal Awards by Federal Agency and Federal Program (schedules) are required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the basic financial statements. We subjected the schedules to the auditing procedures applied in the audit of the basic financial statements. In our opinion, based on our audit, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 25, 2008

State of Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007

(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, 2007. The management's discussion and analysis section should be read in conjunction with the preceding transmittal letter and the State's financial statements, which follow.

Financial Highlights

Government-wide Financial Statements

Net assets of the State's primary government reported in the amount of $22.66 billion, as of June 30, 2007, increased $3.19 billion since the previous year. Net assets of the State's component units reported in the amount of $14.13 billion, as of June 30, 2007, increased $1.37 billion since the end of last fiscal year. Additional discussion of the State's government-wide balances and activities, as of and for the year ended June 30, 2007, can be found beginning on page 7.

Fund Financial Statements

Governmental funds reported combined ending fund balances of $6.72 billion that was comprised of $348.4 million reserved for specific purposes, such as for debt service, state and local highway construction, and federal programs; $5.73 billion reserved for nonappropriable items, such as encumbrances, noncurrent loans receivable, loan commitments, and inventories; $1.01 billion in designations for budget stabilization and other purposes; and a $373.3 million deficit. The balances and activities of the State's governmental funds are discussed further beginning on page 12.

As of June 30, 2007, the General Fund's fund balance was approximately $2.26 billion, including $60.4 million reserved for "other" specific purposes, as detailed in NOTE 17; $626.7 million reserved for nonappropriable items; and $1.01 billion in designations for budget stabilization and other purposes. The General Fund's fund balance increased by $346.4 million (exclusive of a $537 thousand decrease in inventories) or 18.1 percent during fiscal year 2007. The balances and activities of the General Fund are discussed further beginning on page 12.

Proprietary funds reported net assets of $3.13 billion, as of June 30, 2007, an increase of $2.6 billion since June 30, 2006. Most of this increase was due to $2.43 billion of net increases reported for the Workers' Compensation Enterprise Fund. The balances and activities of the proprietary funds are discussed further beginning on page 15.

Capital Assets

The carrying amount of capital assets for the State's primary government increased to $24.39 billion at June 30, 2007. This majority of the increase of $423.3 million or 1.8 percent during fiscal year 2007 was for acquisition of land and highway network infrastructure and for the construction of buildings, land improvements, and the Ohio Administrative Knowledge System (OAKS). Further discussion of the State's capital assets can be found beginning on page 16.

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

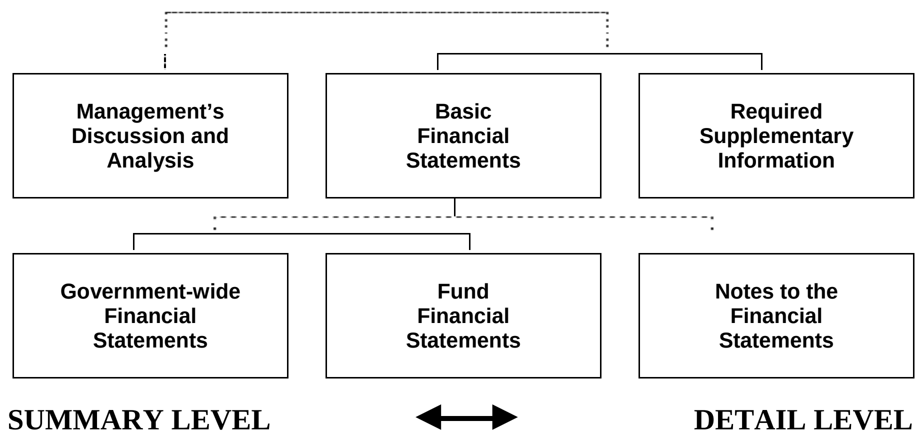
Overall, the carrying amount of total long-term debt for the State's primary government increased $441.9 million or four percent during fiscal year 2007 and reported an ending balance of $11.6 billion. During the year, the State issued at par $1.15 billion in general obligation bonds, $287.2 million in revenue bonds, of which $102 million were refunding bonds, and $272.2 million in special obligation bonds, of which $157.2 million were refunding bonds. Additional discussion of the State's bonds and certificates of participation can be found beginning on page 18.

Overview of the Financial Statements

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

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

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



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

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

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

The basic financial statements section includes notes that more fully explain the information in the government-wide and fund financial statements; the notes provide more detailed data that are essential to a full understanding of the data presented in the financial statements. The notes to the financial statements can be found on pages 54 through 129 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 130 through 132 of this report.

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

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

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

Government-wide Financial Statements

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

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

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

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

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

Component Units — The State presents the financial activities of the School Facilities Commission, Cultural Facilities Commission, eTech Ohio Commission, Ohio Water Development Authority, Ohio Air Quality Development Authority, and 22 state-assisted colleges and universities as discretely presented component units under a separate column in the government-wide financial statements. The Ohio Building Authority is presented as a blended component unit with its activities blended and included under governmental and business-type activities. Although legally separate, the State is financially accountable for its component units, as is further explained in NOTE 1A. to the financial statements.

Fund Financial Statements

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

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

The State's governmental funds include the General Fund and 15 special revenue funds, 23 debt service funds, and 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 44 governmental funds, which are classified as nonmajor funds, are combined into an aggregated presentation under a single column on the basic governmental fund financial statements. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

The basic governmental fund financial statements can be found on pages 25 through 36 of this report while the combining fund statements and schedules can be found on pages 133 through 194 of the State's CAFR.

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

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

The enterprise funds are the same as the State's business-type activities reported in the government-wide financial statements, but the proprietary fund financial statements provide more detail and additional information, such as information on cash flows. The basic proprietary fund financial statements can be found on pages 37 through 44 of this report while the combining fund statements can be found on pages 195 through 203 of the State's CAFR.

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

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Assets. During fiscal year 2007, as shown in the table below, the combined net assets of the State's primary government increased $3.19 billion or 16.4 percent. Net assets reported for governmental activities increased $587 million or 3.1 percent and business-type activities increased $2.6 billion, or 497.2 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, 2007
With Comparatives as of June 30, 2006
(dollars in thousands)

	As of June 30, 2007			As of June 30, 2006 (as restated)		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Assets:						
Current and Other Noncurrent Assets	$17,230,308	$24,089,153	$41,319,461	$16,168,793	$21,422,093	$37,590,886
Capital Assets	24,258,279	131,092	24,389,371	23,828,773	137,283	23,966,056
Total Assets	41,488,587	24,220,245	65,708,832	39,997,566	21,559,376	61,556,942
Liabilities:						
Current and Other Liabilities	9,684,926	4,220	9,689,146	9,343,834	(438,365)	8,905,469
Noncurrent Liabilities	12,273,207	21,089,494	33,362,701	11,710,314	21,474,243	33,184,557
Total Liabilities	21,958,133	21,093,714	43,051,847	21,054,148	21,035,878	42,090,026
Net Assets:						
Invested in Capital Assets, Net of Related Debt	21,477,381	19,322	21,496,703	20,889,063	10,363	20,899,426
Restricted	2,360,396	682,126	3,042,522	2,121,564	760,376	2,881,940
Unrestricted	(4,307,323)	2,425,083	(1,882,240)	(4,067,209)	(247,241)	(4,314,450)
Total Net Assets	$19,530,454	$3,126,531	$22,656,985	$18,943,418	$ 523,498	$19,466,916

As of June 30, 2007, the primary government's investment in capital assets (i.e., land, buildings, land improvements, machinery and equipment, vehicles, infrastructure, and construction-in-progress), less related outstanding debt, was $21.5 billion. Restricted net assets were approximately $3.04 billion, resulting in a $1.88 billion deficit. Net assets are restricted when constraints on their use are 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) legally imposed through constitutional or enabling legislation. Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The government-wide Statement of Net Assets reflects a $4.31 billion deficit for unrestricted 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 $10.55 billion of outstanding general obligation and special obligation debt at June 30, 2007, $7.44 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, 2007, the State's governmental activities have significant unfunded liabilities for compensated absences in the amount of $450.3 million (see NOTE 14A.) and a $874.8 million interfund payable due to the workers' compensation component of business-type activities for the State's workers' compensation liability (see NOTE 7A.). These unfunded liabilities also contribute to the reported deficit for governmental activities.

Condensed financial information derived from the Statement of Activities, which reports how the net assets of the State's primary government changed during fiscal years 2007 and 2006, follows.

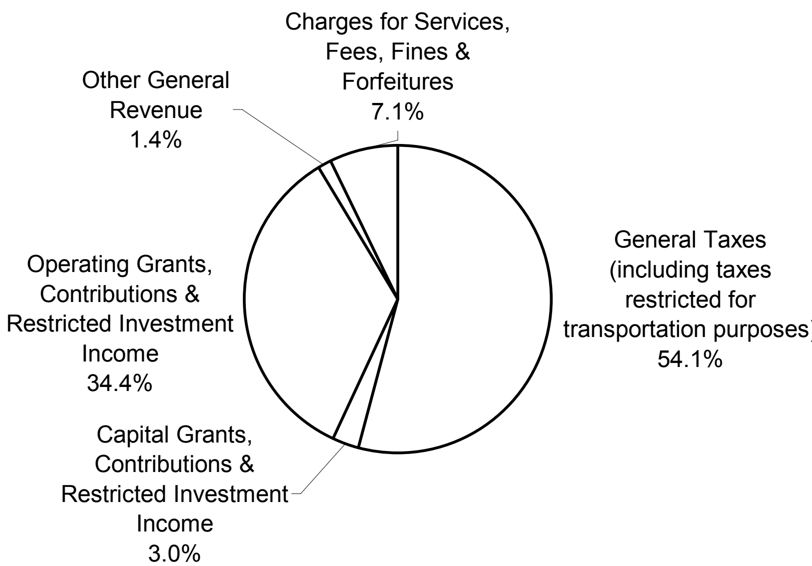
Primary Government
Statement of Activities
For the Fiscal Year Ended June 30, 2007
With Comparatives for the Fiscal Year Ended June 30, 2006
(dollars in thousands)

	Fiscal Year 2007			Fiscal Year 2006 (as restated)		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Program Revenues:						
Charges for Services, Fees, Fines and Forfeitures	$ 3,101,007	$8,389,550	$11,490,557	$ 2,810,257	$6,197,814	$ 9,008,071
Operating Grants, Contributions and Restricted Investment Income/(Loss)	14,964,098	1,339,887	16,303,985	14,336,540	883,003	15,219,543
Capital Grants, Contributions and Restricted Investment Income/(Loss)	1,286,426	—	1,286,426	1,288,100	—	1,288,100
Total Program Revenues	19,351,531	9,729,437	29,080,968	18,434,897	7,080,817	25,515,714
General Revenues:						
General Taxes	21,661,379	—	21,661,379	21,567,653	—	21,567,653
Taxes Restricted for Transportation	1,835,478	—	1,835,478	1,850,939	—	1,850,939
Tobacco Settlement	361,552	—	361,552	336,044	—	336,044
Escheat Property	31,009	—	31,009	93,782	—	93,782
Unrestricted Investment Income	206,414	—	206,414	128,772	—	128,772
Other	383	372	755	295	932	1,227
Total General Revenues	24,096,215	372	24,096,587	23,977,485	932	23,978,417
Total Revenues	43,447,746	9,729,809	53,177,555	42,412,382	7,081,749	49,494,131
Expenses:						
Primary, Secondary and Other Education	11,467,076	—	11,467,076	11,157,283	—	11,157,283
Higher Education Support	2,546,530	—	2,546,530	2,608,007	—	2,608,007
Public Assistance and Medicaid	15,782,074	—	15,782,074	14,909,149	—	14,909,149
Health and Human Services	3,538,858	—	3,538,858	3,526,763	—	3,526,763
Justice and Public Protection	3,102,172	—	3,102,172	3,111,577	—	3,111,577
Environmental Protection and Natural Resources	435,235	—	435,235	406,632	—	406,632
Transportation	1,998,166	—	1,998,166	1,925,841	—	1,925,841
General Government	884,590	—	884,590	952,248	—	952,248
Community and Economic Development	3,789,404	—	3,789,404	3,618,550	—	3,618,550
Interest on Long-Term Debt (excludes interest charged as program expense)	169,776	—	169,776	175,899	—	175,899
Workers' Compensation	—	2,760,313	2,760,313	—	2,011,480	2,011,480
Lottery Commission	—	1,696,881	1,696,881	—	1,625,309	1,625,309
Unemployment Compensation	—	1,175,682	1,175,682	—	1,161,776	1,161,776
Ohio Building Authority	—	28,188	28,188	—	25,797	25,797
Tuition Trust Authority	—	91,416	91,416	—	67,162	67,162
Liquor Control	—	444,119	444,119	—	423,373	423,373
Underground Parking Garage	—	2,519	2,519	—	2,993	2,993
Office of Auditor of State	—	74,487	74,487	—	71,729	71,729
Total Expenses	43,713,881	6,273,605	49,987,486	42,391,949	5,389,619	47,781,568
Surplus/(Deficiency) Before Transfers	(266,135)	3,456,204	3,190,069	20,433	1,692,130	1,712,563
Transfers-Internal Activities	853,171	(853,171)	—	818,636	(818,636)	—
Change in Net Assets	587,036	2,603,033	3,190,069	839,069	873,494	1,712,563
Net Assets, July 1 (as restated)	18,943,418	523,498	19,466,916	18,104,349	(349,996)	17,754,353
Net Assets, June 30	$19,530,454	$3,126,531	$22,656,985	$18,943,418	$ 523,498	$19,466,916

Governmental Activities
Revenues were slightly under expenditures during fiscal year 2007, but when combined with transfers from the State's business-type activities, net assets for governmental activities increased from $18.94 billion, at July 1, 2006, to $19.53 billion, at June 30, 2007, or $587 million. Revenues for fiscal year 2007 in the amount of $43.45 billion were 2.4 percent higher than those reported for fiscal year 2006. This increase in revenues can be attributed, in part, to stronger sales taxes and corporate and public utility taxes, which offset decreases in income taxes and cigarette taxes. The majority of the increase, however, is due to increased charges for services and operating grants. Expenses also increased as the reported $43.71 billion in spending represented a 3.1 percent increase over fiscal year 2006. Net transfers for fiscal year 2007 also increased to $853.2 million, or by 4.2 percent, when compared to fiscal year 2006.

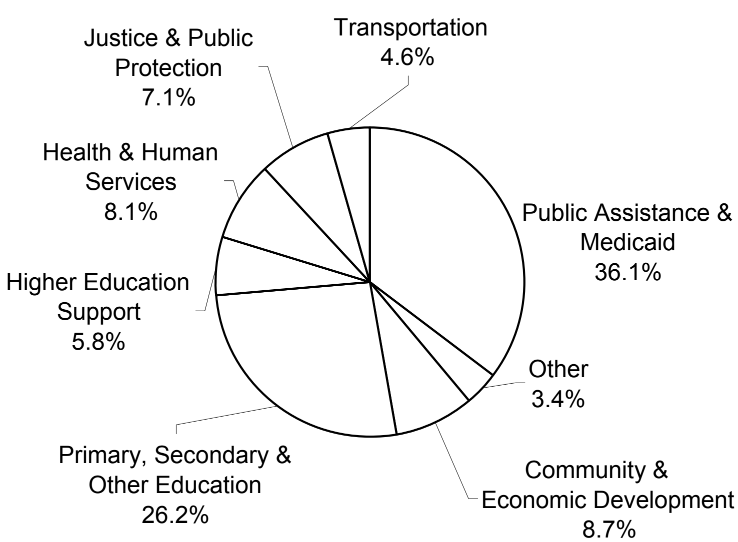
The following charts illustrate revenue by sources and expenses by program of governmental activities as percentages of total revenues and program expenses, respectively, reported for the fiscal year ended June 30, 2007.

Governmental Activities — Sources of Revenue
Fiscal Year 2007



Total FY 07 Revenue for Governmental Activities = $43.45 Billion

Governmental Activities — Expenses by Program
Fiscal Year 2007



Total FY 07 Program Expenses for Governmental Activities = $43.71 Billion

The following tables present the total expenses and net cost of each of the State's governmental programs for the fiscal years ended June 30, 2007 and 2006. The net cost (total program expenses less revenues generated by the program) represents the financial burden that was placed on the State's taxpayers by each of these programs; costs not covered by program revenues are essentially funded with the State's general revenues, which are primarily comprised of taxes, tobacco settlement revenue, escheat property, and unrestricted investment income.

Program Expenses and Net Costs of Governmental Activities by Program
For the Fiscal Year Ended June 30, 2007
With Comparatives for the Fiscal Year Ended June 30, 2006
(dollars in thousands)

	For the Fiscal Year Ended June 30, 2007			
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	$11,467,076	$ 9,763,763	85.1%	22.3%
Higher Education Support	2,546,530	2,514,811	98.8	5.8
Public Assistance and Medicaid	15,782,074	4,816,467	30.5	11.0
Health and Human Services	3,538,858	1,236,630	34.9	2.8
Justice and Public Protection	3,102,172	1,930,614	62.2	4.4
Environmental Protection and Natural Resources	435,235	126,699	29.1	.3
Transportation	1,998,166	587,908	29.4	1.4
General Government	884,590	187,799	21.2	.4
Community and Economic Development	3,789,404	3,027,883	79.9	6.9
Interest on Long-Term Debt	169,776	169,776	100.0	.4
Total Governmental Activities	$43,713,881	$24,362,350	55.7	55.7%

	For the Fiscal Year Ended June 30, 2006 (as restated)			
Program	**Program Expenses**	**Net Cost of Program**	**Net Cost as Percentage of Total Expenses for Program**	**Net Cost as Percentage of Total Expenses — All Programs**
Primary, Secondary and Other Education	$11,157,283	$ 9,503,034	85.2%	22.4%
Higher Education Support	2,608,007	2,570,775	98.6	6.1
Public Assistance and Medicaid	14,909,149	4,751,780	31.9	11.2
Health and Human Services	3,526,763	1,289,924	36.6	3.0
Justice and Public Protection	3,111,577	1,881,421	60.5	4.5
Environmental Protection and Natural Resources	406,632	126,932	31.2	.3
Transportation	1,925,841	553,793	28.8	1.3
General Government	952,248	160,992	16.9	.4
Community and Economic Development	3,618,550	2,942,502	81.3	6.9
Interest on Long-Term Debt	175,899	175,899	100.0	.4
Total Governmental Activities	$42,391,949	$23,957,052	56.5	56.5%

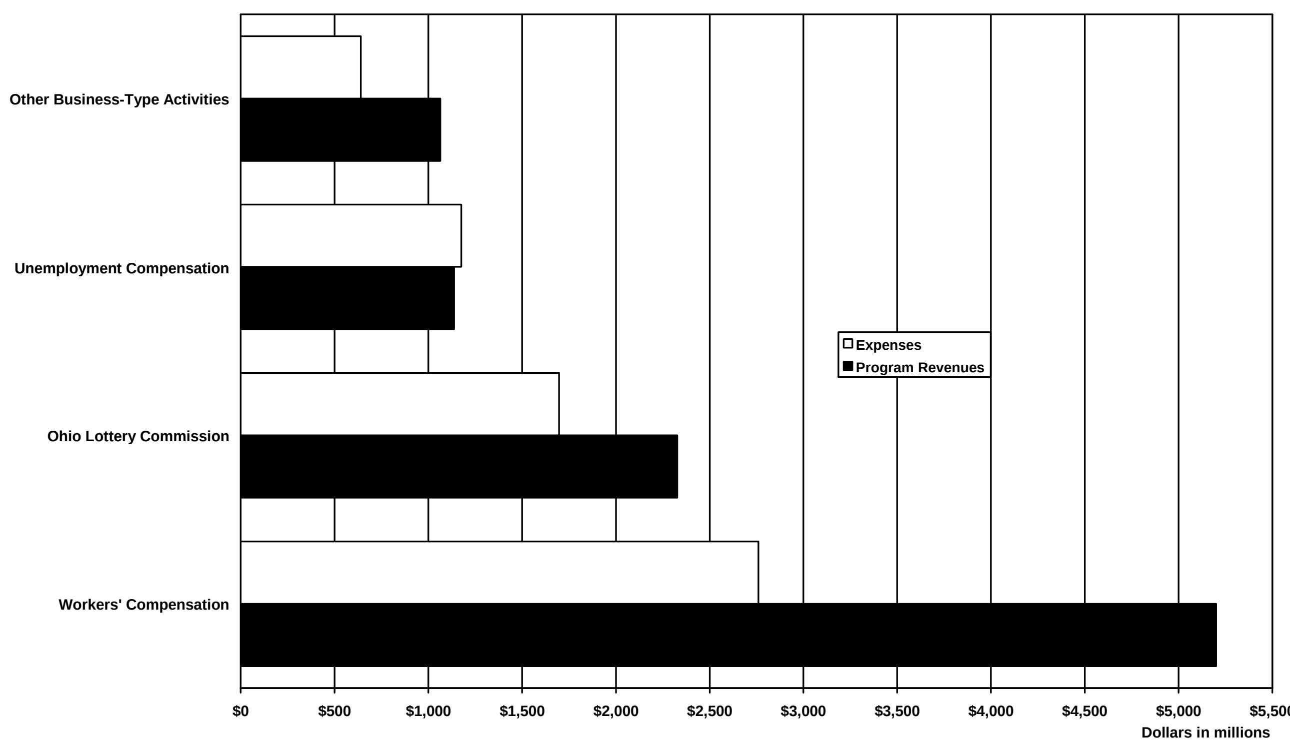
Business-Type Activities

The State's enterprise funds reported net assets of $3.13 billion, as of June 30, 2007, as compared to $523.5 million in net assets, as of June 30, 2006, an increase of 497.2 percent. The primary increase in net assets for the business-type activities was the Workers' Compensation Fund, which reported net assets of $2.31 billion, as of June 30, 2007, as compared to $(126.6) million, as of June 30, 2006, a $2.43 billion increase. The Tuition Trust Authority Fund reported net assets of $32.4 million, as of June 30, 2007, compared to $(228.8) million in net assets, as of June 30, 2006, an increase of $261.3 million. The Liquor Control fund showed net assets of $42.6 million in fiscal year 2007, as compared to $25.7 million for fiscal year 2006, an increase of $17 million, or 66.1 percent. The Unemployment Compensation Fund posted a $67.3 million or 10 percent decrease in net assets during fiscal year 2007 when the fund reported net assets of $608.4 million, as of June 30, 2007, compared to $675.7 million in net assets as of June 30, 2006. The Lottery Commission Fund reported $90.4 million in net assets as of June 30, 2007, compared to $129.6 million in net assets as of June 30, 2006, a $39.2 million, or 30.3 percent, decrease.

For the Workers' Compensation Enterprise Fund, the increase in net assets is mainly due to a one-time adjustment of $1.9 billion related to an accounting change for the Disabled Workers' Relief Fund. The Tuition Trust Authority Fund's increase in net assets resulted from investment income of $116.8 million and other income of $224.9 million which represents a decrease in the calculation of tuition benefits payable. The Liquor Control Enterprise Fund experienced increased sales of liquor which increased net income by $17 million in fiscal year 2007, as compared to net income of $6.7 million in fiscal year 2006. The Unemployment Compensation Enterprise Fund's decrease in net assets resulted from decreases in premium and assessment income of $58.3 million in fiscal year 2007, and increases in benefits and claims expenses of $14.1 million. The loss for the Lottery Commission Enterprise Fund is largely attributable to increases in transfers of lottery profits to the Education and General funds of $23.1 million.

The chart below compares program expenses and program revenues for business-type activities.

Business-Type Activities — Expenses and Program Revenues
Fiscal Year 2007



Additional analysis of the Business-Type Activities revenues and expenses is included with the discussion of the Proprietary Funds beginning on page 15.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

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

Governmental Funds

Governmental funds reported the following results, as of and for the fiscal years ended June 30, 2007 and June 30, 2006 (dollars in thousands).

	As of and for the Fiscal Year Ended June 30, 2007			
	General Fund	Other Major Funds	Nonmajor Governmental Funds	Total Governmental Funds
Unreserved/Undesignated Fund Balance	$ 556,106	$ (1,433,297)	$ 503,879	$ (373,312)
Designated Fund Balance	1,012,289	—	—	1,012,289
Total Fund Balance	2,255,526	1,193,373	3,269,178	6,718,077
Total Revenues	25,931,299	13,484,622	3,928,792	43,344,713
Total Expenditures	25,144,305	13,540,720	6,427,904	45,112,929

	As of and for the Fiscal Year Ended June 30, 2006			
	General Fund	Other Major Funds	Nonmajor Governmental Funds	Total Governmental Funds
Unreserved/Undesignated Fund Balance	$ 281,261	$ (3,033,576)	$ 819,835	$(1,932,480)
Designated Fund Balance	1,010,689	—	—	1,010,689
Total Fund Balance	1,909,683	1,023,218	3,134,233	6,067,134
Total Revenues	26,044,204	12,453,561	3,936,363	42,434,128
Total Expenditures	25,215,953	12,272,170	6,329,065	43,817,188

General Fund

The main operating fund of the State is the General Fund. During fiscal year 2007, General Fund revenue decreased as a result of the sluggish economy and declines in employment in Ohio. Expenditures for this fund also decreased and were considerably lower than anticipated. As a result, the fund balance increased by $346.4 million (exclusive of a $537 thousand decrease in inventories) or 18.1 percent.

General Fund Budgetary Highlights

The State ended the second year of its biennial budget period on June 30, 2007, with a General Fund budgetary fund balance (i.e., cash less encumbrances) of $1.61 billion. Total budgetary sources for the General Fund (including $600 million in transfers from other funds) in the amount of $27.09 billion were below final estimates by $218.5 million or .8 percent during fiscal year 2007, while total tax receipts were above final estimates by $195.6 million or one percent. Total budgetary uses for the General Fund (including $411.3 million in transfers to other funds) in the amount of $28.22 billion were below final estimates by $529.3 million or 1.8 percent for fiscal year 2007. During fiscal year 2007, it was not necessary to use any of the $1.01 billion that had been designated for budget stabilization purposes at June 30, 2006.

The General Revenue Fund (GRF) is the largest, non-GAAP, budgetary-basis operating fund included in the State's General Fund. The following discussion of the revenue and expenditure variances relates specifically to the GRF.

For fiscal year 2007, revenues in the GRF were $256.2 million, or one percent, below estimates. Positive variances in the GRF for personal income tax and corporate franchise tax totaled $235.3 million, or 2.7 percent, and $181.5 million, or 20.3 percent, respectively, and offset negative variances in sales tax of $185.5 million, or 2.4 percent, and in cigarette tax of $33.7 million, or 3.3 percent. Federal grant revenue ended the fiscal year $476.7 million, or 8.2 percent, below estimate, due to lower than expected expenditures on health care, as explained below. Earnings on investments were $36.2 million, or 25.9 percent, higher than expected, due to both investment balances and interest rates being higher than predicted.

The strong showing by personal income tax in the GRF primarily consisted of better-than-expected receipts from trust payments and annual returns, despite the fact that statewide employment declined by 13,800 jobs during fiscal year 2007, and despite the continued withholding rate cuts in fiscal year 2007 that are part of the 21-percent reduction in the State's personal income tax rates, as discussed on the following page. Corporate franchise tax performed better than expected in spite of an additional 20 percent tax rate cut during fiscal year 2007.

The underperformance of the non-auto sales tax in the GRF is due to several reasons, including the decline in employment in Ohio, the housing downturn, tapped-out mortgage equity, and high gasoline prices. The cigarette tax receipts declined due to the imposition of a statewide smoking ban in certain business establishments and higher cigarette prices.

Disbursements for fiscal year 2007 in the GRF were $945 million, or 3.6 percent, below estimate. Health care spending accounted for $668 million of the difference. This variance is largely attributable to the slow rollout of managed care for Covered Families and Children (CFC), and to caseloads being lower than expected, particularly with the CFC portion of the program. Caseloads in Ohio, as in many other states, have been affected by a provision of the Deficit Reduction Act of 2005 that requires U.S. citizens to present proof of their citizenship and identity when they apply for, or seek to renew, their Medicaid coverage. There have been indications that Medicaid eligibility determinations are being delayed, resulting in large backlogs of applications, as a result of the new requirements. Other factors contributing to the lower than expected health care costs include a recalibration of inpatient hospital rates that became effective in January 2006 and has resulted in larger than expected savings; the implementation during fiscal year 2006 of a new billing system for nursing facility payments that has reduced overpayments; and the launch of Medicare Part D and the switch to managed care that has decreased prescription drug payments.

Expenditures for primary and secondary education were $69.2 million, or one percent, below estimate, due to average daily membership counts that were lower than expected. The moratorium on the opening of new community schools also reduced demand for start-up grants. Expenditures for higher education were $48.7 million, or two percent, below estimate, largely due to the timing of Ohio Instructional Grant payments.

Consistent with state law, the Governor's Executive Budget for the 2006-07 biennium was released in February 2005 and introduced in the General Assembly. After extended hearings and review, the appropriations act (Act) for the 2006-07 biennium for the GRF was passed by the General Assembly and signed (with selective vetoes) by the then Governor on June 30, 2005.

The Act provided for total GRF biennial revenue of approximately $51.5 billion (a 3.8 percent increase over the 2004-05 biennial revenue) and total GRF biennial appropriations of approximately $51.3 billion (a five percent increase over the 2004-05 biennial expenditures). Spending increases for major program categories over the 2004-05 actual expenditures were: 5.8 percent for Medicaid (the Act also included a number of Medicaid reform and cost containment initiatives); 3.4 percent for higher education; 4.2 percent for elementary and secondary education; 5.5 percent for corrections and youth services; and 4.8 percent for mental health and mental retardation.

The GRF expenditure authorizations for the 2006-07 biennium reflected and were supported by significant restructuring of major State taxes, including:

- A 21-percent reduction in Ohio's personal income tax rates phased in at 4.2 percent a year over the 2005 through 2009 tax years.
- Phased elimination of the corporate franchise tax at a rate of approximately 20 percent a year over the 2006 through 2010 tax years (except for its continuing application to financial institutions and certain affiliates of insurance companies and financial institutions).
- Implementation of a new commercial activity tax (CAT) on gross receipts from doing business in Ohio that will be phased in over the 2006 through 2010 fiscal years. When fully phased in, the CAT will be levied at a rate of .26 percent on gross receipts in excess of $1 million. In the next three fiscal years, as the CAT phases-in, the General Fund is not expected to receive any revenues from this tax unless collections exceed estimates. Instead, all the tax receipts will be used to compensate school districts and local governments for tax revenues lost due to the phase-out of the tangible personal property tax. In addition, supplemental transfers from the General Fund will probably be needed to fully replace the tangible personal property tax losses.
- A 5.5-percent state sales and use tax (reduced from the six-percent rate in effect during the 2004-05 biennium).
- An increase in the cigarette tax rate from 55 cents a pack (of 20 cigarettes) to $1.25 a pack.

The State ended fiscal year 2007 with a GRF cash balance of $1.43 billion and a GRF budgetary fund balance of $215.5 million. The State did not designate any cash in the GRF for transfer to the budget stabilization fund for fiscal year 2008, as of June 30, 2007.

Other Major Governmental Funds
The *Job, Family and Other Human Services Fund*, had a fund balance of $199.1 million at June 30, 2007, an increase of $21.4 million, or 12.1 percent, compared to fiscal year 2006. Expenditures exceeded revenues by $74.2 million, but net transfers-in totaled $95.6 million.

Public Assistance and Medicaid expenditures increased $807.3 million, or 17.8 percent, compared to the previous fiscal year. This increase in expenditures was partially offset by a $488.3 million, or 10.2 percent, increase in federal government revenue compared to the previous fiscal year. The increase in expenditures was due to several factors. In general, the Medicaid program made less use of General Fund money than in previous fiscal years, and thus increased its reliance on the Job, Family and Other Human Services Fund. In particular, the budget bill provided the State a one-time opportunity to use money from the Tobacco Settlement to purchase prescription drugs that are eligible for federal reimbursement, and the associated federal activity was recorded in the Job, Family and Other Human Services Fund.

The costs and associated federal revenues for the Medicaid, TANF, Food Stamps, Unemployment Insurance, and the federally funded day-care programs all increased due to increased enrollments largely attributable to increased unemployment as well as increased efforts at recruitment and outreach, and increased costs of providing medical care due to inflation. New programs for state and county demonstration projects, student intervention services, the Kinship Permanency Incentive Program, and new adoption and independent living services were either created in fiscal year 2007 or grew substantially during fiscal year 2007 since their inception in fiscal year 2006. Also, the newly implemented tax on providers of Medicaid managed care plans provided additional funding for the Medicaid program, which in turn generated additional federal reimbursements, thereby increasing activity in the Job, Family and Other Human Services Fund.

The *Education Fund*, as of June 30, 2007, had a fund balance of $101.8 million, an increase of $37 million since June 30, 2006. Fiscal year 2007 net transfers-in for the fund in the amount of $713.8 million were more than enough to cover the excess of expenditures over revenues reported for the fund in the amount of $676.9 million. Transfers-in of $64.9 million from the Revenue Distribution Fund for the half-mill equalization program (see below), and an increase of transfers-in of $23.1 million from the Lottery Commission Fund as compared to fiscal year 2006 accounted for the increase of transfers-in of $87.1 million, or 13.2 percent, for fiscal year 2007. Expenditures increased by $110.4 million, or 4.9 percent, compared to fiscal year 2006. Expenditures increased primarily because of the half-mill equalization program, which was created in fiscal year 2006 but had activity for the first time in fiscal year 2007. This program operates by transferring tax revenue into the Education Fund, which is then disbursed to low-wealth schools. This program accounted for expenditures of $64.9 million in fiscal year 2007.

Federal revenues in the Education Fund increased by $58.9 million, or 3.6 percent, in fiscal year 2007. The increase in revenues was primarily attributable to an increase of $47.8 million received from the Federal Department of Agriculture for the various school food programs, which resulted from a greater number of meals served and higher costs per meal.

The fund balance for the *Highway Operating Fund*, as of June 30, 2007, totaled $888.2 million, an increase of $138.1 million (excluding a $2.7 million decrease in inventories) since June 30, 2006. The increase was due to net transfers-in which totaled $184.6 million and more than offset the excess of expenditures over revenues of $46.5 million. Revenues and expenditures in the amount of $2.12 billion and $2.16 billion, respectively, did not change significantly when compared to amounts reported for fiscal year 2006 of $2.11 billion and $2.16 billion, respectively.

For the *Revenue Distribution Fund*, as of June 30, 2007, the fund balance totaled $4.3 million, a decrease of $23.6 million since June 30, 2006. Fiscal year 2007 net transfers-out to other governmental funds of $765.1 million were greater than the $741.5 million excess of revenues over expenditures, thus contributing to the decrease in fund balance. Transfers-out increased by $77.1 million, or 9.1 percent, compared to fiscal year 2006, primarily due to $64.9 million being transferred to the Education Fund for the half-mill equalization program, as described above.

Expenditures in the Primary, Secondary and Other Education function increased by $212.9 million, or 63 percent, compared to fiscal year 2006. This increase was almost entirely attributable to the function's share of the revenues from the commercial activities tax increasing from 22.6 percent in fiscal year 2006 to 70 percent in fiscal year 2007. The taxes are subsequently distributed to local governments to serve as a replacement for revenues lost by the local governments due to the expiration of the tangible property tax, which previously provided funding to local governments.

Expenditures in the community and economic development function of the Revenue Distribution Fund increased by $109.2 million, or 5.5 percent, compared to fiscal year 2006. This increase was almost entirely attributable to its share of the commercial activities tax which increased from 9.7 percent in fiscal year 2006 to 30 percent in fiscal year 2007. The taxes are subsequently distributed to local governments to serve as a replacement for revenues lost by the local governments due to the expiration of the tangible property tax, which previously provided funding to local governments.

Revenues in the Revenue Distribution Fund increased by $444 million, or 13.7 percent, over fiscal year 2006. Corporate and public utility tax revenues increased by $448.5 million, or 77.1 percent, compared to fiscal year 2006. The fund's increased share of collections of the commercial activities tax, as detailed above, increased revenues by $579.6 million which more than offset a $134 million decrease in revenues due to the phase-out of the corporate franchise tax.

Major Proprietary Funds
The State's proprietary fund financial statements report the same type of information found in the business-type activities portion of the government-wide financial statements, but in a slightly different format.

For the *Workers' Compensation Fund*, the $2.43 billion increase in net assets was primarily due to one-time adjustment of $1.9 billion related to an accounting change for the Disabled Workers' Relief Fund, which, when combined with $911.4 million in investment income, offset benefits and compensation adjustment expenses of $2.67 billion.

The $1.9 billion one-time adjustment in premium and assessment income was a result of the passage of Ohio House Bill 100 in June 2007, which granted the Bureau the authority to assess employers in future periods for amounts needed to fund the Disabled Workers' Relief Fund, resulting in the recording of an unbilled receivable equal to the discounted reserve for compensation and compensation adjustment expenses in the fund. Due primarily to this change, premium and assessment income totaled $4.27 billion in fiscal year 2007, compared to $2.1 billion in fiscal year 2006, an increase of $2.17 billion, or 103.1 percent. Private employer contribution rates also increased an average of 3.9 percent for premiums effective July 1, 2006.

Workers' compensation benefits and claims expenses totaled $2.67 billion in fiscal year 2007, compared to $1.93 billion in fiscal year 2006, an increase of $733.3 million or 37.9 percent. This increase is primarily due to a $344 million increase in the reserves for compensation and compensation adjustment expenses during fiscal year 2007, as compared with a $373 million decrease in fiscal year 2006. A significant factor in this increase is the change in the interest rate used to discount the reserves, from 5.25 percent at June 30, 2006 to five percent at June 30, 2007. This change in the discount rate increased reserves by approximately $457 million. This was partially offset by continuing improvements from reductions in the cost of pharmacy benefits and lower hospital costs. Medical reserves for claims occurring on or before June 30, 2006 declined by $995 million in fiscal year 2007, while continuing favorable improvements in the number of newly awarded permanent total disability claims reduced those reserves by $113 million in fiscal year 2007.

Investment income of $911.4 million in fiscal year 2007 represents an increase of $147.6 million, or 19.3 percent, compared to fiscal year 2006. At June 30, 2006, approximately 96 percent of BWC's investments were held in a passively managed bond index fund. In January and February, 2007, the bond index fund units were liquidated and assets were transitioned to long-duration fixed income securities, treasury inflation protected securities, and domestic equity securities that are managed by three external money managers. As of June 30, 2007, only 8 percent of investments remained in the bond index fund. As a result of this arrangement, investment expenses declined from $84.7 million in fiscal year 2006 to $9.5 million in fiscal year 2007, a decrease of $75.2 million, or 88.8 percent.

For fiscal year 2007, the *Lottery Commission Fund* reported $630.6 million in net income before transfers of $669.3 million and $507 thousand to the Education and General funds, respectively, posting a $39.2 million, or 30.3 percent, decrease in the fund's net assets. The fiscal year 2007 decrease in the Lottery Commission Fund's net assets is primarily due to increases in transfers to other funds of $23.1 million or 3.6 percent when compared to fiscal year 2006 transfers of $646.8 million. Increased ticket sales of $38.5 million, or 1.7 percent, less increased prize expenses, which are directly proportional to ticket sales, of $27.2 million, or 2.1 percent, did not provide enough of an increase in net income to offset the increased amount that was transferred to other funds. Depreciation expense declined from $14.6 million in fiscal year 2006 to $780 thousand in fiscal year 2007, due to the fact that the gaming equipment that the Lottery Commission uses in its operations is now fully depreciated. In June 2005 the Lottery Commission entered into a contract extension with its on-line gaming systems vendor that resulted in the Lottery Commission receiving over $7.8 million in optional equipment credits that can be applied towards the use of a variety of additional gaming related equipment for fiscal years 2006 through 2009. In late fiscal year 2006, the Lottery Commission requested to apply certain of those equipment credits towards 500 additional gaming system terminals. In fiscal year 2007, an additional 800 gaming system terminals were installed.

For the *Unemployment Compensation Fund,* unemployment benefits and claims expenses of $1.18 billion were $14.1 million, or 1.2 percent more than in fiscal year 2006, while premium and assessment income of $1.06 billion decreased $58.3 million, or 5.2 percent from that of fiscal year 2006. For calendar years 2006 and 2007, Ohio's annualized average unemployment rate was 5.4 percent and 5.6 percent, respectively, according to the U.S. Department of Labor.

Nonmajor Proprietary Funds
For fiscal year 2007, the *Tuition Trust Authority Fund* eliminated its $228.8 million deficit at June 30, 2006 and posted net assets of $32.4 million as of June 30, 2007. The $261.2 million increase in net assets is due primarily to a $224.9 million, or 20.5 percent, decrease in the actuarial valuation of the tuition benefits liability. This actuarial decrease is mainly due to the continued suspension of sales of tuition credits for fiscal year 2007 and a decrease in the tuition inflation assumptions over the next three years.

The Tuition Trust Authority also benefited from investment income of $116.8 million, an increase of $47.2 million, or 67.8 percent, over fiscal year 2006. This strong return on investments of 14 percent for fiscal year 2007, as contrasted to a return on investments of 8.16 percent in fiscal year 2006, was primarily due to stronger financial markets, aided by an increase of invested assets of $36.9 million, or 4.3 percent, over fiscal year 2006.

The *Liquor Control Fund* reported an increase to net assets of $17 million, after transferring $135.1 million to the General Fund and $43.5 million to other governmental funds. Liquor sales increased in the amount of $32.8 million, or 5.4 percent, which, less the related increase in cost of goods sold of $20.9 million, or 5.7 percent, provided the majority of the resources for this increase in net assets.

In fiscal year 2007, transfers from proprietary funds to governmental funds totaled $912.9 million, up $31.9 million or 3.6 percent when compared to the $881 million in transfers-out reported in fiscal year 2006.

Capital Asset and Debt Administration

Capital Assets
As of June 30, 2007 and June 30, 2006, the State had invested $24.39 billion and $23.97 billion, respectively, net of accumulated depreciation of $2.42 billion and $2.31 billion, respectively, in a broad range of capital assets, as detailed in the table below.

Capital Assets, Net of Accumulated Depreciation
As of June 30, 2007
With Comparatives as of June 30, 2006
(dollars in thousands)

	As of June 30, 2007			As of June 30, 2006		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Land	$ 1,817,502	$ 11,994	$ 1,829,496	$ 1,736,463	$ 11,994	$ 1,748,457
Buildings	1,925,273	100,049	2,025,322	1,995,971	106,607	2,102,578
Land Improvements	195,045	14	195,059	186,105	15	186,120
Machinery and Equipment	194,971	16,255	211,226	191,668	15,809	207,477
Vehicles	143,701	2,780	146,481	132,658	2,080	134,738
Infrastructure:						
Highway Network:						
General Subsystem	8,363,606	—	8,363,606	8,337,768	—	8,337,768
Priority Subsystem	7,320,525	—	7,320,525	7,196,979	—	7,196,979
Bridge Network	2,496,039	—	2,496,039	2,430,629	—	2,430,629
Parks, Recreation, and Natural Resources System	44,094	—	44,094	39,034	—	39,034
	22,500,756	131,092	22,631,848	22,247,275	136,505	22,383,780
Construction-in-Progress	1,757,523	—	1,757,523	1,581,498	778	1,582,276
Total Capital Assets, Net	$24,258,279	$131,092	$24,389,371	$23,828,773	$137,283	$23,966,056

During fiscal year 2007, the State recognized $240.9 million in annual depreciation expense relative to its general governmental capital assets as compared with $236.6 million in depreciation expense recognized in fiscal year 2006.

Additionally, the State completed construction on a variety of projects at various state facilities during fiscal year 2007 totaling approximately $356.9 million, as compared with $612.4 million in the previous fiscal year. The total increase in the State's capital assets, net of accumulated depreciation, for the current fiscal year was 1.8 percent (approximately a 1.8 percent increase for governmental activities and a 4.5 percent decrease for business-type activities). As is further detailed in NOTE 19E. of the notes to the financial statements, the State had $92 million in major construction commitments (unrelated to infrastructure), as of June 30, 2007, as compared with the $114.4 million balance reported for June 30, 2006.

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 42,773 in lane miles of highway (12,655 in lane miles for the priority highway subsystem and 30,118 in lane miles for the general highway subsystem) and approximately 84.4 million square feet of deck area that comprises 12,793 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 2006, indicates that only 3.1 percent and 1.5 percent of the priority and general subsystems, respectively, were assigned a "poor" condition rating. For calendar year 2005, only 3.6 percent and 1.9 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 2006, indicates that only 2.8 percent and .01 percent of the number of square feet of bridge deck area were considered to be in "fair" and "poor" conditions, respectively. For calendar year 2005, only 2.7 percent and .01 percent of the number of square feet of bridge deck area were considered to be in "fair" and "poor" conditions, respectively.

For fiscal year 2007, total actual maintenance and preservation costs for the priority and general subsystems were $418.9 million and $268.8 million, respectively, compared to estimated costs of $403.1 million for the priority system and $196.8 million for the general system, while total actual maintenance and preservation costs for the bridge network was $313.3 million compared to estimated costs of $290.7 million. For the previous fiscal year, total actual maintenance and preservation costs for the priority and general subsystems were $410 million and $312.1 million respectively, compared to estimated costs of $376.6 million for the priority system and $214.8 million for the general system, while total actual maintenance and preservation costs for the bridge network was $262 million compared to estimated costs of $246.1 million. The State's costs for actual maintenance and preservation costs for infrastructure have exceeded estimates over the past two years due to steadily increasing underlying costs for the materials and labor associated with infrastructure projects.

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

Debt — Bonds and Notes Payable and Certificates of Participation Obligations

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 2007, the State issued at par $1.15 billion in general obligation bonds, $287.2 million in revenue bonds, and $272.2 million in special obligation bonds. Of the revenue bonds and special obligation bonds issued at par, $102 million and $157.2 million, respectively, were refunding bonds. The total increase in the State's debt obligations for the current fiscal year, as based on carrying amount, was four percent (a 4.2 percent increase for governmental activities and a 14.4 percent decrease for business-type activities).

As of June 30, 2007 and June 30, 2006, the State had total debt of approximately $11.6 billion and $11.16 billion, respectively, as shown in the table below.

Bonds and Notes Payable and Certificates of Participation
As of June 30, 2007
With Comparatives as of June 30, 2006
(dollars in thousands)

	As of June 30, 2007			As of June 30, 2006 (as restated)		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Bonds and Notes Payable:						
General Obligation Bonds	$ 7,583,266	$ —	$ 7,583,266	$ 6,893,521	$ —	$ 6,893,521
Revenue Bonds and Notes	811,910	115,740	927,650	720,675	135,215	855,890
Special Obligation Bonds	2,966,105	—	2,966,105	3,317,492	—	3,317,492
Certificates of Participation	122,182	—	122,182	90,389	—	90,389
Total Debt	$11,483,463	$115,740	$11,599,203	$11,022,077	$135,215	$11,157,292

Credit Ratings

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

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

The State's revenue bonds are rated as follows:

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

On February 16, 2007, Moody's 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
Section 17 of Article VIII of the Ohio Constitution, approved by Ohio voters in November 1999, establishes an annual debt service "cap" applicable to future issuances of direct obligations payable from the General Revenue Fund (GRF) or net state lottery proceeds. Generally, new obligations may not be issued if debt service for any future fiscal year on those new and the then outstanding bonds of those categories would exceed five percent of the total of estimated GRF revenues plus net state lottery proceeds for the fiscal year of issuance.

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

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

Conditions Expected to Affect Future Operations

Economic Factors
Nationally, economic indicators turned negative as 2007 came to a close, and continued to deteriorate through February. Economists believe real GDP growth slowed abruptly in the fourth quarter of the calendar year. U. S. employment decreased by 20,000 jobs in January 2008 and 63,000 jobs in February 2008, the first monthly declines since August 2003. The unemployment rate increased by .3 percent in December 2007 to five percent, and despite declining to 4.9 percent in January 2008 and 4.8 percent in February 2008, is considered to be a serious warning of imminent recession, since the decline in the unemployment rate resulted from withdrawals from the labor force, apparently as discouraged job seekers stopped looking for work. Personal income growth is starting to show the effects of a half-year of financial strain, and after adjusting for inflation, disposable income increased only .1 percent for the second straight month, and the gain over the last twelve months is only 1.2 percent. During the fourth quarter of calendar year 2007 real gross domestic purchases fell .3 percent, the first decline since the 2001 recession. Evidence indicates that economic activity is decelerating in the wake of the latest surge in the price of oil and a tightening in lending terms. Real GDP grew at an annualized rate of about 4.9 percent in the third quarter of calendar year 2007, but is believed to have slowed to .6 percent for the fourth quarter and 2.2 percent for the year. Global Insight forecasts that the national economy will be in recession during the first half of 2008, during which real GDP is predicted to fall at an annual rate of approximately .5 percent in each of the first two quarters of calendar year 2008, before recovering to about a three percent growth rate in the second half of the year. Consumer spending is expected to slow in the first quarter of calendar year 2008 under the weight of high energy prices, sagging home prices, and upward adjustments in mortgage payments. Growth in business investment is projected to slow to a halt in the first half of calendar year 2008, as spending on equipment and software slows and spending on structures turns negative. Housing is expected to continue to subtract from overall growth through the third quarter. Export growth will remain the lone bright spot in calendar year 2008, according to the latest outlook. The outlook remains highly uncertain, however, the message of the leading economic indicators is more negative than it has been since the 2001 recession.

In Ohio, employment increased by 18,900 jobs in January 2008 after decreasing by 5,600 jobs during calendar year 2007. Employment increased in 2007 in educational and health services, trade, transportation and utilities, and professional and business services. Employment levels decreased in manufacturing, leisure and hospitality, construction, and financial activities.

Ohio personal income advanced 5.1 percent in the third quarter of calendar year 2007 following a two percent gain in the second quarter. Compared with a year earlier, Ohio personal income was higher by 4.9 percent in the third quarter. Wage and salary disbursements, which comprise more than one-half of personal income, increased 4.4 percent from the second quarter of calendar year 2007 and 4.3 percent from the year earlier quarter. In comparison, U.S. personal income was 6.5 percent higher than a year earlier in the third quarter, and wage and salary disbursements were 6.3 percent higher – 1.5 to two percentage points faster than in Ohio.

General Revenue Fund

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

Through February 2008, GRF revenues and disbursements remain under estimates. Total year-to-date sources are $184.2 million, or 1.1 percent, short of estimates. Fiscal year-to-date GRF tax receipts are $151.7 million, or 1.2 percent, below expectations, with the deficiency mainly coming from the auto sales tax ($22.3 million, or 3.6 percent), personal income tax ($118.2 million, or 2.1 percent) and corporate franchise tax ($35.6 million, or 11.3 percent) categories. Despite zero percent financing offered by many car dealers, auto sales have remained generally weak. The outlook for auto sales tax continues to look weak, due to poor economic conditions facing consumers, such as the deteriorating housing market, tightening credit, record high oil prices, an uncertain labor market, and sliding consumer confidence. For the personal income tax, the shortfall is mainly attributable to withholding payments, which are running behind estimates, and refunds, which are running ahead of estimates. The greater than expected payment of refunds is largely due to the timing of submissions and the processing of refunds. The State Department of Taxation anticipates that the negative variance for personal income tax will be reduced over the remainder of the year. Corporate franchise tax receipts in the first half of the fiscal year usually result from filing extensions and are less predictable than later in the year. For July 2007 through December 2007, refunds paid were higher than expected, and indeed, higher than the payments collected, resulting in negative receipts for the fiscal year-to-date. Non-auto sales taxes continue to perform well, and through February have generated $69.5 million, or 1.5 percent, more revenue than estimated. However, this continued strength of the non-auto sales tax is somewhat surprising in light of negative economic reports on retail sales, consumer confidence, home sales, and consumer credit. While the overages are welcome, the State's economists are skeptical about whether they can persist in the face of a weakening national economy.

Fiscal year-to-date GRF non-tax receipts are $5.1 million, or .1 percent under estimate. Included in this total, earnings on investments are nominally $40 million, or 47.1 percent, under estimate, because the second quarter's earnings for state fiscal year 2008 were not posted by February 29. (The first quarter's earnings totaled $45 million). Other income exceeded estimates by $27.1 million or 76.6 percent and is due to earlier than expected collections from unclaimed funds.

GRF total uses for the fiscal year-to-date are running approximately $310.3 million, or 1.7 percent, below estimates. Disbursements in primary, secondary and other education were $160.9 million, or 3.3 percent, under estimate. This is primarily due to disbursements for various grants being lower than anticipated due to delays in making expenditures. Also, several new grant programs are still in development, and have yet to make any disbursements. It is expected that these disbursements will increase in the coming months and meet estimates. Disbursements in the higher education function were $61 million, or 3.4 percent, below estimate, again largely due to under-spending in some new grant programs that are slow to get started.

Public Assistance and Medicaid disbursements are $15.4 million, or .2 percent, below estimate so far for the fiscal year. GRF disbursements just for the Medicaid program alone are $10.6 million above estimate for the fiscal year-to-date. Although it would seem that Medicaid spending is running close to target, House Bill 119 for the 2006-07 biennium assumed that rate increases for hospitals and community providers, as well as the implementation of all various program expansions, would begin January 1, 2008. Due to the higher-than-expected caseloads, the Administration has taken the initiative to effectively manage the costs associated with the unexpected accelerated increase in caseloads and unrealized cost containment measures by delaying the implementation of provider rate increases and program expansions. These increased caseloads and unrealized cost containment measures, net of the delayed implementation of the program expansions, are expected to increase spending by $132.4 million in fiscal year 2008.

Contacting the Ohio Office of Budget and Management

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

BASIC FINANCIAL STATEMENTS

STATE OF OHIO
STATEMENT OF NET ASSETS
JUNE 30, 2007
(dollars in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS:				
Cash Equity with Treasurer	$ 7,299,881	$ 124,854	$ 7,424,735	$ 541,343
Cash and Cash Equivalents	114,539	342,232	456,771	892,736
Investments	899,044	16,496,675	17,395,719	6,909,258
Collateral on Lent Securities	4,110,979	62,127	4,173,106	299,861
Deposit with Federal Government	—	591,758	591,758	—
Taxes Receivable	1,558,971	—	1,558,971	—
Intergovernmental Receivable	1,474,142	10,089	1,484,231	50,514
Premiums and				
Assessments Receivable	—	3,847,817	3,847,817	—
Investment Trade Receivable	—	187,946	187,946	—
Loans Receivable, Net	992,298	—	992,298	267,642
Receivable from Primary Government	—	—	—	36,286
Other Receivables	643,803	415,257	1,059,060	955,080
Inventories	51,671	37,467	89,138	56,200
Other Assets	84,980	19,218	104,198	582,478
Restricted Assets:				
Cash Equity with Treasurer	—	273	273	22,336
Cash and Cash Equivalents	—	1,564	1,564	348,016
Investments	—	1,535,947	1,535,947	1,693,431
Collateral on Lent Securities	—	410,718	410,718	12,534
Intergovernmental Receivable	—	—	—	57
Loans Receivable, Net	—	—	—	3,614,354
Other Receivables	—	5,211	5,211	—
Capital Assets Being Depreciated, Net	2,441,822	119,098	2,560,920	7,713,208
Capital Assets Not Being Depreciated	21,816,457	11,994	21,828,451	1,104,276
TOTAL ASSETS	**41,488,587**	**24,220,245**	**65,708,832**	**25,099,610**
LIABILITIES:				
Accounts Payable	731,716	51,973	783,689	421,304
Accrued Liabilities	357,270	5,996	363,266	580,945
Medicaid Claims Payable	921,169	—	921,169	—
Obligations Under Securities Lending	4,110,979	472,845	4,583,824	312,395
Investment Trade Payable	—	252,525	252,525	—
Intergovernmental Payable	1,517,837	1,438	1,519,275	151
Internal Balances	881,389	(881,389)	—	—
Payable to Component Units	36,321	—	36,321	—
Unearned Revenue	254,220	1,001	255,221	325,579
Benefits Payable	—	4,456	4,456	—
Refund and Other Liabilities	874,025	95,375	969,400	123,442
Noncurrent Liabilities:				
Bonds and Notes Payable:				
Due in One Year	1,095,192	17,719	1,112,911	840,622
Due in More Than One Year	10,266,089	98,021	10,364,110	5,438,527
Certificates of Participation:				
Due in One Year	9,372	—	9,372	775
Due in More Than One Year	112,810	—	112,810	26,365
Other Noncurrent Liabilities:				
Due in One Year	170,817	2,514,547	2,685,364	1,207,725
Due in More Than One Year	618,927	18,459,207	19,078,134	1,695,924
TOTAL LIABILITIES	**21,958,133**	**21,093,714**	**43,051,847**	**10,973,754**

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

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
NET ASSETS:				
Invested in Capital Assets,				
Net of Related Debt....................................	21,477,381	19,322	21,496,703	5,305,773
Restricted for:				
Primary, Secondary and Other Education	34,019	—	34,019	—
Transportation and Highway Safety..........	1,032,112	—	1,032,112	—
State and Local				
Highway Construction............................	126,323	—	126,323	—
Federal Programs......................................	81,639	—	81,639	19
Coal Research				
and Development Program....................	—	—	—	4,130
Clean Ohio Program..................................	85,209	—	85,209	—
Community and Economic Development				
and Capital Purposes.............................	991,094	—	991,094	22,336
Debt Service..	—	—	—	2,448,952
Enterprise Bond Program..........................	10,000	—	10,000	—
Deferred Lottery Prizes............................	—	13,272	13,272	—
Unemployment Compensation.................	—	608,364	608,364	—
Ohio Building Authority..............................	—	28,390	28,390	—
Tuition Trust Authority..............................	—	32,100	32,100	—
Nonexpendable for				
Colleges and Universities......................	—	—	—	3,596,345
Expendable for				
Colleges and Universities......................	—	—	—	1,922,912
Unrestricted...	(4,307,323)	2,425,083	(1,882,240)	825,389
TOTAL NET ASSETS................................	**$ 19,530,454**	**$ 3,126,531**	**$ 22,656,985**	**$ 14,125,856**

STATE OF OHIO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(dollars in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES, FEES, FINES AND FORFEITURES	PROGRAM REVENUES: OPERATING GRANTS, CONTRIBUTIONS AND RESTRICTED INVESTMENT INCOME/(LOSS)	PROGRAM REVENUES: CAPITAL GRANTS, CONTRIBUTIONS AND RESTRICTED INVESTMENT INCOME/(LOSS)	NET (EXPENSE) REVENUE
PRIMARY GOVERNMENT:					
GOVERNMENTAL ACTIVITIES:					
Primary, Secondary and Other Education	$ 11,467,076	$ 29,187	$ 1,674,110	$ 16	$ (9,763,763)
Higher Education Support	2,546,530	8,012	23,707	—	(2,514,811)
Public Assistance and Medicaid	15,782,074	832,275	10,133,332	—	(4,816,467)
Health and Human Services	3,538,858	257,446	2,042,689	2,093	(1,236,630)
Justice and Public Protection	3,102,172	929,689	239,930	1,939	(1,930,614)
Environmental Protection and Natural Resources	435,235	220,412	86,032	2,092	(126,699)
Transportation	1,998,166	29,993	108,943	1,271,322	(587,908)
General Government	884,590	455,656	237,366	3,769	(187,799)
Community and Economic Development	3,789,404	338,337	417,989	5,195	(3,027,883)
Interest on Long-Term Debt (excludes interest charged as program expense)	169,776	—	—	—	(169,776)
TOTAL GOVERNMENTAL ACTIVITIES	**43,713,881**	**3,101,007**	**14,964,098**	**1,286,426**	**(24,362,350)**
BUSINESS-TYPE ACTIVITIES:					
Workers' Compensation	2,760,313	4,288,636	911,430	—	2,439,753
Lottery Commission	1,696,881	2,267,134	60,365	—	630,618
Unemployment Compensation	1,175,682	1,112,423	24,804	—	(38,455)
Ohio Building Authority	28,188	26,118	1,463	—	(607)
Tuition Trust Authority	91,416	10,924	341,752	—	261,260
Liquor Control	444,119	639,664	—	—	195,545
Underground Parking Garage	2,519	2,768	25	—	274
Office of Auditor of State	74,487	41,883	48	—	(32,556)
TOTAL BUSINESS-TYPE ACTIVITIES	**6,273,605**	**8,389,550**	**1,339,887**	**—**	**3,455,832**
TOTAL PRIMARY GOVERNMENT	**$ 49,987,486**	**$ 11,490,557**	**$ 16,303,985**	**$ 1,286,426**	**$ (20,906,518)**
COMPONENT UNITS:					
School Facilities Commission	$ 869,189	$ 1,485	$ 28,231	$ —	$ (839,473)
Ohio Water Development Authority	130,521	141,883	172,438	—	183,800
Ohio State University	3,670,254	2,560,623	614,996	28,725	(465,910)
University of Cincinnati	992,084	401,940	470,384	2,675	(117,085)
Other Component Units	4,378,614	2,687,065	521,979	71,251	(1,098,319)
TOTAL COMPONENT UNITS	**$ 10,040,662**	**$ 5,792,996**	**$ 1,808,028**	**$ 102,651**	**$ (2,336,987)**

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

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
CHANGES IN NET ASSETS:				
Net (Expense) Revenue...........................	$ (24,362,350)	$ 3,455,832	$ (20,906,518)	$ (2,336,987)
General Revenues:				
Taxes:				
Income...	9,630,983	—	9,630,983	—
Sales...	7,755,604	—	7,755,604	—
Corporate and Public Utility	2,615,648	—	2,615,648	—
Cigarette...	986,546	—	986,546	—
Other..	672,598	—	672,598	—
Restricted for Transportation Purposes:				
Motor Vehicle Fuel Taxes....................	1,835,478	—	1,835,478	—
Total Taxes...................................	23,496,857	—	23,496,857	—
Tobacco Settlement.................................	361,552	—	361,552	—
Escheat Property.....................................	31,009	—	31,009	—
Unrestricted Investment Income..............	206,414	—	206,414	759,838
State Assistance	—	—	—	2,730,730
Other..	383	372	755	103,816
Additions to Endowments and Permanent Fund Principal............	—	—	—	113,438
Special Items..	—	—	—	(5,444)
Transfers-Internal Activities.....................	853,171	(853,171)	—	—
TOTAL GENERAL REVENUES, CONTRIBUTIONS, SPECIAL ITEMS AND TRANSFERS..................................	**24,949,386**	**(852,799)**	**24,096,587**	**3,702,378**
CHANGE IN NET ASSETS..................	**587,036**	**2,603,033**	**3,190,069**	**1,365,391**
NET ASSETS, JULY 1 (as restated)..	18,943,418	523,498	19,466,916	12,760,465
NET ASSETS, JUNE 30.......................	**$ 19,530,454**	**$ 3,126,531**	**$ 22,656,985**	**$ 14,125,856**

STATE OF OHIO

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2007

(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	JOB, FAMILY AND OTHER HUMAN SERVICES	EDUCATION
ASSETS:			
Cash Equity with Treasurer	$ 3,152,498	$ 232,344	$ 123,041
Cash and Cash Equivalents	16,270	4,456	61
Investments	495,719	8,137	2,777
Collateral on Lent Securities	1,782,443	130,381	69,045
Taxes Receivable	983,703	—	—
Intergovernmental Receivable	509,613	395,488	127,596
Loans Receivable, Net	237,623	—	99
Interfund Receivable	2,992	21	—
Other Receivables	169,078	178,390	399
Inventories	23,717	—	—
Other Assets	8,177	1,001	4,218
TOTAL ASSETS	**$ 7,381,833**	**$ 950,218**	**$ 327,236**
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts Payable	$ 193,394	$ 74,161	$ 17,558
Accrued Liabilities	141,217	17,972	1,912
Medicaid Claims Payable	784,423	3,995	—
Obligations Under Securities Lending	1,782,443	130,381	69,045
Intergovernmental Payable	436,195	179,016	69,806
Interfund Payable	640,920	16,900	2,685
Payable to Component Units	17,317	965	911
Deferred Revenue	325,669	158,682	10,026
Unearned Revenue	—	163,890	53,508
Refund and Other Liabilities	796,017	5,135	—
Liability for Escheat Property	8,712	—	—
TOTAL LIABILITIES	5,126,307	751,097	225,451
FUND BALANCES:			
Reserved for:			
Debt Service	—	—	—
Encumbrances	368,617	819,366	25,149
Noncurrent Portion of Loans Receivable	234,389	—	99
Loan Commitments	—	—	—
Inventories	23,717	—	—
State and Local Highway Construction	—	—	—
Federal Programs	—	16,092	8,668
Other	60,408	22,262	451
Unreserved/Designated	1,012,289	—	—
Unreserved/Undesignated:			
General Fund	556,106	—	—
Special Revenue Funds	—	(658,599)	67,418
Debt Service Funds	—	—	—
Capital Projects Funds	—	—	—
TOTAL FUND BALANCES	2,255,526	199,121	101,785
TOTAL LIABILITIES AND FUND BALANCES	**$ 7,381,833**	**$ 950,218**	**$ 327,236**

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

HIGHWAY OPERATING	REVENUE DISTRIBUTION	NONMAJOR GOVERNMENTAL FUNDS	TOTAL
$ 858,597	$ 273,118	$ 2,660,283	$ 7,299,881
460	9,330	83,962	114,539
—	—	392,411	899,044
482,484	153,262	1,493,364	4,110,979
90,543	478,126	6,599	1,558,971
142,056	—	299,389	1,474,142
99,458	—	655,118	992,298
630	—	4,650	8,293
5,157	1,500	289,279	643,803
27,954	—	—	51,671
1,543	—	14,916	29,855
$ 1,708,882	**$ 915,336**	**$ 5,899,971**	**$ 17,183,476**
$ 199,568	$ —	$ 247,035	$ 731,716
24,770	—	48,317	234,188
—	—	132,751	921,169
482,484	153,262	1,493,364	4,110,979
2,304	651,760	178,756	1,517,837
103,597	1,026	124,554	889,682
465	—	16,663	36,321
6,277	27,813	358,083	886,550
1,221	6,815	28,786	254,220
—	70,389	2,484	874,025
—	—	—	8,712
820,686	911,065	2,630,793	10,465,399
—	—	37,510	37,510
1,467,277	—	1,948,145	4,628,554
98,230	—	650,750	983,468
—	—	67,005	67,005
27,954	—	—	51,671
—	126,323	—	126,323
8,353	—	24,601	57,714
6,446	—	37,288	126,855
—	—	—	1,012,289
—	—	—	556,106
(720,064)	(122,052)	744,875	(688,422)
—	—	(20)	(20)
—	—	(240,976)	(240,976)
888,196	4,271	3,269,178	6,718,077
$ 1,708,882	**$ 915,336**	**$ 5,899,971**	**$ 17,183,476**

THIS PAGE INTENTIONALLY LEFT BLANK

STATE OF OHIO
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007
(dollars in thousands)

Total Fund Balances for Governmental Funds	***$ 6,718,077***
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:	
Land	*1,817,502*
Buildings and Improvements, net of $1,457,001 accumulated depreciation	*1,925,273*
Land Improvements, net of $165,869 accumulated depreciation	*195,045*
Machinery and Equipment, net of $417,725 accumulated depreciation	*194,971*
Vehicles, net of $123,078 accumulated depreciation	*143,701*
Infrastructure, net of $4,922 accumulated depreciation	*18,224,264*
Construction-in-Progress	*1,757,523*
	24,258,279
Some of the State's revenues are collected after year-end but are not available soon enough to pay for the current period's (within 60 days of year-end) expenditures, and therefore, are deferred in the funds.	
Taxes Receivable	*264,887*
Intergovernmental Receivable	*313,226*
Other Receivables	*292,408*
Other Assets	*16,029*
	886,550
Unamortized bond issue costs are not financial resources, and therefore, are not reported in the funds.	*55,125*
The following liabilities are not due and payable in the current period, and therefore, are not reported in the funds.	
Accrued Liabilities:	
Interest Payable	*(123,082)*
Bonds and Notes Payable:	
General Obligation Bonds	*(7,583,266)*
Revenue Bonds	*(811,910)*
Special Obligation Bonds	*(2,966,105)*
Certificates of Participation	*(122,182)*
Other Noncurrent Liabilities:	
Compensated Absences	*(450,288)*
Capital Leases Payable	*(18,737)*
Litigation Liabilities	*(4,698)*
Estimated Claims Payable	*(8,776)*
Liability for Escheat Property	*(298,533)*
	(12,387,577)
Total Net Assets of Governmental Activities	***$ 19,530,454***

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, 2007
(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	JOB, FAMILY AND OTHER HUMAN SERVICES	EDUCATION
REVENUES:			
Income Taxes	$ 8,863,302	$ —	$ —
Sales Taxes	7,432,423	—	—
Corporate and Public Utility Taxes	1,583,791	—	—
Motor Vehicle Fuel Taxes	—	—	—
Cigarette Taxes	986,546	—	—
Other Taxes	612,304	3,294	—
Licenses, Permits and Fees	288,648	493,904	1,030
Sales, Services and Charges	48,876	776	424
Federal Government	5,362,256	5,291,927	1,673,940
Tobacco Settlement	—	—	—
Escheat Property	83,991	—	—
Investment Income	416,563	26,758	6,394
Other	252,599	151,057	23,975
TOTAL REVENUES	**25,931,299**	**5,967,716**	**1,705,763**
EXPENDITURES:			
CURRENT OPERATING:			
Primary, Secondary and Other Education	8,122,716	2,350	2,331,809
Higher Education Support	2,219,152	2,220	27,554
Public Assistance and Medicaid	10,352,604	5,350,845	—
Health and Human Services	1,207,960	571,869	2,194
Justice and Public Protection	2,020,294	49,087	21,085
Environmental Protection and Natural Resources	93,787	—	—
Transportation	22,190	—	—
General Government	538,117	3,171	—
Community and Economic Development	552,796	59,800	—
CAPITAL OUTLAY	114	2,594	—
DEBT SERVICE	14,575	—	—
TOTAL EXPENDITURES	**25,144,305**	**6,041,936**	**2,382,642**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	**786,994**	**(74,220)**	**(676,879)**
OTHER FINANCING SOURCES (USES):			
Bonds and Certificates of Participation Issued	525,000	—	—
Refunding Bonds Issued	—	—	—
Payment to Refunded Bond Escrow Agents	—	—	—
Premiums	—	—	—
Capital Leases	9,999	—	—
Transfers-in	346,399	110,865	745,635
Transfers-out	(1,322,012)	(15,231)	(31,789)
TOTAL OTHER FINANCING SOURCES (USES)	**(440,614)**	**95,634**	**713,846**
NET CHANGE IN FUND BALANCES	**346,380**	**21,414**	**36,967**
FUND BALANCES (DEFICITS), JULY 1	1,909,683	177,707	64,818
Decrease for Changes in Inventories	(537)	—	—
FUND BALANCES, JUNE 30	**$ 2,255,526**	**$ 199,121**	**$ 101,785**

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

HIGHWAY OPERATING	REVENUE DISTRIBUTION	NONMAJOR GOVERNMENTAL FUNDS	TOTAL
$ —	$ 829,300	$ 8,299	$ 9,700,901
—	301,264	21,918	7,755,605
—	1,030,170	1,688	2,615,649
664,029	1,147,244	24,204	1,835,477
—	—	—	986,546
—	14,970	42,030	672,598
67,659	368,735	1,041,691	2,261,667
1,949	—	26,782	78,807
1,325,456	—	2,009,569	15,663,148
—	—	308,488	308,488
—	—	—	83,991
34,799	2,777	132,354	619,645
22,651	140	311,769	762,191
2,116,543	**3,694,600**	**3,928,792**	**43,344,713**
—	550,937	292,940	11,300,752
—	—	188,224	2,437,150
—	—	71,003	15,774,452
—	519	1,683,010	3,465,552
—	322,504	636,856	3,049,826
—	—	325,537	419,324
2,163,070	—	776	2,186,036
—	—	213,153	754,441
—	2,079,112	972,843	3,664,551
—	—	451,053	453,761
—	—	1,592,509	1,607,084
2,163,070	**2,953,072**	**6,427,904**	**45,112,929**
(46,527)	**741,528**	**(2,499,112)**	**(1,768,216)**
—	—	957,830	1,482,830
—	—	259,205	259,205
—	—	(279,651)	(279,651)
—	—	87,878	87,878
—	—	8,943	18,942
498,034	156,852	1,690,634	3,548,419
(313,456)	(921,978)	(90,782)	(2,695,248)
184,578	**(765,126)**	**2,634,057**	**2,422,375**
138,051	**(23,598)**	**134,945**	**654,159**
752,824	27,869	3,134,233	6,067,134
(2,679)	—	—	(3,216)
$ 888,196	**$ 4,271**	**$ 3,269,178**	**$ 6,718,077**

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, 2007

(dollars in thousands)

Net Change in Fund Balances -- Total Governmental Funds		***$ 654,159***
Change in Inventories		*(3,216)*
		650,943
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	*622,446*	
Depreciation Expense	*(192,940)*	
Excess of Capital Outlay Over Depreciation Expense		*429,506*
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. In the current period, proceeds were received from:		
General Obligation Bonds	*(1,150,720)*	
Revenue Bonds	*(185,250)*	
Special Obligation Bonds	*(115,000)*	
Refunding Bonds, including Bond Premium/Discount, Net	*(281,390)*	
Certificates of Participation	*(31,860)*	
Premiums and Discounts, Net:		
General Obligation Bonds	*(53,179)*	
Revenue Bonds	*(7,075)*	
Special Obligation Bonds	*(3,678)*	
Certificates of Participation	*(1,761)*	
Deferred Refunding Loss	*16,831*	
Capital Leases	*(18,942)*	
Total Debt Proceeds		*(1,832,024)*
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. In the current year, these amounts consist of:		
Debt Principal Retirement and Defeasements:		
General Obligation Bonds	*501,800*	
Revenue Bonds	*198,050*	
Special Obligation Bonds	*624,568*	
Certificates of Participation	*800*	
Capital Lease Payments	*3,571*	
Total Long-Term Debt Repayment		*1,328,789*
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the governmental funds. Deferred revenues decreased by this amount this year.		*68,041*

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...................................	*3,274*	
Increase in Accrued Interest and Other Accrued Liabilities..............................	*(298)*	
Amortization of Bond Premiums/Accretion of Bond Discount, Net....................	*51,558*	
Amortization of Deferred Refunding Loss...	*(25,080)*	
Increase in Compensated Absences..	*(29,615)*	
Increase in Litigation Liabilities...	*(4,698)*	
Increase in Estimated Claims Payable...	*(378)*	
Increase in Liability for Escheat Property..	*(52,982)*	
Total additional expenditures...		*(58,219)*
Change in Net Assets of Governmental Activities..		***$ 587,036***

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, 2007

(dollars in thousands)

	GENERAL			
	BUDGET			VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL	ACTUAL	POSITIVE/ (NEGATIVE)
REVENUES:				
Income Taxes	$ 8,650,000	$ 8,650,000	$ 8,885,327	$ 235,327
Sales Taxes	7,610,000	7,610,000	7,424,469	(185,531)
Corporate and Public Utility Taxes	1,401,200	1,401,200	1,563,679	162,479
Motor Vehicle Fuel Taxes	—	—	—	—
Cigarette Taxes	1,020,000	1,020,000	986,251	(33,749)
Other Taxes	595,201	595,201	612,244	17,043
Licenses, Permits and Fees	273,644	273,644	280,357	6,713
Sales, Services and Charges	55,275	55,275	55,634	359
Federal Government	5,894,165	5,894,165	5,417,510	(476,655)
Investment Income	145,222	145,222	181,454	36,232
Other	1,103,348	1,103,348	1,084,760	(18,588)
TOTAL REVENUES	**26,748,055**	**26,748,055**	**26,491,685**	**(256,370)**
BUDGETARY EXPENDITURES:				
CURRENT OPERATING:				
Primary, Secondary and Other Education	7,845,123	7,901,013	7,788,631	112,382
Higher Education Support	2,233,249	2,279,417	2,276,198	3,219
Public Assistance and Medicaid	11,539,101	11,676,558	11,472,597	203,961
Health and Human Services	1,408,928	1,448,958	1,429,684	19,274
Justice and Public Protection	2,165,787	2,216,512	2,173,201	43,311
Environmental Protection and Natural Resources	131,868	133,375	128,880	4,495
Transportation	35,983	35,983	35,809	174
General Government	722,633	750,686	655,024	95,662
Community and Economic Development	674,029	689,452	671,469	17,983
CAPITAL OUTLAY	164	188	164	24
DEBT SERVICE	1,212,851	1,206,688	1,172,289	34,399
TOTAL BUDGETARY EXPENDITURES	**27,969,716**	**28,338,830**	**27,803,946**	**534,884**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES	**(1,221,661)**	**(1,590,775)**	**(1,312,261)**	**278,514**
OTHER FINANCING SOURCES (USES):				
Transfers-in	562,065	562,065	599,967	37,902
Transfers-out	(405,663)	(405,663)	(411,276)	(5,613)
TOTAL OTHER FINANCING SOURCES (USES)	**156,402**	**156,402**	**188,691**	**32,289**
NET CHANGE IN FUND BALANCES	**$ (1,065,259)**	**$ (1,434,373)**	**(1,123,570)**	**$ 310,803**
BUDGETARY FUND BALANCES (DEFICITS), JULY 1			2,069,673	
Outstanding Encumbrances at Beginning of Fiscal Year			661,373	
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30			**$ 1,607,476**	

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	BUDGET			VARIANCE WITH FINAL BUDGET
ORIGINAL	FINAL	ACTUAL	POSITIVE/ (NEGATIVE)	ORIGINAL	FINAL	ACTUAL	POSITIVE/ (NEGATIVE)
		$ —				$ —	
		—				—	
		—				—	
		—				—	
		—				—	
		3,294				—	
		488,174				1,030	
		776				424	
		3,900,643				1,651,404	
		26,348				6,078	
		485,882				32,557	
		4,905,117				**1,691,493**	
$ 128,218	$ 8,962	2,720	$ 6,242	$ 2,553,601	$ 2,594,328	2,329,348	$ 264,980
6,523	6,523	3,859	2,664	39,338	71,284	20,057	51,227
7,060,134	7,404,690	5,245,493	2,159,197	—	—	—	—
685,390	694,168	635,739	58,429	1,808	3,363	2,402	961
70,253	92,260	62,555	29,705	38,057	38,690	25,867	12,823
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
2,543	2,543	1,417	1,126	—	—	—	—
—	59,814	59,814	—	—	—	—	—
2,105	28,776	5,102	23,674	—	—	—	—
—	—	—	—	—	—	—	—
$ 7,955,166	**$ 8,297,736**	**6,016,699**	**$ 2,281,037**	**$ 2,632,804**	**$ 2,707,665**	**2,377,674**	**$ 329,991**
		(1,111,582)				**(686,181)**	
		60,895				744,018	
		(6,779)				(59,849)	
		54,116				**684,169**	
		(1,057,466)				**(2,012)**	
		(2,298,275)				51,489	
		2,495,802				34,445	
		$ (859,939)				**$ 83,922**	

(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, 2007

(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			638,723	
Cigarette Taxes			—	
Other Taxes			—	
Licenses, Permits and Fees			67,684	
Sales, Services and Charges			1,949	
Federal Government			1,297,690	
Investment Income			34,810	
Other			93,149	
TOTAL REVENUES			**2,134,005**	
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	4,229,818	5,201,122	3,897,991	1,303,131
General Government	—	—	—	—
Community and Economic Development	—	—	—	—
CAPITAL OUTLAY	—	—	—	—
DEBT SERVICE	116,053	102,887	102,829	58
TOTAL BUDGETARY EXPENDITURES	**$ 4,345,871**	**$ 5,304,009**	**4,000,820**	**$ 1,303,189**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES			**(1,866,815)**	
OTHER FINANCING SOURCES (USES):				
Transfers-in			566,285	
Transfers-out			(279,851)	
TOTAL OTHER FINANCING SOURCES (USES)			**286,434**	
NET CHANGE IN FUND BALANCES			**(1,580,381)**	
BUDGETARY FUND BALANCES (DEFICITS), JULY 1			(1,021,721)	
Outstanding Encumbrances at Beginning of Fiscal Year			1,774,564	
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30			**$ (827,538)**	

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

REVENUE DISTRIBUTION

BUDGET ***ORIGINAL***	***BUDGET*** ***FINAL***	***ACTUAL***	***VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)***
		$ 829,300	
		301,264	
		955,519	
		1,105,518	
		—	
		14,970	
		518,046	
		—	
		—	
		2,777	
		142	
		3,727,536	
$ 521,648	*$ 522,145*	*520,307*	*$ 1,838*
—	—	—	—
—	—	—	—
1,865	*1,965*	*1,961*	*4*
530,000	*530,000*	*509,478*	*20,522*
—	—	—	—
—	—	—	—
—	—	—	—
2,064,841	*2,132,842*	*2,047,396*	*85,446*
—	—	—	—
—	—	—	—
$ 3,118,354	***$ 3,186,952***	***3,079,142***	***$ 107,810***
		648,394	
		444,266	
		(1,185,063)	
		(740,797)	
		(92,403)	
		351,925	
		—	
		$ 259,522	

STATE OF OHIO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS -- ENTERPRISE
JUNE 30, 2007
(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer	$ 12,120	$ 66,493	$ —
Cash and Cash Equivalents	315,795	12,701	620
Collateral on Lent Securities	6,801	37,313	—
Restricted Assets:			
Cash Equity with Treasurer	—	273	—
Investments	—	56,551	—
Collateral on Lent Securities	—	410,718	—
Other Receivables	—	5,211	—
Deposit with Federal Government	—	—	591,758
Intergovernmental Receivable	—	—	3,888
Premiums and Assessments Receivable	993,359	—	11,786
Investment Trade Receivable	187,946	—	—
Interfund Receivable	79,600	—	—
Other Receivables	354,299	41,743	9,988
Inventories	—	—	—
Other Assets	3,136	6,548	7,635
TOTAL CURRENT ASSETS	**1,953,056**	**637,551**	**625,675**
NONCURRENT ASSETS:			
Restricted Assets:			
Cash and Cash Equivalents	1,564	—	—
Investments	—	632,221	—
Investments	16,418,413	—	—
Premiums and Assessments Receivable	2,842,672	—	—
Interfund Receivable	808,154	—	—
Capital Assets Being Depreciated, Net	104,933	2,740	—
Capital Assets Not Being Depreciated	11,994	—	—
TOTAL NONCURRENT ASSETS	**20,187,730**	**634,961**	**—**
TOTAL ASSETS	**22,140,786**	**1,272,512**	**625,675**
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts Payable	9,465	11,033	—
Accrued Liabilities	—	—	—
Obligations Under Securities Lending	6,801	448,031	—
Investment Trade Payable	252,525	—	—
Intergovermental Payable	—	—	1,001
Deferred Prize Awards Payable	—	62,035	—
Interfund Payable	—	408	—
Unearned Revenue	—	993	—
Benefits Payable	1,868,461	—	4,456
Refund and Other Liabilities	545,543	35,161	11,854
Bonds and Notes Payable	15,055	—	—
TOTAL CURRENT LIABILITIES	**2,697,850**	**557,661**	**17,311**
NONCURRENT LIABILITIES:			
Deferred Prize Awards Payable	—	618,949	—
Interfund Payable	—	2,473	—
Benefits Payable	15,544,204	—	—
Refund and Other Liabilities	1,495,165	3,006	—
Bonds and Notes Payable	98,021	—	—
TOTAL NONCURRENT LIABILITIES	**17,137,390**	**624,428**	**—**
TOTAL LIABILITIES	**19,835,240**	**1,182,089**	**17,311**
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	5,179	2,740	—
Restricted for Deferred Lottery Prizes	—	13,272	—
Unrestricted	2,300,367	74,411	608,364
TOTAL NET ASSETS	**$ 2,305,546**	**$ 90,423**	**$ 608,364**

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 46,241	$ 124,854
13,116	342,232
18,013	62,127
—	273
111,957	168,508
—	410,718
—	5,211
—	591,758
6,201	10,089
—	1,005,145
—	187,946
1,932	81,532
9,227	415,257
37,467	37,467
1,899	19,218
246,053	**3,462,335**
—	1,564
735,218	1,367,439
78,262	16,496,675
—	2,842,672
7,686	815,840
11,425	119,098
—	11,994
832,591	**21,655,282**
1,078,644	**25,117,617**
31,475	51,973
5,996	5,996
18,013	472,845
—	252,525
437	1,438
—	62,035
2,996	3,404
8	1,001
82,500	1,955,417
4,368	596,926
2,664	17,719
148,457	**3,421,279**
—	618,949
10,106	12,579
788,500	16,332,704
9,383	1,507,554
—	98,021
807,989	**18,569,807**
956,446	**21,991,086**
11,403	19,322
—	13,272
110,795	3,093,937
$ 122,198	**$ 3,126,531**

STATE OF OHIO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
OPERATING REVENUES:			
Charges for Sales and Services	$ —	$ 2,259,397	$ 14,765
Premium and Assessment Income	4,270,933	—	1,058,017
Federal Government	—	—	20,179
Investment Income	—	—	—
Other	17,703	7,737	19,483
TOTAL OPERATING REVENUES	**4,288,636**	**2,267,134**	**1,112,444**
OPERATING EXPENSES:			
Costs of Sales and Services	—	—	—
Administration	41,388	108,420	—
Bonuses and Commissions	—	139,961	—
Prizes	—	1,338,366	—
Benefits and Claims	2,667,148	—	1,175,507
Depreciation	11,096	780	—
Other	40,681	37	175
TOTAL OPERATING EXPENSES	**2,760,313**	**1,587,564**	**1,175,682**
OPERATING INCOME (LOSS)	**1,528,323**	**679,570**	**(63,238)**
NONOPERATING REVENUES (EXPENSES):			
Investment Income	911,430	60,365	24,783
Interest Expense	—	(23,888)	—
Federal Grants	—	—	—
Other	—	(85,429)	372
TOTAL NONOPERATING REVENUES (EXPENSES)	**911,430**	**(48,952)**	**25,155**
INCOME (LOSS) BEFORE TRANSFERS	**2,439,753**	**630,618**	**(38,083)**
TRANSFERS:			
Transfers-in	—	—	9,903
Transfers-out	(7,586)	(669,834)	(39,122)
TOTAL TRANSFERS	**(7,586)**	**(669,834)**	**(29,219)**
NET INCOME (LOSS)	**2,432,167**	**(39,216)**	**(67,302)**
NET ASSETS (DEFICITS), JULY 1	(126,621)	129,639	675,666
NET ASSETS, JUNE 30	**$ 2,305,546**	**$ 90,423**	**$ 608,364**

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 718,057	$ 2,992,219
—	5,328,950
—	20,179
116,833	116,833
228,219	273,142
1,063,109	***8,731,323***
474,720	474,720
79,687	229,495
—	139,961
—	1,338,366
81,334	3,923,989
2,520	14,396
2,096	42,989
640,357	***6,163,916***
422,752	***2,567,407***
1,488	998,066
(265)	(24,153)
48	48
(107)	(85,164)
1,164	***888,797***
423,916	***3,456,204***
49,850	59,753
(196,382)	(912,924)
(146,532)	***(853,171)***
277,384	***2,603,033***
(155,186)	523,498
$ 122,198	***$ 3,126,531***

STATE OF OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	$ —	$ 2,257,758	$ —
Cash Received from Premiums and Assessments	2,303,398	—	1,114,081
Cash Received from Multi-State Lottery for Grand Prize Winner	—	46,584	—
Cash Received from Interfund Services Provided	62,218	2,089	—
Other Operating Cash Receipts	31,122	5,649	18,405
Cash Payments to Suppliers for Goods and Services	(69,315)	(83,575)	(166)
Cash Payments to Employees for Services	(247,020)	(24,020)	—
Cash Payments for Benefits and Claims	(2,168,994)	—	(1,060,057)
Cash Payments for Lottery Prizes	—	(1,485,872)	—
Cash Payments for Bonuses and Commissions	—	(139,994)	—
Cash Payments for Premium Reductions and Refunds	(138,935)	—	—
Cash Payments for Interfund Services Used	(11,501)	(3,118)	—
Other Operating Cash Payments	—	(37)	(45,966)
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	**(239,027)**	**575,464**	**26,297**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers-in	—	—	9,903
Transfers-out	(7,586)	(669,834)	(39,122)
Federal Grants	—	—	—
NET CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	**(7,586)**	**(669,834)**	**(29,219)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal Payments on Bonds and Capital Leases	(14,150)	—	—
Interest Paid	(5,901)	—	—
Acquisition and Construction of Capital Assets	(5,157)	(818)	—
Principal Receipts on Capital Leases Receivable	—	—	—
Proceeds from Sales of Capital Assets	76	165	—
NET CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(25,132)**	**(653)**	**—**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of Investments	(21,440,066)	(866,893)	(1,103,044)
Proceeds from the Sales and Maturities of Investments	21,224,871	971,819	1,105,017
Investment Income Received	630,762	29,344	231
Borrower Rebates and Agent Fees	(9,489)	(23,973)	—
NET CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES	**406,078**	**110,297**	**2,204**
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	**134,333**	**15,274**	**(718)**
CASH AND CASH EQUIVALENTS, JULY 1	195,146	64,193	1,338
CASH AND CASH EQUIVALENTS, JUNE 30	**$ 329,479**	**$ 79,467**	**$ 620**

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 710,629	$ 2,968,387
—	3,417,479
—	46,584
2,008	66,315
12,376	67,552
(458,750)	(611,806)
(91,519)	(362,559)
—	(3,229,051)
—	(1,485,872)
—	(139,994)
—	(138,935)
(1,822)	(16,441)
(80,583)	(126,586)
92,339	**455,073**
49,709	59,612
(196,382)	(912,924)
58	58
(146,615)	**(853,254)**
(4,665)	(18,815)
(151)	(6,052)
(2,531)	(8,506)
4,373	4,373
89	330
(2,885)	**(28,670)**
(1,273,015)	(24,683,018)
1,323,311	24,625,018
28,065	688,402
—	(33,462)
78,361	**596,940**
21,200	**170,089**
38,157	298,834
$ 59,357	**$ 468,923**

(continued)

STATE OF OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(dollars in thousands)
(continued)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss)	$ 1,528,323	$ 679,570	$ (63,238)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Investment Income	—	—	—
Depreciation	11,096	780	—
Provision for Uncollectible Accounts	58,429	—	—
Amortization of Premiums and Discounts	(826)	—	—
Interest on Bonds, Notes and Capital Leases	5,901	—	—
Decrease (Increase) in Assets:			
Deposit with Federal Government	—	—	58,951
Intergovernmental Receivable	—	—	(537)
Premiums and Assessments Receivable	(1,773,665)	—	44,839
Interfund Receivable	76,938	—	—
Other Receivables	(78,100)	(1,688)	(1,062)
Inventories	—	—	—
Other Assets	27	12,107	(307)
Increase (Decrease) in Liabilities:			
Accounts Payable	657	(859)	—
Accrued Liabilities	—	—	—
Intergovernmental Payable	—	—	74
Deferred Prize Awards Payable	—	(127,890)	—
Interfund Payable	—	(1,448)	—
Unearned Revenue	(372,847)	50	—
Benefits Payable	161,987	—	(11,612)
Refund and Other Liabilities	143,053	14,842	(811)
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	**$ (239,027)**	**$ 575,464**	**$ 26,297**
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Change in Fair Value of Investments	$ 109,160	$ 5,078	$ —
Contributions of Capital Assets from Other Funds	—	—	—
Capital Assets Acquired under Capital Leases	—	—	—

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 422,752	$ 2,567,407
(116,833)	(116,833)
2,521	14,397
—	58,429
487	(339)
—	5,901
—	58,951
2,799	2,262
—	(1,728,826)
(43)	76,895
(492)	(81,342)
(1,054)	(1,054)
357	12,184
4,507	4,305
1,816	1,816
3	77
—	(127,890)
7,544	6,096
(2)	(372,799)
(224,900)	(74,525)
(7,123)	149,961
$ 92,339	**$ 455,073**
$ —	$ 114,238
100	100
21	21

STATE OF OHIO
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007
(dollars in thousands)

	PENSION TRUST	PRIVATE-PURPOSE TRUST	INVESTMENT TRUST
	STATE HIGHWAY PATROL RETIREMENT SYSTEM (as of 12/31/06)	VARIABLE COLLEGE SAVINGS PLAN	STAR OHIO
ASSETS:			
Cash Equity with Treasurer	$ —	$ —	$ —
Cash and Cash Equivalents	44,851	50,173	—
Investments (at fair value):			
U.S. Government and Agency Obligations	1,030	—	2,945,415
Common and Preferred Stock	272,608	—	—
Corporate Bonds and Notes	—	—	—
Foreign Stocks and Bonds	11,910	—	—
Commercial Paper	—	—	951,387
Repurchase Agreements	—	—	23,621
Mutual Funds	386,298	5,486,234	—
Real Estate	47,738	—	—
Venture Capital	—	—	—
Direct Mortgage Loans	—	—	—
Investment Contracts	—	—	—
Partnership and Hedge Funds	30,000	—	—
State Treasury Asset Reserve of Ohio (STAR Ohio)	—	—	—
Collateral on Lent Securities	139,368	—	—
Employer Contributions Receivable	1,290	—	—
Employee Contributions Receivable	1,077	—	—
Other Receivables	1,400	7,378	237
Other Assets	—	—	—
Capital Assets, Net	18	—	—
TOTAL ASSETS	**937,588**	**5,543,785**	**3,920,660**
LIABILITIES:			
Accounts Payable	1,364	—	—
Accrued Liabilities	2,388	6,956	—
Obligations Under Securities Lending	139,368	—	—
Intergovernmental Payable	—	—	—
Refund and Other Liabilities	41	5,961	1,037
TOTAL LIABILITIES	**143,161**	**12,917**	**1,037**
NET ASSETS:			
Held in Trust for:			
Employees' Pension Benefits	684,582	—	—
Employees' Postemployment Healthcare Benefits	109,845	—	—
Individuals, Organizations and Other Governments	—	5,530,868	—
Pool Participants	—	—	3,919,623
TOTAL NET ASSETS	**$ 794,427**	**$ 5,530,868**	**$ 3,919,623**

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

AGENCY
$ 273,250
145,172
11,443,008
72,720,274
12,913,738
40,621,383
3,556,005
27,582
2,629,663
14,055,459
4,800,095
17,046,045
42,953
1,240,954
35,369
153,281
—
—
1,498
442,229
—
182,147,958
—
—
153,281
150,033
181,844,644
182,147,958
—
—
—
—
$ —

THIS PAGE INTENTIONALLY LEFT BLANK

STATE OF OHIO
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(dollars in thousands)

	PENSION TRUST	PRIVATE-PURPOSE TRUST	INVESTMENT TRUST
	STATE HIGHWAY PATROL RETIREMENT SYSTEM (for the fiscal year ended 12/31/06)	VARIABLE COLLEGE SAVINGS PLAN	STAR OHIO
ADDITIONS:			
Contributions from:			
Employer	$ 22,329	$ —	$ —
Employees	8,610	—	—
Plan Participants	—	1,500,870	—
Other	648	—	—
Total Contributions	31,587	1,500,870	—
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	94,578	460,508	—
Interest, Dividends and Other	18,958	260,313	202,886
Total Investment Income	113,536	720,821	202,886
Less: Investment Expense	12,211	36,965	3,759
Net Investment Income	101,325	683,856	199,127
Capital Share and Individual Account Transactions:			
Shares Sold	—	—	13,532,956
Reinvested Distributions	—	—	199,127
Shares Redeemed	—	—	(13,186,466)
Net Capital Share and Individual Account Transactions	—	—	545,617
TOTAL ADDITIONS	**132,912**	**2,184,726**	**744,744**
DEDUCTIONS:			
Pension Benefits Paid to Participants or Beneficiaries	40,343	—	—
Healthcare Benefits Paid to Participants or Beneficiaries	7,981	—	—
Refunds of Employee Contributions	299	—	—
Administrative Expense	665	—	—
Transfers to Other Retirement Systems	915	—	—
Distributions to Shareholders and Plan Participants	—	1,061,917	199,127
TOTAL DEDUCTIONS	**50,203**	**1,061,917**	**199,127**
CHANGE IN NET ASSETS HELD FOR:			
Employees' Pension Benefits	72,085	—	—
Employees' Postemployment Healthcare Benefits	10,623	—	—
Individuals, Organizations and Other Governments	—	1,122,809	—
Pool Participants	—	—	545,617
TOTAL CHANGE IN NET ASSETS	82,708	1,122,809	545,617
NET ASSETS, JULY 1	711,719	4,408,059	3,374,006
NET ASSETS, JUNE 30	**$ 794,427**	**$ 5,530,868**	**$ 3,919,623**

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, 2007
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY (as of 12/31/06)	OHIO STATE UNIVERSITY
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer	$ 524,803	$ —	$ —
Cash and Cash Equivalents	—	26,330	331,289
Investments	—	56,983	523,824
Collateral on Lent Securities	294,496	—	—
Intergovernmental Receivable	—	799	6,053
Loans Receivable, Net	1,508	1,741	8,521
Receivable from Primary Government	—	—	2,542
Other Receivables	4	380	399,774
Inventories	—	—	26,195
Other Assets	16	—	40,913
TOTAL CURRENT ASSETS	**820,827**	**86,233**	**1,339,111**
NONCURRENT ASSETS:			
Restricted Assets:			
Cash Equity with Treasurer	—	—	—
Cash and Cash Equivalents	—	320,435	—
Investments	—	1,112,595	—
Collateral on Lent Securities	—	—	—
Intergovernmental Receivable	—	57	—
Loans Receivable, Net	—	3,614,354	—
Investments	—	38,703	2,403,777
Loans Receivable, Net	6,645	26,220	61,043
Other Receivables	—	4,588	13,337
Other Assets	—	41,532	—
Capital Assets Being Depreciated, Net	29	1,385	2,492,200
Capital Assets Not Being Depreciated	—	539	333,628
TOTAL NONCURRENT ASSETS	**6,674**	**5,160,408**	**5,303,985**
TOTAL ASSETS	**827,501**	**5,246,641**	**6,643,096**
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts Payable	11,165	58,933	150,603
Accrued Liabilities	308	9,663	320,120
Obligations Under Securities Lending	294,496	—	—
Intergovernmental Payable	1,063,903	128	—
Unearned Revenue	—	—	125,122
Refund and Other Liabilities	800	—	81,510
Bonds and Notes Payable	—	124,719	512,837
Certificates of Participation	—	—	390
TOTAL CURRENT LIABILITIES	**1,370,672**	**193,443**	**1,190,582**
NONCURRENT LIABILITIES:			
Intergovernmental Payable	1,046,416	—	—
Unearned Revenue	—	—	—
Refund and Other Liabilities	646	161	204,976
Bonds and Notes Payable	—	2,442,231	575,645
Certificates of Participation	—	—	5,075
TOTAL NONCURRENT LIABILITIES	**1,047,062**	**2,442,392**	**785,696**
TOTAL LIABILITIES	**2,417,734**	**2,635,835**	**1,976,278**
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	29	1,924	1,711,274
Restricted for:			
Federal Programs	—	—	—
Coal Research and Development Program	—	—	—
Community and Economic Development and Capital Purposes	—	—	—
Debt Service	—	2,448,952	—
Nonexpendable:			
Scholarships and Fellowships	—	—	—
Research	—	—	—
Endowments and Quasi-Endowments	—	—	1,459,705
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	—	—	—
Endowments and Quasi-Endowments	—	—	179,309
Current Operations	—	—	309,777
Loans, Grants and Other College and University Purposes	—	—	42,076
Unrestricted	(1,590,262)	159,930	964,677
TOTAL NET ASSETS (DEFICITS)	**$ (1,590,233)**	**$ 2,610,806**	**$ 4,666,818**

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
$ —	$ 16,540	$ 541,343
100,759	434,358	892,736
11,097	1,108,661	1,700,565
—	5,365	299,861
—	43,662	50,514
2,869	31,071	45,710
163	33,581	36,286
67,014	319,411	786,583
1,806	28,199	56,200
17,941	54,653	113,523
201,649	**2,075,501**	**4,523,321**
—	22,336	22,336
—	27,581	348,016
—	580,836	1,693,431
—	12,534	12,534
—	—	57
—	—	3,614,354
1,236,356	1,529,857	5,208,693
29,620	98,404	221,932
38,737	111,835	168,497
388,520	38,903	468,955
1,269,011	3,950,583	7,713,208
202,952	567,157	1,104,276
3,165,196	**6,940,026**	**20,576,289**
3,366,845	**9,015,527**	**25,099,610**
57,135	143,468	421,304
76,006	174,848	580,945
—	17,899	312,395
—	23	1,064,054
29,669	203,588	358,379
43,051	109,103	234,464
131,560	71,506	840,622
90	295	775
337,511	**720,730**	**3,812,938**
—	8,408	1,054,824
—	4,519	4,519
227,070	203,728	636,581
776,729	1,643,922	5,438,527
—	21,290	26,365
1,003,799	**1,881,867**	**7,160,816**
1,341,310	**2,602,597**	**10,973,754**
480,191	3,112,355	5,305,773
—	19	19
—	4,130	4,130
—	22,336	22,336
—	—	2,448,952
147,974	117,027	265,001
92,181	4,180	96,361
679,429	622,526	2,761,660
375,297	98,026	473,323
42,817	159,608	202,425
121,082	17,963	139,045
37,013	116,757	153,770
48,537	14,356	62,893
35,109	121,389	156,498
5	9,084	9,089
23,332	76,253	99,585
119,675	83,562	382,546
8,138	137,998	455,913
16,032	203,040	261,148
(201,277)	1,492,321	825,389
$ 2,025,535	**$ 6,412,930**	**$ 14,125,856**

STATE OF OHIO
COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY (for the year ended 12/31/06)	OHIO STATE UNIVERSITY
EXPENSES:			
Primary, Secondary and Other Education	$ 869,183	$ —	$ —
Community and Economic Development	—	—	—
Cost of Services		115,572	—
Administration	—	10,463	—
Education and General:			
Instruction and Departmental Research	—	—	760,923
Separately Budgeted Research	—	—	364,170
Public Service	—	—	116,504
Academic Support	—	—	128,932
Student Services	—	—	78,501
Institutional Support	—	—	143,956
Operation and Maintenance of Plant	—	—	106,564
Scholarships and Fellowships	—	—	70,682
Auxiliary Enterprises	—	—	204,709
Hospitals	—	—	1,443,509
Interest on Long-Term Debt	—	—	47,038
Depreciation	6	179	193,657
Other	—	4,307	11,109
TOTAL EXPENSES	**869,189**	**130,521**	**3,670,254**
PROGRAM REVENUES:			
Charges for Services, Fees, Fines and Forfeitures	1,485	141,883	2,560,623
Operating Grants, Contributions and Restricted Investment Income	28,231	172,438	614,996
Capital Grants, Contributions and Restricted Investment Income	—	—	28,725
TOTAL PROGRAM REVENUES	**29,716**	**314,321**	**3,204,344**
NET PROGRAM (EXPENSE) REVENUE	**(839,473)**	**183,800**	**(465,910)**
GENERAL REVENUES:			
Unrestricted Investment Income	—	5,239	429,584
State Assistance	836,600	—	492,892
Other	—	2	1,613
TOTAL GENERAL REVENUES	**836,600**	**5,241**	**924,089**
ADDITIONS (DEDUCTIONS) TO ENDOWMENTS AND PERMANENT FUND PRINCIPAL	**—**	**—**	**46,426**
SPECIAL ITEM	**—**	**—**	**—**
CHANGE IN NET ASSETS	**(2,873)**	**189,041**	**504,605**
NET ASSETS, JULY 1 (as restated)	(1,587,360)	2,421,765	4,162,213
NET ASSETS (DEFICITS), JUNE 30	**$ (1,590,233)**	**$ 2,610,806**	**$ 4,666,818**

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
$ —	$ 32,045	$ 901,228
—	23,103	23,103
—	—	115,572
—	—	10,463
285,671	1,415,518	2,462,112
153,247	180,391	697,808
56,592	121,143	294,239
66,306	403,911	599,149
37,188	207,497	323,186
84,858	392,001	620,815
61,499	274,213	442,276
24,474	179,513	274,669
77,509	593,899	876,117
—	212,566	1,656,075
40,245	63,737	151,020
87,570	243,569	524,981
16,925	35,508	67,849
992,084	**4,378,614**	**10,040,662**
401,940	2,687,065	5,792,996
470,384	521,979	1,808,028
2,675	71,251	102,651
874,999	**3,280,295**	**7,703,675**
(117,085)	**(1,098,319)**	**(2,336,987)**
—	325,015	759,838
205,235	1,196,003	2,730,730
7,033	95,168	103,816
212,268	**1,616,186**	**3,594,384**
16,966	**50,046**	**113,438**
—	**(5,444)**	**(5,444)**
112,149	**562,469**	**1,365,391**
1,913,386	5,850,461	12,760,465
$ 2,025,535	**$ 6,412,930**	**$ 14,125,856**

THIS PAGE INTENTIONALLY LEFT BLANK

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Ohio, as of June 30, 2007, and for the year then ended, conform with generally accepted accounting principles (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are included in the GASB's *Codification of Governmental Accounting and Financial Reporting Standards*. The State's significant accounting policies are as follows.

A. Financial Reporting Entity

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

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

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

1. Blended Component Units

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

2. Discretely Presented Component Units

The component units' columns in the basic financial statements include the financial data of another 27 organizations. The separate discrete column labeled, "Component Units," emphasizes these organizations' separateness from the State's primary government. Officials of the primary government appoint a voting majority of each organization's governing board.

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

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

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Proprietary fund operating expenses principally consist of expenses for the cost of sales and services, administration, 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.

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, 2006.

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The State reports the following major component unit funds:

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

The *Ohio Water Development Authority*, *Ohio State University*, and *University of Cincinnati* funds are business-type activities that use proprietary fund reporting. The financial statements for the Ohio Water Development Authority, which provides financial assistance to local governments for the construction of wastewater and sewage facilities, are presented for the fiscal year ended December 31, 2006. The Ohio State University Fund accounts for the university's operations, including its health system, supercomputer center, agricultural research and development center, and other legally separate entities subject to the control of the university's board. The University of Cincinnati Fund accounts for the university's operations, including its related foundation.

C. Measurement Focus and Basis of Accounting

Government-wide, Enterprise Fund, and Fiduciary Fund Financial Statements — The State reports the government-wide financial statements and the proprietary fund and fiduciary fund financial statements using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

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

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

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

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

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

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

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

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

D. Budgetary Process

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

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

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

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

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

Improvements General Obligations
Highway Improvements General Obligations
Development General Obligations
Highway General Obligations
Public Improvements General Obligations
Vietnam Conflict Compensation
  General Obligations
Economic Development Revenue Bonds
Infrastructure Bank Revenue Bonds
Revitalization Project Revenue Bonds
Chapter 154 Special Obligations
School Building Program Special Obligations
Ohio Building Authority Special Obligations
Transportation Certificates of Participation
OAKS Certificates of Participation
OAKS Project

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

E. Cash Equity with Treasurer and Cash and Cash Equivalents

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

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

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

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

F. Investments

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

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

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

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

G. Taxes Receivable

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

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 5.

I. Inventories

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

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

J. Restricted Assets

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

K. Capital Assets

Primary Government

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

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

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

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

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

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

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

The State has established the following capitalization thresholds:

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

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

Buildings	20-45 years
Land Improvements	10-30 years
Machinery and Equipment	3-15 years
Vehicles	5-15 years
Park and Natural Resources Infrastructure Network	10-50 years

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

Interfund Services Provided and Used — Sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and as expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund balance sheets or fund statements of net assets.

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

Interfund Transfers — Flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers.

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

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

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

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

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

NOTE 2 RESTATEMENTS AND CHANGES IN ACCOUNTING PRINCIPLES AND STANDARDS

A. Restatements

Restatements of net assets, as of June 30, 2006, for the primary government and component units that resulted from prior period adjustments for corrections of errors are presented in the following tables (dollars in thousands).

Government-wide Financial Statements:

	Governmental Activities	Total Primary Government	Component Units
Net Assets, as of June 30, 2006, As Previously Reported	$18,943,585	$19,467,083	$12,763,399
Corrections that Increased/(Decreased) Net Assets:			
Cash and Cash Equivalents	—	—	5
Investments	—	—	(70)
Other Receivables-Accounts	—	—	(1,324)
Capital Assets Being Depreciated, Net	—	—	921
Capital Assets Not Being Depreciated	—	—	286
Accrued Liabilities (Compensated Absences)	—	—	126
Unearned Revenue	—	—	(2,878)
Bonds and Notes Payable	(167)	(167)	—
Total Corrections, Net	(167)	(167)	(2,934)
Net Assets, July 1, 2006, As Restated	$18,943,418	$19,466,916	$12,760,465

Discretely Presented Component Units Fund Financial Statements:

	Nonmajor Component Units	Total Component Units
Net Assets, as of June 30, 2006, As Previously Reported	$5,853,395	$12,763,399
Corrections that Increased/(Decreased) Net Assets:		
Cash and Cash Equivalents	5	5
Investments	(70)	(70)
Other Receivables-Accounts	(1,324)	(1,324)
Capital Assets Being Depreciated, Net	921	921
Capital Assets Not Being Depreciated	286	286
Accrued Liabilities (Compensated Absences)	126	126
Unearned Revenue	(2,878)	(2,878)
Total Corrections, Net	(2,934)	(2,934)
Net Assets, July 1, 2006, As Restated	$5,850,461	$12,760,465

B. Implementation of Recently Issued Accounting Pronouncements

For the fiscal year ended June 30, 2007, the State implemented the provisions of

- Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.*

GASB 43 establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans and supersedes guidance included in GASB 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*. The standards in this Statement apply for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties that administer them.

C. Recently Issued GASB Pronouncements

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

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

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.* This Statement establishes the criteria for reporting transactions as revenue or as a liability, whereby an interest in the government's expected cash flows from collecting specific receivables or specific revenues are exchanged for immediate cash payments, generally a single lump sum. This Statement also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenues, including residual interests and recourse provisions. The requirements of GASB 48 are effective for financial statements for periods beginning after December 15, 2006.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The requirements of GASB 49 are effective for financial statements for periods beginning after December 15, 2007. This Statement addresses accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures - an amendment of GASB Statements No. 25 and No. 27*. The requirements of GASB 50 are effective for periods beginning after June 15, 2007. This Statement establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined benefit and defined contribution pensions. It amends note disclosures and required supplementary information (RSI) standards of Statements No. 25*, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with applicable changes adopted in Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The requirements of GASB 51 are effective for financial statements for periods beginning after June 15, 2009. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce inconsistencies among state and local governments, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments.

In November 2007, the GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. The provisions of GASB 52 are effective for financial statements for periods beginning after June 15, 2008. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by similar entities. It requires endowments to report their land and other real estate investments at fair value. Additionally, governments are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for their investments reported at fair value.

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

NOTE 3 GAAP versus NON-GAAP BUDGETARY BASIS

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

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

Original budget amounts in the accompanying budgetary statements have been taken from the first complete appropriated budget for fiscal year 2007. 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 2007, whenever signed into law or otherwise legally authorized.

For fiscal year 2007, 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, 2007
(dollars in thousands)

		Major Special Revenue Funds			
	General	Job, Family, and Other Human Services	Education	Highway Operating	Revenue Distribution
Total Fund Balances - GAAP Basis	$2,255,526	$ 199,121	$ 101,785	$ 888,196	$ 4,271
Less: Reserved Fund Balances	687,131	857,720	34,367	1,608,260	126,323
Less: Designated Fund Balances	1,012,289	—	—	—	—
Unreserved/Undesignated Fund Balances — GAAP Basis	556,106	(658,599)	67,418	(720,064)	(122,052)
BASIS DIFFERENCES					
Revenue Accruals/Adjustments:					
Cash Equity with Treasurer	(89,129)	(16,020)	—	(854)	(13,596)
Taxes Receivable	(983,703)	—	—	(90,543)	(478,126)
Intergovernmental Receivable	(509,613)	(395,488)	(127,596)	(142,056)	—
Loans Receivable, Net	(237,623)	—	(99)	(99,458)	—
Interfund Receivable	(2,992)	(21)	—	(630)	—
Other Receivables	(169,078)	(178,390)	(399)	(5,157)	(1,500)
Deferred Revenue	325,669	158,682	10,026	6,277	27,813
Unearned Revenue	—	163,890	53,508	1,221	6,815
Total Revenue Accruals/Adjustments	(1,666,469)	(267,347)	(64,560)	(331,200)	(458,594)
Expenditure Accruals/Adjustments:					
Cash Equity with Treasurer	(87,825)	(11,067)	(998)	(17,745)	—
Inventories	(23,717)	—	—	(27,954)	—
Other Assets	(8,177)	(1,001)	(4,218)	(1,543)	—
Accounts Payable	193,394	74,161	17,558	199,568	—
Accrued Liabilities	141,217	17,972	1,912	24,770	—
Medicaid Claims Payable	784,423	3,995	—	—	—
Intergovernmental Payable	436,195	179,016	69,806	2,304	651,760
Interfund Payable	640,920	16,900	2,685	103,597	1,026
Payable to Component Units	17,317	965	911	465	—
Refund and Other Liabilities	796,017	5,135	—	—	70,389
Liability for Escheat Property	8,712	—	—	—	—
Total Expenditure Accruals/Adjustments	2,898,476	286,076	87,656	283,462	723,175
Other Adjustments:					
Fund Balance Reclassifications:					
From Unreserved (Non-GAAP Budgetary Basis) to Reserved for:					
Noncurrent Portion of Loans Receivable	234,389	—	99	98,230	—
Inventories	23,717	—	—	27,954	—
State and Local Highway Construction	—	—	—	—	126,323
Federal Programs	—	16,092	8,668	8,353	—
Other	60,408	22,262	451	6,446	—
From Undesignated (Non-GAAP Budgetary Basis) to Designated	1,012,289	—	—	—	—
Cash and Investments Held Outside of State Treasury	(511,989)	(12,593)	(2,838)	(460)	(9,330)
Other	—	1	—	—	—
Total Other Adjustments	818,814	25,762	6,380	140,523	116,993
Total Basis Differences	2,050,821	44,491	29,476	92,785	381,574
TIMING DIFFERENCES					
Encumbrances	(999,451)	(245,831)	(12,972)	(200,259)	—
Budgetary Fund Balances (Deficits) — Non-GAAP Basis	$1,607,476	$(859,939)	$ 83,922	$ (827,538)	$ 259,522

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 any of the following: a commercial account that is payable or withdrawable, in whole or in part, on demand, a negotiable order of withdrawal account, a money market deposit account, or a designated warrant clearance account.

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

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

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

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

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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

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

In Ohio, legal requirements for depositor-governments are met when deposits are collateralized with securities held by the pledging financial institution, or by the pledging financial institution's trust department or agent but not in the government's name. The State's reporting entity has not established specific policies for managing custodial credit risk exposure for deposits.

The table below reports the carrying amount of deposits, as of June 30, 2007, held by the primary government, including fiduciary activities, and its component units and the extent of exposure to custodial credit risk.

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

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

The State's reporting entity has not established specific policies for managing custodial credit risk exposure for investments.

Primary Government (including Fiduciary Activities) and Component Units
Deposits—Custodial Credit Risk
As of June 30, 2007
(dollars in thousands)

			Uninsured Portion of Reported Bank Balance		
	Carrying Amount	Bank Balance	Uncollateralized*	Collateralized with Securities Held by the Pledging Institution's Trust Department or Agent but not in the Depositor-Government's Name	Collateralized with Securities Held by the Pledging Institution
Primary Government	$ 652,689	$ 707,226	$ —	$198,944	$ —
Component Units	743,008	835,916	38,741	746,138	12,872
Total Deposits — Reporting Entity	$1,395,697	$1,543,142	$38,741	$945,082	$12,872

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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The following tables report the fair value, as of June 30, 2007, of investments by type for the primary government, including fiduciary activities, and its component units, and the extent of exposure to custodial credit risk (dollars in thousands).

Primary Government (including Fiduciary Activities) and Component Units
Investments—Custodial Credit Risk
As of June 30, 2007
(dollars in thousands)

Investments for the Primary Government (including Fiduciary Activities), as of June 30, 2007	Total Fair Value	Uninsured, Unregistered, and Held by the Counterparty's Trust Department or Agent but not in the State's Name
Investments Subject to Custodial Credit Risk Exposure:		
U.S. Government Obligations	$20,179,966	$168,887
U.S. Government Obligations—Strips	371,822	—
U.S. Agency Obligations	8,475,384	—
U.S. Agency Obligations—Strips	256,174	—
Common and Preferred Stock	71,524,757	—
Corporate Bonds and Notes	16,609,957	—
Corporate Bonds and Notes—Strips	541	—
Commercial Paper	6,607,796	—
Repurchase Agreements	59,487	1,481
Mortgage and Asset-Backed Securities	9,222,875	—
International Investments:		
Foreign Stocks	37,617,819	—
Foreign Bonds	1,739,133	—
High-Yield and Emerging Markets Fixed Income	1,174,970	—
Securities Lending Collateral:		
Commercial Paper	58,912	—
Repurchase Agreements	1,211,126	100,000
Mortgage and Asset-Backed Securities	3,849	—
Variable Rate Notes	2,410,354	—
Master Notes	990,000	—
Negotiable Certificates of Deposit	518,037	—
		$270,368
Investments Not Subject to Custodial Credit Risk Exposure:		
Investments Held by Broker-Dealers under Securities Loans with Cash Collateral:		
U.S. Government Obligations	2,813,527	
U.S. Government Obligations—Strips	4,317	
U.S. Agency Obligations	4,450,962	
U.S. Agency Obligations—Strips	20,901	
Common and Preferred Stock	1,137,872	
Corporate Bonds and Notes	139,055	
International Investments:		
Foreign Stocks	1,193,568	
Foreign Bonds	2,018	
High-Yield and Emerging Markets Fixed Income	65,984	
International Investments-Commingled Equity Funds	1,214,335	
Equity Mutual Funds	9,180,629	
Bond Mutual Funds	5,584,197	
Real Estate	14,176,511	
Venture Capital	4,800,095	
Partnerships and Hedge Funds	486,346	
Investment Contracts	6,006	
Deposit with Federal Government	591,758	
Component Units' Equity in State Treasurer's Cash and Investment Pool	(876,074)	
Component Units' Equity in the State Treasury Asset Reserve of Ohio	(355,515)	
Total Investments — Primary Government	$223,669,451	

(Continued)

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Investments for Component Units, as of June 30, 2007	Total Fair Value	Uninsured, Unregistered, and Held by the Counterparty's Trust Department or Agent but not in the Component Unit's Name	Uninsured, Unregistered, and Held by the Counterparty but not in the Component Unit's Name
Investments Subject to Custodial Credit Risk Exposure:			
U.S. Government Obligations	$ 326,962	$ 173,185	$ 99,941
U.S. Government Obligations—Strips	6,147	4,209	—
U.S. Agency Obligations	815,720	452,823	208,927
U.S. Agency Obligations—Strips	1,752	—	1,752
Common and Preferred Stock	1,846,280	378,162	722,906
Corporate Bonds and Notes	268,500	103,433	139,123
Commercial Paper	46,425	8,225	—
Repurchase Agreements	249,778	92,631	155,245
Mortgage and Asset-Backed Securities	72,887	610	—
Negotiable Certificates of Deposit	420	—	—
Municipal Obligations	92,281	71,943	19,915
International Investments:			
Foreign Stocks	224,416	1,025	—
Foreign Bonds	17,531	—	—
Other Investments	8,720	4,797	—
		$1,291,043	$1,347,809
Investments Not Subject to Custodial Credit Risk Exposure:			
Equity Mutual Funds	2,358,423		
Bond Mutual Funds	1,029,574		
Real Estate	213,663		
Life Insurance	17,532		
Investment Contracts	628,989		
Charitable Remainder Trusts	41,344		
Partnerships and Hedge Funds	477,574		
Investment in State Treasurer's Cash and Investment Pool	876,074		
Investment in the State Treasury Asset Reserve of Ohio (STAR Ohio)	355,515		
Total Investments — Component Units	9,976,507		
Total Investments — Reporting Entity	$233,645,958		

Reconciliation of Deposits and Investments Disclosures with Financial Statements As of June 30, 2007

(dollars in thousands)

	Government-Wide Statement of Net Assets: Governmental Activities	Government-Wide Statement of Net Assets: Business-Type Activities	Government-Wide Statement of Net Assets: Component Units	Fiduciary Funds Statement of Net Assets	Total
Cash Equity with Treasurer	$ 7,299,881	$ 124,854	$ 541,343	$ 273,250	$ 8,239,328
Cash and Cash Equivalents	114,539	342,232	892,736	240,196	1,589,703
Investments	899,044	16,496,675	6,909,258	191,288,769	215,593,746
Collateral on Lent Securities	4,110,979	62,127	299,861	292,649	4,765,616
Deposit with Federal Government	—	591,758	—	—	591,758
Restricted Assets:					
Cash Equity with Treasurer	—	273	22,336	—	22,609
Cash and Cash Equivalents	—	1,564	348,016	—	349,580
Investments	—	1,535,947	1,693,431	—	3,229,378
Collateral on Lent Securities	—	410,718	12,534	—	423,252
Total Reporting Entity	$12,424,443	$19,566,148	$10,719,515	$192,094,864	$234,804,970

Total Carrying Amount of Deposits and Investments per Financial Statements	$234,804,970
Outstanding Warrants and Other Reconciling Items	135,561
Differences Resulting from Component Units with December 31 Year-Ends	101,124
Total Carrying Amount of Deposits and Investments Disclosed in Note 4	$235,041,655

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The total carrying amount of deposits and investments, as of June 30, 2007, reported for the primary government and its component units is (dollars in thousands) $234,804,970. The total of the carrying amounts of both deposits in the amount of $1,395,697 and investments in the amount of $233,645,958 that has been categorized and disclosed in this note is $235,041,655. A reconciliation of the difference is presented in the table on the previous page.

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

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

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

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

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

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

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

State Highway Patrol Retirement System Pension Trust Fund
When purchased, bond investments must be rated within the four highest classifications of at least two rating agencies.

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

Retirement Systems Agency Fund
For the Ohio Public Employees Retirement System, non-investment grade securities are limited to 15 percent of the total Global Bond portfolio assets. Under the Cash Management Policy, issues rated in the A2/P2 category are limited to five percent of the portfolio and one percent per issuer. Those rated in the A3/P3 category are limited to two percent of the portfolio (one-half percent per issuer) with a final maturity of the next business day.

For the Ohio Police and Fire Pension Fund,

- Securities in the core fixed income portfolio shall be rated "BBB-" or better by two standard rating agencies at the time of purchase,
- Securities in the high yield fixed income portfolio are high yield bonds issued by US corporations with a minimum rating of "CCC" or equivalent,
- Investment managers may purchase securities that are "Not Rated" as long as they deem these securities to be at least equivalent to the minimum ratings, and
- Commercial paper must be rated within the two highest classifications established by two standard rating agencies.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

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

Primary Government (including Fiduciary Activities)
Investment Credit Ratings
As of June 30, 2007
(dollars in thousands)

	Credit Rating					
Investment Type	AAA/Aaa	AA/Aa	A/A-1	BBB/Baa	BB/Ba	B
U.S. Agency Obligations	$12,592,725	$ 140,775	$ —	$ 10,540	$ —	$ —
U.S. Agency Obligations—Strips	257,525	—	9,423	—	—	—
Corporate Bonds and Notes	3,074,803	2,997,239	5,197,156	3,738,633	479,718	836,440
Corporate Bonds and Notes—Strips	541	—	—	—	—	—
Commercial Paper	3,120,396	—	3,487,400	—	—	—
Repurchase Agreements	56,636	1,452	1,140	—	—	—
Mortgage and Asset-Backed Securities	8,354,105	241,053	101,788	94,478	462	1,874
Foreign Bonds	61,397	121,809	364,236	415,444	223,552	113,860
High-Yield & Emerging Markets Fixed Income	7,613	—	7,229	145,630	290,645	561,406
Bond Mutual Funds	4,813,775	223,246	3,904	29,456	85,607	45,723
Investment Contracts	—	—	—	—	—	—
Securities Lending Collateral:						
Commercial Paper	—	—	58,912	—	—	—
Repurchase Agreements	—	300,000	911,126	—	—	—
Mortgage and Asset-Backed Securities	3,849	—	—	—	—	—
Variable Rate Notes	—	1,185,384	1,224,970	—	—	—
Master Notes	—	655,000	335,000	—	—	—
Negotiable Certificates of Deposit	—	275,012	243,025	—	—	—
Total Primary Government	$32,343,365	$6,140,970	$11,945,309	$4,434,181	$1,079,984	$1,559,303

	Credit Rating				
Investment Type	CCC/Caa	CC/Ca	D	Unrated	Total
U.S. Agency Obligations	$ —	$ —	$ —	$ 182,306	$12,926,346
U.S. Agency Obligations—Strips	—	—	—	10,127	277,075
Corporate Bonds and Notes	240,092	726	8,628	175,577	16,749,012
Corporate Bonds and Notes—Strips	—	—	—	—	541
Commercial Paper	—	—	—	—	6,607,796
Repurchase Agreements	—	—	—	259	59,487
Mortgage and Asset-Backed Securities	—	—	—	429,115	9,222,875
Foreign Bonds	9,764	—	6,468	424,621	1,741,151
High-Yield & Emerging Markets Fixed Income	144,174	440	13,399	70,418	1,240,954
Bond Mutual Funds	—	—	—	382,486	5,584,197
Investment Contracts	—	—	—	6,006	6,006
Securities Lending Collateral:					
Commercial Paper	—	—	—	—	58,912
Repurchase Agreements	—	—	—	—	1,211,126
Mortgage and Asset-Backed Securities	—	—	—	—	3,849
Variable Rate Notes	—	—	—	—	2,410,354
Master Notes	—	—	—	—	990,000
Negotiable Certificates of Deposit	—	—	—	—	518,037
Total Primary Government	$394,030	$1,166	$28,495	$1,680,915	$59,607,718

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Component Units
Investment Credit Ratings
As of June 30, 2007
(dollars in thousands)

Investment Type	Credit Rating AAA/Aaa	AA/Aa	A/A-1	BBB/Baa	BB/Ba	B
U.S. Agency Obligations	$ 758,264	$ 812	$ —	$ —	$ —	$ —
U.S. Agency Obligations—Strips	1,752	—	—	—	—	—
Corporate Bonds and Notes	75,912	44,227	74,220	29,048	8,086	20,144
Commercial Paper	—	—	46,425	—	—	—
Repurchase Agreements	157,147	—	—	—	—	—
Mortgage and Asset-Backed Securities	6,376	—	—	—	—	—
Negotiable Certificates of Deposit	—	—	—	—	—	—
Municipal Obligations	91,923	31	60	—	—	—
Bond Mutual Funds	635,562	247,469	57,260	25,420	19,651	20,995
Foreign Bonds	—	220	—	1,093	7,444	965
Investment Contracts	—	—	—	—	—	—
Other Investments	—	—	—	—	—	—
Total Component Units	$1,726,936	$292,759	$177,965	$55,561	$35,181	$42,104

Investment Type	Credit Rating CCC/Caa	Unrated	Total
U.S. Agency Obligations	$ —	$ 56,644	$ 815,720
U.S. Agency Obligations—Strips	—	—	1,752
Corporate Bonds and Notes	7,808	9,055	268,500
Commercial Paper	—	—	46,425
Repurchase Agreements	—	92,631	249,778
Mortgage and Asset-Backed Securities	—	66,511	72,887
Negotiable Certificates of Deposit	—	420	420
Municipal Obligations	—	267	92,281
Bond Mutual Funds	6,595	16,622	1,029,574
Foreign Bonds	—	7,809	17,531
Investment Contracts	—	628,989	628,989
Other Investments	—	3,908	3,908
Total Component Units	$14,403	$882,856	$3,227,765

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

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

Rating	General Description of Credit Rating
AAA/Aaa	Extremely strong
AA/Aa	Very strong
A/A-1	Strong
BBB/Baa	Adequate
BB/Ba	Less vulnerable
B	More vulnerable
CCC/Caa	Currently vulnerable to nonpayment
CC/Ca	Currently highly vulnerable to nonpayment
D	Currently highly vulnerable to nonpayment for failure to pay by due date

3. Concentration of Credit Risk

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

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

- Investments in commercial paper may not exceed 25 percent of the State's total average portfolio,
- Bankers acceptances cannot exceed 10 percent of the State's total average portfolio,
- Debt interests cannot exceed 25 percent of the State's total average portfolio,

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

- Debt interests in foreign nations may not exceed one percent of the State's total average portfolio, and
- Debt interests of a single issuer may not exceed one-half of one percent of the State's total average portfolio.

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

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

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

For the U.S. Equity Portfolio of the Workers' Compensation Enterprise Fund, no single holding is to be more than five percent of the entire portfolio at market, or five percent of the outstanding equity securities of any one corporation.

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

The State Highway Patrol Retirement System Pension Trust Fund's policy prohibits the investment of more than 10 percent of its fixed income portfolio in securities of any one issuer with the exception of U.S. government securities, or the investment of more than five percent of the Fund's total investments in any one issuer with the exception of U.S. government securities.

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

As of June 30, 2007, all investments meet the requirements of the State's laws and policies, when applicable. However, investments in certain issuers are at least five percent of investment balances, as follows (dollars in thousands):

Issuer	Amount	Percentage of Investment Balance
Governmental and Business-Type Activities:		
Federal National Mortgage Association	$2,698,831	9%
Federal Home Loan Bank	1,661,363	5%
Federal Home Loan Mortgage Corporation	1,574,717	5%
STAR Ohio Investment Trust Fund:		
Federal National Mortgage Association	1,390,357	29%
Federal Home Loan Bank	814,123	17%
Federal Home Loan Mortgage Corporation	1,363,802	28%
School Facilities Commission Component Unit Fund:		
Federal National Mortgage Association	117,428	15%
Federal Home Loan Bank	111,459	14%
Federal Home Loan Mortgage Corporation	54,988	7%
Ohio Water Development Authority Component Unit Fund (12/31/06):		
AIGMFC	350,196	27%
Citigroup	235,917	18%

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

4. Interest Rate Risk

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

Investment policies governing the treasury's cash and investment pool, which is reported as "Cash Equity with Treasurer" and is managed by the Treasurer of State's Office, limit maturities of short-term investments to no more than 18 months with a weighted average maturity not to exceed 90 days. For long-term investments, maturities are limited to five years or less, except for those that are matched to a specific obligation or debt of the State. A duration target of three years or less has been established for long-term investments.

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

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

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

For the State Highway Patrol Retirement System Pension Trust Fund, investment policies require that the Fund's fixed income portfolio has an average maturity of 10 years or less.

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

Investments purchased under the Cash Management Policy of the Ohio Public Employees Retirement System are limited to a weighted average maturity of 90 days. Fixed rate notes are required to have an average maturity of 14 months. Floating rate notes, with a rating of AA and higher, are limited to an average maturity of three years. All other issues are limited to a two-year average maturity.

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

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

As of June 30, 2007, several investments reported as "Cash Equity with Treasurer" have terms that make their fair values highly sensitive to interest rate changes. The U.S. agency obligations investment type includes $1.8 million of investments with call dates during fiscal years 2008 through 2010. These investments have maturities between fiscal years 2008 and 2012 and are reported in the table on the following page as maturing in one to five years.

Several investments reported as "Collateral on Lent Securities" have terms that make them highly sensitive to interest rate changes as of June 30, 2007. Master Notes of $510 million and variable rate notes of $805.5 million have daily reset dates. Mortgage and asset-backed securities of $3.8 million and variable rate notes of $625 million have monthly reset dates. Variable rate notes of $749.9 million have quarterly reset dates.

The Lottery Commission Enterprise Fund has collateral on lent securities with reset dates. Master notes and variable rate notes with reset dates are reported as collateral on lent securities. Master notes of $55 million have daily reset dates. Variable rate notes of $95 million, $95 million, and $40 million, respectively have daily, monthly, and quarterly reset dates.

Also during fiscal year 2007, the Treasurer of State acted as the custodian of the Retirement Systems Agency Fund's investments. These investments contain terms that make their fair values highly sensitive to interest rate changes. Specific information on the nature of the investments and their terms can be found in each respective system's Comprehensive Annual Financial Report.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The following table lists the investment maturities of the State's investments. All investments at June 30, 2007, meet the requirements of the State's laws and policies, when applicable.

Primary Government (including Fiduciary Activities)
Investments Subject to Interest Rate Risk
As of June 30, 2007
(dollars in thousands)

	Investment Maturities (in years)				
Investment Type	Less than 1	1-5	6-10	More than 10	Total
U.S. Government Obligations	$ 853,701	$ 4,434,275	$ 3,920,552	$13,784,965	$22,993,493
U.S. Government Obligations—Strips	903	17,459	104,464	253,313	376,139
U.S. Agency Obligations	6,204,150	4,161,489	708,531	1,852,176	12,926,346
U.S. Agency Obligations—Strips	1,083	72,707	99,460	103,825	277,075
Corporate Bonds and Notes	3,116,732	5,015,568	3,163,092	5,453,620	16,749,012
Corporate Bonds and Notes—Strips	—	—	—	541	541
Commercial Paper	6,607,796	—	—	—	6,607,796
Repurchase Agreements	59,487	—	—	—	59,487
Mortgage and Asset-Backed Securities	26,700	112,420	315,007	8,768,748	9,222,875
Foreign Bonds	137,773	307,359	457,654	838,365	1,741,151
High-Yield & Emerging Markets Fixed Income	33,129	200,800	653,726	353,299	1,240,954
Bond Mutual Funds	1,434,188	1,331,392	1,919,775	898,842	5,584,197
Investment Contracts	—	6,006	—	—	6,006
Securities Lending Collateral:					
Commercial Paper	58,912	—	—	—	58,912
Repurchase Agreements	1,211,126	—	—	—	1,211,126
Mortgage and Asset-Backed Securities	3,849	—	—	—	3,849
Variable Rate Notes	2,410,354	—	—	—	2,410,354
Master Notes	990,000	—	—	—	990,000
Negotiable Certificates of Deposit	518,037	—	—	—	518,037
Total Primary Government	$23,667,920	$15,659,475	$11,342,261	$32,307,694	$82,977,350

Component Units
Investments Subject to Interest Rate Risk
As of June 30, 2007
(dollars in thousands)

	Investment Maturities (in years)				
Investment Type	Less than 1	1-5	6-10	More than 10	Total
U.S. Government Obligations	$ 83,258	$ 159,456	$ 50,947	$ 33,301	$ 326,962
U.S. Government Obligations—Strips	1,359	3,844	577	367	6,147
U.S. Agency Obligations	340,394	326,668	57,696	90,962	815,720
U.S. Agency Obligations—Strips	—	—	1,752	—	1,752
Corporate Bonds and Notes	53,971	86,927	62,850	64,752	268,500
Commercial Paper	46,425	—	—	—	46,425
Repurchase Agreements	249,778	—	—	—	249,778
Mortgage and Asset-Backed Securities	311	1,155	4,753	66,668	72,887
Negotiable Certificates of Deposit	420	—	—	—	420
Municipal Obligations	19,942	71,124	190	1,025	92,281
Bond Mutual Funds	349,283	359,629	242,751	77,911	1,029,574
Foreign Bonds	—	2,941	3,497	11,093	17,531
Investment Contracts	210,022	360,404	—	58,563	628,989
Other Investments	367	1,836	551	1,154	3,908
Total Component Units	$1,355,530	$1,373,984	$425,564	$405,796	$3,560,874

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

- equity securities of any one international company shall not exceed five percent of the total value of all the investments in international equity securities, and

- equity securities of any one international company shall not exceed five percent of the company's outstanding equity securities.

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

As of June 30, 2007, investments denominated in the currency of foreign nations, as detailed in the tables appearing on the next two pages for the primary government and its discretely presented component units, meet the requirements of the State's laws and policies, when applicable.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Primary Government (including Fiduciary Activities)
International Investments—Foreign Currency Risk
As of June 30, 2007
(dollars in thousands)

	Fiduciary Activities			
Currency	Stocks	Bonds	High-Yield & Emerging Markets Fixed Income	Total
Argentinean Peso	$ 941	$ 39,653	$ 713	$ 41,307
Australian Dollar	735,779	—	—	735,779
Brazilian Real	402,484	47,007	10,283	459,774
British Pound	3,139,112	—	—	3,139,112
Bulgarian Lev	758	—	—	758
Canadian Dollar	682,477	38,702	—	721,179
Chilean Peso	20,063	—	—	20,063
Chinese Yuan	59,447	—	—	59,447
Colombian Peso	3,857	22,716	—	26,573
Czech Koruna	39,051	—	—	39,051
Danish Krone	145,092	—	—	145,092
Egyptian Pound	43,930	6,059	739	50,728
Euro	5,091,048	7,609	345	5,099,002
Hong Kong Dollar	943,359	—	—	943,359
Hungarian Forint	60,559	1,896	—	62,455
Indian Rupee	142,266	—	—	142,266
Indonesian Rupiah	104,325	10,448	377	115,150
Israeli Shekel	86,285	3,405	—	89,690
Japanese Yen	2,949,896	—	25	2,949,921
Jordanian Dollar	1	—	—	1
Lithuanian Litas	29	—	—	29
Malaysian Ringgit	185,649	—	7,525	193,174
Mexican Peso	169,704	45,668	5,919	221,291
New Zealand Dollar	101,725	—	—	101,725
Norwegian Krone	231,599	—	—	231,599
Pakistani Rupee	6,843	—	—	6,843
Philippines Peso	53,010	—	—	53,010
Polish Zloty	59,266	—	—	59,266
Romanian Leu	3,694	—	—	3,694
Russian Ruble	48,492	—	529	49,021
Singapore Dollar	319,289	—	—	319,289
South African Rand	390,716	—	—	390,716
South Korean Won	982,749	—	—	982,749
Sri Lankan Rupee	12,443	—	—	12,443
Swedish Krona	300,199	—	—	300,199
Swiss Franc	784,886	—	—	784,886
Taiwan Dollar	635,974	—	—	635,974
Thailand Baht	162,280	1,997	—	164,277
Turkish Lira	180,743	35,323	8,556	224,622
Uruguyuan Peso	—	—	1,712	1,712
Venezuelan Bolivar	130	—	—	130
Zimbabwean Dollar	1,283	5,233	—	6,516
Investments Held in Foreign Currency	$19,281,433	$265,716	$36,723	19,583,872
Foreign Investments Held in U.S. Dollars				23,423,955
Total Foreign Investments-Primary Government, including Fiduciary Activities				$43,007,827

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Component Units
International Investments—Foreign Currency Risk
As of June 30, 2007
(dollars in thousands)

Ohio State University:

Currency	Included in the Balance Reported for Common & Preferred Stock	Included in the Balance Reported for Corporate Bonds	Total
Argentinean Peso	$ —	$ 1,914	$ 1,914
Australian Dollar	4,336	—	4,336
Brazilian Real	4,694	—	4,694
British Pound	25,653	—	25,653
Canadian Dollar	7,883	—	7,883
Danish Krone	468	—	468
Egyptian Pound	326	—	326
Euro	57,250	—	57,250
Hong Kong Dollar	8,040	—	8,040
Indonesian Rupiah	993	—	993
Israeli Shekel	542	—	542
Japanese Yen	36,012	—	36,012
Malaysian Ringgit	4,508	—	4,508
Mexican Peso	1,088	881	1,969
New Zealand Dollar	152	—	152
Norwegian Krone	7,596	—	7,596
Philippines Peso	597	—	597
Polish Zloty	440	—	440
Singapore Dollar	2,272	—	2,272
South African Rand	8,357	—	8,357
South Korean Won	9,152	—	9,152
Swedish Krona	4,101	—	4,101
Swiss Franc	4,112	—	4,112
Taiwan Dollar	3,567	—	3,567
Thailand Baht	1,307	—	1,307
Turkish Lira	—	970	970
Other	—	197	197
Investments Held in Foreign Currency	193,446	3,962	197,408
Foreign Investments Held in U.S. Dollars	—	13,569	13,569
Total Ohio State University	$193,446	$17,531	$210,977

Nonmajor Component Units:

Currency	Included in the Balance Reported for Common & Preferred Stock
Australian Dollar	$ 2,818
Bermudian Dollar	93
Brazilian Real	2,208
British Pound	5,358
Canadian Dollar	3,838
Euro	1,647
Japanese Yen	7,608
South African Rand	2,984
South Korean Won	2,551
Taiwan Dollar	1,009
Investments Held in Foreign Currency	30,114
Foreign Investments Held in U.S. Dollars	856
Total Nonmajor Component Units	$30,970

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

D. Securities Lending Transactions

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

At the time of the loan, the Treasurer of State requires its custodial agents to ensure that the State's lent securities are collateralized at no less than 102 percent of fair value. At no point in time can the value of the collateral be less than 100 percent of the underlying securities.

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

Consequently, as of June 30, 2007, the State had no credit exposure since the amount the State owed to borrowers at least equaled or exceeded the amount borrowers owed the State.

For loan contracts the Treasurer executes for the State's cash and investment pool, which is reported in the financial statements as "Cash Equity with Treasurer," and for the Ohio Lottery Commission Enterprise Fund's Structured Investment Portfolio, which is reported as "Restricted Investments," the lending agent may not lend more than 75 percent of the total average portfolio.

The State invests cash collateral in short-term obligations, which have a weighted average maturity of 22 days or less while the weighted average maturity of securities loans is one day or less.

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

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

During fiscal year 2007, the State had not experienced any losses due to credit or market risk on securities lending activities.

In fiscal year 2007, the Treasurer lent U.S. government and agency obligations in exchange for cash collateral while the SHPRS lent equity securities in exchange for cash collateral.

NOTE 5 RECEIVABLES

A. Taxes Receivable — Primary Government
Current taxes receivable are expected to be collected in the next fiscal year while noncurrent taxes receivable are not expected to be collected until more than one year from the balance sheet date. As of June 30, 2007, approximately $264.9 million of the net taxes receivable balance is also reported as deferred revenue on the governmental funds' balance sheet, of which $237.1 million is reported in the General Fund and $27.8 million is reported in the Revenue Distribution Special Revenue Fund.

Refund liabilities for income and corporation franchise taxes, totaling approximately $866.3 million, are reported for governmental activities as "Refunds and Other Liabilities" on the Statement of Net Assets, of which, $795.9 million is reported in the General Fund and $70.4 million is reported in the Revenue Distribution Special Revenue Fund on the governmental funds' balance sheet.

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

	Governmental Activities				
	Major Governmental Funds				
	General	Highway Operating	Revenue Distribution	Nonmajor Governmental Funds	Total Primary Government
Current-Due Within One Year:					
Income Taxes	$ 470,124	$ —	$ 57,321	$ 162	$ 527,607
Sales Taxes	382,108	—	28,655	864	411,627
Motor Vehicle Fuel Taxes	—	90,543	145,518	3,346	239,407
Commercial Activity Taxes	—	—	209,296	—	209,296
Public Utility Taxes	71,517	—	30,302	—	101,819
Severance Taxes	—	—	—	2,227	2,227
	923,749	90,543	471,092	6,599	1,491,983
Noncurrent-Due in More Than One Year:					
Income Taxes	59,954	—	7,034	—	66,988
Taxes Receivable, Net	$ 983,703	$ 90,543	$478,126	$ 6,599	$1,558,971

B. Intergovernmental Receivable — Primary Government
The intergovernmental receivable balance reported for the primary government, all of which is expected to be collected within the next fiscal year, consists of the following, as of June 30, 2007 (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	$ 479,820	$ 25,207	$ —	$ 4,586	$ 509,613
Job, Family and Other Human Services	307,583	87,905	—	—	395,488
Education	53,687	73,909	—	—	127,596
Highway Operating	142,056	—	—	—	142,056
Nonmajor Governmental Funds	266,872	4,451	—	28,066	299,389
Total Governmental Activities	1,250,018	191,472	—	32,652	1,474,142
Business-Type Activities:					
Major Proprietary Funds:					
Unemployment Compensation	—	—	3,888	—	3,888
Nonmajor Proprietary Funds	23	—	—	6,178	6,201
Total Business-Type Activities	23	—	3,888	6,178	10,089
Intergovernmental Receivable	$1,250,041	$191,472	$ 3,888	$38,830	$1,484,231

NOTE 5 RECEIVABLES (Continued)

C. Loans Receivable

Loans receivable for the primary government and its discretely presented major component units, as of June 30, 2007, are detailed in the following tables (dollars in thousands).

Primary Government — Loans Receivable

	Governmental Activities				
	Major Governmental Funds				
Loan Program	General	Education	Highway Operating	Nonmajor Govern-mental Funds	Total Primary Government
Housing Finance	$211,989	$ —	$ —	$ —	$211,989
School District Solvency Assistance	17,206	—	—	—	17,206
Wayne Trace Local School District	4,149	—	—	—	4,149
State Workforce Development	1,397	—	—	—	1,397
Office of Minority Financial Incentives	942	—	—	—	942
Professional Development	844	—	—	—	844
Columbiana County Economic Stabilization	523	—	—	—	523
Small Government Fire Departments	676	—	—	—	676
Nurses Education Assistance	—	99	—	—	99
Highway, Transit, & Aviation Infrastructure Bank	—	—	99,458	—	99,458
Economic Development					
Office of Financial Incentives	—	—	—	334,324	334,324
Rail Development	—	—	—	3,348	3,348
Brownfield Revolving Loan	—	—	—	598	598
Local Infrastructure Improvements	—	—	—	316,818	316,818
Natural Resources	—	—	—	30	30
Loans Receivable, Gross	237,726	99	99,458	655,118	992,401
Estimated Uncollectible	(103)	—	—	—	(103)
Loans Receivable, Net	$237,623	$99	$ 99,458	$655,118	$992,298
Current-Due Within One Year	$ 13,200	$ —	$ 13,832	$ 28,581	$ 55,613
Noncurrent-Due in More Than One Year	224,423	99	85,626	626,537	936,685
Loans Receivable, Net	$237,623	$99	$ 99,458	$655,118	$992,298

Major Component Units — Loans Receivable

Loan Program	Ohio Water Development Authority (12/31/06)	Ohio State University	University of Cincinnati
Water and Wastewater Treatment			
(including restricted portion)	$3,642,315	$ —	$ —
Student	—	85,214	36,626
Other	—	—	766
Loans Receivable, Gross	3,642,315	85,214	37,392
Estimated Uncollectible	—	(15,650)	(4,903)
Loans Receivable, Net	$3,642,315	$ 69,564	$ 32,489
Current-Due Within One Year	$ 1,741	$ 8,521	$ 2,869
Noncurrent-Due in More Than One Year	3,640,574	61,043	29,620
Loans Receivable, Net	$3,642,315	$ 69,564	$ 32,489

NOTE 5 RECEIVABLES (Continued)

D. Other Receivables

The other receivables balances reported for the primary government and its discretely presented major component units reporting significant balances, as of June 30, 2007, consist of the following (dollars in thousands).

Primary Government — Other Receivables

	Governmental Activities						
	Major Governmental Funds						
Type of Receivable	General	Job, Family & Other Human Services	Education	Highway Operating	Revenue Distribution	Nonmajor Governmental Funds	Total
Manufacturers' Rebates	$ 68,733	$103,081	$ —	$ —	$ —	$ 14,242	$ 186,056
Tobacco Settlement	—	—	—	—	—	253,306	253,306
Health Facility Bed Assessments	—	60,226	—	—	—	—	60,226
Interest	32,313	—	—	4,043	—	5,054	41,410
Accounts	52,512	10,938	376	943	1,500	7,193	73,462
Environmental Legal Settlements	—	—	—	—	—	9,062	9,062
Miscellaneous	15,520	4,145	23	171	—	422	20,281
Other Receivables, Net-Due Within One Year	$169,078	$178,390	$ 399	$ 5,157	$ 1,500	$ 289,279	$ 643,803

	Business-Type Activities				
	Major Proprietary Funds				
Type of Receivable	Workers' Compensation	Lottery Commission	Unemployment Compensation	Nonmajor Proprietary Funds	Total
Accounts	$ 966,512	$ —	$ 73,638	$ 968	$1,041,118
Interest and Dividends (including restricted portion)	183,418	5,211	—	5,465	194,094
Leases	—	—	—	2,758	2,758
Lottery Sales Agents	—	41,974	—	—	41,974
Miscellaneous	—	—	—	36	36
Other Receivables, Gross	1,149,930	47,185	73,638	9,227	1,279,980
Estimated Uncollectible	(795,631)	(231)	(63,650)	—	(859,512)
Other Receivables, Net-Due Within One Year	$ 354,299	$46,954	$ 9,988	$ 9,227	$ 420,468
Total Primary Government					$1,064,271

Major Component Units — Other Receivables

Type of Receivable	Ohio State University	University of Cincinnati
Accounts	$ 864,811	$ 30,283
Interest	16,852	26,100
Investment Trade Receivable (Stock Proceeds)	—	216
Pledges	41,583	37,885
Unbilled Charges	—	31,062
Other Receivables, Gross	923,246	125,546
Estimated Uncollectible	(510,135)	(19,795)
Other Receivables, Net	$ 413,111	$ 105,751
Current-Due Within One Year	$ 399,774	$ 67,014
Noncurrent-Due in More Than One Year	13,337	38,737
Other Receivables, Net	$ 413,111	$ 105,751

NOTE 5 RECEIVABLES (Continued)

The "Other Receivables" balance reported in the fiduciary funds as of June 30, 2007, is comprised of interest due of approximately $4.8 million, investment trade receivable of $3.9 million, and miscellaneous receivables of $1.8 million.

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

As of June 30, 2007, future lease payments included under "Other Receivables" in business-type activities, net of executory costs, (dollars in thousands) were as follows:

Year Ending June 30,	Business-Type Activities
2008	$2,716
Total Minimum Lease Payments	2,716
Amount for interest	(29)
Present Value of Net Minimum Lease Payments	2,687
Unearned Income	71
Net Leases Receivable	$2,758

NOTE 6 PAYABLES

A. Accrued Liabilities

Details on accrued liabilities for the primary government and its discretely presented major component units reporting significant balances, as of June 30, 2007, follow (dollars in thousands).

Primary Government — Accrued Liabilities

	Wages and Employee Benefits	Accrued Interest	Other	Total Accrued Liabilities
Governmental Activities:				
Major Governmental Funds:				
General	$141,217	$ —	$ —	$141,217
Job, Family and Other Human Services	17,972	—	—	17,972
Education	1,912	—	—	1,912
Highway Operating	24,770	—	—	24,770
Nonmajor Governmental Funds	48,289	—	28	48,317
	234,160	—	28	234,188
Reconciliation of balances in fund financial statements to government-wide financial statements due to basis differences	—	123,082	—	123,082
Total Governmental Activities	234,160	123,082	28	357,270
Business-Type Activities:				
Nonmajor Proprietary Funds	5,981	15	—	5,996
Total Primary Government	$240,141	$123,097	$ 28	$363,266

	Wages and Employee Benefits	Health Benefit Claims	Management and Administrative Expenses	Total Accrued Liabilities
Fiduciary Activities:				
State Highway Patrol Retirement System Pension Trust (12/31/06)	$ 1,511	$ 877	$ —	$ 2,388
Variable College Savings Plan Private-Purpose Trust	—	—	6,956	6,956
Total Fiduciary Activities	$ 1,511	$ 877	$6,956	$ 9,344

NOTE 6 PAYABLES (Continued)

Major Component Units — Accrued Liabilities

	Wages and Employee Benefits	Self-Insurance	Accrued Interest	Other	Total Accrued Liabilities
Ohio State University	$163,632	$120,663	$ 4,918	$30,907	$ 320,120
University of Cincinnati	41,773	—	5,788	28,445	76,006

B. Intergovernmental Payable

The intergovernmental payable balances for the primary government, as of June 30, 2007, 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 States	Total
Governmental Activities:					
Major Governmental Funds:					
General	$274,723	$137,891	$23,581	$ —	$ 436,195
Job, Family and Other Human Services	—	179,016	—	—	179,016
Education	—	69,795	11	—	69,806
Highway Operating	—	2,304	—	—	2,304
Revenue Distribution	649,799	—	—	1,961	651,760
Nonmajor Governmental Funds	—	178,756	—	—	178,756
Total Governmental Activities	924,522	567,762	23,592	1,961	1,517,837
Business-Type Activities:					
Major Proprietary Funds:					
Unemployment Compensation	—	322	679	—	1,001
Nonmajor Proprietary Funds	437	—	—	—	437
Total Business-Type Activities	437	322	679	—	1,438
Total Primary Government	$924,959	$568,084	$24,271	$ 1,961	$1,519,275
Fiduciary Activities:					
Holding and Distribution Agency Fund	$ —	$ —	$ 2,876	$14,294	$ 17,170
Payroll Withholding and Fringe Benefits Agency Fund	—	359	—	—	359
Other Agency Fund	130,525	1,979	—	—	132,504
Total Fiduciary Activities	$130,525	$ 2,338	$ 2,876	$14,294	$ 150,033

As of June 30, 2007, the School Facilities Commission Component Unit Fund reported an intergovernmental payable balance totaling approximately $2.11 billion for long-term funding contracts the Commission has with local school districts. In the government-wide Statement of Net Assets, the intergovernmental payable balance for the Commission is included with "Other Noncurrent Liabilities."

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

C. Refund and Other Liabilities

Refund and other liabilities for the primary government and its discretely presented major component units reporting significant balances, as of June 30, 2007, consist of the balances reported on the tables presented on the following page (dollars in thousands).

NOTE 6 PAYABLES (Continued)

Primary Government — Refund and Other Liabilities

Governmental Activities:	Estimated Tax Refund Claims: Personal Income Tax	Corporation Franchise Tax	Total Tax Refund Liabilities	Interest on Lawyers' Trust Accounts	Other	Total
Major Governmental Funds:						
General	$ 636,114	$159,789	$795,903	$ —	$ 114	$ 796,017
Job, Family and Other Human Services	—	—	—	3,141	1,994	5,135
Revenue Distribution	64,766	5,623	70,389	—	—	70,389
Nonmajor Governmental Funds	—	—	—	—	2,484	2,484
Total Governmental Activities	$ 700,880	$165,412	$866,292	$ 3,141	$ 4,592	$ 874,025

	Reserve for Compen-sation Adjustment	Refund and Security Deposits	Compensated Absences	Capital Leases	Other	Total
Business-Type Activities:						
Major Proprietary Funds:						
Workers' Compensation	$ 1,858,529	$ 87,808	$ 26,645	$ —	$ 67,726	$ 2,040,708
Lottery Commission	—	32,930	3,255	—	1,982	38,167
Unemployment Compensation	—	11,854	—	—	—	11,854
Nonmajor Proprietary Funds	—	2,671	10,920	22	138	13,751
	1,858,529	135,263	40,820	22	69,846	2,104,480
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the government-wide financial statements	(1,858,529)	(87,808)	(40,439)	(22)	(22,307)	(2,009,105)
Total Business-Type Activities	$ —	$ 47,455	$ 381	$ —	$ 47,539	$ 95,375
Total Primary Government						$ 969,400

	Child Support Collections	Refund and Security Deposits	Payroll Withholdings	Retirement Systems' Assets	Other	Total
Fiduciary Activities:						
State Highway Patrol Retirement System Pension Trust (12/31/06)	$ —	$ —	$ —	$ —	$ 41	$ 41
Variable College Savings Plan Private-Purpose Trust	—	—	—	—	5,961	5,961
STAR Ohio Investment Trust	—	—	—	—	1,037	1,037
Agency Funds:						
Holding and Distribution	—	18,184	—	—	—	18,184
Centralized Child Support Collections	61,571	—	—	—	—	61,571
Retirement Systems	—	—	—	181,097,077	—	181,097,077
Payroll Withholding and Fringe Benefits	—	—	112,760	—	—	112,760
Other	—	405,957	—	49,075	100,020	555,052
Total Fiduciary Activities	$ 61,571	$424,141	$112,760	$181,146,152	$107,059	$181,851,683

Major Component Units — Refund and Other Liabilities

	Refund and Security Deposits	Compensated Absences	Capital Leases	Obligations Under Annuity Life Agreements	Other	Total
Ohio State University	$ 93,415	$ 91,478	$ 24,143	$ 55,403	$ 22,047	$ 286,486
University of Cincinnati	38,372	64,408	159,515	—	7,826	270,121

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

A. Interfund Balances

Interfund balances, as of June 30, 2007, consist of the following (dollars in thousands):

	Due To				
	Governmental Activities				
Due from	General	Job, Family and Other Human Services	Highway Operating	Nonmajor Governmental Funds	Total
Major Governmental Funds:					
General	$ —	$21	$ —	$3,599	$ 3,620
Revenue Distribution	—	—	630	396	1,026
Nonmajor Governmental Funds	—	—	—	655	655
Total Governmental Activities	—	21	630	4,650	5,301
Nonmajor Proprietary Funds	2,992	—	—	—	2,992
Total Business-Type Activities	2,992	—	—	—	2,992
Total Primary Government	$2,992	$21	$ 630	$4,650	$ 8,293

	Business-Type Activities			
	Major Proprietary Fund			
Due from	Workers' Compensation	Nonmajor Proprietary Funds	Total	Total Primary Government
Major Governmental Funds:				
General	$627,972	$9,328	$637,300	$640,920
Job, Family, Other Human Services	16,900	—	16,900	16,900
Education	2,685	—	2,685	2,685
Highway Operating	103,597	—	103,597	103,597
Revenue Distribution	—	—	—	1,026
Nonmajor Governmental Funds	123,609	290	123,899	124,554
Total Governmental Activities	874,763	9,618	884,381	889,682
Major Proprietary Funds:				
Lottery Commission	2,881	—	2,881	2,881
Nonmajor Proprietary Funds	10,110	—	10,110	13,102
Total Business-Type Activities	12,991	—	12,991	15,983
Total Primary Government	$887,754	$9,618	$897,372	$905,665

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.

The State's primary government is permitted to pay its workers' compensation liability on a terminal-funding (pay-as-you-go) basis. As a result, the Workers' Compensation Enterprise Fund recognized $887.8 million as an interfund receivable for the unbilled premium due for the primary government's share of the Bureau's actuarially determined liability for compensation. In the Statement of Net Assets, the State includes the liability totaling $874.8 million in the internal balance reported for governmental activities.

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

B. Interfund Transfers

Interfund transfers, for the year ended of June 30, 2007, consist of the following (dollars in thousands):

	Transferred to						
	Governmental Activities						
	Major Governmental Funds						
Transferred from	General	Job, Family and Other Human Services	Education	Highway Operating	Revenue Distribution	Nonmajor Govern-mental Funds	Total
Major Governmental Funds:							
General	$ —	$ 67,554	$ 9,549	$ 255	$ 741	$1,194,063	$1,272,162
Job, Family and Other Human Services	3,665	—	1,500	—	—	163	5,328
Education	31,768	—	—	—	—	21	31,789
Highway Operating	554	—	—	—	156,111	156,791	313,456
Revenue Distribution	98,629	—	64,882	495,864	—	262,603	921,978
Nonmajor Governmental Funds	68,635	4,189	377	1,915	—	15,666	90,782
Total Governmental Activities	203,251	71,743	76,308	498,034	156,852	1,629,307	2,635,495
Major Proprietary Funds:							
Workers' Compensation	7,586	—	—	—	—	—	7,586
Lottery Commission	507	—	669,327	—	—	—	669,834
Unemployment Compensation	—	39,122	—	—	—	—	39,122
Nonmajor Proprietary Funds	135,055	—	—	—	—	61,327	196,382
Total Business-Type Activities	143,148	39,122	669,327	—	—	61,327	912,924
Total Primary Government	$346,399	$110,865	$745,635	$ 498,034	$156,852	$1,690,634	$3,548,419

	Business-Type Activities			
	Major Proprietary Fund			
Transferred from	Unemploy-ment Compen-sation	Nonmajor Proprietary Funds	Total	Total Primary Government
Major Governmental Funds:				
General	$ —	$ 49,850	$ 49,850	$1,322,012
Job, Family and Other Human Services	9,903	—	9,903	15,231
Education	—	—	—	31,789
Highway Operating	—	—	—	313,456
Revenue Distribution	—	—	—	921,978
Nonmajor Governmental Funds	—	—	—	90,782
Total Governmental Activities	9,903	49,850	59,753	2,695,248
Major Proprietary Funds:				
Workers' Compensation	—	—	—	7,586
Lottery Commission	—	—	—	669,834
Unemployment Compensation	—	—	—	39,122
Nonmajor Proprietary Funds	—	—	—	196,382
Total Business-Type Activities	—	—	—	912,924
Total Primary Government	$ 9,903	$ 49,850	$ 59,753	$3,608,172

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 2007, the component units reported $2.73 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 eTech Ohio Commission for the acquisition of computers to benefit local schools.

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

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

Primary Government
(dollars in thousands)

		Program Expenses for State Assistance to Component Units			
	Payable to the Component Units	Primary, Secondary and Other Education Function	Higher Education Support Function	Community And Economic Development Function	Total State Assistance to the Component Units
Major Governmental Funds:					
General	$17,317	$ 575,652	$1,690,552	$25,000	$2,291,204
Job, Family and Other Human Services	965	—	—	—	—
Education	911	—	—	—	—
Highway Operating	465	—	—	—	—
Nonmajor Governmental Funds	16,663	291,706	147,820	—	439,526
Total Primary Government	$36,321	$ 867,358	$1,838,372	$25,000	$2,730,730

Component Units
(dollars in thousands)

	Receivable from the Primary Government	Total State Assistance from the Primary Government
Major Component Units:		
School Facilities Commission	$ —	$ 836,600
Ohio State University	2,542	492,892
University of Cincinnati	163	205,235
Nonmajor Component Units	33,581	1,196,003
Variance Due to Year-End Differences (June 30 versus December 31)	35	—
Total Component Units	$36,321	$2,730,730

NOTE 8 CAPITAL ASSETS

A. Primary Government

Capital asset activity, for the year ended June 30, 2007, reported for the primary government was as follows (dollars in thousands):

	Primary Government			
	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	$ 1,736,463	$ 82,638	$ (1,599)	$ 1,817,502
Buildings	60,060	—	—	60,060
Land Improvements	930	272	—	1,202
Construction-in-Progress	1,581,498	532,943	(356,918)	1,757,523
Infrastructure:				
Highway Network:				
General Subsystem	8,337,768	41,930	(16,092)	8,363,606
Priority Subsystem	7,196,979	123,546	—	7,320,525
Bridge Network	2,430,629	72,260	(6,850)	2,496,039
Total Capital Assets Not Being Depreciated	21,344,327	853,589	(381,459)	21,816,457
Other Capital Assets:				
Buildings	3,324,452	43,168	(45,406)	3,322,214
Land Improvements	338,506	27,882	(6,676)	359,712
Machinery and Equipment	593,066	62,223	(42,593)	612,696
Vehicles	251,551	36,592	(21,364)	266,779
Infrastructure:				
Parks, Recreation and Natural Resources Network	42,312	7,152	(448)	49,016
Total Other Capital Assets at historical cost	4,549,887	177,017	(116,487)	4,610,417
Less Accumulated Depreciation for:				
Buildings	1,388,541	100,009	(31,549)	1,457,001
Land Improvements	153,331	16,471	(3,933)	165,869
Machinery and Equipment	401,398	56,009	(39,682)	417,725
Vehicles	118,893	18,789	(14,604)	123,078
Infrastructure:				
Parks, Recreation and Natural Resources Network	3,278	1,662	(18)	4,922
Total Accumulated Depreciation	2,065,441	192,940	(89,786)	2,168,595
Other Capital Assets, Net	2,484,446	(15,923)	(26,701)	2,441,822
Governmental Activities-Capital Assets, Net	$23,828,773	$837,666	$(408,160)	$24,258,279

For fiscal year 2007, the State charged depreciation expense to the following governmental functions:

Governmental Activities:	***(in 000s)***
Primary, Secondary and Other Education	$ 1,110
Higher Education Support	5
Public Assistance and Medicaid	6,804
Health and Human Services	17,372
Justice and Public Protection	72,496
Environmental Protection and Natural Resources	14,855
Transportation	27,238
General Government	96,910
Community and Economic Development	4,094
Total Depreciation Expense for Governmental Activities	240,884
Gains (Losses) on Capital Asset Disposals Included in Depreciation	(47,944)
Fiscal Year 2007 Increases to Accumulated Depreciation	$192,940

NOTE 8 CAPITAL ASSETS (Continued)

As of June 30, 2007, the State considered the following governmental capital asset balances as being temporarily or permanently impaired and removed from service.

Governmental Activities:	***(in 000s)***
Temporarily Impaired Assets Removed from Service:	
Buildings	$13,198
Land Improvements	225
Total	$13,423
Permanently Impaired Assets Removed from Service:	
Buildings	$ 6,916
Land Improvements	474
Total	$ 7,390

Primary Government *(Continued)*

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Business-Type Activities:				
Capital Assets Not Being Depreciated:				
Land	$ 11,994	$ —	$ —	$ 11,994
Construction-in-Progress	778	4	(782)	—
Total Capital Assets Not Being Depreciated	12,772	4	(782)	11,994
Other Capital Assets:				
Buildings	222,154	820	—	222,974
Land Improvements	66	—	—	66
Machinery and Equipment	142,870	7,264	(5,376)	144,758
Vehicles	4,629	1,238	(832)	5,035
Total Other Capital Assets at historical cost	369,719	9,322	(6,208)	372,833
Less Accumulated Depreciation for:				
Buildings	115,547	7,378	—	122,925
Land Improvements	51	1	—	52
Machinery and Equipment	127,061	6,314	(4,872)	128,503
Vehicles	2,549	522	(816)	2,255
Total Accumulated Depreciation	245,208	14,215	(5,688)	253,735
Other Capital Assets, Net	124,511	(4,893)	(520)	119,098
Business-Type Activities-Capital Assets, Net	$137,283	$(4,889)	$(1,302)	$131,092

For fiscal year 2007, the State charged depreciation expense to the following business-type functions:

Business-Type Activities:	***(in 000s)***
Workers' Compensation	$11,096
Lottery Commission	780
Tuition Trust Authority	28
Liquor Control	411
Underground Parking Garage	622
Office of Auditor of State	1,459
Total Depreciation Expense for Business-Type Activities	14,396
Gains (Losses) on Capital Asset Disposals Included in Depreciation	(181)
Fiscal Year 2007 Increases to Accumulated Depreciation	$14,215

NOTE 8 CAPITAL ASSETS (Continued)

B. Major Component Units
Capital asset activity, for the year ended June 30, 2007, reported for discretely presented major component unit funds with significant capital asset balances was as follows (dollars in thousands):

	Major Component Units			
Ohio State University:	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital Assets Not Being Depreciated:				
Land	$ 52,543	$ 211	$ (701)	$ 52,053
Construction-in-Progress	433,357	—	(151,782)	281,575
Total Capital Assets Not Being Depreciated	485,900	211	(152,483)	333,628
Other Capital Assets:				
Buildings	2,877,674	391,445	(21,280)	3,247,839
Land Improvements	241,209	15,808	—	257,017
Machinery, Equipment and Vehicles	806,761	81,517	(67,310)	820,968
Library Books and Publications	162,924	3,472	(2,629)	163,767
Total Other Capital Assets at historical cost	4,088,568	492,242	(91,219)	4,489,591
Less Accumulated Depreciation for:				
Buildings	1,082,641	103,649	(15,999)	1,170,291
Land Improvements	128,956	10,922	—	139,878
Machinery, Equipment and Vehicles	525,790	73,521	(56,458)	542,853
Library Books and Publications	141,433	5,565	(2,629)	144,369
Total Accumulated Depreciation	1,878,820	193,657	(75,086)	1,997,391
Other Capital Assets, Net	2,209,748	298,585	(16,133)	2,492,200
Total Capital Assets, Net	$2,695,648	$298,796	$(168,616)	$2,825,828
University of Cincinnati:				
Capital Assets Not Being Depreciated:				
Land	$ 21,923	$ —	$ —	$ 21,923
Construction-in-Progress	141,295	131,735	(96,365)	176,665
Collections of Works of Art and Historical Treasures	4,356	18	(10)	4,364
Total Capital Assets Not Being Depreciated	167,574	131,753	(96,375)	202,952
Other Capital Assets:				
Buildings	1,532,286	65,612	—	1,597,898
Land Improvements	78,014	3,615	—	81,629
Machinery, Equipment and Vehicles	191,650	13,383	—	205,033
Library Books and Publications	131,684	9,057	—	140,741
Infrastructure	89,668	6,685	—	96,353
Total Other Capital Assets at historical cost	2,023,302	98,352	—	2,121,654
Less Accumulated Depreciation for:				
Buildings	517,687	56,514	(34)	574,167
Land Improvements	10,773	3,906	9	14,688
Machinery, Equipment and Vehicles	110,425	16,308	(3,253)	123,480
Library Books and Publications	86,240	7,243	(1,524)	91,959
Infrastructure	44,750	3,599	—	48,349
Total Accumulated Depreciation	769,875	87,570	(4,802)	852,643
Other Capital Assets, Net	1,253,427	10,782	4,802	1,269,011
Total Capital Assets, Net	$1,421,001	$142,535	$ (91,573)	$1,471,963

For fiscal year 2007, Ohio State University and the University of Cincinnati reported approximately $193.7 million and $87.6 million in depreciation expense, respectively.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

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

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

A. Ohio Public Employees Retirement System (OPERS)

Pension Benefits

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

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

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

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

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

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

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

Retirees covered under any one of the three OPERS plan options may also choose to take part of their retirement benefit in a Partial Lump-Sum Option Plan (PLOP). Under this option, the amount of the monthly pension benefit paid to the retiree is actuarially reduced to offset the amount received initially under the PLOP. The amount payable under the PLOP is limited to a minimum of six months and maximum of 36 months worth of the original unreduced monthly pension benefit, and is capped at no more than 50 percent of the retirement benefit amount.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Employer and employee required contributions to OPERS are established under the Ohio Revised Code and are based on percentages of covered employees' gross salaries, which are calculated annually by the retirement system's actuaries. Contribution rates for fiscal year 2007, which are the same for the defined benefit, defined contribution, and combined plans, were as follows:

	Contribution Rates	
	Employee Share	Employer Share
Regular Employees:		
July 1, 2006 through December 31, 2006	9.00%	13.54%
January 1, 2007 through June 30, 2007	9.50%	13.77%
Law Enforcement Employees:		
July 1, 2006 through December 31, 2006	10.10%	16.93%
January 1, 2007 through June 30, 2007	10.10%	17.17%

The employer rate for regular employees is scheduled to increase to 14 percent beginning January 1, 2008. The employer rate for law enforcement employees is scheduled to increase to 17.4 percent, beginning January 1, 2008, and incrementally thereafter, until reaching 18.1 percent on January 1, 2011. The employee rate for regular employees is scheduled to increase to ten percent beginning January 1, 2008.

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

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

	2007	2006	2005
Primary Government:			
Regular Employees..	$254,977	$253,259	$248,032
Law Enforcement Employees	4,112	3,988	3,946
Total	$259,089	$257,247	$251,978
Major Component Units:			
School Facilities Commission	$ 317	$ 297	$ 283
Ohio Water Development Authority	89	82	83
Ohio State University	70,385	62,108	63,044
University of Cincinnati	14,162	13,285	14,070

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

	2007	2006	2005
Primary Government:			
Employer Contributions	$3,455	$2,598	$2,054
Employee Contributions	7,718	5,828	4,375
Major Component Units:			
Ohio State University:			
Employer Contributions	1,618	1,185	1,002
Employee Contributions	3,536	2,494	2,032
University of Cincinnati:			
Employer Contributions	292	236	200
Employee Contributions	595	460	403

OPERS issues a stand-alone financial report, copies of which may be obtained by making a written request to: Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 1-800-222-7377.

Other Postemployment Benefits (OPEB)
Members of the defined contribution plan may access a Retiree Medical Account upon retirement. During fiscal year 2007, employers paid 4.5 percent of their share into members' accounts for the period covering July 1, 2006 through December 31, 2006, and 4.5 percent for the period covering January 1, 2007 through June 30, 2007. An employee's interest in the medical account for qualifying healthcare expenses vests on the basis of length of service, with 100 percent vesting attained after 10 years of service credit. Employers make no further contributions to a member's medical account after retirement, nor do employers have any further obligation to provide postemployment healthcare benefits.

Employer contributions, for the fiscal year ended June 30, 2007, were as follows (dollars in thousands):

	2007
Primary Government....................................	$1,805
Major Component Units:	
Ohio State University	796
University of Cincinnati	144

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

All age and service retirees who are members of the defined benefit or combined plans with 10 or more years of service credit qualify for healthcare coverage under OPERS. Members hired after January 1, 2003, with no prior service credit vest according to length of service. Members with 10 years of service credit have a 25-percent vested interest. Vested interest increases with service credit until members attain a 100 percent vested interest after reaching 30 years of service credit. Members hired after January 1, 2003 can also choose various coverage options.

Healthcare coverage for disability recipients and primary survivor recipients is also available to members of the defined benefit and combined plans. Chapter 145, Ohio Revised Code, provides the statutory authority for employer contributions. For law enforcement and regular employees, the portion of the employer rate used to fund healthcare was 4.5 percent of covered payroll for the period, July 1, 2006 through December 31, 2006, and five percent for the period, January 1, 2007 through June 30, 2007. Employees do not fund any portion of healthcare costs.

Benefits in the defined benefit and combined plans are advance-funded using the entry-age, normal actuarial cost method of valuation. Significant actuarial assumptions, based on the latest actuarial review performed as of December 31, 2005 (the latest information available), include a rate of return on investments of 6.5 percent, an annual increase in total payroll for active employees of four percent compounded annually for inflation (assuming no change in the number of active employees), and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Healthcare costs were assumed to increase between 4.5 percent and ten percent annually for the next nine years, and at an annual rate of four percent thereafter.

Net assets available for payment of benefits at December 31, 2005 were $11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were $31.3 billion and $20.2 billion, respectively. All investments are carried at market value.

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

For fiscal year 2007, the State's actuarially required and actual contributions for the defined benefit plan and the defined benefit portion of the combined plan were as follows (dollars in thousands):

	2007
Primary Government:	
Regular Employees	$135,968
Law Enforcement Employees	1,589
Total	$137,557
Major Component Units:	
School Facilities Commission	$ 169
Ohio Water Development Authority	47
Ohio State University	37,523
University of Cincinnati	7,550

The number of active contributing participants for the primary government was 58,976, as of June 30, 2007.

The Health Care Preservation Plan adopted by the OPERS Retirement Board on September 9, 2004, became effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

Early Retirement Incentives

State agencies, or departments within agencies, may offer voluntary early retirement incentives (ERI) under Section 145.297, Ohio Revised Code. Through the ERI Program, the State can offer to purchase up to a maximum of five years worth of service credit from OPERS on behalf of employees who would then meet the age and service requirements to qualify for retirement. Qualifying employees have a minimum of one year to decide whether to accept the offer.

State agencies are also required under Section 145.298, Ohio Revised Code, to offer a generally similar ERI when terminating a number of employees that equals or exceeds the lesser of 50 employees or ten percent of the agency's workforce, as a result of a closure of the agency or a lay-off within a six-month period. Under these circumstances, qualifying employees must decide whether to accept the offer in the time between the announcement of the layoffs and their effective date, and the amount of service credit offered must be at least three years and not more than five years.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

The ERI agreements establish an obligation to pay specific amounts on fixed dates. State agencies that implement an ERI must pay their obligation to OPERS within a maximum of two years after the agreement is finalized, so the State does not discount the amount of the liability incurred under the agreement.

As of June 30, 2007, the State had no significant liability balances relative to existing ERI agreements with state employees covered by OPERS. During fiscal year 2007, the State incurred expenditures/expenses totaling $12.4 million for 263 employees who entered into ERI agreements with the State.

B. State Teachers Retirement System of Ohio (STRS)

Pension Benefits

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

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

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

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. Benefits are increased annually by three percent of the original base amount.

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

Employees hired after July 1, 2001, and those with less than five years of service credit at that date, may choose to participate in the combined plan or the defined contribution plan, in lieu of participation in the defined benefit plan. Participants in the defined contribution plan are eligible to retire at age 50. Employee and employer contributions are placed into individual member accounts, and members direct the investment of their accounts by selecting from various professionally managed investment options. Retirees may choose to receive either a lump-sum distribution or a monthly annuity for life. Employer contributions become vested after one year of service, while employee contributions vest immediately.

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

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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. Alternatively, the retiree may receive a refund of member contributions with interest before age 65, once employment is terminated.

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

Employer and employee required contributions to STRS are established by the Board and limited under the Ohio Revised Code to employer and employee rates of 14 percent and ten percent, respectively, and are based on percentages of covered employees' gross salaries, which are calculated annually by the retirement system's actuary.

Contribution rates for fiscal year 2007 were 14 percent for employers and ten percent for employees for the defined benefit, defined contribution, and combined plans. For the defined benefit and combined plans, 13 percent of the employer rate is used to fund pension obligations. The difference between the total employer rate and the share used to fund pension obligations is the percentage used to fund the STRS healthcare program. For the defined contribution plan, 10.5 percent of the employer's share is deposited into individual employee accounts, while 3.5 percent is paid to the defined benefit plan.

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

	2007	2006	2005
Primary Government	$ 7,477	$ 7,162	$ 6,893
Major Component Units:			
Ohio State University	35,523	34,038	33,075
University of Cincinnati ..	14,395	14,188	13,551

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

	2007	2006	2005
Primary Government:			
Employer Contributions	$ 88	$ 101	$ 129
Employee Contributions	148	166	184
Major Component Units:			
Ohio State University:			
Employer Contributions	2,103	1,438	1,018
Employee Contributions	2,475	1,719	1,283
University of Cincinnati:			
Employer Contributions	769	789	651
Employee Contributions	973	970	770

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, Attention: Chief Financial Officer, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling 1-888-227-7877.

Other Postemployment Benefits

The STRS plan provides comprehensive healthcare benefits to retirees and their dependents that are enrolled in the defined benefit and combined plans.

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

The employer contribution is financed on a pay-as-you-go basis. As of June 30, 2007, net assets available for future healthcare benefits were $4.07 billion. Net healthcare costs paid by the primary government and its discretely presented major component units, for the year ended June 30, 2007, were as follows (dollars in thousands):

	2007
Primary Government	$ 575
Major Component Units:	
Ohio State University	2,733
University of Cincinnati	1,107

The number of eligible benefit recipients for STRS as a whole was 161,911, as of June 30, 2007; a breakout of the number of eligible recipients for the primary government and its component units, as of June 30, 2007, is unavailable.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

C. State Highway Patrol Retirement System (SHPRS)

SHPRS, a component unit of the State, was established in 1941 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 Blvd., Suite 119, Columbus, Ohio 43229, or by calling (614) 431-0781.

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. In addition to providing pension benefits, SHRPS is authorized by Chapter 5505, Ohio Revised Code, to pay 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.

Chapter 5505, Ohio Revised Code, 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 SHRPS 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 contribution rate.

SHRPS' 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.

Securities traded on a national exchange are valued at the last reported sales price at the current exchange rate. The fair value of real estate investments is based on independent appraisals. For actuarial purposes, assets are valued with a method that amortizes the differences between actual and assumed return over a closed, four-year period.

Pension Benefits

The employer and employee contribution rates, as of December 31, 2006, were 25.5 percent and ten percent, respectively.

During calendar year 2006, all of the employees' contributions funded pension benefits while 22 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.

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

For the Year Ended December 31,	Primary Government	Percentage of Employer's Annual Pension Cost Contributed
2006	$19,242	100%
2005	18,048	100
2004	17,870	100

SHPRS used the entry-age, normal actuarial cost method for the Schedule of Funding Progress for the actuarial valuation, dated December 31, 2006. Assumptions used in preparing the Schedule of Funding Progress and in determining the annual required contribution include: an eight-percent rate of return on investments; projected salary increase of four percent attributable to inflation and additional projected salary increases ranging from .3 percent to ten percent a year attributable to seniority and merit; price inflation was assumed to be at least four percent a year; and postretirement increases each year equal to three percent after the retiree reaches age 53.

The unfunded actuarial accrued liability is being amortized using the level-percentage of projected payroll method over a closed period of 28 years.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

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)
2006	$807,761	$653,493	$154,268	80.9%	$85,878	176.6%
2005 (b)	773,856	591,922	181,934	76.5	83,408	218.1
2005	766,741	591,922	174,819	77.2	83,408	209.6
2004 (a)	734,464	569,858	164,606	77.6	81,758	201.3
2004	737,867	569,858	168,009	77.2	81,758	205.5

(a) Plan Amendment
(b) Assumption or method change

Other Postemployment Benefits

The cost of retiree healthcare benefits is recognized as claims are incurred and premiums are paid. The calendar year 2006 expense was $8.9 million. The number of active contributing plan participants, as of December 31, 2006, was 1,592.

Healthcare benefits 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. Premiums are assumed to increase annually by four percent, plus an additional percentage ranging from one to six percent through 2013. Net assets available for benefits allocated to healthcare costs at December 31, 2006 were $104.9 million, and included investments carried at fair value, as previously described.

SHRPS used the entry-age, normal actuarial cost method for the Schedule of Funding Progress for the actuarial valuation, dated December 31, 2006, for Other Postemployment Retirement Benefits. Assumptions used in preparing the Schedule of Funding Progress and in determining the annual required contribution include: a 6.5 percent rate of return on investments; projected salary increase of four percent attributable to inflation and additional projected salary increases ranging from .3 percent to ten percent a year attributable to seniority and merit; and price inflation was assumed to be at least four percent a year.

As of December 31, 2006, the unfunded actuarial accrued liability for healthcare benefits, the portion of the present value of plan promises to pay benefits in the future that are not covered by future normal cost contributions, was $189.2 million; the actuarial accrued liability for healthcare benefits at that date was $294.1 million.

Employer contributions are made in accordance with actuarially determined requirements. For calendar year 2006, the employer contribution requirement was approximately $3.1 million or 3.5 percent of active member payroll.

The Schedule of Funding Progress for Other Postemployment Benefits for the last three years is presented below.

SHPRS Schedule of Funding Progress Last Three Calendar Years – OPEB
(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)
2006	$294,079	$104,857	$189,222	35.7%	$85,878	220.3%
2005	281,094	95,889	185,205	34.1	83,408	222.0
2004	256,258	93,666	162,592	36.6	81,758	198.9

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 OPERS or STRS. Classified civil service employees hired on or after August 1, 2005 are also 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 OPERS or STRS would be transferred to the ARP. The Ohio Department of Insurance has designated the companies that are 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. Employees may also voluntarily make additional contributions to the ARP.

For the year ended June 30, 2007, employers were not required to contribute to the ARP on behalf of employees that would otherwise have been enrolled in OPERS.

Ohio law also requires each public institution of higher education to contribute 3.5 percent of a participating employee's gross salary, for the year ended June 30, 2007, to STRS in cases when the employee would have otherwise been enrolled in STRS.

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 OPERS and STRS. 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 investment management companies as chosen by the participants. The ARP does not provide disability benefits, annual cost-of-living adjustments, postretirement health care benefits, or death benefits. Benefits are entirely dependent on the sum of the contributions and related investment income generated by each participant's choice of investment options.

For the State's discretely presented major component units, employer and employee contributions required and made for the year ended June 30, 2007, for the ARP follow (dollars in thousands):

	2007	
	OPERS	STRS
Major Component Units:		
Ohio State University:		
Employer Contributions..........	$19,281	$17,926
Employee Contributions.........	13,071	12,804
University of Cincinnati:		
Employer Contributions..........	7,618	5,800
Employee Contributions.........	5,126	5,502

NOTE 10 GENERAL OBLIGATION BONDS

At various times since 1921, Ohio voters, by 18 constitutional amendments (the last adopted in November 2005 for local government infrastructure improvements, high-tech business research and development support, and business site development enhancements), 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, natural resources, research and development support for high-tech business, and business site development. Issuances for highway capital improvements, natural resources, and conservation are, in part, used for acquisition, construction, or improvement of capital assets. 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, 2007, the General Assembly had authorized the issuance of $4.15 billion in Common Schools Capital Facilities Bonds, of which $3.29 billion had been issued. As of June 30, 2007, the General Assembly had also authorized the issuance of $2.96 billion in Higher Education Capital Facilities Bonds, of which $2 billion had been issued.

Through approval of the November 1995 amendment, voters authorized the issuance of Highway Capital Improvements Bonds in amounts up to $220 million in any fiscal year (plus any prior fiscal years' principal amounts not issued under the new authorization), with no more than $1.2 billion outstanding at any time. As of June 30, 2007, the General Assembly had authorized the issuance of approximately $2.13 billion in Highway Capital Improvements Bonds, of which $1.81 billion had been issued.

Constitutional amendments in 1995 and 2005 allowed for the issuance of $2.55 billion of general obligation bonds for infrastructure improvements (Infrastructure Bonds). Issuances are limited to $120 million in any fiscal year through fiscal year 2013, with an increase in the annual issuance amount to $150 million for fiscal years 2014 through 2018. As of June 30, 2007, the General Assembly had authorized $2.52 billion of these bonds to be sold (excluding any amounts for unaccreted discount on capital appreciation bonds at issuance), of which $2.28 billion had been issued (net of $214 million in unaccreted discounts at issuance).

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, 2007, the General Assembly had authorized the issuance of $165 million in Coal Research and Development Bonds, of which $150 million had been issued.

Legislative authorizations for the issuance of Natural Resources Capital Facilities Bonds totaled $322 million, as of June 30, 2007, of which $295 million had been issued.

The State may issue Conservation Projects Bonds up to $200 million. No more than $50 million may be issued during a fiscal year. As of June 30, 2007, the General Assembly had authorized the issuance of approximately $200 million in Conservation Projects Bonds of which $200 million had been issued.

Through approval of the November 2005 amendment, voters authorized the issuance of $500 million of Third Frontier Research and Development Bonds. Not more than $100 million may be issued in each of the first three years and not more than $50 million may be issued in any of the subsequent fiscal years. As of June 30, 2007, the General Assembly had authorized the issuance of $200 million in Third Frontier Research and Development Bonds, of which $80.7 million had been issued as of June 30, 2007.

The issuance of $150 million of Site Development Bonds was also authorized through the approval of the November 2005 amendment. Not more than $30 million may be issued in each of the first three years and not more than $15 million may be issued in any of the subsequent fiscal years. The General Assembly had authorized the issuance of $90 million in Site Development Bonds as of June 30, 2007, of which $30 million had been issued.

General obligation bonds outstanding and future general obligation debt service requirements, as of June 30, 2007, are presented in the table on the following page. For the variable-rate bonds, using the assumption that current interest rates remain the same over their term, the interest and net swap payment amounts are based on rates as of June 30, 2007. As rates vary, variable-rate bond interest payments and net swap payments vary.

For the year ended June 30, 2007, NOTE 15 summarizes changes in general obligation bonds.

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

Primary Government-Governmental Activities
Summary of General Obligation Bonds
and Future Funding Requirements
As of June 30, 2007
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Common Schools Capital Facilities	2000-07	2.0%-5.5%	2027	$3,004,397	$855,000
Higher Education Capital Facilities	2000-07	2.5%-5.5%	2027	1,738,872	957,000
Highway Capital Improvements	1999-07	2.1%-5.6%	2017	893,596	325,000
Infrastructure Improvements	1990-07	2.3%-7.6%	2026	1,460,058	240,014
Coal Research and Development	2000-04	2.0%-5.0%	2013	30,365	15,000
Natural Resources Capital Facilities	1999-07	2.0%-5.4%	2020	176,485	27,000
Conservation Projects	2002-07	2.0%-5.3%	2023	180,681	—
Third Frontier Research and Development	2007	4.0%-5.5%	2017	71,527	119,280
Site Development	2007	3.4%-5.3%	2016	27,285	60,000
Total General Obligation Bonds				$7,583,266	$2,598,294

Future Funding of Current Interest and Capital Appreciation Bonds:

Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2008	$ 518,590	$303,400	$ 185	$ 822,175
2009	513,320	283,778	125	797,223
2010	506,205	261,524	63	767,792
2011	474,970	239,288	—	714,258
2012	472,085	216,224	—	688,309
2013-2017	1,980,465	785,397	—	2,765,862
2018-2022	1,519,475	372,884	—	1,892,359
2023-2027	694,365	64,574	—	758,939
Total Current Interest and Capital Appreciation Bonds	$6,679,475	$2,527,069	$ 373	$9,206,917

Future Funding of Variable-Rate Bonds:

Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2008	$ 17,015	$ 26,632	$ (914)	$ 42,733
2009	17,235	26,424	(845)	42,814
2010	19,345	25,734	(421)	44,658
2011	21,125	25,011	6	46,142
2012	19,230	24,272	29	43,531
2013-2017	239,075	102,935	243	342,253
2018-2022	266,855	51,676	(546)	317,985
2023-2027	125,555	9,618	(506)	134,667
Total Variable-Rate Bonds	$ 725,435	$ 292,302	$(2,954)	$1,014,783

Total General Obligation Bonds	7,404,910
Unamortized Premium/ (Discount), Net	230,681
Deferred Refunding Loss	(52,325)
Total Carrying Amount	$7,583,266

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

Interest Rate Swaps

As of June 30, 2007, approximately $741 million of issued Infrastructure Improvement Bonds and Common Schools Bonds include associated interest-rate swaps. Terms of the swap agreements are provided in the tables below and on page 105. Fair value has been determined using the zero-coupon method.

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

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

Interest rate risk, rollover risk, basis risk, and credit risk vary for each interest rate swap. Discussion of these risks has also been included by swap, when applicable.

Primary Government-Governmental Activities
Interest Rate Swaps—Infrastructure Improvements
As of June 30, 2007
(dollars in thousands)

Issue	Type of Swap	Original Notional Amount	Underlying Index	Counterparty's Swap Rate at 06/30/07	State's Swap Rate at 06/30/07	Effective Date	Termination (Maturity) Date	Fair Value
Infrastructure Improvements, Series 2001B	Floating to fixed knock-out	$63,900	SIFMA Index	3.73%	4.63%	11/29/01	08/01/21	$(1,569)
Credit Quality Ratings of Counterparties:		50% Aaa/AAA Bear Stearns Financial Products; 50% Aa3/AA- Morgan Stanley Capital Services						
Infrastructure Improvements, Refunding Series 2003B	Floating to fixed	$104,315	Actual Bond Rate	3.73%	2.96%	02/26/03	08/01/08	$764
Credit Quality Ratings of Counterparty:		Aa3/AA- Morgan Stanley Capital Services						
Infrastructure Improvements, Refunding Series 2003D	Floating to fixed	$58,085	Actual Bond Rate	3.73%	3.04%	03/20/03	02/01/10	$875
Credit Quality Ratings of Counterparty:		Aa3/AA- Morgan Stanley Capital Services						
Infrastructure Improvements, Series 2003F	Fixed to floating	$30,115	SIFMA Index	2.54%	3.73%	12/04/03	02/01/10	$(264)
Credit Quality Ratings of Counterparty:		Aaa/AA JP Morgan Chase						
Infrastructure Improvements, Refunding Series 2004A	Floating to fixed Enhanced LIBOR	$58,725	LIBOR (see terms below)	3.62%	3.51%	03/03/04	02/01/23	$1,209
Credit Quality Ratings of Counterparty:		Aa3/AA- Morgan Stanley Capital Services						
Terms: 68% of LIBOR (1-month LIBOR > 5.0%) or 63% of LIBOR + 25 basis points (1-month LIBOR < 5.0%)								

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

Infrastructure Improvements-Series 2001B
The State entered into an interest rate swap to convert the Series 2001B variable-rate bonds into a synthetic fixed rate to minimize interest expense. The combination of the variable-rate bonds and a floating-to-fixed swap creates a low-cost, long-term synthetic fixed-rate debt that protects the State from rising interest rates.

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2007. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

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

The swap exposes the State to basis risk or a mismatch (shortfall) between the floating rate received on the swap and the variable rate paid on the underlying variable-rate bonds. A mismatch (shortfall) would effectively raise the fixed rate that the State pays on the swap. The SIFMA municipal swap index has proven to be a good proxy for the State's variable-rate debt and substantially mitigates basis risk.

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

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

The State has credit risk exposure of $764 thousand at June 30, 2007.

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

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

The State has credit risk exposure of $875 thousand at June 30, 2007.

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

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2007. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

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

The State has credit risk exposure of $1.2 million at June 30, 2007.

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

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

Primary Government-Governmental Activities
Interest Rate Swaps—Common Schools
As of June 30, 2007
(dollars in thousands)

Issue	Type of Swap	Original Notional Amount	Underlying Index	Counterparty's Swap Rate at 06/30/07	State's Swap Rate at 06/30/07	Effective Date	Termination (Maturity) Date	Fair Value
Common Schools, Series 2003D	Fixed to floating	$67,000	SIFMA Index	2.67%	3.73%	12/15/03	09/01/07	$(144)
Credit Quality Ratings of Counterparties: 50% Aaa/AA JP Morgan Chase; 50% Aa3/AA- Morgan Stanley Capital Services								
Common Schools, Series 2003D	Floating to fixed LIBOR	$67,000	LIBOR (see terms below)	N/A	N/A	09/14/07	03/15/24	$3,514
Credit Quality Ratings of Counterparties: 50% Aaa/AA JP Morgan Chase; 50% Aa3/AA- Morgan Stanley Capital Services Terms: 65% of 1-month LIBOR + 25 basis points								
Common Schools, Series 2005A	Floating to Fixed LIBOR	$100,000	LIBOR (see terms below)	3.53%	3.75%	04/01/05	03/15/25	$(8,062)
Credit Quality Ratings of Counterparties: 50% Aaa/AAA Bear Stearns Financial Products; 50% Aaa/AA JP Morgan Chase Terms: 62% of 10-year LIBOR								
Common Schools, Series 2005B	Floating to Fixed LIBOR	$100,000	LIBOR (see terms below)	3.53%	3.75%	04/01/05	03/15/25	$(8,062)
Credit Quality Ratings of Counterparties: 50% Aaa/AAA Bear Stearns Financial Products; 50% Aaa/AA JP Morgan Chase Terms: 62% of 10-year LIBOR								
Common Schools, Series 2006B	Floating to fixed LIBOR	$100,000	LIBOR (see terms below)	3.71%	3.20%	06/15/06	06/15/26	$5,214
Credit Quality Ratings of Counterparties: 50% Aaa/AA+ UBS AG; 50% Aaa/AA- Royal Bank of Canada Terms: 65% of 1-month LIBOR + 25 basis points								
Common Schools, Series 2006C	Floating to fixed LIBOR	$100,000	LIBOR (see terms below)	3.71%	3.20%	06/15/06	06/15/26	$5,214
Credit Quality Ratings of Counterparties: 50% Aaa/AA+ UBS AG; 50% Aaa/AA- Royal Bank of Canada Terms: 65% of 1-month LIBOR + 25 basis points								

Common Schools-Series 2003D
The State entered into a fixed-to-floating interest rate swap to convert its Common Schools, Series 2003D fixed-rate bonds into a synthetic variable rate through September 1, 2007. The swap allows the State to achieve variable rate exposure synthetically at a rate equal to the SIFMA index less 21.5 basis points. The synthetic variable rate created under this swap exposes the State to the risk of rising interest rates.

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

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2007. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

On August 25, 2005, the State entered into a forward starting floating-to-fixed swap effective September 14, 2007, in connection with the Common Schools, Series 2003D bonds. This swap enabled the State to lock in a low borrowing cost on its variable-rate bonds.

The State has credit risk exposure on the floating-to-fixed swap of $3.5 million at June 30, 2007.

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

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

Common Schools-Series 2005A

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

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2007. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

The swap exposes the State to basis risk or a mismatch (shortfall) between the floating rate received on the swap and the variable rate paid on the underlying variable-rate bonds. A mismatch (shortfall) would effectively make the fixed rate the State pays on the swap higher. Given that the variable swap receipt is based on a long-dated taxable index (LIBOR), the State assumes the risk of reductions in marginal federal tax rates or elimination of the tax preference for municipal securities and the risk of the LIBOR yield curve being flat or inverted for extended periods of time. Any changes in federal tax rates would increase the interest rates on the underlying variable-rate debt but would not impact the variable-rate swap receipt based on the LIBOR index. A flat or inverted LIBOR yield curve would likely result in a shortfall between the variable-rate swap receipt and the payments on the associated variable-rate bonds.

Common Schools-Series 2005B

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

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2007. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

The swap exposes the State to basis risk or a mismatch (shortfall) between the floating rate received on the swap and the variable rate paid on the underlying variable-rate bonds. A mismatch (shortfall) would effectively make the fixed rate the State pays on the swap higher. Given that the variable swap receipt is based on a long-dated taxable index (LIBOR), the State assumes the risk of reductions in marginal federal tax rates or elimination of the tax preference for municipal securities and the risk of the LIBOR yield curve being flat or inverted for extended periods of time. Any changes in federal tax rates would increase the interest rates on the underlying variable-rate debt but would not impact the variable-rate swap receipt based on the LIBOR index. A flat or inverted LIBOR yield curve would likely result in a shortfall between the variable-rate swap receipt and the payments on the associated variable-rate bonds.

Common Schools-Series 2006B

The State entered into an interest rate swap to convert its Common Schools, Series 2006B variable-rate bonds into a synthetic fixed rate. The combination of the variable-rate bonds and a floating-to-fixed swap creates a low-cost, long-term synthetic fixed-rate debt that protects the State from rising interest rates.

The State has credit risk exposure of $5.2 million at June 30, 2007.

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

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

Common Schools-Series 2006C
The State entered into an interest rate swap to convert its Common Schools, Series 2006C variable-rate bonds into a synthetic fixed rate. The combination of the variable-rate bonds and a floating-to-fixed swap creates a low-cost, long-term synthetic fixed rate debt that protects the State from rising interest rates.

The State has credit risk exposure of $5.2 million at June 30, 2007.

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

Advance Refundings

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

The State has defeased general obligation bonds in prior years and placed the proceeds in irrevocable trusts. As of June 30, 2007, the balances in these trusts for bonds defeased in prior years were $375.1 million for Infrastructure Improvement Bonds, $53.5 million for Natural Resources Bonds, $156.3 million for Common Schools Bonds, and $106 million for Higher Education Bonds.

NOTE 11 REVENUE BONDS AND NOTES

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

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

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 purchased approximately $102 million in Series 1998 Taxable Development Assistance Refunding Bonds and delivered cash and/or direct U.S. government obligations to the escrow agent for the redemption of the refunded bonds on October 2, 2006. Since the State has taken delivery of the proceeds from the issuance of the Series 1998 Taxable Development Assistance Refunding Bonds during fiscal year 2007, the refunding bonds are included in the financial statements as of June 30, 2007.

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

Since fiscal year 1998, the Treasurer of State has issued a total of $723 million in State Infrastructure Bank Bonds for various transportation construction projects financed by the Department of Transportation. The State has pledged federal highway receipts and loan repayments received under the State Infrastructure Bank Loan Program as the primary sources of moneys for meeting the principal and interest requirements on the bonds. Issuances for the State Infrastructure Bank are, in part, used for acquisition, construction, or improvement of capital assets.

NOTE 11 REVENUE BONDS AND NOTES (Continued)

Revenue bonds accounted for in business-type activities finance the costs of office buildings and related facilities constructed by the OBA for shared use by local governments and the William Green Building, which houses the main operations of the Ohio Bureau of Workers' Compensation in Columbus. The debt issuance for the William Green Building has been used for acquisition and construction of capital assets. 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, 2007, are presented below.

For the year ended June 30, 2007, NOTE 15 summarizes changes in revenue bonds.

Future bond service requirements for revenue bonds of the primary government, as of June 30, 2007, are presented below.

Primary Government
Revenue Bonds
As of June 30, 2007
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
Governmental Activities:				
Treasurer of State:				
Economic Development	1997-06	4.3%-7.7%	2026	$310,057
Revitalization Project	2003-06	3.6%-5.0%	2021	91,428
State Infrastructure Bank	1998-07	2.8%-6.0%	2022	410,425
Total Governmental Activities				811,910
Business-Type Activities:				
Ohio Building Authority	1997-04	2.0%-4.0%	2008	2,664
Bureau of Workers' Compensation	2003	1.6%-4.0%	2014	113,076
Total Business-Type Activities				115,740
Total Revenue Bonds				$927,650

Primary Government
Future Funding Requirements for Revenue Bonds
As of June 30, 2007
(dollars in thousands)

	Governmental Activities			Business-Type Activities			Total		
Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2008	$ 98,065	$ 40,955	$ 139,020	$ 17,741	$ 5,337	$ 23,078	$115,806	$ 46,292	$ 162,098
2009	91,050	36,504	127,554	16,005	4,606	20,611	107,055	41,110	148,165
2010	77,270	32,140	109,410	15,930	3,867	19,797	93,200	36,007	129,207
2011	61,775	28,088	89,863	15,865	3,109	18,974	77,640	31,197	108,837
2012	49,065	25,214	74,279	15,890	2,326	18,216	64,955	27,540	92,495
2013-2017	232,360	86,578	318,938	31,115	2,294	33,409	263,475	88,872	352,347
2018-2022	136,010	35,118	171,128	—	—	—	136,010	35,118	171,128
2023-2027	46,625	3,983	50,608	—	—	—	46,625	3,983	50,608
	792,220	288,580	1,080,800	112,546	21,539	134,085	904,766	310,119	1,214,885
Net Unamortized Premium/(Discount)	28,293	—	28,293	5,078	—	5,078	33,371	—	33,371
Deferred Refunding Loss	(8,603)	—	(8,603)	(1,884)	—	(1,884)	(10,487)	—	(10,487)
Total	$811,910	$288,580	$1,100,490	$115,740	$21,539	$137,279	$927,650	$310,119	$1,237,769

NOTE 11 REVENUE BONDS AND NOTES (Continued)

B. Component Units

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

A portion of OWDA's outstanding bonds has been issued for the Water Pollution Control Loan Program, which provides low-cost financing to LGAs for the construction of wastewater treatment facilities. In the event pledged program revenues, which consist of interest payments from the LGAs as reimbursement for construction costs, are not sufficient to meet debt service requirements for the bonds, the General Assembly may appropriate moneys for the full replenishment of a bond reserve. As of December 31, 2006, approximately $1.48 billion in bonds were outstanding for this program.

Future bond service requirements for the Water Pollution Control Loan Program revenue bonds, as of December 31, 2006, were as follows (dollars in thousands):

Year Ending December 31,	Principal	Interest	Total
2007	$52,965	$69,552	$122,517
2008	70,285	67,155	137,440
2009	80,420	63,927	144,347
2010	86,190	59,916	146,106
2011	89,895	55,640	145,535
2012-2016	359,865	220,676	580,541
2017-2021	426,845	99,496	526,341
2022-2026	255,235	25,089	280,324
	1,421,700	661,451	2,083,151
Net Unamortized Premium/(Discount)	94,965	—	94,965
Deferred Refunding Loss	(34,085)	—	(34,085)
Total	$1,482,580	$661,451	$2,144,031

Of the outstanding revenue bonds and notes reported for the OWDA component unit fund, approximately $94.4 million in bonds had adjustable interest rates that are reset weekly at rates determined by the remarketing agency. As of December 31, 2006, the rate for the variable-rate bonds was approximately 3.8 percent.

Major Component Units
Future Funding Requirements for Revenue Bonds
As of June 30, 2007
(dollars in thousands)

	Ohio Water Development Authority (12/31/06)			Ohio State University			University of Cincinnati		
Year Ending December 31 or June 30,	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2007	$ 125,170	$ 112,525	$ 237,695						
2008	177,210	112,506	289,716	$ 512,837	$ 42,821	$ 555,658	$130,725	$ 39,863	$ 170,588
2009	164,470	102,158	266,628	32,715	26,510	59,225	30,170	35,016	65,186
2010	139,465	94,425	233,890	33,959	25,206	59,165	30,920	33,768	64,688
2011	143,970	87,750	231,720	44,689	23,785	68,474	34,660	32,414	67,074
2012	—	—	—	36,753	22,182	58,935	36,495	30,951	67,446
2012-2016	717,295	344,582	1,061,877	—	—	—	—	—	—
2013-2017	—	—	—	149,317	82,508	231,825	201,975	129,601	331,576
2017-2021	646,175	166,959	813,134	—	—	—	—	—	—
2018-2022	—	—	—	125,517	51,947	177,464	199,370	81,045	280,415
2022-2026	376,550	48,019	424,569	—	—	—	—	—	—
2023-2027	—	—	—	82,169	25,121	107,290	150,395	39,715	190,110
2027-2031	30,750	5,927	36,677	—	—	—	—	—	—
2028-2032	—	—	—	54,849	8,767	63,616	89,135	9,477	98,612
2032-2036	4,845	274	5,119	—	—	—	—	—	—
2033-2037	—	—	—	15,677	452	16,129	—	—	—
	2,525,900	1,075,125	3,601,025	1,088,482	309,299	1,397,781	903,845	431,850	1,335,695
Net Unamortized Premium/(Discount)	101,201	—	101,201	—	—	—	4,444	—	4,444
Deferred Refunding Loss	(60,151)	—	(60,151)	—	—	—	—	—	—
Total	$2,566,950	$1,075,125	$3,642,075	$1,088,482	$309,299	$1,397,781	$908,289	$431,850	$1,340,139

NOTE 11 REVENUE BONDS AND NOTES (Continued)

Generally, bonds and notes issued by the state universities and state community colleges are payable from the institutions' available receipts, including student fees, rental income, and gifts and donations, as may be provided for in the respective bond proceedings, for the construction of educational and student residence facilities and auxiliary facilities such as dining halls, hospitals, parking facilities, bookstores, and athletic facilities.

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

Future bond service requirements for revenue bonds and notes reported for the discretely presented major component units, as of June 30, 2007, are presented in the table at the bottom of the previous page.

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. These issuances are, in part, used for acquisition, construction, or improvement of capital assets.

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, parks and recreation, and cultural and sports facilities. These issuances are, in part, used for acquisition, construction, or improvement of capital assets.

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, 2007, are presented in the following table.

Primary Government-Governmental Activities
Special Obligation Bonds
As of June 30, 2007
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Ohio Building Authority	1993-07	2.0%-6.1%	2025	$1,766,870	$278,600
Treasurer of State:					
Chapter 154 Bonds	1993-07	2.5%-5.5%	2020	1,177,255	202,225
Elementary and Secondary Education	1998-99	4.0%-5.0%	2008	21,980	—
Total Special Obligation Bonds				$2,966,105	$480,825

NOTE 12 SPECIAL OBLIGATION BONDS (Continued)

Future special obligation debt service requirements, as of June 30, 2007, were as follows (dollars in thousands):

Year Ending June 30,	Principal	Interest	Total
2008	$454,854	$134,946	$589,800
2009	347,230	114,866	462,096
2010	336,525	97,717	434,242
2011	308,165	81,436	389,601
2012	280,625	67,073	347,698
2013-2017	807,045	188,932	995,977
2018-2022	316,030	51,609	367,639
2023-2027	62,160	5,338	67,498
	2,912,634	741,917	3,654,551
Net Unamortized Premium/ (Discount)	118,264	—	118,264
Deferred Refunding Loss	(64,793)	—	(64,793)
Total	$2,966,105	$741,917	$3,708,022

For the year ended June 30, 2007, NOTE 15 summarizes changes in special obligation bonds.

During fiscal year 2007, the OBA and Treasurer of State defeased a number of special obligation bond issues *in substance* when the net proceeds of refunding bonds (after payment of underwriting fees and bond issue costs) were deposited with escrow agents to provide for all future principal and interest payments on the old bonds. A resulting economic gain/(loss) from an advance refunding represents the difference between the present values of the debt service payments on the old and new debt.

Details on the advanced refundings for fiscal year 2007 are presented in the table below.

In prior years, the OBA and the Treasurer of State defeased certain bond issues by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the various trust accounts' assets and liabilities for the defeased bonds are not included in the State's financial statements. As of June 30, 2007, 364.3 million and 315.4 million of OBA and Chapter 154 special obligations bonds, respectively, are considered defeased and no longer outstanding.

Primary Government — Governmental Activities
Special Obligation Bonds
Details of Advance Refundings
For the Year Ended June 30, 2007
(dollars in thousands)

Refunding Bond Issue	Date of Refunding	Amount of Refunding Bonds Issued	True Interest Cost Rates of Refunding Bonds	Carrying Amount of Bonds Refunded (in substance)	Refunding Bond Proceeds Placed in Escrow	Reduction in Debt Service Payments	Economic Gain Resulting from Refunding
Ohio Building Authority:							
State Facilities (Administrative Building), Series 2006B	10/3/2006	$70,335	3.93%	$73,140	$76,095	$3,876/13 yrs	$3,036
State Facilities (Juvenile Correctional Building), Series 2007B	5/2/2007	16,410	3.94%	17,039	17,565	653 / 9 yrs	563
Treasurer of State Chapter 154:							
Mental Health Facilities, Series II - 2006B	12/14/2006	26,775	4.75%	26,630	28,482	1,793 / 11 yrs	1,115
Culture State Facilities, Series II - 2006B	12/14/2006	28,295	4.83%	28,060	30,036	1,620 / 10 yrs	1,080
Parks and Recreation Facilities, Series II 2006A	12/14/2006	15,410	4.32%	14,760	15,968	924 / 11 yrs	656
Total		$157,225		$159,629	$168,146		$6,450

NOTE 13 CERTIFICATES OF PARTICIPATION

A. Primary Government
As of June 30, 2007, approximately $122.2 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. In fiscal years 2005 and 2007, the Ohio Department of Administrative Services participated in the issuance of $79.2 million and $31.9 million, respectively, of COP obligations to finance the acquisition of the Ohio Administrative Knowledge System (OAKS), a statewide Enterprise Resource Planning (ERP) system. These issuances are, in part, used for acquisition, construction, or improvement of capital assets.

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

Obligations outstanding for the primary government under COP financing arrangements, as of June 30, 2007, are presented in the following table.

Primary Government — Governmental Activities
Certificate of Participation Obligations
As of June 30, 2007
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
Department of Transportation:				
Panhandle Rail Line Project	1992	6.5%	2012	$ 3,730
Department of Administrative Services:				
Ohio Administrative Knowledge System (OAKS)	2005-2007	3.5%-5.25%	2017	118,452
Total Certificates of Participation				$122,182

As of June 30, 2007, the primary government's future commitments under the COP financing arrangements were as follows (dollars in thousands):

Year Ending June 30,	Principal	Interest	Total
2008	$ 9,320	$ 5,852	$ 15,172
2009	9,810	5,108	14,918
2010	10,290	4,623	14,913
2011	10,815	4,105	14,920
2012	12,135	3,549	15,684
2013-2017	62,405	8,367	70,772
	114,775	31,604	146,379
Net Unamortized Premium	7,407	—	7,407
Total	$122,182	$31,604	$153,786

For the year ended June 30, 2007, NOTE 15 summarizes changes in COP obligations.

NOTE 13 CERTIFICATES OF PARTICIPATION (Continued)

B. Component Units

For the State's component units, approximately $27.1 million in COP obligations are reported in the component unit funds. The obligations finance building construction costs at The Ohio State University, the University of Cincinnati, and the University of Akron.

As of June 30, 2007, future commitments under the COP financing arrangements for the State's component units are detailed in the table below and on the following page.

Component Units
Future Funding Requirements for Certificate of Participation Obligations
As of June 30, 2007
(dollars in thousands)

	Ohio State University			University of Cincinnati		
Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total
2008	$ 390	$ 260	$ 650	$90	$5	$95
2009	405	242	647	—	—	—
2010	425	222	647	—	—	—
2011	445	202	647	—	—	—
2012	—	—	—	—	—	—
2013-2017	2,581	646	3,227	—	—	—
2018-2022	1,219	62	1,281	—	—	—
2023-2027	—	—	—	—	—	—
2028-2032	—	—	—	—	—	—
2033-2037	—	—	—	—	—	—
Total	$5,465	$1,634	$7,099	$90	$5	$95

	University of Akron			Total Component Units		
Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total
2008	$ 295	$ 1,430	$ 1,725	$ 775	$ 1,695	$ 2,470
2009	315	1,410	1,725	720	1,652	2,372
2010	340	1,385	1,725	765	1,607	2,372
2011	365	1,360	1,725	810	1,562	2,372
2012	390	1,335	1,725	390	1,335	1,725
2013-2017	2,405	6,220	8,625	4,986	6,866	11,852
2018-2022	3,390	5,235	8,625	4,609	5,297	9,906
2023-2027	4,620	4,005	8,625	4,620	4,005	8,625
2028-2032	6,325	2,300	8,625	6,325	2,300	8,625
2033-2037	3,140	310	3,450	3,140	310	3,450
Total	$21,585	$24,990	$46,575	$27,140	$26,629	$53,769

NOTE 14 OTHER NONCURRENT LIABILITIES

As of June 30, 2007, in addition to bonds and certificates of participation obligations discussed in NOTES 10 through 13, the State reports the following noncurrent liabilities in its financial statements (dollars in thousands):

Governmental Activities:	
Compensated Absences	$ 450,288
Capital Leases Payable	18,737
Litigation Liabilities	4,698
Estimated Claims Payable	8,776
Liability for Escheat Property	307,245
Total Governmental Activities	789,744
Business-Type Activities:	
Compensated Absences	40,439
Capital Leases Payable	22
Workers' Compensation:	
Benefits Payable	17,412,665
Other	1,968,524
Deferred Prize Awards Payable	680,984
Tuition Benefits Payable	871,000
Workers Compensation Claims-Auditor of State's Office	120
Total Business-Type Activities	20,973,754
Total Primary Government	$21,763,498

For the year ended June 30, 2007, 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, 2007, was $490.7 million, of which $450.3 million is allocable to governmental activities and $40.4 million is allocable to business-type activities.

As of June 30, 2007, discretely presented major component units reported a total of $156.8 million in compensated absences liabilities, as detailed by major component unit in NOTE 15.

B. Lease Agreements

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

Assets acquired through capital leasing are valued at the lower of fair value or the present value of the future minimum lease payments at the lease's inception. Capital leases are used for the acquisition of capital assets.

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 2007 were approximately $88.5 million.

Future minimum lease commitments for operating leases and capital leases judged to be noncancelable, as of June 30, 2007, were as follows (dollars in thousands):

Primary Government

Year Ending June 30,	Operating Leases
2008	$4,432
2009	843
2010	116
2011	23
2012	4
Total minimum lease payments	$5,418

	Capital Leases		
Year Ending June 30,	Governmental Activities	Business-Type Activities	Total
2008	$10,582	$11	$10,593
2009	1,928	9	1,937
2010	1,511	3	1,514
2011	1,374	—	1,374
2012	1,290	—	1,290
2013-2017	3,534	—	3,534
Total Minimum Lease Payments	20,219	23	20,242
Amount for interest	(1,482)	(1)	(1,483)
Present Value of Net Minimum Lease Payments	$18,737	$22	$18,759

NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

As of June 30, 2007, the primary government had the following capital assets under capital leases (dollars in thousands):

Primary Government	Governmental Activities	Business-Type Activities	Total
Equipment	$33,556	$21	$33,577
Vehicles........	419	—	419
Total	$33,975	$21	$33,996

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

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

Future minimum lease commitments for capital leases judged to be noncancelable and capital assets under capital leases for the discretely presented major component unit funds, as of June 30, 2007, are presented in the table below.

Major Component Units

Capital Leases

Year Ending June 30,	Ohio State University	University of Cincinnati
2008	$ 6,307	$ 13,724
2009	6,699	15,284
2010	5,268	15,159
2011	3,273	14,140
2012	2,296	13,711
2013-2017	2,432	62,973
2018-2022	—	55,026
2023-2027	—	42,283
2028-2032	—	20,524
2033-2037	—	3,481
Total Minimum Lease Payments...	26,275	256,305
Amount for interest	(2,131)	(96,790)
Present Value of Net Minimum Lease Payments...	$24,144	$159,515
Equipment & Vehicles	$63,363	$ —
Buildings................	—	181,119
Total	$63,363	$181,119

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, 2007, $4.7 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 litigations, see NOTE 19.

D. Estimated Claims Payable
For governmental activities, the State recognized $5.8 million in estimated claims liabilities, as of June 30, 2007, for damaged state vehicles covered under the State's self-insured program, which was established in the General Fund for this purpose at the Department of Administrative Services.

Additionally, the State reported $2.9 million in estimated claims for defaulted loans under the Ohio Enterprise Bond Program at the Ohio Department of Development, as of June 30, 2007. The program is included in governmental activities and is accounted for in the Community and Economic Development Special Revenue Fund.

E. 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, 2007, this liability totaled approximately $307.2 million.

F. Worker's Compensation

Benefits Payable
As discussed in NOTE 20, 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, 2007, in the amount of approximately $17.41 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.

G. Deferred Prize Awards Payable
Future installment payments for the deferred prize awards payable are reported at present value based upon interest rates that the Treasurer of State provides to the Lottery Commission Enterprise Fund. The interest rates, ranging from 4.5 to nine percent,

NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

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. As of June 30, 2007, this payable totals $681 million.

Future payments of prize awards, stated at present value, as of June 30, 2007, follow (dollars in thousands):

Year Ending June 30,	
2008	$ 101,955
2009	86,569
2010	69,540
2011	66,820
2012	66,743
2013-2017	324,637
2018-2022	186,820
2023-2027	47,599
2028-2032	12,157
2033-2036	1,283
	964,123
Unamortized Discount	(283,139)
Net Prize Liability	$ 680,984

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

H. Tuition Benefits Payable

The actuarial present value of future tuition benefits payable from the Tuition Trust Authority Enterprise Fund was approximately $871 million, as of June 30, 2007. The valuation method reflects the present value of estimated tuition benefits that will be paid in future years and is adjusted for the effects of projected tuition increases at state universities and state community colleges and termination of participant contracts under the plan.

The following assumptions were used in the actuarial determination of tuition benefits payable: seven percent rate of return, compounded annually, on the investment of current and future assets; a projected annual tuition increase of one percent for 2008, six percent for 2009 and 2010, and ten percent thereafter, as well as a 2.5-percent Consumer Price Index inflation rate. The effect of changes due to experience and actuarial assumption changes follow (dollars in millions):

Actuarial Deficit, as of June 30, 2006	$(231.8)
Adjustment to Beginning of Year's Assets	(0.1)
Interest on the Deficit at 7 Percent	(16.2)
Investment Gain	59.1
Lower-Than-Assumed Tuition Increase	85.6
Change in Assumption for Future Tuition Growth	127.0
Interest Gain on Late Tuition Payouts	0.8
Other	4.1
Actuarial Surplus, as of June 30, 2007	$ 28.5

As of June 30, 2007, the market value of actuarial net assets available for payment of the tuition benefits payable was $899.5 million.

I. Other Liabilities

The Workers' Compensation Enterprise Fund reports approximately $1.97 billion in other noncurrent liabilities, as of June 30, 2007, of which 1.) $1.86 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 20, 2.) $87.8 million represents premium payment security deposits collected in advance from private employers to reduce credit risk for premiums collected in subsequent periods, and 3.) $22.2 million consists of other miscellaneous liabilities.

Additionally, the Office of the Auditor of State Enterprise Fund reports $120 thousand in other liabilities for estimated workers' compensation claims payable. For the payment of the claims, the General Fund transfers resources to the Office of the Auditor of State Enterprise Fund. As claims expenses are incurred, transfers from the General Fund are accrued. Accordingly, the General Fund reported an interfund payable to the Bureau of Workers' Compensation Enterprise Fund in an amount equal to the workers' compensation claims payable reported in the Office of Auditor of State Enterprise Fund, as of June 30, 2007 (See NOTE 7).

NOTE 15 CHANGES IN NONCURRENT LIABILITIES

A. Primary Government

Changes in noncurrent liabilities, for the year ended June 30, 2007, are presented for the primary government in the following table.

Primary Government
Changes in Noncurrent Liabilities
For the Fiscal Year Ended June 30, 2007
(dollars in thousands)

Governmental Activities:	Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007	Amount Due Within One Year
Bonds and Notes Payable:					
General Obligation Bonds (NOTE 10)	$ 6,893,521	$1,223,291	$ 533,546	$ 7,583,266	$ 536,546
Revenue Bonds (NOTE 11)	720,675	304,976	213,741	811,910	98,990
Special Obligation Bonds (NOTE 12)	3,317,492	304,507	655,894	2,966,105	459,656
Total Bonds and Notes Payable	10,931,688	1,832,774	1,403,181	11,361,281	1,095,192
Certificates of Participation (NOTE 13)	90,389	33,621	1,828	122,182	9,372
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences	420,673	397,317	367,702	450,288	52,518
Capital Leases Payable	3,366	18,942	3,571	18,737	10,441
Litigation Liabilities	—	4,698	—	4,698	—
Estimated Claims Payable	8,398	1,835	1,457	8,776	2,000
Liability for Escheat Property	255,800	120,076	68,631	307,245	105,858
Total Other Noncurrent Liabilities	688,237	542,868	441,361	789,744	170,817
Total Noncurrent Liabilities	$11,710,314	$2,409,263	$1,846,370	$12,273,207	$1,275,381

Business-Type Activities:	Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007	Amount Due Within One Year
Bonds and Notes Payable:					
Revenue Bonds (NOTE 11)	$ 135,215	$ 863	$ 20,338	$ 115,740	$ 17,719
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences	34,454	36,361	30,376	40,439	3,497
Capital Leases Payable	12	21	11	22	11
Workers' Compensation:					
Unearned Revenue	372,847	47,671	420,518	—	—
Benefits Payable	17,250,678	1,255,813	1,093,826	17,412,665	1,868,461
Other:					
Adjustment Expenses Liability	1,676,498	1,411,205	1,229,174	1,858,529	481,510
Premium Payment Security Deposits	87,693	3,372	3,257	87,808	—
Miscellaneous	68,454	21,918	68,185	22,187	16,413
Deferred Prize Awards Payable	723,531	143,667	186,214	680,984	62,035
Tuition Benefits Payable	1,095,900	—	224,900	871,000	82,500
Workers' Compensation Claims-Auditor of State's Office	7,490	316	7,686	120	120
Total Other Noncurrent Liabilities	21,317,557	2,920,344	3,264,147	20,973,754	2,514,547
Total Noncurrent Liabilities	$21,452,772	$2,921,207	$3,284,485	$21,089,494	$2,532,266

NOTE 15 CHANGES IN NONCURRENT LIABILITIES (Continued)

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

For fiscal year 2007, the State's primary government included interest expense on its debt issues in the following governmental functions rather than reporting it separately as interest expense. The related borrowings are essential to the creation or continuing existence of the programs they finance. The various state subsidy programs supported by the borrowings provide direct state assistance to local governments for their respective capital construction or research projects. None of the financing provided under these programs benefits the general operations of the primary government, and accordingly, such expense is not reported separately on the Statement of Activities under the expense category for interest on long-term debt.

	(in 000s)
Governmental Activities:	
Primary, Secondary and Other Education	$145,476
Higher Education Support	129,425
Environmental Protection and Natural Resources	902
Transportation	4
Community and Economic Development	124,472
Total Interest Expense Charged to Governmental Functions	$400,279

B. Component Units

Changes in noncurrent liabilities, for the year ended June 30, 2007 (December 31, 2006 for the Ohio Water Development Authority), are presented in the following table for the State's discretely presented major component units.

Major Component Units
Changes in Noncurrent Liabilities
For the Fiscal Year Ended June 30, 2007
(dollars in thousands)

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Amount Due Within One Year
School Facilities Commission:					
Intergovernmental Payable	$2,146,013	$ 789,727	$ 825,421	$2,110,319	$1,063,903
Compensated Absences*	684	546	491	739	93
Total	$2,146,697	$ 790,273	$ 825,912	$2,111,058	$1,063,996
Ohio Water Development Authority:					
Revenue Bonds & Notes Payable (NOTE 11)	$2,623,417	$ 156,398	$ 212,865	$2,566,950	$ 124,719
Compensated Absences*	168	—	7	161	—
Total	$2,623,585	$ 156,398	$ 212,872	$2,567,111	$ 124,719
Ohio State University:					
Unearned Revenue	$ 138,904	$2,338,863	$2,477,767	$ —	$ —
Compensated Absences*	85,054	13,253	6,829	91,478	6,829
Capital Leases Payable*	15,107	16,165	7,128	24,144	5,598
Other Liabilities*	119,537	10,463	23,143	106,857	5,076
Revenue Bonds & Notes Payable (NOTE 11)	1,085,295	77,987	74,800	1,088,482	512,837
Certificates of Participation (NOTE 13)	5,825	—	360	5,465	390
Total	$1,449,722	$2,456,731	$2,590,027	$1,316,426	$ 530,730
University of Cincinnati:					
Compensated Absences*	$ 66,291	$ 1,210	$3,093	$64,408	$ 34,241
Capital Leases Payable*	122,140	42,700	5,325	159,515	5,790
Other Liabilities*	42,358	84,530	80,690	46,198	3,020
Revenue Bonds & Notes Payable (NOTE 11)	842,531	221,984	156,226	908,289	131,560
Certificates of Participation (NOTE 13)	180	—	90	90	90
Total	$1,073,500	$ 350,424	$ 245,424	$1,178,500	$ 174,701

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

NOTE 16 NO COMMITMENT DEBT

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

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

As of June 30, 2007 (December 31, 2006 for component units), revenue bonds and notes outstanding that represent "no commitment" debt for the State were as follows (dollars in thousands):

	Outstanding Amount
Primary Government:	
Ohio Department of Development:	
Ohio Enterprise Bond Program	$ 171,540
Hospital Facilities Bonds	7,355
Ohio Department of Transportation:	
Akron-Canton Airport Project Bonds	6,585
Total Primary Government	$ 185,480
Component Units (12/31/06):	
Ohio Water Development Authority	$2,208,505
Ohio Air Quality Development Authority	1,300,000
Total Component Units	$3,508,505

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, 2007 (dollars in thousands):

Primary Government:	
Nonmajor Governmental Funds:	
Mental Health and Retardation Special Revenue Fund	$ (13,505)
Coal Research/Development General Obligations-Debt Service Fund	(20)
Total Governmental Funds:	$ (13,525)
Component Units:	
School Facilities Commission Fund	$(1,590,233)

B. "Other" Fund Balance Reserves and Designations

Details on the "Reserved for Other" account reported for the governmental funds, as of June 30, 2007, are presented in the table below.

The unreserved fund balance for the General Fund, as of June, 30, 2007, has been designated for budget stabilization in the amount of $1.01 billion.

Primary Government
Governmental Funds — Reserved for Other
As of June 30, 2007
(dollars in thousands)

	General Fund	Job, Family and Other Human Services	Education	Highway Operating	Nonmajor Governmental Funds	Total Governmental Funds
Compensated Absences	$27,076	$ 3,517	$358	$4,903	$ 9,328	$ 45,182
Prepaids (included in "Other Assets")	8,167	1,001	93	1,543	2,985	13,789
Advances to Local Governments	25,164	17,744	—	—	—	42,908
Ohio Enterprise Bond Program	—	—	—	—	10,000	10,000
Loan Guarantee Programs	1	—	—	—	11,977	11,978
Assets in Excess of Debt Service Requirements	—	—	—	—	3	3
Environmental Protection and Natural Resources	—	—	—	—	911	911
Community and Economic Development	—	—	—	—	2,084	2,084
Total Reserved for Other	$60,408	$22,262	$451	$6,446	$37,288	$126,855

NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS

A. Joint Ventures

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

Each governor nominates two individuals to the GLPF's board of directors who serve staggered two-year terms. All budgetary and financial decisions rest with the board, except when they are 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 applies its distribution (approximately $440 thousand for the year ended December 31, 2006) 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, 2006 (the GLPF's year-end), are presented below (dollars in thousands):

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

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

Summary financial information for the GLPF, for the fiscal year ended December 31, 2006, was as follows (dollars in thousands):

Cash and Investments	$135,336
Other Assets	297
Total Assets	$135,633
Total Liabilities	$ 3,429
Total Net Assets	132,204
Total Liabilities and Net Assets	$135,633
Total Revenues and Other Additions	$ 18,354
Total Expenditures	(6,509)
Net Increase in Net Assets	$ 11,845

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

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

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

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

NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

Fiscal year 2007 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	$ 59,181	$ 6,443	$ 65,624
Jefferson	4,237	50	4,287
Lakeland	17,010	524	17,534
Lorain County	26,698	668	27,366
Rio Grande	5,223	—	5,223
Sinclair	48,228	912	49,140
Total Local Community Colleges	160,577	8,597	169,174
Technical Colleges:			
Belmont	5,534	504	6,038
Central Ohio	7,709	30	7,739
Hocking	16,325	1,701	18,026
James A. Rhodes	7,896	9	7,905
Marion	5,175	126	5,301
Zane	4,818	991	5,809
North Central	7,827	62	7,889
Stark	17,064	1,767	18,831
Total Technical Colleges	72,348	5,190	77,538
Total	$232,925	$13,787	$246,712

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 Housing Finance Agency, Ohio Turnpike Commission, the Petroleum Underground Storage Tank Release Compensation Board, the Higher Education Facility Commission, and the Ohio Legal Assistance Foundation. However, the primary government's accountability for these organizations does not extend beyond making the appointments.

During fiscal year 2007, the State had the following related-party transactions with its related organizations:

- The General Fund reports a $212 million loans receivable balance due from the Ohio Housing Finance Agency. The State made the loans to finance and support the agency's housing programs.
- The Ohio Department of Taxation paid the Ohio Turnpike Commission $2.5 million from the Revenue Distribution Fund for the Commission's share of the State's motor vehicle fuel excise tax allocation.
- Separate funds, established for the Ohio Housing Finance Agency, Petroleum Underground Storage Tank Release Compensation Board, and the Higher Education Facility Commission, were accounted for on the primary government's Central Accounting System. The primary purpose of the funds is to streamline payroll and other administrative disbursement processing for these organizations. The financial activities of the funds, which do not receive any funding support from the primary government, have been included in the agency funds.
- From the Job, Family and Other Human Services Fund, the Public Defender's Office paid the Ohio Legal Assistance Foundation approximately $8.4 million in compensation for administrative services performed under contract for the distribution of state funding to nonprofit legal aid societies and $1 million in state assistance.

NOTE 19 CONTINGENCIES AND COMMITMENTS

A. Litigation
The State, its units, and employees are parties to numerous legal proceedings, which normally occur in governmental operations. Pending litigation affecting the Department of Education and the Bureau of Workers' Compensation is discussed below.

Department of Education (ODE)
Litigation pending in the Hamilton County Court of Appeals contests that the Ohio Department of Education improperly and retroactively recalculated the number of district residents attending community schools during fiscal year 2005. Plaintiff Cincinnati City School District Board of Education claims this resulted in significant reductions in state funding in fiscal years 2006 and 2007. Those claims are based on statutory theories. The trial court entered summary judgment in favor of Plaintiff on November 22, 2006, and a final judgment on January 5, 2007, in an amount of $4.7 million. A liability for $4.7 million has been included as "Other Noncurrent Liabilities-Due in More Than One Year" account for governmental activities in the government-wide Statement of Net Assets. In briefing in the case, ODE estimated additional potential exposure of an amount between $34.3 million and $50.4 million, plus interest, based on the calculation at issue for fiscal years 2005, 2006, and 2007. Also, included are claims that similarly affected school districts could recover if all those districts were to successfully pursue litigation. No liability has been reported in the financial statements for this additional potential exposure.

Bureau of Workers' Compensation (BWC)
Litigation is currently pending before the Ohio Supreme Court relating to premium dividend credits that were denied to previously active participants in the BWC's retrospective rating plan (RRP) and then changed to other plans. This action was filed on behalf of all employers that paid premiums under a RRP during any year from 1995 through 2002, and any subsequent year in which premium dividend credits were granted. After three of the plaintiffs became self-insured, they continued to pay dollar-for-dollar claims costs under their continuing RRP obligations, but did not pay premiums. The premium credit was also denied to a fourth plaintiff that left the RRP and went to a group-rated state plan. This plaintiff received credits for paid premiums during the years it was group-rated, but did not receive credit for paid claims costs. The trial court denied class certification in this case. In February 2007, the 10th District Court of Appeals affirmed the trial court's ruling for BWC. The plaintiffs have filed an appeal.

In another case, a constitutional challenge to the 2003 workers' compensation subrogation statute is pending before the Ohio Supreme Court. The 4th District Court of Appeals has found the statute to be constitutional.

A class action case has been filed alleging that the Bureau of Workers' Compensation /Industrial Commission (BWC/IC) identifies permanent total disability (PTD) recipients not represented by counsel and encourages them to settle their PTD claims for substantially less than their actuarial present value. The plaintiffs contend that BWC refused to conduct good-faith settlement negotiations with PTD recipients represented by counsel. The trial court denied BWC's motion to dismiss and/or change of venue, and granted class certification. The 8th District Court of Appeals has issued a ruling affirming the trial court's rulings. BWC has appealed to the Ohio Supreme Court.

Additionally, BWC/IC is involved in litigation challenging policies related to lump sum advancements made to PTD recipients. This action alleges that BWC/IC has improperly recouped monies from PTD recipients by continuing to deduct monies from the plaintiff's benefits in an amount greater than the advance plus interest.

The ultimate outcome of the litigation related to BWC discussed to this point can not be presently determined. Accordingly, no provision for any liability has been reported in the financial statements. Management is vigorously defending the cases outlined above.

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

NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

B. Federal Awards

The State of Ohio receives significant awards from the federal government in the form of grants and entitlements, including certain non-cash programs. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the spending of resources for eligible purposes. Substantially all grants are subject to either the Federal Single Audit or to financial compliance audits by the grantor agencies of the federal government or their designees. Disallowances and sanctions as a result of these audits may become liabilities to the State.

As a result of the fiscal year 2006 State of Ohio Single Audit (issued in July 2007), $36 million of federal expenditures were in question as not being appropriate under the terms of the respective grants. No provision for any liability or adjustments has been recognized for the questioned costs in the State's financial statements, for the fiscal year ended June 30, 2007.

C. Tax Refund Claims

As of June 30, 2007, corporate franchise tax refund claims estimated in the amount of $11 million were pending an official determination of the Tax Commissioner at the Ohio Department of Taxation. The claims arose from refund claims taxpayers filed for tax periods occurring in prior years. A liability has been reported in the financial statements for this matter under the "Refunds and Other Liabilities" account.

D. Loan Commitments

As of June 30, 2007, commitments to finance program loans from the primary government's budgeted nonmajor special revenue funds are detailed below (dollars in thousands):

Community and Economic Development	
Ohio Department of Development:	
Low- & Moderate-Income Housing Loans	$10,320
Brownfield Revolving Loans	3,062
	13,382
Local Infrastructure and Transportation Improvements	
Ohio Public Works Commission:	
State Capital Improvements Loans	25,449
Revolving Loans	28,174
	53,623
Total Nonmajor Governmental Funds	$67,005

As of December 31, 2006, loan commitments for the Ohio Water Development Authority, a discretely presented major component unit, were as follows (dollars in thousands):

Water Pollution Control Loan	$641,402
Drinking Water Assistance	88,550
Fresh Water	65,102
Other Projects	14,801
Community Assistance	14,912
Rural Utility Services	8,525
Pure Water Refunding	253
Total	$833,545

The Authority intends to meet these commitments using available funds and grant commitments from the U.S. Environmental Protection Agency.

E. Construction Commitments

As of June 30, 2007, the Ohio Department of Transportation had total contractual commitments of approximately $2.14 billion for highway construction projects. Funding for future projects is expected to be provided from federal, primary government, general obligation and revenue bonds, and local government sources in amounts of $1.05 billion, $411.4 million, $610.7 million, and $72.7 million, respectively.

As of June 30, 2007, other major non-highway construction commitments for the primary government's budgeted capital projects funds and major discretely presented component unit funds were as follows (dollars in thousands):

Primary Government

Mental Health/Mental Retardation Facilities Improvements	$ 18,445
Parks and Recreation Improvements	9,295
Administrative Services Building Improvements	19,169
Youth Services Building Improvements	7,759
Adult Correctional Building Improvements	25,506
Highway Safety Building Improvements	492
Ohio Parks and Natural Resources	11,352
Total	$ 92,018

Major Component Units

Ohio State University	$255,620
University of Cincinnati	299,883

NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

F. 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, estimating the amount of annual payments that actually will be received in any given year can be complex, since under the terms of the MSA, payments are subject to a number of adjustment factors, including an inflation adjustment, a volume adjustment, and a potential adjustment for market share losses of participating manufacturers. Some of these adjustments, such as the inflation adjustment, result in the State receiving higher payments. Other factors, such as the volume adjustment and the market share adjustment can work to reduce the amount of the State's annual payments.

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.

During fiscal year 2007, Ohio received $308.5 million, which is approximately $44.3 million or 12.6 percent less than the pre-adjusted base payment for the year. For the last eight fiscal years, with fiscal year 2000 being the first year when base payments were made to the states under the settlement, the State has received a total of about $2.71 billion, which is approximately $334.4 million or 11 percent less than the total of the pre-adjusted base payments.

As of June 30, 2007, the estimated tobacco settlement receivable in the amount of $253.3 million is included in "Other Receivables" reported for the governmental funds. The receivable includes $77.6 million for payments withheld from the State in fiscal years 2006 and 2007 by the cigarette manufacturers when they exercised the market share loss provisions of the MSA. These moneys are on deposit in an escrow account until pending litigation between the State and the manufacturers is resolved. The State contends it has met its obligations under the MSA and is due the payments withheld.

The moneys provide funding for the construction of primary and secondary school capital facilities, education technology for primary and secondary education and for higher education, programs for smoking cessation and other health-related purposes, biomedical research and technology, and assistance to tobacco-growing areas in Ohio.

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
2008...........	$ 359,829	$ 23,950	$ 383,779
2009...........	359,829	23,950	383,779
2010...........	359,829	23,950	383,779
2011...........	359,829	23,950	383,779
2012...........	359,829	23,950	383,779
2013-2017 ..	1,799,146	119,750	1,918,896
2018-2022 ..	2,016,011	—	2,016,011
2023-2025 ..	1,209,607	—	1,209,607
Total...........	$6,823,909	$239,500	$7,063,409

As of October 23, 2007, the State transferred future rights to the Master Settlement Agreement revenue to the Buckeye Tobacco Settlement Financing Authority. (See NOTE 21).

NOTE 20 RISK FINANCING

A. Workers' Compensation Benefits
The Ohio Workers' Compensation System, which the Bureau of Workers' Compensation and the Industrial Commission administer, is the exclusive provider of workers' compensation insurance to private and public employers in Ohio who are not self-insured. The Workers' Compensation Enterprise Fund provides benefits to employees for losses sustained from job-related injury, disease, or death.

The "Benefits Payable" account balance reported in the Workers' Compensation Enterprise Fund, as of June 30, 2007, in the amount of approximately $17.41 billion includes reserves for indemnity and medical claims resulting from work-related injuries or illnesses, including actuarial estimates for both reported claims and claims incurred but not reported. The liability is based on the estimated ultimate cost of settling claims, including the effects of inflation and other societal and economic factors and projections as to future events, including claims frequency, severity, persistency, and inflationary trends for medical claims reserves. The compensation adjustment expenses liability, which is included in "Other Liabilities" in the amount of approximately $1.87 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, nonincremental adjustment expense, and the reserve for compensation.

Management of the Ohio Bureau of Workers' Compensation and the Industrial Commission of Ohio believes that the recorded reserves for compensation and compensation adjustment expenses make for a reasonable and appropriate provision for expected future losses. While management uses available information to estimate the reserves for compensation and compensation adjustment expenses, future changes to the reserves for compensation and compensation adjustment expenses may be necessary based on claims experience and changing claims frequency and severity conditions. The methods of making such estimates and for establishing the resulting liabilities are reviewed quarterly and updated based on current circumstances. Any adjustments resulting from changes in estimates are recognized in the current period.

Benefits payable and the compensation adjustment expenses liability have been discounted at five percent to reflect the present value of future benefit payments. The selected discount rate approximates an average yield on United States government securities with durations similar to the expected claims underlying the Fund's reserves. The undiscounted reserves for the benefits and compensation adjustment expenses totaled $37 billion, as of June 30, 2007, and $37.7 billion, as of June 30, 2006. For additional information, refer to the Fund's separate audited financial report, for the fiscal year ended June 30, 2007.

Changes in the balance of benefits payable and the compensation adjustment expenses liability for the Workers' Compensation Program during the past two fiscal years are presented in the table below.

B. State Employee Healthcare Plans
Employees of the primary government have the option of participating in the Ohio Med Health Plan, the United Healthcare Plan, or the Aetna Plan, which are fully self-insured health benefit plans.

Ohio Med, a preferred provider organization, was established July 1, 1989. Medical Mutual of Ohio administers the Ohio Med plan under a claims administration contract with the primary government.

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

	Fiscal Year 2007	Fiscal Year 2006
Benefits Payable and Compensation Adjustment Expenses Liability, as of July 1	$18,927	$19,299
Incurred Compensation and Compensation Adjustment Benefits	2,667	1,934
Incurred Compensation and Compensation Adjustment Benefit Payments and Other Adjustments	(2,323)	(2,306)
Benefits Payable and Compensation Adjustment Expenses Liability, as of June 30	$19,271	$18,927

NOTE 20 RISK FINANCING (Continued)

The United Healthcare and the Aetna plans, originally health maintenance organizations, became self-insured healthcare plans of the State on July 1, 2002 and July 1, 2005, respectively.

All plans have contracts with the primary government to serve as claims administrator. Benefits offered while under the State's administration are essentially the same as the benefits offered before the two plans became self-insured arrangements.

When it is probable that a loss has occurred and the amount of the loss can be reasonably estimated, the primary government reports liabilities for the governmental and proprietary funds. Liabilities include an amount for claims that have been incurred but not reported. The plans' actuaries calculate estimated claims liabilities based on prior claims data, employee enrollment figures, medical trends, and experience.

Governmental and proprietary funds pay a share of the costs for claims settlement based on the number of employees opting for plan participation and the type of coverage selected by participants. The payments are reported in the Payroll Withholding and Fringe Benefits Agency Fund until such time that the primary government pays the accumulated resources to Medical Mutual of Ohio, United Healthcare, or Aetna 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, 2007, approximately $142.7 million in total assets was available in the Payroll Withholding and Fringe Benefits Agency Fund to cover claims for the Ohio Med Health Plan. Changes in the balance of claims liabilities for the plan during the past two fiscal years were as follows (dollars in thousands):

Ohio Med Health Plan

	Fiscal Year 2007	Fiscal Year 2006
Claims Liabilities, as of July 1	$ 35,662	$ 41,492
Incurred Claims	205,041	212,466
Claims Payments	(207,538)	(218,296)
Claims Liabilities, as of June 30 .	$ 33,165	$ 35,662

As of June 30, 2007, the resources on deposit in the Agency Fund for the Ohio Med Health Plan exceeded the estimated claims liability by approximately $109.5 million, thereby resulting in a funding surplus. Eighty-five percent or $93.1 million of the surplus, representing the employer share, was reallocated back to the governmental and proprietary funds, with a resulting reduction in expenditures/expenses.

As of June 30, 2007, no assets were available in the Payroll Withholding and Fringe Benefits Agency Fund to cover claims incurred by June 30 for the United Healthcare Plan, thereby resulting in a funding deficit. Changes in the balance of claims liabilities for the plan during the past fiscal year were as follows (dollars in thousands):

United Healthcare Plan

	Fiscal Year 2007	Fiscal Year 2006
Claims Liabilities, as of July 1	$ 7,685	$ 6,969
Incurred Claims	69,556	54,088
Claims Payments	(68,231)	(53,372)
Claims Liabilities, as of June 30 .	$ 9,010	$ 7,685

As of June 30, 2007, the estimated claims liability exceeded resources on deposit in the Agency Fund for the United Healthcare Plan by approximately $16.6 million, thereby resulting in a funding deficit. Eighty-five percent or $14.1 million of the deficit, representing the employer share, was reallocated back to the governmental and proprietary funds, with a resulting increase to expenditures/expenses.

As of June 30, 2007, approximately $32.1 million in total assets was available in the Payroll Withholding and Fringe Benefits Agency Fund to cover claims incurred by June 30 for the Aetna Plan, thereby resulting in a funding surplus. Changes in the balance of claims liabilities for the plan during the past fiscal year were as follows (dollars in thousands):

Aetna Plan

	Fiscal Year 2007	Fiscal Year 2006
Claims Liabilities, as of July 1	$ 8,194	$ —
Incurred Claims	66,294	49,806
Claims Payments	(64,918)	(41,612)
Claims Liabilities, as of June 30 .	$ 9,570	$ 8,194

As of June 30, 2007, the resources on deposit in the Agency Fund for the Aetna Plan exceeded the estimated claims liability by approximately $22.5 million, thereby resulting in a funding surplus. Eighty-five percent or $19.1 million of the surplus, representing the employer share, was reallocated back to the governmental and proprietary funds, with a resulting reduction in expenditures/expenses.

C. Other Risk Financing Programs

The primary government has established programs to advance fund potential losses for vehicular liability and theft in office. The potential amount of loss arising from these risks, however, is not considered material in relation to the State's financial position.

NOTE 21 SUBSEQUENT EVENTS

A. Bond Issuances

Subsequent to June 30, 2007 (December 31, 2006, for the Ohio Water Development Authority), the State issued major debt as detailed in the table below.

Debt Issuances
Subsequent to June 30, 2007
(dollars in thousands)

	Date Issued	Net Interest Rate or True Interest Cost	Amount
Primary Government:			
Ohio Public Facilities Commission-General Obligation Bonds:			
Infrastructure Improvements, Series 2007A	09/05/07	4.42%	$ 120,000
Coal Development, Series I	09/05/07	3.93%	8,000
Total General Obligation Bonds			128,000
Treasurer of State-Revenue Bonds:			
State Infrastructure Bank, Series 2007-1	11/07/07	3.88%	210,000
Total Revenue Bonds			210,000
Treasurer of State-Special Obligation Bonds:			
Parks and Recreation Facilities, Series II-2007A	11/01/07	3.86%	30,000
Ohio Building Authority-Special Obligation Bonds			
State Facilities (Administrative Building), Series 2008A	2/27/08	4.45%	25,000
State Facilities (Adult Correctional Facility), Series 2008A	2/27/08	4.46%	25,000
Total Special Obligation Bonds			80,000
Buckeye Tobacco Settlement Financing Authority-Asset-Backed Bonds:			
Tobacco Settlement-Asset-Backed, Series 2007-1	10/23/07	5.29%	5,531,595
Total Asset-Backed Bonds			5,531,595
Ohio Department of Administrative Services Certificates of Participation:			
Ohio Administrative Knowledge System, Series 2008A	3/5/08/08	3.88%	35,025
Total Certificates of Participation			35,025
Total Primary Government			$5,984,620
Major Component Units:			
Ohio Water Development Authority Debt:			
2007 Community Assistance-Auction Rate Securities	7/26/07	Variable	$ 24,550
2007 Fresh Water Commercial Paper (Maturity Dates: $12.5 million on 1/9/08 & $12.5 million on 1/10/08)	10/17/07	3.52%	25,000
2008 Fresh Water Commercial Paper Series A (Maturity Date: 3/12/08)	1/9/08	2.70%	12,500
2008 Fresh Water Commercial Paper Series A (Maturity Date: 3/12/08)	1/10/08	2.70%	12,500
2008 Fresh Water Commercial Paper Series B (Expected Maturity Date: July or August 2008)	3/12/08	3.0% - 3.5%	40,000
Total Commercial Paper			90,000
Total Ohio Water Development Authority			$ 114,550
University of Cincinnati Bonds:			
Bond Anticipation Notes, Series 2007E	7/2/07	3.75%	$ 40,468
Bond Anticipation Notes, Series 2007F (Retired 12/21/07)	9/12/07	3.73%	32,810
Bond Anticipation Notes, Series 2008A	1/14/08	2.73%	30,000
Total Bond Anticipation Notes			103,278
Bonds, Series 2007G	12/11/07	3.75% - 5.00%	89,170
Total University of Cincinnati			$ 192,448

NOTE 21 SUBSEQUENT EVENTS (Continued)

B. Bureau of Workers' Compensation
Litigation between the Hospital Association and BWC was decided in March 2007. Although the court did not award any monetary damages, it determined BWC improperly reduced reimbursement payments to hospitals and BWC will be required to increase its future hospital reimbursements, beginning in the second half of fiscal year 2008. BWC is projecting an increase of $80 million for hospital reimbursements reported for the quarter ending June 2008.

C. Department of Youth Services
The S. H. v. Strickrath (S. D. Ohio, 2008) case, involving the Department of Youth Services (DYS), was settled in April 2008. As a result of the settlement, DYS will implement remedial measures for mental health care, education, and other programs. The settlement also requires structural changes to DYS facilities to address the other issues raised by the litigation. In order to implement these remedial measures, it is projected that DYS will be required to expend an amount between $20 million and $30 million, along with additional attorneys' fees and costs, beginning July 2008.

D. Buckeye Tobacco Settlement Financing Authority
House Bill 119, effective June 30, 2007, created the Buckeye Tobacco Settlement Financing Authority ("Authority") for the sole purpose of purchasing and receiving any assignment of tobacco settlement receipts pursuant to the Tobacco Master Settlement Agreement and issuing obligations to provide financing of essential State functions and facilities. The Authority reported no financial activity prior to entering into a *Purchase and Sale Agreement,* dated October 1, 2007, between the State and the Authority, wherein the State agreed to sell its interest in the tobacco settlement receipts (2007 Sold Tobacco Receipts) to the Authority. On October 23, 2007, the Authority issued asset-backed bonds of $5.5 billion, primarily to finance the Authority's purchase of the 2007 Sold Tobacco Receipts from the State.

THIS PAGE INTENTIONALLY LEFT BLANK

REQUIRED SUPPLEMENTARY INFORMATION

Infrastructure Assets Accounted for Using the Modified Approach

Pavement Network

The Ohio Department of Transportation conducts annual condition assessments of its Pavement Network. The State manages its pavement system by means of annual, visual inspections by trained pavement technicians. Technicians rate the pavement using a scale of 1 (minimum) to 100 (maximum) based on a Pavement Condition Rating (PCR). This rating examines items such as cracking, potholes, deterioration of the pavement, and other factors. It does not include a detailed analysis of the pavement's subsurface conditions.

Ohio accounts for its pavement network in two subsystems: *Priority*, which comprises interstate highways, freeways, and multi-lane portions of the National Highway System, and *General*, which comprises two-lane routes outside of cities.

For the Priority Subsystem, it is the State's intention to maintain at least 75 percent of the pavement at a PCR level of at least 65, and to allow no more than 25 percent of the pavement to fall below a 65 PCR level. For the General Subsystem, it is the State's intention to maintain at least 75 percent of the pavement at a PCR level of at least 55, and to allow no more than 25 percent of the pavement to fall below a 55 PCR level.

Pavement Network
Condition Assessment Data

Priority Subsystem

	Pavement Condition Ratings (PCR)									
	Excellent PCR = 85-100		Good PCR = 75-84		Fair PCR = 65-74		Poor PCR = Below 65		Total	
Calendar Year	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%
2006	8,918	70.47	1,940	15.33	1,400	11.07	397	3.13	12,655	100.00
2005	8,581	68.65	1,962	15.69	1,505	12.04	452	3.62	12,500	100.00
2004	8,110	65.64	2,140	17.32	1,544	12.50	561	4.54	12,355	100.00
2003	7,679	62.81	2,451	20.05	1,618	13.24	477	3.90	12,225	100.00
2002	7,483	61.29	2,498	20.46	1,849	15.14	380	3.11	12,210	100.00

General Subsystem

	Pavement Condition Ratings (PCR)									
	Excellent PCR = 85-100		Good PCR = 75-84		Fair PCR = 55-74		Poor PCR = Below 55		Total	
Calendar Year	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%
2006	14,757	49.00	6,650	22.08	8,249	27.39	462	1.53	30,118	100.00
2005	13,623	45.16	6,813	22.58	9,161	30.37	571	1.89	30,168	100.00
2004	13,570	44.92	6,550	21.68	9,423	31.20	664	2.20	30,207	100.00
2003	12,634	41.77	6,378	21.09	10,910	36.07	324	1.07	30,246	100.00
2002	11,997	39.57	6,496	21.43	11,278	37.20	546	1.80	30,317	100.00

Infrastructure Assets Accounted for Using the Modified Approach (Continued)

Pavement Network
Comparison of Estimated-to-Actual Maintenance and Preservation Costs
(dollars in thousands)

Priority Subsystem

Fiscal Year	Estimated	Actual
2007	$403,067	$418,936
2006	376,588	410,049
2005	337,213	350,368
2004	195,333	273,318
2003	243,722	273,834

General Subsystem

Fiscal Year	Estimated	Actual
2007	$196,814	$268,839
2006	214,826	312,105
2005	197,716	292,303
2004	133,236	227,437
2003	135,149	209,530

Bridge Network

The Ohio Department of Transportation conducts annual inspections of all bridges in the State's Bridge Network. The inspections cover major structural items such as piers and abutments, and assign a General Appraisal Condition Rating (GACR) from 0 (minimum) to nine (maximum) based on a composite measure of these major structural items.

It is the State's intention to maintain at least 85 percent of the square feet of deck area at a general appraisal condition rating level of at least five, and to allow no more than 15 percent of the number of square feet of deck area to fall below a general appraisal condition rating level of five.

Bridge Network
Condition Assessment Data
(square feet in thousands)

	General Appraisal Condition Ratings (GACR)									
	Excellent GACR = 7-9		Good GACR = 5-6		Fair GACR = 3-4		Poor GACR = 0-2		Total	
Calendar Year	Sq Ft Deck Area	%	Sq Ft Deck Area	%	Sq Ft Deck Area	%	Sq Ft Deck Area	%	Sq Ft Deck Area	%
2006	43,942	52.03	38,104	45.12	2,396	2.84	5	.01	84,447	100.00
2005	46,071	55.21	35,091	42.05	2,274	2.73	7	.01	83,443	100.00
2004	45,895	55.50	34,459	41.68	2,317	2.80	13	.02	82,684	100.00
2003	47,046	57.19	32,972	40.08	2,224	2.71	18	.02	82,260	100.00
2002	45,144	56.01	33,067	41.02	2,388	2.96	9	.01	80,608	100.00

Infrastructure Assets Accounted for Using the Modified Approach (Continued)

Bridge Network
Comparison of Estimated-to-Actual Maintenance and Preservation Costs
(dollars in thousands)

Fiscal Year	Estimated	Actual
2007	$290,732	$313,272
2006	246,095	262,027
2005	241,670	231,864
2004	147,779	208,381
2003	180,358	229,077

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, 2007

FEDERAL AGENCY	
U.S. Department of Health and Human Services	$9,905,972,530
U.S. Department of Agriculture	2,038,805,256
U.S. Department of Labor	1,515,614,733
U.S. Department of Education	1,400,450,907
U.S. Department of Transportation	1,317,486,836
U.S. Environmental Protection Agency	530,379,624
U.S. Department of Housing and Urban Development	115,995,565
U.S. Department of Homeland Security	96,825,674
Social Security Administration	82,792,850
U.S. Department of Justice	47,580,850
U.S. Department of the Interior	31,573,187
U.S. Department of Defense	30,246,646
Election Assistance Commission	22,889,041
U.S. Department of Energy	20,130,324
U.S. Department of Veterans Affairs	14,882,738
U.S. Appalachian Regional Commission	9,068,161
Corporation for National and Community Service	7,248,788
U.S. Department of Commerce	6,453,254
National Foundation on the Arts and the Humanities	6,169,687
U.S. Small Business Administration	3,772,352
U.S. Equal Employment Opportunity Commission	2,565,153
U.S. General Services Administration	132,266
TOTAL EXPENDITURES	**$17,207,036,422**

THIS PAGE INTENTIONALLY LEFT BLANK

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Agriculture		
Food Stamp Cluster:		
10.551	Food Stamps	$1,285,813,466
10.561	State Administrative Matching Grants for Food Stamp Program	110,752,737
	Total Food Stamp Cluster	1,396,566,203
Child Nutrition Cluster:		
10.553	School Breakfast Program	58,370,858
10.555	National School Lunch Program	222,499,939
10.556	Special Milk Program for Children	621,129
10.559	Summer Food Service Program for Children	7,391,558
	Total Child Nutrition Cluster	288,883,484
10.025	Plant and Animal Disease, Pest Control, and Animal Care	3,610,054
10.029	* Avian Influenza Indemnity Program	53,494
10.069	Conservation Reserve Program	37,788
10.163	Market Protection and Promotion	1,776,814
10.304	Homeland Security -- Agricultural	960
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	5,137,597
10.479	Food Safety Cooperative Agreements	74,156
10.550	Food Donation	30,817,413
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	229,067,296
10.558	Child and Adult Care Food Program	67,670,297
10.560	State Administrative Expenses for Child Nutrition	4,330,474
10.565	Commodity Supplemental Food Program	918,558
10.568	Emergency Food Assistance Program (Administrative Costs)	1,871,516
10.572	WIC Farmers' Market Nutrition Program (FMNP)	387,567
10.576	Senior Farmers Market Nutrition Program	1,419,017
10.579	Child Nutrition Discretionary Grants Limited Availability	5,418
10.664	Cooperative Forestry Assistance	3,180,748
10.665	School and Roads -- Grants to States	160,725
10.672	Rural Development, Forestry, and Communities	54,220
10.676	Forest Legacy Program	37,500
10.769	Rural Business Enterprise Grants	9,700
10.902	Soil and Water Conservation	299,107
10.913	Farm and Ranch Lands Protection Program	2,435,150
	Total U.S. Department of Agriculture	**$2,038,805,256**
U.S. Department of Commerce		
11.405	Anadromous Fish Conservation Act Program	$12,011
11.407	Interjurisdictional Fisheries Act of 1986	11,823
11.419	Coastal Zone Management Administration Awards	2,244,219
11.420	Coastal Zone Management Estuarine Research Reserves	541,584
11.611	Manufacturing Extension Partnership	3,643,617
	Total U.S. Department of Commerce	**$6,453,254**

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Defense		
12	FUSRAP Oversight: Diamond Magnesium Site and Luckey Beryllim Site	$29,147
12.002	Procurement Technical Assistance for Business Firms	431,232
12.005	Donation of Federal Surplus Property	983,626
12.112	Payments to States in Lieu of Real Estate Taxes	511,776
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	705,686
12.400	* Military Construction, National Guard	318,029
12.400	Military Construction, National Guard	26,556,059
12.401	National Guard Military Operations and Maintenance (O&M) Projects	711,091
	Total U.S. Department of Defense	**$30,246,646**
U.S. Department of Housing and Urban Development		
14.228	Community Development Block Grants\State's Program	$70,877,830
14.231	Emergency Shelter Grants Program	1,690,414
14.235	Supportive Housing Program	248,353
14.238	Shelter Plus Care	215,404
14.239	HOME Investment Partnerships Program	40,783,245
14.241	Housing Opportunities for Persons with AIDS	1,246,304
14.401	Fair Housing Assistance Program -- State and Local	934,015
	Total U.S. Department of Housing and Urban Development	**$115,995,565**
U.S. Department of the Interior		
Fish and Wildlife Cluster:		
15.605	* Sport Fish Restoration	$1,487,714
15.605	Sport Fish Restoration	6,026,206
15.611	Wildlife Restoration	9,810,190
	Total Fish and Wildlife Cluster	17,324,110
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	1,955,701
15.252	* Abandoned Mine Land Reclamation (AMLR) Program	14,933
15.252	Abandoned Mine Land Reclamation (AMLR) Program	8,788,966
15.615	Cooperative Endangered Species Conservation Fund	205,466
15.616	Clean Vessel Act	281,261
15.634	State Wildlife Grants	1,415,968
15.808	U.S. Geological Survey -- Research and Data Collection	132,976
15.810	National Cooperative Geologic Mapping Program	123,185
15.916	Outdoor Recreation Acquisition, Development and Planning	1,330,621
	Total U.S. Department of the Interior	**$31,573,187**
U.S. Department of Justice		
16.2005-94	Domestic Cannabis Eradication Program	$374,002
16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry)	164,743
16.203	Comprehensive Approaches to Sex Offender Management Discretionary Grant (CASOM)	57,917
16.321	Anti-terrorism Emergency Reserve	65,571
16.523	Juvenile Accountability Incentive Block Grants	1,751,708
16.540	Juvenile Justice and Delinquency Prevention -- Allocation to States	2,327,690

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Justice (Continued)		
16.548	Title V -- Delinquency Prevention Program	334,183
16.550	State Justice Statistics Program for Statistical Analysis Centers	49,580
16.554	National Criminal History Improvement Program (NCHIP)	399,117
16.560	* National Institute of Justice Research, Evaluation, and Development Project Grants	86,615
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	1,381,155
16.564	Crime Laboratory Improvement -- Combined Offender DNA Index System Backlog Reduction	234,258
16.569	Prescription Drug Monitoring Program	6,845
16.575	Crime Victim Assistance	13,944,332
16.576	Crime Victim Compensation	4,782,500
16.579	* Edward Byrne Memorial Formula Grant Program	20,081
16.579	Edward Byrne Memorial Formula Grant Program	2,942,181
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	330,534
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	706,692
16.588	Violence Against Women Formula Grants	3,894,533
16.592	Local Law Enforcement Block Grants Program	41,821
16.593	Residential Substance Abuse Treatment for State Prisoners	577,117
16.601	Corrections Training and Staff Development	5,832
16.606	State Criminal Alien Assistance Program	639,702
16.607	Bulletproof Vest Partnership Program	13,707
16.609	Community Prosecution and Project Safe Neighborhoods	964,426
16.710	Public Safety Partnership and Community Policing Grants	2,662,151
16.727	Enforcing Underage Drinking Laws Program	286,361
16.735	Protecting Inmates and Safeguarding Communities Discretionary Grant Program	431,792
16.738	* Edward Byrne Memorial Justice Assistance Grant Program	227,768
16.738	Edward Byrne Memorial Justice Assistance Grant Program	6,833,123
16.739	National Prison Rape Statistics Program	524,181
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	164,526
16.744	Anti-Gang Initiative	354,106
	Total U.S. Department of Justice	**$47,580,850**
U.S. Department of Labor		
Employment Service Cluster:		
17.207	Employment Service/Wagner-Peyser Funded Activities	$30,725,295
17.801	Disabled Veterans' Outreach Program (DVOP)	6,350,160
17.804	Local Veterans' Employment Representative Program	850,319
	Total Employment Service Cluster	37,925,774
WIA Cluster:		
17.258	WIA Adult Program	55,830,536
17.259	WIA Youth Activities	53,119,321
17.260	WIA Dislocated Workers	40,570,879
	Total WIA Cluster	149,520,736
17.002	Labor Force Statistics	2,874,862

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Labor (Continued)		
17.005	Compensation and Working Conditions	63,478
17.203	Labor Certification for Alien Workers	85,859
17.225	Unemployment Insurance	1,295,340,020
17.235	Senior Community Service Employment Program	3,853,599
17.245	Trade Adjustment Assistance	23,202,883
17.261	WIA Pilots, Demonstrations, and Research Projects	713,614
17.271	Work Opportunity Tax Credit Program(WOTC) and Welfare-to-Work Tax Credit (WtWTC)	164,537
17.273	Temporary Labor Certification for Foreign Workers (ALC)	282,092
17.504	Consultation Agreements	1,354,545
17.600	Mine Health and Safety Grants	168,720
17.720	Disability Employment Policy Development	64,014
	Total U.S. Department of Labor	**$1,515,614,733**
U.S. Department of Transportation		
*Highway Planning and Construction Cluster:***		
20.205	* Highway Planning and Construction	$2,124,650
20.205	Highway Planning and Construction	1,237,400,818
23.003	Appalachian Development Highway System	30,713,388
	Total Highway Planning and Construction Cluster	1,270,238,856
Federal Transit Cluster:		
20.500	Federal Transit -- Capital Investment Grants	161,400
20.507	Federal Transit -- Formula Grants	5,295,704
	Total Federal Transit Cluster	5,457,104
20.106	Airport Improvement Program	128,525
20.218	National Motor Carrier Safety	6,706,702
20.219	Recreational Trails Program	897,853
20.230	Crash Data Improvement Program	68,517
20.237	Commercial Vehicle Information Systems and Networks	94,413
20.505	Federal Transit -- Metropolitan Planning Grants	537,473
20.509	Formula Grants for Other Than Urbanized Areas	15,127,239
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	1,270,185
20.600	State and Community Highway Safety	16,168,876
20.700	Pipeline Safety	464,668
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	326,425
	Total U.S. Department of Transportation	**$1,317,486,836**
U.S. Appalachian Regional Commission		
23.002	Appalachian Area Development	$99,645
23.008	Appalachian Local Access Roads	8,586,995
23.009	Appalachian Local Development District Assistance	133,639
23.011	Appalachian Research, Technical Assistance, and Demonstration Projects	247,882
	Total U.S. Appalachian Regional Commission	**$9,068,161**

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Equal Employment Opportunity Commission		
30.002	Employment Discrimination -- State and Local Fair Employment Practices Agency Contracts	$2,565,153
	Total U.S. Equal Employment Opportunity Commission	**$2,565,153**
General Services Administration		
39.003	Donation of Federal Surplus Personal Property	$132,266
	Total General Services Administration	**$132,266**
National Foundation on the Arts and the Humanities		
45.025	Promotion of the Arts -- Partnership Agreements	$738,300
45.026	Promotion of the Arts -- Leadership Initiatives	20,000
45.310	Grants to States	5,411,387
	Total National Foundation on the Arts and the Humanities	**$6,169,687**
U.S. Small Business Administration		
59.037	Small Business Development Center	$3,772,352
	Total U.S. Small Business Administration	**$3,772,352**
U.S. Department of Veterans Affairs		
64.005	Grants to States for Construction of State Home Facilities	$840,664
64.014	Veterans State Domiciliary Care	1,782,059
64.015	Veterans State Nursing Home Care	11,758,914
64.124	All-Volunteer Force Educational Assistance	501,101
	Total U.S. Department of Veterans Affairs	**$14,882,738**
U.S. Environmental Protection Agency		
66.001	Air Pollution Control Program Support	$4,569,095
66.032	State Indoor Radon Grants	357,211
66.034	Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	875,151
66.419	Water Pollution Control State, Interstate, and Tribal Program Support	5,227,177
66.432	State Public Water System Supervision	2,820,000
66.433	State Underground Water Source Protection	127,316
66.454	Water Quality Management Planning	552,723
66.458	Capitalization Grants for Clean Water State Revolving Funds	400,263,456
66.460	Nonpoint Source Implementation Grants	6,501,522
66.461	Regional Wetland Program Development Grants	172,681
66.463	Water Quality Cooperative Agreements	19,724
66.467	Wastewater Operator Training Grant Program (Technical Assistance)	30,992
66.468	Capitalization Grants for Drinking Water State Revolving Funds	96,284,209
66.469	Great Lakes Program	413,295
66.471	State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	929,044
66.472	Beach Monitoring and Notification Program Implementation Grants	242,334
66.474	Water Protection Grants to States	177,344
66.479	Wetland Program Grants - State/Tribal Environmental Outcome Wetland Demonstration Program	284,851
66.500	Environmental Protection - Consolidated Research	393,245

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Environmental Protection Agency (Continued)		
66.501	Environmental Protection - Consolidated Research	4,000
66.605	Performance Partnership Grants	133,240
66.606	Surveys, Studies, Investigations and Special Purpose Grants	230,125
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	136,144
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	605,542
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	317,428
66.709	Multi-media Capacity Building Grants for States and Tribes	7,909
66.801	Hazardous Waste Management State Program Support	4,788,826
66.802	Superfund State, Political Subdivision, and Indian Tribe Site -- Specific Cooperative Agreements	287,377
66.804	State and Tribal Underground Storage Tanks Program	195,716
66.805	Leaking Underground Storage Tank Trust Fund Program	1,482,994
66.808	Solid Waste Management Assistance Grants	16,118
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	658,018
66.817	State and Tribal Response Program Grants	1,065,113
66.818	Brownfield Assessments and Cleanup Cooperative Agreements	209,704
	Total U.S. Environmental Protection Agency	**$530,379,624**
U.S. Department of Energy		
81	Petroleum Violation Escrow Funds	$3,226,902
81	Agreement in Principle/COS	11,031
81.000	Cost Recovery Grants: Environmental Research	1,028,267
81.041	State Energy Program	1,517,837
81.042	Weatherization Assistance for Low-Income Persons	13,631,094
81.079	* Regional Biomass Energy Program	21,392
81.086	* Conservation Research and Development	100,758
81.089	* Fossil Energy Research and Development	3,664
81.104	Office of Environmental Cleanup and Acceleration	69,569
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	59,722
81.119	State Energy Program Special Projects	460,088
	Total U.S. Department of Energy	**$20,130,324**
U.S. Department of Education		
Special Education Cluster:		
84.027	Special Education -- Grants to States	$495,109,003
84.173	Special Education -- Preschool Grants	14,598,907
	Total Special Education Cluster	509,707,910
84.000	Consolidated Administrative Fund	5,347,606
84.002	Adult Education -- State Grant Program	17,644,188
84.010	Title I Grants to Local Educational Agencies	398,407,764
84.011	Migrant Education -- State Grant Program	2,528,924
84.013	Title I Program for Neglected and Delinquent Children	1,985,654
84.026	Media and Captioning Services for Individuals with Disabilities	2,014
84.048	Vocational Education -- Basic Grants to States	46,874,173
84.069	Leveraging Educational Assistance Partnership	2,190,076

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Education (Continued)		
84.126	Rehabilitation Services -- Vocational Rehabilitation Grants to States	117,928,126
84.144	Migrant Education Coordination Program	86,623
84.161	Rehabilitation Services -- Client Assistance Program	377,215
84.169	Independent Living -- State Grants	707,326
84.177	Rehabilitation Services -- Independent Living Services for Older Individuals Who Are Blind	1,128,482
84.181	Special Education -- Grants for Infants and Families with Disabilities	17,483,652
84.185	Byrd Honors Scholarships	1,583,238
84.186	Safe and Drug-Free Schools and Communities -- State Grants	12,425,356
84.187	Supported Employment Services for Individuals with Severe Disabilities	1,036,211
84.196	Education for Homeless Children and Youth	2,015,103
84.203	* Star Schools	2,439,246
84.206	Javits Gifted and Talented Students Education Grant Program	265,771
84.213	Even Start -- State Educational Agencies	3,003,372
84.215	* Fund for the Improvement of Education	857,844
84.215	Fund for the Improvement of Education	920,194
84.240	Program of Protection and Advocacy of Individual Rights	490,159
84.243	Tech-Prep Education	4,311,410
84.265	Rehabilitation Training - State Vocational Rehabilitation Unit In-service Training	103,713
84.282	Charter Schools	23,611,527
84.287	Twenty-First Century Community Learning Centers	26,582,136
84.298	State Grants for Innovative Programs	5,232,285
84.318	Education Technology State Grants	11,709,864
84.323	Special Education -- State Personnel Development	2,241,340
84.330	Advanced Placement Program	323,985
84.331	Grants to States for Incarcerated Youth Offenders	786,139
84.332	Comprehensive School Reform Demonstration	9,238,815
84.334	* Gaining Early Awareness and Readiness for Undergraduate Programs	25,000
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	2,513,590
84.342	Preparing Tomorrow's Teachers to Use Technology	289,540
84.343	Assistive Technology -- State Grants for Protection and Advocacy	128,157
84.346	Vocational Education -- Occupational and Employment Information State Grants	103,186
84.352	School Renovation Grants	761,942
84.357	Reading First State Grants	29,262,871
84.358	Rural Education	983,167
84.365	English Language Acquisition Grants	7,169,336
84.366	Mathematics and Science Partnerships	6,137,911
84.367	Improving Teacher Quality State Grants	108,188,525
84.369	Grants for State Assessments and Related Activities	9,053,883
84.371	Striving Readers	2,408,222
84.372	Statewide Data Systems	480,243
84.938	Hurricane Education Recovery	1,367,893
	Total U.S. Department of Education	**$1,400,450,907**
Election Assistance Commission		
90.401	Help America Vote Act Requirement Payments	$22,889,041
	Total Election Assistance Commission	**$22,889,041**

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
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	$19,595,320
93.045	Special Programs for the Aging -- Title III, Part C -- Nutrition Services	24,168,662
93.053	Nutrition Services Incentive Program	5,852,421
	Total Aging Cluster	49,616,403
CCDF Cluster:		
93.575	Child Care and Development Block Grant	72,586,685
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	102,600,761
	Total Child Care Cluster	175,187,446
Medicaid Cluster:		
93.775	State Medicaid Fraud Control Units	2,966,285
93.776	Hurricane Katrina Relief	353,094
93.777	State Survey and Certification of Health Care Providers and Suppliers	22,197,189
93.778	Medical Assistance Program (Medicaid)	7,325,876,815
	Total Medicaid Cluster	7,351,393,383
93.003	Public Health and Social Services Emergency Fund	222,067
93.006	State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	128,982
93.009	Compassion Capital Fund	1,114,880
93.041	Special Programs for the Aging -- Title VII, Chapter 3 -- Programs for Prevention of Elder Abuse, Neglect, and Exploitation	199,459
93.042	Special Programs for the Aging -- Title VII, Chapter 2 -- Long Term Care Ombudsman Services for Older Individuals	648,315
93.043	Special Programs for the Aging -- Title III, Part D -- Disease Prevention and Health Promotion Services	896,580
93.048	Special Programs for the Aging -- Title IV and Title II-- Discretionary Projects	288,764
93.05-0705-OH-5002	Clinical Laboratory Improvement Amendment	464,793
93.052	Nation Family Caregiver Support	6,736,296
93.086	Healthy Marriage Promotion and Responsible Fatherhood Grants	25,261
93.110	Maternal and Child Health Federal Consolidated Programs	307,027
93.118	Acquired Immunodeficiency Syndrome (AIDS) Activity	920,495
93.127	Emergency Medical Services for Children	242,210
93.130	Primary Care Services -- Resource Coordination and Development	354,167
93.136	Injury Prevention and Control Research and State and Community Based Programs	1,643,480
93.138	Protection and Advocacy for Individuals with Mental Illness	914,212
93.150	Projects for Assistance in Transition from Homelessness (PATH)	1,616,897
93.165	Grants to State for Loan Repayment Program	142,476
93.197	Childhood Lead Poisoning Prevention Projects -- State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	1,377,555

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE

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

93.200-1998-07265	National Death Index	1,755
93.200-2000-07236	NCHS Birth	411,499
93.217	Family Planning -- Services	4,322,595
93.230	Consolidated Knowledge Development Application (KD&A) Program	802,133
93.234	Traumatic Brain Injury -- State Demonstration Grant Program	37,652
93.235	Abstinence Education Program	2,024,205
93.240	State Capacity Building	375,092
93.241	State Rural Hospital Flexibility Program	580,258
93.243	Substance Abuse and Mental Health Services -- Projects of Regional and National Significance	3,536,149
93.251	Universal Newborn Hearing Screening	187,228
93.259	Rural Access to Emergency Devices Grant	7,631
93.267	State Grants for Protections and Advocacy Services	65,138
93.268	Immunization Grants	5,980,258
93.283	Centers for Disease Control and Prevention -- Investigations and Technical Assistance	42,276,054
93.301	Small Rural Hospital Improvement Grant Program	303,756
93.556	Promoting Safe and Stable Families	17,772,550
93.558	Temporary Assistance for Needy Families	939,644,037
93.563	Child Support Enforcement	202,463,168
93.566	Refugee and Entrant Assistance -- State Administered Programs	7,591,989
93.568	Low-Income Home Energy Assistance	134,920,833
93.569	Community Services Block Grant	27,048,462
93.571	Community Services Block Grant Formula and Discretionary Awards Community Food and Nutrition Programs	19,541
93.576	Refugee and Entrant Assistance -- Discretionary Grants	363,700
93.584	Refugee and Entrant Assistance -- Targeted Assistance Grants	156,669
93.585	Empowerment Zones Program	101,120
93.586	State Court Improvement Program	348,974
93.590	Community-Based Child Abuse Prevention Grants	1,364,966
93.597	Grants to States for Access and Visitation Programs	184,734
93.599	Chafee Education and Training Vouchers Program (ETV)	1,444,140
93.600	Head Start	270,760
93.603	Adoption Incentive Payments	230,553
93.617	Voting Access for Individuals with Disabilities - Grants to States	303,245
93.618	Voting Access for Individuals with Disabilities -- Grants for Protection and Advocacy Systems	103,465
93.630	Developmental Disabilities Basic Support and Advocacy Grants	4,473,744
93.631	Developmental Disabilities Projects of National Significance	7,023
93.643	Children's Justice Grants to States	490,856
93.645	Child Welfare Services -- State Grants	17,002,020
93.658	Foster Care -- Title IV-E	215,742,071
93.659	Adoption Assistance	155,763,697
93.667	Social Services Block Grant	149,685,706
93.669	Child Abuse and Neglect State Grants	1,474,917
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters -- Grants to States and Indian Tribes	2,569,406
93.674	Chafee Foster Care Independence Program	5,725,694

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Health and Human Services (Continued)		
93.767	State Children's Insurance Program	190,607,045
93.768	Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	614,917
93.779	* Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	291,739
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	1,771,689
93.888	* Specially Selected Health Projects	1,667,547
93.889	National Bioterrorism Hospital Preparedness Program	24,008,016
93.913	Grants to States for Operation of Offices of Rural Health	151,696
93.917	HIV Care Formula Grants	16,439,304
93.940	HIV Prevention Activities -- Health Department Based	5,119,196
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	761,871
93.945	Assistance Programs for Chronic Disease Prevention and Control	415,749
93.946	Cooperative Agreements to Support State Based Safe Motherhood and Infant Health Initiatives	145,521
93.958	Block Grants for Community Mental Health Services	14,982,644
93.959	Block Grants for Prevention and Treatment of Substance Abuse	75,149,990
93.965	Coal Miners Respiratory Impairment Treatment Clinics and Services	505,680
93.977	Preventive Health Services -- Sexually Transmitted Diseases Control Grants	3,317,823
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	678,043
93.991	Preventative Health and Health Services Block Grant	4,305,777
93.994	Maternal and Child Health Services Block Grant to the States	22,029,910
93.A-67-07-0616	State Children's Insurance Program	41,867
93.A-67-07-0136	Immunization Registry	34,730
93.HHSF223200640045C	Mammography Quality Standard Act Inspection	311,185
	Total U.S. Department of Health and Human Services	**$9,905,972,530**
Corporation for National and Community Service		
94.003	State Commissions	$485,981
94.004	Learn and Serve America -- School and Community Based Programs	861,180
94.006	AmeriCorps	5,251,845
94.007	Planning and Program Development Grants	15,916
94.009	Training and Technical Assistance	115,951
94.011	Foster Grandparent Program	517,915
	Total Corporation for National and Community Service	**$7,248,788**
Social Security Administration		
96	Program Income for Rehabilitating Recipients of Social Security Income and Supplemental Security Income -- Vocational Rehabilitation Program (CFDA# 84.126)	$5,631,366
96.0600-01-60051	Social Security Contract	1,265
96.0600-03-60054	Social Security Contract	179,050
96.SS00-07-60007	Social Security Contract	144

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
Social Security Administration (Continued)		
96.001	Social Security -- Disability Insurance	76,646,994
96.008	Work Incentives Planning and Assistance Program	119,285
96.009	Social Security State Grants for Work Incentives Assistance to Disabled Beneficiaries	214,746
	Total Social Security Administration	**$82,792,850**
U.S. Department of Homeland Security		
Homeland Security Cluster:		
97.004	State Domestic Preparedness Equipment Support Program	$731,116
97.067	Homeland Security Grant Program	42,106,895
	Total Homeland Security Cluster	42,838,011
97.004	State Domestic Preparedness Equipment Support Program	654,325
97.008	Urban Areas Security Initiative	7,903,524
97.012	Boating Safety Financial Assistance	4,505,607
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	138,632
97.021	Hazardous Material Assistance Program	93
97.023	Community Assistance Program - State Support Services Element (CAP-SSSE)	46,776
97.029	Flood Mitigation Assistance	132,501
97.036	Public Assistance Grants	25,891,025
97.039	Hazard Mitigation Grant	3,735,677
97.041	National Dam Safety Program	47,764
97.042	* Emergency Management Performance Grants	19,800
97.042	Emergency Management Performance Grants	4,836,720
97.045	Cooperating Technical Partners	50,223
97.047	Pre-Disaster Mitigation	16,843
97.053	Citizens Corps	27,723
97.070	Map Modernization Management Support	77,393
97.073	* State Homeland Security Program	59,284
97.073	State Homeland Security Program	520,387
97.074	Law Enforcement Terrorism Prevention Program	2,169,150
97.075	Rail & Transit Security Grant Program	497,018
97.078	Buffer Zone Protection Plan (BZPP)	2,297,027
97.091	Homeland Security Biowatch Program	360,171
	Total U.S. Department of Homeland Security	**$96,825,674**
	TOTAL EXPENDITURES	**$17,207,036,422**

* These programs are a part of the Research and Development Cluster, as defined by OMB Circular A-133. See Note 4 to the Supplementary Schedule of Expenditures of Federal Awards.

** This cluster encompasses two different federal agency programs, the U.S. Department of Transportation's federal program CFDA# 20.205 and the U.S. Appalachian Regional Commission's federal program CFDA# 23.003. In accordance with OMB Circular A-133, CFDA# 23.003 has been included as part of the U.S. Department of Transportation's programs and excluded from the U.S. Appalachian Regional Commission's programs.

THIS PAGE INTENTIONALLY LEFT BLANK

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, revised June 27, 2003, requires a Supplementary Schedule of Expenditures of Federal Awards (Supplementary Schedule). The State of Ohio reports this information using the following presentations:

- Supplementary Schedule of Expenditures of Federal Awards Summarized by Federal Agency
- Supplementary Schedule of Expenditures of Federal Awards by Federal Agency and Federal Program

The schedules must report total disbursements for each federal financial assistance program, as listed in the *Catalog of Federal Domestic Assistance* (CFDA). The State of Ohio reports each federal financial assistance program not officially assigned CFDA numbers with a two-digit number that identifies the federal grantor agency or with a two-digit federal grantor agency number followed by a federal contract number, when applicable.

A. Reporting Entity

The Supplementary Schedules include all federal programs the State of Ohio has administered for the fiscal year ended June 30, 2007. 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

Additionally, for Single Audit purposes only, the State includes certain federal programs administered by the 88 county departments of Job and Family Services in the Supplementary Schedules. Although, the counties are not included in the State's reporting entity, the counties received funding from the following federal programs, the expenditures of which are included in the Supplementary Schedules. This arrangement is in accordance with an agreement the State has with the U.S. Department of Health and Human Services.

CFDA #10.551/10.561 – Food Stamp Cluster
CFDA # 93.558 – Temporary Assistance for Needy Families
CFDA # 93.563 – Child Support Enforcement
CFDA # 93.575/93.596 – Child Care Cluster
CFDA # 93.658 – Foster Care Title -- IV-E
CFDA # 93.659 – Adoption Assistance
CFDA # 93.667 – Social Services Block Grant
CFDA # 93.767 – State Children's Insurance Program
CFDA # 93.775/93.776/93.777/93.778 – Medicaid Cluster

B. Basis of Accounting

The State prepares the Supplementary Schedules on the cash basis of accounting; therefore, the State recognizes expenditures when paid rather than when it incurs obligations.

C. Transfers of Federal Funds between State Agencies

The State excludes interagency disbursements of federal moneys among State agencies to avoid the overstatement of federal financial assistance reported on the Supplementary Schedules.

D. Indirect Costs

Indirect costs benefit more than one federal program and are not directly allocable to the programs receiving the benefits. The State recovers these costs from the federal government by applying federally approved indirect cost rates or by allocating the indirect costs among benefiting programs in accordance with federally approved plans. The State recognizes indirect costs as disbursements in the Supplementary Schedules.

E. Valuation of Non-Cash Federal Assistance

The State reports the following non-cash federal assistance programs on the Supplementary Schedules.

- *Food Donation (CFDA# 10.550)*
  Federal assistance for this program represents the value of food the State distributes to subrecipients during the fiscal year. The U.S. Department of Agriculture assigns the prices at which the State values donated food commodities.

- *Food Stamps (CFDA# 10.551)*
  Federal assistance for this program represents the value of food stamp benefits the State and its agents distribute to eligible recipients during the fiscal year. Distribution occurs when beneficiaries receive credits for value from the State via the electronic benefits transfer (EBT) to the beneficiaries' smart cards.

- *Donation of Federal Surplus Property (CFDA# 12.005)*
  Federal assistance for this program represents the fair market value of donated federal surplus property the State distributes to subrecipients during the fiscal year. The State calculates fair value at 23.3 percent of the property's original costs, in conformity with guidelines the U.S. Department of Defense establishes.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *Donation of Federal Surplus Personal Property (CFDA# 39.003)*
  Federal assistance for this program represents the fair market value of federal surplus personal property the State distributes to subrecipients during the fiscal year. The State calculates fair value at 23.3 percent of the property's original acquisition costs, 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 2007, 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, 2007, outstanding loans for the Capitalization Grants for Revolving Loan Funds programs totaled approximately $1,043 billion.

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

Capitalization Grant Loan Balance, as of 6/30/06	$958,605,712
Loans without Compliance Requirements	(501,631,318)
Loans transferred without Compliance Requirements	(47,141,792)
Net Loan Balance (Loans with Compliance Requirements)	409,832,602
New Loans Disbursed	101,311,701
Net Principal Repayments Received	(20,039,106)
Capitalized Interest Earned	2,874,659
Current Loan Activity	84,147,254
Ending Loan Balance (Loans with Compliance Requirements)	493,979,856
Administrative Costs	991,914
Administrative Trustee Fee	394
Loan Account Trustee Fee	42
Small System Technical Assistant	404,931
Small System Technical Assistant Trustee Fee	125
Wellhead Costs	1,191,862
Wellhead Trustee Fee	368
Administrative Interest Earned	(7,709)
Loan Account Interest Earned	(6,046)
Source Water Account Interest Earned	(9)
Small System Technical Assistant Interest Earned	(2,076)
Wellhead Interest Earned	(5,987)
Total Federal Assistance for FY 2007	$496,547,665

The total federal assistance for fiscal year 2007, as reported by the Ohio Environmental Protection Agency, for the Clean Water Revolving Fund and the Drinking Water Revolving Fund were $400,263,456 and $96,284,209 respectively.

NOTE 3 INVENTORY BALANCES FOR NON-CASH FEDERAL ASSISTANCE PROGRAMS

As of June 30, 2007, the outstanding inventory balances for the non-cash federal assistance programs are as follows:

CFDA#	Non-Cash Program	Outstanding Balance, as of 6/30/07
10.550	Food Donation	$4,124,794
12.005	Donation of Federal Surplus Property	8,862,614
	Total	$12,987,408

NOTE 4 RESEARCH AND DEVELOPMENT CLUSTER

The State has reported the following federal programs under the Research and Development Cluster on the Supplementary Schedule of Expenditures of Federal Awards by Federal Agency and Federal Program.

CFDA#	Program	Amount
10.029	Avian Influenza Indemnity Program	$ 53,494
12.400	Military Construction, National Guard	318,029
15.252	Abandoned Mine Land Reclamation (AMLR) Program	14,933
15.605	Sport Fish Restoration	1,487,714
16.560	National Institute of Justice Research, Evaluation and Development Project Grants	86,615
16.579	Byrne Formula Grant Program	20,081
16.738	Edward Byrne Memorial Justice Assistance Grant Program	227,768
20.205	Highway Planning and Construction	2,124,650
81.079	Regional Biomass Energy Program	21,392
81.086	Conservation Research and Development	100,758
81.089	Fossil Energy Research and Development	3,664
84.203	Star Schools	2,439,246
84.215	Fund for the Improvement of Education	857,844
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	25,000
93.779	Center for Medicare and Medicaid Services (CMS) Research, Demonstrations, and Evaluations	291,739
93.888	Specially Selected Health Projects	1,667,547
97.042	Emergency Management Performance Grants	19,800
97.073	State Homeland Security Program	59,284
	Total Research and Development Cluster	**$ 9,819,558**

NOTE 5 HOMELAND SECURITY CLUSTER

The State has reported the following federal programs for the Homeland Security Cluster on the Supplementary Schedule of Expenditures of Federal Awards by Federal Agency and Federal Program. Several programs were incorporated into the State Domestic Preparedness Equipment Support Program (97.004) and Homeland Security Grant Program (97.067) in accordance with the guidance from the U.S. Department of Homeland Security.

CFDA#	Program	Amount
*	Law Enforcement Terrorism Prevention	$ 12,858
97.004	State Domestic Preparedness Equipment Support Program	687,259
97.053	Citizen Corps	30,999
97.004	Total State Domestic Preparedness Equipment Support Program	$ 731,116
97.008	Urban Areas Security Initiative	$ 17,657,448
97.042	Emergency Management Performance Grants	96,549
97.053	Citizen Corps	358,655
97.071	Metropolitan Medical Response System	690,754
97.073	State Homeland Security Program	18,242,121
97.074	Law Enforcement Terrorism Prevention Program Shelter's - Grants to States and Indian Tribes	5,061,368
97.067	Homeland Security Grant Program	$42,106,895

* - This program did not have a designated CFDA number.

NOTE 6 TRANSFERS BETWEEN FEDERAL PROGRAMS

During fiscal year 2007, the State made allowable transfers of approximately $77.5 million from the Temporary Assistance for Needy Families (93.558) program to the Social Services Block Grant (93.667) program. The Supplementary Schedule shows the State spent approximately $939.6 million on the Temporary Assistance for Needy Families program. The amount reported for the Temporary Assistance for Needy Families program on the Supplementary Schedule excludes the amount transferred to the Social Services Block Grant program. The amount transferred to the Social Services Block Grant program is included in the federal program expenditures for these programs. The following table shows the gross amount drawn for the Temporary Assistance for Needy Families program during fiscal year 2007 and the amount transferred to the Social Services Block Grant program.

Temporary Assistance for Needy Families	$ 1,017,228,002
Social Services Block Grant	(77,583,966)
Total Temporary Assistance for Needy Families	**$ 939,644,036**

THIS PAGE INTENTIONALLY LEFT BLANK

INDEPENDENT ACCOUNTANTS' REPORTS ON COMPLIANCE AND INTERNAL CONTROLS

Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

The Honorable Ted Strickland, Governor
State of Ohio
Columbus, Ohio

We have audited the financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Ohio (the State) as of and for the year ended June 30, 2007, which collectively comprise the State's basic financial statements, and have issued our report thereon dated April 25, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. We did not audit the financial statements of the following organizations:

Primary Government: Office of the Auditor of State; Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio; Office of Financial Incentives; State Treasury Asset Reserve of Ohio; Treasurer of State Lease Revenue Bonds; and Tuition Trust Authority.

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

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

In addition, we did not audit the financial statements of the Public Employees Retirement System, Police and Fire Pension Fund, State Teachers Retirement System, and School Employees Retirement System, whose assets are held by the Treasurer of State and are included as part of the State's Aggregate Remaining Fund Information.

These financial statements reflect the following percentages of total assets and revenues or additions of the indicated opinion units:

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Revenues / Additions
Governmental Activities	2%	1%
Business-Type Activities	92%	58%
Aggregate Discretely Presented Component Units	96%	92%
Aggregate Remaining Fund Information	97%	38%
Workers' Compensation	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. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that those auditors separately reported.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Ohio's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the State of Ohio's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the State of Ohio's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the State of Ohio's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the State of Ohio's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the deficiencies listed in the table below, identified in the summary of findings and questioned costs on page 170, and described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

State Agency	Significant Deficiency Finding Numbers
Ohio Department of Administrative Services	2007-DAS01-001
Ohio Department of Education	2007-EDU05-009
Ohio Department of Job & Family Services	2007-JFS19-031 through 2007-JFS21-033, 2007-JFS32-044, and 2007-JFS33-045,
Ohio Department of Transportation	2007-DOT02-053

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the State of Ohio's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe none of the significant deficiencies described above are material weaknesses.

We noted other matters that we have reported to the management of the State of Ohio in separate management letters issued April 25, 2008, and earlier.

Compliance and Other Matters

As part of reasonably assuring whether the State of Ohio's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We noted certain noncompliance or other matters that we have reported to the management of the State of Ohio in separate management letters issued April 25, 2008, and earlier.

We intend this report solely for the information and use of management, the State Legislature, and the federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 25, 2008

THIS PAGE LEFT BLANK INTENTIONALLY

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Honorable Ted Strickland, Governor
State of Ohio
Columbus, Ohio

Compliance

We have audited the compliance of the State of Ohio with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2007. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the State of Ohio's major federal programs. The State of Ohio's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to each major federal program. Our responsibility is to express an opinion on the State of Ohio's compliance based on our audit.

The State of Ohio's basic financial statements include the operations of State College and Universities which received federal awards that are not included in the Schedule of Federal Awards for the year ended June 30, 2007. Our audit of federal awards, described below, did not include the operations of State College and Universities because these component units engaged other auditors to audit their Federal award programs in accordance with OMB Circular A-133

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the State of Ohio's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on State of Ohio's compliance with those requirements.

In our opinion, except for the noncompliance described in the following 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, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that OMB Circular A-133 requires us to report, which are listed in the table below, identified in the summary of findings and questioned costs on pages 168 and 169, and described in the accompanying schedule of findings and questioned costs.

State Agency	Noncompliance Finding Numbers
Ohio Office of Budget and Management	2007-OBM01-002
Ohio Department of Development	2007-DEV01-003
Ohio Department of Education	2007-EDU01-005 and 2007-EDU02-006
Ohio Department of Health	2007-DOH01-010
Ohio Department of Job & Family Services	2007-JFS01-013 through 2007-JFS18-030
Ohio Department of Mental Health	2007-DMH01-047
Ohio Department of Public Safety	2007-DHS01-048 and 2007-DHS02-049
Ohio Department of Transportation	2007-DOT01-052

As described in items 2007-DEV01-003 and 2007-DHS02-049 in the accompanying schedule of findings and questioned costs on pages 179 and 291, the State of Ohio's Department of Development and Department of Public Safety did not comply with the requirements regarding reporting applying to the Home Energy Assistance Program and Homeland Security Cluster, respectively. Compliance with those requirements is necessary, in our opinion, for the State of Ohio to comply with requirements applicable to these programs.

As described in items 2007-EDU02-006 in the accompanying schedule of findings and questioned costs on page 184, the State of Ohio's Department of Education did not comply with the requirements regarding subrecipient monitoring applying to its Twenty-First Century Community Learning Centers program. Compliance with those requirements is necessary, in our opinion, for the State of Ohio to comply with requirements applicable to this program.

In separate letters to the State of Ohio's management issued April 25, 2008, and earlier, we reported other matters related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

The State of Ohio's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the State of Ohio's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Ohio's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the State of Ohio's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the State of Ohio's ability to administer a federal program such that there is more than a remote likelihood that the State of

Ohio's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement. We consider the items listed in the table below, identified in the summary of findings and questioned costs on pages 168 and 169, and described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

State Agency	Significant Deficiency Finding Numbers
Ohio Department of Administrative Services	2007-DAS01-001
Ohio Department of Development	2007-DEV02-004
Ohio Department of Education	2007-EDU02-006 through 2007-EDU05-009
Ohio Department of Health	2007-DOH01-010 through 2007-DOH03-012
Ohio Department of Job & Family Services	2007-JFS17-029 through 2007-JFS34-046
Ohio Department of Mental Health	2007-DMH01-047
Ohio Department of Public Safety	2007-DHS02-049 and 2007-DHS03-050
Ohio Secretary of State	2007-SOS01-051
Ohio Department of Transportation	2007-DOT01-052 and 2007-DOT02-053

A material weakness is significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that the State of Ohio's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider the items listed in the table below, identified in the summary of findings and questioned costs on pages 168and 169, and described in the accompanying schedule of findings and questioned costs to be material weaknesses.

State Agency	Material Weakness Finding Numbers
Ohio Department of Education	2007-EDU03-007
Ohio Department of Job & Family Services	2007-JFS19-031 through 2007-JFS21-033
Ohio Secretary of State	2007-SOS01-051
Ohio Department of Transportation	2007-DOT02-053

In separate letters to the State of Ohio's management issued April 25, 2008, and earlier, we reported other matters related to internal control over federal compliance not requiring inclusion in this report.

The State of Ohio's responses to the findings we identified are described in the accompanying schedule of findings and questioned costs. We did not audit the State of Ohio's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, the State Legislature, and the federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 25, 2008

THIS PAGE LEFT BLANK INTENTIONALLY

OMB CIRCULAR A-133 § .505

1. SUMMARY OF AUDITORS' RESULTS		
(d)(1)(i)	*Type of Financial Statement Opinion*	Unqualified
(d)(1)(ii)	*Were there any material control weaknesses reported at the financial statement level (GAGAS)?*	No
(d)(1)(ii)	*Were there any other significant deficiencies in internal control 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 weaknesses reported for major federal programs?*	Yes
(d)(1)(iv)	*Were there any other significant deficiencies in internal control reported for major federal programs?*	Yes
(d)(1)(v)	*Type of Major Programs' Compliance Opinion*	Unqualified and Qualified – see **
(d)(1)(vi)	*Are there any reportable findings under § .510?*	Yes
(d)(1)(vii)	*Major Programs (list):*	See pages 164 through 167
(d)(1)(viii)	*Dollar Threshold: Type A\Risk Assessed Type B Programs*	A: >$30,000,000 B: >$ 5,013,147
(d)(1)(ix)	*Low Risk Auditee?*	No

** We qualified our opinion on reporting for the Ohio Department of Development's Home Energy Assistance Program and the Ohio Department of Public Safety's Homeland Security Cluster; and on subrecipient monitoring for the Ohio Department of Education's Twenty-First Century Community Learning Centers program.

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

Finding Number	2007-DAS01-001

SIGNIFICANT DEFICIENCY

See federal finding # 2007-DAS01-001on page 173; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2007-EDU05-009

SIGNIFICANT DEFICIENCY

See federal finding # 2007-EDU05-009 on page 192; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2007-JFS19-031

SIGNIFICANT DEFICIENCY

See federal finding # 2007-JFS19-031on page 247; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2007-JFS20-032

SIGNIFICANT DEFICIENCY

See federal finding # 2007-JFS20-032on page 249; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2007-JFS21-033

SIGNIFICANT DEFICIENCY

See federal finding # 2007-JFS21-033on page 250; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2007-JFS32-044

SIGNIFICANT DEFICIENCY

See federal finding # 2007-JFS32-044on page 276; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2007-JFS33-045

SIGNIFICANT DEFICIENCY

See federal finding # 2007-JFS33-045on page 280; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2007-DOT02-053

SIGNIFICANT DEFICIENCY

See federal finding # 2007-DOT02-053on page 299; 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 168 and 169.

The questioned costs are summarized by federal agency, program, and amount on page 171.

The findings and questioned costs are detailed by state agency on pages 173 through 302.

STATE OF OHIO
JULY 1, 2006 THROUGH JUNE 30, 2007
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
U.S. Department of Agriculture			
Food Stamp Cluster			
10.551/10.561			
	Ohio Department of Job & Family Services	$1,395,620,137	
	Other Agencies (Not Tested as a Major Program)	946,066	
	Total Food Stamp Cluster	$1,396,566,203	8.12%
Child Nutrition Cluster			
10.553/10.555/10.556/10.559			
	Ohio Department of Education	$285,338,344	
	Other Agencies (Not Tested as a Major Program)	3,545,140	
	Total Nutrition Cluster	$288,883,484	1.68%
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children		
	Ohio Department of Health	$229,067,296	
	Total CFDA # 10.557	$229,067,296	1.33%
10.558	Child and Adult Care Food Program		
	Ohio Department of Education	$67,670,297	
	Total CFDA # 10.558	$67,670,297	0.39%
U.S. Department of Housing and Urban Development			
14.228	Community Development Block Grant/State's Program		
	Ohio Department of Development	$70,877,830	
	Total CFDA # 14.228	$70,877,830	0.41%
14.239	HOME Investment Partnerships Program		
	Ohio Department of Development	$40,783,245	
	Total CFDA # 14.239	$40,783,245	0.24%
U.S. Department of Labor			
Employment Services Cluster			
17.207/17.801/17.804			
	Ohio Department of Job & Family Services	$37,925,774	
	Total Employment Services Cluster	$37,925,774	0.22%
17.225	Unemployment Insurance		
	Ohio Department of Job & Family Services	$1,295,340,020	
	Total CFDA # 17.225	$1,295,340,020	7.53%
17.245	Trade Adjustment Assistance		
	Ohio Department of Job & Family Services	$23,202,883	
	Total CFDA # 17.245	$23,202,883	0.13%

STATE OF OHIO
JULY 1, 2006 THROUGH JUNE 30, 2007
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
Workforce Investment Act (WIA) Cluster			
17.258/17.258/17.260			
	Ohio Department of Job & Family Services	$144,822,361	
	Other Agencies (Not Tested as a Major Program)	4,698,375	
	Total WIA Cluster	$149,520,736	0.87%
U.S. Department of Transportation			
Highway Planning and Construction Cluster			
20.205/23.003			
	Ohio Department of Transportation	$1,270,238,856	
	Total Highway Planning and Construction Cluster	$1,270,238,856	7.38%
U.S. Department of Education			
84.010	Title I Grants to Local Education Agencies		
	Ohio Department of Education	$398,407,764	
	Total CFDA # 84.010	$398,407,764	2.32%
Special Education Cluster			
84.027/84.173			
	Ohio Department of Education	$503,703,144	
	Other Agencies (Not Tested as a Major Program)	6,004,766	
	Total Special Education Cluster	$509,707,910	2.96%
84.282	Charter Schools		
	Ohio Department of Education	$23,611,527	
	Total CFDA # 84.282	$23,611,527	0.14%
84.287	Twenty-First Centruy Community Learning Centers		
	Ohio Department of Education	$26,582,136	
	Total CFDA # 84.282	$26,582,136	0.15%
84.357	Reading First State Grants		
	Ohio Department of Education	$29,262,871	
	Total CFDA # 84.357	$29,262,871	0.17%
84.367	Improving Teacher Quality State Grants		
	Ohio Department of Education	$105,628,367	
	Other Agencies (Not Tested as a Major Program)	2,560,158	
	Total CFDA # 84.367	$108,188,525	0.63%
Election Assistance Commission			
90.401	Help America Vote Act Requirement Payments		
	Secretary of State	$22,889,041	
	Total CFDA # 90.401	$22,889,041	0.13%

STATE OF OHIO
JULY 1, 2006 THROUGH JUNE 30, 2007
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
U.S. Department of Health and Human Services			
Aging Cluster			
93.044/93.045/93.053			
	Ohio Department of Aging	$49,616,403	
	Total Aging Cluster	$49,616,403	0.29%
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance		
	Ohio Department of Health	$42,276,054	
	Total CFDA # 93.283	$42,276,054	0.25%
93.558	Temporary Assistance for Needy Families		
	Ohio Department of Job & Family Services	$870,636,360	
	Ohio Department of Development	59,797,792	
	Other Agencies (Not Tested as a Major Program)	9,209,885	
	Total CFDA # 93.558	$939,644,037	5.46%
93.563	Child Support Enforcement		
	Ohio Department of Job & Family Services	$202,463,168	
	Total CFDA # 93.563	$202,463,168	1.18%
93.568	Low-Income Home Energy Assistance		
	Ohio Department of Development	$134,620,991	
	Other Agencies (Not Tested as a Major Program)	299,842	
	Total CFDA # 93.568	$134,920,833	0.78%
Child Care Cluster			
93.575/93.596			
	Ohio Department of Job & Family Services	$175,065,622	
	Other Agencies (Not Tested as a Major Program)	121,824	
	Total Child Care Cluster	$175,187,446	1.02%
93.658	Foster Care - Title IV-E		
	Ohio Department of Job & Family Services	$213,614,072	
	Other Agencies (Not Tested as a Major Program)	2,127,999	
	Total CFDA # 93.658	$215,742,071	1.25%
93.659	Adoption Assistance		
	Ohio Department of Job & Family Services	$155,763,697	
	Total CFDA # 93.659	$155,763,697	0.91%
93.667	Social Services Block Grant		
	Ohio Department of Job & Family Services	$131,489,079	
	Ohio Department of Mental Health	8,605,864	
	Other Agencies (Not Tested as a Major Program)	9,590,763	
	Total CFDA # 93.667	$149,685,706	0.87%

STATE OF OHIO
JULY 1, 2006 THROUGH JUNE 30, 2007
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
93.767	State Children's Insurance Program		
	Ohio Department of Job & Family Services	$165,574,552	
	Ohio Department of Mental Health	18,991,121	
	Other Agencies (Not Tested as a Major Program)	6,041,372	
	Total CFDA # 93.767	$190,607,045	1.11%
Medicaid Cluster			
93.775/93.777/93.778			
	Ohio Department of Job & Family Services	$6,201,492,894	
	Ohio Department of Mental Retardation and Developmental Disabilities	606,307,693	
	Ohio Department of Mental Health	252,083,627	
	Other Agencies (Not Tested as a Major Program)	291,509,169	
	Total Medicaid Cluster	$7,351,393,383	42.72%
93.917	HIV Care Formula Grants		
	Ohio Department of Health	$16,371,303	
	Other Agencies (Not Tested as a Major Program)	68,001	
	Total CFDA # 93.917	$16,439,304	0.10%
93.959	Block Grant for the Prevention and Treatment of Substance Abuse		
	Ohio Department of Alcohol and Drug Addiction Services	$73,685,071	
	Other Agencies (Not Tested as a Major Program)	1,464,919	
	Total CFDA # 93.959	$75,149,990	0.44%
93.994	Maternal and Child Health Services Block Grant to States		
	Ohio Department of Health	$22,029,910	
	Total CFDA # 93.994	$22,029,910	0.13%
U.S. Department of Homeland Security			
Homeland Security Cluster			
97.004/97.067			
	Ohio Department of Public Safety	$42,838,011	
	Total Homeland Security Cluster	$42,838,011	0.25%
Total Major Federal Programs		$15,752,483,456	91.55%
Other Federal Programs		1,454,552,966	8.45%
Total Federal Awards Expenditures		$17,207,036,422	100.00%

STATE OF OHIO
JULY 1, 2006 THROUGH JUNE 30, 2007
SUMMARY OF FINDINGS AND QUESTIONED COSTS

The findings listed below represent items which are being reported in the Independent Accountants' Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control Over Compliance In Accordance with OMB Circular A-133.

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE REFERENCE
Ohio Department of Administrative Services (DAS)			
1. IT-OAKS Human Capital Management Mod. (State Payroll)	2007-DAS01-001	Significant Deficiency	173
Ohio Office of Budget and Management (OBM)			
1. Cash Management - Interest Payments	2007-OBM01-002	Questioned Costs	177
Ohio Department of Development (DEV)			
1. HEAP - Inaccurate Reporting	2007-DEV01-003	Noncompliance	179
2. HEAP/TANF - Tracking and Documentation	2007-DEV02-004	Significant Deficiency	180
Ohio Department of Education (EDU)			
1. Charter Schools - Allowable Costs	2007-EDU01-005	Questioned Costs	183
2. 21st Century - Monitoring of Subrecipients	2007-EDU02-006	Noncompliance/ Significant Deficiency	184
3. Charter Schools - Monitoring of Subrecipients	2007-EDU03-007	Significant Deficiency / Material Weakness	187
4. Reading First - Monitoring of Subrecipients	2007-EDU04-008	Significant Deficiency	190
5. IT - Application Development & Maintenance	2007-EDU05-009	Significant Deficiency	192
Ohio Department of Health (DOH)			
1. Subrecipient Monitoring	2007-DOH01-010	Noncompliance/ Significant Deficiency	196
2. Matching and Level of Effort Controls	2007-DOH02-011	Significant Deficiency	199
3. IT - Program Change Controls	2007-DOH03-012	Significant Deficiency	200
Ohio Department of Job & Family Services (JFS)			
1. MMIS - Claims Reimbursed in Excess of OAC Limits	2007-JFS01-013	Questioned Costs	203
2. Medicaid - Voided Warrants	2007-JFS02-014	Questioned Costs	209
3. Medicaid/FS/TANF - Undocumented Eligibility - Franklin Co.	2007-JFS03-015	Questioned Costs	211
4. SSBG - Subrecipient Monitoring - Belmont County	2007-JFS04-016	Questioned Costs	215
5. TANF - ELI Unallowable Eligibility - Cuyahoga County	2007-JFS05-017	Questioned Costs	217
6. SCHIP - Ineligible Recipients	2007-JFS06-018	Questioned Costs	219
7. TANF - Missing Case Files - Franklin County	2007-JFS07-019	Questioned Costs	221
8. Foster Care - Unallowable Eligibility - Cuyahoga County	2007-JFS08-020	Questioned Costs	223
9. Child Care - Missing Files - Franklin County	2007-JFS09-021	Questioned Costs	225
10. Adoption Assistance - Unallowable Eligibility - Cuyahoga Co.	2007-JFS10-022	Questioned Costs	226
11. SCHIP - Undocumented Eligibility - Belmont County	2007-JFS11-023	Questioned Costs	228
12. Medicaid/SCHIP - Third Party Liability	2007-JFS12-024	Questioned Costs	230
13. TANF - Child Supp Non-Cooperation - Lucas & Hamilton Co.	2007-JFS13-025	Questioned Costs	232
14. SCHIP - Missing Files - Franklin County	2007-JFS14-026	Questioned Costs	235
15. Indirect Cost Allocation Variances	2007-JFS15-027	Questioned Costs	237
16. IEVS - Due Dates	2007-JFS16-028	Noncompliance	240
17. IEVS - Alert Resolution/Inadequate Documentation	2007-JFS17-029	Noncompliance/ Significant Deficiency	242
18. Medicaid/SCHIP - Provider Eligibility	2007-JFS18-030	Noncompliance/ Significant Deficiency	245

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE REFERENCE
Ohio Department of Job & Family Services (JFS)			
19. All Applications-Lack of Internal Testing-Automated Controls	2007-JFS19-031	Significant Deficiency / Material Weakness	247
20. IT - Manual Overrides of CRIS-E	2007-JFS20-032	Significant Deficiency / Material Weakness	249
21. Food Stamps - SAS 70	2007-JFS21-033	Significant Deficiency / Material Weakness	250
22. MMIS - Recertification of Providers	2007-JFS22-034	Significant Deficiency	253
23. CRIS-E and MMIS Eligibility Spans Not Reconciled	2007-JFS23-035	Significant Deficiency	255
24. Medicaid/SCHIP - Drug Rebate Monitoring	2007-JFS24-036	Significant Deficiency	256
25. Unemployment Insurance Benefits Paid After Year End	2007-JFS25-037	Significant Deficiency	259
26. SSBG - Incomplete Oversight of County Operations	2007-JFS26-038	Significant Deficiency	261
27. IT - Missing/Incomplete Program Change Request Forms	2007-JFS27-039	Significant Deficiency	262
28. IT - Unavailable Program Change Test Documentation	2007-JFS28-040	Significant Deficiency	265
29. IT - Missing Approval Documentation	2007-JFS29-041	Significant Deficiency	268
30. IT - MMIS Production Environment Security	2007-JFS30-042	Significant Deficiency	270
31. IT - CRIS-E Production Environment Security	2007-JFS31-043	Significant Deficiency	273
32. IT - WRS & UC Tax Production Environment Security	2007-JFS32-044	Significant Deficiency	276
33. IT - OJI Production Environment Security	2007-JFS33-045	Significant Deficiency	280
34. IT - SCOTI Production Environment Security	2007-JFS34-046	Significant Deficiency	283
Ohio Department of Mental Health (DMH)			
1. Subrecipient Monitoring	2007-DMH01-047	Noncompliance/ Significant Deficiency	286
Ohio Department of Public Safety (DHS)			
1. Homeland Security Cluster - Period of Availability	2007-DHS01-048	Questioned Costs	289
2. Homeland Security Cluster - Inaccurate Federal Reports	2007-DHS02-049	Noncompliance/ Significant Deficiency	291
3. Homeland Security Cluster - Equipment Management	2007-DHS03-050	Significant Deficiency	293
Ohio Secretary of State (SOS)			
1. HAVA - Suspension and Debarment	2007-SOS01-051	Significant Deficiency / Material Weakness	296
Ohio Department of Transportation (DOT)			
1. Contract Time Extension Approval	2007-DOT01-052	Noncompliance/ Significant Deficiency	298
2. IT - Security	2007-DOT02-053	Significant Deficiency / Material Weakness	299

STATE OF OHIO
JULY 1, 2006 THROUGH JUNE 30, 2007
SUMMARY OF FINDINGS AND QUESTIONED COSTS

The findings listed below are also reported in the Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE REFERENCE
Ohio Department of Administrative Services (DAS)			
1. IT-OAKS Human Capital Management Mod. (State Payroll)	2007-DAS01-001	Significant Deficiency	173
Ohio Department of Education (EDU)			
5. IT - Application Development & Maintenance	2007-EDU05-009	Significant Deficiency	192
Ohio Department of Job & Family Services (JFS			
19. All Applications-Lack of Internal Testing-Automated Controls	2007-JFS19-031	Significant Deficiency / Material Weakness	247
20. IT - Manual Overrides of CRIS-E	2007-JFS20-032	Significant Deficiency / Material Weakness	249
21. Food Stamps - SAS 70	2007-JFS21-033	Significant Deficiency / Material Weakness	250
32. IT - WRS & UC Tax Production Environment Security	2007-JFS32-044	Significant Deficiency	276
33. IT - OJI Production Environment Security	2007-JFS33-045	Significant Deficiency	280
Ohio Department of Transportation (DOT)			
2. IT - Security	2007-DOT02-053	Significant Deficiency / Material Weakness	299

STATE OF OHIO
JULY 1, 2006 THROUGH JUNE 30, 2007
SUMMARY OF QUESTIONED COSTS BY FEDERAL AGENCY AND PROGRAM

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE	PAGE NUMBER(S)	QUESTIONED COSTS
U.S. DEPARTMENT OF AGRICULTURE		
10.551/10.561 – Food Stamp Cluster	211	$18,997
Total U.S. Department of Agriculture		$18,997
U.S. DEPARTMENT OF EDUCATION		
84.282 – Charter Schools	183	$37,500
Total U.S. Department of Education		$37,500
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
93.558 – Temporary Assistance for Needy Families	211,217,221,232,	$110,291
93.667 – Social Services Block Grant	215	60,000
93.575/93.596 – Child Care Cluster	225	5,606
93.658 – Foster Care	223	31,212
93.659 – Adoption Assistance	226	4,600
93.767 – State Children's Insurance Program	219,228,235	37,106
93.775/93.777/93.778 – Medicaid Cluster	203,209,211,230	6,880,132
Total U.S. Department of Health and Human Services		$7,128,947
U.S. DEPARTMENT OF HOMELAND SECURITY		
97.004/97.067 – Homeland Security Cluster	289	$28,795
Total U.S. Department of Homeland Security		$28,795
Various Programs	177	$214,222
TOTAL QUESTIONED COSTS - STATE OF OHIO		**$7,428,461**

Note: In addition, finding number 2007-JFS15-027 on page 237 reported questioned costs for which the amounts and programs could not be determined.

THIS PAGE LEFT BLANK INTENTIONALLY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF ADMINISTRATIVE SERVICES

1. INFORMATION TECHNOLOGY – OAKS HUMAN CAPITAL MANAGEMENT MODULE (STATE PAYROLL)

Finding Number	2007-DAS01-001
CFDA Number and Title	All Programs Administered by the State
Federal Agency	All Federal Agencies

SIGNIFICANT DEFICIENCY

Information Technology (IT) general and application controls must be adequately designed to ensure the information system provides complete and accurate information consistent with financial reporting objectives and current needs.

In December 2006, the existing HR2K payroll system was converted to the Human Capital Management (HCM) module of the PeopleSoft (PS) Enterprise Resource planning system through the Ohio Administrative Knowledge System (OAKS) project.

As described below, multiple weaknesses were identified regarding IT controls for the OAKS HCM application.

- User authorization procedures were ineffective. User Security Access Request Forms are utilized by OAKS to grant the appropriate OAKS access to payroll and human resources employees at the agency level. Each form is to be completed by the employee and signed by the agency director or designee. The form states: “This request overrides the user’s current access or creates access for a user that does not have access. Therefore, check all that apply.” During FY07 testing of a sample of 60 of the 2,473 OAKS users’ with greater than e-pay access, the following was noted:

  - five out of 60 (8%) users did not have any documented approval from the agency director or designee.

  - 45 out of 60 (75%) users had a greater level of access to the system than was requested and approved on the forms.

- Users had unauthorized access to the OHRL_OHIO and corrections row-level security. Access within OAKS is restricted by row level security to prevent agencies from reading or changing payroll data from an agency that is not their own. OHRL_OHIO row level security was defined by OAKS to allow access to *all* agencies within the state of Ohio. There were 199 users assigned OHRL_OHIO row level security. Of these users, 13 (6.5%) did not require the access to perform their job functions. In addition, there is a corrections privilege within OAKS that allows modifications to existing employee and position data. Two user IDs assigned the corrections roles did not require the access to perform their job functions.

- Row-level security did not limit users to their agency data. When logged in to OAKS_HCM with a user who had row-level access for agency “A” and searching for an employee known to the application to work for agency “B”, OAKS did not allow the personal and job data for the employee at agency “B” to be accessed or modified. However, OAKS did allow changing the department in the position data screen to a department defined to agency “B” and subsequently allowed an employee from agency “A” to be assigned to a position at agency “B”.

1. INFORMATION TECHNOLOGY – OAKS HUMAN CAPITAL MANAGEMENT MODULE (STATE PAYROLL) (Continued)

- Password parameters were not set to OAKS standards for the UNIX servers for all 95 state and contractor users as follows:

  - Accounts and passwords never expired.
  - Accounts never locked out after invalid attempts or disabled after terminal inactivity.
  - Passwords were not required to be reset.
  - Previous passwords could be re-used.
  - Passwords had no length or character requirements.

- PeopleSoft security violations reports were not being reviewed. The SYSAUDIT report is a system audit report that reports on the system integrity of the PeopleTools components. This includes the security objects such as permission lists, roles, and user profiles. The report identifies any discrepancies in the system integrity and provides the recommended corrective action. This report was run on a bi-weekly schedule and whenever new versions of objects were migrated to the production environment. Although SYSAUDIT and PeopleSoft incident reports were available to view security violations, such as incorrect password attempts; the reports were not being reviewed on a consistent basis and were not maintained as evidence of review during the audit period.

Users with unauthorized, elevated privileges pose a threat to system resources and data because users could inadvertently or purposely destroy, corrupt, or modify data. Without a limited number of authorized personnel having access to all state agency payroll data, there is an increased likelihood that erroneous payroll transactions or data could be entered. Incorrect processing of payroll could result. If unauthorized users have access to other agency's data, there is an increased risk that agency payroll data and transactions could be erroneously or maliciously altered. In addition, if unauthorized changes are made to existing employee and position data, asset misuse or misappropriation of state monies could occur.

Inadequate password lifetimes and allowing a user excessive unsuccessful login attempts could allow an individual to learn or guess someone's password and attempt to gain unauthorized access to the system or functions not required to perform their job. In addition, because security violations are not detected and resolved, there is an even greater risk that fraudulent and accidental transactions or security breaches would go undetected.

Management stated that password parameters cannot be changed until OAKS configures the system for the additional functionality of a "trusted" system. Although the functionality was available, additional study and testing of the affects of the new functionality on current system security must be completed before configuring OAKS to a trusted system. Additionally, according to the Security PS Administrator, OAKS has not yet implemented a formalized procedure or responsibility for maintaining and reviewing the security violations report.

Management stated that password parameters cannot be changed because OAKS is not using a "trusted" system. Due to the architecture of the system, implementation of a trusted system is not possible at this time. Additionally, according to the Security PS Administrator, OAKS has not yet implemented a formalized procedure or responsibility for maintaining and reviewing the security violations report.

We recommend authorized account application forms be submitted and maintained for all OAKS access requests. We also recommend management limit the number of authorized personnel having access to all state agency payroll data and the corrections privilege. In addition, the OAKS application should be updated to prohibit agency users from having any access to data or transactions outside of their assigned agency. To ensure all access to the application is documented and approved and any extraneous access rights are removed, management should complete a full review of user access.

1. INFORMATION TECHNOLOGY – OAKS HUMAN CAPITAL MANAGEMENT MODULE (STATE PAYROLL) (Continued)

We recommend the UNIX system password parameters be set in compliance with the OAKS Security Procedures Document. In addition, UNIX accounts should be set to automatically lock after a set number of unsuccessful attempts to adequately reduce the chance of unauthorized access to programs and data. User accounts must be disabled after a period of defined terminal inactivity.

Lastly, we recommend OAKS comply with their Security Procedures Document by ensuring that computer violation and security activity is logged, reported, reviewed, and appropriately escalated on a regular basis for the OAKS application to identify and resolve incidents involving unauthorized activity.

Official's Response and Corrective Action Plan

The following actions have been identified to correct the weaknesses identified in 2007-DAS01-001 All Programs Administered by the State.

- ***Ineffective user authorization procedures***
  The OAKS Application Security Team, the OAKS CISO and the OAKS Managers will continue to review and refine the current user authorization procedures. We are in the process of developing a more user-friendly and uniform User Security Access Request Form and will strictly enforce the requirement that these forms be accurately utilized before users are granted access to the system. Additionally, the procedure for updating employees after they transfer to a new agency has been modified. The new procedure requires the OAKS Application Security Team to remove all roles from transferring employees except self-service roles. This updated procedure will force management of the new agency to request access rights for the transferred employee and will strengthen OAKS security since transferred employees will only have access to the security roles requested by the new agency.

- ***Users granted unauthorized access to the OHRL_OHIO and corrections row-level security and Application functionality circumvents row-level security***
  The OAKS Financial, HCM, Infrastructure and Change Management Teams are reviewing current access for both internal OAKS personnel and external agency resources. Users who request access to the OHRL_OHIO and corrections row-level security will be required to submit a written business justification for such access. These requests will be reviewed and maintained by the Department of Administrative Services, HRD Office of Policy Development. Users who currently have access to the OHRL_OHIO and corrections row-level security will also be reviewed and will be removed if such access is found to be unwarranted.

  At this time, we do not plan to make any system updates to the OAKS application to systematically prohibit agency users from having access to data or transactions outside of their assigned agency. This update would require significant changes to the system and would require significant funding that is currently unavailable. Instead, the OAKS Application Security Team and the OAKS CISO met in December 2007 to develop auditing reports designed to review access levels for OAKS users to detect and prevent inappropriate access levels. These reports will be reviewed by the OAKS Application Team and the OAKS CISO on a monthly basis. We believe that these reports will help to prohibit agency users from having any access to data or transactions outside of their assigned agency.

1. INFORMATION TECHNOLOGY – OAKS HUMAN CAPITAL MANAGEMENT MODULE (STATE PAYROLL) (Continued)

- ***UNIX server password parameters not set to conform to the OAKS standards as outlined in Deliverable 20: Security Procedures***
  The OAKS Security Procedures document and the OAKS UNIX and Windows environments are being reviewed to ensure that the stated minimal security requirements are being followed. In addition, we understand that our current UNIX environment has limited password controls. The current controls are configured with their maximum security settings. To be fully compliant with the State's password requirements, the UNIX environment will need to be upgraded to trusted UNIX. This is a long range project requiring a significant funding, as well as a separate environment for installation, testing, staging and migration to production.

  Additionally, the OAKS Application Security Team and the OAKS CISO will explore the possibility of setting up UNIX accounts to automatically lock after a set number of unsuccessful attempts and disabling user accounts after a period of defined terminal inactivity.

- ***PeopleSoft security violations were not being reviewed***
  To help mitigate security incidents in the OAKS application, the PeopleSoft SYSAUDIT report is now scheduled to run weekly. The report will be reviewed by the OAKS application security team. The OAKS Chief Information Security Officer has been briefed on the content of the report and will be reviewing them monthly. These reports will be available on-line for 30 days and can be restored from backup if older reports are needed for additional analysis.

Anticipated Completion Date for Corrective Action

October 31, 2008

Contact Person Responsible for Corrective Action

James Conway, Chief Information Security Officer, 274 East 1st Ave, Suite 200, Columbus, Ohio 4320, Phone: (614) 387-3007, e-mail: James.Conway@OAKS.state.oh.us

1. CASH MANAGEMENT – INTEREST PAYMENTS

Finding Number	2007-OBM01-002
CFDA Number and Title	Various
Federal Agency	Various

QUESTIONED COSTS $214,222

31 CFR 205.20 states, in part:

> States use clearance patterns to project when funds are paid out, given a known dollar amount and a known date of disbursement. A State must ensure that clearance patterns meet the following standards:
>
> . . .
>
> (b) A clearance pattern must accurately represent the flow of Federal funds under the Federal assistance programs to which it is applied.
>
> . . .

The Cash Management Improvement Act (CMIA) Agreement between the State of Ohio and the U.S. Department of the Treasury states, in part:

> Section 8.6.4 – Source of Data: Clearance Patterns: The time period from issuance of funds to the date funds are debited from the State's account shall be determined by the appropriate clearance pattern specified in Exhibit II.
>
> Section 7.7 – . . . The State shall also adjust each clearance pattern to reflect: two additional days due to the State's internal processing time.

It is the responsibility of management to implement policies and procedures which provide reasonable assurance that the interest calculations and related payments required by the CMIA are performed accurately and timely.

In accordance with the CMIA of 1990, the State incurs a liability for interest earned on Federal funds if there is a delay, or clearance pattern, between the date the Federal government issued the funds and the date that the State disbursed these funds for program purposes. Clearance patterns are established based on the flow of Federal funds and are standard per the CMIA Agreement. The State is required to file an annual report on December 31 of each year showing the amount of interest liability owed to the Federal government for the prior state fiscal year. The State is then required to make a payment to the Federal government by March 31 for the interest liability shown in the annual report.

On March 29, 2007, the State made a payment of $2,292,058 for interest accrued during state fiscal year 2006. However, in calculating this payment, the State used the clearance pattern listed on the CMIA Agreement without adding the mandatory two days for internal processing for 20 of the 23 federal programs covered by the CMIA Agreement for the year ending June 30, 2006. This resulted in an underpayment of interest liability to the Federal government on March 31, 2007, and questioned costs of $214,222.

1. CASH MANAGEMENT – INTEREST PAYMENTS (Continued)

The CMIA Agreement states that the provisions of 31 CFR Part 205.29 and 31 CFR Part 205.30 shall apply in cases of noncompliance. These provisions allow the U.S. Department of the Treasury to deny reimbursement of all or a part of the State's interest calculation cost claim, refer the issue to the related federal agencies for consideration in the funding for the related federal programs, request a federal audit be conducted to determine and collect the interest owed, or initiate a debt collection process to recover the amounts owed.

The CMIA Coordinator at OBM indicated that she assumed in the calculation of the interest liability payment that the CMIA Agreement already included the two days for internal processing time. She indicated that when she prepared the annual report for the following year, she examined the revised warrant study files and discovered that the two days internal processing time were not included in the clearance pattern.

We recommend management develop and implement monitoring procedures to provide reasonable assurance that interest liability calculations are accurate before submission to the federal government. Monitoring procedures performed should be documented to provide assurance they are performed on a consistent basis. Additionally, the procedures should be updated on a regular basis to address any necessary changes in Federal regulations as well as the CMIA Agreement.

Official's Response and Corrective Action Plan

The Office of Budget and Management informed the US Treasury of the warrant clearance patterns at the time it was discovered by OBM. The US Treasury advised OBM to report the corrected liability amount on the FY2008 CMIA Annual Report due December 31, 2008. The interest dollars earned on federal funds were deposited in state Fund 4P8 during FY2006 and will continue to remain in the fund until the liability is disbursed in March of FY2009. In addition, the warrant clearance patterns were correct on the FY2007 CMIA Annual Report that was submitted on December 31, 2007. It is important to note that the state will not incur any additional costs to the federal government in penalties or interest due to this finding.

In the past, the warrant clearance patterns were developed every five years by comparing check issuance and redeem date data from the Auditor of State's Office to data from CAS. It was OBM's understanding that the two day internal processing was included in the Auditor's data but after review it was discovered the days were not included. In the future, the warrant clearance patterns will be developed using the OAKS system. This will eliminate any discrepancy in data.

Anticipated Completion Date for Corrective Action

The FY2006 additional liability will be reported on the FY2008 CMIA Annual Report due on December 31, 2008. The warrant clearance patterns were correct on the FY2007 CMIA Annual Report submitted December 31, 2007.

Contact Person Responsible for Corrective Action

Penny Rader, State of Ohio CMIA Coordinator, 30 East Broad Street, 35th Floor, Columbus, Ohio 43215, Phone: (614) 644-8783, e-mail: Penny.Rader@OBM.state.oh.us

1. LOW-INCOME HOME ENGERY ASSISTANCE – REPORTING

Finding Number	2007-DEV01-003
CFDA Number and Title	CFDA# 93.568 – Low-Income Home Energy Assistance
Federal Agency	Department of Health and Human Services

<u>NONCOMPLIANCE</u>

45 CFR 96.82, states, in pertinent part:

> (a) Each grantee which is a State or an insular area which receives an annual allotment of at least $200,000 shall submit to the Department, as part of its LIHEAP grant application, the data required by section 2605(c)(1)(G) of Public Law 97–35 (42 U.S.C. 8624(c)(1)(G)) for the 12-month period corresponding to the Federal fiscal year (October 1–September 30) preceding the fiscal year for which funds are requested. The data shall be reported separately for LIHEAP heating, cooling, crisis, and weatherization assistance.
> . . .

In addition, page 4 of Action Transmittal LIHEAP-AT-2006-06, which provides guidance for the preparation of this report, states:

> . . .
> Exclude from your counts other households that are served through your LIHEAP program with non LIHEAP funds. You may include in the "notes" section of the report information about the sources on non LIHEAP funds, the number of households served, and which type of energy assistance the households received through the non LIHEAP funds.
> . . .

During state fiscal year 2006, the Governor issued an executive order authorizing the use of $75 million in Temporary Assistance for Needy Families (TANF) funding as a supplement to the $100 million LIHEAP. The additional funding was to be used to increase the average benefits that eligible Ohioans could receive, as well as increase the income eligibility from 151 percent to 175 percent of the poverty level, thus allowing the State to assist a population that historically had not been served. The eligibility information for all households served from both LIHEAP and TANF funds was maintained within the Department's HEAPSys system and Ohio Community and Energy Assistance Network (OCEAN) system, which replaced the HEAPSys system, effective July 1, 2006. The Department utilizes the HEAPSys/OCEAN systems in order to prepare the LIHEAP Household report. However, there was no breakout done to separate the LIHEAP vs. TANF households. Therefore, the FFY 2006 report, submitted to the U.S. Department of Health and Human Services on 11/29/06, included TANF data, which overstated the number of households who applied for LIHEAP assistance and received assistance with federal LIHEAP funds. Once the AOS brought this issue to the attention of the Department's management, the report was revised and resubmitted.

With TANF households included in the LIHEAP Household report, the Department is not in compliance with the reports filing requirements, as stated above, which could affect the current and future funding received by the Department for the LIHEAP program. Management indicated TANF funds were included in the report due to TANF being an additional funding source for LIHEAP and to reflect the true number of households served. They did not realize these items were to be excluded.

We recommend management evaluate current procedures associated with the preparation of the LIHEAP Household report in order to provide reasonable assurance the TANF households are not included and the report accurately reflects only LIHEAP funded households.

1. LOW-INCOME HOME ENGERY ASSISTANCE – REPORTING (Continued)

Official's Response and Corrective Action Plan

A new reporting process has been implemented so that TANF and LIHEAP data are tracked and reported separately. A revised LIHEAP household report was sent to, and accepted by, HHS. Additionally, the department continues to review all processes associated with TANF in order to strengthen internal controls.

Anticipated Completion Date for Corrective Action

This corrective action has already been completed.

Contact Person Responsible for Corrective Action

Nick Sunday, Chief of the Office of Community Services, ODOD, 77 South High Street, 25th Floor, Columbus, Ohio 43215, Phone: (614) 466-6207, e-mail: nsunday@odod.state.oh.us

2. TANF/HEAP – TRACKING AND DOCUMENTATION

Finding Number	2007-DEV02-004
CFDA Number and Title	CFDA# 93.558– Temporary Assistance for Needy Families CFDA# 93.568 – Low-Income Home Energy Assistance
Federal Agency	Department of Health and Human Services

SIGNIFICANT DEFICIENCY

2 CFR 225 (codification of OMB Circular A-87) establishes principles and standards for determining allowable direct and indirect costs for Federal awards. The Basic Guidelines identified in Appendix A Part C are factors affecting allowability of costs and require costs to be adequately documented; such as by approved purchase orders, receiving reports, vendor invoices, canceled checks, and time and attendance records, and correctly charged as to account, amount, and period.

It is management's responsibility to design and implement control policies and procedures to reasonably ensure sufficient tracking of financial activity and programmatic compliance. Sufficient tracking and monitoring entails obtaining and maintaining adequate supporting documentation that details the accurate record of financial or program activity. Adequate supporting documentation not only provides evidence for future inquiry or investigation should a discrepancy occur, but also allows management and external reviewers to ensure accuracy and completeness of the program's financial activity as well as compliance with applicable requirements.

On October 6, 2005, Governor Taft issued an executive order authorizing the use of $75 million in Temporary Assistance for Needy Families (TANF) funding as a supplement to the $100 million Low-Income Home Energy Assistance Program (HEAP). In July 2006, an additional $45 million in TANF funding was authorized to supplement HEAP for state fiscal year 2007. These additional funds were to be used to increase the average benefits that eligible Ohioans could receive, as well as increase the income eligibility from 151 percent to 175 percent of the poverty level, thus allowing the State to assist a population that historically has not been served. The primary method for delivering energy assistance in Ohio is through the Ohio Department of Development's Office of Community Services (OCS) and its network of nonprofits. The Ohio Department of Job and Family Services (JFS) and the Ohio Department of Development (the Department) have entered into an Interagency Agreement for the purpose of

2. TANF/HEAP – TRACKING AND DOCUMENTATION (Continued)

providing reimbursement to the Department through the TANF program. The TANF heating assistance fund (3BJ) was established within the Department's chart of accounts to account for energy assistance provided to TANF eligible households. Once the TANF expenditures were processed, the Department submitted an invoice to JFS requesting reimbursement. JFS, in turn, requested the funds from the U.S. Department of Health and Human Services and forwarded the revenue, via an Intra-State Transfer Voucher (ISTV), to Fund 3BJ. However, during fiscal year 2007:

- The Department disbursed TANF funds using both Central Accounting System (CAS) Fund 3BJ and CAS Fund 3K9, the HEAP fund. The transactions paid from 3K9 were also coded to grant numbers associated with the HEAP program.

- Twenty-eight of 41 (68.29%) voucher summaries tested (totaling $42,794,273) split the disbursement between funds 3BJ and 3K9, but there was no supporting documentation included with the expenditure information to accurately distinguish between the amounts related to TANF and the amounts related to HEAP. Therefore, we were not able to determine from the expenditure support if the amounts charged to TANF related to only those individuals who were TANF eligible. However, costs were not questioned since we were able to verify the eligibility through information maintained in the Department's HEAPSys / OCEAN systems related to the disbursement requests to JFS for the TANF program.

- As a result of the process used, the Department had to make more than $10 million in adjustments between funds 3K9 and 3BJ in fiscal year 2007. Although the Department maintained documentation to support the adjustments, they were done on a net basis.

Without adequate supporting documentation for expenditures or proper coding and tracking of transactions, the risk that federal funds could be paid for ineligible beneficiaries or from the wrong program, or other compliance requirements will not be met is greatly increased. OCS management indicated the timing of the TANF program's implementation created problems in the initial year of funding (06) which carried over into fiscal year 07. They indicated they have adjusted the coding structure for fiscal year 2008; however, we have not performed testing of these changes.

We recommend management review their current policies and procedures and implement appropriate controls which will reasonably ensure:

- Any transactions related to the TANF program are paid from 3BJ. If payments must be made from another fund because reimbursement requests are delayed, transactions should be coded to the TANF grant number and/or other unique coding assigned so they can be readily identified in the State's accounting system.

- Appropriate supporting documentation is maintained with each voucher/voucher summary to identify and segregate those costs related to the TANF program from those charged to HEAP.

Finally, we recommend the Department track the amount of TANF funds which were paid from HEAP or other sources and ensure these funds are returned to their original source no later than the end of the TANF program at the Department.

2. TANF/HEAP – TRACKING AND DOCUMENTATION (Continued)

Official's Response and Corrective Action Plan

The Ohio Department of Development has implemented a new coding system where transactions can be identified as TANF-related. Documentation is maintained so that costs associated with TANF and LIHEAP can be readily identified. Additionally, the department continues to review all processes associated with TANF in order to strengthen internal controls.

Anticipated Completion Date for Corrective Action

This corrective action has already been completed.

Contact Person Responsible for Corrective Action

Nick Sunday, Chief of the Office of Community Services, ODOD, 77 South High Street, 25th Floor, Columbus, Ohio 43215, Phone: (614) 466-6207, e-mail: nsunday@odod.state.oh.us

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF EDUCATION

1. CHARTER SCHOOLS – ALLOWABLE COSTS

Finding Number	2007-EDU01-005
CFDA Number and Title	84.282 Charter Schools
Federal Agency	Department of Education

QUESTIONED COSTS $37,560

2 C.F.R. Part 225 (codification of OMB Circular A-87), Appendix A, Section C states, in part:

1. 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.
   b. Be allocable to Federal awards under the provisions of 2 C.F.R. Part 225.

   . . .

   e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

   . . .

2. Reasonable Costs. In determining reasonableness of a given cost, consideration shall be given to:

   a. Whether a cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.

   . . .

   e. Significant deviations from the established practices of the governmental unit which may unjustifiably increase the Federal award's cost.

During SFY 2007, the Ohio Department of Education (the Department or EDU) entered into an agreement with Battelle for Kids for the training of school district and community school value-added specialists. A portion (totaling $37,560) of the payment for this agreement was made from Federal Public Charter School Program funds. Per the agreement between EDU and Battelle for Kids, the payment was intended to have been paid exclusively from State funds and not Federal funds, as all similar such payments paid by the Department. Since the transaction was not a necessary or a consistently and uniformly applied expenditure of Federal Charter Schools Program funds, we will be issuing questioned costs for the $37,560 expenditure payment incorrectly made to Battelle for Kids.

Based on discussions with fiscal and charter schools staff, the expenditure was improperly made from Federal funds due to a coding error. Inaccurate coding increases the risk of misstatements in amounts included on any internal or external reports, which could subject the Department to fines and/or sanctions or a reduction in future federal funding. As a result of this coding error, the Department incorrectly used federal funds to pay for a state-related expenditure.

We recommend the Department develop and implement policies and procedures requiring a periodic comparison of financial activity recorded in the State's accounting system to the Department's chart of accounts and internal accounting records. In addition, the Department should ensure that the funding source stated in the approved agreement is used to make the actual payments. We also recommend the Department take whatever steps necessary to improve communication between the office responsible for the program and the section responsible for the payment of the expenditures.

1. CHARTER SCHOOLS – ALLOWABLE COSTS (Continued)

Official's Response and Corrective Action Plan

The Office of Community Schools (OCS) intended to fund from its General Revenue Fund (GRF) line item. This was not made clear to the fiscal office, which resulted in the payments being paid from the Charter Schools grant in error.

An appropriate OCS staff person will monitor monthly Ohio Administrative Knowledge System (OAKS) financial reports and internal ODE accounting reports for proper coding of GRF and grant expenditures to ensure that funding sources stated in approved agreements are used to make actual payments. The OCS Associate Director for Finance will then review the monitoring activity by the staff person, and communicate any exceptions found to the fiscal specialist assigned to OCS each month. Monitoring documents (OAKS reports, agreements, etc.) will be maintained in office files for review.

Anticipated Completion Date for Corrective Action

July 1, 2008

Contact Person Responsible for Corrective Action

Donna Jackson, Internal Audit Administrator, Ohio Department of Education, 25 South Front Street, Ground Floor; Columbus, Ohio 43215-4183, Phone: (614) 644-7812, e-mail: Donna.Jackson@ode.state.oh.us

2. 21st CENTURY COMMUNITY LEARNING CENTERS – MONITORING OF SUBRECIPIENTS

Finding Number	2007-EDU02-006
CFDA Number and Title	84.287 – Twenty-First Century Community Learning Centers
Federal Agency	Department of Education

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

OMB Circular A-133, Subpart D, §___.400(d) states, in part, that a pass-through entity shall perform the following for the Federal awards it makes:

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

31 U.S.C. Section 7502(f)(2)(B) states that each pass-through entity shall monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means;

During SFY 2007, the Department disbursed over $26.5 million to 89 subrecipients as part of the 21st Century Community Learning Centers program. The Department is responsible for monitoring the use of Federal 21st Century Community Learning Centers funds by the subrecipients. However, our review found the Department did not have a system in place during SFY 2007 for performing on-site or desk reviews to determine whether 21st Century Community Learning Centers subrecipients were using these Federal funds in accordance with applicable laws and regulations.

2. 21st CENTURY COMMUNITY LEARNING CENTERS – MONITORING OF SUBRECIPIENTS (Continued)

There was evidence of three reviews performed during SFY 2007. However, these reviews were performed as a result of requests made by the subrecipient and not selected as part of any on-site monitoring process. After inspecting these documents, it appears that the reviews were performed inconsistently. We noted that the review files did not appear to include the same type of documentation. In addition, the file included a thank you letter, but not a final conclusion letter indicating whether the entity was determined to be in compliance or not. Finally, there was no evidence that the Department had requested corrective action plans for any errors that might have been identified.

The Department does have some after-the-award monitoring procedures in place, primarily through its review of subrecipient A-133 audit reports. Of the 89 districts which received Federal 21st Century Community Learning Centers funding during SFY 2006, 50 were required to submit an A-133 audit report to the Department. The Federal 21st Century Community Learning Centers program was tested as a major program for 20 of these 50 subrecipients.

Without proper internal monitoring procedures in place during the period of the grant award to provide adequate assurance that 21st Century Community Learning Centers program-funded subrecipients are in compliance with applicable Federal rules and regulations, the Department may not be able to adequately ensure the funds are being used as they are intended, determine whether 21st Century Community Learning Centers program funded districts are using the funds as they reported in their budgets and FERs, or that they are meeting the compliance requirements of the 21st Century Community Learning Centers program.

Management indicated that the EDU 21st CCLC program did not have sufficient staff capacity and expertise in grants management and administration to establish the necessary program protocols and procedures in monitoring, oversight, compliance and evaluation.

We recommend the Department develop procedures for on-site reviews of 21st Century Community Learning subrecipients which provide added assurance that subrecipients are complying with all applicable requirements and regulations of the Federal 21st Century Community Learning program. The Department should create a template form to document each of the steps of the review process. The Department should include sufficient evidence to support the documents that were reviewed and the results of that review. These reviews should include, at a minimum: verifying the subrecipient did not request more cash than was needed to pay the expenses, funds were used to pay for allowable expenses, the funds were used in accordance with their budget, and ensuring the amounts reported on the final expenditure report agree to the subrecipient's financial records. The monitoring procedures should also include verifying that the subrecipient did not receive more funding than was reported as total expenditures on the final expenditure report. For any instances where the amount the subrecipient received does exceed the amount spent by the subrecipient, the Department should request the funds to be returned. If the variance occurred as a result of a revised FER, then the Department should inform Grants Management to expect funds to be returned with the revised FER.

Official's Response and Corrective Action Plan

The 21st CCLC program office has refined the sub-recipient monitoring (srm) protocol to include a three tier monitoring process. The refined srm process was implemented beginning with fiscal year 2008 (FY08) and will be conducted annually. All sub-recipients will participate, as appropriate, in the monitoring process. The monitoring process is comprised of the following three components:

1. *An annual submission, by the sub-recipient, of Profile and Performance Information Collection System (PPICS) data;*

2. 21st CENTURY COMMUNITY LEARNING CENTERS – MONITORING OF SUBRECIPIENTS (Continued)

2. *a year one and year three submission, by the sub-recipient, of Ohio Quality Assessment Rubric (O-QAR) data; and*

3. *a monitoring site visit; ODE will conduct at a minimum, three monitoring site visits during the five year grant cycle to complete the Compliance and Performance Assessment (CAPA). Except for FY08, it is anticipated that the first and second visits will take place during years two and four of the grant cycle. During these visits, ODE will review programming, quality, progress made toward objectives, sustainability, as appropriate and financial records for the prior year. At the closeout of the grant after year five, ODE will review the year four and five financial records only. For FY08, ODE will complete a desk audit for sub-recipients that have already completed the five years of their grant or are in years two or five of their grant. Additionally, during FY08, for programs in the fourth year of the grant, ODE will conduct both a desk audit and a site visit.*

The purpose of PPICS is to collect basic information about the characteristics associated with 21st CCLC projects. PPICS reporting includes basic demographic information, center information, annual performance reports, teacher survey, proficiency outcomes and multiple surveys.

The O-QAR is a self-assessment tool that provides project directors with perception data from various stakeholder groups that are involved in the delivery and consumption of the program. The reported data is analyzed by a highly credentialed independent contractor that has been secured by ODE. For FY08 the contractor is The Ohio State University. Utilizing this process will ensure uniformity of evaluation quality and methodology among sub-recipients. The contractor will provide an evaluation report and feedback during years two and four to program directors. The intent of the O-QAR is to assist program directors in strategic planning and with improving program quality and sustainability.

During years two and four, the O-QAR report coupled with feedback will also assist sub-recipients with meeting the federal requirement of having its program reviewed by an external evaluator. The evaluation provides program directors with the data needed to assess the program's implementation and progress toward achieving its goals, especially the goal of providing high quality opportunities for academic enrichment. The information will also assist sub-recipients with identifying the academic progress and impact the 21st CCLC program is having on target participants and stakeholders. The results of the evaluation must be used to refine, improve and strengthen the program, and to refine program strategies and performance measures established in the grant application. Secondly, the results of the evaluation must be made available to the public upon request.

The purpose of the monitoring site visit is to support ongoing quality improvement and to assure compliance, including fiscal, with federal and state 21st CCLC grant program requirements. ODE staff will send initial invites to participate via email letters, coordinate the visit with a program contact person, and conduct the monitoring site visit. Upon completion of the monitoring site visit, the monitoring team, comprised of one (1) to four (4) members, will complete a single monitoring report based on feedback (and consensus judgments) of the team as a whole. ODE will prepare the report and forward it to the sub-recipient within thirty (60) business days of the visit. Monitoring team members, through a designated lead contact, will be available to discuss the report contents by phone or e-mail, and to help program staff identify resources needed to address quality improvement priorities. If appropriate, 21st CCLC program staff may need to complete a Corrective Action Plan (CAP) including a timeline to address required compliance and/or quality improvements. The CAP will be due within thirty (30) days from the date on the single monitoring report. CAP due date extension requests will be evaluated based on circumstances and on an individual basis.

2. 21st CENTURY COMMUNITY LEARNING CENTERS – MONITORING OF SUBRECIPIENTS (Continued)

If additional information is needed, at any time during the monitoring process, ODE will communicate requests via email or telephone.

ODE's 21st CCLC staff will periodically follow-up with the sub-recipients to ensure the CAPs are being implemented and followed.

If compliance deficiencies are identified and/or not remedied within the timeline outlined in the agreed upon CAP, ODE's 21st CCLC staff will send the sub-recipient a warning letter via email that funds will be withheld and/or may need to be repaid to the grant if the CAP improvements are not completed within seven (7) additional days beyond the CAP timeline due date.

ODE's 21st CCLC staff will work with other ODE offices and possibly the State of Ohio Attorney General's Office to make decisions about the best plan of action to follow when sub-recipients need to either repay their award back to the grant and/or need to have future grant funds withheld.

Anticipated Completion Date for Corrective Action

The refined Sub-Recipient Monitoring process was implemented during fiscal year 2008 and is currently being followed as outlined above.

Contact Person Responsible for Corrective Action

Donna Jackson, Internal Audit Administrator, Ohio Department of Education, 25 South Front Street, Ground Floor; Columbus, Ohio 43215-4183, Phone: (614) 644-7812, e-mail: Donna.Jackson@ode.state.oh.us

3. CHARTER SCHOOLS – MONITORING OF SUBRECIPIENTS

Finding Number	2007-EDU03-007
CFDA Number and Title	84.282 Charter Schools
Federal Agency	Department of Education

SIGNIFICANT DEFICIENCY – MATERIAL WEAKNESS

OMB Circular A-133, Subpart D, §___.400(d) states, in part, that a pass-through entity shall perform the following for the Federal awards it makes:

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

31 U.S.C. Section 7502(f)(2)(B) states that each pass-through entity shall monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means;

During SFY 2007, the Department disbursed over $23 million in Federal Charter Schools grant funds to qualified charter schools in the form of start-up (planning and design), implementation, and dissemination sub-grants. The Department's Office of Community Schools (OCS) is responsible for monitoring the charter schools' use of the Federal Charter Schools funds.

3. CHARTER SHOOLS – MONITORING OF SUBRECIPIENTS (Continued)

The Department has a number of potential monitoring tools in place such as required site visit reports and other monitoring procedures performed by charter school sponsors, reviews of Annual Performance Reviews (APRs) and Final Expenditure Reports (FERs), and the monitoring of A-133 audits performed on the schools. However, these tools either were not used effectively or efficiently. OCS did not have procedures in place to ensure that charter school sponsors were performing their required compliance monitoring, the APRs and FERs do not provide a sufficient level of detail for monitoring purposes, and of the 131 charter school subrecipients, the majority did not expend $500,000 in federal money and only one was required to have an A-133 audit for SFY 2006.

In April 2006, OCS implemented a pilot project establishing an improved monitoring process over their subrecipients. During fiscal year 2007, a subrecipient monitoring framework was established however there were weaknesses in execution. Specifically, the following weaknesses and errors were noted:

- The updated on-site review list did not include the dates corrective action plans were received or approved and there does not appear to be an effective manner to determine when the review has closed.

- The Subrecipient Monitoring Grants questionnaire developed by OCS is completed by the charter school and there is no evidence the OCS reviews the form or follows up on questionable items included on the form. Likewise, the newly developed Site Visit Checklist does not clearly identify the areas reviewed, what items were specifically sampled and tested, where the errors were located, the amount of the error, and does not readily correspond to the OCS Management Letter, a review summary report sent by OCS to subrecipients.

- There was no effective way to correlate the results identified in the OCS Management Letter to the performance of the review. During the course of the reconciliation of the transaction report to the final expenditure report, the reviewer did not trace the numbers used to reconcile the two reports, did not identify on the reports that an error had been identified, or how the correct amounts for the final expenditure reports had been identified.

- There was no evidence the OCS compared the amount provided to the charter school to the amount of expenditures reported on the charter school's final expenditure report.

Without effective monitoring procedures in place during the period of the grant award to specifically ensure that charter schools are in compliance with applicable Federal rules and regulations, the Office of Community Schools may not be able to adequately ensure that the funds are being used as they are intended or determine that the charter school is using the funds as they reported in the budgets and the FERs. In addition, the charter school may receive the funds from the next grant and continue to use them incorrectly.

OCS Management stated they devised and implemented a subrecipient monitoring process which they felt would generate and collect refunds for unallowable expenses. However, the auditor noted deficiencies in the subrecipient monitoring process itself. These deficiencies were due to OCS staff's limited experience and training with the planning and executing of subrecipient monitoring to meet federal financial compliance requirements. Management further indicated that the OCS attempted to create review lists, questionnaires and other forms internally. However these documents did not add additional assurances to ensure compliance. The monitoring forms created to track the charter school's actual accounting records to their budget and submitted FER did not clearly identify how or if the errors made it to the OCS Management Letter.

3. CHARTER SHOOLS – MONITORING OF SUBRECIPIENTS (Continued)

We recommend that the Office of Community Schools continue to implement and improve the on-site monitoring procedures they have already developed to specifically address the compliance requirements of the program for the charter schools receiving funding through the Federal Charter Schools program. These procedures should include, at a minimum, verifying the subrecipient did not request more cash than was needed to pay the expenses, funds were used to pay for allowable expenses, and the funds were used in accordance with their budget, and ensuring the amounts reported on the final expenditure report agree to the subrecipient's financial records. The monitoring procedures should also include verifying that the charter school did not receive more funding than was reported as total expenditures on the final expenditure report. For those instances where the amount the charter school received does exceed the amount spent by the charter school, the OCS should request the funds to be returned. If the variance occurred as a result of a revised FER, then the OCS should inform Grants Management to expect funds to be returned with the revised FER.

We also recommend that OCS develop a system which provides for better documentation of the on-site review process and for management reviews to help ensure subrecipient monitoring is being performed and documented properly. Finally, we recommend the Department continue developing an effective process for ensuring that charter school sponsors are performing their required compliance monitoring activities.

Official's Response and Corrective Action Plan

Public Charter Schools Program (PCSP) sub-recipient monitoring tasks will be transitioned to the Office of Grants Management in FY09. Compliance requirements from the USDOE for conflict of interest, competitive bidding and required 12 months of planning funding prior to new schools opening will be implemented in the Comprehensive Continuous Improvement Plan (CCIP) cash management and sub-recipient monitoring activities.

The Office of Grants Management and Office of Community Schools (OCS) have revised subrecipient monitoring procedures and have trained the staff that conduct monitoring on these revised procedures. The procedures have been modified to accommodate the following recommendations:

- *Verification that the sub-recipient did not request more cash than was needed to pay expenses*
- *Verification that funds were used to pay allowable expenses*
- *Verification that funds were used in accordance with the budget*
- *Verification that amounts reported on the FER correspond to the sub-recipient's financial records*
- *Verification that the sub-recipient did not receive more funds than were reported as total expenditures on the FER*

Additionally, modifications have been made to the format of the Management Letter so that the letter clearly correlates to the results identified in the course of the reviews. Letters will specifically request that funds be returned when amounts received by the subrecipient exceed expenditures. This change in the letter format will be accompanied by a more specific notification procedure from the Office of Community Schools to the Office of Grants Management relative to the expectation of returned funds from schools.

Improvements have been made to the documentation used in the course of the on-site review process. The previously used questionnaire and site visit checklist have been replaced with a more detailed On-Site Monitoring Standard Review Document.

OCS has also implemented new procedures to ensure that sponsors are performing their required compliance monitoring. The Office has developed a sponsor evaluation process that is designed to measure sponsor activity and compliance with various statutory requirements. This evaluation process applies to most sponsors and includes evaluation of sponsors' efforts to monitor financial performance.

3. CHARTER SHOOLS – MONITORING OF SUBRECIPIENTS (Continued)

Also, sponsors are required to submit annual reports of their evaluation of district fiscal performance pursuant to state law (ORC 3314.03 (D)(3)). When OCS determines that fiscal issues identified at the school level reflect practices for which sponsors should be aware, we will interact with the sponsors to improve their monitoring practices

Anticipated Completion Date for Corrective Action

July 1, 2009

Contact Person Responsible for Corrective Action

Donna Jackson, Internal Audit Administrator, Ohio Department of Education, 25 South Front Street, Ground Floor; Columbus, Ohio 43215-4183, Phone: (614) 644-7812, e-mail: Donna.Jackson@ode.state.oh.us

4. READING FIRST – MONITORING OF SUBRECIPIENTS

Finding Number	2007-EDU04-008
CFDA Number and Title	84.357 – Reading First State Grants
Federal Agency	Department of Education

SIGNIFICANT DEFICIENCY

OMB Circular A-133, Subpart D, §___.400(d) states, in part, that a pass-through entity shall perform the following for the Federal awards it makes:

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

31 U.S.C. Section 7502(f)(2)(B) states that each pass-through entity shall monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means;

In 2003, the Department received a six-year Federal Reading First grant totaling $176 million. During SFY 2007, the Department disbursed over $24.5 million to 29 school districts as part of the Reading First program. The Department is responsible for monitoring the use of Federal Reading First funds by the school districts. However, our review found the system the Department had in place was not adequate to determine whether Reading First subrecipients were using these Federal funds in accordance with applicable laws and regulations.

There were several monitoring procedures the Department had placed in operation over the Reading First program, including the review of the quarterly deliverables report, the monthly meetings, and the review of the Program Monitoring Reviews completed by the Reading First-Ohio Center. However, each of these reviews focused on assuring the subrecipient was in compliance with the program requirements. These monitoring procedures did not ensure the subrecipient was in compliance with the financial requirements.

4. READING FIRST – MONITORING OF SUBRECIPIENTS (Continued)

The Department implemented two new monitoring procedures in SFY 2007. First, the Department started using the PACTS audit process, which is a three-step audit process; however, the Department has only implemented the first stage of the PACTS audit process for the Reading First program which involves having the subrecipient complete the online PACTS Self Evaluation form. There was no evidence the evaluations were reviewed and approved, no evidence that any questionable responses would be researched, and as with the procedures discussed above, these reviews also focus on the program requirements and not any financial requirements.

Second, the Department implemented a financial review over the subrecipients; however, the reviews did not begin until late in SFY 2007. In addition, there were several weaknesses related to the performance of these reviews.

- The review form contains a “not applicable” option for various items which the District should either be compliant or not compliant.
- The form provides options for “compliant”, “in process”, and “not applicable”, but there is no option of being “not compliant”.
- There is no evidence to support how the Department determined the district was “compliant”, “in process”, or “not applicable”. The form did contain a list of possible items to be reviewed, but did not indicate that they actually looked at these documents, nor documented why a particular test item was not applicable or not compliant.
- There was no evidence that the Department actually reviewed various expenditure documents to ensure the costs were allowable and that the proper funds were used for payroll expenses.
- There was no evidence of who completed the review.

The Department does have after-the-award monitoring procedures in place, primarily through its review of subrecipient A-133 audit reports. Of the 29 districts which received Federal Reading First funding during SFY 2007, 26 submitted a SFY 2006 A-133 audit report to the Department while the three remaining districts received approval for an extension. In addition, the Federal Reading First program was tested as a major program for 14 of the 26 Reading First-funded districts.

Without proper internal monitoring procedures in place during the period of the grant award to provide adequate assurance that Reading First-funded districts are in compliance with applicable Federal rules and regulations, the Department may not be able to adequately ensure the funds are being used as they are intended, determine whether Reading First-funded districts are using the funds as they reported in their budgets and FERs, or that they are meeting the compliance requirements of the Reading First program. This could affect decisions made by the Department on their determination of continued eligibility of a Reading First-funded district and, consequently, the future funding to be received by that district. Management stated that they felt they had implemented sufficient subrecipient monitoring procedures over the Reading First-funded districts.

We recommend the Department continue to develop and implement procedures for on-site reviews of Reading First subrecipients which provide added assurance that subrecipients are complying with all applicable requirements and regulations of the Federal Reading First program. These reviews, which could be performed either by Department personnel or as part of the consortium’s on-site visits, should include at a minimum verifying the subrecipient did not request more cash than was needed to pay the expenses, funds were used to pay for allowable expenses, and the funds were used in accordance with their budget. The monitoring procedures should also include ensuring the amounts reported on the final expenditure report agree to the subrecipient’s financial records. As with all internal controls, proper evidence of these procedures should be retained in the Department’s records to establish that they are operating as intended.

4. READING FIRST – MONITORING OF SUBRECIPIENTS (Continued)

Official's Response and Corrective Action Plan

a) During 2007, Reading First-Ohio was a part of the Program Audit Compliance Tracking System (PACTS) and will continue with the PACTS and will in the future fully implement the PACTS in all its phases.

b) Reading First staff included a "Non-Compliant" box on the "Financial Review" template as well as a signature and date line. Reading First staff also inserted a signature and date line on the "Findings from the Financial Review" template. In order to show the documents reviewed during the visit and provide evidence of procedures we perform, Reading First with the help of the internal auditor developed two testing documents: one for supplies (Expenditure/Purchase Order Testing) and the other for personnel (Personnel Expenditure Testing). These forms will be utilized in future fiscal review visits, effective May 9, 2008.

Anticipated Completion Date for Corrective Action

a) The PACTS will be fully implemented by June 30, 2008.

b) This portion of the recommendation has been implemented.

Contact Person Responsible for Corrective Action

Donna Jackson, Internal Audit Administrator, Ohio Department of Education, 25 South Front Street, Ground Floor; Columbus, Ohio 43215-4183, Phone: (614) 644-7812, e-mail: Donna.Jackson@ode.state.oh.us

5. INFORMATION TECHNOLOGY – APPLICATION DEVELOPMENT AND MAINTENANCE

Finding Number	2007-EDU05-009
CFDA Number and Title	All Programs Administered by the Department
Federal Agency	Department of Agriculture Department of Education

SIGNIFICANT DEFICIENCY

The use of formal, well documented procedures for computer application maintenance is vital for communicating management's operational goals and intentions to programming personnel as well as training new staff. Such procedures help ensure that computer applications modified by the Department's programming staff are accurate, efficient, and meet management's requirements and deadlines. The procedures should cover such areas as programming standards, naming conventions, schedules and budgets, design standards, testing standards, approval procedures for users, approval procedures for data processing management, implementation standards and documentation standards. Controls must also restrict programmer access to the production environment and require tested and approved program changes to be moved into the live environment by individuals other than those responsible for making changes.

5. INFORMATION TECHNOLOGY – APPLICATION DEVELOPMENT AND MAINTENANCE (Continued)

The Department's program change process is informal. Documentation of key control approvals is not required. In addition, programmers have access to the production environment and move their own changes into the production environment. Formal written procedures are not in place to track, monitor, remediate, test, implement and document all key program change life cycle phases for significant EDU applications. The Department has formed an application standards team to create and document standards which will then be presented to the Director of the Information Technology Office for formal acceptance. Once accepted, the standards will be utilized by the application developers.

Without formal program change control procedures in operation, critical data processing applications could be improperly modified, resulting in erroneous transaction processing. This could affect demographic, employment, course and financial data related to students and staff compiled in the Education Management Information System (EMIS) application. Approximately 40 federal and state programs processed and reported through the Continuous Comprehensive Improvement Planning system (CCIP) could also be affected. Errors and/or improper modifications to EMIS and CCIP data could adversely affect the Department's ability to comply with Federal reporting, eligibility and allowable cost requirements. Finally, the integrity of school spending and payments processed by School Foundation could be affected.

The Department indicated that efforts for formal program change control procedures were being developed for new applications and were not scheduled for completion until after FY07.

We recommend the Department continue their efforts to develop, formalize, and approve standards and controls for the entire life cycle of the program change request process. Each phase of the program change process should be planned, controlled, and monitored. The changed programs should be remediated, tested, migrated, documented, and appropriately approved according to departmental standards and guidelines at appropriate intervals during the life cycle.

Official's Response and Corrective Action Plan

The Department continues efforts to develop and standardize its formal application lifecycle process.

- *Database management meets recommendations.*

- *Deployed Microsoft's Team Foundation Server (TFS) product centrally and Visual Studio Team System (VSTS) to developers. This product suite dramatically enhances ODE's software lifecycle management in several ways:*
    - *Tracks enhancement requests and defect fixes from inception to production deployment; including key data such as who initiated, approved, worked on, and deployed a requested change, along with the dates for each stage of the lifecycle. These work items can even be traced directly to the specific source code that implemented a change (where applicable).*
    - *Greatly improved source code control over the previous product (Visual SourceSafe), including code branching so that multiple versions can be worked on at the same time (e.g. fixing a bug in the current version while still progressing on the next version, with the ability to merge the code trees together at the appropriate time).*
    - *The ability to perform rigorous automated testing; including code coverage capabilities that ensure that all or most of the code has been tested, not just the parts a user "normally sees".*
    - *Transparency to all stakeholders (project managers, business centers, etc.) through easy to navigate Sharepoint web sites that include reports on open work items and defects, project progress, etc. Even the project management artifact Requirements Traceability Matrix is available as a dynamic report on a project site, since all requirements must be created as TFS work items and can subsequently be tracked all the way to deployment as a software feature in production.*

5. INFORMATION TECHNOLOGY – APPLICATION DEVELOPMENT AND MAINTENANCE (Continued)

- o *Bases new projects on the Microsoft Solution Framework (MSF 4.0) and standard process templates, which are well documented within the tool and available to anyone on a project Sharepoint site. ODE uses a customized version of the Capability Maturity Model (CMM) Level 3 process template.*

  Some of these functions were previously available in other products (e.g. TestTrack Pro was previously used for defect tracking); but many are new to ODE, and combining them into a single product suite is a proven productivity enhancer.

- *ODE formed a dedicated software testing team in FY07. A contractor specialized in software testing has worked with the application manager to develop a formal testing process, which has been implemented and used on all new projects since the team's inception. Two ODE staff are dedicated testers and perform no other function. Other testers, including those brought on as part of project teams, are prohibited from testing code on projects for which they are an active programmer.*

- *A contracted Build Engineer was engaged in March 2007 and was responsible for developing formal and comprehensive application build and deployment procedures. These procedures are integrated into ODE's TFS system, enabling tracking of software builds and deployments. The process includes prohibitions against anyone but a designated Software Architect or Build Engineer deploying software to production servers. (In the event that a Software Architect contributed to software development, a different authorized person must deploy the software.)*

- *EMIS data processing has been partially migrated into Informatica, which has change controls that meet recommendations. Documentation related to the use of Code Management System (CMS) is being completed for the other legacy mainframe software, including COBOL programs supporting EMIS and School Foundation data processing*

- *The ODE .NET Development Standards document (version 1.0) was published on March 29, 2007. The scope of v1.0 is largely limited to software coding standards. Future revisions are planned to include reference to the formal test and automated software build and deployment processes.*

- *Software deployment to the production environment is a control area currently under revision. The change notification model in current use is insufficient, having no explicit approval requirement. A Change/Release Management committee has been formed to create a new policy for controlling changes, which will include an approval component before changes can be deployed to production.*

Next Steps	***Anticipated Completion Dates***
Continue to develop the plan and documentation related to using CMS for managing the legacy SAS and COBOL code".	*12/1/2008*
Upgrade all applications developed in .NET 1.1 to .NET 2.0 or higher. This is required for full integration with ODE's TFS processes.	*12/31/2008*
Publish a revision to the ODE .NET Development Standards that includes references to the formal testing and build/deploy procedures.	*9/30/2008*
Change/Release Management committee to define a policy for change control, including approval controls that satisfy the audit finding.	*9/30/2008*
Begin planning for an ASP to .NET refactoring project, upgrading all legacy (ASP) web applications still in an active development mode to .NET 2.0 or higher and integrating them with ODE's TFS processes.	*7/1/2009*
Change/Release Management policies to be implemented.	*6/30/2009*

5. INFORMATION TECHNOLOGY – APPLICATION DEVELOPMENT AND MAINTENANCE (Continued)

Anticipated Completion Date for Corrective Action

7/1/2009

Contact Person Responsible for Corrective Action

Donna Jackson, Internal Audit Administrator, Ohio Department of Education, 25 South Front Street, Ground Floor; Columbus, Ohio 43215-4183, Phone: (614) 644-7812, e-mail: Donna.Jackson@ode.state.oh.us

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

1. SUBRECIPIENT MONITORING

Finding Number	2007-DOH01-010
CFDA Number and Title	10.557 – Special Supplemental Food Program for Women, Infants, and Children (WIC) 93.283 – Centers for Disease Control and Prevention – Investigations and Technical Assistance (CDC) 93.917 – HIV Care Formula Grants (HIV) 93.994 – Maternal & Child Care Health Services Block Grant to the States (MCH)
Federal Agency	Department of Agriculture Department of Health and Human Services

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

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

Subpart C—Auditees
§ .320 Report submission.

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

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

. . .

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

. . .

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

4. Ensure that subrecipients expending $300,000 *($500,000 for fiscal years ending after December 31, 2003)* or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

5. Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

6. Consider whether subrecipient audits necessitate adjustments of the pass-through entity's own records.

. . .

1. SUBRECIPIENT MONITORING (Continued)

§__.405 Management Decision.

. . .

(d) Time requirements. The entity responsible for making the management decision shall do so within six months of receipt of the audit report. Corrective action should be initiated within six months after receipt of the audit report and proceed as rapidly as possible.

The Department has established an audit requirement for all local agencies (subrecipients) that receive federal assistance, including WIC, MCH, CDC, and HIV grants, from it regardless of whether they are required to have a single audit or a financial statement audit. We selected 100 of 305 local agencies that received an award for federal fiscal year 2007 and a related grant award audit for calendar year 2005 and noted the following conditions:

- There were 37 of 74 (50%) audit reports that were not received timely from the subrecipient. The reports were late ranging from 12 to 524 days, with the average being 152 days. Although several of these reports may have received approved report extensions from the cognizant or oversight agency, the Department did not have a process to inquire with their subrecipients as to the status of the late audit reports.

- There were 15 of 40 (37.5%) Audit Review Letters tested where the Department did not issue a timely management decision on audit findings. The management decisions were late ranging from 33 days to 246 days late, with the average being 152 days.

- There were 15 of 40 (37.5%) audit report files tested, to determine if the subrecipient initiated appropriate and timely corrective actions on deficiencies identified in audits within six months of the subrecipients receipt of the audit report, where the corrective action plans were late ranging from 13 days to 282 days, with the average being 147 days. This test was based on determining if the Department received timely a Corrective Action Plan from the subrecipient.

- There were seven subrecipient audit reports that the Department could not provide to us during testing. Since testing was performed after the deadlines for the reports, the management decisions, and the corrective action plans were due, these are considered seven additional exceptions and are not reflected in the conditions noted above.

Furthermore, during control testing over subrecipient monitoring, we noted that one of nine (11.1%) Single Audit Review Questionnaire forms tested for the CDC program was not signed and dated by the Internal Audit Unit reviewer to denote that all aspects of the review of the subrecipient's audit report had been addressed. We also noted the WIC, CDC, HIV, and Grants Administration units all maintained a log for their programmatic on-site reviews; however, the MCH Board of Ohio Health Services unit did not maintain a log for their on-site reviews.

Although we recognize the Department has performed certain aspects of subrecipient monitoring, the Department has not consistently or sufficiently complied with the federal subrecipient monitoring requirements. If the Department does not receive subrecipient 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 the required period of time. Furthermore, if subrecipients do not respond to the Department's findings and/or initiate appropriate corrective action in a timely manner, the Department is at greater 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.

1. SUBRECIPIENT MONITORING (Continued)

Management 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. Additionally, staffing shortages and learning curves for new procedures and forms in the Department's Internal Audit Unit have caused some delays.

We recommend the Department continue to review, develop, and improve its subrecipient policies and procedures to ensure compliance with the federal requirements, particularly for receiving subrecipient audit reports, rendering management decisions, and determining if subrecipients initiate corrective action; all on a timely basis. Specifically, we recommend the Department be more proactive in contacting the subrecipients, reminding them of the compliance requirements and the consequences of noncompliance, inquiring if difficulties in completing the audit have occurred, and recommending the subrecipients request an extension if the circumstances require. We recommend the Department pursue these actions, and document it doing so, before instances of noncompliance occur. We remind the Department that copies of audit reports for subrecipients that are governmental entities may be obtained from the Auditor of State's website. Moreover, we recommend the Department apply their control procedures consistently and in a timely manner so as to achieve their intended purpose. Management should periodically monitor the established procedures to help ensure they are being performed timely, consistently, and effectively.

Official's Response and Corrective Action Plan

This is a repeat finding; corrective actions have previously been addressed, completed or, at least, begun. However, results are not timely enough to fully impact the findings for Fiscal Year 2007. These actions include:

A. Enhancing the ODH Single Audit (SA) review process. Quantity and quality of the reviews and follow-up should steadily improve as IAU staff continue to familiarize themselves with the procedures:

i. Producing (and enforcing) an up-to-date and comprehensive Review Manual. [Completed in 2007; revisions to be submitted for management approval by June, 2008];

ii. Standardizing Review Letters – Creating new (and newly revised) templates for letters to be used for most recurring circumstances in the SA review process. [Completed September, 2006; additional revisions completed August, 2007];

iii. Single Audit Inventory Review – Systematic review of SA files. Files are evaluated for completion, reconciliations to GMIS module and off-line reports, and accuracy of the Review Questionnaires. [In-process; over 50% completed. [Expected completion: July, 2008, pending approved increase of IAU staff].

B. Requesting additional IAU staff:

IAU does not have a sufficient number of permanent staff necessary to perform all of its assigned duties in a timely fashion. The total of permanent IAU staff have been reduced from 8 (January, 2005) to 4 (January, 2008). One IAU staff member is committed to approximately 75% -to-85% of his work hours devoted to subgrantee monitoring, by way of independent audit reviews. During this same time period, IAU responsibilities (in areas other than audit reviews) have greatly increased.

A proposal has been submitted (June, 2007) to ODH management which will increase the size and efficiency of IAU. [ODH management has approved an increase in staffing; hiring of staff is in-process. Expected completion: June, 2008]

1. SUBRECIPIENT MONITORING (Continued)

C. Currently, there is a greater effort to support reported findings; require and enforce corrective actions; and, when necessary, apply sanctions to non-compliant agencies. Technical advice and training for the subrecipients has also increased. [Current and on-going]

Anticipated Completion Date for Corrective Action

All corrective actions (except for those labeled "on-going") are expected to be completed by August, 2008

Contact Person Responsible for Corrective Action

Terri Davis-Stuckey, Chief, Internal Audit, Ohio Department of Health, 246 North High Street, 7th Floor, Columbus OH 43215, Phone: (614) 728-2171, e-mail: terri.stuckey@odh.ohio.gov

2. MCH GRANT – LACK OF MONITORING CONTROLS FOR MATCHING AND LEVEL OF EFFORT

Finding Number	2007-DOH02-011
CFDA Number and Title	93.994 – Maternal & Child Care Health Services Block Grant to the States (MCH)
Federal Agency	Department of Health and Human Services

SIGNIFICANT DEFICIENCY

Office of Management and Budget Circular A-133, § _.300, states in part:

The auditee shall:

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

The Department has state funds identified to meet the matching and level of effort requirements in the grant application process but has not established any formal monitoring procedures to determine whether it has met those requirements in the MCH program during the award. The Department has the capacity to verify if it meets these requirements through its Agency Reporting Database (ARDB) system (a direct download of multiple-year data from the state Central Accounting System that allows users to view information from both the current and previous years). However, the Department typically does not use the ARDB system to determine if it has met these requirements unless a need arises. If and when the Department may have checked for compliance during the year, it did not maintain any evidence to document it doing so. Having the capacity to do something is not the same as actually implementing a control to be performed periodically and to document that the Department monitors compliance with these requirements. Historically, the Department has not monitored whether the appropriate funds have been spent on the matching and maintenance of effort requirements. Based on our tests, the Department had complied with the specific requirements.

Without appropriate internal controls in place and using them on a consistent basis, management cannot reasonably be assured that matching and maintenance of effort requirements are met. The Federal Reporting Chief and Administrator of Operational Support indicated that the capacity to verify if the requirements are met is readily available and compliance can be determined quickly and easily.

2. MCH GRANT – LACK OF MONITORING CONTROLS FOR MATCHING AND LEVEL OF EFFORT (Continued)

We recommend the Department devise and implement appropriate internal controls, as required, and utilize these controls on a consistent basis to help ensure compliance with the matching and maintenance of effort requirements. One way to do so would be to track the MCH program disbursements and periodically compare them to the established limits, similar to what is performed with the earmarking requirement. If the information is as readily available as the Department states, then the control could be as simple as accessing the ARDB system periodically (perhaps quarterly) to determine compliance and documenting the results. As with most controls procedures, this process should then be reviewed and approved by an employee other than the person performing the tracking and comparison (preferably by upper management) and evidence should be maintained of the review/approval and comparison.

Official's Response and Corrective Action Plan

This is a repeat finding; corrective actions have previously been addressed, completed or, at least, begun. However, results are not timely enough to fully impact the findings for Fiscal Year 2007. These actions include:

- *Review and evaluate current controls;*
- *Enforce controls on a consistent basis to ensure compliance;*
- *Match controls to the requirements of the award.*

Anticipated Completion Date for Corrective Action

Completed, January, 2008

Contact Person Responsible for Corrective Action

Terri Davis-Stuckey, Chief, Internal Audit, Ohio Department of Health, 246 North High Street, 7th Floor, Columbus OH 43215, Phone: (614) 728-2171, e-mail: terri.stuckey@odh.ohio.gov

3. INFORMATION TECHNOLOGY – PROGRAM CHANGE CONTROLS

Finding Number	2007-DOH03-012
CFDA Number and Title	10.557 – Special Supplemental Food Program for Women, Infants and Children 93.283 – Centers for Disease Control and Prevention – Investigations and Technical Assistance 93.917 – HIV Care Formula Grants 93.994 – Maternal & Child Care Health Services Block Grant to the States (MCH)
Federal Agency	Department of Agriculture Department of Health and Human Services

<u>SIGNIFICANT DEFICIENCY</u>

The use of formal, well documented procedures for computer application maintenance is vital for communicating management's operational goals and intentions to programming personnel as well as training new staff. Such written procedures can help ensure that computer applications modified by the Department's programming staff perform accurately, efficiently, and meet management's requirements. The procedures typically cover such areas as request guidelines, programming standards, naming conventions, schedules and budgets, design standards, approval procedures for users, approval

3. INFORMATION TECHNOLOGY – PROGRAM CHANGE CONTROLS (Continued)

procedures for data processing management, and testing standards. The procedures are also used to communicate and define a proper segregation of duties within the application change process. The functions of modifying computer code, testing the changes, and placing them into production should be appropriately delegated and segregated among personnel.

The Department did not have formal written procedures to track, monitor, remediate, test, implement, and document all mainframe or server-based program changes. In addition, the application programmers for the Women, Infants and Children (WIC) program had the access authorities to modify the application code, complete the testing of the changes, and also migrate the changed program(s) into the production environment. Lastly, the Department has not formally defined control procedures for emergency changes or correction of minor program errors.

Without formal program change control procedures in operation, critical data processing applications could be improperly modified, resulting in erroneous and unauthorized transaction processing. Without proper segregation of duties or controls that restrict access to key programs or data, either could be changed without the knowledge and/or consent of management or the user community.

The agency personnel have indicated that a draft process is currently under review to provide a segregation of duties related to the WIC Mainframe Change Control process. It is expected to be in place prior to the end of the next audit period.

We recommend the Department develop, formalize, and approve standards for the entire life cycle of the program change request process. Each phase of the life cycle should be planned and monitored, comply with the developed standards, be adequately documented, be staffed by competent personnel, and have appropriate project checkpoints and approvals. The Office of Management Information Systems (OMIS) should either implement the procedures for all changes, including minor fixes and emergency changes, or develop additional controls to ensure infrequent changes which do not follow the normal process are authorized and properly documented.

We also recommend segregation of duties be implemented by upgrading the logical access controls of all the Department personnel who have access to the WIC program and data. Application programmers should have access only to the programs they are assigned for authorized project maintenance. The migration of the programs into the production environment should be performed by someone without program modification capabilities.

Official's Response and Corrective Action Plan

The Department has established formal written change control procedures to track, monitor, remediate, test, implement, and document all server-based application changes. These procedures will be modified to include mainframe application changes.

The Department is developing procedures to migrate production mainframe code. Staff outside the WIC Application development team will be trained and assigned to migrate production code from the WIC System test region on the mainframe.

The Department is developing procedures to control emergency changes and minor program errors.

3. INFORMATION TECHNOLOGY – PROGRAM CHANGE CONTROLS (Continued)

Anticipated Completion Date for Corrective Action

Modification of procedures to include mainframe changes will be completed by June 30, 2008.

Development of procedures and training of staff to migrate mainframe code from test to production will be completed by June 30, 2008.

Development of procedures and training of staff to control emergency changes and minor program errors will be completed by June 30, 2008.

Contact Person Responsible for Corrective Action

Terri Davis-Stuckey, Chief, Internal Audit, Ohio Department of Health, 246 North High Street, 7th Floor, Columbus OH 43215, Phone: (614) 728-2171, e-mail: terri.stuckey@odh.ohio.gov

1. MMIS – CLAIMS REIMBURSED IN EXCESS OF OAC LIMITS

Finding Number	2007-JFS01-013
CFDA Number and Title	93.767 – State Children's Insurance Program 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

<u>QUESTIONED COSTS</u> $6,188,020

42 USC Sec. 1396 states:

> For the purpose of enabling each State, as far as practicable under the conditions in such State, to furnish (1) medical assistance on behalf of families with dependent children and of aged, blind, or disabled individuals, whose income and resources are insufficient to meet the costs of necessary medical services, and (2) rehabilitation and other services to help such families and individuals attain or retain capability for independence or self-care, there is hereby authorized to be appropriated for each fiscal year a sum sufficient to carry out the purposes of this subchapter. The sums made available under this section shall be used for making payments to States which have submitted, and had approved by the Secretary, State plans for medical assistance.

The Federal Centers for Medicare and Medicaid Services (CMS) states that the state Medicaid plan is the document that defines how each state will operate its Medicaid program. The state plan addresses the areas of state program administration, Medicaid eligibility criteria, service coverage, and provider reimbursement. The official plan is a hard-copy document that includes a range of materials in different formats, ranging from federally-defined "preprint" pages on which states check program options to free-form narratives describing detailed aspects of state Medicaid policy. The state Medicaid plan for each state is an accumulation of plan pages approved by CMS since the inception of the Medicaid program. The Medicaid Management Information System (MMIS) provided reimbursement to medical providers and managed care entities for services rendered to eligible recipients.

Ohio Administrative Code (OAC) 5101:3-10-03, which is part of the Ohio state plan, states, in part:

> The "Medicaid Supply List" is a list of medical/surgical supplies, durable medical equipment, and supplier services, found in appendix A of this rule. This list includes the following information as described in paragraphs (A) to (G) of this rule:"
>
> (A) Alpha-numeric codes to be used when billing the department for medical supplier services.
> …
>
> (F) "Max Units" indicator. A maximum allowable (MAX) Indicator means the maximum quantity of the item which may be reimbursed during the time period specified unless an additional quantity has been prior authorized. If there is no maximum quantity indicated, the quantity authorized will be based on medical necessity as determined by the department.

The maximum amounts were contained in appendix A of OAC 5101:3-10-03.

MMIS edits to prevent Medicaid and SCHIP provider payments above the unit or price limits set in the OAC were either not designed or not functioning properly for 353 Medicaid procedure codes. As a result, Medicaid and SCHIP providers were reimbursed in excess of the limits contained in the OAC in 92,471 instances. However, we were not able to determine the amounts which related to each program separately; therefore, the excess reimbursements for the 353 procedure codes totaling $6,188,020 were questioned for the Medicaid program.

1. MMIS – CLAIMS REIMBURSED IN EXCESS OF OAC LIMITS (Continued)

The following table shows the procedure codes/descriptions related to the 15 highest dollar amounts of excess provider reimbursement:

	Procedure Code / Medical Supply	OAC Limit for Unit or Dollar Amount	FY 2007 Range of Reimbursement Over OAC Limit	Total Questioned Cost	Total Count
1.	A4253: Blood Glucose Test	4 per month	5 – 750 per month	$ 1,031,685	8,947
2.	T4541 and T4542: Underpads	300 every 2 months	301 - 1,350 every 2 months	$ 505,298	11,875
3.	Various Codes: Garments/diapers	300 a month	302 - 2,884 per month	$ 376,307	3,148
4.	E0619: APNEA Monitor	1 every 5 years (prior authorized only)	1 – 12 units without authorization	$ 364,751	1,514
5.	Y2076: Oxygen concentrator	$267 a month	$357 - $1,428 per month	$ 265,022	1,390
6.	A4222: Infusion supplies	60 per month	61 - 271 per month	$ 217,134	378
7.	E0781: Infusion pump	$8.73 a day	$17 - $541 per day	$ 205,403	1,445
8.	A4595: TENS supplies	1 per month	2 - 40 per month	$ 203,136	1,808
9.	A4353: Catheter	60 per month	61 - 400 per month	$ 179,592	335
10.	A4250: Urine Test	2 per month	3 - 200 per month	$ 153,136	2,281
11.	E0604: Breast Pump	$2.25 a day	$5 - $655 per day	$ 152,935	2,459
12.	A4221: Infusion supplies	4 per month	5 - 407 per month	$ 133,275	1,759
13.	A4223: Infusion supplies	30 per month	31 - 134 per month	$ 119,374	505
14.	E0607: Glucose Monitor	1 every 4 years	2 – 200 per 4 years	$ 107,435	934
15.	A4245: Alcohol Wipes	2 per month	3 – 999 per month	$ 100,226	14,411

Because the distinction between the authorized reimbursement and the overpayments could not readily be determined for each claim reimbursed, questioned costs include both the original payment amount plus the amount of payments in excess of the limit for each procedure code.

Overpayment of state and federal claims could subject the Department to possible federal sanctions, limiting the amount of funding available for program activities. OHP management indicated that since the FY 2006 audit, OHP has been working on creating and testing the edits in a test environment, and hope they to get all the procedure code edits in production in FY 2008. Also, ODJFS had efforts in place during the audit period to identify and recoup some of the monies identified above.

We recommend ODJFS complete the update of their utilization and review edits within MMIS to help prohibit further overpayment of Medicaid claims. In addition, ODJFS should seek reimbursement for the claims that were paid in excess of the limits established in the OAC. Also, ODJFS should put control procedures in place to monitor the utilization and review edits within MMIS to ensure they are in compliance with state and federal standards.

1. MMIS – CLAIMS REIMBURSED IN EXCESS OF OAC LIMITS (Continued)

Official's Response and Corrective Action Plan

AOS Questioned Payments Determined to be Valid by BHPP, Based Upon Type of Service, Payment Date and PA Status of DME Items:

1) "PA ONLY" payments

Bureau of Health Plan Policy (BHPP) staff reviewed all payments categorized by AOS as "PA ONLY." These payments were labeled "PA ONLY" because they were rendered for the purchase of DME items that usually require prior authorization when Ohio Medicaid is the primary payor. However, Medicaid prior authorization numbers were missing from the associated claims. Upon examination by BHPP staff, it was noted that approximately three-quarters of the total value of all payments were for short-term rental periods (a rental period of three months or less) and repairs totaling $100 or less. Neither payments for a short-term rental period nor payments for repairs totaling $100 or less require prior authorization, so BHPP discounts these payments from the AOS list of questionable costs. Of the remaining "PA ONLY" questioned payments, all payments occurred for dates of service during which the purchased DME items didn't require prior authorization, with the exception of payments totaling $28,140.09. Therefore all "PA ONLY" payments except payments totaling $28,140.09 are considered valid payments.

2) Type of Service 3 (DMA) payments

Ohio's Disability Medical Assistance (DMA) program is designed to provide medical assistance to Ohioans who are medication dependent and are not eligible for Medicaid. The DMA program is funded solely by state appropriations and receives no federal funding. It is not regulated by the federal government. Since no part of any DMA payment questioned by the AOS is eligible to be refunded to the federal government, the total amount of all DMA payments questioned by the AOS are discounted for the purposes of this document.

3) First payment (to provider, per consumer, per DME item)

The AOS auditors questioned the first payment in a sequence of payments to a particular provider, for a specific DME item, supplied to a specific consumer, and successive such payments when payment dates were separated by fewer than 30 days (and therefore, a full 30-day month hadn't elapsed before Ohio Medicaid apparently had paid for another month's supply of the DME item). The AOS auditors acknowledged that by questioning all payments in the provider/consumer/DME item-specific sequence of payments, they were including valid payments among all questionable costs. As no prior payment data exists to contradict its validity among the claims in the period under AOS review, BHPP assumes that the very first payment to a particular provider, for a specific DME item, supplied to a specific consumer, is a valid payment.

4) Payments occurring at least 31 days since the last payment

Payments made at least 31 calendar days since the last date of payment (to a particular provider, for a specific DME item, supplied to a specific consumer) were considered questionable by AOS auditors if such payments were followed within 30 days by another payment to the same provider, for the same DME item, supplied to the same consumer. The auditors emphasized that rather than attempting to determine which of two such payments was valid, and which was a possible overpayment, all payments separated by fewer than 30 days would be considered questionable payments. For the purposes of reducing questionable payments, payments made at least 31 calendar days since the last payment are treated the same as first payments (refer to Step 2), and are therefore considered valid.

1. MMIS – CLAIMS REIMBURSED IN EXCESS OF OAC LIMITS (Continued)

5) *Payments occurring within 31 days of the last payment, but in a different calendar month*

Payments made within 31 days of the last payment (to a particular provider, for a specific DME item, supplied to a specific consumer) but in a different calendar month are assumed to be valid as the payment occurred in a new calendar month, regardless of the number of days that separate such a payment from the previous one. Such payments were considered questionable by AOS auditors due to the auditors' assumption that monthly payments for certain DME must occur no more frequently than every 30 days; payments occurring before the 30-day limit would be technical overpayments. However, BHPP holds that monthly payments (to a particular provider, for a specific DME item, supplied to a specific consumer) falling in different calendar months are valid, even if the actual dates of payment are separated by no more than a few days.

6) *For additional consideration: Payments questioned for allowed DME units above the monthly/yearly maximum limits (without prior authorization).*

As questioned by AOS, such payments overlap with payments described in steps 1-4.

Other Factors Mitigating the Questioned Status of Payments Cited by AOS

1) *Providers who don't bill Ohio Medicaid each month for services rendered monthly. Such providers then bill for two or more months' supply of DME on a single date of service, which results in a claim that shows the provider incorrectly billing for twice the monthly maximum allowable units on one service date.*

2) *Units of DME billed above the monthly maximum limits without prior authorization, when medical necessity would have resulted in prior authorization approval of such overages.*

3) *Billing errors by providers, so that particular DME items are billed in such gross quantity as to preclude realistic consumption within one or more months. Frequently, such errors occur only on the billing/payment end of the service, while the corresponding number of DME units supplied to the consumer reflects a valid monthly number of units.*

4) *It's important to note that prior to the initiation of the AOS audit, the auditors were informed that--due to the inherent mission of the Medicaid program as the payer of last resort--the program developed the DME allowable unit limitations designated in Appendix A to Ohio Administrative Code (OAC) rule 5101:3-10-03 as a guideline for providers to utilize when billing the Medicaid program for services. It is expected that this rule, in conjunction with the 30 other OAC rules currently residing in the DME chapter, should not be viewed as definitive rule parameters for determining overpayments.*

The auditors were strongly cautioned that attempting to apply a linear auditing method to a social program requiring a full understanding of all 31 OAC rules in the DME chapter would likely produce on overestimation of questioned costs. Such costs, when examined more closely by personnel familiar with program rules, would likely be determined justifiable program expenditures due to the fact that consumers did not exceed the total maximum allowable units for the benefit period in question. Furthermore, it should be noted that the stated program allowables for medical supplies are not federally determined and are subject to change by the Department when deemed necessary.

1. MMIS – CLAIMS REIMBURSED IN EXCESS OF OAC LIMITS (Continued)

TOTAL QUESTIONED AMOUNTS		*REDUCED BY VALID PAYMENTS*			
Category (Grouped by Max. Allowable Units)	***Total Payments Questioned by AOS***	***Type of Service 3 (DMA) Payments Questioned***	***First Payment (To provider, per consumer, per service)***	***Payments Occurring 31+ Days Since Last Payment***	***Payments Occurring w/in 31 Days, but Diff. Calendar Month***
DAY 1	*$122,288.98*	*****	*$44,720.91*	*$17,797.51*	*$15,662.45*
MONTH 1	*$261,264.07*	*$999.90*	*$75,350.43*	*$59,745.05*	*$76,086.80*
MONTH 2	*$319,488.97*	*$5,393.87*	*$137,381.87*	*$88,636.56*	*$56,053.54*
MONTH 3	*$20,328.70*	*****	*$7,323.30*	*$5,676.08*	*$3,956.64*
MONTH 4	*$1,205,187.01*	*$24,777.12*	*$474,914.25*	*$279,315.76*	*$212,065.72*
MONTH 5	*$93,246.19*	*$476.20*	*$23,520.84*	*$32,357.63*	*$19,355.97*
MONTH 8	*$3,337.38*	*****	*$1,036.56*	*$1,200.35*	*$668.77*
MONTH 10	*$41,308.50*	*$85.20*	*$12,689.05*	*$13,881.49*	*$6,925.60*
MONTH 12	*$77.78*	*****	*$30.24*	*$19.60*	*$25.20*
MONTH 12 MULT1-5	*$101,833.47*	*****	*$52,957.07*	*$17,423.48*	*$9,729.04*
MONTH 15	*$31,972.45*	*****	*$12,854.67*	*$9,091.27*	*$3,893.50*
MONTH 16	*$233.94*	*****	*$83.86*	*$54.88*	*$54.88*
MONTH 20	*$44,023.32*	*$169.60*	*$14,403.59*	*$10,756.68*	*$10,718.75*
MONTH 30	*$153,720.69*	*****	*$55,064.57*	*$19,738.44*	*$22,414.01*
MONTH 30 MULT1-4	*$101,715.86*	*****	*$34,698.94*	*$19,938.29*	*$12,008.68*
MONTH 36	*$21,212.64*	*****	*$8,998.50*	*$4,836.14*	*$3,180.89*
MONTH 45	*$6,767.55*	*****	*$1,819.80*	*$1,566.90*	*$1,445.40*
MONTH 50	*$238.52*	*$10.03*	*$41.32*	*$110.33*	*$51.00*
MONTH $50 MULT1	*$29,730.92*	*****	*$12,525.88*	*$3,814.02*	*$4,872.82*
MONTH $50 MULT2	*$27,675.50*	*****	*$8,401.02*	*$4,725.46*	*$4,526.47*
MONTH 60	*$403,989.76*	*****	*$107,257.40*	*$73,743.64*	*$68,849.98*
MONTH 90	*$12,397.11*	*****	*$4,147.85*	*$3,719.73*	*$1,903.86*
MONTH 100	*$48,465.52*	*$450.00*	*$19,729.36*	*$10,786.45*	*$7,776.87*
MONTH $100 MULT	*$19,536.33*	*****	*$8,561.04*	*$3,925.75*	*$3,450.88*
MONTH 150	*$18,020.59*	*****	*$6,286.48*	*$3,969.82*	*$3,500.51*
MONTH 150 MULT1	*$26,234.13*	*****	*$8,350.79*	*$5,129.92*	*$5,165.77*
MONTH 200	*$92,341.03*	*$360.36*	*$34,859.73*	*$20,640.79*	*$16,205.50*
MONTH 300 MULT	*$376,307.14*	*****	*$131,741.46*	*$73,935.20*	*$68,834.16*
MONTH 1-2	*$1,255.83*	*****	*$497.79*	*$145.75*	*****
MONTH 1-3	*$6,814.30*	*$62.50*	*$2,670.76*	*$433.50*	*****
MONTH 1-6	*$14.09*	*****	*$9.95*	*****	*****
MONTH 2-6	*$2,197.36*	*$27.84*	*$375.84*	*$180.96*	*****
MONTH 4-2	*$989.94*	*****	*$247.60*	*$72.14*	*****
MONTH 4-6	*$182.64*	*****	*$49.13*	*$103.13*	*****
MONTH 18_3 MULT	*$7,491.31*	*****	*$3,083.18*	*$2,031.07*	*$873.64*
MONTH 300_2 MULT	*$505,298.13*	*****	*$113,436.05*	*$129,312.05*	*$174,490.90*
YEAR 1	*$137,469.33*	*$319.98*	*$49,296.63*	*$10,065.51*	*****
YEAR 1-4	*$116,391.67*	*$7,810.00*	*$9,375.94*	*****	*****
OTHER YR LIMITS	*$89,657.55*	*$10.19*	*$21,196.24*	*$6,180.85*	*****
PA ONLY	*$589,115.33*	*$60.00*	*****	*****	*****
RENTALS	*$1,148,198.54*	*$548.70*	*$495,418.26*	*$198,240.57*	*$136,804.88*
TOTALS	***$6,188,020.07***	***$41,561.49***	***$1,995,408.15***	***$1,133,302.75***	***$951,553.08***

1. MMIS – CLAIMS REIMBURSED IN EXCESS OF OAC LIMITS (Continued)

Data/Methodology:

This analysis uses the same DME claims data as used by AOS for the SFY07 audit of the DME program.

The methodology used to reduce questioned payments in YEAR categories differs from that utilized to reduce questioned payments in MONTH categories. Monthly payments after the first payment for a DME item allowed no more frequently than once every two years are considered overpayments. "1 per year" items are an exception when a second provider payment occurs in the following calendar year (2007) after the initial (2006) payment.

After the first payment, monthly payments occurring during months that have fewer than 31 days have been accounted for and incorporated into the logic for calculating "Payments Occurring w/in 31 Days, but Diff Calendar Month" (column on far right of table).

Total Valid Payments Deducted from AOS Total Questioned Payments:

Payments in "PA ONLY" Category……………………………………..	*$560,975.24*
DMA Payments………………………………………………………….	*$41,561.49*
First Payments……………………………………………….…………	*$1,995,408.15*
Payments Occurring at Least 31 Days Since Last Payment ..……………..	*$1,113,302.75*
Payments Occurring w/in 31 Days, but Diff Calendar Month …………	*+ $951,553.08*
TOTAL REDUCTIONS (TO DATE)…………………………………........	***$4,682,800.71***

Total Questioned Payments Remaining:

Total Questioned Payments……………………………………………...	*$6,188,020.07*
Total Reductions (to date)…………………………………………….......	*-$4,682,800.71*
REMAINING QUESTIONED PAYMENTS…………………………........	***$1,505,219.36***

Summary
Our analysis of the AOS questioned costs based on OAC rules and program policy reduced the questioned costs to $1.5 million. Examples of why this amount has been reduced include program coverage and claims processing of prior authorization requirements for dual eligible consumers, appropriate coverage for first dates of service and determination of allowed time periods, i.e. calendar months or years vs. 30 days or 365 days (as detailed above).

The results have been referred to the Surveillance and Utilization Review Section (SURS) for follow-up action and recoveries have begun for providers affected by this issue. An exact figure is not available from SURS as they expanded the recovery effort to 5 years, which included some of the 2007 data that the AOS reviewed. SURS did not separate the 2007 data, and it would take extensive man-hours to go back and isolate just the 2007 recoveries.

History/lifetime data elements have been updated in the PDD application to assure retention of claim history for the appropriate time frames.

During October 2007, BHPP staff met with Bureau of Plan Operations staff from the Provider Assistance Units and Provider Ombudsman/Technical Assistance staff to discuss responses to potential provider questions and concerns following the 11/1/07 implementation of corrected prepayment edits/utilization review (UR) criteria for DME procedure codes.

1. MMIS – CLAIMS REIMBURSED IN EXCESS OF OAC LIMITS (Continued)

*On November 1, 2007, **183** DME procedure codes with corrected prepayment edits/UR criteria went into production. Prepayment edits were removed from **15** DME procedure codes requiring prior authorization; these procedure codes will now be controlled through the prior authorization process. **1** DME procedure code is no longer covered, so no corrective action was taken.*

*On March 12, 2008, **179** DME procedure codes—codes that previously lacked any prepayment edits—went into production with newly implemented UR criteria. **21** additional DME procedure codes were confirmed as codes that will be controlled through the prior authorization process. **1** DME procedure code is no longer covered, so no corrective action was taken.*

***112** corrected or newly established limit parameters (the MIS edits that contain the prepayment UR criteria) were linked to the 362 DME procedure codes that went into production with correctly functioning prepayment edits on 11/1/07 and 3/12/08.*

Anticipated Completion Date for Corrective Action

Review, testing, and implementation of appropriately functioning prepayment limit parameters/utilization review criteria were completed during the 1st quarter of CY 2008.

Contact Person Responsible for Corrective Action

Don Sabol, Ancillary Health Unit Manager, Ohio Department of Job & Family Services, Lazarus Building,50 W Town Street, Suite 400, Columbus Ohio 43215, Phone: (614) 466-6420, e-mail: sabold@odjfs.state.oh.us

Auditor of State's Conclusion

After our testing was completed, the Department spent several months and countless man hours combing through the paper documentation related to each claim in question. However, this information was not included in the electronic system used to make determinations about the allowability of the claims nor was it presented to the auditors for review. Therefore, we cannot draw any conclusions about the accuracy or reliability of this additional information.

2. MEDICAID – VOIDED WARRANTS

Finding Number	2007-JFS02-014
CFDA Number and Title	93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $607,174

42 CFR 433.312 states, in part:

> (a) Basic rules. (1) Except as provided in paragraph (b) of this section, the Medicaid agency has 60 days from the date of discovery of an overpayment to a provider to recover or seek to recover the overpayment before the Federal share must be refunded to CMS.
>
> (2) The agency must refund the Federal share of overpayments at the end of the 60-day period following discovery in accordance with the requirements of this subpart, whether or not the State has recovered the overpayment from the provider.

2. MEDICAID – VOIDED WARRANTS (Continued)

In addition, in regards to uncashed or voided Medicaid checks, 42 CFR 433.40 states, in part:

> (c) (2) Report of refund. At the end of each calendar quarter, the State must identify those checks which remain uncashed beyond a period of 180 days after issuance. The State agency must refund all Federal Financial Participation (FFP) that it received for uncashed checks by adjusting the Quarterly Statement of Expenditures for that quarter.

It is the responsibility of management to implement policies and procedures which provide reasonable assurance that all voided, canceled, or uncashed warrants and overpayments are credited to the Federal Government timely and accurately.

The ODJFS Bureau of Accounting is responsible for restoring funds to various accounts when warrants are cancelled or voided. In order for expenditures to be reflective of cancellations or voids, an adjustment letter must be completed. Each adjustment letter prepared will include voids or canceled warrants broken down into separate line items for Medicaid as well as all other public assistance programs. During our audit period, the Bureau of Accounting received detailed information from the Auditor of State/Office of Budget and Management which included all voided or canceled warrants in order to determine the amount to be adjusted for each program. Cancellation adjustment letters are to be prepared as received and void adjustment letters are prepared approximately monthly.

There were 18 cancelled warrant adjustment letters and nine voided warrant adjustment letters completed during fiscal year 2007. However, for one of the three tested void adjustment letters, the amount of the adjustment was not properly allocated between the programs involved. The Medicaid portion on the adjustment letter was $933,371 but should have been $1,540,545, based on the attached supporting documentation. The difference of $607,174 was incorrectly coded to the TANF program on the adjustment letter. The amounts and coding on the adjustment letter were entered into the State's accounting system and this information was used to reduce the federal draw for the TANF program and Medicaid Cluster. This caused an under draw for the TANF program and an over draw for the Medicaid Cluster in the amount of $607,174, resulting in questioned costs.

Based on discussions with management, it appears the Bureau of Accounting did not separately determine the TANF portion of this adjustment letter since there was no evidence of the calculation. It appears that, instead, the Medicaid line items of the adjustment letter support were added and the TANF portion of the adjustment letter was a plug to balance to the total voids. Since the voucher summaries used to pay TANF expenditures also can include various other federal programs, it is possible that other programs should also have been adjusted. However, we were unable to determine whether additional public assistance programs besides TANF should have been included on this adjustment letter since the supporting documentation did not provide enough detail for verification.

Without proper policies and procedures in place to reasonably ensure calculations are accurate and complete, management cannot be fully assured that amounts entered into the State's accounting system for voids and cancellations are accurate and complete. The risk of miscalculation is increased if each program is not determined separately and then agreed to supporting documentation totals. ODJFS management indicated that, since the employee who prepared this adjustment letter is no longer with the Department, they can only assume from the supporting documentation that the TANF number was not calculated during the preparation of the adjustment letter.

Due of the implementation of the State's new accounting system (OAKS) in fiscal year 2008, the processes relating to crediting program funds for cancelled and voided warrants will likely require significant revisions. We recommend the policies and procedures implemented for this new system include, at a minimum:

2. MEDICAID – VOIDED WARRANTS (Continued)

- A process to separately identify each program to be credited for each cancelled/voided notice;
- Separate calculations for each individual program credited on each adjustment letter;
- Requirements to maintain adequate supporting documentation relating to each calculation; and
- Supervisory review and approval of each cancelled and voided warrant adjustment letter and the underlying calculations involved.

Because the calculation of each void adjustment letter can involve adding up hundreds of different voids to arrive at each line item on the adjustment letter, we also recommend ODJFS consider implementing procedures that reduce the amount of manual calculation required. This may be accomplished by using different reports or obtaining and/or calculating the information using an automated process.

Official's Response and Corrective Action Plan

Bureau of Accounting verified the amounts identified by the auditor, and have prepared a revised Request of Adjustment Memo for the #ADJ07-0475VOID – 6/14/07 voided warrant letter originally submitted to OBM on 6/14/07. The revised memo identifies what the original adjusted TANF and Medicaid amounts were (TANF was $906,124.07 and Medicaid was $876,320.97) and what the corrected amounts should be (TANF $298,950.43 and Medicaid $1,483,494.50) resulting in a difference of $607,173.63. Bureau of Cost and Cash Management will make the resulting adjustment to the claims, which will correct the error on the draw and the federal reports.

Anticipated Completion Date for Corrective Action

The original voided warrant adjustment letter that Bureau of Accounting (BOA) submitted to the Bureau of Cost & Cash Management (BCCM) was submitted on June 14, 2007. A revised voided warrant adjustment letter was submitted to BCCM on December 28, 2007, with the corrected amounts to be made identified. The actual adjustment of $607,174 will be made by BCCM and will be included in the January - March 2008 federal reports for TANF and Medicaid.

Contact Person Responsible for Corrective Action

Yvonne Gore, Section Chief, Ohio Department of Job & Family Services, 30 E. Broad St., 38th Floor, Phone: (614) 644-8664, e-mail: Yvonne.Gore@jfs.ohio.gov

3. MEDICAID/FOOD STAMPS/TANF – UNDOCUMENTED ELIGIBILITY – FRANKLIN COUNTY

Finding Number	2007-JFS03-015
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $136,457

8 USC 1641(b) states:

For purposes of this chapter, the term "qualified alien" means an alien who, at the time the alien applies for, receives, or attempts to receive a Federal public benefit, is -

3. MEDICAID/FOOD STAMPS/TANF – UNDOCUMENTED ELIGIBILITY – FRANKLIN COUNTY (Continued)

(1) an alien who is lawfully admitted for permanent residence under the Immigration and Nationality Act [8 U.S.C. 1101 et seq.],

(2) an alien who is granted asylum under section 208 of such Act [8 U.S.C. 1158],

(3) a refugee who is admitted to the United States under section 207 of such Act [8 U.S.C. 1157],

(4) an alien who is paroled into the United States under section 212(d)(5) of such Act [8 U.S.C. 1182(d)(5)] for a period of at least 1 year,

(5) an alien whose deportation is being withheld under section 243(h) of such Act [8 U.S.C. 1253] (as in effect immediately before the effective date of section 307 of division C of Public Law 104-208) or section 241(b)(3) of such Act [8 U.S.C. 1231(b)(3)] (as amended by section 305(a) of division C of Public Law 104-208),

(6) an alien who is granted conditional entry pursuant to section 203(a)(7) of such Act [8 U.S.C. 1153(a)(7)] as in effect prior to April 1, 1980; (1) or (7) an alien who is a Cuban and Haitian entrant (as defined in section 501(e) of the Refugee Education Assistance Act of 1980).

. . .

8 USC 1612(b) states:

(1) Notwithstanding any other provision of law and except as provided in section 1613 of this title and paragraph (2), a State is authorized to determine the eligibility of an alien who is a qualified alien (as defined in section 1641 of this title) for any designated Federal program (as defined in paragraph (3)).

. . .

(3) For purposes of this chapter, the term "designated Federal program" means any of the following:

(A) Temporary assistance for needy families. The program of block grants to States for temporary assistance for needy families under part A of title IV of the Social Security Act [42 U.S.C. 601 et seq.].

. . .

(C) Medicaid. A State plan approved under title XIX of the Social Security Act [42 U.S.C. 1396 et seq.], other than medical assistance described in section 1611(b)(1)(A) of this title.

8 USC 1612(b)(2) “Exceptions” states:

Qualified aliens under this paragraph shall be eligible for any designated Federal program.

. . .

(B) Certain permanent resident aliens

An alien who—

(i) is lawfully admitted to the United States for permanent residence under the Immigration and Nationality Act [8 USC 1101 et. seq.]; and

3. MEDICAID/FOOD STAMPS/TANF – UNDOCUMENTED ELIGIBILITY – FRANKLIN COUNTY (Continued)

(ii) Has worked 40 qualifying quarters of coverage as defined under title II of the Social Security Act [42 U.S.C. 401 et seq.] or can be credited with such qualifying quarters as provided under section 1645 of this title, and (II) in the case of any such qualifying quarter creditable for any period beginning after December 31, 1996, did not receive any Federal means-tested public benefit (as provided under section 1613 of this title) during any such period.

8 USC 1612(a) states:

(1) Notwithstanding any other provision of law and except as provided in paragraph (2), an alien who is a qualified alien (as defined in section 1641 of this title) is not eligible for any specified Federal program (as defined in paragraph (3)).

. . .

(3) For purposes of this chapter, the term "specified Federal program" means any of the following:

. . .

(B) Food stamps. The food stamp program as defined in section 3(h) of the Food Stamp Act of 1977 [7 U.S.C. 2012(h)].

When administering federal grant awards, it is the responsibility of management to develop and implement control policies and procedures to provide reasonable assurance that only eligible individuals receive assistance and the information reported to ODJFS is accurate and complete. In order for county management to ensure and verify this information, it is imperative that appropriate supporting documentation is maintained for all amounts reported and case files contain all pertinent information relating to the case and be readily accessible for review and/or reference.

Our test of 60 Qualified Aliens deemed eligible to receive public assistance found a total of 24 for whom eligibility to receive some form of public assistance (Medicaid, TANF, and/or Food Stamps) could not be verified. There was no evidence provided to verify the recipient met the Medicaid, TANF, and/or Food Stamps requirements for their particular alien status (Refugee, Granted Asylum, Permanent Resident, Legal Alien, Applicant for Asylum, or Adjusted to Permanent Resident) for either the entire audit period or a portion of the period. In addition, 18 of these 24 were found to have actually received some form of assistance during FY 2007. Specifically, all 18 of those receiving assistance for whom we could not verify eligibility received Medicaid benefits, eight also received TANF Benefits, and three also received Food Stamps benefits during FY 2007. Since these 18 recipients could not be verified as eligible to receive at least some form of Public Assistance program benefits, we will question the costs of the improper benefits the ineligible recipients received during fiscal year 2007, or $136,457 ($82,649 for Medicaid, $34,811 for TANF, and $18,997 for Food Stamps).

Without consistently obtaining or maintaining the required documentation on file, Franklin County Department of Job and Family Services may not be able to fully support or ensure payments were made only to or on behalf of eligible recipients. The lack of supporting documentation could result in questionable benefit payments and increase the risk that payments could be made to ineligible recipients.

According to the Department the inability to provide the required INS documents and other documentation used to substantiate the recipient's status as "Qualified Alien", was due to case worker oversight in maintaining the files.

3. MEDICAID/FOOD STAMPS/TANF – UNDOCUMENTED ELIGIBILITY – FRANKLIN COUNTY (Continued)

We recommend the Franklin County Department of Job and Family Services' management review current eligibility requirements for Qualified Aliens with all staff and perform supervisory reviews of Qualified Alien case files to provide reasonable assurance that only eligible recipients receive benefits. Additionally, we recommend FCDJFS management review current policies and procedures with all staff and implement or enforce control procedures which will reasonably ensure case files have adequate documentation to support benefit payments made to recipients. One method to ensure that the required documents were submitted by the recipient and that the recipient met program eligibility criteria would be to develop and use a checklist. The checklist could note the documents that the recipient is required to submit and how the recipient met the criteria to be eligible to receive program benefits.

Official's Response and Corrective Action Plan

The following outlines the action Franklin CDJFS will take to address this finding.

- *We will continue to have ongoing alien training that focuses on areas that we are experiencing problems with, such as the various types of alien statuses and the eligibility associated with those statuses.*
- *We are looking at and anticipate having in place focused alien reviews completed by our Quality Reviewers (QR). The percentage of alien cases out of the total cases reviewed by QR at an Opportunity Center will correspond to the percentage of the alien population out of the total case population at that Opportunity Center.*
- *We are currently working with 3SG as well as Northwoods on a document management project. This will assist us in ensuring that the necessary documentation is maintained in our case files.*
- *We have three internal auditors to supplement the review and monitoring process. FCDJFS has provided documentation to the Auditor of State for 5 of the 18 cases listed above, which would reduce the questioned cost amount from $136,457.82 to $106,925.49. As of the date of this report, we have not heard from Auditor of State representatives regarding their consideration of this documentation.*

Anticipated Completion Date for Corrective Action

The anticipated completion dates for the above corrective action steps are indicated below.

- *Training will be scheduled at least quarterly and the training will be done by state and internal staff.*
- *Discussion will be taking place within the next couple of months to look at the feasibility of QR incorporating focused alien reviews into the reviews that they are already completing.*
- *The document management project is currently underway and will continue until the project is completed.*
- *Our Finance Department staff presently includes three internal auditors who will be complementing external audits and reviews of our agency's policies and administration of program rules plus doing further follow-up.*

Contact Person Responsible for Corrective Action

Esther Adkins, Assistant Director, Ohio Department of Job & Family Services, 80 E. Fulton Street, Columbus, Ohio 43215, Phone: (614) 462-6066, e-mail: eadkins@fcdjfs.franklincountyohio.gov

4. SSBG – SUBRECIPIENT MONITORING – BELMONT COUNTY

Finding Number	2007-JFS04-016
CFDA Number and Title	93.667 Social Services Block Grant
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $60,000

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 $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

(5) Issue a management decision on audit findings within six months after the receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

(6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

(7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

It is management's responsibility to implement policies and procedures to monitor subrecipients to help ensure they have complied with the rules and regulations related to the Federal programs and have met the objectives of the programs.

During state fiscal year 2007, Belmont County Department of Job and Family Services (BCDJFS) entered into three service provider contracts, each for $20,000. These contracts with the Belmont Student Services, Belmont County District Board of Health, and the Community Action Commission (CAC) of Belmont County were to provide services for the Social Services Block Program (SSBG) and determine eligibility of their recipients. However, the BCDJFS did not have any procedures in place to monitor

4. SSBG – SUBRECIPIENT MONITORING – BELMONT COUNTY (Continued)

these subrecipients or documentation to ensure services were provided to eligible recipients in accordance with program requirements. In addition, the BCDJFS did not receive an A-133 audit report for two of three (66.67%) subrecipients required to have an A-133 audit (Student Services or the Belmont County District Board of Health). Therefore, we are questioning the costs of all three subrecipient contracts, totaling $60,000.

The lack of adequate monitoring procedures increases the risk that individuals could be receiving benefits to which they are not entitled. As a result, BCDJFS is not in compliance with subrecipient monitoring requirements for the SSBG program. BCDJFS management acknowledged the county had not monitored their subrecipients for SSBG and, upon notification of this issue, indicated they performed on-site monitoring for all three contracts and determined the eligibility requirements had been met. However, these procedures were performed outside the audit period and could not be tested.

We recommend management review their contracts/agreements and implement policies and procedures to reasonably ensure adequate monitoring procedures are conducted during the award period for each subrecipient. If eligibility determinations are delegated in the provider contract, BCDJFS should develop control procedures to periodically monitor the determinations made by these subrecipients to help ensure only eligible recipients are receiving benefits.

Official's Response and Corrective Action Plan

We concur that a finding should be made when subrecipients are not being monitored. However, we have recently performed on site monitoring on all three subrecipients, and have determined that eligibility requirements have been met.

1. *Belmont Student Services – Free Lunch Program*

   Approximately 40 students are served under this contract. Parents complete applications for Title XX services. A copy of the application is attached. Principals and cafeteria supervisory personnel certify whether children who apply are eligible for free lunches. The free lunch criteria are under the 150% poverty standard used for Title XX eligibility. All other assistance programs are also under the 150% standard. Any applicants with income must fall within the 150% standard. Ten cases were checked, and all cases met eligibility standards.

2. *Community Action Commission - Transportation Program*

   Approximately 194 individuals are served under this contract. Those seeking transportation services complete an application for services each year. A copy of the application is attached. All applicants must fall within the 150% poverty standard. Twenty cases were reviewed. All cases met eligibility standards.

3. *Belmont County Health Department – Family Planning Program*

   Approximately 344 individuals are served under this contract. Both a Health Department worker and the applicant complete a social history form for services each year. A copy of the application is attached. All applicants must fall within the 150% poverty standard, and the Health Department worker uses a sliding fee scale from the Ohio Department of Health to check for eligibility. A sampling of cases was checked, and all met eligibility standards.

Based our review, we request a subsequent event be listed in the report stating that we conducted a monitoring review after the audit period and determined that eligibility requirements were met; therefore, we request that a Federal Questioned Cost not be made in this case.

4. SSBG – SUBRECIPIENT MONITORING – BELMONT COUNTY (Continued)

Anticipated Completion Date for Corrective Action

Monitoring of all agency contracts began July 1, 2007 as we now have a Contract Monitor/Evaluator on our table of organization.

Contact Person Responsible for Corrective Action

Vince Gianangeli, Fiscal Administrator, Belmont County Department of Job & Family Services, 310 Fox-Shannon Place – St. Clairsville, Ohio 43950, Phone: (740) 695-1075, ext. 1173, e-mail: Gianav01@odjfs.state.oh.us

Auditor of State's Conclusion

Based on the information presented for testing, the Belmont County Department of Job & Family did not perform any monitoring during the award period. Since the procedures referenced above were conducted after our fieldwork, we have not evaluated the sufficiency of these procedures or their results.

5. TANF – EARLY LEARNING INITIATIVE UNALLOWABLE ELIGIBILITY – CUYAHOGA COUNTY

Finding Number	2007-JFS05-017
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $38,984

42 USC 602(a), states, in part:

(a) General. – As used in this part, the term "eligible State" means, with respect to a fiscal year, a State that, during the 27-month period ending with the close of the 1st quarter of the fiscal year, has submitted to the Secretary a plan that the Secretary has found includes the following:

(1) Outline of family assistance program.

(A) General provisions. – 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.

. . .

The State Plan, states, in part:

In Ohio, the Early Learning Initiative provides early care and education services to young children in order to prepare them for successful entry into school. Eligible participants are preschool children who are part of an Ohio Works First assistance group or preschool children whose parent(s) are employed with income at or below 195% FPL.

5. TANF – EARLY LEARNING INITIATIVE UNALLOWABLE ELIGIBILITY – CUYAHOGA COUNTY (Continued)

The Ohio Administrative Code section 5101:2-16-35.1 (rescinded 09-30-2007), states, in part:

(A) The county department of job and family services (CDJFS) shall determine eligibility for services from early learning initiative (ELI) agencies. . . .

. . .

(5) The caretaker shall be one of the following:

. . .

(d) A single caretaker engaged in at least one hour per week of paid employment

. . .

The TANF Early Learning Initiative (ELI) program provides children, who are often at risk of school failure, with educational experiences that will help them enter kindergarten ready for success and meets the child care needs of working families. Each county is responsible for determining eligibility, processing applications for the clients, entering the appropriate information onto the 3299 system, coordinating services to the clients, and maintaining appropriate documentation in each case file.

For eight of 20 (40%) case files selected for testing at the Cuyahoga County Department of Job and Family Services (CCDJFS), the family was not receiving OWF cash assistance when the child care services were provided to the child and the caretakers did not meet the one hour per week paid employment requirement for all or part of the time their child was receiving ELI services. Therefore, we are questioning the costs for the TANF benefits paid to these ELI providers for the period they were ineligible totaling $38,984.

Without consistently monitoring the eligibility of children receiving ELI services, there is an increased risk that payments could be made to ineligible recipients. Additionally, without monitoring the ELI program's requirements, management may not be able to fully support payments were made only to or on behalf of eligible recipients. As a result, CCDJFS is not in compliance with the eligibility requirements for the TANF program. CCDJFS management indicated the errors noted were an oversight and in the new biennium, eligibility for ELI has been simplified by removing the employee/work activity requirement.

We recommend CCDJFS review their current policies and procedures and implement appropriate controls which will reasonably ensure payments are being made to eligible recipients. We also recommend CCDJFS management periodically monitor the effectiveness of their control procedures to ensure ELI benefits are not being paid to ineligible recipients who are not meeting or maintaining the program's eligibility requirements.

Official's Response and Corrective Action Plan

CDJFS is responsible for determining if child care provider or caretaker must repay monies. If responsible party is caretaker, CDJFS must recoup monies. If responsible party is child care provider, ODJFS must recoup monies. ODJFS has been advised of children and dates of ineligibility. ODJFS will send form JFS 1157 to CDJFS to identify responsible party. CDJFS will subsequently identify responsible party and determine who (CDJFS or ODJFS) must recoup monies. ODJFS will collect if the responsible party is determined to be the child care provider. CDJFS will collect if the responsible party is determined to be the caretaker.

5. TANF – EARLY LEARNING INITIATIVE UNALLOWABLE ELIGIBILITY – CUYAHOGA COUNTY (Continued)

Anticipated Completion Date for Corrective Action

CDJFS is in the process of determining responsible party. Anticipated completion date is July 31st, 2008

Contact Person Responsible for Corrective Action

Michelle Latimore & Jacquelon Ward, Participant Services Managers, Cuyahoga County Department of Job & Family Services, 1641 Payne Avenue. Cleveland, Ohio 44114, Phone: (216) 987-8460 & (216) 987-6387; e-mail: Latimm@odjfs.state.oh.us & WardJ01@odjfs.state.oh.us

6. SCHIP – INELIGIBLE RECIPIEINTS

Finding Number	2007-JFS06-018
CFDA Number and Title	93.767 – State Children's Insurance Program
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $33, 847

42 CFR 457.320 (a) (2) states, in part:

> (a) To the extent consistent with title XXI of the Act and except as provided in paragraph (b) of this section, the State plan may adopt eligibility standards for one or more groups of children related to –
> . . .
> (2) Age (up to, but not including, age 19).
> . . .

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 medical claims from providers are received by the Department, they are uploaded in the Medicaid Management Information System (MMIS). The Department utilizes the Client Registry Information System – Enhanced (CRIS-E) to determine eligibility and MMIS to determine whether payments for medical services are allowable and to verify recipient and provider eligibility. Daily, county workers enter eligibility data into CRIS-E which interfaces with MMIS. In order to be eligible for SCHIP, the individual must be less than 19 years old unless they meet specific exemption criteria. An SCHIP recipient will remain eligible through the end of the month in which he or she turns 19. CRIS-E is designed to generate an alert notifying the county worker of an individual about to turn 19, at which time the worker is responsible to re-determine eligibility. However, there are no subsequent edits or monitoring procedures in place to verify the re-determination was performed timely. Four of 150 SCHIP recipients tested (one of 60 paid via ISTV and three of 90 paid via VSU), totaling $261, were not eligible to receive SCHIP benefits on the date of service. The recipients exceeded the maximum allowable age for the SCHIP program and there was no evidence to indicate they met any of the exemption criteria for all or a portion of the period. Therefore, we will question all costs associated with the services provided for these individuals during the times they were ineligible, totaling $33,847.

The lack of sufficient edit checks and controls over the timely review of CRIS-E alerts increases the risk of errors during processing of SCHIP claims resulting in inaccurate payments to providers. Payments on behalf of ineligible recipients may subject the Department to penalties or sanctions which may jeopardize future federal funding and limit their ability to fulfill program requirements to provide benefits to those in need. Management agreed the recipients were not eligible for SCHIP during the date of service.

6. SCHIP – INELIGIBLE RECIPIEINTS (Continued)

Management indicated they relied on the county case worker responsible for the case to re-determine eligibility.

We recommend the Department perform periodic testing to help ensure the automated controls are functioning properly and the system is appropriately notifying county case workers of SCHIP individuals that are about to turn 19. The Department should evaluate the process at the county level to reasonably ensure case workers are addressing alerts timely and adequately. They should also consider revising the edits within CRIS-E to notify the Department if timely re-determinations are not made and/or automatically terminate eligibility in the month after the recipients 19th birthday unless an appropriate exemption is entered. In addition, we recommend the Department evaluate a sample selection of SCHIP payments to verify that reimbursements 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.

Official's Response and Corrective Action Plan

- *OHP will provide video conference training to all CDJFS offices. Training will include: importance of working CRIS-E system alerts (specifically, those notifying caseworkers a consumer is turning 19 years of age); Pre-termination Reviews; and, other categories of Medicaid appropriate for consumers turning 19. All training materials developed by OHP's County Technical Assistance Unit are posted to the Innerweb and available to CDJFS staff for further training needs, or to be used as desk aids.*
- *OHP will provide information to all CDJFS offices through the Medicaid Matters Newsletter. This newsletter is published on a monthly basis and the target audience is CDJFS caseworkers. The information will include the importance of working CRIS-E system alerts (specifically, those notifying caseworkers a consumer is turning 19 years of age); Pre-termination Reviews; and, other categories of Medicaid appropriate for consumers turning 19.*
- *The OHP County Compliance Unit will review a sample of cases in the CDJFS agencies for which there were findings. The case reviews will be conducted quarterly on cases with consumers who have turned 19 years of age. If further case errors are found, OHP will provide further training and technical assistance to the CDJFS agencies.*

Anticipated Completion Date for Corrective Action

- *Video conference training will be completed by December 31, 2008 with all CDJFS offices.*
- *Medicaid Matters Newsletter information will be available to all CDJFS offices by July 1, 2008.*
- *Case reviews will be completed quarterly through March 31, 2009.*

Contact Person Responsible for Corrective Action

Shawn Lotts, Chief, OHP County Compliance, Ohio Department of Job & Family Services, 50 W. Town Street, 5th Floor, Suite 400, P.O. Box 182709, Columbus, Ohio, 43218-2709, Phone: (614) 752-3585, e-mail: Shawn.Lotts@jfs.ohio.gov

7. TANF – MISSING CASE FILES/IMPROPER PAYMENTS – FRANKLIN COUNTY

Finding Number	2007-JFS07-019
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

<u>QUESTIONED COSTS</u> $33,705

45 CFR 263.2(b) states, in part:

. . . An ``eligible family'' as defined by the State, must:

(1) Be comprised of citizens or aliens who:

(i) Are eligible for TANF assistance;

(ii) Would be eligible for TANF assistance, but for the time limit on the receipt of federally funded assistance; or

(iii) Are lawfully present in the United States and would be eligible for assistance, but for the application of title IV of PRWORA;

(2) Include a child living with a custodial parent or other adult caretaker relative (or consist of a pregnant individual); and

(3) Be financially eligible according to the appropriate income and resource (when applicable) standards established by the State and contained in its TANF plan.

45 CFR 261.14(a) states in part:

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 Section 261.16.

42 USC 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 his title, then the State –

A) shall deduct from the assistance that would otherwise be provided to the family of the individual under the State program funded under this part an amount equal to not less than 25% of the amount of such assistance; and

(B) may deny the family any assistance under the State program.

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…

7. TANF – MISSING CASE FILES/IMPROPER PAYMENTS – FRANKLIN COUNTY (Continued)

Additionally, case files and all pertinent support documentation should be maintained by the FCDJFS to provide evidence that controls performed by the County over the TANF program have been performed, to provide back-up documentation for the case activity input into CRIS-E, and that the agency is complying with federal rules and regulations.

During substantive testing of the eligibility provisions for the TANF-ELI program, there were five (25%) case files out of 20 selected for testing that were missing support documentation such as applications for income level information necessary to verify eligibility, and we were unable to determine eligibility in any other manner. The TANF amounts provided to the families of these five exceptions total $26,238 and will be considered as questioned costs.

In addition, during substantive testing of the TANF Refusal to Work provisions there was three (30%) case file out of 10 selected for testing that was missing. The case files and supporting documentation could not be located by FCDJFS for the special tests and provision requirement testing noted above, and we were unable to determine eligibility in any other manner. The amount of TANF funding provided to the family representing this exception totaled $7,057 but projects to over $10,000 and thus will be considered as questioned costs.

Also, during substantive testing of the TANF Child Support Non-Cooperation provisions, we found one (10%) case out of 10 selected for testing where a TANF recipient was paid benefits during their sanction period. The amount paid to the recipient during the sanction period totaled $410 but projects to over $10,000, and thus will be considered as questioned costs.

In all, we will question a total of $33,705 of Franklin County FY 2007 TANF expenditures.

Missing case files and documentation increases the risk that amounts and other information reported to the federal grantor agencies may not reflect actual program activities. Without consistently obtaining, maintaining or reviewing the required documentation on file, FCDJFS may not be able to fully support or ensure payments were made only to or on behalf of eligible recipients. The lack of or failure to review supporting documentation could and did result in questionable benefit payments and increase the risk that payments could be made to ineligible clients.

According to the Department, the missing case files and other supporting documentation were due in part to the number of case files maintained by the Department and frequent movement of these files, and in part to the transition to a new imaging system in which all of the documents in a case file may not have been scanned into the system. The improper payment during the sanction period was determined to be an oversight by Department personnel.

We recommend management review current policies and procedures and/or implement new control procedures that will reasonably ensure that case files have adequate support documentation to support payments made to recipients and that this documentation is reviewed to ensure all payments are proper. We recommend management communicate its policies and procedures to staff to ensure they are carried out as intended. In addition, management may consider performing periodic reviews of the case files to ensure established controls and record retention procedures are being followed by FCDJFS personnel.

Official's Response and Corrective Action Plan

The Agency agrees that the documentation may not have been entirely present for the auditors at the time of review. We have submitted some documentation pertaining to the exceptions listed that were found in our imaging. An additional review will take priority in order to locate information.

7. TANF – MISSING CASE FILES/IMPROPER PAYMENTS – FRANKLIN COUNTY (Continued)

- *We will conduct a random review of cases to ensure that the necessary documentation is being maintained in our case files. Attached is a tentative flow of the process that will be followed for reviewing case files and associated documentation to ensure that our eligibility determination is supported.*
- *We will be detailing the flow of our filing system and compiling a best practice that all of the Opportunity Centers will implement.*
- *Additionally, we are currently working with 3SG as well as Northwoods on a document imaging project. This will assist us in ensuring that supporting documentation is retained in our case files.*
- *We have three internal auditors to supplement the review and monitoring process.*

Anticipated Completion Date for Corrective Action

The anticipated completion dates for the above corrective action steps are indicated below.

- *We anticipate implementing the attached process for reviewing cases for documentation effective July 1, 2008. Implementation effective July 1st is dependent upon whether or not IT is able to complete the project request to identify the case samples by this deadline. If IT cannot meet this deadline, we will implement this review as soon as IT completes the project request.*
- *We expect to have the flow of our filing system completed by June 2008 and it is anticipated that the Opportunity Centers will implement this best practice in the same month.*
- *The document management project is currently underway and will continue until the project is completed.*
- *Our Finance Department staff presently includes three internal auditors who will be complementing external audits and reviews of our agency's policies and administration of program rules plus doing further follow-up.*

Contact Person Responsible for Corrective Action

Esther Adkins, Assistant Director, Franklin County Department of Job & Family Services, 80 E. Fulton Street, Columbus, Ohio 43215, Phone: (614) 462-6066, e-mail: eadkins@fcdjfs.franklincountyohio.gov

8. FOSTER CARE – UNALLOWABLE ELIGIBILITY – CUYAHOGA COUNTY

Finding Number	2007-JFS08-020
CFDA Number and Title	93.658 – Foster Care
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $31,212

42 USC 672(a), states, in part:

(1) Eligibility.—Each State with a plan approved under this part shall make foster care maintenance payments on behalf of each child who has been removed from the home of a relative specified in section 406(a) (as in effect on July 16, 1996) into foster care if—

(A) the removal and foster care placement met, and the placement continues to meet, the requirements of paragraph (2); and

(B) the child, while in the home, would have met the AFDC eligibility requirement . . .

. . .

8. FOSTER CARE – UNALLOWABLE ELIGIBILITY – CUYAHOGA COUNTY (Continued)

45 CFR 233.90(b)(3) states:

> A state may elect to include in its AFDC program children age 18 who are full-time students in a secondary school, or in the equivalent level of vocational or technical training, and who may reasonably be expected to complete the program before reaching age 19.

Of the 20 Foster Care case files selected for testing, totaling $25,370, one (5%) recipient was determined to be ineligible to receive Foster Care benefits. The foster child was determined to be ineligible because the child did not meet the ADC relatedness test and was removed from the home where the Mother's income exceeded the 100% standard for a family of two. Therefore, the Cuyahoga County Department of Job and Family Services (CCDJFS) Public Children Services Agency received Title IV-E reimbursements from the Ohio Department of Job and Family Services on behalf of an ineligible foster child; therefore, we are questioning costs totaling $31,212, the amount of benefits the recipient was paid during the time period that the auditors determined the recipient to be ineligible.

Without consistently monitoring the eligibility of foster children, there is an increased risk that payments could be made to ineligible recipients. Additionally, without monitoring the program's requirements, management may not be able to fully support payments were made only to or on behalf of eligible recipients**.** As a result, CCDJFS is not in compliance with the eligibility requirements for the Foster Care program. The CCDJFS Title IV-E Administrator stated the Title IV-E unit determined that the foster child was ineligible for Title IV-E reimbursements; however, during an event change, another employee changed the case status to Title IV-E eligible. The Title IV-E Unit is currently taking the necessary steps to reimburse ODJFS for this error.

We recommend CCDJFS management review current policies and procedures with staff and reinforce control procedures which will reasonably ensure foster care eligibility determinations are correctly reflected within the recipients' case file and computer system. This will ensure Title IV-E reimbursements for foster care are not received on behalf of an ineligible foster child. We also recommend CCDJFS sample eligible foster care children on a periodic basis to help ensure eligibility calculations are accurate and payments are made to eligible recipients.

Official's Response and Corrective Action Plan

The Supervisor of the eligibility staff is required to review all case set-ups for completeness and accuracy prior to initiation of the IV-E eligible reimbursements. As noted in our initial response this occurrence was due to an unexplainable oversight. CCDCFS will continue to have all eligibility determinations reviewed by the supervisors to prevent future errors of this kind. We agree with the finding and the adjustment was processed 12/26/2007

Anticipated Completion Date for Corrective Action

Currently in process as of 12/2007 and will continue to be adhered to.

Contact Person Responsible for Corrective Action

Audrey L. Beasley, Business Services Manager, Cuyahoga County Department of Job & Family Services, 3955 Euclid Avenue, Cleveland, Ohio, 44115, Phone: (216) 432-2675, e-mail: beasla01@odjfs.state.oh.us

9. CHILD CARE CLUSTER – MISSING CASE FILES – FRANKLIN COUNTY

Finding Number	2007-JFS09-021
CFDA Number and Title	93.575/93.596 – Child Care Cluster
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $5,606

45 CFR 98.20(a) states in part:

In order to be eligible for services under Section 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 Section 98.2) who are working or attending a job training or educational program;

In addition, when administering federal grant awards, it is the responsibility of management to develop and implement control policies and procedures to provide reasonable assurance that only eligible individuals receive assistance, and the information reported to ODJFS is accurate and complete. In order for county management to ensure and verify this information, it is imperative that appropriate supporting documentation is maintained for all amounts reported, and case files contain all pertinent information relating to the case and be readily accessible for review and/or reference.

During control and substantive testing of the Federal Child Care program, there were two (20%) case files out of 20 selected for testing that were missing. The two case files and their supporting documentation could not be located by FCDJFS in order for us to test for the age, income and employment/education eligibility provisions noted above, and we were unable to determine eligibility in any other manner. The amounts from these two exceptions total $5,606, but project to over $10,000 and thus will be considered as questioned costs.

Without consistently maintaining the required documentation on file, the FCDJFS may not be able to fully support or ensure payments were made only to or on behalf of eligible recipients. The lack of supporting documentation could result in questionable benefit payments and increase the risk that payments could be made to ineligible recipients. According to the Department, the missing case files and other supporting documentation were due in part to the number of case files maintained by the Department and frequent movement of these files, and in part to the transition to a new imaging system in which all of the documents in a case file may not have been scanned into the system.

We recommend management review current policies and procedures and/or implement new control procedures that will reasonably ensure that case files have adequate support documentation to support payments made to recipients. We recommend management communicate its policies and procedures to staff to ensure they are carried out as intended. In addition, management may consider performing periodic reviews of the case files to ensure established controls and record retention procedures are being followed by FCDJFS personnel.

9. CHILD CARE CLUSTER – MISSING CASE FILES – FRANKLIN COUNTY (Continued)

Official's Response and Corrective Action Plan

The Agency agrees that the documentation may not have been entirely present for the auditors at the time of review. We have submitted some documentation pertaining to the exceptions listed that were found in our imaging. An additional review will take priority in order to locate information.

- *We will conduct a random review of cases to ensure that the necessary documentation is being maintained in our case files. Attached is a tentative flow of the process that will be followed for reviewing case files and associated documentation to ensure that our eligibility determination is supported.*
- *We will be detailing the flow of our filing system and compiling a best practice that all of the Opportunity Centers will implement.*
- *Additionally, we are currently working with 3SG as well as Northwoods on a document imaging project. This will assist us in ensuring that supporting documentation is retained in our case files.*
- *We have three internal auditors to supplement the review and monitoring process.*

Anticipated Completion Date for Corrective Action

The anticipated completion dates for the above corrective action steps are indicated below.

- *We anticipate implementing the attached process for reviewing cases for documentation effective July 1, 2008. Implementation effective July 1st is dependent upon whether or not IT is able to complete the project request to identify the case samples by this deadline. If IT cannot meet this deadline, we will implement this review as soon as IT completes the project request.*
- *We expect to have the flow of our filing system completed by June 2008 and it is anticipated that the Opportunity Centers will implement this best practice in the same month.*
- *The document management project is currently underway and will continue until the project is completed.*
- *Our Finance Department staff presently includes three internal auditors who will be complementing external audits and reviews of our agency's policies and administration of program rules plus doing further follow-up.*

Contact Person Responsible for Corrective Action

Esther Adkins, Assistant Director, Franklin County Department of Job & Family Services, 80 E. Fulton Street, Columbus, Ohio 43215, Phone: (614) 462-6066, e-mail: eadkins@fcdjfs.franklincountyohio.gov

10. ADOPTION ASSISTANCE – UNALLOWABLE ELIGIBILITY – CUYAHOGA COUNTY

Finding Number	2007-JFS10-022
CFDA Number and Title	93.659 – Adoption Assistance
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $4,600

42 USC 673 (a)(4)(A) states:

> No payment may be made to parents with respect to any child who has attained the age of eighteen (or, where the State determines that the child has a mental or physical handicap which warrants the continuation of assistance, the age of twenty-one).

10. ADOPTION ASSISTANCE – UNALLOWABLE ELIGIBILITY – CUYAHOGA COUNTY (Continued)

Of the 25 Adoption Assistance case files selected for testing, totaling $11,689, one recipient's subsidy payment was not terminated the first of the month following the month of the child's eighteenth birthday. During the audit period, ineligible subsidy payments for Adoption Assistance for this recipient totaled $4,600 ($3,551 represented the ODJFS portion and $1,049 represented the Cuyahoga County Public Children Services Agency portion). As the sample projects to be more than $10,000, we are hereby questioning costs of $4,600.

Without consistently monitoring compliance requirements and anticipating when recipients will no longer be eligible for benefits, the PCSA cannot fully support or ensure payments are made only to or on behalf of eligible recipients. As a result, CCDJFS is not in compliance with the eligibility requirements for the Adoption Assistance program.

The Title IV-E Administrator stated the FACSIS system at the state level and the FACTS system at the county level do not flag the case file when the adoptive child turns eighteen years old. As of January 2008, the PCSA will replace their FACTS system with the State Automated Child Welfare System (SACWIS) which is programmed to terminate payments when the child turns eighteen years old.

We recommend the CCDJFS review its current monitoring procedures to reasonably ensure all recipients continue to be eligible to receive Adoption Assistance subsidy payments. One method to help ensure the required information is maintained in the case file would be to develop a checklist which would include verifying the adoptive child's age or make note of the date when the child's age will render them no longer eligible to receive benefits. 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 within the file.

Official's Response and Corrective Action Plan

DCFS IV-E supervisors will request a monthly report out of the agency's FACTS (Family and Child tracking system database) that will list all children that have reached the age of 18 for the worker to review those cases to determine if eligibility should be continued or discontinued. When DCFS is integrated into SACWIS this will be done automatically.

Anticipated Completion Date for Corrective Action

Immediately 12/01/07 and ongoing

Contact Person Responsible for Corrective Action

Audrey L. Beasley, Business Services Manager, Cuyahoga County Department of Job & Family Services, 3955 Euclid Avenue, Cleveland, Ohio, 44115, Phone: (216) 432-2675, e-mail: beasla01@odjfs.state.oh.us

11. SCHIP – UNDOCUMENTED ELIGIBILITY – BELMONT COUNTY

Finding Number	2007-JFS11-023
CFDA Number and Title	93.767 – State Children's Insurance Program
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $2,957

42 USC 1397aa(b) states:

> A State is not eligible for payment under section 1397ee of this title unless the State has submitted to the Secretary under section 1397ff of this title a plan that -
>
> (1) sets forth how the State intends to use the funds provided under this subchapter to provide child health assistance to needy children consistent with the provisions of this subchapter, and
>
> . . .

42 USC 1397bb(b)(1) states:

> (A) The plan shall include a description of the standards used to determine the eligibility of targeted low-income children for child health assistance under the plan. Such standards may include (to the extent consistent with this subchapter) those relating to the geographic areas to be served by the plan, age, income and resources (including any standards relating to spenddowns and disposition of resources), residency, disability status (so long as any standard relating to such status does not restrict eligibility), access to or coverage under other health coverage, and duration of eligibility. Such standards may not discriminate on the basis of diagnosis.
>
> (B) Limitations on eligibility standards
>
> (i) shall, within any defined group of covered targeted low-income children, not cover such children with higher family income without covering children with a lower family income, and
>
> (ii) may not deny eligibility based on a child having a preexisting medical condition.

When administering federal grant awards, it is the responsibility of management to develop and implement control policies and procedures to provide reasonable assurance that only eligible individuals receive assistance and the information reported to the Ohio Department of Job and Family Services (JFS) is accurate and complete. In order for county management to ensure and verify this information, it is imperative that appropriate supporting documentation is maintained for all amounts reported and case files contain all pertinent information relating to the case and be readily accessible for review and/or reference.

Based on the results of testing, three of 20 (15%) State Children's Insurance Program (SCHIP) recipients tested were ineligible to receive SCHIP benefits during fiscal year 2007 at Belmont County Department of Job and Family Services (BCDJFS), for the following reasons:

- For one recipient, the eligibility determination was based on net pay instead of gross pay. The recipient's gross pay was over the eligibility threshold and, therefore, the recipient should not have received SCHIP benefits in the amount of $1,428.

11. SCHIP – UNDOCUMENTED ELIGIBILITY – BELMONT COUNTY (Continued)

- For one recipient, the child support and work verification form was not found in the recipient's case file. The CRIS-E System indicated that the recipient's eligibility was determined based on a checklist received from the recipient. A checklist was sent to the recipient but apparently was never received and no follow-up was performed to determine the recipient's eligibility. Since there was no supporting documentation in the recipient's case file for determining eligibility, the recipient should not have received SCHIP benefits in the amount of $496.

- For one recipient, the case file was left pending and open in error. The recipient's case file should have been closed based on the income verification documentation received from the recipient. The recipient's income was over the income eligibility guidelines and, therefore, the recipient should not have received SCHIP benefits in the amount of $1,033.

Since the three recipients were determined to be ineligible to receive SCHIP benefits during the audit period, we are questioning the cost of SCHIP benefits the ineligible recipients received during fiscal year 2007, totaling $2,957, which projects to more than $10,000.

Without consistently obtaining or maintaining the required documentation on file, the BCDJFS 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 increases the risk that payments will be made to ineligible recipients. As a result, BCDJFS is not in compliance with the eligibility requirements for the SCHIP program. BCDJFS management indicated the errors noted were an oversight and all three SCHIP cases have been closed.

We recommend BCDJFS management review current eligibility requirements for the SCHIP program with all staff and perform supervisory reviews of SCHIP case files to provide reasonable assurance that only eligible recipients receive benefits. Additionally, we recommend BCDJFS management review current policies and procedures with all staff and implement or enforce control procedures which will reasonably ensure case files have adequate documentation to support benefit payments made to recipients. One method to ensure that the required documents were submitted by the recipient and the recipient met program eligibility criteria would be to use a checklist. The checklist could note the document the recipient is required to submit and how the recipient met the criteria to be eligible to receive program benefits.

Official's Response and Corrective Action Plan

We concur with audit finding. All three cases have been closed. The Quality Control staff person randomly looks at Healthy Start cases, and will continue to do so, paying closer attention to eligibility requirements being met.

Supervisors have instructed Case Managers how to appropriately use earned and unearned income in their Healthy Start cases.

Anticipated Completion Date for Corrective Action

This has begun immediately.

Contact Person Responsible for Corrective Action

Vince Gianangeli, Fiscal Administrator, Belmont County Department of Job & Family Services, 310 Fox-Shannon Place – St. Clairsville, Ohio 43950, Phone: (740) 695-1075, ext. 1173, e-mail: Gianav01@odjfs.state.oh.us

12. MEDICAID/SCHIP – THIRD PARTY LIABILITY (TPL)

Finding Number	2007-JFS12-024
CFDA Number and Title	93.767 – State Children's Insurance Program 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

<u>QUESTIONED COSTS</u> $2,289

42 CFR 433.138 states, in part:

> (a) Basic provisions. The agency must take reasonable measures to determine the legal liability of the third parties who are liable to pay for services furnished under the plan.
>
> (b) Obtaining health insurance information: Initial application and redetermination processes for Medicaid eligibility. (1) If the Medicaid agency determines eligibility for Medicaid, it must, during the initial application and each redetermination process, obtain from the applicant or recipient such health insurance information as would be useful in identifying legally liable third party resources. . .

42 CFR 433.139 states, in part:

> (b) Probable liability is established at the time the claim is filed. . . (1) If the agency has established the probable existence of third party liability at the time the claim is filed, the agency must reject the claim and return it to the provider for a determination of the amount of liability. The establishment of third party liability takes place when the agency receives confirmation from the provider or a third party resource indicating the extent of third party liability.

Under the current process, the County Departments of Job and Family Services (CDJFS) process the application and related information for initial Medicaid eligibility and eligibility redeterminations. At that time, the CDJFS' are responsible for identifying if the applicant has any third party insurance coverage and for noting this in the CRIS-E system. If a potential Medicaid recipient presents proof of insurance during the initial application or redetermination process, the CDJFS is responsible for entering this information in CRIS-E and setting the system to cost avoid, ensuring that any claims related to the third party insurance coverage are billed to that insurance company before billing Medicaid. The ODJFS Cost Avoidance Unit is responsible for contacting the insurance companies, determining the coverage, entering this information into CRIS-E, and setting the system to cost avoid for any applicant noted with third-party coverage but who did not have proof of insurance at the time of the application. The third party liability information is then uploaded from CRIS-E into MMIS and into a TPL database to be used in claims processing. The Cost Avoidance Unit offered various training sessions to the counties; however, these trainings were not mandatory during our audit period.

Of the 40 insurance verifications selected for testing from the 66,610 TPL cases paid during fiscal year 2007, six exceptions were noted where the information in the TPL database was not accurate and complete or could not be supported, resulting in questioned costs of $2,289 (projected to be more than $10,000), as detailed below. Because the amount related to SCHIP could not be readily determined, the entire amount will be questioned for the Medicaid Cluster. All these exceptions related to cases where the insurance information was entered by the CDJFS.

12. MEDICAID/SCHIP – THIRD PARTY LIABILITY (TPL) (Continued)

- For four insurance verifications tested, the TPL record was not created accurately and completely in the TPL database, and the insurance coverage dates in the TPL master file did not agree to the dates on the insurance verifications. Three of the four errors resulted in claims being paid by Medicaid that should have been billed to the third party insurance company. Because there was no readily identifiable method to determine the amount of claims paid by Medicaid that would have in fact been covered by third party insurance, we questioned the entire amount of the claims paid with service dates during our audit period, or $2,289. One of the four errors did not result in claims being incorrectly billed to Medicaid since the individual was part of a Managed Care Plan. Managed Care Plans are responsible for identifying any TPL insurance once a recipient is covered under such a plan.

  - For three of the four errors noted, the TPL master file was updated after our testing was performed. Each of these insurance verifications were set to cost avoid in the TPL master file, and a verification letter was sent to the insurance carrier. The Cost Avoidance Unit staff indicated this was a system update performed for all insurance verifications entered at the county level that were not yet verified, allowing the Department to begin cost avoiding these claims. However, for the three exceptions noted that were updated through this process during the course of our audit, the update did not appear to leave an audit trail and no new document control number was generated.

- For two insurance verifications tested, there was no documentation in the case file to support the insurance information entered into the TPL master file. However, since costs were avoided for these claims against the third party insurance company noted, no costs were questioned.

If third party insurance information is not accurately and completely entered into the State's systems, the risk is significantly increased that claims could be incorrectly billed to Medicaid when they were, in fact, covered by a third party insurance company. In addition, if the system updates performed over the TPL Master File do not leave a complete trail, management may not be able to substantiate that cost avoidance actions performed prior to the system update were appropriate which may result in disputes with insurance companies.

Management indicated there is a high level of employee turnover at the CDJFS and that this may contribute to increased errors in performing cost avoidance at the county level. They also indicated that numerous trainings opportunities, although not mandatory, had been provided to the counties during state fiscal year 2007.

We recommend the Cost Avoidance Unit strengthen policies and procedures related to county training, including making training mandatory for the CDJFS personnel involved in this process and that management communicate to case workers the importance of entering data into the TPL Master File accurately and completely. Management should also perform periodic evaluations of TPL records created by the CDJFS from TPL Master File to evaluate whether the records were entered accurately and completely; this could be done on a sample basis. These procedures should be performed timely, thoroughly documented and reviewed by the appropriate supervisory personnel. Finally, we recommend the Department reasonably ensure all system updates performed in the TPL Master File create a clear audit trail, which includes allowing a user to see clearly in the TPL Master File the events that occurred prior to the system update.

12. MEDICAID/SCHIP – THIRD PARTY LIABILITY (TPL) (Continued)

Official's Response and Corrective Action Plan

County generated records through the 6612 automation project were included in this year's audit. The 4 errors were associated with county generated transactions. These errors were due to the county caseworker not entering all available insurance coverages, and also entering incorrect begin dates. To correct this, the Cost Avoidance Unit (CAU) has initiated and completed intensive trainings with the counties. These trainings consisted of properly recognizing, identifying and coding of all insurance coverage types, effective dates and plan options. Specific focus was placed on the importance of entering complete and accurate data into CRISe. Also, as part of our planned corrective action, quality control checks of county generated records will begin as of May 1, 2008. Feedback will be provided to the counties. Management will ensure that the quality control checks will be maintained.

During the course of this audit, a system update was initiated to update all TPL records containing coverages not yet verified. A systems error during the update identified that no document control numbers were updated. The CAU staff notified MIS of this error. MIS worked with CAU staff to resolve the document control number issue.

The two records that could not be located were county generated records. One of the two records was documented as "CS" or client statement. In this instance, the client verbally informed the caseworker of primary coverage. Therefore, no documentation was available to be produced for audit.

The other record had been previously sent to storage and could not located. The county realizes the importance of being able to produce the documentation upon request. To correct this issue, the county will be utilizing an imaging system in the future. This will allow for cataloging and easier retrieval of backup documentation.

Anticipated Completion Date for Corrective Action

June 30, 2008

Contact Person Responsible for Corrective Action

Regena Lige, Medicaid Health Systems Administrator II, Ohio Department of Job & Family Services, 50 W. Town St., Suite 400, Columbus, OH 43215, Phone: (614) 752-3789, e-mail: regena.lige@jfs.ohio.gov

13. TANF – CHILD SUPPORT NON-COOPERATION – LUCAS COUNTY AND HAMILTON COUNTY

Finding Number	2007-JFS13-025
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $2,791

42 USC 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 his title, then the State –

13. TANF – CHILD SUPPORT NON-COOPERATION – LUCAS COUNTY AND HAMILTON COUNTY (Continued)

(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 implement policies and procedures which reasonably ensure compliance with these Federal requirements and ensure appropriate supporting documentation is maintained.

Current procedures require an Assistance Group (AG) to be sanctioned when there is non-cooperation with child support and/or refusal to work. Of the six counties tested during fiscal year 2007, two did not properly sanction TANF recipients for non-cooperation with child support, as noted below, resulting in questioned costs of $2,791 (projects to over $10,000).

Lucas County

The Lucas County Department of Job and Family Services (LCDJFS) requires the child support enforcement agency (CSEA) to refer a case for sanction to the Data Processing Department no later than 30 days from the date of the client's failure to cooperate. Upon receipt of the CSEA referral, LCDJFS requires the sanction to be processed within five days. We selected 15, out of approximately 410, CSEA referrals to be sanctioned for child support non-cooperation for the TANF program. For one (6.67%) of the cases selected for testing, the CSEA referral for sanction was not made in a timely manner which resulted in the recipient receiving benefits of $1,561 for the period July 1, 2006 through September 1, 2006. Since the recipient should have been sanctioned at the time the benefits were paid, we are questioning costs for TANF in the amount of $1,561.

Hamilton County

The Hamilton County Department of Job and Family Services (HCDJFS) requires the child support enforcement agency (CSEA) to refer a case for sanction or medical penalty for not cooperating in establishing or enforcing a child support order. We selected 20 of approximately 62, CSEA referrals to be sanctioned for child support non-cooperation for the TANF program. For one (5%) of the cases selected for testing, the CSEA referral for sanction was not made in a timely manner which resulted in the recipient receiving benefits of $1,230 from April through June 2007. During our review, at the time the recipient failed to cooperate with CSEA, the AG was already sanctioned for refusing to work. Therefore, the CSEA sanction could not be enforced and in February 2007, the AG had resumed their work activity and began receiving TANF assistance. In March, the recipient failed to complete a packet and return it to the HCDJFS, which resulted in the CSEA Manager closing the CSEA case for not cooperating and was believed to be a non-public assistance case. The CSEA should have referred the AG for sanction in April 2007 for the March non-cooperation and as a result we are questioning the costs for TANF in the amount of $1,230 ($410 per month for April, May and June).

Without proper policies and procedures to reasonably ensure benefits are timely sanctioned, as required by law, individuals who fail to cooperate with child support requirements may receive benefits to which they would not otherwise be entitled. Furthermore, future program funding may be adversely affected, and program objectives may not be achieved. As a result, LCDJFS and HCDJFS are not in compliance with special tests and provisions, part 1 - child support non-cooperation sanction, requirements for the TANF program. LCDJFS Management stated the CSEA referrals should be processed within five days of receipt and the staff is aware of these deadlines. The CSEA indicated the referral must have been misplaced and once it was located, the sanction was processed. HCDJFS management attributes this error to a link not being recognized between the Client Registry Information System-Enhanced and Support Enforcement Tracking System interface process.

13. TANF – CHILD SUPPORT NON-COOPERATION – LUCAS COUNTY AND HAMILTON COUNTY (Continued)

We recommend LCDJFS and HCDJFS review their current policies and procedures and/or implement a new control procedure that would reasonably ensure CSEA referrals are processed in a timely manner and only eligible individuals receive TANF assistance. In addition, LCDJFS and HCDJFS should periodically review the CSEA referral process to provide added assurance the established policies and procedures are operating as management intended and ensuring TANF benefits are sanctioned properly and timely.

Official's Response and Corrective Action Plan

<u>Lucas County</u>

All sanctions will be tracked for timeliness beginning 2-1-08 in a log kept in the Data Services unit. The Coordinator will check the report monthly to ensure all sanctions be taken within 30 days of referral.

<u>Hamilton County</u>

The HCJFA 0410-A forms will be received by CSEA and processed per the usual procedure. The CSEA will then submit to an identified centralized contact in the QA department via e-mail a listing of the referrals made from CSEA to the QA department for the current week.

The centralized contact in the QA department will date stamp each referral received, and will return to CSEA an e-mail listing all the names of the referrals received from CSEA by the QA department for the current week.

CSEA will modify the informal EXCEL spreadsheet currently in use to track referrals by adding a column entitled "date returned from QA". This column will enable CSEA to double check their initial listing of the referrals sent to QA against the e-mailed listing of referrals which the QA department has date stamped and verified as being received. CSEA will also modify the Excel spreadsheet to include an "Action taken" column to track additional activity on each referral.

In addition, an automated Customer Change Report (CCR) database system was developed which can track the medical components of a case. This system, which was implemented as of 10/1/2007, serves as a more efficient method by which the agency can identify and notify the current case worker assigned to a case of changes reported to the agency. When the client calls the agency to report a change, and the call is answered by our call center staff, an automated notice is sent to the worker of record as well as the worker's Section Chief to let the worker know what specific change/information was reported. The worker then has 30 days to make the change. If the change is not made in 30 days, a second notice is sent out giving the worker 10 more days to make the change, and the Assistant Director of that program area is also notified. This system serves as means to ensure that the current worker of record updates the case record with changes that our clients report to the agency in a timely manner.

Anticipated Completion Date for Corrective Action

<u>Lucas County</u>

The reports have been completed at this time, monitoring will begin 2-1-08 for January 2008 timeliness

13. TANF – CHILD SUPPORT NON-COOPERATION – LUCAS COUNTY AND HAMILTON COUNTY (Continued)

Hamilton County

The modified spreadsheet portion of this corrective action plan was implemented at the beginning of the business day 5/30/07, and will be performed as part of a continuous routine thereafter.

The Customer Change Report (CCR) tracking database process was implemented for usage as of 10/1/07 and will be performed as part of a continuous routine thereafter.

The particular case that was pulled by the State Auditor's, was processed prior to the agency's implementation of the aforementioned policy and procedures enacted to specifically avoid such errors. This plan evidences our commitment to continued support of the enacted policy and procedures which were established as a result of the findings in last year's corrective action plan.

Contact Person Responsible for Corrective Action

Lucas County

Cindy Ginter and Kim Morris, Administrator of Program Support, Data Services Coordinator, Lucas County Department of Job & Family Services, 3210 Monroe St. Toledo, Oh 43699, Phone: (419) 213-8236, e-mail: gintec@odjfs.state.oh.us

Hamilton County

Sharon Collins-Gibson, Section Chief, Program Quality Assurance, Hamilton County Department of Job & Family Services, 222 East Central Parkway, 6th Floor Cincinnati, Ohio 45202, Phone: (513) 946-1474, e-mail: collis@jfs.hamilton-co.org

14. SCHIP – MISSING CASE FILES – FRANKLIN COUNTY

Finding Number	2007-JFS14-026
CFDA Number and Title	93.767 – State Children's Insurance Program
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $302

42 USC 1397aa(b) states:

A State is not eligible for payment under section 1397ee of this title unless the State has submitted to the Secretary under section 1397ff of this title a plan that -

(1) sets forth how the State intends to use the funds provided under this subchapter to provide child health assistance to needy children consistent with the provisions of this subchapter, and

. . .

14. SCHIP – MISSING CASE FILES – FRANKLIN COUNTY (Continued)

42 USC 1397bb(b)(1) states:

(A) The plan shall include a description of the standards used to determine the eligibility of targeted low-income children for child health assistance under the plan. Such standards may include (to the extent consistent with this subchapter) those relating to the geographic areas to be served by the plan, age, income and resources (including any standards relating to spenddowns and disposition of resources), residency, disability status (so long as any standard relating to such status does not restrict eligibility), access to or coverage under other health coverage, and duration of eligibility. Such standards may not discriminate on the basis of diagnosis.

(B) Limitations on eligibility standards

(i) shall, within any defined group of covered targeted low-income children, not cover such children with higher family income without covering children with a lower family income, and

(ii) may not deny eligibility based on a child having a preexisting medical condition

In addition, when administering federal grant awards, it is the responsibility of management to develop and implement control policies and procedures to provide reasonable assurance that only eligible individuals receive assistance and the information reported to ODJFS is accurate and complete. In order for county management to ensure and verify this information, it is imperative that appropriate supporting documentation is maintained for all amounts reported and case files contain all pertinent information relating to the case and be readily accessible for review and/or reference.

During testing of the SCHIP program, there were four (20%) case files out of 20 selected for testing that were missing. The four case files and their supporting documentation could not be located by FCDJFS in order for us to test for the age and income eligibility provisions in the SCHIP State Plan. We were able to verify eligibility for three of the four missing case files using other means, but we were unable to determine eligibility in any other manner for the fourth missing file. The amount from this exception totaled $302 but projects to over $10,000 and thus will be considered as questioned costs.

Without consistently maintaining the required documentation on file, the FCDJFS may not be able to fully support or ensure payments were made only to or on behalf of eligible recipients. The lack of supporting documentation could result in questionable benefit payments and increase the risk that payments could be made to ineligible recipients. According to the Department, the missing case files and other supporting documentation were due in part to the number of case files maintained by the Department and frequent movement of these files, and in part to the transition to a new imaging system in which all of the documents in a case file may not have been scanned into the system.

We recommend management review current policies and procedures and/or implement new control procedures that will reasonably ensure that case files have adequate support documentation to support payments made to recipients. We recommend management communicate its policies and procedures to staff to ensure they are carried out as intended. In addition, management may consider performing periodic reviews of the case files to ensure established controls and record retention procedures are being followed by FCDJFS personnel.

Official's Response and Corrective Action Plan

The Agency agrees that the documentation may not have been entirely present for the auditors at the time of review. We have submitted some documentation pertaining to the exceptions listed that were found in our imaging. An additional review will take priority in order to locate information.

14. SCHIP – MISSING CASE FILES – FRANKLIN COUNTY (Continued)

- o *We will conduct a random review of cases to ensure that the necessary documentation is being maintained in our case files. Attached is a tentative flow of the process that will be followed for reviewing case files and associated documentation to ensure that our eligibility determination is supported.*
- o *We will be detailing the flow of our filing system and compiling a best practice that all of the Opportunity Centers will implement.*
- o *Additionally, we are currently working with 3SG as well as Northwoods on a document imaging project. This will assist us in ensuring that supporting documentation is retained in our case files.*
- o *We have three internal auditors to supplement the review and monitoring process.*

Anticipated Completion Date for Corrective Action

The anticipated completion dates for the above corrective action steps are indicated below.

- o *We anticipate implementing the attached process for reviewing cases for documentation effective July 1, 2008. Implementation effective July 1st is dependent upon whether or not IT is able to complete the project request to identify the case samples by this deadline. If IT cannot meet this deadline, we will implement this review as soon as IT completes the project request.*
- o *We expect to have the flow of our filing system completed by June 2008 and it is anticipated that the Opportunity Centers will implement this best practice in the same month.*
- o *The document management project is currently underway and will continue until the project is completed.*
- o *Our Finance Department staff presently includes three internal auditors who will be complementing external audits and reviews of our agency's policies and administration of program rules plus doing further follow-up.*

Contact Person Responsible for Corrective Action

Esther Adkins, Assistant Director, Franklin County Department of Job & Family Services, 80 E. Fulton Street, Columbus, Ohio 43215, Phone: (614) 462-6066, e-mail: eadkins@fcdjfs.franklincountyohio.gov

15. INDIRECT COST ALLOCATION VARIANCES

Finding Number	2007-JFS15-027
CFDA Number and Title	10.551 / 10.561 - Food Stamp Cluster 93.558 - Temporary Assistance for Needy Families 93.575/93.596 - Child Care Development Fund Cluster 93.667 – Social Services Block Grant 93.767 - State Children's Health Insurance Program 93.775 / 93.776 / 93.777 / 93.778 - Medicaid Cluster
Federal Agency	Department of Agriculture Department of Heath and Human Services

QUESTIONED COSTS Undetermined Amount

2 CFR Part 225 (codification of OMB Circular A-87), Appendix A, Section F (republished OBM Circular A-87) describes indirect costs and states, in part:

1. General. Indirect costs are those: Incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. The term ''indirect costs,'' as used herein, applies

15. INDIRECT COST ALLOCATION VARIANCES (Continued)

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 benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

2. Cost allocation plans and indirect cost proposals. Requirements for development and submission of cost allocation plans and indirect cost rate proposals are contained in Appendices C, D, and E to this part.

. . .

JFS has a cost allocation plan (CAP) approved by its federal grantor agency. The plan allocates costs to individual federal programs using various defined base costs and allocation methods, which differ from cost pool to cost pool. In order to charge indirect costs to the related programs appropriately, it is essential that the proper base amounts be used and the allocation methods be applied in accordance with the approved CAP.

We selected ten of the 99 cost pools included within the agency's CAP and performed tests to determine if the appropriate SRCs (spending responsibility center) were associated with the correct cost pool. From these ten cost pools, we selected five for further testing to determine if the proper base amounts were used in the allocation process for the related cost pools tested. For the quarter ending December 31, 2006, we noted that SRC IA01, with costs of $1,633, was charged to cost pool 36 instead of cost pool 6, as described in the CAP.

Also, we noted that the base amounts used for program allocations made in cost pool 5 (one of the five cost pools tested) did not agree with the supporting documentation. Cost pool 5 allocates indirect costs to the programs associated with it by the percentage of the county agencies' employee salaries and compensation costs for the state fiscal year by four major cost centers (Income Maintenance, Social Services, Child Support, and Child Welfare) to the total statewide fiscal year county employee salaries and compensation costs of all four cost centers. The percentages are based on the previous state fiscal year costs. Variances were found in two quarters of the previous fiscal year for the following three instances:

- For the quarter October 2005 to December 2005, Income Maintenance (IM) costs for the Medicaid Title XIX program were listed as $24,796,084 on the cost allocation sheet but were actually $31,796,084; this resulted in a $7,000,000 variance.

- For the quarter January 2006 to March 2006, IM costs for the Food Stamps program were listed as $37,386,847 on the cost allocation sheet but were actually $37,385,847; this resulted in a $1,000 variance

- For the quarter January 2006 to March 2006, Social Services (SS) costs for the TANF program were listed as $5,708,082 on the cost allocation sheet but were actually $5,769,598; this resulted in a $61,516 variance.

Since the costs are allocated by a percentage, any error in the numerator for the three programs affected the allocations for all programs in the cost pool for the two noted major cost centers for the entire fiscal year. As a result, the Department has not allocated the proper costs to the federal programs within cost pool 5 and has not complied with federal allowable costs / cost principle requirements. The incorrect charging of expenditures to federal programs could subject the Department to fines and/or penalties from the grantor agencies. Management agreed the amount of $1,633 for SRC IA01 was charged to cost pool 36 in error for the quarter; it should have been charged to cost pool 6. Management stated the allocation

15. INDIRECT COST ALLOCATION VARIANCES (Continued)

errors in cost pool 5 were a result of human error when the amounts were manually keyed into the allocation sheet. Management also said they are in the process of implementing the County Finance Information System (CFIS) which will automate information sent to them from the counties and will reduce the chance of future errors.

We recommend that the Department review the supporting documents for all cost pool bases and the CAP so that the appropriate supporting amounts are used in the bases to allocate the indirect costs to the federal programs and the proper SRCs are associated with the stated cost pool. We also recommend the Department make adjustments to the federal programs to accurately report the true expenditures of the federal programs for the year. This step should be performed not only for the quarter noted above but all quarters affected by the allocation errors. In addition, we recommend the Department establish and/or strengthen policies and procedures to periodically monitor and determine that the correct base amounts are used in the allocation process. These procedures should include documentation and approval of the procedures performed by an appropriate supervisory level.

Official's Response and Corrective Action Plan

During this time period, the department used a coding validation tool referred to as CSED (CAS Edit) to assure accurate federal reporting charges. In the case of SRC IA01, the transaction was coded correctly as an agency overhead expense; however, it was coded to the other overhead cost pool that has a slightly different allocation base. Since the resulting allocation variance is minimal, we will review overall program cost impact to determine if an adjustment is warranted.

Currently the Chart of Accounts Planning Information System (CAPIS) validates transactions by department-reporting relationships established in the cost allocation plan. When adjustments are determined, the Cost Allocation Unit revises the original Administrative Cost Reports (ACR) and forwards the comparison to the Federal Reporting group to adjust the applicable federal reports.

Annually, Cost Management will perform internal quality assurance by validating information received from County Finance used in processing the quarterly Administrative Cost Reports (ACR). Additionally, staff will review the cost pool methodologies described in the cost allocation plan to ensure distribution bases are in accordance with the distribution of costs within the (ACR).

The Bureau of County Finance and Technical Assistance (BCFTA) reviewed and agreed with the auditor's findings for the items listed above regarding the incorrect base statistics used in the quarters identified. BCFTA updated the cost allocation spreadsheets accordingly and provided the information to the Cost Management Section on 5/5/08. BCFTA will also be reviewing the procedures to verify the documentation and approval by the appropriate supervisory level.

In addition, BCCM's (Bureau of Cost and Cash Management) Cost Management Section will enter the revised statistics for the October-December 2005 quarter in the Cost Allocation Expenditure Report (CAER) spreadsheet and reallocate the costs associated with Cost Pool 5. For the period beginning January 1, 2006 through June 30, 2006 , the new automated CAPIS (Cost Allocation Planning Information System) will be used to reallocate costs associated with Cost Pool 5. Once each quarterly CAER and ACR has been revised, they will be forwarded to BCCM - Federal Reporting Section and reported accordingly. Also, BCCM will review procedures to validate the correct statistics are used.

15. INDIRECT COST ALLOCATION VARIANCES (Continued)

Anticipated Completion Date for Corrective Action

The Bureau of County Finance and Technical Assistance (BCFTA) will make the necessary corrections to the SFY06 Cost Allocation worksheet (to reflect the proper amounts identified by the auditors) and will submit the revised worksheet to the Cost Management Section on 5/5/08. The County Cost Allocation procedure review and verification process performed by BCFTA will be completed by August 20th, 2008. The Cost Management Section's estimated completion date for revising the Cost Allocation Expenditure Report and Administrative Cost Report will be June 2, 2008.

Contact Person Responsible for Corrective Action

Kelly Lammers, Project Manager, Office of Fiscal Services, Ohio Department of Job & Family Services, 30 E. Broad St., 38th Fl., Columbus, Ohio 43215, Phone: (614) 728-7895, e-mail: Kelly.Lammers@jfs.ohio.gov

16. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – DUE DATES

Finding Number	2007-JFS16-028
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 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services

NONCOMPLIANCE

7 CFR 272.8(c)(2) states the following regarding Food Stamps IEVS alerts:

> State agencies must initiate and pursue the actions on recipient households specified in paragraph (c)(1) of this section so that the actions are completed within 45 days of receipt of the information items. Actions may be completed later than 45 days from the receipt of information if:
>
> (i) The only reason that the actions cannot be completed is the nonreceipt of verification requested from collateral contacts; and
>
> (ii) The actions are completed as specified in § 273.12 of this chapter when verification from a collateral contact is received or in conjunction with the next case action when such verification is not received, whichever is earlier.

In addition, OAC 5101:4-7-09 (Q)(4) outlines the following guidelines for Food Stamps IEVS alerts:

> County agencies shall initiate and pursue the actions specified in this paragraph of this rule so that the actions are completed within ninety days from receipt of the information.

45 CFR 205.56(a)(1)(iv) states the following regarding TANF IEVS alerts:

> 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 within forty-five (45) days of its receipt, initiate a notice of case action or an entry in the case record that no case action is necessary, . . .

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

42 CFR 435.952(e) states the following regarding Medicaid IEVS alerts:

> The number of determinations delayed beyond 45 days from receipt of an item of information (as permitted by paragraph (d) of this section) must not exceed twenty percent of the number of items of information for which verification was requested.

In accordance with these sections, the Department implemented the Income and Eligibility Verification System (IEVS) and established their own targeting system for processing IEVS matches. The IEVS compares income, as reported by the recipients, to information maintained by outside sources. Information that does not appear to agree is communicated in the form of a CRIS-E alert, which is forwarded to the appropriate county for investigation.

During the FY 2007 audit, seven counties were selected for testing for the timely completion of high priority IEVS alerts in accordance with the 90 day standard for Food Stamps IEVS alerts and the 45 day standard for TANF and Medicaid IEVS alerts. Cuyahoga, Franklin, Hamilton, Lucas, Montgomery, Stark, and Summit counties represented approximately 51% of the nearly 1.9 million annual IEVS high priority alerts issued in state fiscal year 2007.

From a sample of 60 IEVS high priority alerts tested, 12 (20%) alerts were not resolved by the mandated timeframe and there was no documentation to indicate a third party verification was pending. Unresolved alerts were found in each of the counties tested.

Of the 12 delinquent high priority alerts:

- Five were resolved 1 - 30 days beyond the due date.
- Three were resolved 31 - 90 days beyond the due date.
- Two were resolved 91 - 120 days beyond the due date.
- Two were resolved more than 120 days beyond the due date.

In addition, an analysis of an additional sample of 60 high priority alerts (30 for Food Stamps and 30 for Medicaid/SCHIP/TANF) was performed to determine whether resolution due dates generated by the automated CRIS-E system were accurate and in accordance with federal and state rules and regulations, the State Plan, and any IEVS waivers granted for the period covered. Of the sample of 60, one Food Stamp high priority alert due date was erroneously set 4,155 days before the match date and one Medicaid/SCHIP/TANF high priority alert due date was set 8 days later than the federally-mandated due date of 45 days.

Not completing the IEVS alerts within the established timelines increases the risk that benefits given to ineligible recipients for inappropriate amounts will not be identified timely. This condition could adversely affect the Department's ability to comply with Special Tests and Provisions required by the federal programs. Failure to comply with the requirements related to IEVS could also result in federal sanctions or penalties.

ODJFS and CDJFS IEVS management indicated these delinquencies were caused by:

- Lack of training developed specifically for warranty supervisors on IEVS.
- Lack of detailed reports that included not just unresolved IEVS alerts, but resolved as well.
- Lack of cooperation and timely responses from employers.
- Programming errors that provided erroneous due dates for the two alert exceptions.
- Case load sizes at the counties have increased while staffing levels have declined.

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

We recommend the Department work with the counties to implement control policies and procedures to reasonably ensure matches are completed by the due dates specified in state and federal regulations. 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. Additionally, the Department should correct the program errors that resulted in the erroneous due dates for the high priority alert exceptions.

Official's Response and Corrective Action Plan

Currently, the ODJFS Bureau of Program Integrity, Fraud Control Section, conducts reviews of each county agency's IEVS processing activities. As a corrective action, we will

a. *include in our periodic county activity reviews a component to determine whether formal coordinator/supervisory reviews are occurring at the county level, and whether there is documentation of these coordinator/supervisory reviews; if not, and if the applicable county is not in compliance with the timely completion requirement, we will require their corrective action;*

b. *assist applicable counties in their development and implementation of the supervisory review process; and*

c. *monitor to assure that corrective action is implemented.*

Anticipated Completion Date for Corrective Action

Revision of forms and procedures will be completed by May 1, 2008, to be used in any reviews conducted thereafter.

Contact Person Responsible for Corrective Action

Jane Wasman, Chief, Fraud Control Section, Bureau of Program Integrity, Office of Research, Assessment and Accountability, Ohio Department of Job & Family Services, PO Box 1618, Columbus, OH 43216-1618, Phone: (614) 728-7743, e-mail: jane.wasman@jfs.ohio.gov

17. IEVS/CRIS-E – ALERT RESOLUTION/INADEQUATE DOCUMENTATION

Finding Number	2007-JFS17-029
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – State Children's Insurance Program 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services

<u>NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY</u>

7 CFR 272.8(e) states:

> Documentation. The State agency must document, as required by § 273.3(f)(6), information obtained through the IEVS both when an adverse action is and is not instituted.

17. IEVS/CRIS-E – ALERT RESOLUTION/INADEQUATE DOCUMENTATION (Continued)

7 CFR 273.2(f)(6) states:

> Documentation. Case files must be documented to support eligibility, ineligibility, and benefit level determinations. Documentation shall be in sufficient detail to permit a reviewer to determine the reasonableness and accuracy of the determination.

45 CFR 205.56(a)(1)(iv) states, in part:

> The State Agency will use the information obtained under Section 205.55 in conjunction with other information for individuals who are recipients when the information is received or for whom a decision could not be made prior to authorization of benefits, the State agency shall . . . initiate a notice of case action or entry in the case record that no case action is necessary . . .

Ohio Admin Code Section 5101:1-1-36(E)(3) states:

> Once the CDJFS completes the IEVS match process, the results will be recorded in CRIS-E history.

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.

26 USC 6103(a) states:

> Returns and return information shall be confidential, and except as authorized by this title -
>
> > . . .
> >
> > (2) no officer or employee of any State, any local law enforcement agency receiving information under subsection (i)(7)(A), 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…

Documentation retained in the CRIS-E system includes running record comments, resolution codes, and other supporting screens such as budget and employment history screens used in the determination of benefits. Through the resolution of IEVS alerts, budget and employment information may be updated, resulting in the recipient's eligibility determination being re-performed. An unauthorized adjustment of eligibility for all program benefits could occur.

The following errors were noted in the IEVS documentation testing for the seven selected counties: Cuyahoga, Franklin, Hamilton, Lucas, Montgomery, Stark, and Summit:

- 60 matches were tested to determine whether alerts that impacted multiple programs were updated for each program. Of the 60 alerts, 51 impacted multiple programs and 5 of the 51 applicable matches (9.8%) were not resolved accurately for all programs.

- 7 of the 60 matches (or 12%) were not completed properly and were not documented within the CRIS-E system to provide sufficient evidence for the adequate resolution of the alert.

- 11 of the 60 matches (or 18%) did not have proper result codes.

17. IEVS/CRIS-E – ALERT RESOLUTION/INADEQUATE DOCUMENTATION (Continued)

Additionally, for a sample of 60 alerts received from the IRS, the following errors were noted:

- 14 of the 60 federal return information matches tested (20%) reflected federal return information in CRIS-E's running record comments screens (CLRC), even though federal requirements prohibited all extraneous disclosure of federal return information.

Without adequate documentation, a reviewer cannot determine if an IEVS alert has been resolved in accordance with standards, which may lead to benefits being issued to ineligible recipients or benefits being paid in inappropriate amounts. This could hinder the Department's compliance with federal compliance requirements such as eligibility and special tests and provisions. Additionally, disclosure of federal return information could ultimately result in litigation, including fines and/or penalties.

ODJFS and CDJFS IEVS management indicated the noncompliance is the result of the following:

- Lack of training developed specifically for warranty supervisors on IEVS.
- Lack of detailed reports that included not just unresolved IEVS alerts, but resolved as well.
- Lack of cooperation and timely responses from employers.
- Case load sizes at the counties have increased while staffing levels have decreased.

The Department should enforce policies and procedures detailing specific requirements regarding how county caseworkers should process, resolve, and document IEVS alerts to ensure they are resolved accurately and are documented in accordance with federal and state requirements. In addition, the Department should work with the counties to develop and implement a thorough and consistent supervisory review process for the resolution and documentation of IEVS alerts. This may help ensure supporting documentation is being maintained in accordance with the policies and procedures and applicable requirements, and provide evidence the alert has been processed, resolved, and documented.

Official's Response and Corrective Action Plan

Currently, the ODJFS Bureau of Program Integrity, Fraud Control Section, conducts reviews of each county agency's IEVS processing activities. As a corrective action, we will

a. include in our periodic county activity reviews a component to determine whether formal coordinator/supervisory reviews are occurring at the county level, and whether there is documentation of these coordinator/supervisory r eviews; if not, and if the applicable county is not in compliance with the documentation requirement, we will require their corrective action;

b. assist applicable counties in their development and implementation of the supervisory review process; and

c. monitor to assure that corrective action is implemented.

Anticipated Completion Date for Corrective Action

Revision of forms and procedures will be completed by May 1, 2008, to be used in any reviews conducted thereafter.

Contact Person Responsible for Corrective Action

Jane Wasman, Chief, Fraud Control Section, Bureau of Program Integrity, Office of Research, Assessment and Accountability, Ohio Department of Job & Family Services, PO Box 1618, Columbus, OH 43216-1618, Phone: (614) 728-7743, e-mail: jane.wasman@jfs.ohio.gov

18. MEDICAID/SCHIP – PROVIDER ELIGIBILITY

Finding Number	2007-JFS18-030
CFDA Number and Title	93.767 – State Children's Insurance Program 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

42 CFR 431.108 states, in part:

(d) *Accredited provider requests participation in the Medicaid program*—

(1) *General rule*. If a provider is currently accredited by a national accrediting organization whose program had CMS approval at the time of accreditation survey and accreditation decision, and on the basis of accreditation, CMS has deemed the provider to meet Federal requirements, the effective date depends on whether the provider is subject to requirements in addition to those included in the accrediting organization's approved program.

(i) *Provider subject to additional requirements*. For a provider that is subject to additional requirements, Federal or State, or both, the effective date is the date on which the provider meets all requirements, including the additional requirements.

(ii) *Provider not subject to additional requirements*. For a provider that is not subject to additional requirements, the effective date is the date of the provider's initial request for participation if on that date the provider met all Federal requirements.

(2) *Special rule: Retroactive effective date*. If the provider meets the requirements of paragraphs (d)(1) and (d)(1)(i) or (d)(1)(ii) of this section, the effective date may be retroactive for up to one year, to encompass dates on which the provider furnished, to a Medicaid recipient, covered services for which it has not been paid.

Regarding exclusions of individuals and entities from participation in State Health Care Programs, 42 USCS 1320a-7 of the Social Security Act states, in part:

d) Notice to State Agencies and Exclusion Under State Health Care Programs.—

(1) Subject to paragraph (3), the Secretary shall exercise the authority under this section and section 1128A in a manner that results in an individual's or entity's exclusion from all the programs under title XVIII and all the State health care programs in which the individual or entity may otherwise participate.

(2) The Secretary shall promptly notify each appropriate State agency administering or supervising the administration of each State health care program (and, in the case of an exclusion effected pursuant to subsection (a) and to which section 304(a)(5) of the Controlled Substances Act may apply, the Attorney General)—

(A) of the fact and circumstances of each exclusion effected against an individual or entity under this section or section 1128A, and

(B) of the period (described in paragraph (3)) for which the State agency is directed to exclude the individual or entity from participation in the State health care program.

To carry out this rule, the Federal government maintains an exclusions database on the Health and Human Services (HHS) Office of the Inspector General website. In order to ensure that federally excluded providers are not paid for Medicaid services, the state agency administering the Medicaid program must search for the potential Medicaid provider in this database prior to approving that provider.

18. MEDICAID/SCHIP – PROVIDER ELIGIBILITY (Continued)

The Provider Enrollment Unit within the Provider Network Management Section is responsible for enrolling providers in the Medicaid program and enrolled approximately 8,000 providers during our audit period. The Provider Enrollment Unit maintains a Provider Enrollment Manual, which is based upon the appropriate laws and regulations pertaining to provider enrollment. It lists all documentation required for each type of provider, as well as instructions for keying provider information in MMIS. Required documentation for enrollment and keying instructions for MMIS varies for each type of provider.

The Provider Enrollment Unit staff must enter an effective date (beginning date) in MMIS for each provider agreement they approve. This effective date is the first date of service that MMIS will allow payments to be made; any services provided that have a service date prior to the effective date entered in MMIS will not be paid by the Department. In all situations, the effective date of the provider agreement is no later than the date all required documentation has been submitted by the provider. This is true regardless of the date that the Provider Enrollment Unit verifies that all documentation has been appropriately submitted. In addition, the Provider Enrollment Manual follows 42 CFR 431.08 for most provider types, allowing a provider to be enrolled with an effective date up to one year prior to signing the provider agreement.

Of the 40 provider applications tested, one could not be located; therefore, testing could not be performed for this provider. Of the remaining 39 provider applications tested:

- Five (12.82%) provider files created within MMIS were not accurate and complete, as follows:

  - In one instance, the incorrect provider type was entered into MMIS.
  - In one instance, the provider's social security number was incorrectly entered into MMIS.
  - In three instances, an incorrect beginning date was entered in MMIS.

- Eight (20.51%) providers were not verified by the provider enrollment unit as not a federally excluded provider. However, we were able to verify that none of these providers were considered federally excluded when we researched them on the HHS Office of the Inspector General database.

Based on our testing, it did not appear any of these providers received inappropriate payments. However, since the Department places considerable reliance on the information entered in the MMIS system, incomplete or inaccurate data entered into MMIS could result in provider claims being paid or rejected incorrectly. In addition, if the Provider Enrollment Unit does not verify whether each provider is a federally excluded provider, federally excluded providers may be determined eligible for Medicaid and inappropriately paid with Medicaid funds.

The Provider Enrollment Supervisor indicated the exceptions noted could be due simply to human error since the Provider Enrollment Unit must process thousands of applications each year with only five staff.

We recommend the Department implement and/or strengthen their policies and procedures related to the verification and review of provider enrollment applications. We recommend that an evaluation of a sample of provider applications be reviewed on a regular basis to help ensure the information is being accurately entered into MMIS, including the effective (beginning) date. We also recommend the Provider Enrollment Unit provide training and instruction on the provider enrollment process. The Department should emphasize to all appropriate staff the requirements for entering provider information in MMIS. Finally, we recommend the Provider Enrollment Unit verify that all potential providers are not on the list of federally excluded providers, and this verification be consistently performed for every Medicaid provider enrolled. Evidence of such reviews should be maintained to provide management with assurance the controls are operating consistently and effectively.

18. MEDICAID/SCHIP – PROVIDER ELIGIBILITY (Continued)

Official's Response and Corrective Action Plan

1. *In one other case, an out of state provider's effective date was back dated to the date of service rather than one year prior to the application date, limiting the dates that claims would be paid to the actual possible dates of service. This was determined by the supervisor to be more secure because the provider submitted a copy of the claim form showing the actual date of service prior to issuance of a provider number.*
2. *Staff were notified of this finding and additional instruction was given to staff noting the importance of including this printout with every application.*
3. *Locating several files in an all paper filing system of this size is sometimes difficult within a certain time frame. Staff have been instructed to maintain a more efficient filing system in the future to prevent this from occurring in the future.*
4. *The keying errors have been brought to the attention of staff to emphasize the importance of accurate information necessary in the provider files. Closer review of applications is needed to prevent this from occurring in the future.*

Anticipated Completion Date for Corrective Action

Staff have been addressed to correct the keying and filing errors. These issues will continue to be addressed in staff meetings and in staff work expectations.

Contact Person Responsible for Corrective Action

Peggy Smith, Chief, Provider Network Management, Ohio Department of Job & Family Services, 50 W. Town street, 4th floor, Columbus, Oh, 43215, Phone: (614) 752-3745, e-mail: Smithp@odjfs.state.oh.us

19. ALL APPLICATIONS – LACK OF INTERNAL TESTING OF AUTOMATED CONTROLS

Finding Number	2007-JFS19-031
CFDA Number and Title	All Programs Administered by the Department
Federal Agency	Department of Agriculture Department of Health and Human Services Department of Labor

<u>SIGNIFICANT DEFICIENCY – 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 that must be reported to grantor federal agencies. It is management's responsibility to establish and implement internal control procedures to reasonably ensure program objectives and requirements are met and information (both financial and non-financial) is accurately and completely processed and maintained. Appropriate monitoring is performed to provide assurance the established manual and automated controls are operating effectively.

Additionally, with regard to programs administered on behalf of the U.S. Department of Health and Human Services, 45 CFR 95.621 (f)(3) requires states to review the ADP system security of these systems on a biennial basis. At a minimum, the reviews are to include the evaluation of physical and data security, operating procedures, and personnel practices.

19. ALL APPLICATIONS – LACK OF INTERNAL TESTING OF AUTOMATED CONTROLS (Continued)

The Department places immeasurable reliance on a number of complex information systems (CRIS-E, FACSIS, MMIS, SETS, CORe, SCOTI, WRS, and UC) to record and process eligibility and financial information for all their major federal programs. However, during the audit period, the Department did not have any internal, independent individuals assigned to evaluate the ADP environment and provide assurance to management that the programs' objectives and requirements of 45 CFR 95.621 were achieved. Instead, management relied heavily on the Department's Management Information Systems (MIS) personnel who were directly responsible for the ADP environment and external auditors to review, monitor, and troubleshoot problems as they arose. These MIS individuals may not have the necessary knowledge of program requirements, and may lack the necessary objectivity and independence because they are responsible for programming, operating, and/or securing these critical systems. In addition, the external auditors are oversight-oriented and report on audit objectives defined by various branches and levels of government in the interest of assuring effective legislative and public oversight of government activities, instead of being management-oriented with consideration of the entire ADP environment. Finally, auditing standards preclude us from considering our audit procedures as part of the Department's internal controls.

Without sufficient, experienced internal personnel possessing the appropriate technical skills to independently analyze, evaluate, and test their complex information systems, ODJFS 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.

We recommend ODJFS management implement a process for conducting internal reviews of significant computer systems (CRIS-E, FACSIS, MMIS, SETS, CORe, SCOTI, WRS, and UC) as required by federal and state guidelines. The reviews should be conducted by knowledgeable personnel independent of the MIS function and be designed to provide management with reasonable assurance these large, critical systems are operating effectively and in accordance with program guidelines. We recommend these reviews or audits be conducted by personnel with the necessary program and information systems audit and control expertise. All test procedures, working papers, and supporting documentation related to the analysis and testing should be maintained and the results and recommendations should be communicated, in writing, to the Director and/or other appropriate upper management. ODJFS should evaluate the results and ensure timely corrective action is taken to address risk areas and/or weaknesses identified.

Official's Response and Corrective Action Plan

MIS previously responded that we can not afford the expense of creating a separate/independent office to do risk analysis on development activities. All development bureaus adhere to an SDLC protocol. Additionally, the Office of Management Information Systems capitalizes on the use of IV&Vs as well as audit efforts such as the SSA to validate and verify development/production applications.

Anticipated Completion Date for Corrective Action

We acknowledge that the efforts to address these federal requirements is an ongoing challenge and has been identified as a priority as part of the implantation of HB 166.

Contact Person Responsible for Corrective Action

Larry Prohs, Project Manager 3, Ohio Department of Job & Family Services, 4200 East Fifth Avenue – Columbus, OH 43219, Phone: (614) 387-8174, e-mail: larry.prohs@jfs.ohio.gov

20. INFORMATION TECHNOLOGY – MANUAL OVERRIDES OF CRIS-E

Finding Number	2007-JFS20-032
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 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services

<u>SIGNIFICANT DEFICIENCY – 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.

ODJFS uses the Client Registry Information System-Enhanced (CRIS-E) to determine eligibility and benefit amounts for public assistance programs totaling approximately $1.3 billion for Food Stamps, $524 million for Temporary Assistance for Needy Families (TANF), $251 million for State Children's Insurance Program (SCHIP), and $12 billion for Medicaid in fiscal year 2007. To facilitate changes to the programmed criteria in CRIS-E, the Department has implemented a process where the users (caseworkers) notify the appropriate Department personnel of the need for a program modification through Customer Service Requests (CSRs). Until these changes are made, the caseworkers must, in most cases, manually override the CRIS-E flags.

At the end of FY 2007, there were 127 open CSRs requested through the CRIS-E Help Desk to help alleviate manual override situations encountered by county staff statewide. In addition, CRIS-E maintains monthly reports of manual override processing and statistics. In FY 2007, there was an average of 15,889 manual overrides completed per month (756 per business day), for a total of approximately 190,668 total manual overrides completed in FY 2007.

By not completing CRIS-E program modifications in a timely manner, the need for frequent manual overrides is increased. This involves a great deal of judgment on the part of caseworkers and their supervisors. Under these circumstances, the risk of errors occurring in benefit eligibility determinations is greatly increased, and caseworker efficiency is decreased because of the cumbersome process. Eligibility errors have, in the past, resulted in federal fiscal sanctions against the Department.

ODJFS' management indicated that they continue to prioritize CSR work for maintenance and development. Factors considered in the Office's prioritization process include customer impact, program risk, federal/state mandate, system impact, and financial impact. The presence of manual overrides influences the customer impact, program risk, and system impact considerations. Their plans are to continue to identify CSRs resulting in manual overrides and prioritize each CSR as described.

We recommend ODJFS continue to analyze their process of addressing manual overrides. We also recommend the Department prioritize CSRs related to manual overrides and devote the necessary resources to minimize manual override situations in CRIS-E.

Official's Response and Corrective Action Plan

The FIAT Process was a planned design feature of the CRIS-E system which exists to ensure that correct benefits can be created. It makes good business sense to address many of these FIATS, but some FIATS will always exist. The program area has focused emphasis on functionality prioritization of requests rather than fiats, particularly those that don't have fiats.

20. INFORMATION TECHNOLOGY – MANUAL OVERRIDES OF CRIS-E (Continued)

Program approach has been that fiats are frustrating to use and counter-productive to the system, but missing or erroneous processing with larger impact (no benefits, wrong benefits, threat of legal action, large numbers affected, etc) are higher in the prioritization.

Anticipated Completion Date for Corrective Action

A number of Customer Service Requests have been initiated to correct some of the Manual Override conditions. Other items have been given higher priority and a completion date for this item has not been established.

Contact Person Responsible for Corrective Action

Michelle Burk, Bureau Chief, Bureau of Support to Families Services, Ohio Department of Job & Family Services, 4200 East Fifth Ave., Columbus, Ohio 43219, Phone: (614) 387-8635, e-mail: michelle.burk@jfs.ohio.gov

21. FOOD STAMPS – SAS 70

Finding Number	2007-JFS21-033
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster
Federal Agency	Department of Agriculture

SIGNIFICANT DEFICIENCY – MATERIAL WEAKNESS

To effectively run agency operations, management requires reliable information. In some situations, management may directly monitor the performance of specific control procedures to provide that information. In other situations, when the operating activity is not directly administered by the entity, such as when utilizing a service organization, it is critical that appropriate monitoring controls are designed and implemented to reasonably ensure the service organization has adequate controls to achieve management goals and objectives, as well as complying with applicable laws and regulations.

The Code of Federal Regulations contains requirements for the Electronic Benefits Transfer (EBT) issuance system for the Food Stamps program. This includes requirements relating to Personal Identification Number (PIN) selection services provided to Food Stamps recipients using the EBT system. 7 CFR 274.12 describes the EBT system approval standards, which includes several requirements for state agencies over the PIN selection services used for the EBT program. This includes functional requirements over authorizing household benefits, household participation requirements, and encryption and software requirements relating to PIN security.

In addition, 7 CFR 274.12 (h) states, in part:

(3) *System security*. As an addition to or component of the Security Program required of Automated Data Processing systems prescribed under § 277.18(p) of this chapter, the State agency shall ensure that the following EBT security requirements are established:

(i) Storage and control measures to control blank, unissued EBT cards and PINs, and unused or spare POS devices.

21. FOOD STAMPS – SAS 70 (Continued)

ODJFS issued more than $1.2 billion in Food Stamps benefits to recipients through EBT cards in fiscal year 2007. Recipients receive cards in the mail which they must then activate by selecting a PIN. The cards are automatically credited each month with the recipients' Food Stamps benefits, and the recipients are then able to use their benefits to purchase food at authorized retailers by swiping their card and entering their PIN. The Department maintains a contract with a service provider to administer the EBT system. The contractor is responsible for the data processing and settlement activities of the EBT program. During the audit period, the Department performed several monitoring procedures over these EBT activities. This included monitoring for the reconciliation and settlement activities performed by the contractor, as well as indirect monitoring of the performance of the contractor through review of the SAS 70 reports obtained annually. However, the Department did not monitor the performance of two subcontractors used by the primary contractor for the EBT program.

The SAS 70 report for the primary contractor for the year ending June 30, 2007, states the contractor used two different subcontractors for critical functions relating to the EBT program. The first of these subcontractors produces the cards for Ohio's Food Stamps EBT program. The second of these subcontractors performs PIN selection services for Food Stamps recipients. The SAS 70 report over the primary contractor clearly states the report does not include controls and related control objectives for card production and PIN selection. ODJFS staff responsible for reviewing the SAS 70 report was not aware the subcontractors were not covered in the primary contractor's SAS 70 report for our audit period. Once this fact was brought to their attention, ODJFS requested this information from the primary contractor. The primary contractor provided a second SAS 70 report over the card production facility subcontractor for the period July 1, 2006, through December 31, 2006. The auditor also determined, through contact with the subcontractor, that the controls identified in their SAS 70 report had not substantially changed during the period January 1, 2007, through June 30, 2007. Therefore, the auditor was able to use the SAS 70 report to gain an understanding of the internal controls over card production and to obtain evidence about the operating effectiveness of controls. However, the Department did not perform adequate monitoring procedures over this subcontractor during the audit period, including obtaining and reviewing the SAS 70 report for the subcontractor.

The second subcontractor responsible for PIN selection services did not have a SAS 70 performed for any part of our audit period nor did the Department or the primary contractor perform any other monitoring procedures for this subcontractor. We were, therefore, unable to gain an understanding of internal controls over the PIN selection process or to obtain evidence about the operating effectiveness of controls. We were also unable to determine whether the subcontractor was in compliance with laws and regulations pertaining to PIN selection for the Food Stamps EBT program during our audit period.

Without performing adequate monitoring procedures over all the service organizations, the Department is unable to evaluate the services provided and reasonably ensure the service organizations are complying with applicable laws and regulations and meeting management's goals and objectives. If controls with the service organizations, including any subcontractors, are not in place and operating effectively, or they are not in compliance with laws and regulations, the result could be unauthorized use of Food Stamps benefits; Food Stamps recipients not being able to access their benefits; timing delays in the delivery of benefits and/or; a potential increase in disputes with retailers.

The ODJFS EBT Project Manager indicated they were not aware the subcontractors were not covered under the primary contractor's SAS 70 during our audit period. She stated that previous SAS 70 reports over the contractor did cover these subcontractors. She also indicated the Department keeps in contact with contractor on a regular basis, and they had not given the Department any indication the subcontractors were no longer covered in the primary SAS 70.

21. FOOD STAMPS – SAS 70 (Continued)

We recommend the Department strengthen current internal control procedures over EBT contract monitoring. Monitoring of the contract should include obtaining and evaluating a SAS 70 audit report from both the primary service organization and its subcontractors to help ensure the compliance with applicable laws and regulations. The Department can also use these SAS 70 reports to gain an understanding of the internal controls over EBT, card production, and PIN selection and to obtain evidence about the operating effectiveness of controls. Monitoring procedures performed should be documented to provide assurance they are performed on a consistent basis. Additionally, the procedures should be updated on a regular basis to address any necessary changes in the contract requirements or changes in the SAS 70 procedures performed over the contractors.

Official's Response and Corrective Action Plan

The EBT Section contacted and confirmed the new SAS 70 audit period dates for ACS and its subcontractors, CSI and Personix. This was clarified and completed prior to the issuance of the audit findings. The primary service organization (ACS) and the organization responsible for PIN selection services subcontractor (CSI) will complete their audits based on a state fiscal year review period. The card production facility subcontractor (Personix) will complete its audit based on a calendar year review period.

Monitoring procedures established document the timeframes and due dates for the SAS 70 Report. The audit must be completed 90 days after the audit period and provided to the State EBT section within 30 days after the completion date. The Personix audit is due by April 30th and the ACS and CSI audits are due by October 31st on an annual basis.

Upon receipt of the SAS 70 audits, the EBT Project Manager and EBT Operations Manager will review the audit to ensure the controls were examined and are in compliance with Federal regulations and Contract requirements.

Monitoring procedures will be documented by a checklist and will include the review requirements for the independent service auditors' report; description of controls; control objectives, related controls, and tests of operating effectiveness; and the exceptions and management responses for each SAS 70 Report.

A meeting will be conducted with the primary service organization (ACS) after submission of each SAS 70 Report to review the audit findings and exception items, if any. Every exception item will be discussed with ACS and a plan for addressing them required.

The EBT Project Manager will request a written quarterly update from ACS for each exception item identified in either the primary service organization or its subcontractors' SAS 70 Report. The quarterly update will include, at a minimum, action items accomplished, action items planned, target dates for resolution, and any issues that may be occurring.

The EBT Project Manger and EBT Operations Manager will review the monitoring procedures, any updates regarding the SAS 70 or monitoring regulations, and prior year findings to make any modifications to the oversight processes by December 31st of each year.

Anticipated Completion Date for Corrective Action

This corrective action plan has been implemented in the department as of May 2, 2008. The annual procedures for this plan through the existence of this contract include the following:

Annual timeframes for submission of the SAS 70 Report:
- *October 31 – ACS & CSI*
- *April 30 – Personix*

21. FOOD STAMPS – SAS 70 (Continued)

- *The July – December 2006 Personix SAS 70 Report (initial change to audit year) was received December 17, 2007 and a letter certifying the controls for 2007 were not substantively changed was received on February 1, 2008.*
- *The January – December 2007 Personix SAS 70 Report was received April 29, 2008.*

Annual timeframes for SAS 70 Report review:

- *May 31 – complete review of Personix SAS 70 Report and meet with ACS to discuss audit findings and exception items, if applicable.*
- *November 30 – complete review of ACS and CSI SAS 70 Reports and meet with ACS to discuss audit findings and exception items, if applicable.*

Quarterly timeframes for exceptions, if found in the SAS 70 report:

- *Personix – after receipt of the SAS 70 Report due by April 30, any exceptions found will require a quarterly status report on remedies to the exceptions from ACS due by July 31, October 31, and January 31 of each year.*
- *ACS & CSI – after receipt of the SAS 70 Report due by October 31, any exceptions found will require a quarterly status report on remedies to the exceptions from ACS due by January 31, April 30, and July 31 of each year.*

By December 31 of each year, the EBT section will review the monitoring procedures, any updates regarding the SAS 70 or monitoring regulations, and prior year findings to make any modifications to the oversight processes.

Contact Person Responsible for Corrective Action

Christina Thomas, EBT Project Manager, Ohio Department of Job & Family Services, 50 W. Town St, Suite 400, 6th Floor; PO Box 182709 Columbus, OH 43218-2709; Phone: (614) 644-1319, e-mail: Christina.Thomas@jfs.ohio.gov

22. MMIS – RECERTIFICATION OF PROVIDERS

Finding Number	2007-JFS22-034
CFDA Number and Title	93.767 – State Children's Insurance Program 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

SIGNIFICANT DEFICIENCY

The Ohio Administrative Code 5101:3-1-17 states:

> An "eligible provider" is any individual, group, corporation, or institution licensed or approved by a standard-setting or regulatory agency, and approved for participation in the Medicaid program by the Ohio Department of Job and Family Services ….

The Medicaid Management Information System (MMIS) provides reimbursement to medical providers and managed care entities for services rendered to eligible recipients. The medical providers must complete an application process and possess valid licensure and accreditations before being eligible to receive reimbursement through MMIS. Once the provider is approved, they are marked as active in MMIS and allowed to submit claims for reimbursement until the provider is marked inactive (for example through voluntary withdrawal from MMIS, license becomes invalid, or death.). The provider's recertification date, the date when the provider's license will expire if not renewed, is also entered into the MMIS application.

22. MMIS – RECERTIFICATION OF PROVIDERS (Continued)

For in-state physicians, osteopaths, and podiatrists, ODJFS has a process in place to receive information from the Ohio medical boards regarding license renewals and disciplinary actions. Recertification data for these providers is updated in MMIS on a monthly basis.

For all other licensed providers, such as dentists, nurses, and chiropractors, ODJFS relies on the providers for notification of any change in status. As of October 2007, 33,043 (32%) of the 101,199 active medical providers on the MMIS provider master file had an expired recertification date. Ohio Health Plan management does not research or resolve any providers with expired recertification dates.

Without periodic review to ensure providers have met licensure and/or accreditation requirements, ineligible providers marked as active may receive reimbursement from the Medicaid program. Inappropriate reimbursement of federal claims could subject the Department to possible federal sanctions.

According to Ohio Health Plan management, the Department has decided that instead of earmarking license expiration dates, they will implement a redesign of the provider master file implementing advanced functionality for denying claims of providers whose licenses are not current in the provider master file. As of August 8, 2006, ODJFS began denying claims of certain unlicensed durable medical equipment providers. The Department is in the process of denying claims of other unlicensed providers.

OHP's provider compliance manager continues to attend the Board of Nursing public meetings and to access the Board's minutes in order to terminate providers when and if appropriate. OHP continues to have a vision of working with all of the provider boards as their human capital resources permit.

We recommend that ODJFS work with the medical licensing boards to verify all Medicaid providers possess a valid license or accreditation. The Department should establish a process to review potentially ineligible providers and provide timely inactivation in MMIS when ineligibility is established. The process should ensure their active status is correct. We also recommend the Department implement detective controls to regularly report and review all providers with an expired recertification date.

Official's Response and Corrective Action Plan

As of January 2008, ODJFS, BPO has limited amount of staff to research sanctions and terminate sanctioned providers. If notification is received from licensing boards of a lapsed license, the provider is terminated. The PMF is updated with this information. The PMF is also updated monthly with licensing information from the Medical Transportation Board

In addition, BPO requested and now has access to Control D reports listing recertification information on licensed providers. The new Control D reports will help insure more accurate licensing information. We will actively pursue the auto termination of a provider agreement when a provider's license lapses in the PMF by working with the program policy areas to develop OAC rules informing our provider community of our intent to terminate based on lapsed license.

Anticipated Completion Date for Corrective Action

Testing of the new Control D reports will be finalized by Oct 1, 2008.

Contact Person Responsible for Corrective Action

Peggy Smith, Chief, Provider Network Management, Ohio Department of Job & Family Services, 50 W. Town St., 4th floor Columbus, Oh 43215, Phone: (614) 752-3745, e-mail: Smithp@odjfs.state.oh.us

23. CRIS-E AND MMIS ELIGIBILITY SPANS NOT RECONCILED

Finding Number	2007-JFS23-035
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 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services

<u>SIGNIFICANT DEFICIENCY</u>

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

ODJFS uses the CRIS-E application to determine whether individuals are eligible to receive Medicaid assistance. ODJFS then uses the MMIS application to reimburse claims that are submitted. In the processing of Medicaid claims, MMIS will verify that the recipient of the claim was marked as eligible for Medicaid in MMIS on the dates of service before paying the claim. If the claimant is marked as eligible in MMIS, even though the individual is not eligible in CRIS-E, the claim will be paid.

A reconciliation is necessary to identify cases where eligibility spans differed between MMIS and CRIS-E. Although a MMIS program was identified that, when run, searched the MMIS eligibility file for any recipients with an open eligibility span that were not marked as eligible in CRIS-E, and then automatically closed the eligibility in MMIS; there was no evidence available to substantiate that the program was run during FY 2007. This program was subsequently added to production to run on a monthly basis beginning in December 2007.

If a periodic reconciliation of changes made to MMIS and CRIS-E is not performed, changes could be made in one system that will not be reflected in the other. A recipient's eligibility status could be terminated in CRIS-E, but the recipient could still receive benefits if the status is not correctly updated in MMIS on a timely basis. If a provider's eligibility span is incorrect, non-eligible providers or provider groups could receive reimbursement from Medicaid. 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.

According to MIS and OHP management, the CRIS-E/MMIS Reconciliation process was installed in Production in December 2007. Any runs prior to that date, were executed on an adhoc basis and the statistics/results were not saved.

We recommend the Department takes steps to help ensure that a reconciliation of MMIS and CRIS-E eligibility spans be performed on a regular basis to help ensure that only eligible recipients and providers receive reimbursement benefits.

Official's Response and Corrective Action Plan

1. *The MMIS process that validates the CRIS-E recipient eligibility requires approximately fifteen hours to execute and will be changed to execute quarterly.*

2. *The MMIS process that validates the CRIS-E recipient eligibility will be modified to reduce the execution time to less than five hours and will be scheduled to run monthly.*

23. CRIS-E AND MMIS ELIGIBILITY SPANS NOT RECONCILED (Continued)

3. *There exists a CSR, Customer Service Request OHP-CSR-440, to correct the daily interchange between CRIS-E and MMIS to ensure that the eligibility spans in MMIS are accurate and remain in sync with CRIS-E.*

Anticipated Completion Date for Corrective Action

1. *The MMIS/CRIS-E validation process was completed October 2007.*

2. *Modifications to the MMIS/CRIS-E validation process to reduce processing time to less than five hours and scheduling execution monthly will be completed by December 2007.*

3. *Eligibility Systems and Medical Systems will work with the OHP Project Management Office to raise the priority of work request, OHP-CSR-440. The OHP CSR-440 were completed October 2007.*

Contact Person Responsible for Corrective Action

Michelle Burk, Bureau Chief, Bureau of Support to Families Services, Ohio Department of Job & Family Services, 4200 East Fifth Ave., Columbus, Ohio 43219, Phone: (614) 387-8635, e-mail: michelle.burk@jfs.ohio.gov

24. MEDICAID/SCHIP – DRUG REBATE MONITORING

Finding Number	2007-JFS24-036
CFDA Number and Title	93.767 – State Children's Insurance Program 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

SIGNIFICANT DEFICIENCY

Section 1927 of the Social Security Act allows States to receive rebates for drug purchases the same as other payers receive. Drug manufacturers are required to provide a listing to the Center for Medicaid Services (CMS) of all covered outpatient drugs and, on a quarterly basis, are required to provide their average manufacturer's price and their best prices for each covered outpatient drug. Based on this data, CMS calculates a unit rebate amount for each drug, which it then provides to States. No later than 60 days after the end of the quarter, the State Medicaid agency must provide drug utilization data to manufacturers. For all rebates not paid in a timely manner, interest accrues on unpaid rebates until the date the manufacturer mails the check.

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, including those relating to transaction code sets. 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 programs' objectives. Furthermore, sound internal control procedures require management to monitor and oversee operations of contractors which are responsible for carrying out federal requirements to provide assurance procedures performed by the contractor are functioning as intended. It is management's responsibility to create and implement control policies and procedures to monitor their contractors' performance to ensure they are in compliance with federal regulations and with their contractual obligations.

24. MEDICAID/SCHIP – DRUG REBATE MONITORING (Continued)

During fiscal year 2007, ODJFS received drug rebates which totaled approximately $161 million. The Department contracted with a third party administrator to perform the processing and collection of these rebates. In addition, the contract requires the contractor to implement rebate collection on all drugs, including those utilizing "J-Codes", and to investigate all invoices not received within 38 days after mailing and ensure interest is collected appropriately. The Department received and reviewed a SAS 70 report for the contractor for the period January 1, 2006 through December 31, 2006; however, there was no documentation to support the ODJFS review. This SAS 70 report was not specific to the State of Ohio; however, the Department has included in their contract that a specific SAS 70 will be performed annually to cover issues unique to Ohio. As of the date of our audit, the specific SAS 70 report for June 30, 2007 was not complete. In addition, the Department has not addressed the key user control considerations listed in the SAS 70 report or implemented adequate monitoring controls to reasonably ensure all contract requirements are being met, including the processing of rebates for Healthcare Common Procedure Coding System (HCPCS)/J-Codes and the investigation of all invoices not received within 38 days after mailing and ensure interest is collected appropriately. The contract requires the contractor to invoice 100 percent of manufacturers for federal and supplemental rebates no later than 60 days after the end of the quarter. The contractor must resolve federal and supplemental invoicing disputes with manufacturers. Although the Pharmacist indicated he does obtain the invoice report from the contractor, reviews for reasonableness, and approves it before invoices are mailed, this communication is conducted via e-mail and all documentation of these exchanges is not consistently maintained. In addition, the Department does not verify all manufacturers required to be invoiced have been included on the invoice report.

Furthermore, the contract requires the contractor to collect all rebates on behalf of the State for the full benefit of the State. Although ODJFS does reconcile the revenue received to reports from the contractor indicating the amount of revenue posted, the Department does not compare the revenue invoiced to the revenue received to ensure completeness or otherwise review the outstanding receivables. We were able to obtain information from the contractor to support rebates were mailed timely for 40 selected manufacturers. We were also able to determine the contractor received payments from those manufacturers in the following quarter. However, we were not able to link the revenue received to the specific invoices selected to reasonably ensure payments were received within the required 38 days. In addition, although the Department does have access to many electronic reports from the contractor, they are not utilizing all the resources available to them.

Without adequate monitoring controls, management cannot be reasonably assured all of its objectives are being met and that the conditions of the contract are being adequately administered by the contractor. Additionally, the service organizations may not be complying with applicable laws and regulations, as well as not meeting management's goals and objectives. Department management indicated that they were not aware of the need for contract monitoring and documentation of the monitoring beyond obtaining a SAS 70 report, which they had done.

We recommend the Department strengthen current internal control procedures over drug rebate contract monitoring. Monitoring of the contract should include, but not be limited to:

- An evaluation of a sample of the rebates processed by the contractor each quarter to ensure the contractor has performed the necessary requirements.

- Obtaining and evaluating the specific SAS 70 audit report from the Service Organization to ensure compliance, as well as to gain an understanding of internal controls and their operational effectiveness.

- Considering the impact of exceptions noted in the SAS 70 reports and identifying any changes necessary in the contract and/or the Department's processes and procedures to compensate for these exceptions. In addition, the Department should require a corrective action plan for any weaknesses identified.

24. MEDICAID/SCHIP – DRUG REBATE MONITORING (Continued)

- Verifying the Department has adequate controls in place to address the relevant user control considerations identified in the SAS 70 reports.

- Comparing reports indicating the revenue received from manufacturers to manufacturers invoiced to ensure completeness and that manufacturers who are delinquent are appearing on appropriate error reports.

The monitoring procedures performed should be documented to provide assurance they are performed on a consistent basis. Additionally, the procedures should be updated on a regular basis to address any necessary changes in the contract requirements.

Official's Response and Corrective Action Plan

To mitigate weaknesses identified within previous audits, the ODJFS contracted with an outside accounting firm to conduct a targeted SAS 70 engagement related to the third party administrator which manages the drug rebate program. Although the targeted SAS 70 report was only recently released, it does provide positive assurances of the third party administrator's processing of claims in accordance with ODJFS prescribed procedures. In addition, the report asserts that quarterly CMS 64 submitted to ODJFS are accurately compiled and that billing and remittance procedures include assessment of interest for untimely payments. As a result, the targeted SAS 70 appears to address several, if not all, of the concerns raised by the AOS.

In consideration of the AOS comments, however, ODFJS will reassess their current procedural process to provide assurance that controls currently in place are operating effectively and that documentation of the control activities is appropriately maintained. In conjunction with this assessment, ODJFS will consider the coverage provided by the external auditor's targeted SAS 70 report and any inherent weaknesses.

Anticipated Completion Date for Corrective Action

Each quarter of SFY 08 fiscal year should be queried to prepare the state for a subsequent Single State Audit for that time period. A representative sample size will be determined and ACS will be required to provide all activity pertinent to each sample provided.

Contact Person Responsible for Corrective Action

Robert P. Reid RPh, Pharmacy Program Administrator, Ohio Department of Job & Family Services, 50 W. Town St, Suite 400, Columbus, Ohio 43215, Phone: (614) 466-6420, e-mail: Robert.Reid@jfs.ohio.gov

25. UNEMPLOYMENT INSURANCE BENEFITS PAID AFTER BENEFIT YEAR END

Finding Number	2007-JFS25-037
CFDA Number and Title	17.225 – Unemployment Insurance 17.245 – Trade Adjustment Assistance
Federal Agency	Department of Labor

SIGNIFICANT DEFICIENCY

In order to comply with single audit requirements, it is critical that state government agencies responsible for paying unemployment claims to recipients implement internal controls to ensure these payments do not exceed the mandated requirements. Ohio Revised Code (ORC) Chapter 4141 prescribes a number of factors that need to be met before an applicant is determined eligible for unemployment compensation benefits. Ohio Administrative Code (OAC) 4141-27-05 states:

> (A) When a benefit year has been established and a claim for benefits filed for a week of total or partial unemployment, such claim shall not be valid if filed later than the end of the third calendar week immediately following such week.
>
> (B) In exceptional cases, when it is shown to the satisfaction of the director that an individual has been deterred by circumstances beyond the individual's control from filing a claim as prescribed in this rule, the director may extend the time limitations to file.

Due to the requirement above, it was expected that benefit payments would be made to recipients within 30 days of their benefit year end (BYE). JFS provided us with a file downloaded from the Ohio Job Insurance (OJI) system of all unemployment benefit transactions paid during fiscal year 2007. We sorted the data to identify payments made 30 days or more after the BYE; this analysis resulted in 1,919 claims totaling $1,360,684. There was no documentation included with the claims that established the rationale for the late payments, nor could JFS personnel provide specific information about them. There was also no systematic way established by the Department to monitor unemployment payments made 30 days or more after the BYE.

In addition, during this process we became aware of a deficiency in the OJI system. When benefits have been paid and later denied via an appeals process that reversed the original decision, the OJI system "moved" or associated the payment with the most recently approved BYE for the particular claimant, instead of leaving the information associated with the BYE to which it was originally paid. For example, we reviewed documentation for a claim where the benefit payment was made on July 2, 2006. The claim was later denied and OJI "moved" the payment to BYE December 27, 2003, setting up an overpayment notice to collect the amount. However, due to the three-year limit on non-fraud claims, the OJI system wrote off the overpayment on February 5, 2006, which was about five months before the initial benefit payment was made. It is uncertain if any other potential collections have been unintentionally written off in this manner.

Without the implementation of internal controls that monitor payments to unemployment benefit recipients, management does not have assurance that appropriate benefit payments are being made within the legally established time frames. This could lead to JFS not complying with the activities allowed or unallowed compliance requirements, a condition which could result in federal funding being reduced or taken away, or sanctions imposed by the federal grantor agency. JFS management stated they are aware of this issue and have started looking into payments made after the claimant's BYE for SFY 2008 but have not yet investigated SFY 2007. They also stated there are valid reasons for why a

25. UNEMPLOYMENT INSURANCE BENEFITS PAID AFTER BENEFIT YEAR END (Continued)

warrant could be paid after the BYE, such as reversal of a decision via an appeals process and re-issuance of a payment never received by the claimant. They suggest a better query would be to compare the BYE to the week ending date instead of the warrant date. Furthermore, JFS management stated they are aware of the move issue and have requested a design change in the OJI system.

We recommend the Department establish internal controls to systematically review all benefit disbursements paid 30 days or more after the BYE and determine the appropriateness of the payments. The Department should document in OJI any valid reason why payments are made after the BYE. In addition, we recommend the Department investigate the cause of why the OJI system is allowing payments after the BYE and associating payments with BYEs other than the one for which payment was made, and then repair any intrinsic deficiency found.

Official's Response and Corrective Action Plan

(1) ODJFS has put the "payments more than 30 days past the BYE date" query into its daily processes for the payments that are occurring in State Fiscal Year 2008. As discussed in the auditor's report, all payments that have warrant dates more than 30 days past the BTE date have been reviewed as of August 2007. This review consisted of 550 individual payments and revealed that approximately 70% of the dollars paid was paid correctly. Following our policy, the remaining 30% have had overpayments created in the system and are in various stages of collection. This strategy has put ODJFS in a better position to detect and establish the overpayment within Ohio's legal statute of limitation which will minimize the adverse affect to the trust fund.

(2) ODJFS has the ability to override the move weeks issue by using manual overpayments. This will be the workaround used until a fix is done in the design of the benefit system. By reviewing the warrant list on a daily basis, ODJFS will issue overpayments for any improper payment despite the moving of weeks design flaw in the OJI system. This process will also allow ODJFS to identify quickly, any new issues created by unrelated fixes to the system and will minimize undetected improper payments. We are working with our programmers and scarce resources to establish a timeframe for a system correction that addresses the move weeks issue.

Finally, documentation regarding any action taken as a result of the reviews will be added to the OJI benefit system as recommended by the auditor.

Anticipated Completion Date for Corrective Action

A review of all payments referenced in this report will be completed by June 30, 2008. All accounts determined to be paid incorrectly will be issued an overpayment determination if allowable under Ohio's statute of limitations. By August 1, 2008 collection efforts on all accounts where Ohio can legally collect will have begun, including certification to the Revenue Section of the State Attorney General's office.

Contact Person Responsible for Corrective Action

Patrick Power, Bureau Chief, Bureau of Program Services, Ohio Department of Job & Family Services, 4020 E. Fifth Ave. Columbus, Ohio 43219, Phone: (614) 644-9000, e-mail: Patrick.power@jfs.ohio.gov

26. SOCIAL SERVICES BLOCK GRANT – OVERSIGHT OF COUNTY OPERATIONS

Finding Number	2007-JFS26-038
CFDA Number and Title	93.667 – Social Services Block Grant
Federal Agency	Department of Health and Human Services

SIGNIFICANT DEFICIENCY

Federal regulations require management to devise and implement an adequate internal control structure capable of providing reasonable assurance that their objectives are being achieved. The Ohio Department of Job and Family Services (ODJFS) currently operates the Social Services Block Grant (SSBG) Program using a state-supervised, county-administered approach. It is the Department's responsibility to oversee the activities of the 88 county agencies for overall compliance with federal requirements and program objectives.

During fiscal year 2007, ODJFS disbursed approximately $121.4 million in SSBG funds to the counties (approximately 89.5% of the total program). This includes approximately $66.3 million in funds transferred by ODJFS to SSBG from the Temporary Assistance for Needy Families (TANF) Program which has restrictions on its use. The Department has not designed appropriate oversight procedures to provide reasonable assurance the county agencies were in compliance with federal requirements related to the SSBG Program. The Department's Bureau of Audit (BOA) conducted several on-site reviews of the county agencies during the fiscal year. In the prior audit period, BOA developed and implemented a series of changes to their county audit procedures which included segregated testing of contract expenditures (e.g., TANF, SSBG), procedures to reasonably ensure counties were properly determining program eligibility, and procedures to evaluate the allowability and appropriateness of the benefits paid. However, BOA did not document the program requirements when determining eligibility for SSBG or provide sufficient audit detail to recalculate a recipient's eligibility determination within their working papers. In addition, there was no evidence to indicate BOA reviewed the SSBG charges paid from the TANF transfer funds.

Without performing adequate oversight procedures and/or properly documenting their reviews, 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 implemented properly or timely, resulting in noncompliance or fines and penalties which could adversely affect program funding. According to BOA Management, program eligibility requirements and/or determinations were not thoroughly documented since the staff performing the work are trained and knowledgeable in these specific areas.

We recommend ODJFS strengthen their oversight procedures of county activities and implement procedures to cover all programmatic and financial requirements of the program, including those related to the TANF transfers. Particular attention should be paid to the eligibility requirements included within the OMB Circular A-133 Compliance Supplement. These procedures may include, but are not limited to, periodic on-site reviews of county operations and federal program compliance by SSBG program staff members and/or other qualified ODJFS personnel. The procedures should be performed timely, thoroughly documented in which a reviewer could re-calculate eligibility, and reviewed by appropriate supervisory personnel.

26. SOCIAL SERVICES BLOCK GRANT – OVERSIGHT OF COUNTY OPERATIONS (Continued)

Official's Response and Corrective Action Plan

ODJFS is convening a work group to review county monitoring procedures and streamline the monitoring process. Our agency will attempt to incorporate procedures which will include the programmatic and financial program requirements of the SSBG program, including those related to the transfer of TANF funds. We will ensure the newly created procedures are well documented, undergo a supervisory review and are consistently performed.

Anticipated Completion Date for Corrective Action

The CAP will be performed once all work group activities are finalized and approved by ODJFS management.

Contact Person Responsible for Corrective Action

Dan Shook, Section Chief, Office for Children and Families, Ohio Department of Job & Family Services, 50 West Town Street, 6th Floor, Columbus, OH 43215, Phone: (614) 752-0619, e-mail: Dan.Shook@jfs.ohio.gov

27. INFORMATION TECHNOLOGY – MISSING/INCOMPLETE PROGRAM CHANGE FORMS

Finding Number	2007-JFS27-039
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 17.225 – Unemployment Insurance 17.245 – Trade Adjustment Assistance 93.558 – Temporary Assistance for Needy Families 93.563 – Child Support Enforcement 93.767 – State Children's Insurance Program 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services Department of Labor

SIGNIFICANT DEFICIENCY

The following is stated in the ODJFS Information Security Policy, section 27.1, "Change Control Procedures:"

> In order to minimize the corruption of information systems, there should be strict control over the implementation of changes. Formal change control procedures should reasonably ensure that security and control procedures are not compromised, that support programmers are given access only to those parts of the system necessary for them to perform their jobs, and that a formal interdisciplinary agreement and approval for any change are obtained. This process should include:

- Maintaining a record of agreed upon authorization levels including:
  - IT support team focal point for change requests;
  - user authority for submission of change requests;
  - user authority levels for acceptance of detailed proposals;
  - user authority for the acceptance of completed changes;

27. INFORMATION TECHNOLOGY – MISSING/INCOMPLETE PROGRAM CHANGE FORMS (Continued)

- Only accepting changes submitted by authorized users.
- Reviewing security controls and integrity procedures to ensure that they will not be compromised by the changes.
- Identifying all computer software, data files, database entities and hardware that require amendment.
- Obtaining approval for detailed proposals before work commences.
- Ensuring that changes are accepted by the authorized user before implementation.
- Ensuring that the system documentation set is updated on the completion of each change and that old documentation is archived or disposed of.
- Maintaining a version control for all software updates.
- Maintaining an audit log of all change requests.

During the FY 2007 audit, the following results were found:

Application	Number of Changes Tested	Number of Undocumented Changes		Number of Changes With Incomplete Documentation	
MMIS	40	8	(20%)	10	(25%)
CRIS-E	25	2	(8%)	9	(36%)
SETS	24	0		6	(25%)
UC	6	0		2	(33%)
SCOTI	20	0		10	(50%)
OJI (Front-End)	15	*		3	(33%)
OJI (Back-End)	28	*		7	(25%)

(**MMIS** – Medicaid Management Information System; **CRIS-E** – Client Registry Information System Enhanced; **SETS** – Support Enforcement Tracking System; **UC** – Unemployment Compensation; **SCOTI** – Sharing Career Opportunities Training System; **OJI** – Ohio Jobs Insurance)

* Five OJI Front-End and eight OJI Back-End changes were made by the contractor, but were not documented according to ODJFS procedures. However, documentation prepared by the contractor did exist to provide evidence the changes were made.

Without following standardized procedures for modifying application programs, the risk is increased that unauthorized change requests could result in program changes that are not aligned with management's original intentions, requirements, or objectives. Additionally, this could adversely affect the Department's ability to comply with allowable cost, eligibility, and federal reporting requirements.

According to MIS management, the incomplete program change documentation occurred as a result of time constraints, as well as limitations in the overall mandatory control features within the Test Director tool that OJI was utilizing during the audit.

We recommend ODJFS complete the change request forms in their entirety before moving changes into production. Appropriate approvals should be obtained and documented at all required stages of the program change cycle to ensure updated applications are operating as intended. Management should periodically verify that these controls are functioning as intended. Program changes completed by contractors must also follow program change standards and procedures set by ODJFS.

27. INFORMATION TECHNOLOGY – MISSING/INCOMPLETE PROGRAM CHANGE FORMS (Continued)

Official's Response and Corrective Action Plan

OJI

The auditor identified that there were 5 out of 15 front end changes, and 8 out of 28 back end undocumented changes. The auditor identified that these undocumented changes were directly attributable to outside vendor efforts. The state agrees that work completed either by State staff or outside contracted vendor staff should be tracked in accordance with the sections process. This process is defined by Dimensions. A review of the request process will be held with all management staff responsible for ensuring the process is followed, to include inclusion of all future work within that process, for any outside contracted work.

Documentation on the Dimensions flow process can be found at: http://innerweb/omis/SQI/pdf/EnterpriseChangeDocuments.pdf

Specific reference to page 11 of 50, CSR overview.

CRIS-E

The Eligibility Systems section has recently procured Mercury Imperative's Quick Test Pro, and has a set of thirty (30) automated test scripts which are being used for testing the CRIS-E application. The use of Quick Test Pro will continue to grow as we expand our testing capacity with new test database environments and on-line regions, with the goal of full system regression testing for all major planned releases.

In addition, both the eICMS and TANF-WRT applications were load-tested using Mercury Imperative's LoadRunner tool prior to production deployment, after major enhancements were made by in-house developers. This testing enabled us to catch issues that otherwise would only have been found in production, when the entire user population was accessing the application(s).

FACSIS

The team handling FACSIS will use the Merant Dimensions product in order to mitigate this finding.

MMIS

Medical Systems utilizes current tools, Dimensions, to manage our change process. Medical Systems has designed application rule changes to Dimensions that improve the compliance to the Change Control process. The new Dimensions rules will restrict the closing of change forms unless all the steps of the Change Control process have been followed.

SETS *– Work with the Dimensions team to see what change can be put in place so that the user is forced to follow the life cycle.*

Anticipated Completion Date for Corrective Action

OJI *– Review of Dimension Change Management Process for outside contracted work to be completed no later than May 1st, 2008.*

CRIS-E **–** *The new development documentation process has been completed.*

MMIS *– The change request process was completed by December 2007.*

FACSIS *– The Merant Dimensions product has been placed into operation.*

SETS *– The SETS change request process was completed by May 2008.*

27. INFORMATION TECHNOLOGY – MISSING/INCOMPLETE PROGRAM CHANGE FORMS (Continued)

Contact Person Responsible for Corrective Action

OJI *– Maureen Ahern-Wantz, Section Chief, Ohio Department of Job & Family Services, 4200 E. 5th Avenue, L-217, Columbus, Ohio 43219, Phone: (614) 387-8810, e-mail: maureen.ahern-wantz@jfs.ohio.gov*

CRIS-E *– Glen Hill, Acting Eligibility Systems Section Chief, Ohio Department of Job & Family Services, 4200 E. 5th Avenue, Columbus, Ohio 43219, Phone: (614) 387-8438, e-mail : glen.hill@jfs.ohio.gov*

FACSIS *– Angelo Serra, ITM2, Ohio Department of Job & Family Services, 4200 E. Fifth Ave, Phone: (614) 387.8909, e-mail: angelo.serra@jfs.ohio.gov*

MMIS *and* ***SETS*** *– Michelle Burk, Bureau Chief, Bureau of Support to Families Services, Ohio Department of Job & Family Services, 4200 East Fifth Ave., Columbus, Ohio 43219, Phone: (614) 387-8635, e-mail: michelle.burk@jfs.ohio.gov*

28. INFORMATION TECHNOLOGY – UNAVAILABLE PROGRAM CHANGE DOCUMENTATION

Finding Number	2007-JFS28-040
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 17.225 – Unemployment Insurance 17.245 – Trade Adjustment Assistance 93.558 – Temporary Assistance for Needy Families 93.767 – State Children's Insurance Program 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services Department of Labor

SIGNIFICANT DEFICIENCY

Effective control procedures require reviews and testing of program changes in order to provide management assurance that users' requirements are achieved prior to a program being transferred into the production environment. Standard testing procedures are an essential component of the overall program change process, and they are designed to gain adequate assurance over the application programming logic. Furthermore, the procedures require that documentation of all testing of program changes, along with evidence of user acceptance of the results, be maintained.

During the FY 2007 audit, ODJFS had a policy in place guiding the program change process for the significant applications, including MMIS, CRIS-E, OJI, and 3299 (Child Care). The policies were designed to provide enough detail to adequately control the program change processes and to ensure testing documentation and results were maintained. During the audit period, the following was found:

28. INFORMATION TECHNOLOGY – UNAVAILABLE PROGRAM CHANGE DOCUMENTATION (Continued)

Application	Number of Changes Tested	Number of Changes Without Test Documentation or Test Results
MMIS	40	24 (60%)
CRIS-E	25	1 (4%)
OJI (Front-End)	15	1 (7%)
OJI (Back-End)	28	9 (32%)
3299	10	6 (60%)

Without following standardized procedures for maintaining testing documentation, the Department increases the risk that requested changes are incomplete, unapproved, or do not meet users' expectations. Additionally, this could adversely affect the Department's ability to comply with allowable cost, eligibility, and federal reporting requirements. Also, without maintaining adequate testing documentation, it may be impossible to duplicate or evaluate testing scenarios in the event that problems arise later that require subsequent review of the program change.

The ODJFS MIS Management indicated that MIS bureaus and sections did not consistently follow the established standards for maintaining testing documentation across the Department due to time and resource constraints. In addition, the implementation of OAKS required additional resources for FY 2007 and not all documentation was maintained.

We recommend ODJFS follow the established program change documentation standards to reasonably ensure all key documentation of the testing performed for all program changes is maintained. In addition, user acceptance should be obtained for all pertinent changes to help ensure the applications are operating as intended. As with any effective internal control, this documentation should be periodically reviewed by management to reasonably ensure procedures are being appropriately followed.

Official's Response and Corrective Action Plan

OJI

Production implementation requires each identified change to track through the dimensions flow process. That includes the assurance that proper test documentation is reviewed for requested changes. The individual who worked with the Auditor during the review process is no longer with the agency. We will request from the Auditor to provide us with their internal work papers to identify those changes that were not properly supported by test documentation. From there for each issue identified a review of the documentation available will be performed, an identification of what is missing will be made. Based on these findings the section will ensure staff are made aware of the findings providing them direction for future test documentation requirements.

Documentation on the Dimensions flow process can be found at: http://innerweb/omis/SQI/pdf/EnterpriseChangeDocuments.pdf

Specific reference Work Request Life cycle page 15 of 50 and Release Package life cycle page 7 or 50.

FACSIS

The FACSIS team will document testing performed more accurately in the future to include a testing outline and a summary of results.

28. INFORMATION TECHNOLOGY – UNAVAILABLE PROGRAM CHANGE DOCUMENTATION (Continued)

MMIS
Medical Systems agrees that testing documentation standards should be followed to ensure that customer requirements have been met and desired changes function as expected. However, we also believe that the more significant artifact from system testing process is the addition of specific testing transactions to the universal system regression testing repository. This repository will allow execution of full system functionality testing and will further ensure that new system changes function as requested and perform harmoniously with other system components.

Medical Systems is relying on the Mercury testing tool suite to capture specific system testing documentation and transactions and to house and execute the system transaction repository.

Anticipated Completion Date for Corrective Action

OJI *– A review of issues and identification of what was not properly documented will be completed and presented to the Section staff by June 13, 2008.*

FACSIS *– The change in the documentation process was completed by May 31, 2008.*

MMIS *- Due to higher customer priorities and TAO initiatives these MMIS changes have been postponed until May 2008.*

Contact Person Responsible for Corrective Action

OJI **–** *Maureen Ahern-Wantz, Section Chief, Ohio Department of Job & Family Services, 4200 E. 5th Avenue, L-217, Columbus, Ohio 43219, Phone: (614) 387-8810, e-mail: maureen.ahern-wantz@jfs.ohio.gov*

FACSIS **–** *Angelo Serra, ITM2, Ohio Department of Job & Family Services, 4200 E. Fifth Ave, Phone: (614) 387.8909, e-mail: angelo.serra@jfs.ohio.gov*

MMIS *– Michelle Burk, Bureau Chief, Bureau of Support to Families Services, Ohio Department of Job & Family Services, 4200 East Fifth Ave., Columbus, Ohio 43219, Phone: (614) 387-8635, e-mail: michelle.burk@jfs.ohio.gov*

29. INFORMATION TECHNOLOGY – MISSING APPROVAL DOCUMENTATION

Finding Number	2007-JFS029-041
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 17.225 – Unemployment Insurance 17.245 – Trade Adjustment Assistance 93.558 – Temporary Assistance for Needy Families 93.767 – State Children's Insurance Program 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services Department of Labor

SIGNIFICANT DEFICIENCY

Information technology departments establish and follow change control procedures in order to reasonably ensure only properly tested, reviewed, and approved changes are transferred into the live environment.

At ODJFS, the change process for the applications is largely controlled through automated change control software tools. Authorized programming staff members are required to formally indicate through these tools when all tests, reviews, and approvals have been completed. After receipt of formal authorization, staff members independent of the programming staff move programs into production.

During our FY 2007 testing of the Department's application changes, we found the following exceptions:

Application	Number of Changes Tested	Number Without Documented Approval Before the Change Was Placed In Production	
MMIS	40	7	(18%)
CRIS-E	25	8	(32%)
OJI (Back-End)	28	15	(68%)
OJI (Front-End)	15	1	(6%)

Without following standardized procedures for migrating changed and approved programs into production, the risk is increased that unauthorized, untested, and unapproved program changes could be placed in production (maliciously or mistakenly) contrary to management's original intentions, requirements, or objectives. Additionally, this could adversely affect the Department's ability to comply with allowable cost, eligibility, and federal reporting requirements.

ODJFS' MIS management indicated that there should have been documentation for every change that was migrated into production; however, they acknowledged that missing approvals may be the result of verbal or e-mail approvals outside of the formal change process.

We recommend ODJFS reasonability ensure all program changes are properly tested, reviewed, and approved by management and documented approval is gained before the change is transferred into the live environment. Management should also periodically review documentation to provide evidence that only tested, reviewed, and approved program changes are being processed.

29. INFORMATION TECHNOLOGY – MISSING APPROVAL DOCUMENTATION (Continued)

Official's Response and Corrective Action Plan

OJI
Production implementation requires each identified change to track through the dimensions flow process. That includes the assurance that proper authorization has been received to implement the change into production. The individual who worked with the Auditor during the review process is no longer with the agency. We will request that the Auditor provide us with their internal work papers to identify those changes that were not properly supported by documented approvals. From there for each issue identified a review of the documentation available will be performed, an identification of what is missing will be made. Based on these findings the section will ensure staff are made aware of the findings providing them direction for future approval documentation requirements.

Documentation on the Dimensions flow process can be found at: http://innerweb/omis/SQI/pdf/EnterpriseChangeDocuments.pdf

Specific reference Work Request life cycle page 15 of 50, Release Package life cycle page 7 of 50.

CRIS-E
After researching these, it is apparent that this software was modified prior to implementation of PVCS/Dimensions and the record of these CSR's is archived in paper form. Going forward, the implementation of dimensions, along with requirements that software can not be promoted without proper documentation has eliminated the possibility of software being installed without proper documentation.

FACSIS
The team handling FACSIS will use the Merant Dimensions product in order to mitigate this finding.

MMIS
Medical Systems agrees with the recommendation that standardized processes for application change control, including migration approval are essential to prior to any software change implementation into Production. Medical Systems utilizes Dimensions, to manage our change process. Medical Systems has designed application rule changes to Dimensions that improve the compliance to the Change Control process. The new Dimensions rules will restrict the migration of software changes without specific and appropriate approval.

SETS
The above issue has been correct by the following process:
1) *The Office of Child Support did not have anyone with the Dimensions system profile to approve the Dimensions Release Pack due to access issues which have been fixed.*
2) *Staff was not closing out Dimensions Release Pack due the lack of knowledge to do so and this issue has been address.*

Anticipated Completion Date for Corrective Action

OJI *-. A review of issues and identification of what was not properly documented will be completed and presented to the Section staff by June 13, 2008*

CRIS-E *– Corrective action has already been completed.*

FACSIS *– The Merant Dimensions product has been placed into operation.*

MMIS *- The MMIS change request process was completed.*

SETS *- Corrective action has already been completed.*

29. INFORMATION TECHNOLOGY – MISSING APPROVAL DOCUMENTATION (Continued)

Contact Person Responsible for Corrective Action

OJI *– Maureen Ahern-Wantz, Section Chief, Ohio Department of Job & Family Services, 4200 E. 5th Avenue, L-217, Columbus, Ohio 43219, Phone: (614) 387-8810, e-mail: maureen.ahern-wantz@jfs.ohio.gov*

CRIS-E *– Glen Hill, Acting Eligibility Systems Section Chief, Ohio Department of Job & Family Services, 4200 E. 5th Avenue, Columbus, Ohio 43219, Phone: (614) 387-8438, e-mail : glen.hill@jfs.ohio.gov*

FACSIS *– Angelo Serra, ITM2, Ohio Department of Job & Family Services, 4200 E. Fifth Ave, Phone: (614) 387.8909, e-mail: angelo.serra@jfs.ohio.gov*

MMIS *and* ***SETS*** *– Michelle Burk, Bureau Chief, Bureau of Support to Families Services, Ohio Department of Job & Family Services, 4200 East Fifth Ave., Columbus, Ohio 43219, Phone: (614) 387-8635, e-mail: michelle.burk@jfs.ohio.gov*

30. INFORMATION TECHNOLOGY – MMIS PRODUCTION ENVIRONMENT SECURITY

Finding Number	2007-JFS30-042
CFDA Number and Title	93.767 – State Children's Insurance Program 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

<u>SIGNIFICANT DEFICIENCY</u>

Organizations restrict access to their computer systems, programs, and data to help reduce the risk of unauthorized access. Typically, logical access to automated information is restricted by the use of a password associated with access rules. Standard password administration guidelines suggest passwords be a minimum number of characters in length, difficult to guess, contain no repeating characters, and changed at least quarterly. In addition, access procedures should provide for the suspension of user identification codes or the disability of the terminal, microcomputer, or data entry device following a pre-defined number of unsuccessful attempts to access the system or applications.

The ODJFS Information Security Policy section 19.1 states that passwords should be changed at least every 60 days or at any time a user feels the password has been compromised. Also, section 21.1.1, "Terminal Logon Procedures" states the number of unsuccessful logon attempts allowed should be limited to three before action is taken to inactivate the account until it is reset by the system administrator.

The ODJFS Information Security Policy section 3.1.3 states the departmental unit-appointed security designees are responsible for performing periodic reviews of user access to ensure that all accesses are appropriate and current. In addition, section 18.1.3 states, in part, to maintain effective control over access to the networks and data, the Chief Security Officer will conduct periodic reviews of users' access rights. This review will reasonably ensure that users' access capabilities are reviewed for appropriateness and privilege allocations are checked at regular intervals to ensure that unauthorized privileges have not been obtained.

30. INFORMATION TECHNOLOGY – MMIS PRODUCTION ENVIRONMENT SECURITY (Continued)

The ODJFS Information Security Policy section 23.1.1 also indicates the procedures for monitoring system use must be established. Such procedures are necessary to reasonably ensure that users are only performing processes that have been explicitly authorized. The level of monitoring required for individual systems should be determined by a separate risk assessment. Areas that should be considered include access failures, logon parameters for indications of abnormal use or revived user IDs, allocation and use of accounts with a privileged access capability, tracking of selected transactions, and the use of sensitive resources.

ODJFS maintains the Medicaid Management Information System (MMIS) that provides reimbursement to medical providers for eligible services rendered. As described in detail below, multiple computer security issues were identified for the MMIS system.

MMIS was protected at the system level by the RACF security software. MMIS application-level security included a unique five-digit user number and four-digit security code that were automatically assigned to each user. However, the security codes did not have a password expiration or lockout threshold and had to be manually changed. In addition, MMIS security codes had not been changed by ODJFS in over eight years.

By reviewing the MMIS access listing with certain ODJFS personnel, we were able to determine the following instances of individuals having inappropriate access based on their job duties:

- One of 10 users with UPDATE access to the Procedure, Drug, and Diagnosis subsystem (PF5).
- One of 19 users with UPDATE access to the MMIS Text & Exception Code subsystem (PF7).
- Seven of 27 users with UPDATE access to the MMIS Provider subsystem (PF8).
- 22 of 89 users with UPDATE access to the Recipient Eligibility subsystem (PF9).
- One of the 29 users with UPDATE or DELETE access to the Prior Authorization subsystem (PF11).
- One of seven users in the WTAPE group had ALTER access to the MMIS warrant processing file that contained all the Medicaid payments being disbursed through MMIS, UPDATE access to the MMIS production datasets for the Procedure, Drug, and Diagnosis (PDD) file, UPDATE access to the production datasets for the Provider Charge file, and UPDATE access to the production datasets for the Medicaid Recipient file in MMIS.
- One of 19 users in the WSUPPORT group (WJMM) had ALTER access to the MMIS warrant processing file that contained all the Medicaid payments being disbursed through MMIS, UPDATE access to the MMIS production datasets for the Procedure, Drug, and Diagnosis (PDD) file, UPDATE access to the production datasets for the Provider Charge file, and UPDATE access to the production datasets for the Medicaid Recipient file in MMIS.
- One of three groups (WCLAUPRD) with UPDATE access to the MMIS RACF program dataset WCLAIMS.PROD.* (online and batch program files) should have had READ only access.
- Three of 10 users in the WBCM group (WAQM, WJTF, and WHAA) had UPDATE access to the MMIS RACF program dataset WCLAIMS.PROD.* (online and batch program files).

In addition, the Department completed the annual access reconciliation for MMIS during FY 2007, during which all of the departments, agencies, and counties that were requested to review their MMIS access provided a response to indicate a review was completed. However, 8 of 15 (40%) departments, counties, and agencies reviewed during our audit requested changes or deletions of access that were not made in production.

30. INFORMATION TECHNOLOGY – MMIS PRODUCTION ENVIRONMENT SECURITY (Continued)

Computer security violations of the ODJFS mainframe were captured daily on the RACF Activity Report and were available for review by the InfoSec Unit. The Office of Information Technology (OIT) IBM RACF security administrator placed the security violations report online for a data security analyst to review and resolve any issues on the RACF Activity Report on a daily basis. The report contained RACF security violations, unauthorized attempts to access datasets, and password resets. Although network level violation reports were reviewed, no application-level security violations reports were generated or reviewed for the MMIS application.

Inadequate password lifetimes and allowing a person excessive unsuccessful login attempts could allow an individual to learn or guess someone's password and attempt to gain unauthorized access to the system or functions not required to perform their job. This could result in an unauthorized individual gaining access to the system and accidentally or intentionally deleting or altering sensitive data.

Without an accurate periodic review of user access, the risk is increased that unauthorized users have inappropriate access to program and data files because they either were not granted access appropriately, changed job responsibilities and no longer required the access, or were terminated from the department and did not have their access appropriately severed. When security violations are not detected and resolved, there is a greater risk that unauthorized access to the system will be increased and may go unnoticed for extended periods of time.

Without strictly limiting the number of authorized personnel having access to the MMIS subsystems, there is an increased likelihood of incorrect processing of Medicaid claims and provider reimbursement or the alteration of program or data files, which could be a misuse or fraudulent misappropriation of state resources and impact allowable cost or eligibility with federal program monies.

ODJFS' MIS management indicated that security codes were not changed and secured because of software design limitations and a lack of resources. Ohio Health Plans (OHP) management indicated they performed the annual access reconciliation for MMIS; however, the necessary follow up of responses received was not performed. OHP management also indicated when MMIS was implemented over 14 years ago, no logic was written by the programmers to include the generation of security violation reports. It was also decided by management that the IBM RACF system security was the most important component of security because a lack of resources limits the amount of reports that can be reviewed.

We recommend the MMIS application security codes be changed at least every 60 days, in compliance with the ODJFS Information Security Policy. In addition, MMIS password accounts should be set to automatically lock the account after three unsuccessful attempts to comply with the Security Policy and to adequately reduce the chance of unauthorized access to programs and data.

We also recommend management limit the number of authorized personnel having access to the MMIS subsystems to help ensure access restrictions are commensurate with their current assigned job duties. The Department should periodically review access levels for the MMIS subsystems in accordance with the ODJFS Information Security Policy to detect and prevent inappropriate access levels. This includes completing the following functions on a periodic basis:

- Review and verify that mainframe, application, and network-level profiles and access authorities are appropriate for the assigned job functions of all state-level employees, outside contractors, and all relevant county employees and maintain documentation as an audit trail.

- Distribute a report of pertinent mainframe, application, and network-level profiles and access authorities to user management to confirm any access authority changes made and maintain documentation as an audit trail.

30. INFORMATION TECHNOLOGY – MMIS PRODUCTION ENVIRONMENT SECURITY (Continued)

Once periodic access reconciliations are performed, OHP must coordinate with MIS to help ensure updates to the production environment are completed timely.

In addition, ODJFS IT administration should comply with their Information Security Policy by ensuring that computer violation and security activity is logged, reported, reviewed, and appropriately escalated on a regular basis for the MMIS application to identify and resolve incidents involving unauthorized activity.

Official's Response and Corrective Action Plan

Changing the application security codes every 60 days would be a function of the Information Security Section, INFOSEC. Medical Systems understand the criticality of cycling passwords on a routine bases, we will work with INFOSEC to implement a practice that will force routine changing of user passwords.

Currently, Medical Systems reviews the RACF security access semi-annually to ensure that MMIS access is commensurate with job functions. The audit review listed several instances of individuals with inappropriate access. There are reasons, production support, warranty support, team or project lead responsibilities that might warrant specific access that might seems inappropriate. Medical Systems would like to review the audit work papers to determine if there were legitimate circumstances for the access.

Anticipated Completion Date for Corrective Action

Medical Systems will meet with INFOSEC to request the implementation of a process to force changes to user passwords. Our goal will be to implement this process by January 2008.

Medical Systems will continue its semi-annual review of RACF access for accuracy and appropriateness. Our next review will September 2007

Contact Person Responsible for Corrective Action

Michelle Burk, Bureau Chief, Bureau of Support to Families Services, Ohio Department of Job & Family Services, 4200 East Fifth Ave., Columbus, Ohio 43219, Phone: (614) 387-8635, e-mail: michelle.burk@jfs.ohio.gov

31. INFORMATION TECHNOLOGY – CRIS-E PRODUCTION ENVIRONMENT SECURITY

Finding Number	2007-JFS31-043
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 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services

SIGNIFICANT DEFICIENCY

Sound IT practices require organizations to establish procedures to ensure that data is input by only authorized staff. Once access is established, the organization must have controls in place to monitor use of the computer and periodically confirm that employees' current computer access is commensurate with their job responsibilities.

31. INFORMATION TECHNOLOGY – CRIS-E PRODUCTION ENVIRONMENT SECURITY (Continued)

The ODJFS Information Security Policy states under section 3.1.3 that the departmental unit-appointed Security Designees are responsible for performing periodic reviews of user access to ensure that all accesses are appropriate and current. In addition, section 18.1.3 states that to maintain effective control over access to the networks and data, the Chief Security Officer will conduct periodic reviews of users' access rights. This review will reasonably ensure that users' access capabilities are reviewed for appropriateness and privilege allocations are checked at regular intervals to ensure that unauthorized privileges have not been obtained.

Also, under section 23.1.1 of the ODJFS Information Security Policy, procedures for monitoring system use must be established. Such procedures are necessary to reasonably ensure that users are only performing processes that have been explicitly authorized. The level of monitoring required for individual systems should be determined by a separate risk assessment. Areas that should be considered include access failures, logon parameters for indications of abnormal use or revived user IDs, allocation and use of accounts with a privileged access capability, tracking of selected transactions, and the use of sensitive resources.

ODJFS uses the Client Registry Information System-Enhanced (CRIS-E) to determine eligibility and benefit amounts for public assistance programs.

The following weaknesses were noted regarding IT security of CRIS-E:

- Although computer security violations for the ODJFS mainframe were captured daily and available for review by Departmental and Office of Information Technology (OIT) personnel, application level security violation reports were not reviewed for CRIS-E.

- Periodic access reconciliations were not completed to confirm CRIS-E mainframe and network access authorities of employees were commensurate with their job duties.

Additionally, the following personnel had access which was not needed for their job functions:

- One user id, WJMM, had ALTER access to the online and batch program files (dataset WCLIENT.PROD.*). This ID should be should be removed from the WSUPPORT group.

- Three user ids (WAQM, WJTF, and WHAA) had UPDATE access to the online and batch program files (dataset WCLIENT.PROD.*) and should be removed from the WBCM group.

When security violations are not detected and resolved, there is a greater risk of unauthorized access to the system. Without a limited number of authorized personnel having access to the CRIS-E subsystems, there is an increased likelihood of incorrect processing of public assistance benefits. In addition, without an accurate periodic review of user access, the risk is increased that unauthorized users have inappropriate access to program and data files because they either were not granted access appropriately, changed job responsibilities and no longer required the access, or were terminated from the Agency and did not have their access appropriately severed. Unauthorized access could result in the execution of inappropriate application transactions or the alteration of program or data files, which could be a misuse or fraudulent misappropriation of state resources or impact allowable costs and eligibility of federal program monies.

According to ODJFS management, the review of user access privileges is an ongoing effort in the Information Security unit. It is balanced with the actual initial administration of access. Several strides in this area have been achieved. With the staff shortage as well as the increasing workload with regard to functional areas of responsibility, this makes it even more challenging for the unit to dedicate appropriate time for reviews of user access privileges. Also InfoSec was not notified of the particular access that needed to be removed and has since removed it. MIS management normally relies on the counties to review and resolve CRIS-e application-level security violations from the online reports available.

31. INFORMATION TECHNOLOGY – CRIS-E PRODUCTION ENVIRONMENT SECURITY (Continued)

We recommend management limit the number of authorized personnel with access to the CRIS-E subsystems to help ensure access restrictions are commensurate with current assigned job duties. We also recommend the Department periodically review access levels for the CRIS-E subsystems in accordance with the ODJFS Information Security Policy to detect and prevent inappropriate access levels. This includes, but is not limited to, completing the following on a periodic basis:

- Review and verify that mainframe, application, and network-level profiles and access authorities are appropriate for the assigned job functions of all state-level employees, outside contractors, and all relevant county employees and maintain documentation as an audit trail.

- Distribute a report of pertinent mainframe, application, and network-level profiles and access authorities to user management to confirm any access authority changes made and maintain documentation as an audit trail.

Once periodic access reconciliations are performed, user management must coordinate with MIS to help ensure updates to the production environment are completed timely.

We also recommend ODJFS IT administration complies with their Information Security Policy by ensuring computer security violations and activity are logged, reported, reviewed, and appropriately escalated on a regular basis for the CRIS-E application to identify and resolve incidents involving unauthorized activity.

Official's Response and Corrective Action Plan

CRIS-E Profile level access can not be completely controlled by MIS because the counties have (and require) the ability to assign workers to roles and profiles as they see fit.

*Changing the application security codes **every 30 days** would be a function of the Information Security Section, INFOSEC. CRIS-E understand the criticality of cycling passwords on a routine bases, we will work with INFOSEC to implement a practice that will force routine changing of user passwords.*

Currently, CRIS-E reviews the RACF security access semi-annually to ensure that CRIS-E access is commensurate with job functions. The audit review listed several instances of individuals with inappropriate access. There are reasons, production support, warranty support, team or project lead responsibilities that might warrant specific access that might seems inappropriate. CRIS-E would like to review the audit work papers to determine if there were legitimate circumstances for the access.

Anticipated Completion Date for Corrective Action

CRIS-E will meet with INFOSEC to request the implementation of a process to force changes to user passwords. Our goal will be to implement this process by January 2008.

CRIS-E will continue its semi-annual review of RACF access for accuracy and appropriateness. Our next review will September 2007.

Contact Person Responsible for Corrective Action

Michelle Burk, Bureau Chief, Bureau of Support to Families Services, Ohio Department of Job & Family Services, 4200 East Fifth Ave., Columbus, Ohio 43219, Phone: (614) 387-8635, e-mail: michelle.burk@jfs.ohio.gov

32. INFORMATION TECHNOLOGY – WRS and UC TAX PRODUCTION ENVIRONMENT SECURITY

Finding Number	2007-JFS32-044
CFDA Number and Title	17.225 – Unemployment Insurance 17.245 – Trade Adjustment Assistance
Federal Agency	Department of Labor

<u>SIGNIFICANT DEFICIENCY</u>

Organizations restrict access to their computer systems, programs, and data to help reduce the risk of unauthorized access. Typically, logical access to automated information is restricted by the use of a password associated with access rules. Standard password administration guidelines suggest passwords be a minimum number of characters in length, difficult to guess, contain no repeating characters, and changed at least quarterly. In addition, access procedures should provide for the suspension of user identification codes or the disability of the terminal, microcomputer, or data entry device following a pre-defined number of unsuccessful attempts to access the system or applications. To maintain security, organizations periodically confirm that employees' current computer access is commensurate with their job responsibilities.

The ODJFS Information Security Policy section 19.1 states that passwords should be changed at least every 60 days or at any time a user feels the password has been compromised. Also, section 21.1.1, "Terminal Logon Procedures" states the number of unsuccessful logon attempts allowed should be limited to three before action is taken to inactivate the account until it is reset by the system administrator.

The ODJFS Information Security Policy section 3.1.3 states the departmental unit-appointed security designees are responsible for performing periodic reviews of user access to ensure that all accesses are appropriate and current. In addition, section 18.1.3 states, in part, to maintain effective control over access to the networks and data, the Chief Security Officer will conduct periodic reviews of users' access rights. This review will reasonably ensure that users' access capabilities are reviewed for appropriateness and privilege allocations are checked at regular intervals to ensure that unauthorized privileges have not been obtained.

The ODJFS Information Security Policy section 23.1.1 also indicates the procedures for monitoring system use must be established. Such procedures are necessary to reasonably ensure that users are only performing processes that have been explicitly authorized. The level of monitoring required for individual systems should be determined by a separate risk assessment. Areas that should be considered include access failures, logon parameters for indications of abnormal use or revived user IDs, allocation and use of accounts with a privileged access capability, tracking of selected transactions, and the use of sensitive resources.

Governmental entities are responsible for safeguarding confidential information that comes into their possession. In order to address this responsibility, entities establish policies and procedures regarding the handling of their citizens' confidential information.

Two major unemployment applications, the Wage Record System (WRS) and the Unemployment Compensation (UC) tax application, are used to process and collect Ohio unemployment taxes and store and report wage information for Ohio employers. Multiple weaknesses were noted regarding the computer security for these systems as explained in the paragraphs which follow.

For the WRS and the UC applications, a user's social security number (SSN) was used as the user ID for logging into these applications. The userid SSNs were displayed on security reports and screens.

32. INFORMATION TECHNOLOGY – WRS and UC TAX PRODUCTION ENVIRONMENT SECURITY (Continued)

One of the major program processing environments used by these unemployment applications is the Demand system, which is only used by the IT personnel to gain access to test and production programs and data files. The following weaknesses were noted:

- The Demand operating system was set to a maximum of five failed sign-on attempts before the account was disabled. Twenty accounts had a maximum threshold of five failed logon attempts before the user ID was disabled.

- Seven user accounts had the maximum failed logon attempt threshold set at zero, which meant that the accounts would never lockout. These accounts had administrator privileges.

- Four accounts had a 9,999 day (27 year) password lifetime.

- Forty-one accounts had 7,300 day (20 year) password lifetime. Eight of these 41 had administrator privileges.

- Six user accounts were set to zero days of inactivity; thus the accounts would never be disabled due to terminal inactivity. These accounts had administrator privileges.

Whenever a Demand user account was no longer needed, the user ID was disabled, but not deleted. The system disables ids for accounts that have not been used in over 30 days. Of the DEMAND accounts on the UNISYS system, 75.8% (204 of 269) were disabled.

Although there were 482 UC users and 391 WRS mainframe application user security sign-ons (SSON) for individuals dispersed throughout the 88 Ohio counties, management did not perform a complete access reconciliation during FY 2007 to confirm the employees' mainframe and network access authorities were commensurate with their job duties for UC and WRS. Although network-level violation reports were reviewed, no application-level security violations reports were generated or reviewed for the WRS and UC applications.

In order for users to access the WRS and UC applications, the user must have both SSON and application access (WRS or UC) assigned to their user ID and password. There were 10 users that had SSON access to WRS, but no WRS application access was assigned. Sixty-five users had WRS application access but no SSON access. Also, there were eight users that had SSON access to UC, but no UC application access was assigned. Three hundred twenty-five users had UC application access but no SSON access.

Inadequate password lifetimes and allowing a user excessive unsuccessful login attempts could allow an individual to learn or guess someone's password and attempt to gain unauthorized access to the system or functions not required to perform their job. This could result in an unauthorized individual gaining access to the system and accidentally or intentionally deleting or altering sensitive data.

Having an excessive number of unused accounts makes it more difficult to manage and monitor the accounts. The additional accounts make periodic reviews of user access cumbersome because it is difficult to differentiate between terminated users and users that just need their password reset. In addition, because there is not a user monitoring the account, unused accounts may be targeted for unauthorized use.

With users located in 88 counties, the risk of unused or unneeded access increases. Without a periodic review of user access, unauthorized users may have inappropriate access to program and data files because they either were not granted access appropriately, changed job responsibilities and no longer required the access, or were terminated from the Department and did not have their access appropriately severed. In addition, since security violations are not detected and resolved, there is an even greater risk

32. INFORMATION TECHNOLOGY – WRS and UC TAX PRODUCTION ENVIRONMENT SECURITY (Continued)

that fraudulent and accidental transactions or security breaches would go undetected. Unauthorized access could result in the execution of inappropriate application transactions or the alteration of program or data files, which could be a misuse or fraudulent misappropriation of state resources or impact allowable cost and eligibility of federal program monies. Allowing public access to sensitive information, such as SSNs, increases the risk of misuse of the information. Ultimately, this could lead to undue public scrutiny if this information were to be misused.

Although users could not access the WRS or UC applications without both accesses assigned, if the users had access to the application and not the network but were able to log into the network using other resources, they would be able to perform all transactions previously authorized, and vice versa. The high number of users with one access and not the other also indicates that access privilege assignments, revocations, and reviews are not occurring on a consistent basis.

We recommend the Demand system passwords be changed at least every 60 days, in compliance with the ODJFS Information Security Policy. In addition, Demand password accounts should be set to automatically lock the account after three unsuccessful attempts to comply with the Security Policy and to adequately reduce the chance of unauthorized access to programs and data. Finally, user accounts should have a parameter that disables the account after a period of inactivity.

We also recommend ODJFS immediately review all Demand accounts and either delete accounts of any users who no longer require Demand access or organize them into a group that would identify the accounts as terminated individuals so that the Information Security unit would be able to easily identify the difference between disabled and terminated accounts. ODJFS should also perform access reviews on a regular basis to comply with the ODJFS Information Security Policy. This includes completing the following functions on a periodic basis:

- Review and verify that mainframe, application, and network-level profiles and access authorities are appropriate for the assigned job functions of all state-level employees, relevant county employees, and outside contractors and maintain documentation as an audit trail.

- Distribute a report of pertinent mainframe, application, and network-level profiles and access authorities to user management to confirm any access authority changes made and maintain documentation as an audit trail.

We recommend ODJFS IT administration comply with their Information Security Policy by ensuring that computer violation and security activity is logged, reported, reviewed, and appropriately escalated on a regular basis for the WRS and UC applications to identify and resolve incidents involving unauthorized activity. We also recommend management evaluate and modify the information being used as the key identifier in its WRS and UC applications to reasonably ensure employees' SSNs are safeguarded. All network and application access should be reviewed and reconciled for the WRS and UC applications to ensure accounts for users who are unauthorized to have both network and application access are removed.

Official's Response and Corrective Action Plan

A. Programmatic changes have been made to address SSN was the key identifier (user IDs) in the WRS and UC applications utilized for login purposes, but were not implemented. The UC and WRS applications are due to be replaced by the ERIC application, the timeline for this to occur has been extended several times and is now anticipated to complete fall 2008. The user-id is not displayed on the SSON screen, it is masked by asterisks, as well as other key fields.

32. INFORMATION TECHNOLOGY – WRS and UC TAX PRODUCTION ENVIRONMENT SECURITY (Continued)

The user-id is displayed on security reports utilized for reconciliation. These reports are limited to the UC Program Services security staff and managers responsible directly for their respective areas data integrity. At this time the impact of implementing the removal of the utilization of the SSN as a key identifier out ways the potential impact.

B. The seven accounts that have the maximum failed attempts set to zero are for system admin staff or internal processors like CmPlus. The other accounts including the 27 year and 20 year password timeframes were also internal system processor accounts. These time frame setting were chosen to avoid failure of the internal system processors. Having an expiring password time frame would cause vital components to fail upon a forced password change scenario.

B. The MIS systems staff do not delete demand user-id's once issued. The id is disabled either through non-use, or more proactively, when a user no longer requires it, or is unauthorized to use it. In order to provide the annual audit with documentation of demand id deletions, documentation can be supplied which identifies those id's that were proactively disabled. A quarterly review of the id's will be performed to ensure that access is only available to authorized users.

C. The periodic access reconciliation reports were generated on a quarterly basis by MIS. There reports are furnished to UC Program Services, specifically the WR, CN and Function 15 reports, the only remaining production applications on the UNISYS platform. The periodic access reconciliations by UC Program Services were performed and documentation exists to confirm adherence to quarterly reviews.

A daily review of the audit accounting logs was initiated to identify any demand security access violations. Any issues identified during this review were communicated to the BESS section for followup.

D. The security built into both the UC and WRS applications occurs at two levels. Without access at both levels an individual can not gain access to the application. The first level of security is maintained externally in the SSON security system. An individual who is part of the SSON security is granted access to specific applications, including WRS and UC. If they do not have this access at the application level they can not get to the application. The second layer of security is built within the applications themselves. Once past SSON an individual is only granted access if they are identified within the internal UC and/or WRS control tables. The internal control table defines the level of access (which screens) a user may access.

The internal control tables can be set to not allow any screen access even though the user is identified internally. This is the method by which access is terminated once a user is no longer authorized. A review of the external and internal control tables will occur to ensure that only authorized individuals have access and that the tables are aligned between SSON and internal settings. Going forward a quarterly review of these tables will be completed.

E. The employee who did not have a RSA form on file will be requested to sign a new form.

Anticipated Completion Date for Corrective Action

A. No Action
B. Quarterly Review to commence May 1, 2008.
C. No Action.
D. Code to determine inconsistency to be developed and implemented by June 1, 2008.
E. Form to be obtained and placed on file by May 1, 2008.

Contact Person Responsible for Corrective Action

John Suminski, Information Technology Consultant 3, Ohio Department of Job & Family Services, 4200 E. 5th Avenue, L-217, Columbus, Ohio 43219, Phone: (614) 387-8777, e-mail: John.Suminski@jfs.ohio.us

33. INFORMATION TECHNOLOGY – OJI PRODUCTION ENVIRONMENT SECURITY

Finding Number	2007-JFS33-045
CFDA Number and Title	17.225 – Unemployment Insurance 17.245 – Trade Adjustment Assistance
Federal Agency	Department of Labor

<u>SIGNIFICANT DEFICIENCY</u>

Organizations logically restrict access to their computer systems, programs, and data to help reduce the risk of unauthorized use of key computer resources. They establish levels of access commensurate to a specific user's job responsibilities. Access to special privileges and system utilities which may be used to override other controls are tightly restricted. Computer systems are regularly monitored for possible misuse and periodic reviews of user access are performed to ensure all access is authorized.

Typically, logical access to automated information is restricted by the use of a password associated with access rules. Standard password administration guidelines suggest passwords be a minimum number of characters in length, difficult to guess, contain no repeating characters, and changed at least quarterly. In addition, access procedures provide for the suspension of user identification codes or the disability of the terminal, microcomputer, or data entry device following a pre-defined number of unsuccessful attempts to access the system or applications.

The ODJFS Information Security Policy includes the following sections which govern implementation of the controls described above:

- Section 3.1.3, "Security Designees."
- Section 18.1, "Authorized User Registration."
- Section 18.1.1, "Privilege Management."
- Section 18.1.3, "Review of User Access Rights."
- Section 19.1, "Password Use."
- Section 21.1.1, "Terminal Logon Procedures."
- Section 22.1.1 "Use of System Utilities."
- Section 23.1.1, "Monitoring System Use."

The Ohio Job Insurance (OJI) application is a web-based system with a centralized statewide mainframe database. Thus, OJI can be accessed using an Internet browser (for example, Microsoft Internet Explorer) and information entered and retrieved from all call centers, processing centers, one-stop locations, and the central office resides in the same database.

Several weaknesses were noted regarding IT security for the OJI application. OJI users had excessive access to the production environment as follows:

- Three user ids had update access to the DB2 security table. (WAQM, WJTF, and WHAA in the WBCM group had UPDATE access to the dataset WOJI.PROD.*)
- Two accounts (lbowen and kotwav) had unauthorized access to the production UNIX OJI servers.

Management did not perform a complete access reconciliation in FY 2007 to confirm that employees' OJI mainframe and network access authorities were commensurate with their job duties.

33. INFORMATION TECHNOLOGY – OJI PRODUCTION ENVIRONMENT SECURITY (Continued)

In addition, the following OJI password security weaknesses were noted:

- 30 admin and 12 user accounts did not have a minimum password length requirement, automatic lockout requirement, history size requirement (the number of previous passwords that could not be reused), or history expiration requirement (the period of time in weeks that a user would not be able to reuse a password).
- 51 admin accounts had unlimited or 52 week password lifetimes indicating the passwords were not required to be changed on a timely, periodic basis.

Although computer security violations of the ODJFS mainframe and the AIX UNIX server were captured daily and were available for review by the InfoSec Unit, no application-level security violations reports were generated or reviewed for the OJI application.

The weaknesses described all increase the risk of unauthorized access to OJI. With unauthorized access, users could execute inappropriate application transactions or alter programs or data files. Unauthorized access could jeopardize the integrity of departmental data or result in the misuse or fraudulent misappropriation of state resources or federal program monies.

Without an accurate periodic review of user access, the risk is increased that unauthorized users have inappropriate access to program and data files because they either were not granted access appropriately, changed job responsibilities and no longer required the access, or were terminated from the department and did not have their access appropriately severed. Without security violation monitoring, unauthorized access and any resulting accidental or fraudulent transactions may not be detected. Additionally, this could adversely affect the Department's ability to comply with allowable cost, eligibility, and federal reporting requirements.

According to the Information Security unit, the review of user access privileges is an ongoing effort. It is balanced with the actual initial administration of access. Several strides in this area have been achieved. With the staff shortage as well as the increasing workload with regard to functional areas of responsibility, this makes it even more challenging for the unit to dedicate appropriate time for reviews of user access privileges. In addition, the unit was not notified of the access to be removed; however, it has since been removed.

DAS/OIT administers and secures the UNIX servers and accounts for ODJFS. A lack of communication between ODJFS and OIT prevented password security weaknesses on some accounts from being detected and corrected. Also, MIS was unaware of the lack of application-level security violation reporting and reviewing.

We recommend the Department review and implement access restrictions to all of the sensitive OJI application profiles and utilities. Access should be commensurate with the current job responsibilities of the users and granted based upon the principle of least privilege or need-to-know. Additionally, we recommend the Department comply with their Information Security Policy by reviewing and implementing access restrictions to the production environments for the applications and data. If temporary access is granted to certain employees, a tickler or reminder should be established so that ODJFS personnel know to adjust that access in the future.

We also recommend ODJFS complete the following functions on a periodic basis:

- Review and verify that mainframe, application, and network-level profiles and access authorities are appropriate for the assigned job functions of all state-level employees, outside contractors and relevant county employees, and maintain documentation as an audit trail.

- Distribute a report of pertinent mainframe, application, and network-level profiles and access authorities to user management to confirm any access authority changes made and maintain documentation as an audit trail.

33. INFORMATION TECHNOLOGY – OJI PRODUCTION ENVIRONMENT SECURITY (Continued)

We further recommend ODJFS IT management comply with their Information Security Policy by ensuring that computer violation and security activity is logged, reported, reviewed, and appropriately escalated on a regular basis for the OJI application to identify and resolve incidents involving unauthorized activity. We also recommend the OJI passwords be changed at least every 60 days and all password parameters comply with ODJFS security standards.

Official's Response and Corrective Action Plan

A. BISS performs a quarterly review of access for all OJI servers. Development staff do not have access to production boxes and have read only access within the production application itself. OJI development staff will provide follow-up verification to ensure that quarterly reviews are completed to reconcile access authorizations. Adding this step will provide a second level review and assist BISS with ensuring appropriate access level exist. The anticipated MIS organizational changes will be analyzed to ensure that these periodic access reconciliations have a proper owner going forward.

B. For production outward facing application, including OJI, OIT provides oversight for monitoring access violations. This information is communicated directly to the JFS Chief Security officer. A review of the internal application level security violations will be performed to determine if any automated reporting and review can be established. If not, then requests for change will be generated for consideration within the prioritization of tasks under consideration for the OJI application.

C. BESS will request the specific details for each of the 42 accounts did not have a minimum password length set, a history size set, history expiration or the automatic lockout set.and make appropriate changes to correct the identified issue. Based on the specifics determined a review of the id issuance process will be completed to ensure that going forward the same identified issues are avoided.

Anticipated Completion Date for Corrective Action

A. Quarterly review follow-up to commence May 1, 2008.
B. Application Security review – June 1, 2008
C. Follow-up to commence May 1, 2008

Contact Person Responsible for Corrective Action

Maureen Ahern-Wantz, Section Chief, Ohio Department of Job & Family Services, 4200 E. 5th Avenue, L-217, Columbus, Ohio 43219, Phone: (614) 387-8810, e-mail: maureen.ahern-wantz@jfs.ohio.gov

34. INFORMATION TECHNOLOGY – SCOTI PRODUCTION ENVIRONMENT SECURITY

Finding Number	2007-JFS34-046
CFDA Number and Title	17.207/17.801/17.804 – Employment Services Cluster 17.258/17.259/17.260 – WIA Cluster
Federal Agency	Department of Labor

SIGNIFICANT DEFICIENCY

To help reduce the likelihood of unauthorized use of key computer resources, organizations logically restrict access to their computer systems, programs, and data. The level of access established must be commensurate to a specific user's job responsibilities. Access to special privileges and system utilities which may be used to override other controls are tightly restricted. Computer systems are regularly monitored for possible misuse and periodic reviews of user access are performed to ensure all access is authorized.

Typically, logical access to automated information is restricted by the use of a password associated with access rules. Standard password administration guidelines suggest passwords be a minimum number of characters in length, difficult to guess, contain no repeating characters, and changed at least quarterly. In addition, access procedures provide for the suspension of user identification codes or the disability of the terminal, microcomputer, or data entry device following a pre-defined number of unsuccessful attempts to access the system or applications.

The ODJFS Information Security Policy includes the following sections which govern implementation of the controls described above:

- Section 3.1.3, "Security Designees."
- Section 18.1, "Authorized User Registration."
- Section 18.1.1, "Privilege Management."
- Section 18.1.3, "Review of User Access Rights."
- Section 19.1, "Password Use."
- Section 21.1.1, "Terminal Logon Procedures."
- Section 22.1.1 "Use of System Utilities."
- Section 23.1.1, "Monitoring System Use."

The Sharing Career Opportunities Training Information (SCOTI) application is a web-based system acquired and implemented to meet the needs of the ODJFS Office of Workforce Development in managing the state's Federal Workforce Investment Act (WIA) and Wagner-Peyser Act (Labor Exchange) requirements.

The following weaknesses were noted regarding the IT security controls tested for the SCOTI application:

- The system administrator account had the ability to change, add, or delete all data and application files. There were 56 SCOTI system administrator (scotadmg) users on nine servers that housed the production environment for the SCOTI application. One user account (lbowen) should not have had access to the SOCCL015, SOCCL026, SOCCL027, and SOCCL028 UNIX servers. The user account "lbowen" should also be removed from the scotadmg group.

34. INFORMATION TECHNOLOGY – SCOTI PRODUCTION ENVIRONMENT SECURITY (Continued)

- Password parameters were not set to ODJFS standards for the SCOTI application for users. Nine of the 15 accounts on SOCWEB06 and SOCWEB07 did not have a minimum password length requirement. Eight of the 15 accounts on SOCWEB06 and SOCWEB07 did not have the history size requirement (the number of previous passwords that could not be reused). Eight of the 15 accounts on SOCWEB06 and SOCWEB07 did not have the history expiration requirement (the period of time in weeks that a user would not be able to reuse a password). Nine of the 15 accounts on SOCWEB06 and eight of the 15 accounts on SOCWEB07 did not have the automatic lockout requirement.

- Computer security violations for SCOTI on the ODJFS servers were captured daily and available for review by the InfoSec Unit. The OIT demilitarized zone (DMZ) staff monitored any security violations at the HTTP IP layer and notified the ODJFS Chief Security Officer immediately if a security violation was logged. Although network-level violation reports were reviewed, no application-level security violations reports were generated or reviewed for the SCOTI application.

Additionally, periodic access reconciliations were not completed for SCOTI.

The weaknesses described increase the risk of unauthorized access to SCOTI. With unauthorized access, users could execute inappropriate application transactions or alter programs or data files. Unauthorized access could jeopardize the integrity of departmental data or result in the misuse or fraudulent misappropriation of state resources or federal program monies.

Without an accurate periodic review of user access, the risk is increased that unauthorized users have inappropriate access to program and data files because they either were not granted access appropriately, changed job responsibilities and no longer required the access, or were terminated from the Agency and did not have their access appropriately severed. Without security violation monitoring, unauthorized access and any resulting accidental or fraudulent transactions may not be detected. Additionally, this could adversely affect the Department's ability to comply with allowable cost, eligibility, and federal reporting requirements.

A lack of communication between MIS InfoSec and the user management prevented update of account access. Access reconciliations were not consistently performed by MIS due to staff shortages and increasing MIS workloads.

DAS/OIT administers and secures the UNIX servers and accounts for ODJFS. Because of a lack of communication between ODJFS and OIT, password security weaknesses on some accounts were not detected and corrected. Also, MIS was unaware of the lack of application-level security violation reporting and reviewing.

We recommend the Department review and implement access restrictions to all of the sensitive SCOTI application profiles and utilities. Additionally, we recommend the Department comply with their Information Security Policy by reviewing and implementing access restrictions to the production environments for the applications and data. If temporary access is granted to certain employees, a tickler or reminder should be established so that ODJFS personnel know to adjust that access in the future. Access should be commensurate with the current job responsibilities of the users and granted based upon the principle of least privilege or need-to-know. Also, ODJFS should periodically complete a review to validate employee access in accordance with the ODJFS Information Security Policy.

We also recommend ODJFS IT management comply with their Information Security Policy by ensuring that computer violation and security activity is logged, reported, reviewed, and appropriately escalated on a regular basis for the SCOTI application to identify and resolve incidents involving unauthorized activity.

We recommend the SCOTI passwords be changed at least every 60 days and accounts be set to automatically lock the account after three unsuccessful attempts, in compliance with the ODJFS Information Security Policy. All password parameters must comply with ODJFS security standards.

34. INFORMATION TECHNOLOGY – SCOTI PRODUCTION ENVIRONMENT SECURITY (Continued)

We also recommend ODJFS complete the following functions on a periodic basis:

- Review and verify that mainframe, application, and network-level profiles and access authorities are appropriate for the assigned job functions of all state-level employees, outside contractors, and relevant county employees and maintain documentation as an audit trail.

- Distribute a report of pertinent mainframe, application, and network-level profiles and access authorities to user management to confirm any access authority changes made and maintain documentation as an audit trail.

Official's Response and Corrective Action Plan

A. BISS performs a quarterly review of access for all SCOTI servers. Development staff do not have access to production boxes and have read only access within the production application itself. SCOTI development staff will provide follow-up verification to ensure that quarterly reviews are completed to reconcile access authorizations. Adding this step will provide a second level review and assist BISS with ensuring appropriate access level exist. The anticipated MIS organizational changes will be analyzed to ensure that these periodic access reconciliations have a proper owner going forward.

B. For production outward facing application, including SCOTI, OIT provides oversight for monitoring access violations. This information is communicated directly to the JFS Chief Security officer. A review of the internal application level security violations will be performed to determine if any automated reporting and review can be established. If not, then requests for change will be generated for consideration within the prioritization of tasks under consideration for the SCOTI application.

C. BESS will request the specific details for each of the accounts that had a minimum password length set, a history size set, a history expiration set, password lifetimes too long or did not have the automatic lockout set and make appropriate changes to correct the identified issue. Based on the specifics determined a review of the id issuance process will be completed to ensure that going forward the same identified issues are avoided.

D. The user account found that should not have had access was removed.

Anticipated Completion Date for Corrective Action

A. Quarterly review follow-up to commence May 1, 2008.
B. Application Security review – June 1, 2008.
C Follow-up to commence May 1, 2008.
D. Completed

Contact Person Responsible for Corrective Action

Laverne Fudge, Information Technology Consultant 3, Ohio Department of Job & Family Services, 4200 E. 5th Avenue, L-217, Columbus, Ohio 43219, Phone: (614) 387-8437, e-mail: Laverne.Fudge@jfs.ohio.gov

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF MENTAL HEALTH

1. MEDICAID, SCHIP, AND SSBG – SUBRECIPIENT MONITORING

Finding Number	2007-DMH01-047
CFDA Number and Title	93.667 – Social Services Block Grant 93.767 – State Children's Insurance Program 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

<u>NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY</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 expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for the 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.

It is management's responsibility to implement policies and procedures to monitor subrecipients to help ensure they have complied with the rules and regulations related to the programs and have met the objectives of the programs.

During fiscal year 2007, the Department disbursed approximately $252 million in federal funding for the Medicaid Assistance Program, $19 million in federal funding for the State Children's Insurance Program (SCHIP), and $8.6 million in federal funding for the Social Services Block Grant (SSBG) to the Community Mental Health (CMH) Boards, which are considered to be subrecipients of the Department. Currently, the Department requires each CMH Board to submit their single audit report to the Community Audit Program Manager. The Community Audit Program Manager reviews the audit reports and enters information from each report, including whether a Corrective Action Plan (CAP) will be required, in an Access program.

1. MEDICAID, SCHIP, AND SSBG – SUBRECIPIENT MONITORING (Continued)

From this Access program, the Community Audit Program Manager has the ability to generate reports varying from which CMH Boards have not submitted their single audit report to which CMH Boards still have not submitted a CAP. The Community Audit Program Manager also maintains and reconciles an Excel spreadsheet that details the amount of funding passed down to each CMH Board per the Department's records to the amount reported as expended on the CMH's Federal Schedule attached to the single audit report. During our documentation of the processes and testing of the subrecipient monitoring, we noted the following:

- The Department did not monitor subrecipients through on-site reviews for those subrecipients requiring A-133 audits as well as those that do not require A-133 audits.

- Ten of 10 (100%) CMH Boards selected for review were not made aware of the CFDA title or number or the name of the awarding Federal agency for the SSBG program.

- Six of 10 (60%) CMH Board audit reports selected for testing were not received within nine months. Additionally, there was no documentation maintained of follow up action taken by the Department related to these late reports.

- The Department was able to track whether or not SSBG, SCHIP, and Medicaid were tested as a major federal program within each CMH Board's single audit. However, the Department did not determine the amount or percentage of coverage obtained over SSBG, SCHIP, and Medicaid based on major federal program testing from the A-133 audits.

The lack of adequate subrecipient monitoring procedures during fiscal year 2007 results in noncompliance with the subrecipient monitoring requirements of OMB Circular No. A-133. Furthermore, the Department cannot be reasonably assured the subrecipients have met the requirements of the Medicaid, SCHIP, and SSBG grant programs. Federal noncompliance could result in the identification of questioned costs and may impact the amount of federal funding received in subsequent years.

Management indicated that they are aware of these issues and have been in the process of preparing documented policies and procedures to address the weaknesses in the monitoring process. Management also informed us of the Department's plan to begin on-site monitoring visits to subrecipients during FY 2008.

We recommend the Department continue to develop and enhance their subrecipient monitoring process which includes, but is not limited to, the following:

- Finalizing a formal procedure manual to document the Department's monitoring approach. This procedural manual should document the Department's methodology for performing subrecipient reviews and the nature, timing, and extent of the reviews to be performed. It should also include the methodology for resolving findings of subrecipient noncompliance or weaknesses as well as the impact of subrecipient activities on the Department's ability to comply with applicable federal regulations. The written plan should identify personnel assigned to oversee and coordinate subrecipient monitoring activities.

- Monitoring of the subrecipient's use of federal awards through site visits or other means to provide reasonable assurance the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of the grant agreements and that performance goals are achieved. The reviews conducted via on-site visits should include evaluations of the subrecipients' processes and procedures over critical single audit compliance requirements such as allowable costs, matching, cash management, and period of availability. Supervisory reviews should be performed to determine the adequacy of subrecipient monitoring performed.

1. MEDICAID, SCHIP, AND SSBG – SUBRECIPIENT MONITORING (Continued)

- Including information within the CMH agreements between the CMH and the Department to identify the CFDA title and CFDA number along with the name of the Federal awarding agency.

- Calculating coverage obtained over the major federal programs in order to identify the amount of assurance that can be placed on the single audits.

Official's Response and Corrective Action Plan

The Department hired an employee in February, 2006 to perform subrecipient monitoring. Beginning in fiscal year 2007, a database was established, reports were generated, and desk reviews were performed for subrecipients. Beginning in fiscal year 2008, on-site reviews will also be performed.

From the desk reviews performed, the Department is now able to determine the risk level of each subrecipient, and begin to concentrate on those with the most risk through on-site reviews. In addition, the Department will now calculate the amount and percentage of coverage over the major federal programs tested from our subrecipients' A-133 audits, as part of our desk reviews. The Department will continue to develop more procedures where necessary so we can implement our monitoring processes more efficiently and provide reasonable assurance that our subrecipients complied with laws, regulations, and the provisions of their grant agreements.

Anticipated Completion Date for Corrective Action

04/30/08

Contact Person Responsible for Corrective Action

Jill Stotridge, Manager, Fiscal Operations and Community Funding Services, Ohio Department of Mental Health, 30 E Broad St, 11th Floor, Phone: (614) 466-9958, e-mail: stotridgej@mh.state.oh.us

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF PUBLIC SAFETY

1. HOMELAND SECURITY CLUSTER – PERIOD OF AVAILABILITY

Finding Number	2007-DHS01-048
CFDA Number and Title	97.004/97.067 – Homeland Security Cluster
Federal Agency	Department of Homeland Security

QUESTIONED COSTS $28,795

28 CFR 66.23 states, in part:

(a) General. Where a funding period is specified, a grantee may charge to the award only costs resulting from Obligations of the funding period . . .

(b) Liquidation of obligations. 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's grant award notification for the Federal Fiscal Year 2004 Homeland Security Grant Program from the U.S. Department of Homeland Security (U.S. DHS), Office of Domestic Preparedness (ODP), indicated the grants' period of availability as from December 1, 2003 through November 30, 2005. On September 6, 2005, a grant adjustment notice was issued by the U.S. DHS extending the grants' period of availability until May 31, 2006. Then, finally, based on a request by the Department, the U.S. DHS issued a second grant adjustment notice extending the grants' period of availability to November 30, 2006. As a result, the grants' liquidation period was extended until February 28, 2007. The following transactions occurred outside the grants' period of availability for the Homeland Security Grant Program:

- One payroll voucher, grant L081, totaling $3,089, was not obligated or liquidated within a timely manner. The transaction was obligated 191 days after the end of the grant period and the transaction was liquidated 113 days after the end of the grant's allowable liquidation period. This payment will be questioned costs.

- Two vouchers (one intrastate payment voucher and one payment card voucher), grant L079 and M124, totaling $2,224 were not obligated within a timely manner. These transactions were obligated 49 to 62 days after the end of the grant period. These payments will be questioned costs.

- One intrastate voucher, grant L079, totaling $23,482, was not liquidated within a timely manner. The transaction was liquated 13 days after the end of the grant's allowable liquidation period. We are also questioning the costs associated with this transaction.

Failure by the Department to obligate and liquidate their federal funds within the grant period and 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. As a result, the Department was not in compliance with the period of availability requirements for the Homeland Security Cluster. Based on Departmental procedures, the Fiscal Division would determine how to code Homeland Security Cluster grants when processing expenditures without any input from the program area. However, these procedures have been changed and the program area is involved when determining the coding structure for Homeland Security expenses.

1. HOMELAND SECURITY CLUSTER – PERIOD OF AVAILABILITY (Continued)

We recommend the Department strengthen current policies and procedures to ensure Homeland Security Grant Program funds are obligated and liquidated within the required timeframes, as specified by the U.S. DHS. Specifically, the Department should review all transactions charged to the grant after the end of the grant period to verify the transaction's corresponding obligation occurred prior to the end of the grant period. In addition, no transactions should be charged to a grant after the end of the 90 day liquidation period. Finally, we recommend the Department take whatever steps necessary to improve the coordination between the Fiscal Division and the Program Areas to reasonably ensure transactions are processed within the grant's period of availability.

Official's Response and Corrective Action Plan

The Ohio Department of Public Safety has recently implemented monitoring procedures to ensure transactions do not occur beyond the period of availability. Grant managers within the Ohio Emergency Management division are now being provided spending reports every two weeks from the Administration division fiscal section. These spending reports are monitored to ensure that expenditures are not occurring outside of the available period. In addition, grant managers are communicating grant available periods to fiscal personnel so they can monitor transactions to ensure no expenditures are beyond the available period.

There is no dispute that monitoring procedures should have been implemented and have since been implemented; however, there are some disputes as to the costs that were questioned by the Auditor of State.

The payroll voucher for grant L081 totaling $3,089 was questioned since it inadvertently referenced the grant number identified for a federal program. However, it was correctly charged to EMA's GRF funding and not to the federal grant. There was no federal cash drawn for this spending nor was there any negative impact to the federal grant. Neither grant L081, nor any other grant in this cluster, required a state matching amount, so the inclusion of a grant number on this entry was in error. The error has been corrected to remove the reference to the grant number.

The ISTV for grant L079, transaction processing fees of DAS, in the amount of $1,844 relates to a purchase order that was originally to be funded by grant L079. It was later noted that the spending belonged to grant L626 – FY05 Homeland Security and an adjustment to the voucher was subsequently made to reflect the proper grant number. However, when the DAS charges were made, they were applied to L079 – as was listed on the original document and not grant L626 as would be correct. The charging of these expenses to L079 is an error and will be corrected.

We agree the charges for grant # M124 in the amount of $380 were not obligated in a timely manner.

We agree the ISTV for grant L079 totaling $23,482 was not liquidated in a timely manner.

Anticipated Completion Date for Corrective Action

Corrective action was put into place February, 2008.

Contact Person Responsible for Corrective Action

Stacie Kitchen, MBA, Business Manager, Ohio Emergency Management Agency, Ohio Department of Public Safety, 2855 W. Dublin-Granville Road, Columbus, OH 43235, Phone: (614) 889-7175; e-mail: slkitchen@dps.state.oh.us

2. HOMELAND SECURITY CLUSTER – INACCURATE FEDERAL REPORTS

Finding Number	2007-DHS02-050
CFDA Number and Title	97.004/97.067 – Homeland Security Cluster
Federal Agency	Department of Homeland Security

NONCOMPLIANCE – SIGNIFICANT DEFICIENCY

The Department is required to submit the Financial Status Report to the United States Department of Homeland Security (U.S. DHS), Office of Grants and Training (G & T), or to the Office of Domestic Preparedness (ODP) in the past, on a quarterly basis. The FY 2006 Homeland Security Grant Program (HSGP) Award Reporting Requirements obtained from the FY 2006 HSGP Program Guidelines and Application Kit states:

> Obligations and expenditures must be reported to G&T on a quarterly basis through the Financial Status Report, which is due within 30 days of the end of each calendar quarter.

It is management's responsibility to implement control policies and procedures to reasonably ensure the federal reports they submit are accurate, complete, submitted timely, and in compliance with the Homeland Security Cluster's program requirements. It is imperative that all Financial Status Reports be reconciled to supporting documentation to assure accuracy and completeness of the amounts being reported to the Federal U.S. Department of Homeland Security.

At the Department of Public Safety, the SF269-A Financial Status Report is prepared by the Administrative Assistant II using the State's Central Accounting System (CAS) data and data obtained from the federal draw down system. During testing of 12 quarterly SF269-A Financial Status Reports for Federal Fiscal Years (FFY) 2004, 2005, and 2006 for the Homeland Security Cluster, we noted inaccurate reporting within all 12 (100%), of these reports. The following significant issues were noted:

FFY 2004:

- For Grants L079-L081, as of September 30, 2006, the total amount per CAS was $68,888,240 while the amount reported on the SF-269A Financial Status Report was $57,396,303, resulting in the Financial Status Report being understated by $11,491,937.

- For Grants L079-L081, as of December 31, 2006, the total amount per CAS was $69,293,826 while the amount reported on the SF-269A Financial Status Report was $57,396,303, resulting in the Financial Status Report being understated by $11,897,523.

- For Grants L079-L081, as of March 31, 2007, the total amount per CAS was $67,961,941 while the amount reported on the SF-269A Financial Status Report was $57,396,303, resulting in the Financial Status Report being understated by $10,565,638.

FFY 2005:

- For Grants L626-L631, as of March 31, 2007, the total amount per CAS was $58,427,911 while the amount reported on the SF-269A Financial Status Report was $57,148,695, resulting in the Financial Status Report being understated by $1,279,216.

- For Grants L626-L631, as of June 30, 2007, the total amount per CAS was $63,497,682 while the amount reported on the SF-269A Financial Status Report was $58,369,698, resulting in the Financial Status Report being understated by $5,127,984.

2. HOMELAND SECURITY CLUSTER – INACCURATE FEDERAL REPORTS (Continued)

In addition, during the preparation of the Financial Status Report, the Fiscal Division's Grants Administrator reviews the report for accuracy and completeness; however, the review is not properly documented. The FSR is electronically submitted with only a typed name and title, printed upon completion of the review, and kept on file without a signature.

The absence of internal controls to reasonably ensure the accuracy and completeness of reports increases the risk that information reported is not representative of grant activity and/or is not in accordance with federal requirements and regulations. As a result, the Department was not in compliance with federal reporting requirements for the Homeland Security Cluster. According to the Department's Fiscal Officer and the Administrative Assistant II, the Financial Status Report is submitted electronically and does not allow for a reviewer's signature. In addition, the amounts reported for FY 2004-06 reports were obtained from the Federal draw down system and not from CAS in order to report actual grant activity. The Fiscal Officer also indicated the Department is currently utilizing amounts reported in the state's accounting system to prepare the Financial Status Reports.

We recommend the Department devise and implement policies and procedures to provide reasonable assurance the SF269-A Financial Status Reports are accurate, complete, and in compliance with the Homeland Security Cluster's federal requirements. This could be achieved by establishing a comprehensive review of the report's information ensuring the data in the report properly reflects the data reported in the state's financial accounting system. Evidence of such reviews should be maintained to provide management with assurance the controls are operating consistently and effectively. This may be achieved by the Fiscal Division's Grants Administrator approving the Financial Status Report via email to the Administrative Assistant II and maintaining a copy of this email with the report's supporting documentation.

Official's Response and Corrective Action Plan

This issue of inaccurate reporting was identified and corrective measures and controls have been put in place by the ODPS Fiscal section to provide accurately reported federal grant information. The following procedures have been established to provide reasonable assurance that the Financial Status Reports are filed accurately. Detailed data reports will be retrieved from the State's accounting system showing lifetime spending for the grant. Perform a review of records from the Federal system showing lifetime draws for grants. Review the prior quarter Financial Status Report. A financial status worksheet form is to be completed which shows all key financial information needed to file the quarterly financial status reports. The financial status worksheet preparer will initial and date the handwritten prepared report, and forward it to the section supervisor with all supporting documentation and reports. The section supervisor or designee reviews the financial status report worksheet, supporting documents and commentary for accuracy. Once the supervisor is satisfied that the figures and documentation for the financial status report are accurate, the supervisor signs and dates the financial status report worksheet to indicate their approval and delegates the financial status report filing to a designated employee so the financial status report can be filed.

We would also like to note that although the electronic version of the L626-L631 was filed incorrectly for the quarter ending June 30, 2007, notes in the file had actually identified the correct amounts, with the error only occurring in the electronic version of the filing. The error was noticed and the subsequent quarter was filed with the correct information.

Anticipated Completion Date for Corrective Action

Corrective action was updated January, 2008.

2. HOMELAND SECURITY CLUSTER – INACCURATE FEDERAL REPORTS (Continued)

Contact Person Responsible for Corrective Action

Barbara Hamilton, Fiscal Officer 2, Ohio Department of Public Safety, 1970 West Broad Street, Columbus, OH 43223, Phone: 614-752-7981, e-mail: bhamilton@dps.state.oh.us

3. HOMELAND SECURITY CLUSTER – EQUIPMENT MANAGEMENT

Finding Number	2007-DHS03-051
CFDA Number and Title	97.004/97.067 – Homeland Security Cluster
Federal Agency	Department of Homeland Security

SIGNIFICANT DEFICIENCY

28 CFR 66.32, states in part:

> . . .
>
> (d) Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:
>
> (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
>
> . . .

It is management's responsibility to implement control policies and procedures to reasonably ensure the Asset Inventory Management System (AIMS) Equipment Inventory Listing they maintain is complete and accurate and equipment purchased using the Homeland Security Cluster's program funding is maintained and disposed of in accordance with grant guidelines.

After a Homeland Security Cluster grant is issued to the Ohio Emergency Management Association (OEMA), a budget is prepared to document the proposed use of these funds. Within the grant's budget, OEMA specifies the allocation kept at the state level that will be used for equipment. The OEMA inventories state property as it is received by the Department on an annual basis. Every 24 months, the Department and the OEMA conduct a hands-on inventory of state equipment and document the information on a Physical Inventory Data Collection form, as well as update the State's Asset Inventory Management System (AIMS). In addition, the Department must certify their inventory to the Department of Administrative Services by October 1st each year. During our review, the following items were noted:

- An inventory listing specifying the source of funds used to purchase a piece of equipment and the percentage of Federal participation in the costs of the property could not be generated from AIMS and was not readily available. As a result, the Department merged the purchase order number within AIMS with the purchase order number within the CAS, since the grant number field was populated in CAS, in order to generate an inventory listing for the audit.

3. HOMELAND SECURITY CLUSTER – EQUIPMENT MANAGEMENT (Continued)

- Eight items were identified by the auditors from the inventory listing as being disposed of during fiscal year 2007 and there was no documentation to support these disposals. The Department indicated some of these items were actually missing and a disposal date was entered into the system. A few of these items were later located and in a couple instances, the items were entered twice within AIMS under two different Asset Identification Numbers. Therefore, it appears as though the disposal information within AIMS was not accurate and the inventory listing provided was not complete.

- Nine items were selected from the inventory listing and we were unable to trace these items to their designated location. The nine items were purchased by the Office of Homeland Security, and AIMS indicated the items were located within the Shipley Building. We inquired with the Department, who indicated these items were passed through to local government units and AIMS was not updated to reflect this change. We were provided an Excel spreadsheet documenting all of the items passed through to the local government units. After reviewing the Excel spreadsheet, we also noted several other items passed through to local government units but were designated at the Shipley Building within AIMS. Therefore, it appears as though the location designated on the AIMS inventory listing was not accurate.

- For two of 22 (9.09%) items tested, a monitor and a radiation tester, were not properly tagged with an Ohio Asset Tag.

- For one of five (20%) items tested, the items purchased from a voucher processed during fiscal year 2007 could not be traced to the AIMS inventory listing.

If the Department does not adequately document and record inventory transactions and adequately maintain their inventory records, management cannot be assured that equipment records are complete and accurate, items recorded are being used for their intended purposes, or that items are properly disposed of in accordance with the Homeland Security Cluster's federal regulations. Additionally, the failure to provide a complete and accurate inventory listing could result in reduced Homeland Security Grant Program funding in future years. OEMA Management indicated the nine items listed above were assets belonging to their sub-grantee, the Office of Homeland Security. The Office of Homeland Security passed these nine assets down to local governments and the inventory listing within AIMS was not updated to reflect this change. In addition, the Internal Audit Chief stated the AIMS system has been updated to include the federal grant used to purchase a piece of equipment.

We recommend the Department strengthen their current policies and procedures in order to reasonably ensure their inventory listing is accurate and complete. The Department should ensure staff understands how to handle the receipt, recording, and disposal within AIMS of equipment purchased with the Homeland Security Cluster's Federal funds. Also, the Department should ensure any equipment passed through to the local government units is properly reflected within the Departments records and the AIMS system. And finally, we recommend the Department utilize the disposal date as intended and only enter a disposal date within AIMS if the item is actually disposed of and refrain from entering a disposal date within AIMS as a result of an item being misplaced.

Official's Response and Corrective Action Plan

The Ohio Department of Public Safety has already implemented a grant number field within the Asset Inventory Management System (AIMS) to capture the appropriate federal information directly in the system. The addition of this field allows for an inventory listing to be generated directly from AIMS. All new purchases with federal funds are now indicated in the asset management system, and for past transactions, Asset Management personnel will work to update the system with the information on the current federal asset listing.

3. HOMELAND SECURITY CLUSTER – EQUIPMENT MANAGEMENT (Continued)

Asset Management personnel have removed the nine items purchased by the Office of Homeland Security that were subgranted to local governments. The information related to the disposed of items has been updated or clarified. Also, the two items listed as not properly tagged have now been labeled with the appropriate tags.

Ohio Emergency Management Agency will develop federal grant asset procedures in their grant Administrative Plan. These procedures will outline how to handle the disposition, inventory, tagging, and tracking of assets purchased with Homeland Security grant funds. In addition, the Ohio Emergency Management Agency is planning on implementing a grants management system in SFY 2009 which will track assets purchased with grant funds by the Ohio Emergency Management Agency. Assets purchased by other Ohio Department of Public Safety divisions via a subgrant from the Ohio Emergency Management Agency division will be monitored in the future for compliance with the requirements.

Anticipated Completion Date for Corrective Action

Complete corrective action is anticipated to be put into place by July 1, 2008.

Contact Person Responsible for Corrective Action

Stacie Kitchen, MBA, Business Manager, Ohio Emergency Management Agency, Ohio Department of Public Safety, 2855 W. Dublin-Granville Road, Columbus, OH 43235, Phone: (614) 889-7175; e-mail: slkitchen@dps.state.oh.us

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO SECRETARY OF STATE

1. HAVA – SUSPENSION AND DEBARMENT

Finding Number	2007-SOS01-051
CFDA Number and Title	90.401 – Help America Vote Act Requirements Payments
Federal Agency	General Services Administration, Elections Assistance Commission

SIGNIFICANT DEFICIENCY – MATERIAL WEAKNESS

41 CFR 105-68 requires that non-federal entities receiving federal assistance are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred, or whose principals are suspended or debarred, from conducting business with federal funds. Effective November 26, 2003, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the other entity is not suspended or debarred or otherwise excluded. Per 41 CFR 105-68.330 this verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transactions with that entity.

It is management's responsibility to establish controls to be used by the Office to ensure compliance with the suspension and debarment requirement. Such controls need to be sufficient to ensure the Office can comply with the requirement and not do business with suspended or debarred parties.

The Ohio Secretary of State contracted with several vendors to whom the Office disbursed $22,516,516 of HAVA funds during FY 2007. The Office could not identify specific control procedures used to help ensure compliance with this requirement. In addition, the Office could not provide any documentation that it checked the EPLS system, obtained related certifications, or included the necessary clauses in the covered transactions with other entities. Without having suspension and debarment controls in place and by not verifying that entities involved in covered transactions are not suspended or debarred or otherwise excluded, the Office increases the risk that noncompliance could occur. As a result, a vendor that has been disqualified from conducting federal business could end up doing business with the Office and receive federal money. This could result in the Office being held liable for misspending federal dollars, having to return such funds, and could potentially lose future federal awards. The Finance Grants Manager stated the Office was not aware of this weakness until the end of FY 2007 when the condition was brought to their attention by a comment in the FY 2006 audit report. She also said that, due to the timing involved, the Office was not able to develop controls or attempt to be in compliance during the current audit period.

We recommend the Office implement specific and adequate controls to help comply with the suspension and debarment requirement. One control may involve obtaining a certification from potential vendors that they are not suspended or debarred from engaging in business transactions using federal funds; another control may involve checking potential vendors against the *Excluded Parties List System (EPLS)* at http://epls.arnet.gov. We also recommend the Office maintain documentation of the control it uses during this verification process.

Official's Response and Corrective Action Plan

As noted, the SOS was not aware of this issue until the end of FY 2007 when the condition was brought to our attention by a comment in the FY 2006 audit report. As further noted, due to the timing, the SOS was not able to develop controls or attempt to be in compliance during the FY 2007 audit period.

1. HAVA – SUSPENSION AND DEBARMENT (Continued)

However, new procedures implemented June 15, 2007 require the SOS finance division to review a checklist prior to finalizing a contract with any vendor. The checklist requires a finance employee to use an electronic database (http://www.epls.gov/epls/search.do?reset=true) to search for vendors on the federal suspension and debarment list. Upon completion of the checklist, the employee signs and dates that such activities were performed prior to the SOS contracting with the vendor.

Anticipated Completion Date for Corrective Action

Completed – June 2007

Contact Person Responsible for Corrective Action

Veronica Sherman, CFO, Ohio Secretary of State, 180 E. Broad Street, 17th Floor, Columbus, Ohio, 43215, Phone: (614) 466-0180, e-mail: vsherman@sos.state.oh.us

1. CONTRACT TIME EXTENSION APPROVAL

Finding Number	2007-DOT01-052
CFDA Number and Title	20.205/23.003 – Highway Planning and Construction Cluster
Federal Agency	Department of Transportation Appalachian Regional Commission

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

23 CFR 635.121 states, in part:

…

(b) Contract time extensions granted by a STD shall be subject to the concurrence of the Division Administrator and will be considered in determining the amount of Federal participation. Contract time extensions submitted for approval to the Division Administrator shall be fully justified and adequately documented.

When administering federal grant awards, it the responsibility of management to develop and implement control policies and procedures to provide guidance and reasonable assurance the Department is in compliance with all applicable federal laws and regulations. In order for management to reasonably ensure and verify this information, it is imperative that supporting documentation be maintained to evidence compliance with federal requirements.

The policies and procedures currently in place for the Department require district personnel to review, evaluate, and approve time extension requests from contractors and complete the C-122 Time Extension form. Once completed and approved by the districts, a copy of the form is forwarded to the Federal Highway Administration (FHWA - Division Administrator). However, there is currently no tracking mechanism to identify those forms sent to FHWA or any standardized process or documentation received from FHWA to indicate their concurrence with the extension. Of the 15 contract time extensions (C-122 forms) selected for testing from the 137 granted during our audit period, five (33.33%) did not contain evidence of FHWA approval or concurrence.

Without consistently obtaining or maintaining the required evidence and documentation, the Department may not be able to fully support or ensure compliance with federal laws and regulations. Extending a project's timeframe without the required concurrence of the FHWA could adversely impact the amount of federal participation for the project, and/or the Department could incur fines or penalties for noncompliance.

Department personnel indicated they had not considered the need to incorporate a process to track and maintain documentation of federal approval of time extensions. They relied on FHWA to maintain this documentation. However, when asked, FHWA was not able to provide copies of their approval of the time extensions in question.

We recommend management update their current policies and procedures related to contract time extensions to include a process and mechanism to track time extension requests sent to and received from FHWA, and to require documentation be maintained of their concurrence. These policies and procedures should be formally communicated to all appropriate personnel, along with a review of applicable federal laws and regulations pertaining to contract time extensions. Supervisory reviews should be periodically performed to verify adherence to these policies and procedures and to verify documentation is maintained to substantiate compliance with federal requirements.

1. CONTRACT TIME EXTENSION APPROVAL (Continued)

Official's Response and Corrective Action Plan

The previous Department policy and standard procedure for time extensions stated that the District shall furnish copies of the approved Form C-122 or Form C-122a to the Contractor and FHWA (if the project has Federal oversight) to fulfill the FHWA notification and approval requirements. The original approved Form C-122 or Form C-122a shall be retained in the District project file.

The current Department Change Order Policy 27-010 (P) dated June 20, 2003, and Interim Change Order Standard Procedure 510-010 (SIP) dated September 21, 2007, for processing change orders states that all contract time extensions will be processed by change order to the original contract as per Section II.A.5 of the Interim Standard Procedure.

The interim standard procedure further states that all change orders are to be approved by FHWA on full Federal Oversight Projects.

Input from FHWA with regard to the approval of time extensions and change orders was provided to the Department by FHWA during development of the Interim Change Order Standard Procedure, 510-010 (SIP).

Anticipated Completion Date for Corrective Action

The above finding has already been corrected. The effective date of the current Interim Change Order Standard Procedure, 510-010 (SIP), was 09/21/07.

Contact Person Responsible for Corrective Action

William H. Lindenbaum, P.E., P.S., Deputy Director, Division of Construction Management, Ohio Department of Transportation, 1980 West Broad Street, Columbus, Ohio 43223, Phone: (614) 466-0017, e-mail: Bill.Lindenbaum@dot.state.oh.us

2. INFORMATION TECHNOLOGY – PRODUCTION ACCESS TO MAINFRAME PROGRAMS AND DATA

Finding Number	2007-DOT02-053
CFDA Number and Title	20.205/23.003 – Highway Planning and Construction Cluster
Federal Agency	Department of Transportation Appalachian Regional Commission

SIGNIFICANT DEFICIENCY – MATERIAL WEAKNESS

In order to maintain integrity of essential ODOT applications and data, access to computer systems, programs, and data must be authorized and restricted to only the needs of users' specific job responsibilities. In order to reasonably ensure users are authorized, a formal, documented authorization request process must be in place when granting access to new users. Also, a periodic review of user access must be conducted to verify that all access is appropriate and current. In addition, effective access procedures would provide for the suspension of user access capabilities, logical and physical, upon separation from ODOT employment.

2. INFORMATION TECHNOLOGY – PRODUCTION ACCESS TO MAINFRAME PROGRAMS AND DATA (Continued)

ODOT's mainframe computer applications were utilized in processing more than $2.2 billion in state and federal funds in Highway Operating CAS Fund 002 during state fiscal year 2007. These applications included: Construction Management System (CMS), Appropriation Accounting (AA), Current Billing System (CBS), Bridge Management System (BMS), Road Inventory System (RIS), Pavement Management System (PMS), and Equipment Management System/Transportation Management System (EMS/TMS). During the audit period, there was no formal, documented authorization process in place for requesting and approving access to these ODOT mainframe computer applications. Because there was no standard process, approval documentation for granted access to the mainframe applications for 31 of the 35 (86%) users added during the audit period was not available. Although four of the 35 (14%) had documentation of authorization to access the CMS application, this documentation did not specify what level of access would be required for the users.

In addition, ODOT management did not complete an access reconciliation in FY 2007 to confirm their employees' mainframe access was commensurate with their job duties for the AA, TMS, and CMS applications. Although a confirmation was initiated for BMS during the audit period, one of the 13 (8%) request for verification of the access forms was not completed and returned by the district.

Lastly, mainframe access was not removed timely after users were terminated. During the audit period, 829 system users were terminated from ODOT. Of the 60 sampled terminations, the accounts of 23 users (38%) were suspended more than two weeks after their termination dates. Distributions are below:

- Accounts suspended between 14 and 31 days after termination date: 14 user accounts
- Accounts suspended between 32 and 60 days after termination date: eight user accounts
- Accounts suspended more than 60 days after termination date: one user account

In addition, contractor access was not being centrally monitored; therefore, it was not possible for the auditor to effectively review contractor terminations.

Personnel having unauthorized or inappropriate access to the ODOT applications increases the likelihood of incorrect processing of accounting, construction, and inventory data. Without an accurate periodic review of user access, the risk is increased that unauthorized users have inappropriate access to program and data files because they either were not granted access appropriately, changed job responsibilities and no longer required the access, or were terminated from the department and did not have their access appropriately severed. Without timely removal of terminated employees' access, there is an increased risk that the unauthorized access could lead to intentional destruction or damage of data or equipment. Unauthorized access could result in the execution of inappropriate application transactions or the alteration of program or data files that could be a misuse or fraudulent misappropriation of state resources or federal program monies.

IT management indicated that during the audit period, there was a change in the administration of the Department of Information Technology. Access procedures were not standardized or formalized under the previous administration. However, the current management indicated they are in the process of completing an access review and developing procedures.

We recommend the Department complete their efforts to help ensure all computer users only have the approved access they need to perform their job responsibilities. This can be accomplished through a formalized access request process and maintained through periodic reviews of both system and application access levels of security. In addition, stringent procedures should be finalized and documented to help ensure access to both logical and physical resources are removed or suspended within a few days of an employee's separation from ODOT employment. We also recommend these procedures apply to the computer access for all hired contractors. Effective monitoring of all assigned contractor computer access will help the implementation of these termination procedures.

2. INFORMATION TECHNOLOGY – PRODUCTION ACCESS TO MAINFRAME PROGRAMS AND DATA (Continued)

Once ODOT's current initiatives to complete these access authorization, reconciliation, and termination processes are finalized, documented, and approved, they should be incorporated into the computer security policy for the Department.

Official's Response and Corrective Action Plan

In order to ensure that users of AA, EMS, CMS, TMS and BMS are appropriately authorized, an automated, formal, documented request process has been implemented by ODOT. The authentication process for EMS and TMS was effective on February 28, 2008. The authentication process for AA, BMS and CMS was effective on April 1, 2008. This authentication process is currently in place for granting, denying or removing access for users and for updating existing user access as needed for all of the above applications, i.e., EMS, TMS, AA, BMS and CMS.

In addition, a periodic review and verification process was established and subsequently communicated to ODOT management and supervisors on March 31, 2008. The review and verification process ensures that user access to EMS, TMS, AA, BMS and CMS is commensurate with their job duties. This process will be completed on a quarterly basis and will also verify that user access has been removed for those who no longer require access to these applications in order to perform their job duties. The first quarterly review and cleanup process will be completed by the end of the first calendar quarter ending April 30, 2008.

In regard to mainframe access not being removed in a timely manner after users were terminated, a process was implemented during the last pay period of 2007, pay period ending December 22, 2007. This process is initiated by the ODOT Human Resources Office and terminated employees are immediately removed from access to all of ODOT's internal applications containing accounting, construction and inventory data.

Lastly, contractor access is centrally controlled and monitored in the same processes that are described above.

Anticipated Completion Date for Corrective Action

All corrective actions have been completed on the dates shown in Section 2 of this document, as confirmed below:

Authentication Process
February 28, 2008 – EMS and TMS
April 1, 2008 – AA, BMS and CMS

April 30, 2008 – Completion of first quarterly access review process

Contact Person Responsible for Corrective Action

Spencer Wood, Deputy Director, Ohio Department of Transportation, 1980 West Broad Street, Columbus, Ohio 43223, Phone: (614) 466.3553, e-mail: Spencer.Wood@dot.state.oh.us

THIS PAGE LEFT BLANK INTENTIONALLY

SUPPLEMENTAL INFORMATION

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Development	2006-DEV01-001 **TANF – Tracking and Documentation**	No	The finding has been repeated in the FY 2007 Single Audit. See 2007-DEV02-004.
Ohio Department of Education	2003-EDU01-003 2004-EDU01-005 2005-EDU01-002 2006-EDU01-002 **Charter Schools – Monitoring of Subrecipients**	No	The finding has been repeated in the FY 2007 Single Audit. See 2007-EDU03-007.
	2005-EDU02-003 2006-EDU02-003 **Reading First – Monitoring of Subrecipients**	No	The finding has been repeated in the FY 2007 Single Audit. See 2007-EDU04-008.
	2006-EDU03-004 **21st Century – Monitoring of Subrecipients**	No	The finding has been repeated in the FY 2007 Single Audit. See 2007-EDU02-006.
	2002-EDU14-019 2003-EDU06-008 2004-EDU05-009 2005-EDU03-004 2006-EDU04-005 **IT — Application Development and Maintenance**	No	The finding has been repeated in the FY 2007 Single Audit. See 2007-EDU05-009.
Ohio Department of Health	2002-DOH01-020 2003-DOH01-009 2004-DOH02-012 2005-DOH02-006 2006-DOH01-006 **Subrecipient Monitoring**	No	The finding has been repeated in the FY 2007 Single Audit. See 2007-DOH01-010.
	2004-DOH04-014 2005-DOH04-008 2006-DOH02-007 **Federal Reporting**	No	The finding is no longer considered a reportable item under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Health.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Health (Continued)	2005-DOH05-009 2006-DOH03-008 **MCH Grant – Lack of Earmarking Controls**	No	The finding has been repeated in the FY 2007 Single Audit. See 2007-DOH02-011.
	2003-DOH03-011 2004-DOH06-016 2005-DOH06-010 2006-DOH04-009 **IT – Program Change Controls**	No	The finding has been repeated in the FY 2007 Single Audit. See 2007-DOH03-012.
Ohio Department of Job and Family Services	2006-JFS01-010 **MMIS(OHP) – Claims Reimb in Excess of OAC Limits**	No	The finding has been repeated in the FY 2007 Single Audit. See 2007-JFS01-013.
	2006-JFS-02-011 **MMIS – CRIS-E and MMIS Eligibility Spans Not Reconciled**	No	The finding has been repeated in the FY 2007 Single Audit. See 2007-JFS23-035.
	2006-JFS03-012 **Various Programs – Period of Availability**	No	The finding is no longer considered a reportable condition under the provisions of OMB Circular A-133; however a verbal recommendation for improvement has been given to the Ohio Department of Job and Family Services.
	2006-JFS04-013 **TANF – Subrecipient Monitoring - Tuscarawas**	Yes	
	2006-JFS05-014 **Various Programs – Indirect Cost Allocation Variances**	No	The finding has been repeated in the FY 2007 Single Audit. See 2007-JFS15-027.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services (Continued)	2005-JFS06-016 2006-JFS06-015 **Medicaid/TANF/FS – Undocumented Eligibility – Cuyahoga County**	Yes	
	2006-JFS07-016 **Undocumented Eligibility – Medicaid/FS/TANF – Franklin County**	No	The finding has been re-peated in the FY 2007 Single Audit. See 2007-JFS03-015.
	2005-JFS25-035 2006-JFS08-017 **UI & TTA – Overpayment of Benefits**	Yes	
	2005-JFS08-018 2006-JFS09-018 **TANF – Refuse to Work/Child Under 6 – Lucas County**	Yes	
	2006-JFS10-019 **TANF Missing Case Files – Franklin County**	No	The finding has been re-peated in the FY2007 Single Audit. See 2007-JFS07-019.
	2006-JFS11-020 **TANF – Refusal to Work Sanction – Tuscarawas**	Yes	
	2006-JFS12-021 **IEVS and CRIS-E – IRS Matched Not Completed for Audit Period**	No	The finding is no longer considered a reportable item under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services (Continued)	2002-JFS19-040 2003-JFS20-031 2004-JFS13-029 2005-JFS20-030 2006-JFS13-022 **IEVS – Due Dates**	No	The finding has been repeated in the FY 2007 Single Audit. See 2007-JFS16-028.
	2005-JFS21-031 2006-JFS14-023 **IEVS – Alert Resolution/ Inadequate Documentation**	No	The finding has been repeated in the FY 2007 Single Audit. See 2007-JFS17-029.
	2005-JFS23-033 2006-JFS15-024 **Employment Services – Earmarking Requirement**	Yes	
	2004-JFS23-039 2005-JFS26-036 2006-JFS16-025 **All Applications – Lack of Automated Controls Testing**	No	The finding has been repeated in the FY 2007 Single Audit. See 2007-JFS19-031.
	2002-JFS38-059 2003-JFS37-048 2004-JFS22-038 2005-JFS28-038 2006-JFS17-026 **IT – Excessive Manual Overrides**	No	The finding has been repeated in the FY 2007 Single Audit. See 2007-JFS20-032.
	2006-JFS18-027 **IEVS/CRIS-E – Internal Controls at County Level**	No	The finding is no longer considered a reportable item under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services (Continued)	2006-JFS19-028 **TANF – Early Learning Initiative**	No	The finding is no longer considered a reportable condition under the provisions of OMB Circular A-133; however a verbal recommendation for improvement has been given to the Ohio Department of Job and Family Services.
	2006-JFS20-029 **Medicaid – Prior Authorization**	No	The finding is no longer considered a reportable item under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
	2006-JFS21-030 **Medicaid – Managed Care**	Yes	
	2004-JFS32-048 2005-JFS39-049 2006-JFS22-031 **MMIS (OHP) – Recertification of MMIS Providers**	No	The finding has been re-peated in the FY 2007 Single Audit. See 2007-JFS22-034.
	2004-JFS33-049 2005-JFS45-055 2006-JFS23-032 **MMIS – Provider Master File Changes**	No	The finding is no longer considered a reportable item under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services (Continued)	2006-JFS24-033 **Various Programs – Coding Errors**	No	The finding is no longer considered a reportable item under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
	2005-JFS33-043 2006-JFS25-034 **Unemployment Insurance – Internal Controls**	No	The finding is no longer considered a reportable item under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
	2005-JFS35-045 2006-JFS26-035 **Trade Adjustment Assistance – Federal Reports**	No	The finding is no longer considered a reportable item under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
	2002-JFS45-066 2003-JFS42-053 2004-JFS38-054 2005-JFS36-046 2006-JFS27-036 **SSBG – Incomplete Monitoring**	No	The finding has been re-peated in the FY 2007 Single Audit. See 2007-JFS26-038.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services (Continued)	2002-JFS14-035 2002-JFS61-082 2003-JFS52-063 2004-JFS39-055 2005-JFS37-047 2006-JFS28-037 **Missing Documentation – Various Counties**	No	The finding is no longer considered a reportable item under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
	2004-JFS43-059 2005-JFS40-050 2006-JFS29-038 **IT –Missing Program Change Request Forms**	No	The finding has been re-peated in the FY 2007 Single Audit. See 2007-JFS27-039.
	2002-JFS69-090 2003-JFS62-073 2004-JFS44-060 2005-JFS41-051 2006-JFS30-039 **IT – Unavailable Program Change Test Documentation**	No	The finding has been re-peated in the FY 2007 Single Audit. See 2007-JFS28-040.
	2005-JFS46-056 2006-JFS31-040 **IT – Missing Approval Documentation**	No	The finding has been re-peated in the FY 2007 Single Audit. See 2007-JFS29-041.
	2004-JFS34-050 2005-JFS47-057 2006-JFS32-041 2006-JFS33-042 **MMIS/ CRIS-E Edit Changes**	No	The finding has been re-peated in the FY 2007 Single Audit. See 2007-JFS31-043 and 2007-JFS30-042.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services (Continued)	2004-JFS52-068 2005-JFS43-053 2006-JFS32-041 2006-JFS33-042 2006-JFS34-043 2006-JFS35-044 2006-JFS36-045 **IT – Level of Access to Production Environment**	No	The finding has been repeated in the FY 2007 Single Audit. See 2007-JFS31-043, 2007-JFS30-042, 2007-JFS32-044, 2007-JFS33-045 and 2007-JFS34-046.
	2004-JFS54-070 2005-JFS44-054 2006-JFS35-044 2006-JFS36-045 **IT – Unauthorized Access to SCOTI & OJI Profiles**	No	The finding has been repeated in the FY 2007 Single Audit. See 2007-JFS33-045 and 2007-JFS34-046.
Ohio Department of Mental Health	2002-DMH01-091 2003-DMH01-074 2004-DMH01-074 2005-DMH01-058 2006-DMH01-046 **Subrecipient Monitoring**	No	The finding has been repeated in the FY 2007 Single Audit. See 2007-DMH01-047.
Ohio Secretary of State	2006-SOS01-047 **Election Reform/HAVA – Cash Management**	Yes	
	2006-SOS02-048 **Election Reform/HAVA – Interest Income**	Yes	
	2006-SOS03-049 **Election Reform/HAVA – Suspension and Debarment**	No	The finding has been repeated in the FY 2007 Single Audit. See 2007-SOS01-051.

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
JUNE 12, 2008

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us