STATE OF OHIO

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2011

STATE OF OHIO

SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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[1] *Due to additional information being included in Note 6, page 172 is now numbered 172.1 through 172.5*

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NOTE:

The State of Ohio *Comprehensive Annual Financial Report* for fiscal year ended June 30, 2011, has been issued in a separate report by the Ohio Office of Budget and Management. This report can be viewed at the following website: http://obm.ohio.gov/

EXECUTIVE SUMMARY
2011 STATE OF OHIO SINGLE AUDIT

AUDIT OF BASIC FINANCIAL STATEMENTS

There are 10 separate opinion units included in the basic financial statements of the State of Ohio for the fiscal year ended June 30, 2011. Four of the 10 opinion units are audited entirely or in part by independent accounting firms under contract with the Auditor of State. The remaining six 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, 2011, 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 unqualified opinions on the 10 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*. The letter for the fiscal year ended June 30, 2011, included four material weaknesses and four significant deficiencies from five separate state agencies. These comments are summarized on page 194 of this report.

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 149 through 172, the State administered 401 federal programs from 24 Federal agencies with total federal expenditures of $27.9 billion in fiscal year 2011. Of the $27.9 billion, the State disbursed $5.5 billion in funding as a result of the American Recovery and Reinvestment Act (ARRA) of 2009. This compares to $6.2 billion of ARRA funds disbursed in FY 2010.

The Schedule is used for identifying Type A and Type B programs. For fiscal year 2011, Type A federal programs for the State of Ohio were those programs with annual federal expenditures exceeding $41.9 million. There were 34 programs at or above this amount. Type B programs were those programs with annual federal expenditures exceeding $8.4 million, but less than $41.9 million. There were 31 programs meeting the criteria for Type B programs. The identification of Type A and B programs is utilized for determining 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. Low-risk Type A programs must be tested at least once every three years. One high-risk Type B program is then selected for testing to replace each low-risk Type A program not required to be tested. The State of Ohio Single Audit included the testing of 30 Type A programs and four high-risk Type B programs as major programs in fiscal year 2011.

Included in the Schedule are monies paid by the Ohio Department of Job & Family Services to their subrecipient county agencies to administer applicable portions of the Medicaid, Children's Health Insurance Program, TANF, Foster Care, Adoption Assistance, Social Services Block Grant, Child Care Cluster, Child Support Enforcement, and SNAP federal programs. The related county federal schedules will report expenditures for all disbursements made at the county level. However, for the Medicaid, Children's Health Insurance Program, TANF (OWF portion), Adoption Assistance, and SNAP federal programs, the counties performed only limited functions and maintained case records to support benefits paid by the Ohio Department of Job & Family Services related to these programs. We selected five of 88 counties and performed testing related to the specific county level activities for these five major programs. The results of our county level audit procedures are included in the Schedule of Findings and Questioned Costs.

The State's colleges and universities' federal financial assistance, which was approximately $4.3 billion in fiscal year 2011, is excluded from the State's Schedule although their financial activities are included in the State's financial statements (Discretely Presented Component Units). The State's colleges and universities included in the State's reporting entity 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 34 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 material weaknesses or significant deficiencies we identified related to controls used to administer Federal financial assistance programs. Due to the significance of three of our audit findings, we qualified our opinion on compliance related to Reporting for nine major programs administered by the Ohio Department of Job and Family Services. We also qualified our opinion on compliance related to Subrecipient Monitoring for two major programs, Homeland Security Cluster and State Fiscal Stabilization Fund Cluster.

SUMMARY OF FINDINGS AND QUESTIONED COSTS

The fiscal year 2011 Schedule of Findings and Questioned Costs contains 59 findings of which 32 were repeated from the fiscal year 2010 State of Ohio Single Audit. Two of these findings, beginning on page 181, relate only to our Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*. One of the two comments discusses a state agency's controls over change management for their information technology system. The other comment relates to the state computer system's security access controls.

The 57 A-133 findings, beginning on page 199, relate to the federal programs at 13 state agencies. Of these federal findings, many of which were rated as more than one type, nine resulted in questioned costs (some also included control deficiencies), 20 were noncompliance (some also included control deficiencies), 38 were identified as material weaknesses, and 13 were significant deficiencies. The nine findings with questioned costs totaled $8,298,547. A significant portion of the total questioned costs amount related to the one comment below:

- The Ohio Department of Job & Family Services had questioned costs of $6,747,653 relating to three federal programs for Period of Availability. For the Supplemental Nutrition Assistance Program, the Department disbursed (or liquidated) $99,859 from the FFY 2008, 2009, and 2010 grants after the stated obligation/liquidation date of the grant award; for the Unemployment Insurance program, the Department disbursed $6,281,047 from the FFY 2009 and 2010 grants after the stated obligation/liquidation date of the grant award; and for the CCDF Cluster, the Department disbursed $366,747 from the FFY 2010 grant after the stated obligation/liquidation date of the grant award. The finding and the related client corrective action plan begin on page 245.

- We also had one finding with undetermined questioned costs; this finding occurred with the Ohio Department of Job & Family Services. The finding conveyed that system alerts on income reported by program recipients did not agree with information maintained by outside sources. These system alerts were not consistently maintained in order to determine whether they had been resolved. The findings and client corrective action plans begin on page 268.

The schedule below identifies the number of reportable items included in the State of Ohio Single Audit from fiscal year 2006 through 2011. The schedule includes reportable items by state agency and findings which have been repeated over a number of years.

State Agency	2011	2010	2009	2008	2007	2006
Ohio Dept. of Job & Family Services	28	27	26	30	34	36
Ohio Department of Education	7	2	2	2	5	4
Ohio Department of Health	4	7	4	6	3	4
Ohio Department of Development	4	1	0	1	2	1
Ohio Dept. of Alcohol & Drug Addiction	3	2	0	0	0	0
Ohio Dept. of Developmental Disabilities	2	1	0	0	0	0
Ohio Department of Mental Health	2	2	1	1	1	1
Ohio Rehabilitation Services Commission	2	0	1	2	0	0
Ohio Department of Public Safety	1	N/A	0	4	3	0
Ohio Office of Budget and Management	1	0	0	4	1	0
Ohio Administrative Knowledge System	1	1	0	4	1	N/A
Ohio Dept. of Transportation	1	0	3	1	2	0
Other State Agencies	3	1	3	0	1	3
Total	**59**	**44**	**40**	**55**	**53**	**49**

In addition to the comments 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 required for inclusion in this report. Those management letters are not part of this report.

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FINANCIAL SECTION

Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

The Honorable John Kasich, 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, 2011, 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; Ohio Capital Fund; 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	93%	38%
Aggregate Discretely Presented Component Units	98%	99%
Aggregate Remaining Fund Information	95%	33%
Workers' Compensation	97%	100%

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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, 2011, and the respective changes in financial position and cash flows, where applicable, and respective budgetary comparisons for the General and major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 of the basic financial statements, the State of Ohio implemented Governmental Accounting Standards Board Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and No. 59, *Financial Instruments Omnibus*.

In accordance with *Government Auditing Standards*, we are issuing our report dated January 20, 2012 under separate cover with the State of Ohio Single Audit report, 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.

Accounting principles generally accepted in the United States of America require this presentation to include the *Management's Discussion and Analysis* and *the Required Supplementary Information's Infrastructure Assets Accounted for Using the Modified Approach*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the State's basic financial statements taken as a whole. 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 aspects in relation to the basic financial statements taken as a whole.

The accompanying Federal Awards Expenditure Schedule replaces the Schedule for the State of Ohio's fiscal year ended June 30, 2011, previously issued with our report dated January 20, 2012. You should rely on this report rather than on our report dated January 20, 2012. The Schedule's Note 6 was revised to reflect borrowers that received American Reinvestment and Recovery Act Clean Water State Revolving Loan Fund (SRF) (CFDA #66.458) and Drinking Water SRF (CFDA #66.468) assistance.

Dave Yost

Dave Yost
Auditor of State

January 20, 2012, except for our report on the Federal Awards Expenditure Schedule, for which the date is July 15, 2013.

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State of Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(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, 2011. 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
During fiscal year 2011, net assets of the State's primary government increased by $2.64 billion and ended fiscal year 2011 with a balance of $22.84 billion. Net assets of the State's component units increased by $1.38 billion and ended fiscal year 2011 with a balance of $13.80 billion. Additional discussion of the State's government-wide balances and activities, as of and for the year ended June 30, 2011, can be found beginning on page 9.

Fund Financial Statements
Governmental funds reported combined ending fund balances of $10.72 billion that was comprised of $164.9 million in nonspendable, $8.96 billion restricted for specific purposes, $1.19 billion committed, $1.62 billion in assigned and a $1.21 billion deficit in unassigned. Nonspendable includes inventories, noncurrent portion of loans receivables, prepaids, and advances to local governments. The purposes of the restrictions, commitments, and assigned fund balances are primary, secondary and other education, higher education support, public assistance and Medicaid, health and human services, justice and public protection, environmental protection and natural resources, transportation, general government, community and economic development, capital outlay and debt service. The balances and activities of the State's governmental funds are discussed further beginning on page 13.

As of June 30, 2011, the General Fund's fund balance was approximately $2.22 billion, including $65.1 million in nonspendable, $1.08 billion in restricted fund balance, $671.2 million in committed, $1.62 billion in assigned and a $1.21 billion deficit in unassigned, as detailed in NOTE 17. The General Fund's fund balance increased by $606.9 million (exclusive of a $3.8 million increase in inventories) or 37.6 percent during fiscal year 2011. The balances and activities of the General Fund are discussed further beginning on page 14.

Proprietary funds reported net assets of $4.08 billion, as of June 30, 2011, an increase of $1.97 billion since June 30, 2010. This increase is largely due to the net increase of $1.95 billion in the Workers' Compensation 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 $25.72 billion at June 30, 2011. The majority of the $389.5 million increase during fiscal year 2011 was the acquisition of land and highway network infrastructure. Further discussion of the State's capital assets can be found beginning on page 16.

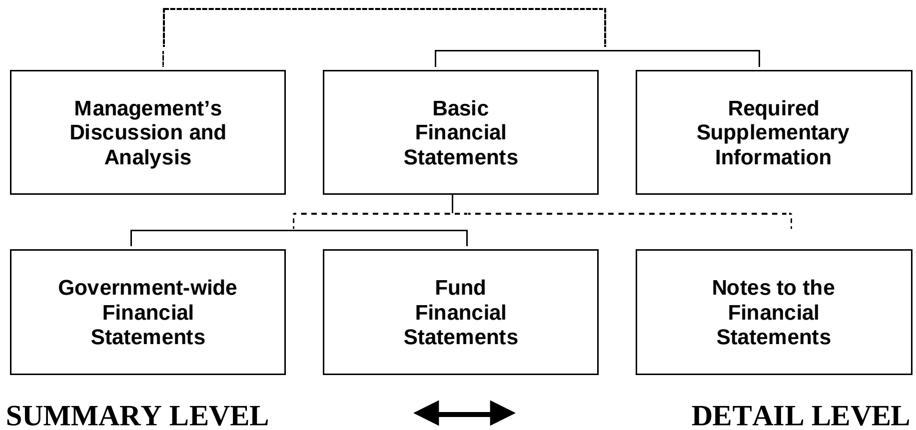
Long-Term Debt — Bonds and Notes Payable and Certificates of Participation Obligations
Overall, the carrying amount of total long-term debt for the State's primary government increased $679.6 million or four percent during fiscal year 2011 and reported an ending balance of $17.52 billion. During the year, the State issued, at par, $1.16 billion in general obligation bonds, $358 million in revenue bonds, and $356.2 million in special obligation bonds. Of the general obligation bonds and special obligation bonds issued, at par, $301.6 million and $243.2 million, respectively, 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 52 through 145 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 146 through 148 of this report.

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

Figure 2 **Major Features of the State of Ohio's Government-wide and Fund Financial Statements**				
		Fund Statements		
	Government-wide Statements	**Governmental Funds**	**Proprietary Funds**	**Fiduciary Funds**
Scope	Entire State government (except fiduciary funds) and the State's component units	The activities of the State that are not proprietary or fiduciary, such as general government, transportation, justice and public protection, etc.	Activities the State operates similar to private businesses, such as the workers' compensation insurance program, lottery, tuition credit program	Instances in which the State is the trustee or agent for someone else's resources
Required Financial Statements	• Statement of Net Assets • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund 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/net outflows of resources and liabilities/net inflows of resources — 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, the Ohio Capital Fund, and 22 state-assisted colleges and universities as discretely presented component units under a separate column in the government-wide financial statements. The Buckeye Tobacco Settlement Financing Authority and the Ohio Building Authority are presented as blended component units with their activities blended and included under governmental and business-type activities, respectively. 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 10 special revenue funds, 25 debt service funds, and 11 capital projects funds. Under separate columns, information is presented in the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund, the Job, Family and Other Human Services Special Revenue Fund, and the Buckeye Tobacco Settlement Financing Authority Revenue Bonds Debt Service Fund, 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 32 of this report while the combining fund statements and schedules can be found on pages 153 through 214 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 35 through 42 of this report while the combining fund statements can be found on pages 215 through 223 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 43 through 46 of this report.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Assets. During fiscal year 2011, as shown in the table below, the combined net assets of the State's primary government increased $2.64 billion or 13.1 percent. Net assets reported for governmental activities increased $668.2 million or 3.7 percent and business-type activities increased $1.97 billion, or 93.8 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, 2011
With Comparatives as of June 30, 2010
(dollars in thousands)

	As of June 30, 2011			As of June 30, 2010		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Assets and Deferred Outflows of Resources:						
Current Assets and Other						
Noncurrent Assets	$ 18,125,869	$ 27,813,243	$ 45,939,112	$ 17,955,313	$ 25,718,770	$ 43,674,083
Capital assets	25,559,678	160,302	25,719,980	25,148,054	182,446	25,330,500
Total Assets	43,685,547	27,973,545	71,659,092	43,103,367	25,901,216	69,004,583
Total Deferred Outflows of Resources	36,708	-	36,708	42,770	-	42,770
Liabilities						
Current and Other Liabilities	6,659,174	145,688	6,804,862	7,550,457	89,187	7,639,644
Noncurrent Liabilities	18,298,713	23,748,969	42,047,682	17,499,511	23,707,252	41,206,763
Total Liabilities	24,957,887	23,894,657	48,852,544	25,049,968	23,796,439	48,846,407
Net Assets:						
Invested in Capital Assets, Net of Related Debt	23,157,156	54,430	23,211,586	22,578,727	51,578	22,630,305
Restricted	3,856,555	5,844,952	9,701,507	2,902,122	86,616	2,988,738
Unrestricted	(8,249,343)	(1,820,494)	(10,069,837)	(7,384,680)	1,966,583	(5,418,097)
Total Net Assets	$ 18,764,368	$ 4,078,888	$ 22,843,256	$ 18,096,169	$ 2,104,777	$ 20,200,946

As of June 30, 2011, 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 $23.21 billion. Restricted net assets were approximately $9.70 billion, resulting in a $10.07 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 $8.25 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 $10.13 billion of outstanding general obligation and special obligation debt at June 30, 2011, $7.15 billion is attributable to debt issued for state assistance to component units (School Facilities Commission, Cultural 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, 2011, the State's governmental activities have significant unfunded liabilities for compensated absences in the amount of $464.1 million (see NOTE 14A.) and a $708.2 million interfund payable due to the workers' compensation component of business-type activities for the State's workers' compensation liability (see NOTE 7A.). These unfunded liabilities also contribute to the reported deficit for governmental activities.

Condensed financial information derived from the Statement of Activities, which reports how the net assets of the State's primary government changed during fiscal years 2011 and 2010, follows.

Primary Government
Statement of Activities
For the Fiscal Year Ended June 30, 2011
With Comparatives for the Fiscal Year Ended June 30, 2010
(dollars in thousands)

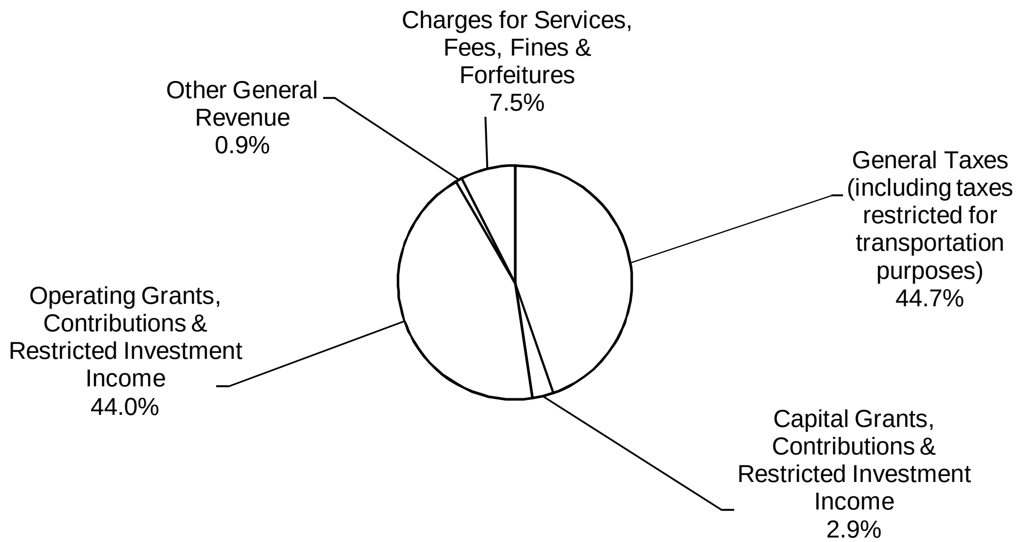
	Fiscal Year 2011			Fiscal Year 2010		
	Govern-mental Activities	Business-Type Activities	Total Primary Government	Govern-mental Activities	Business-Type Activities	Total Primary Government
Program Revenue:						
Charges for Services, Fees,						
Fines and Forfeitures ………	$ 3,776,993	$ 6,957,195	$ 10,734,188	$ 4,114,638	$ 6,722,648	$ 10,837,286
Operating Grants, Contributions and						
Restricted Investment Income/(Loss) ….	22,041,872	5,002,794	27,044,666	20,839,250	5,403,784	26,243,034
Capital Grants, Contributions and						
Restricted Investment Income/(Loss) ….	1,465,484	-	1,465,484	1,241,422	-	1,241,422
Total Program Revenues	27,284,349	11,959,989	39,244,338	26,195,310	12,126,432	38,321,742
General Revenues:						
General Taxes………	20,626,711	-	20,626,711	18,941,470	-	18,941,470
Taxes Restricted for Transportation ………	1,759,421	-	1,759,421	1,766,204	-	1,766,204
Tobacco Settlement ………	334,665	-	334,665	336,259	-	336,259
Escheat Property ………	101,289	-	101,289	160,755	-	160,755
Unrestricted Investment Income ………	2,688	1,184	3,872	(52,677)	-	(52,677)
Other ………	1,323	-	1,323	592	48	640
Total General Revenues ………	22,826,097	1,184	22,827,281	21,152,603	48	21,152,651
Total Revenue………	50,110,446	11,961,173	62,071,619	47,347,913	12,126,480	59,474,393
Expenses:						
Primary, Secondary and Other Education …	12,126,435	-	12,126,435	12,259,233	-	12,259,233
Higher Education Support ………	2,726,016	-	2,726,016	2,771,611	-	2,771,611
Public Assistance and Medicaid ………	20,111,691	-	20,111,691	18,828,082	-	18,828,082
Health and Human Services ………	4,295,483	-	4,295,483	4,003,033	-	4,003,033
Justice and Public Protection ………	3,184,345	-	3,184,345	3,077,704	-	3,077,704
Environmental Protection and						
Natural Resources ………	350,870	-	350,870	416,071	-	416,071
Transportation………	2,186,332	-	2,186,332	2,187,406	-	2,187,406
General Government ………	792,728	-	792,728	620,090	-	620,090
Community and Economic Development …	4,479,010		4,479,010	4,491,643		4,491,643
Interest on Long-Term Debt						
(excludes interest charged as						
program expense) ………	134,888	-	134,888	133,335	-	133,335
Workers' Compensation ………	-	2,354,296	2,354,296	-	2,861,222	2,861,222
Lottery Commission ………	-	1,911,105	1,911,105	-	1,816,213	1,816,213
Unemployment Compensation ………	-	4,094,207	4,094,207	-	5,605,830	5,605,830
Ohio Building Authority………	-	22,076	22,076	-	22,492	22,492
Tuition Trust Authority ………	-	79,671	79,671	-	81,119	81,119
Liquor Control ………	-	507,800	507,800	-	489,087	489,087
Underground Parking Garage ………	-	3,171	3,171	-	3,755	3,755
Office of Auditor of State ………	-	69,185	69,185	-	70,637	70,637
Total Expenses ………	50,387,798	9,041,511	59,429,309	48,788,208	10,950,355	59,738,563
Surplus/(Deficiency) Before Transfers ………	(277,352)	2,919,662	2,642,310	(1,440,295)	1,176,125	(264,170)
Transfers - Internal Activities………	945,551	(945,551)	-	978,327	(978,327)	-
Change In Net Assets………	668,199	1,974,111	2,642,310	(461,968)	197,798	(264,170)
Net Assets, July 1………	18,096,169	2,104,777	20,200,946	18,558,137	1,906,979	20,465,116
Net Assets, June 30………	$ 18,764,368	$ 4,078,888	$ 22,843,256	$ 18,096,169	$ 2,104,777	$ 20,200,946

Governmental Activities

Expenses exceeded revenues during fiscal year 2011 for governmental activities. When combined with transfers from the State's business-type activities, net assets for governmental activities increased from $18.10 billion, at July 1, 2010, to $18.76 billion, at June 30, 2011, or $668.2 million. Revenues for fiscal year 2011 in the amount of $50.11 billion were 5.8 percent higher than those reported for fiscal year 2010. General taxes (including taxes restricted for transportation purposes) comprised 44.7 percent of fiscal year 2011 total revenues and increased by 8.1 percent compared to fiscal year 2010. Operating grants, contributions and restricted investment income, making up 44 percent of total revenue, increased by 5.8 percent compared to fiscal year 2010. Fiscal year 2011 net transfers of $945.6 million, decreased by 3.4 percent over fiscal year 2010. Reported expenses of $50.39 billion represented an increase of 3.3 percent compared to fiscal year 2010.

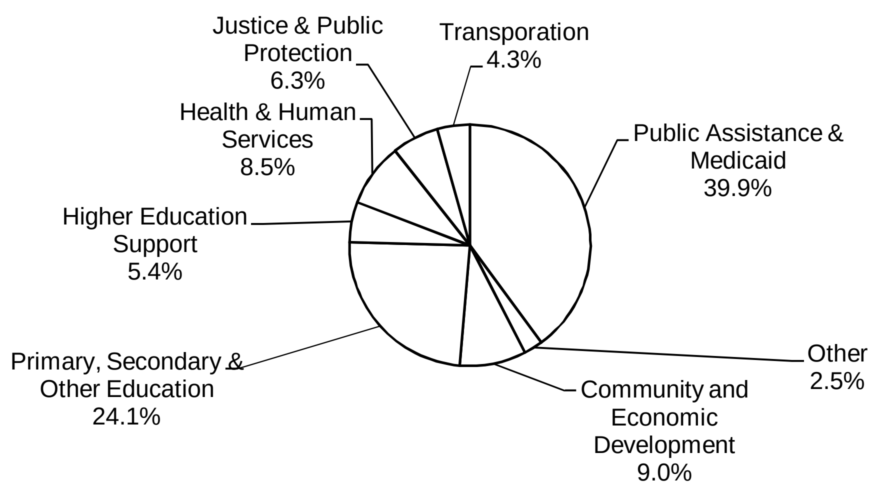
The following charts illustrate revenue by sources and expenses by program of governmental activities as percentages of total revenues and program expenses, respectively, reported for the fiscal year ended June 30, 2011.

Governmental Activities — Sources of Revenue
Fiscal Year 2011



Total FY 11 Revenue for Governmental Activities = $50.11 Billion

Governmental Activities — Expenses by Program
Fiscal Year 2011



Total FY 11 Program Expenses for Governmental Activities = $50.39 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, 2011 and 2010. 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, 2011
With Comparatives for the Fiscal Year Ended June 30, 2010
(dollars in thousands)

	For the Fiscal Year Ended June 30, 2011			
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……………	$ 12,126,435	$ 9,297,999	76.7%	18.5%
Higher Education Support……………………………..	2,726,016	2,407,828	88.3%	4.8%
Public Assistance and Medicaid………………………	20,111,691	3,991,432	19.8%	7.9%
Health and Human Services…………………………..	4,295,483	1,214,661	28.3%	2.4%
Justice and Public Protection………………………….	3,184,345	1,632,939	51.3%	3.2%
Environmental Protection and Natural Resources…..	350,870	46,697	13.3%	0.1%
Transportation…………………………………………	2,186,332	552,843	25.3%	1.1%
General Government…………………………………	792,728	407,420	51.4%	0.8%
Community and Economic Development……………..	4,479,010	3,416,742	76.3%	6.8%
Interest on Long-Term Debt…………………………..	134,888	134,888	100.0%	0.3%
Total Governmental Activities…………………………	$ 50,387,798	$ 23,103,449	45.9%	45.9%

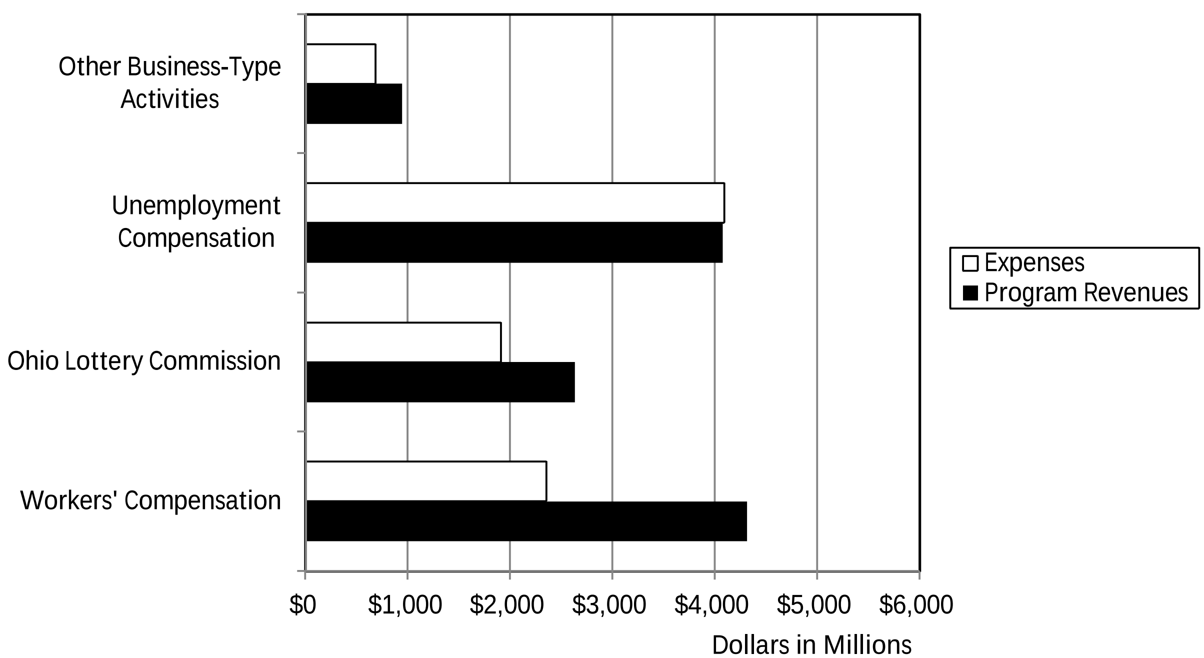
	For the Fiscal Year Ended June 30, 2010			
Program	Program Expenses	Net Cost of Program	Net Cost as Percentage of Total Expenses for Program	Net Cost as Percentage of Total Expenses—All Programs
Primary, Secondary and Other Education……………	$ 12,259,233	$ 9,644,102	78.7%	19.8%
Higher Education Support……………………………..	2,771,611	2,444,828	88.2%	5.0%
Public Assistance and Medicaid………………………	18,828,082	3,244,917	17.2%	6.6%
Health and Human Services…………………………..	4,003,033	1,010,549	25.2%	2.1%
Justice and Public Protection………………………….	3,077,704	1,766,797	57.4%	3.6%
Environmental Protection and Natural Resources…..	416,071	132,047	31.7%	0.3%
Transportation…………………………………………	2,187,406	788,974	36.1%	1.6%
General Government…………………………………	620,090	(87,254)	-14.1%	-0.2%
Community and Economic Development……………..	4,491,643	3,514,603	78.2%	7.2%
Interest on Long-Term Debt…………………………..	133,335	133,335	100.0%	0.3%
Total Governmental Activities…………………………	$ 48,788,208	$ 22,592,898	46.3%	46.3%

Business-Type Activities

The State's enterprise funds reported net assets of $4.08 billion, as of June 30, 2011, as compared to $2.10 billion in net assets, as of June 30, 2010, an increase of 93.8 percent. The primary increase in net assets for the business-type activities was the Workers' Compensation Fund, which reported net assets of $5.77 billion, as of June 30, 2011, as compared to $3.83 billion, as of June 30, 2010, a $1.94 billion increase. The Unemployment Compensation Fund and the Lottery Commission, however, reported decreases in net assets during fiscal year 2011. The Lottery Commission Fund reported net assets of $150.7 million, as of June 30, 2011, as compared to $168.6 million, as of June 30, 2010, a $17.9 million decrease. The net assets in the Unemployment Compensation Fund decreased $21.3 million from $(1.91) billion, as of June 30, 2010, to $(1.93) billion, as of June 30, 2011.

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

Business-Type Activities — Expenses and Program Revenues
Fiscal Year 2011



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, 2011 and June 30, 2010 (dollars in thousands). During the implementation of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the State reclassified funds within the governmental funds categories. The fiscal year 2010 amounts in the following table have not been restated for the effects of GASB Statement No. 54.

	As of and for the Fiscal Year Ended June 30, 2011			
	General Fund	Other Major Funds	Nonmajor Governmental Funds	Total Governmental Funds
Unassigned Fund Balance	$(1,208,029)	$0	$(25)	$(1,208,054)
Total Fund Balance	2,223,608	5,638,892	2,860,682	10,723,182
Total Revenues	30,914,677	9,860,521	9,202,236	49,977,434
Total Expenditures	29,837,914	9,880,100	11,537,549	51,255,563

	As of and for the Fiscal Year Ended June 30, 2010			
	General Fund	Other Major Funds	Nonmajor Governmental Funds	Total Governmental Funds
Unreserved/Undesignated Fund Balance	$(141,212)	$(2,633,867)	$(1,159,741)	$(3,934,820)
Total Fund Balance	493,042	6,706,058	2,475,811	9,674,911
Total Revenues	23,948,850	18,907,772	4,444,923	47,301,545
Total Expenditures	23,719,349	19,075,097	6,701,049	49,495,495

General Fund

The main operating fund of the State is the General Fund. During fiscal year 2011, General Fund revenue and expenditures increased by $6.97 billion and $6.12 billion, respectively. Other sources and uses showed a decline of net uses of $44.5 million when compared with fiscal year 2010. The fund balance increased by $606.9 million (exclusive of a $3.8 million increase in inventories) or 37.6 percent.

As a result of the implementation of GASB Statement No. 54, the General Fund is reporting balances and activities for fiscal year 2011 that were previously reported within the special revenue funds. Fiscal year 2010 amounts have not been restated for the effects of this implementation thus creating the substantial increases to revenue and expenditures in the General Fund.

General Fund Budgetary Highlights

The State ended the second year of its 2010-11 biennial budget on June 30, 2011, with a General Fund budgetary fund balance (i.e., cash less encumbrances) of $1.81 billion. Total budgetary sources for the General Fund (including $3.14 billion in transfers from other funds) in the amount of $36.32 billion were above final estimates by $351.9 million or just less than one percent during fiscal year 2011. Total tax receipts were above final estimates by $973.3 million or 4.7 percent.

Total budgetary uses for the General Fund (including $3.34 billion in transfers to other funds) in the amount of $36.94 billion were below final estimates by $2.75 billion or 6.9 percent for fiscal year 2011. There was no budget stabilization designation at June 30, 2010, for use in balancing the final fiscal year 2011 budget.

The appropriations act (Act) for the 2010-11 biennium for the General Revenue Fund (GRF), the largest, non-GAAP, budgetary-basis operating fund included in the State's General Fund, was passed by the General Assembly and signed (with selective vetoes) by the Governor on July 17, 2009. Prior to passage of the Act, three, seven-day interim budgets were in effect. The Act provided for total GRF biennial appropriations of approximately $50.5 billion (a 3.8 percent decrease from the 2008-09 biennial expenditures) based on GRF biennial estimated revenues of approximately $51.1 billion (a 4.2 percent decrease from the 2008-09 biennial revenues).

Budget highlights for major program categories compared to 2008-09 actual spending include the following:

- An increase of 3.4 percent for Medicaid (excluding the American Recovery and Reinvestment Act of 2009 referred to below) as well as Medicaid reform and cost containment initiatives.
- A .7 percent increase for corrections and youth services.
- Decreases of 8.3 percent for higher education and 5.15 percent for primary and secondary education.
- A decrease of 13.8 percent for mental health and developmental disabilities.
- Restructuring of $736 million of fiscal years 2010 and 2011 GRF debt service into fiscal years 2012 through 2025.

Major new sources of revenues reflected in the 2010-11 Act include:

- $2.42 billion of funding under the American Recovery and Reinvestment Act of 2009, including $1.46 billion for primary and secondary education, $628 million for Federal Medical Assistance payments, and $326 million for other purposes.
- $933 million in gaming and license revenues from the Ohio Lottery Commission's implementation of video lottery terminals (VLTs) at the seven horse racing tracks in the State. OBM estimated the VLT's would result in an approximate $851 million net increase in revenues for the biennium ($285 million in fiscal year 2010 and $566 million in fiscal year 2011) after taking into account offsetting effects of the VLT's on other Lottery revenues. (In September 2009, the Ohio Supreme Court ruled that the VLT-enabling legislation in the Act was subject to referendum. In March 2010, the Secretary of State notified the committee for the petitioners that a referendum would be placed on the November 2010 ballot but on July 1, 2010, the committee for the petitioners withdrew the referendum from the ballot).
- $259 million from the Ohio Tobacco Use Prevention and Control Foundation Endowment Fund to be deposited into a special State, non-GRF fund, to be used for various health care initiatives. (On August 11, 2009, a trial court ruled in favor of the plaintiff and ordered that these monies remain in that endowment fund and be used for the purpose of reducing tobacco use. The State appealed the ruling and on December 31, 2009, the court of appeals ruled in favor of the State and reversed the trial court's order. The Ohio Supreme Court affirmed court of appeals decision in favor of the State on December 22, 2010).
- $1.04 billion of "one-time" revenues or savings ($640 million in fiscal year 2010 and $396 million in fiscal year 2011), including $364 million from the spend-down of carry-forward balances (that required temporary suspension of the one-half of one percent of GRF revenue the State is required to maintain as an ending fund balance for the 2010-11 biennium); $250 million transferred from Ohio School Facilities Commission funds; $272 million in savings through a two week unpaid "furlough" for State employees during each year of the biennium; $84 million from a reduction in State funding to public libraries; and $65 million from the transfer to the GRF of interest on the proceeds of the State's 2007 tobacco securitization.

- $530 million from transfers to the GRF of unclaimed funds and from other non-GRF funds.

In September 2010, the federal government awarded the State $518.6 million of enhanced Federal Medical Assistance Payments funding (eFMAP). Additionally, $361.2 million was granted to the Ohio school districts for teacher salaries and personnel costs for primary and secondary education (Ed Jobs).

In response to the above referenced September 2009 decision of the Ohio Supreme Court declaring the VLT provisions in the biennial Act subject to referendum, the General Assembly approved, and the Governor signed into law December 2009, legislation keeping personal income tax rates at 2008 levels through tax year 2010. The Ohio Department of Taxation estimated that the measure would result in $844 million of additional State GRF tax revenues in the current biennium.

The Act for the 2010-11 biennium created a six member (three from each of the House and Senate) Budget Planning and Management Commission (BPMC) to "study and make recommendations that are designed to provide relief to the State during the current difficult fiscal and economic period." The BPMC released two reports – one from its three Republican members dated November 30, 2010, and one from its three Democratic members dated December 8, 2010. Both reports contained estimates of "non-recurring" revenues reflected in the 2010-11 budget, as enacted, ranging from $4.89 billion in the GRF to $8.34 billion for all GRF and non-GRF funds. These estimates included the effect of the postponement of the final installment of the personal income tax reduction.

The State ended fiscal year 2011 with a GRF cash balance of $844.5 million and a GRF budgetary fund balance of $430.7 million. In addition to meeting the State's requirement to maintain an ending fund balance reflecting one-half of one percent of fiscal year 2011 GRF revenues, the State deposited $246.9 million into the Budget Stabilization Fund in early fiscal year 2012.

Other Major Governmental Funds

The *Job, Family and Other Human Services Fund* had a fund balance of $420.5 million at June 30, 2011, an increase of $79.6 million, or 23.4 percent, compared to fiscal year 2010. This increase in fund balance is due to revenues exceeding expenditures by $48.9 million, with other financing sources and uses totaling $72.7 million.

Revenue for Licenses, Permits and Fees decreased $115.2 million, or 11.4 percent, over fiscal year 2010. A reduction to hospital franchise fee rates was made halfway through the biennium due to improving budgets. Federal Government revenue decreased by $569.2 million, or 6.3 percent, over fiscal year 2010 due to the phase out of ARRA stimulus funding.

Public assistance and Medicaid expenditures decreased $700.5 million, or 7.5 percent, compared to the previous fiscal year. This decrease in expenditures was due in part to the reduction in hospital supplemental payments resulting from the reduction of hospital franchise fees. Also contributing to the decrease was the final phase of a managed care tax structure change causing deposits to be shifted to the GRF along with related expenditures. The reduction in ARRA funding also played a role in decreased expenditures from the *Job, Family and Other Human Services Fund*.

The decrease in net transfers of $14.6 million is the result of the unusually large transfer from the State's Unemployment Compensation Enterprise Fund in fiscal year 2010 that supplemented higher unemployment compensation administrative costs.

The fund balance for the *Buckeye Tobacco Settlement Financing Authority Revenue Bonds Fund*, as of June 30, 2011, totaled approximately $5.22 billion dollars, a decrease of $82.6 million or 1.6 percent since June 30, 2010. Tobacco settlement revenue was $15.1 million less than the amount received for fiscal year 2010. This revenue has been decreasing in recent years due to declining cigarette consumption and due to tobacco companies depositing money into the disputed account, as described in Note 19E. An increase in investment income of $1.9 million and a decrease of $6.3 million in Debt Service expenditures, related to changing debt service requirements for the bonds, somewhat offset the revenue decrease. However, as has been the case for several years, the fund balance continues to decline within this fund as a result of the total expenditures being in excess of revenue collected during the fiscal year.

Proprietary Funds

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 $1.94 billion increase in net assets was primarily due to an increase in investment income and a decrease in benefits and claims expenses. For fiscal year 2011, investment income was $2.36 billion compared to $2.05 billion in fiscal year 2010 resulting in a 15.4 percent increase. The investment portfolio earned an unaudited net return of 12.4 percent in fiscal year 2011 compared to 12 percent in fiscal year 2010.

During fiscal year 2011, the benefit and claims expense decreased by $498 million to $2.24 billion but still exceeded revenue of $1.94 billion from premiums and assessments by $303.8 million. The variance of $303.8 million is due to a decrease in revenue from premiums and assessments of $183.2 million and the decrease in benefits and claims expense during fiscal year 2011. The decrease in premium and assessment income is the result of a 3.9 percent reduction to the premium for the majority of Ohio's private employers and a 17 percent reduction for public employer tax districts. In addition, the premium and assessment income was also reduced by $6.1 million in fiscal year 2011 compared to $1.1 million in fiscal year 2010 as a result of securing reinsurance to protect assets in the event of catastrophic events. Benefits and claims expenses decreased due to lower estimates for future medical expenses attributable to lower claims frequencies and a decrease in the medical inflation rate.

For fiscal year 2011, the *Lottery Commission Fund* reported $721.3 million in net income before transfers of $738.8 million and $335 thousand to the Education and General funds, respectively. The $17.6 million or 10.6 percent decrease in the fund's net assets to $150.7 million, as of June 30, 2011, was predominately due to an adjustment directly related to the investment portfolio. Investment income decreased $43.7 million or 64.5 percent during fiscal year 2011 due to this change.

Ticket sales increased approximately 4.4 percent from $2.49 billion in fiscal year 2010 to $2.6 billion in fiscal year 2011. The Ohio Lottery benefited from a full 12 months of the Keno/ Booster product resulting in an online sales increase of $27 million or 2.4 percent. Prizes expenses were $1.6 billion as of June 30, 2011, compared to $1.51 billion, as of June 30, 2010, an increase of approximately $89.3 million or 5.9 percent. This increase was in proportion to ticket sales.

The $21.3 million decrease in net assets in the *Unemployment Compensation Fund* is due to the declining economic factors in Ohio. Even though there was a decrease in the unemployment rate in Ohio, it averaged 9.3 percent in fiscal year 2011. Due to the decrease in the unemployment rate from an average of 10.5 percent in fiscal year 2010, the State's benefits and claims expense decreased by $1.51 billion or 27 percent from the previous fiscal year. While the State of Ohio's benefits and claims expense decreased, the State received less money from the federal government. During fiscal year 2011, the State received $2.52 billion from the federal government compared to $3.23 billion in fiscal year 2010 resulting in a 21.9 percent decrease in federal funding. In addition, the expenses were also slightly offset by an increase of $272.1 million in premium and assessment income.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2011 and June 30, 2010, the State had invested $25.72 billion and $25.33 billion, respectively, net of accumulated depreciation of $3.11 billion and $2.94 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, 2011
With Comparatives as of June 30, 2010
(dollars in thousands)

	As of June 30, 2011			As of June 30, 2010		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Land	$ 2,082,738	$ 11,994	$ 2,094,732	$ 1,972,225	$ 11,994	$ 1,984,219
Buildings	1,779,018	75,039	1,854,057	1,867,937	80,790	1,948,727
Land Improvements	181,204	10	181,214	189,624	11	189,635
Machinery and Equipment	274,472	71,335	345,807	196,188	87,524	283,712
Vehicles	125,927	1,924	127,851	118,412	2,127	120,539
Infrastructure:						
Highway Network:						
General Subsystem	8,544,734	-	8,544,734	8,492,573	-	8,492,573
Priority Subsystem	7,895,454	-	7,895,454	7,654,329	-	7,654,329
Bridge Network	2,937,912	-	2,937,912	2,843,787	-	2,843,787
Parks, Recreation, and Natural Resources System .	83,732	-	83,732	67,606	-	67,606
	23,905,191	160,302	24,065,493	23,402,681	182,446	23,585,127
Construction-in-Progress	1,654,487	-	1,654,487	1,745,373	-	1,745,373
Total Capital Assets, Net	$ 25,559,678	$ 160,302	$25,719,980	$ 25,148,054	$182,446	$25,330,500

During fiscal year 2011, the State recognized $346.6 million in annual depreciation expense relative to its governmental capital assets as compared with $314.2 million in annual depreciation expense recognized in fiscal year 2010. The State also recognized $32.7 million in annual depreciation expense relative to its business-type capital assets as compared with $31.3 million in annual depreciation expense recognized in fiscal year 2010.

Additionally, the State completed construction on a variety of projects at various state facilities during fiscal year 2011 totaling approximately $550.5 million, as compared with $639.3 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 1.5 percent (approximately a 1.6 percent increase for governmental activities and a 12.1 percent decrease for business-type activities). As is further detailed in NOTE 19D. of the notes to the financial statements, the State had $105.8 million in major construction commitments (unrelated to infrastructure), as of June 30, 2011, as compared with the $140.8 million balance reported for June 30, 2010.

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 42,991 in lane miles of highway (13,059 in lane miles for the priority highway subsystem and 29,932 in lane miles for the general highway subsystem) and approximately 105.7 million square feet of deck area that comprises 14,234 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 2010, indicates that only 2.2 percent and 3.9 percent of the priority and general subsystems, respectively, were assigned a "poor" condition rating. For calendar year 2009, only 2 percent and 4.5 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 2010, indicates that only 3.8 percent and .04 percent of the number of square feet of bridge deck area were considered to be in "fair" and "poor" conditions, respectively. For calendar year 2009, only 3.3 percent and .6 percent of the number of square feet of bridge deck area were considered to be in "fair" and "poor" conditions, respectively.

For fiscal year 2011, total actual maintenance and preservation costs for the priority and general subsystems were $420 million and $342.2 million, respectively, compared to estimated costs of $406.1 million for the priority system and $258.4 million for the general system, while total actual maintenance and preservation costs for the bridge network was $409.7 million compared to estimated costs of $433.6 million. For the previous fiscal year, total actual maintenance and preservation costs for the priority and general subsystems were $394 million and $299.5 million respectively, compared to estimated costs of $357.4 million for the priority system and $209.8 million for the general system, while total actual maintenance and preservation costs for the bridge network was $330.3 million compared to estimated costs of $330.6 million. Overall, the State's costs for actual maintenance and preservation for highway infrastructure assets 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 this report.

Debt — Bonds and Notes Payable and Certificates of Participation Obligations
As of June 30, 2011 and June 30, 2010, the State had total debt of approximately $17.52 billion and $16.84 billion, respectively, as shown in the table below.

Bonds and Notes Payable and Certificates of Participation
As of June 30, 2011
With Comparatives as of June 30, 2010
(dollars in thousands)

	As of June 30, 2011			As of June 30, 2010		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Bonds and Notes Payable:						
General Obligation Bonds	$ 7,872,276	$ -	$ 7,872,276	$ 7,343,289	$ -	$ 7,343,289
Revenue Bonds and Notes	7,156,025	47,889	7,203,914	6,891,331	64,200	6,955,531
Special Obligation Bonds	2,260,853	-	2,260,853	2,338,094	-	2,338,094
Certificates of Participation	179,935	-	179,935	200,428	-	200,428
Total Debt	$17,469,089	$47,889	$17,516,978	$16,773,142	$64,200	$16,837,342

The State's general obligation bonds are backed by its full faith and credit. Revenue bonds issued by 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 Ohio Building Authority (OBA), a blended component unit of the State, 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 2011, the State issued, at par, $1.16 billion in general obligation bonds, $358 million in revenue bonds, and $356.2 million in special obligation bonds. Of the general obligation bonds and special obligation bonds issued, at par, $301.6 million and $243.2 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 25.4 percent decrease for business-type activities).

Credit Ratings
Ohio's credit ratings for general obligation debt are Aa1 by Moody's Investors Service, Inc. (Moody's) and AA+ by Fitch Inc. (Fitch). Standard & Poor's Ratings Services (S&P) rates the State's general obligation debt as AA+, 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, Fitch's rating is AA, and S&P's rating is 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	AA-	Aa2	AA	Net Liquor Profits
State Infrastructure Bank	AA-	Aa1	AA	Federal Transportation Grants and Loan Receipts
Revitalization Projects	AA-	Aa3	AA-	Net Liquor Profits
Buckeye Tobacco Settlement Financing Authority (ratings are in a range)	B+ to BBB+	B3 to Aaa	BB- to BBB	Pledged Receipts from the Tobacco Master Settlement Agreement
Business-Type Activities:				
Bureau of Workers' Compensation	AA	Aa3	AA	Workers' Compensation Enterprise Fund

On July 15, 2011, S&P revised its "credit outlook" on the State from "negative" to "stable." A credit outlook is an indication of the pressure on the rating over the near-to-intermediate term and is not a precursor to a rating change.

The ratings and rating outlooks in effect from time to time reflect only the views of the particular rating organization. An explanation of its view of the meaning and significance of its rating or outlook may be obtained from the respective rating agency. Generally, the rating agencies base their rating on submitted information and on their own investigations, studies, and assumptions. There can be no assurance that the ratings or outlooks assigned will continue for any given time. Rating agencies may lower or withdraw a rating at any time, if in its judgment circumstances so warrant.

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 Third Frontier Research and Development, development of sites and facilities, and veterans compensation, 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 may be changed by future constitutional amendments.

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

Through October 2011, leading economic indicators continue to show weak but not recession activity both nationally and in Ohio. Following several months of declines in the State's unemployment rate during fiscal year 2011, the unemployment rate in Ohio has increased to 9.1 percent as of October 2011.

Nationally, real gross domestic product (GDP) accelerated in the third quarter of calendar year 2011, rising 2.5 percent and has temporarily quieted concerns about recession. The national labor market picture brightened further in October 2011, as the level of employment increased by 80 thousand jobs and the August and September 2011 gains were revised upward. The national unemployment rate edged down to 9.0 percent, near its level at the beginning of the calendar year.

The 2012-13 Biennial Budget

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.

The 2012-13 biennial (beginning July 1, 2011) appropriations bill (the Act) was passed by the General Assembly and signed (with selective vetoes) by the Governor on June 30, 2011. To address the use of non-recurring funding sources in the prior budget biennium including amounts received under ARRA, the Act includes targeted spending cuts across most State Agencies and major new Medicaid reform and cost containment measures. The Act provides for total GRF biennial appropriations of approximately $55.78 billion, an 11 percent increase from the 2010-11 GRF biennial expenditures, and total GRF revenue of approximately $56.07 billion, a six percent increase from the 2010-11 GRF biennial revenues.

GRF appropriations for major program categories compared to the 2010-11 biennium actual GRF spending reflect increases of 30 percent for Medicaid and three percent for elementary and secondary education; decreases of nine percent for higher education and eight percent for mental health and developmental disabilities; and flat funding for corrections and youth services. The Act also reflects the restructuring of $440 million of fiscal year 2012 GRF debt service into fiscal years 2013 through 2025. Approximately three-quarters of this restructuring was accomplished by the July 28, 2011, Ohio Public Facilities Commission's issuance of $488.8 million in refunding bonds, with the remainder of the restructuring occurring through the September 15, 2011, Ohio Building Authority's issuance of $149.3 million in refunding bonds.

Major new sources of revenues, expenditure savings, and tax law changes reflected in the Act include:

- Transfer of the State's spirituous liquor system to JobsOhio, a nonprofit corporation created to promote economic development, job creation and retention, job training and recruitment of business to the State. As a result of this transfer, the State anticipates receiving a $500 million one-time payment from JobsOhio in fiscal year 2012. The State will forgo annual deposits into the GRF from net liquor profits. For fiscal year 2011, those deposits totaled $153 million. Litigation has been filed that challenges certain aspects of JobsOhio and the law authorizing its creation.
- Sale of six State-owned prison facilities to private operators. These sales were expected to result in a net payment to the GRF of $75 million. On September 1, 2011, the State announced that it is opting to sell only one of the facilities after considering proposals for the sale of five of the facilities. The sale of this facility will accomplish the desired saving for the 2012-13 biennium. Litigation was filed to challenge the au-

thorization in the Act to sell these facilities. On August 31, 2011, the Court ruled in favor of the State. These rulings may be subject to appeal in the future.

- Reductions to the local government fund allocations. Allocations to local governments will be reduced by $111 million in fiscal year 2012 and $340 million in fiscal year 2013. Beginning in fiscal year 2014, allocations will be made by committing a set percent of annual tax revenues deposited into the GRF (beginning with fiscal year 2013 GRF tax revenues).
- Reductions to the public library fund allocations. Allocations to public libraries will be reduced to 95 percent of fiscal year 2011 levels resulting in savings of $52.3 million in fiscal year 2012 and $102.8 million in fiscal year 2013. Beginning in fiscal year 2014, allocations will be made by committing a set percent of annual tax revenues deposited into the GRF (beginning with fiscal year 2013 GRF tax revenues).
- Accelerated phase-out of reimbursement payments, in connection with the elimination of the tangible personal property tax, for local governments and school districts. This will result in an increased share of the commercial activity tax being deposited into the GRF, approximately $293.5 million and $597.7 million for fiscal years 2012 and 2013, respectively.
- Accelerated phase-out of reimbursement payments, in connection with the electric power generation deregulations and natural gas deregulation, for local governments and school districts. This will result in a larger share of kilowatt-hour tax being reallocated to the GRF, approximately $141.6 million and $147.4 million for fiscal years 2012 and 2013, respectively. It will also result in the entire share of natural gas consumption tax being reallocated to the GRF, approximately $66 million in fiscal year 2012 and again in fiscal year 2013.
- Transfer of $235 million to the GRF from unclaimed funds and other non-GRF funds and $12 million to the GRF from a tax amnesty program.
- Implementation of the previously postponed final 4.2 percent annual decrease in State personal income tax rates.
- Elimination of the estate tax beginning January 1, 2013. In fiscal year 2010, estate tax collections totaled $285.8 million, of which $230.8 million was distributed to local governments. The remaining $55 million was deposited into the State's GRF.
- Creation of the InvestOhio income tax credit program under which investors in small businesses based in Ohio who hold their investments for at least two years may receive income tax credits.
- Creation of opportunities for cost savings through changes to the State's construction bidding procedures.

The Act also creates a $130 million Medicaid reserve fund and a $104 million Unemployment Compensation Contingency Fund. The Unemployment Compensation Contingency Fund will be used to pay interest on federal advances to the State Unemployment Compensation Fund.

General Revenue Fund

For fiscal year 2012, total fiscal year-to-date GRF receipts through October 2011 are $12.5 million below estimates but $196.8 million higher than collections through October of the prior fiscal year. Total fiscal year-to-date GRF disbursements through October 2011 are $268.9 million below estimates for the first four months of fiscal year 2012 and $181.6 million above expenditures for the first four months of the prior fiscal year. As of October 2011, receipts are within less than a percent of budget estimates and disbursements are within three percent of budget estimates for fiscal year 2012. Fiscal year 2012 receipts are 2.3 percent ahead of receipts for the first four months of fiscal year 2011. Disbursements for fiscal year 2012 are 1.8 percent above disbursements for the same time period of fiscal year 2011.

Unemployment Compensation Fund

Due to the declining revenues and rising unemployment claims resulting from the challenging economic climate, the State has sought federal assistance in meeting its unemployment benefit costs. In accordance with Title XII of the Social Security Act, the State has drawn repayable advances in the Unemployment Trust Fund of $2.31 billion from the Federal Unemployment Account to cover the insufficient State funds for benefit claims during fiscal years 2009 and 2010. The State began accruing interest on the repayable advances balances on January 1, 2011, and made its first interest payment in September 2011 for $70.7 million. Another interest payment is due in October 2012 and is estimated at $90 million.

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, 2011
(dollars in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS:				
Cash Equity with Treasurer	$ 6,384,503	$ 100,718	$ 6,485,221	$ 479,337
Cash and Cash Equivalents	137,035	360,266	497,301	1,490,982
Investments	632,478	20,799,622	21,432,100	7,181,416
Collateral on Lent Securities	1,366,763	19,641	1,386,404	33,118
Deposit with Federal Government	—	638,977	638,977	—
Taxes Receivable	1,396,841	—	1,396,841	—
Intergovernmental Receivable	1,604,771	10,338	1,615,109	64,079
Premiums and				
Assessments Receivable	—	3,885,693	3,885,693	—
Investment Trade Receivable	—	87,889	87,889	—
Loans Receivable, Net	1,166,547	—	1,166,547	327,230
Receivable from Primary Government	—	—	—	48,923
Receivable from Component Units	3,826,687	—	3,826,687	—
Other Receivables	608,789	349,802	958,591	1,129,395
Inventories	90,857	38,533	129,390	63,841
Other Assets	108,483	27,799	136,282	703,729
Restricted Assets:				
Cash Equity with Treasurer	—	59	59	—
Cash and Cash Equivalents	319,771	24	319,795	985,148
Investments	199,260	1,253,969	1,453,229	2,480,055
Collateral on Lent Securities	—	237,300	237,300	—
Intergovernmental Receivable	—	—	—	1
Loans Receivable, Net	—	—	—	4,310,523
Other Receivables	283,084	2,613	285,697	—
Capital Assets Being Depreciated, Net	2,382,116	148,308	2,530,424	8,989,838
Capital Assets Not Being Depreciated	23,177,562	11,994	23,189,556	1,491,235
TOTAL ASSETS	**43,685,547**	**27,973,545**	**71,659,092**	**29,778,850**
Deferred Outflows of Resources	36,708	—	36,708	2,746
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**43,722,255**	**27,973,545**	**71,695,800**	**29,781,596**
LIABILITIES:				
Accounts Payable	607,392	44,185	651,577	550,030
Accrued Liabilities	363,103	5,125	368,228	548,023
Medicaid Claims Payable	1,053,411	—	1,053,411	—
Obligations Under Securities Lending	1,366,763	256,941	1,623,704	33,118
Investment Trade Payable	—	174,122	174,122	—
Intergovernmental Payable	1,440,861	297,323	1,738,184	6,944
Internal Balances	715,572	(715,572)	—	—
Payable to Primary Government	—	—	—	3,826,687
Payable to Component Units	48,923	—	48,923	—
Unearned Revenue	361,623	2,661	364,284	458,183
Benefits Payable	—	1,658	1,658	—
Refund and Other Liabilities	701,526	79,245	780,771	83,507
Liability for Escheat Property	—	—	—	—
Noncurrent Liabilities:				
Bonds and Notes Payable:				
Due in One Year	1,149,503	15,890	1,165,393	933,167
Due in More Than One Year	16,139,651	31,999	16,171,650	7,726,332
Certificates of Participation:				
Due in One Year	22,255	—	22,255	465
Due in More Than One Year	157,680	—	157,680	3,335
Other Noncurrent Liabilities:				
Due in One Year	145,785	2,462,198	2,607,983	736,209
Due in More Than One Year	683,839	21,238,882	21,922,721	1,071,846
TOTAL LIABILITIES	**24,957,887**	**23,894,657**	**48,852,544**	**15,977,846**

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	23,157,156	54,430	23,211,586	5,822,565
Restricted for:				
Primary, Secondary and Other Education	99,169	—	99,169	—
Higher Education Support	5,936	—	5,936	—
Public Assistance and Medicaid	492,122	—	492,122	—
Health and Human Services	107,431	—	107,431	—
Justice and Public Protection	86,822	—	86,822	—
Environmental Protection and Natural Resources	140,229	—	140,229	5,340
Transportation	2,439,080	—	2,439,080	—
General Government	82,615	—	82,615	—
Community and Economic Development	403,151	—	403,151	3,086,842
Deferred Lottery Prizes	—	77,142	77,142	—
Workers Compensation	—	5,728,951	5,728,951	—
Ohio Building Authority	—	27,021	27,021	—
Tuition Trust Authority	—	11,838	11,838	—
Nonexpendable for				
Colleges and Universities	—	—	—	3,288,448
Expendable for				
Colleges and Universities	—	—	—	2,151,480
Unrestricted	(8,249,343)	(1,820,494)	(10,069,837)	(550,925)
TOTAL NET ASSETS	**$ 18,764,368**	**$ 4,078,888**	**$ 22,843,256**	**$ 13,803,750**

STATE OF OHIO

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

(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	$ 12,126,435	$ 33,362	$ 2,795,074	$ —	$ (9,297,999)
Higher Education Support	2,726,016	541	317,647	—	(2,407,828)
Public Assistance and Medicaid	20,111,691	1,045,698	15,074,561	—	(3,991,432)
Health and Human Services	4,295,483	347,395	2,733,427	—	(1,214,661)
Justice and Public Protection	3,184,345	1,163,286	388,044	76	(1,632,939)
Environmental Protection and Natural Resources	350,870	227,580	76,521	72	(46,697)
Transportation	2,186,332	113,581	54,914	1,464,994	(552,843)
General Government	792,728	341,275	43,691	342	(407,420)
Community and Economic Development	4,479,010	504,275	557,993	—	(3,416,742)
Interest on Long-Term Debt (excludes interest charged as program expense)	134,888	—	—	—	(134,888)
TOTAL GOVERNMENTAL ACTIVITIES	**50,387,798**	**3,776,993**	**22,041,872**	**1,465,484**	**(23,103,449)**
BUSINESS-TYPE ACTIVITIES:					
Workers' Compensation	2,354,296	1,950,169	2,364,359	—	1,960,232
Lottery Commission	1,911,105	2,608,235	24,133	—	721,263
Unemployment Compensation	4,094,207	1,587,385	2,486,300	—	(20,522)
Ohio Building Authority	22,076	24,290	10	—	2,224
Tuition Trust Authority	79,671	9,979	127,990	—	58,298
Liquor Control	507,800	733,573	—	—	225,773
Underground Parking Garage	3,171	3,176	2	—	7
Office of Auditor of State	69,185	40,388	—	—	(28,797)
TOTAL BUSINESS-TYPE ACTIVITIES	**9,041,511**	**6,957,195**	**5,002,794**	**—**	**2,918,478**
TOTAL PRIMARY GOVERNMENT	**$ 59,429,309**	**$ 10,734,188**	**$ 27,044,666**	**$ 1,465,484**	**$ (20,184,971)**
COMPONENT UNITS:					
School Facilities Commission	$ 373,644	$ 3,470	$ 5,330	$ —	$ (364,844)
Ohio Water Development Authority	352,365	146,284	300,242	—	94,161
Ohio State University	4,539,202	3,301,619	833,569	16,398	(387,616)
University of Cincinnati	1,324,594	782,690	313,660	796	(227,448)
Other Component Units	5,184,834	3,176,869	1,098,861	88,639	(820,465)
TOTAL COMPONENT UNITS	**$ 11,774,639**	**$ 7,410,932**	**$ 2,551,662**	**$ 105,833**	**$ (1,706,212)**

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	$ (23,103,449)	$ 2,918,478	$ (20,184,971)	$ (1,706,212)
General Revenues:				
Taxes:				
Income	8,815,468	—	8,815,468	—
Sales	7,793,045	—	7,793,045	—
Corporate and Public Utility	2,462,681	—	2,462,681	—
Cigarette	855,610	—	855,610	—
Other	699,907	—	699,907	—
Restricted for Transportation Purposes:				
Motor Vehicle Fuel Taxes	1,759,421	—	1,759,421	—
Total Taxes	22,386,132	—	22,386,132	—
Tobacco Settlement	334,665	—	334,665	—
Escheat Property	101,289	—	101,289	—
Unrestricted Investment Income	2,688	1,184	3,872	948,633
State Assistance	—	—	—	1,963,546
Other	1,323	—	1,323	106,666
Additions to Endowments and Permanent Fund Principal	—	—	—	64,068
Transfers-Internal Activities	945,551	(945,551)	—	—
TOTAL GENERAL REVENUES, CONTRIBUTIONS, SPECIAL ITEMS AND TRANSFERS	**23,771,648**	**(944,367)**	**22,827,281**	**3,082,913**
CHANGE IN NET ASSETS	**668,199**	**1,974,111**	**2,642,310**	**1,376,701**
NET ASSETS, JULY 1 (as restated)	18,096,169	2,104,777	20,200,946	12,427,049
NET ASSETS, JUNE 30	**$ 18,764,368**	**$ 4,078,888**	**$ 22,843,256**	**$ 13,803,750**

STATE OF OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	JOB, FAMILY AND OTHER HUMAN SERVICES	BUCKEYE TOBACCO SETTLEMENT FINANCING AUTHORITY REVENUE BONDS
ASSETS:			
Cash Equity with Treasurer	$ 3,015,411	$ 348,950	$ —
Cash and Cash Equivalents	89,186	2,539	319,771
Investments	533,459	—	199,260
Collateral on Lent Securities	646,977	74,553	—
Taxes Receivable	1,329,097	—	—
Intergovernmental Receivable	658,187	325,719	—
Loans Receivable, Net	1,061,252	—	—
Interfund Receivable	108,246	—	872,671
Receivable from Component Units	—	—	3,826,687
Other Receivables	133,840	381,717	283,084
Inventories	32,885	—	—
Other Assets	16,230	2,270	—
TOTAL ASSETS	**$ 7,624,770**	**$ 1,135,748**	**$ 5,501,473**
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts Payable	$ 168,544	$ 163,198	$ —
Accrued Liabilities	113,718	16,491	—
Medicaid Claims Payable	889,747	733	—
Obligations Under Securities Lending	646,977	74,553	—
Intergovernmental Payable	1,039,154	99,107	—
Interfund Payable	1,496,764	13,798	—
Payable to Component Units	30,779	9,679	—
Deferred Revenue	341,780	97,580	283,060
Unearned Revenue	7,270	235,766	—
Refund and Other Liabilities	657,591	4,364	—
Liability for Escheat Property	8,838	—	—
TOTAL LIABILITIES	5,401,162	715,269	283,060
FUND BALANCES:			
Nonspendable	65,080	32,874	—
Restricted	1,078,652	315,679	5,218,413
Committed	671,210	71,926	—
Assigned	1,616,695	—	—
Unassigned	(1,208,029)	—	—
TOTAL FUND BALANCES	2,223,608	420,479	5,218,413
TOTAL LIABILITIES AND FUND BALANCES	**$ 7,624,770**	**$ 1,135,748**	**$ 5,501,473**

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

NONMAJOR GOVERNMENTAL FUNDS	TOTAL
$ 3,020,142	$ 6,384,503
45,310	456,806
99,019	831,738
645,233	1,366,763
67,744	1,396,841
620,865	1,604,771
105,295	1,166,547
986	981,903
—	3,826,687
93,232	891,873
57,972	90,857
11,970	30,470
$ 4,767,768	**$ 19,029,759**
$ 275,650	$ 607,392
60,362	190,571
162,931	1,053,411
645,233	1,366,763
302,600	1,440,861
186,913	1,697,475
8,465	48,923
106,941	829,361
118,587	361,623
39,404	701,359
—	8,838
1,907,086	8,306,577
66,932	164,886
2,343,786	8,956,530
449,989	1,193,125
—	1,616,695
(25)	(1,208,054)
2,860,682	10,723,182
$ 4,767,768	**$ 19,029,759**

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STATE OF OHIO

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

(dollars in thousands)

Total Fund Balances for Governmental Funds	***$ 10,723,182***

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	*2,082,738*
Buildings and Improvements, net of $1,908,823 accumulated depreciation	*1,779,018*
Land Improvements, net of $236,027 accumulated depreciation	*181,204*
Machinery and Equipment, net of $553,624 accumulated depreciation	*274,472*
Vehicles, net of $172,547 accumulated depreciation	*125,927*
Infrastructure, net of $15,152 accumulated depreciation	*19,461,832*
Construction-in-Progress	*1,654,487*
	25,559,678

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	*186,422*
Intergovernmental Receivable	*278,343*
Other Receivables	*361,606*
Other Assets	*2,990*
	829,361

Unamortized bond issue costs are not financial resources, and therefore, are not reported in the fund*s.*	*78,013*
Deferred outflows of resources are not financial resources, and therefore, are not reported in the funds.	*36,708*

The following liabilities are not due and payable in the current period, and therefore, are not reported in the funds.

Accrued Liabilities:	
Interest Payable	*(172,532)*
Other	
Refunds and Other Liabilities	*(167)*
Bonds and Notes Payable:	
General Obligation Bonds	*(7,872,276)*
Revenue Bonds	*(7,156,025)*
Special Obligation Bonds	*(2,260,853)*
Certificates of Participation	*(179,935)*
Other Noncurrent Liabilities:	
Compensated Absences	*(464,077)*
Net Pension Obligation	*(4,299)*
Net OPEB Obligation	*(66,593)*
Capital Leases Payable	*(6,530)*
Derivatives	*(53,119)*
Estimated Claims Payable	*(10,385)*
Pollution Remediation, net of liabilities reported as accounts payable in the funds and recoveries reported above as other receivables	*(4,851)*
Liability for Escheat Property	*(210,932)*
	(18,462,574)

Total Net Assets of Governmental Activities	***$ 18,764,368***

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, 2011

(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	JOB, FAMILY AND OTHER HUMAN SERVICES	BUCKEYE TOBACCO SETTLEMENT FINANCING AUTHORITY REVENUE BONDS
REVENUES:			
Income Taxes	$ 8,771,965	$ —	$ —
Sales Taxes	7,785,452	—	—
Corporate and Public Utility Taxes	2,462,363	—	—
Motor Vehicle Fuel Taxes	1,070,014	—	—
Cigarette Taxes	855,610	—	—
Other Taxes	682,637	—	—
Licenses, Permits and Fees	657,629	893,287	—
Sales, Services and Charges	63,323	1	—
Federal Government	8,122,729	8,477,581	—
Tobacco Settlement	—	—	289,290
Escheat Property	124,026	—	—
Investment Income	20,997	5,337	2,618
Other	297,932	192,407	—
TOTAL REVENUES	**30,914,677**	**9,568,613**	**291,908**
EXPENDITURES:			
CURRENT OPERATING:			
Primary, Secondary and Other Education	8,662,756	204	60,671
Higher Education Support	2,559,430	2,707	—
Public Assistance and Medicaid	11,494,588	8,675,598	—
Health and Human Services	1,087,029	774,677	—
Justice and Public Protection	2,291,039	57,863	—
Environmental Protection and Natural Resources	66,263	—	—
Transportation	12,977	—	—
General Government	410,771	3,534	—
Community and Economic Development	3,253,061	—	—
CAPITAL OUTLAY	—	5,119	—
DEBT SERVICE	—	—	299,727
TOTAL EXPENDITURES	**29,837,914**	**9,519,702**	**360,398**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	**1,076,763**	**48,911**	**(68,490)**
OTHER FINANCING SOURCES (USES):			
Bonds, Notes, and Certificates of Participation Issued	624,890	49,607	—
Refunding Bonds Issued	—	—	—
Payment to Refunded Bond Escrow Agents	—	—	—
Premiums/Discounts	1,200	—	—
Capital Leases	915	—	—
Transfers-in	477,418	24,989	—
Transfers-out	(1,574,293)	(1,932)	(14,109)
TOTAL OTHER FINANCING SOURCES (USES)	**(469,870)**	**72,664**	**(14,109)**
NET CHANGE IN FUND BALANCES	**606,893**	**121,575**	**(82,599)**
FUND BALANCES, July 1 (as restated)	1,612,899	298,904	5,301,012
Increase (Decrease) for Changes in Inventories	3,816	—	—
FUND BALANCES, JUNE 30	**$ 2,223,608**	**$ 420,479**	**$ 5,218,413**

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

NONMAJOR GOVERNMENTAL FUNDS	TOTAL
$ 13,082	$ 8,785,047
5,676	7,791,128
1,149	2,463,512
689,407	1,759,421
—	855,610
17,270	699,907
1,245,206	2,796,122
33,393	96,717
6,701,135	23,301,445
3	289,293
—	124,026
15,255	44,207
480,660	970,999
9,202,236	**49,977,434**
2,987,734	11,711,365
27,279	2,589,416
37,162	20,207,348
2,304,369	4,166,075
656,051	3,004,953
309,547	375,810
2,356,990	2,369,967
113,072	527,377
1,078,380	4,331,441
498,195	503,314
1,168,770	1,468,497
11,537,549	**51,255,563**
(2,335,313)	**(1,278,129)**
657,928	1,332,425
544,775	544,775
(621,223)	(621,223)
122,631	123,831
—	915
2,527,689	3,030,096
(494,211)	(2,084,545)
2,737,589	**2,326,274**
402,276	**1,048,145**
2,462,096	9,674,911
(3,690)	126
$ 2,860,682	**$ 10,723,182**

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, 2011

(dollars in thousands)

Net Change in Fund Balances -- Total Governmental Funds		*1,048,145*
Change in Inventories		*126*
		1,048,271
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	*622,049*	
Depreciation Expense	*(210,425)*	
Excess of Capital Outlay Over Depreciation Expense		*411,624*
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	*(860,000)*	
Revenue Bonds	*(358,000)*	
Special Obligation Bonds	*(113,000)*	
Refunding Bonds, including Bond Premium/Discount, Net	*(624,662)*	
Premiums and Discounts, Net:		
General Obligation Bonds	*(17,895)*	
Revenue Bonds	*(21,419)*	
Special Obligation Bonds	*(6,031)*	
Deferred Refunding Loss	*31,031*	
Capital Leases	*(914)*	
Total Debt Proceeds		*(1,970,890)*
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	*650,582*	
Revenue Bonds	*162,565*	
Special Obligation Bonds	*444,181*	
Certificates of Participation	*19,255*	
Capital Lease Payments	*3,008*	
Total Long-Term Debt Repayment		*1,279,591*
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the governmental funds. Deferred revenues increase by this amount this year.		*36,401*

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....................................	*69*	
Increase in Accrued Interest and Other Accrued Liabilities................................	*(24,322)*	
Amortization of Bond Premiums/Accretion of Bond Discount, Net.....................	*30,441*	
Amortization of Deferred Refunding Loss..	*(32,995)*	
Increase in Compensated Absences...	*(19,302)*	
Decrease in Derivative Liabilities (Excluding Hedging Derivatives)	*2,665*	
Increase in Estimated Claims Payable...	*(314)*	
Decrease in Pollution Remediation...	*589*	
Increase in Net Pension Obligation...	*(4,299)*	
Increase in Liability for OPEB Obligation..	*(66,593)*	
Increase in Liability for Escheat Property..	*(22,737)*	
Total additional expenditures..		*(136,798)*
Change in Net Assets of Governmental Activities...		***$ 668,199***

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 FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2011

(dollars in thousands)

	GENERAL			
	BUDGET			VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL	ACTUAL	POSITIVE/ (NEGATIVE)
REVENUES:				
Income Taxes	$ 8,254,277	$ 8,254,277	$ 8,807,000	$ 552,723
Sales Taxes	7,468,982	7,468,982	7,779,917	310,935
Corporate and Public Utility Taxes	2,379,901	2,379,901	2,415,645	35,744
Motor Vehicle Fuel Taxes	1,092,244	1,092,244	1,092,244	—
Cigarette Taxes	794,000	794,000	855,610	61,610
Other Taxes	670,227	670,227	682,465	12,238
Licenses, Permits and Fees	832,823	832,823	830,400	(2,423)
Sales, Services and Charges	74,585	74,585	74,524	(61)
Federal Government	8,444,829	8,444,829	8,503,870	59,041
Tobacco Settlement	258,623	258,623	258,623	—
Investment Income	91,929	91,929	12,137	(79,792)
Other	1,329,037	1,329,037	1,293,304	(35,733)
TOTAL REVENUES	**31,691,457**	**31,691,457**	**32,605,739**	**914,282**
BUDGETARY EXPENDITURES:				
CURRENT OPERATING:				
Primary, Secondary and Other Education	9,241,580	9,270,222	9,110,904	159,318
Higher Education Support	3,221,256	3,231,850	2,806,859	424,991
Public Assistance and Medicaid	12,314,663	12,401,718	12,098,334	303,384
Health and Human Services	1,444,192	1,424,383	1,311,393	112,990
Justice and Public Protection	2,848,430	2,882,593	2,716,274	166,319
Environmental Protection and Natural Resources	122,683	127,304	113,651	13,653
Transportation	20,359	20,359	20,027	332
General Government	923,520	988,511	814,262	174,249
Community and Economic Development	4,642,682	4,741,979	3,841,750	900,229
CAPITAL OUTLAY	—	—	—	—
DEBT SERVICE	937,328	952,311	774,706	177,605
TOTAL BUDGETARY EXPENDITURES	**35,716,693**	**36,041,230**	**33,608,160**	**2,433,070**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES	**(4,025,236)**	**(4,349,773)**	**(1,002,421)**	**3,347,352**
OTHER FINANCING SOURCES (USES):				
Bonds Issued	569,872	569,872	569,051	(821)
Transfers-in	3,703,017	3,703,017	3,141,456	(561,561)
Transfers-out	(3,650,411)	(3,650,411)	(3,336,222)	314,189
TOTAL OTHER FINANCING SOURCES (USES)	**622,478**	**622,478**	**374,285**	**(248,193)**
NET CHANGE IN FUND BALANCES	**$ (3,402,758)**	**$ (3,727,295)**	**(628,136)**	**$ 3,099,159**
BUDGETARY FUND BALANCES (DEFICITS), JULY 1 (as restated)			1,164,989	
Outstanding Encumbrances at Beginning of Fiscal Year			1,277,006	
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30			**$ 1,813,859**	

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

JOB, FAMILY AND OTHER HUMAN SERVICES

BUDGET ORIGINAL	BUDGET FINAL	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
		$ —	
		—	
		—	
		—	
		—	
		—	
		899,908	
		1	
		5,230,695	
		—	
		5,337	
		873,508	
		7,009,449	
$ 2,448	$ 2,448	325	$ 2,123
3,843	3,843	2,858	985
9,323,384	9,420,288	7,468,411	1,951,877
844,711	970,683	895,788	74,895
89,030	89,765	63,410	26,355
—	—	—	—
—	—	—	—
3,452	4,109	2,887	1,222
230	230	180	50
11,255	11,255	5,545	5,710
—	—	—	—
$ 10,278,353	**$ 10,502,621**	**8,439,404**	**$ 2,063,217**
		(1,429,955)	
		49,607	
		20,222	
		(18,150)	
		51,679	
		(1,378,276)	
		(1,633,666)	
		1,893,887	
		$ (1,118,055)	

STATE OF OHIO

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS -- ENTERPRISE
JUNE 30, 2011
(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer	$ 1,847	$ 65,091	$ —
Cash and Cash Equivalents	343,640	13,506	—
Collateral on Lent Securities	1,323	13,907	—
Restricted Assets:			
Cash Equity with Treasurer	—	59	—
Investments	—	42,778	—
Collateral on Lent Securities	—	237,300	—
Other Receivables	—	2,613	—
Deposit with Federal Government	—	—	638,977
Intergovernmental Receivable	—	—	95
Premiums and Assessments Receivable	771,736	—	32,139
Investment Trade Receivable	87,889	—	—
Interfund Receivable	74,132	—	—
Other Receivables	281,178	44,089	20,189
Inventories	—	—	—
Other Assets	9,422	8,184	6,086
TOTAL CURRENT ASSETS	**1,571,167**	**427,527**	**697,486**
NONCURRENT ASSETS:			
Restricted Assets:			
Cash and Cash Equivalents	24	—	—
Investments	—	673,530	—
Investments	20,708,953	—	—
Premiums and Assessments Receivable	3,081,818	—	—
Interfund Receivable	647,828	—	—
Capital Assets Being Depreciated, Net	78,922	61,985	—
Capital Assets Not Being Depreciated	11,994	—	—
TOTAL NONCURRENT ASSETS	**24,529,539**	**735,515**	**—**
TOTAL ASSETS	**26,100,706**	**1,163,042**	**697,486**
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts Payable	7,719	6,781	—
Accrued Liabilities	—	—	—
Obligations Under Securities Lending	1,323	251,207	—
Investment Trade Payable	174,122	—	—
Intergovernmental Payable	—	—	297,323
Deferred Prize Awards Payable	—	45,451	—
Interfund Payable	—	108	—
Unearned Revenue	—	1,769	—
Benefits Payable	1,915,283	—	1,658
Refund and Other Liabilities	418,911	62,912	11,055
Bonds and Notes Payable	15,890	—	—
TOTAL CURRENT LIABILITIES	**2,533,248**	**368,228**	**310,036**
NONCURRENT LIABILITIES:			
Intergovernmental Payable	—	—	2,314,187
Deferred Prize Awards Payable	—	597,623	—
Interfund Payable	—	2,783	—
Benefits Payable	16,097,317	—	—
Refund and Other Liabilities	1,666,140	43,714	—
Bonds and Notes Payable	31,999	—	—
TOTAL NONCURRENT LIABILITIES	**17,795,456**	**644,120**	**2,314,187**
TOTAL LIABILITIES	**20,328,704**	**1,012,348**	**2,624,223**
NET ASSETS (DEFICITS):			
Invested in Capital Assets, Net of Related Debt	43,051	3,978	—
Restricted for Deferred Lottery Prizes	—	77,142	—
Unrestricted	5,728,951	69,574	(1,926,737)
TOTAL NET ASSETS (DEFICITS)	**$ 5,772,002**	**$ 150,694**	**$ (1,926,737)**

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 33,780	$ 100,718
3,120	360,266
4,411	19,641
—	59
505,858	548,636
—	237,300
—	2,613
—	638,977
10,243	10,338
—	803,875
—	87,889
1,604	75,736
4,346	349,802
38,533	38,533
4,107	27,799
606,002	**3,302,182**
—	24
31,803	705,333
90,669	20,799,622
—	3,081,818
9,073	656,901
7,401	148,308
—	11,994
138,946	**25,404,000**
744,948	**28,706,182**
29,685	44,185
5,125	5,125
4,411	256,941
—	174,122
—	297,323
—	45,451
3,399	3,507
892	2,661
81,936	1,998,877
5,884	498,762
—	15,890
131,332	**3,342,844**
—	2,314,187
—	597,623
10,775	13,558
510,663	16,607,980
9,249	1,719,103
—	31,999
530,687	**21,284,450**
662,019	**24,627,294**
7,401	54,430
—	77,142
75,528	3,947,316
$ 82,929	**$ 4,078,888**

STATE OF OHIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
OPERATING REVENUES:			
Charges for Sales and Services	$ —	$ 2,600,993	$ 24,267
Premium and Assessment Income	1,935,180	—	1,467,152
Federal Government	—	—	2,524,407
Investment Income	—	—	—
Other	14,989	7,242	56,730
TOTAL OPERATING REVENUES	**1,950,169**	**2,608,235**	**4,072,556**
OPERATING EXPENSES:			
Costs of Sales and Services	—	—	—
Administration	60,899	88,876	—
Bonuses and Commissions	—	161,326	—
Prizes	—	1,603,054	—
Benefits and Claims	2,238,942	—	4,094,207
Depreciation	11,179	20,088	—
Other	43,276	21	—
TOTAL OPERATING EXPENSES	**2,354,296**	**1,873,365**	**4,094,207**
OPERATING INCOME (LOSS)	**(404,127)**	**734,870**	**(21,651)**
NONOPERATING REVENUES (EXPENSES):			
Investment Income	2,364,359	24,133	1,129
Interest Expense	—	(4,073)	—
Other	—	(33,667)	—
TOTAL NONOPERATING REVENUES (EXPENSES)	**2,364,359**	**(13,607)**	**1,129**
INCOME (LOSS) BEFORE TRANSFERS	**1,960,232**	**721,263**	**(20,522)**
TRANSFERS:			
Transfers-in	—	—	8,000
Transfers-out	(13,309)	(739,145)	(8,799)
TOTAL TRANSFERS	**(13,309)**	**(739,145)**	**(799)**
NET INCOME (LOSS)	**1,946,923**	**(17,882)**	**(21,321)**
NET ASSETS (DEFICITS), JULY 1	3,825,079	168,576	(1,905,416)
NET ASSETS (DEFICITS), JUNE 30	**$ 5,772,002**	**$ 150,694**	**$ (1,926,737)**

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 808,437	$ 3,433,697
—	3,402,332
—	2,524,407
88,874	88,874
43,269	122,230
940,580	**9,571,540**
525,521	525,521
86,496	236,271
—	161,326
—	1,603,054
67,442	6,400,591
1,443	32,710
998	44,295
681,900	**9,003,768**
258,680	**567,772**
12	2,389,633
—	(4,073)
(3)	(33,670)
9	**2,351,890**
258,689	**2,919,662**
30,893	38,893
(223,191)	(984,444)
(192,298)	**(945,551)**
66,391	**1,974,111**
16,538	2,104,777
$ 82,929	**$ 4,078,888**

STATE OF OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	$ —	$ 2,595,736	$ —
Cash Received from Multi-State Lottery for Grand Prize Winner	—	171,003	—
Cash Received from Premiums and Assessments	2,029,065	—	1,465,822
Cash Received from Interfund Services Provided	55,416	777	—
Other Operating Cash Receipts	41,471	6,465	53,357
Cash Payments to Suppliers for Goods and Services	(45,136)	(56,204)	—
Cash Payments to Employees for Services	(225,822)	(27,104)	—
Cash Payments for Benefits and Claims	(2,001,437)	—	(3,712,414)
Cash Payments for Lottery Prizes	—	(1,955,575)	—
Cash Payments for Bonuses and Commissions	—	(161,326)	—
Cash Payments for Premium Reductions and Refunds	(72,257)	—	—
Cash Payments for Interfund Services Used	(15,334)	(3,518)	—
Other Operating Cash Payments	—	(21)	(362,859)
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	**(234,034)**	**570,233**	**(2,556,094)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers-in	—	—	8,000
Transfers-out	(13,309)	(739,145)	(8,799)
NET CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	**(13,309)**	**(739,145)**	**(799)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal Payments on Bonds and Capital Leases	(15,865)	(15,694)	—
Interest Paid	(3,110)	(3,591)	—
Acquisition and Construction of Capital Assets	(2,816)	(520)	—
Proceeds from Sales of Capital Assets	104	23	—
NET CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(21,687)**	**(19,782)**	**—**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of Investments	(9,626,672)	(45,665)	(1,462,325)
Proceeds from the Sales and Maturities of Investments	9,026,269	98,235	4,019,218
Investment Income Received	782,313	11,804	—
Borrower Rebates and Agent Fees	(8,385)	(524)	—
NET CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES	**173,525**	**63,850**	**2,556,893**
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	**(95,505)**	**(124,844)**	**—**
CASH AND CASH EQUIVALENTS, JULY 1 (as restated)	441,016	203,500	—
CASH AND CASH EQUIVALENTS, JUNE 30	**$ 345,511**	**$ 78,656**	**$ —**

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 787,498	$ 3,383,234
—	171,003
—	3,494,887
9,939	66,132
12,641	113,934
(516,754)	(618,094)
(95,111)	(348,037)
—	(5,713,851)
—	(1,955,575)
—	(161,326)
—	(72,257)
(7,073)	(25,925)
(67,449)	(430,329)
123,691	**(2,096,204)**
31,110	39,110
(223,191)	(984,444)
(192,081)	**(945,334)**
—	(31,559)
—	(6,701)
(380)	(3,716)
5	132
(375)	**(41,844)**
(1,586,366)	(12,721,028)
1,639,623	14,783,345
16,744	810,861
—	(8,909)
70,001	**2,864,269**
1,236	**(219,113)**
35,664	680,180
$ 36,900	**$ 461,067**

(continued)

STATE OF OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(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)	$ (404,127)	$ 734,870	$ (21,651)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Investment Income	—	—	—
Depreciation	11,179	20,088	—
Provision for Uncollectible Accounts	48,075	—	—
Amortization of Premiums and Discounts	(446)	—	—
Interest on Bonds, Notes and Capital Leases	3,110	—	—
Decrease (Increase) in Assets:			
Deposit with Federal Government	—	—	(2,810,326)
Intergovernmental Receivable	—	(5,895)	(74)
Premiums and Assessments Receivable	25,681	—	(17,424)
Interfund Receivable	(14,931)	—	—
Other Receivables	(34,195)	—	(3,396)
Inventories	—	—	—
Other Assets	(1,867)	1,379	673
Increase (Decrease) in Liabilities:			
Accounts Payable	2,530	571	—
Accrued Liabilities	—	—	—
Intergovernmental Payable	—	—	297,114
Deferred Prize Awards Payable	—	(63,165)	—
Interfund Payable	—	223	—
Unearned Revenue	—	637	—
Benefits Payable	134,200	—	(5,306)
Refund and Other Liabilities	(3,243)	(118,475)	4,296
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	**$ (234,034)**	**$ 570,233**	**$ (2,556,094)**
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Change in Fair Value of Investments	$ 1,599,613	$ (50,417)	$ —
Capital Assets Acquired under Capital Leases	—	6,944	—

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 258,680	$ 567,772
(88,874)	(88,874)
1,388	32,655
—	48,075
2	(444)
—	3,110
—	(2,810,326)
(778)	(6,747)
—	8,257
218	(14,713)
(3,069)	(40,660)
3,602	3,602
(403)	(218)
(4,927)	(1,826)
(2,626)	(2,626)
—	297,114
—	(63,165)
737	960
892	1,529
—	128,894
(41,151)	(158,573)
$ 123,691	**$ (2,096,204)**
$ —	$ 1,549,196
—	6,944

STATE OF OHIO
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011
(dollars in thousands)

	PENSION TRUST	PRIVATE-PURPOSE TRUST	INVESTMENT TRUST
	STATE HIGHWAY PATROL RETIREMENT SYSTEM (as of 12/31/10)	VARIABLE COLLEGE SAVINGS PLAN	STAR OHIO
ASSETS:			
Cash Equity with Treasurer	$ —	$ —	$ —
Cash and Cash Equivalents	15,744	88,396	71,020
Investments (at fair value):			
U.S. Government and Agency Obligations	19,111	—	2,082,770
Common and Preferred Stock	200,315	—	—
Corporate Bonds and Notes	38,668	—	—
Foreign Stocks and Bonds	12,978	—	—
Commercial Paper	—	—	350,327
Repurchase Agreements	—	—	—
Mutual Funds	442,684	5,994,449	665,116
Real Estate	22,795	—	—
Venture Capital	—	—	—
Direct Mortgage Loans	2,696	—	—
Partnership and Hedge Funds	—	—	—
State Treasury Asset Reserve of Ohio (STAR Ohio)	—	—	—
Collateral on Lent Securities	—	—	—
Employer Contributions Receivable	871	—	—
Employee Contributions Receivable	716	—	—
Other Receivables	1,204	6,150	226
Other Assets	12	—	—
Capital Assets, Net	21	—	—
TOTAL ASSETS	**757,815**	**6,088,995**	**3,169,459**
LIABILITIES:			
Accounts Payable	1,114	—	—
Accrued Liabilities	22,349	2,382	—
Obligations Under Securities Lending	—	—	—
Investment Trade Payable	—	—	53,266
Intergovernmental Payable	—	—	—
Refund and Other Liabilities	69	8,107	231
TOTAL LIABILITIES	**23,532**	**10,489**	**53,497**
NET ASSETS:			
Held in Trust for:			
Employees' Pension Benefits	626,868	—	—
Employees' Postemployment Healthcare Benefits	107,415	—	—
Individuals, Organizations and Other Governments	—	6,078,506	—
Pool Participants	—	—	3,115,962
TOTAL NET ASSETS	**$ 734,283**	**$ 6,078,506**	**$ 3,115,962**

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

AGENCY
$ 283,036
108,425
14,808,432
51,643,647
13,636,915
41,101,806
6,042,703
508,818
8,646,158
13,172,770
9,847,920
6,284,992
2,041,220
65,054
56,626
—
—
1,336
434,393
—
168,684,251
—
—
56,626
—
174,439
168,453,186
168,684,251
—
—
—
—
$ —

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STATE OF OHIO

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

(dollars in thousands)

	PENSION TRUST	PRIVATE-PURPOSE TRUST	INVESTMENT TRUST
	STATE HIGHWAY PATROL RETIREMENT SYSTEM (for the fiscal year ended 12/31/10)	VARIABLE COLLEGE SAVINGS PLAN	STAR OHIO
ADDITIONS:			
Contributions from:			
Employer	$ 24,440	$ —	$ —
Employees	8,296	—	—
Plan Participants	—	4,811,450	—
Other	1,713	—	—
Total Contributions	34,449	4,811,450	—
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	86,194	819,576	—
Interest, Dividends and Other	8,639	103,698	5,893
Total Investment Income	94,833	923,274	5,893
Less: Investment Expense	4,938	26,369	2,429
Net Investment Income	89,895	896,905	3,464
Capital Share and Individual Account Transactions:			
Shares Sold	—	—	10,230,967
Reinvested Distributions	—	—	3,463
Shares Redeemed	—	—	(10,134,810)
Net Capital Share and Individual Account Transactions	—	—	99,620
TOTAL ADDITIONS	**124,344**	**5,708,355**	**103,084**
DEDUCTIONS:			
Pension Benefits Paid to Participants or Beneficiaries	52,498	—	—
Healthcare Benefits Paid to Participants or Beneficiaries	11,448	—	—
Refunds of Employee Contributions	477	—	—
Administrative Expense	744	—	—
Transfers to Other Retirement Systems	567	—	—
Distributions to Shareholders and Plan Participants	—	4,703,534	3,464
TOTAL DEDUCTIONS	**65,734**	**4,703,534**	**3,464**
CHANGE IN NET ASSETS HELD FOR:			
Employees' Pension Benefits	47,819	—	—
Employees' Postemployment Healthcare Benefits	10,791	—	—
Individuals, Organizations and Other Governments	—	1,004,821	—
Pool Participants	—	—	99,620
TOTAL CHANGE IN NET ASSETS	58,610	1,004,821	99,620
NET ASSETS, JULY 1	675,673	5,073,685	3,016,342
NET ASSETS, JUNE 30	**$ 734,283**	**$ 6,078,506**	**$ 3,115,962**

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, 2011
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY (as of 12/31/10)	OHIO STATE UNIVERSITY
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer	$ 402,198	$ 21	$ —
Cash and Cash Equivalents	—	40,096	568,420
Investments	—	33,548	947,937
Collateral on Lent Securities	25,583	—	—
Intergovernmental Receivable	—	687	9,764
Loans Receivable, Net	584	2,591	16,014
Receivable from Primary Government	—	—	9,216
Other Receivables	20	5	435,856
Inventories	—	—	35,331
Other Assets	37	—	46,367
TOTAL CURRENT ASSETS	**428,422**	**76,948**	**2,068,905**
NONCURRENT ASSETS:			
Restricted Assets:			
Cash and Cash Equivalents	—	453,133	488,361
Investments	—	1,391,779	—
Intergovernmental Receivable	—	1	—
Loans Receivable, Net	—	4,310,523	—
Investments	—	31,346	2,188,997
Loans Receivable, Net	3,481	63,841	57,028
Other Receivables	—	19,377	25,110
Other Assets	—	66,898	—
Capital Assets Being Depreciated, Net	77	1,072	2,855,089
Capital Assets Not Being Depreciated	11,781	539	609,921
TOTAL NONCURRENT ASSETS	**15,339**	**6,338,509**	**6,224,506**
TOTAL ASSETS	**443,761**	**6,415,457**	**8,293,411**
Deferred Outflows of Resources	—	—	—
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**443,761**	**6,415,457**	**8,293,411**
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts Payable	10,173	83,389	212,561
Accrued Liabilities	339	11,751	227,811
Obligations Under Securities Lending	25,583	—	—
Intergovernmental Payable	555,689	—	—
Unearned Revenue	—	—	206,415
Refund and Other Liabilities	708	—	39,167
Bonds and Notes Payable	—	179,395	537,671
Certificates of Participation	—	—	465
TOTAL CURRENT LIABILITIES	**592,492**	**274,535**	**1,224,090**
NONCURRENT LIABILITIES:			
Intergovernmental Payable	194,698	—	—
Unearned Revenue	—	—	—
Refund and Other Liabilities	773	207	334,249
Payable to Primary Government	3,826,687	—	—
Bonds and Notes Payable	—	2,957,922	1,481,033
Certificates of Participation	—	—	3,335
TOTAL NONCURRENT LIABILITIES	**4,022,158**	**2,958,129**	**1,818,617**
TOTAL LIABILITIES	**4,614,650**	**3,232,664**	**3,042,707**
NET ASSETS (DEFICITS):			
Invested in Capital Assets, Net of Related Debt	11,857	1,611	1,979,373
Restricted for:			
Environmental Protection and Natural Resources	—	—	—
Community and Economic Development	—	3,003,056	—
Nonexpendable:			
Scholarships and Fellowships	—	—	—
Research	—	—	—
Endowments and Quasi-Endowments	—	—	1,217,323
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	—	—	9,233
Endowments and Quasi-Endowments	—	—	123,849
Current Operations	—	—	459,000
Loans, Grants and Other College and University Purposes	—	—	—
Unrestricted	(4,182,746)	178,126	1,461,926
TOTAL NET ASSETS (DEFICITS)	**$ (4,170,889)**	**$ 3,182,793**	**$ 5,250,704**

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
$ —	$ 77,118	$ 479,337
84,945	797,521	1,490,982
272,336	1,371,089	2,624,910
—	7,535	33,118
—	53,628	64,079
6,500	19,776	45,465
4,877	34,830	48,923
101,914	403,835	941,630
2,191	26,319	63,841
5,117	63,333	114,854
477,880	**2,854,984**	**5,907,139**
—	43,654	985,148
159,878	928,398	2,480,055
—	—	1
—	—	4,310,523
995,343	1,340,820	4,556,506
24,718	132,697	281,765
39,609	103,669	187,765
436,537	85,440	588,875
1,329,396	4,804,204	8,989,838
147,714	721,280	1,491,235
3,133,195	**8,160,162**	**23,871,711**
3,611,075	**11,015,146**	**29,778,850**
—	2,746	2,746
3,611,075	**11,017,892**	**29,781,596**
73,492	170,415	550,030
86,650	221,472	548,023
—	7,535	33,118
—	4,254	559,943
32,482	264,303	503,200
45,446	136,379	221,700
109,267	106,834	933,167
—	—	465
347,337	**911,192**	**3,349,646**
—	8,318	203,016
—	7,609	7,609
162,987	363,005	861,221
—	—	3,826,687
987,626	2,299,751	7,726,332
—	—	3,335
1,150,613	**2,678,683**	**12,628,200**
1,497,950	**3,589,875**	**15,977,846**
401,739	3,427,985	5,822,565
—	5,340	5,340
—	83,786	3,086,842
128,472	150,753	279,225
92,686	14,197	106,883
553,964	617,062	2,388,349
420,645	93,346	513,991
47,584	214,830	262,414
98,144	17,326	115,470
34,720	183,170	217,890
41,726	21,196	62,922
26,884	208,693	235,577
2,327	20,498	22,825
26,315	71,632	107,180
92,388	96,967	313,204
5,704	67,705	532,409
12,705	268,884	281,589
127,122	1,864,647	(550,925)
$ 2,113,125	**$ 7,428,017**	**$ 13,803,750**

STATE OF OHIO
COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY (for the year ended 12/31/10)	OHIO STATE UNIVERSITY
EXPENSES:			
Primary, Secondary and Other Education	$ 373,596	$ —	$ —
Community and Economic Development	—	—	—
Cost of Services	—	331,401	—
Administration	—	13,557	—
Education and General:			
Instruction and Departmental Research	—	—	883,307
Separately Budgeted Research	—	—	440,756
Public Service	—	—	110,357
Academic Support	—	—	147,845
Student Services	—	—	88,604
Institutional Support	—	—	243,827
Operation and Maintenance of Plant	—	—	115,091
Scholarships and Fellowships	—	—	102,631
Auxiliary Enterprises	—	—	244,787
Hospitals	—	—	1,857,428
Interest on Long-Term Debt	—	6,038	57,847
Depreciation	48	110	239,351
Other	—	1,259	7,371
TOTAL EXPENSES	**373,644**	**352,365**	**4,539,202**
PROGRAM REVENUES:			
Charges for Services, Fees, Fines and Forfeitures	3,470	146,284	3,301,619
Operating Grants, Contributions and Restricted Investment Income	5,330	300,242	833,569
Capital Grants, Contributions and Restricted Investment Income	—	—	16,398
TOTAL PROGRAM REVENUES	**8,800**	**446,526**	**4,151,586**
NET PROGRAM (EXPENSE) REVENUE	**(364,844)**	**94,161**	**(387,616)**
GENERAL REVENUES:			
Unrestricted Investment Income	—	338	365,108
State Assistance	60,671	—	508,667
Other	—	397	13,081
TOTAL GENERAL REVENUES	**60,671**	**735**	**886,856**
ADDITIONS (DEDUCTIONS) TO ENDOWMENTS AND PERMANENT FUND PRINCIPAL	**—**	**—**	**30,835**
CHANGE IN NET ASSETS	**(304,173)**	**94,896**	**530,075**
NET ASSETS (DEFICITS), JULY 1 (as restated)	(3,866,716)	3,087,897	4,720,629
NET ASSETS (DEFICITS), JUNE 30	**$ (4,170,889)**	**$ 3,182,793**	**$ 5,250,704**

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
$ —	$ 16,490	$ 390,086
—	57,760	57,760
—	—	331,401
—	—	13,557
277,304	1,613,476	2,774,087
178,565	218,046	837,367
55,356	127,219	292,932
86,472	432,436	666,753
43,881	234,540	367,025
330,414	482,193	1,056,434
59,183	327,708	501,982
40,659	344,192	487,482
80,071	605,438	930,296
—	281,097	2,138,525
47,123	85,639	196,647
103,936	308,678	652,123
21,630	49,922	80,182
1,324,594	**5,184,834**	**11,774,639**
782,690	3,176,869	7,410,932
313,660	1,098,861	2,551,662
796	88,639	105,833
1,097,146	**4,364,369**	**10,068,427**
(227,448)	**(820,465)**	**(1,706,212)**
270,836	312,351	948,633
204,925	1,189,283	1,963,546
8,472	84,716	106,666
484,233	**1,586,350**	**3,018,845**
21,823	**11,410**	**64,068**
278,608	**777,295**	**1,376,701**
1,834,517	6,650,722	12,427,049
$ 2,113,125	**$ 7,428,017**	**$ 13,803,750**

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Ohio, as of June 30, 2011, 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 28 organizations. The separate discrete column labeled, "Component Units," emphasizes these organizations' separateness from the State's primary government. Officials of the primary government appoint a voting majority of each organization's governing board.

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 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.

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 non-exchange 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 and deferred outflows of resources less liabilities and deferred inflows of resources equal net assets*. The *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 — nonexpendable and expendable. Nonexpendable net assets are those that are required to be retained in perpetuity.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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.

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 the sales and services and premium and assessment income since these revenues result from exchange transactions associated with the principal activity of the respective enterprise fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Revenue from the federal government for the underfunded regular and extended unemployment benefits is also reported as operating revenues for the Unemployment Compensation Fund, since this source provides 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. The primary sources of revenue for this fund are licenses, permits and fees and the federal government.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Buckeye Tobacco Settlement Financing Authority Revenue Bonds Debt Service Fund — This fund accounts for the payment of principal and interest on the revenue bonds issued to fund long-lived capital projects at State-supported institutions of higher education and to pay the State's share of the cost of rebuilding elementary and secondary school facilities across the State.

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 Industrial Commission of Ohio, 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, 2010.

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

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

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

The State reports the following major component unit funds:

The *School Facilities Commission* fund 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, 2010. 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 and other legally separate entities subject to the control of the university's board.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 (e.g., charges for goods and services), the State defers revenue recognition when resources earned from the exchange are not received during the availability period and reports unearned revenue when resources are received in advance of 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Capital asset acquisitions are reported as expenditures in the governmental funds. Proceeds from 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
- Buckeye Tobacco Settlement Financing Authority Revenue Bonds
- Chapter 154 Special Obligations
- Ohio Building Authority Special Obligations
- Transportation Certificates of Participation
- OAKS Certificates of Participation
- STARS Certificates of Participation
- OAKS Project
- STARS Project

For budgeted funds, the State's Ohio Administrative Knowledge System (OAKS) 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/SectionPages/FinancialReporting. This Summary provides a more comprehensive accounting of activity on the budgetary basis at the legal level of budgetary control.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the *Statement of Revenues, Expenditures and Changes in Fund Balances — Budget and Actual (Non-GAAP Budgetary Basis) — General Fund and Major Special Revenue Fund*, 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 fund or its budgeted nonmajor governmental funds.

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

The State Highway Patrol Retirement System Pension Trust Fund, the Variable College Savings Plan Private-Purpose Trust Fund, and the STAR Ohio Investment Trust Fund are not legally required to adopt budgets. The State is not legally required to report budgetary data and comparisons for the budgeted proprietary 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 include 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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	7-15 Years
Park and Natural Resources Infrastructure Network	10-50 Years

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

Discretely Presented Component Unit Funds

The discretely presented component unit funds value all capital assets at cost and donated fixed assets at estimated fair value on the donation date. 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 four years of employment, up to a maximum rate of 9.2 hours every two weeks after 24 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 matured 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Fund Balance Classification; Budget Stabilization Fund; Net Assets and Fund Balance Spending Order
Fund balance reported in the governmental fund financial statements is classified as follows:

Nonspendable
The *nonspendable* fund balance classification includes amounts that cannot be spent because they are either 1.) not in spendable form, such as prepaids and inventories or 2.) legally or contractually required to be maintained intact, such as the corpus of a permanent fund.

Restricted
Fund balance amounts should be *restricted* when constraints placed on the use of resources 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.

Unrestricted
Committed
Amounts constrained for specific purposes by formal action (i.e., legislation) of the government's highest level of decision-making authority (i.e., General Assembly) should be reported as *committed* fund balance. Committed amounts cannot be used for other purposes unless the General Assembly passes legislation to remove the constraints.

Assigned
Amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed, should be reported as *assigned* fund balance, except for stabilization arrangements. The intent should be conveyed by the governing body itself or through delegation to a body or official authorized on behalf of the government to assign amounts to be used for specific purposes. The Controlling Board, created under Chapter 127, Ohio Revised Code, is an example of a body delegated by the government to make assignments. The Director of the Office of Budget and Management is an example of an authorized official granted assignment authority through legislative language, including enacted budget bills. While both the committed and assigned fund balance classifications include amounts constrained for specific use by actions taken by the government itself, the authority for making an assignment is not required to be the government's highest level of decision-making authority. Amounts should not be reported as assigned if the assignment would result in a deficit in unassigned fund balance.

Unassigned
Unassigned fund balance is the residual classification for the General Fund. This classification represents spendable fund balance that has not been otherwise restricted, committed or assigned to specific purposes within the General Fund. In funds other than the General Fund, the unassigned classification should only be used to report a deficit balance due to overspending amounts that are restricted or committed.

Fund balance in the State's Budget Stabilization Fund, as discussed in Sections 131.43 and 131.44, Ohio Revised Code, does not meet the criteria to be classified as restricted or committed and is, therefore, reported as unassigned in the General Fund.

For reporting purposes, restricted amounts are generally considered to have been spent first, followed by unrestricted amounts. Within the unrestricted fund balance amounts, the spending order is generally committed, followed by assigned, and then unassigned when expenditures are incurred for purposes for which amounts in any unrestricted fund balance classification could be used.

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).

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Derivatives Instruments
The State's derivative instruments include investment derivatives and interest rate swaps. Interest rate swaps that are ineffective hedging derivatives are reported within the investment derivatives classification.

The State reports its derivative instruments at fair value in the Statement of Net Assets. Changes in fair value for investment derivatives are recorded as investment income in the Statement of Activities. Changes in fair value for effective hedging derivatives are reported as deferred outflows/inflows of resources in the Statement of Net Assets.

Additional disclosures on the State's investment derivatives and its hedging derivatives can be found in NOTE 4 and NOTE 10, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

T. 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, 2010, for the primary government's component units are presented in the following table (dollars in thousands).

Government-Wide Financial Statements:	Total Component Units
Net Assets, as of June 30, 2010, As Previously Reported	$ 12,437,133
Change in Reporting Entity:	
University of Cincinnati Component Unit......................................	(11,488)
Other Adjustments that Increased/(Decreased) Net Assets:	
Other Liabilities	1,404
Total Changes in Net Assets...	(10,084)
Net Assets, July 1, 2010, As Restated	$ 12,427,049

During the implementation of GASB Statement No. 54, the State reclassified funds within the governmental funds category. Beginning fund balance for governmental funds at July 1, 2010, was unchanged in total.

	General	Job, Family and Other Human Services	Education	Highway Operating	Revenue Distribution	Buckeye Tobacco Settlement Financing Authority Revenue Bonds	Nonmajor Governmental Funds	Total Fund Balance
Fund Balance, as of June 30, 2010, As Previously Reported	$ 493,042	$ 340,883	$ 80,915	$ 1,174,966	$ (191,718)	$ 5,301,012	$ 2,475,811	$ 9,674,911
From Revenue Distribution to General..	(191,718)	-	-	-	191,718	-	-	-
From Education to Nonmajor Governmental Funds............................	-	-	(80,915)	-	-	-	80,915	-
From Highway Operating to Nonmajor Governmental Funds............	-	-	-	(1,174,966)	-	-	1,174,966	-
From Job, Family and Other Human Services to General..................	41,979	(41,979)	-	-	-	-	-	-
From Nonmajor Governmental Funds to General...............................	1,269,596	-	-	-	-	-	(1,269,596)	-
Total Changes in Fund Balance..	1,119,857	(41,979)	(80,915)	(1,174,966)	191,718	-	(13,715)	-
Fund Balance, July 1, 2010, As Restated	$ 1,612,899	$ 298,904	$ -	$ -	$ -	$ 5,301,012	$ 2,462,096	$ 9,674,911

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

B. Implementation of Recently Issued Accounting Pronouncements
For the fiscal year ended June 30, 2011, the State implemented the provisions of

- Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.*

- Governmental Accounting Standards Board (GASB) Statement No. 59, *Financial Instruments Omnibus.*

GASB 54 provides clearer fund balance classifications that can be more consistently applied and clarifies the existing governmental fund type definitions. It establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is required to observe the constraints imposed upon the use of the resources reported in the governmental funds.

GASB 59 updates and improves the accounting and financial reporting requirements that address financial instruments.

C. Recently Issued GASB Pronouncements

In December 2009, the GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.* Certain requirements of GASB 57 are effective for financial statements for periods beginning after June 15, 2011. GASB 57 clarifies Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, regarding the requirements related to the coordination of the timing and frequency of OPEB measurements by agent employers and the agent multiple-employer OPEB plans in which they participate.

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The provisions of GASB 60 are effective for financial statements for periods beginning after December 15, 2011. GASB 60 establishes guidance for accounting and financial reporting for service concession arrangements (SCAs). This Statement improves financial reporting by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators by requiring both to account for and report SCAs in the same manner. This improves the comparability of financial statements.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. The provisions of GASB 61 are effective for financial statements beginning after June 15, 2012. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. It addresses reporting entity issues that have arisen since the issuance of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. It also modifies existing requirements for including, presenting, and disclosing information about component units and equity interest transactions.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of GASB 62 are effective for financial statements for periods beginning after December 15, 2011. The requirements in this Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. It eliminates the need to determine which FASB and AICPA pronouncements apply to state and local governments for more consistent application of guidance and improved comparability of financial statements.

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

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The provisions of GASB 63 are effective for financial statements beginning after December 15, 2011. GASB 63 standardizes financial reporting of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position and improves the comparability of financial statements by providing guidance where none previously existed.

In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. The provisions of GASB 64 are effective for periods beginning after June 15, 2011. GASB 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement establishes the criteria for determining when an effective hedging relationship continues and when hedge accounting should continue to be applied.

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 Fund*, *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 2011. 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 2011, whenever signed into law or otherwise legally authorized.

For fiscal year 2011, no excess 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 fund 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 Fund
As of June 30, 2011
(dollars in thousands)

	General	Job, Family & Other Human Services
Total Fund Balances — GAAP Basis	$2,223,608	$420,479
Less: Nonspendable Fund Balances	65,080	32,874
Less: Restricted Fund Balances	1,078,652	315,679
Less: Committed Fund Balances	671,210	71,926
Less: Assigned Fund Balances	1,616,695	-
Unassigned Fund Balances — GAAP Basis	(1,208,029)	-
BASIS DIFFERENCES		
Revenue Accruals/Adjustments:		
Cash Equity with Treasurer	(26,129)	10,582
Taxes Receivable	(1,329,097)	-
Intergovernmental Receivable	(658,187)	(325,719)
Loans Receivable, Net	(1,061,252)	-
Interfund Receivable	(108,246)	-
Receivables from Component Units	-	-
Other Receivables	(133,840)	(381,717)
Deferred Revenue	341,780	97,580
Unearned Revenue	7,270	235,766
Total Revenue Accruals/Adjustments	(2,967,701)	(363,508)
Expenditure Accruals/Adjustments:		
Cash Equity with Treasurer	(60,073)	(22,768)
Inventories	(32,885)	-
Other Assets	(16,230)	(2,270)
Accounts Payable	168,544	163,198
Accrued Liabilities	113,718	16,491
Medicaid Claims Payable	889,747	733
Intergovernmental Payable	1,039,154	99,107
Interfund Payable	1,496,764	13,798
Payable to Component Units	30,779	9,679
Refund and Other Liabilities	657,591	4,364
Liability for Escheat Property	8,838	-
Total Expenditure Accruals/Adjustments	4,295,947	282,332
Other Adjustments:		
Fund Balance Reclassifications:		
From Unassigned (Non-GAAP Budgetary Basis) to:		
Nonspendable	65,080	32,874
Restricted	1,078,652	315,679
Committed	671,210	71,926
Assigned	1,616,695	-
Cash and Investments Held Outside State Treasury	(622,645)	(2,539)
Other	(1)	(2)
Total Other Adjustments	2,808,991	417,938
Total Basis Differences	4,137,237	336,762
TIMING DIFFERENCES		
Encumbrances	(1,115,349)	(1,454,817)
Budgetary Fund Balances (Deficits) — Non-GAAP Basis	$1,813,859	($1,118,055)

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 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 about to be withdrawn, 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:

- US Treasury Bills, notes, bonds or other obligation 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 interest, 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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

- 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.

Deposits and investment policies of certain individual funds and component units are established by Ohio Revised Code provisions other than the Uniform Depository Act and by bond trust agreements. In accordance with applicable statutory authority, the State Highway Patrol Retirement System Pension Trust Fund, the Tuition Trust Authority Enterprise Fund, the Workers' Compensation Enterprise Fund, the Retirement Systems Agency fund, and the higher education institutions may also invest in common and preferred stocks, domestic and foreign corporate 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 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.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The table below reports the carrying amount of deposits, as of June 30, 2011, held by the primary government, including fiduciary activities, and its major component units and the extent of exposure to custodial credit risk.

Primary Government (including Fiduciary Activities) and Major Component Units
Deposits—Custodial Credit Risk
As of June 30, 2011
(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	$ 1,585,920	$ 1,369,523	$ 42	$ 155,896	$ 22,616
Major Component Units:					
Ohio Water Development Authority (12/31/10)	34,362	34,494	-	33,244	-
Ohio State University	1,111,791	1,109,855	-	1,101,882	-
University of Cincinnati	84,730	87,721	10,900	-	-

Custodial credit risk for investments exists when a government is unable to recover the value of investments 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.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The following table reports the fair value, as of June 30, 2011, of investments by type for the primary government, including fiduciary activities, and the extent of exposure to custodial credit risk (dollars in thousands).

Primary Government (including Fiduciary Activities)
Investments—Fair Value and Custodial Credit Risk
As of June 30, 2011
(dollars in thousands)

	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	$ 16,984,304	$ 250,015
U.S. Government Obligations—Strips	306,770	-
U.S. Agency Obligations	12,863,557	-
U.S. Agency Obligations—Strips	300,382	-
Common and Preferred Stock	59,624,866	-
Corporate Bonds and Notes	17,586,231	-
Corporate Bonds and Notes—Strips	1,700	-
Municipal Obligations	937,796	-
Commercial Paper	6,936,906	-
Repurchase Agreements	503,411	-
Mortgage and Asset-Backed Securities	6,363,002	-
International Investments:		
Foreign Stocks	40,209,672	-
Foreign Bonds	4,868,380	-
High-Yield and Emerging Markets Fixed Income	1,252,280	-
Securities Lending Collateral:		
Commercial Paper	487,334	-
Repurchase Agreements	973,824	248,824
Variable Rate Notes	38,430	-
Master Notes	85,300	-
U.S. Agency Obligations	37,491	-
Corporate Bonds	65,644	-
Common Stock	30,020	-
		$ 498,839
Investments Not Subject to Custodial Credit Risk Exposure:		
Investments Held by Broker-Dealers under Securities Loans w ith Cash Collateral:		
U.S. Agency Obligations	1,663,127	
U.S. Agency Obligations—Strips	21,827	
International Investments-Commingled Equity Funds	1,016,913	
Equity Mutual Funds	6,286,685	
Bond Mutual Funds	4,227,418	
Real Estate	14,010,430	
Venture Capital	9,847,920	
Partnerships and Hedge Funds	2,077,878	
Investment Contracts	6,019	
Deposit w ith Federal Government	638,977	
Component Units' Equity in State Treasurer's Cash and Investment Pool	(512,453)	
Component Units' Equity in the State Treasury Asset Reserve of Ohio	(428,023)	
Total Investments — Primary Government	$ 209,314,018	

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The following table reports investments with custodial credit risk exposure for the major discretely presented component units. The School Facilities Commission Component Unit Fund participates in the State Treasurer's Cash and Investment Pool and does not hold investments separate from the pool. Risks associated with the School Facilities Commission's share of the pool are included in the disclosures for the Primary Government.

Major Component Units
Investment Custodial Credit Risk
As of June 30, 2011
(dollars in thousands)

		Uninsured, Unregistered, and Held by the	
	Fair Value	Counterparty's Trust Department or Agent but not in the Component Unit's Name	Counterparty but not in the Component Unit's Name
Ohio Water Development Authority (12/31/10):			
U.S. Government Obligations	$ 224,526	$ 224,526	$ -
U.S. Agency Obligations	1,186,822	1,186,822	-
Municipal Obligations	5,903	5,903	-
Total Ohio Water Development Authority		$ 1,417,251	$ -
Ohio State University:			
U.S. Government Obligations	$137,013	$ -	$137,013
U.S. Agency Obligations	179,561	-	179,561
Common and Preferred Stock	221,761	-	221,761
Corporate Bonds and Notes	314,164	-	314,164
Repurchase Agreements	291,424	-	291,424
Municipal Obligations	6,432	-	6,432
International Investments:			
Foreign Stocks	114,762	-	114,762
Foreign Bonds	51,250	-	51,250
Total Ohio State University		$ -	$ 1,316,367
University of Cincinnati:			
U.S. Government Obligations	$4,981	$4,981	$ -
U.S. Government Obligations—Strips	1,515	1,515	-
U.S. Agency Obligations	79,676	79,676	-
Common and Preferred Stock	135,879	135,879	-
Corporate Bonds and Notes	183,621	183,621	-
Municipal Obligations	96,212	96,212	-
International Investments:			
Foreign Bonds	26,609	26,609	-
Total University of Cincinnati		$ 528,493	$ -

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

2. Credit Risk

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

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

- Commercial paper must carry ratings in the two highest categories by two nationally recognized rating agencies;

- Debt interests (other than commercial paper) must carry ratings in 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 the 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 30 percent of the total Public Fixed Income portfolio assets. Limitations on the holdings of non-investment grade securities are included in the portfolio's guidelines.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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 the purchase;
- Securities in the high yield fixed income portfolio are high yield bonds issued by U.S. 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.

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 and 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.

The School Facilities Commission Component Unit Fund participates in the State Treasurer's Cash and Investment Pool and does not hold investments separate from the pool. Risks associated with the School Facilities Commission's share of the pool are included in the disclosures for the Primary Government.

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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Primary Government (including Fiduciary Activities)
Investment Credit Ratings
As of June 30, 2011
(dollars in thousands)

	Credit Rating					
Investment Type	AAA/Aaa	AA/Aa	A/A-1	BBB/Baa	BB/Ba	B
U.S. Agency Obligations	$ 9,869,694	$ 148,041	$ 4,496,758	$ -	$ -	$ -
U.S. Agency Obligations—Strips	322,209	-	-	-	-	-
Corporate Bonds and Notes	2,064,759	1,504,831	5,372,863	4,283,007	1,472,341	2,050,961
Corporate Bonds and Notes—Strips	1,629	-	-	-	-	-
Foreign Bonds	1,494,970	422,896	849,691	1,489,404	228,923	245,202
Municipal Bonds	112,793	402,908	417,841	4,054	-	-
Commercial Paper	5,699,015	552,760	685,131	-	-	-
Repurchase Agreements	300,000	200,000	-	-	-	-
Mortgage and Asset-Backed Securities	5,147,706	204,340	150,573	88,251	74,711	185,591
High-Yield & Emerging Markets Fixed Income	264	1,644	25,210	143,819	264,566	489,198
Bond Mutual Funds	3,232,393	10,486	390,292	3,746	4,587	17,255
Investment Contracts	-	-	-	-	-	-
Securities Lending Collateral:						
Commercial Paper	-	-	487,334	-	-	-
Repurchase Agreements	-	270,000	703,824	-	-	-
Variable Rate Notes	-	-	38,430	-	-	-
Master Notes	-	-	85,300	-	-	-
Corporate Bonds	-	-	-	-	-	65,644
U.S. Agency Obligations	37,491	-	-	-	-	-
Total Primary Government	$ 28,282,923	$ 3,717,906	$ 13,703,247	$ 6,012,281	$ 2,045,128	$ 3,053,851

	Credit Rating					
Investment Type	CCC/Caa	CC/Ca	C	D	Unrated	Total
U.S. Agency Obligations	$ -	$ -	$ -	$ -	$ 12,191	$14,526,684
U.S. Agency Obligations—Strips	-	-	-	-	-	322,209
Corporate Bonds and Notes	649,401	12,861	1,376	861	172,970	17,586,231
Corporate Bonds and Notes—Strips	-	-	-	-	71	1,700
Foreign Bonds	78,631	186	6,976	-	51,501	4,868,380
Municipal Bonds	-	-	-	-	200	937,796
Commercial Paper	-	-	-	-	-	6,936,906
Repurchase Agreements	-	-	-	-	3,411	503,411
Mortgage and Asset-Backed Securities	240,132	63,200	36,427	4,797	167,274	6,363,002
High-Yield & Emerging Markets Fixed Income	165,104	2,401	3,411	585	156,078	1,252,280
Bond Mutual Funds	2,884	5	-	-	565,770	4,227,418
Investment Contracts	-	-	-	-	6,019	6,019
Securities Lending Collateral:						
Commercial Paper	-	-	-	-	-	487,334
Repurchase Agreements	-	-	-	-	-	973,824
Variable Rate Notes	-	-	-	-	-	38,430
Master Notes	-	-	-	-	-	85,300
Corporate Bonds	-	-	-	-	-	65,644
U.S. Agency Obligations	-	-	-	-	-	37,491
Total Primary Government	$ 1,136,152	$ 78,653	$ 48,190	$ 6,243	$ 1,135,485	$59,220,059

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Major Component Units
Investment Credit Ratings
As of June 30, 2011
(dollars in thousands)

Ohio Water Development Authority (12/31/10):	Credit Rating AAA/Aaa	Unrated	Total
U.S. Agency Obligations	$ 1,186,822	$ -	$ 1,186,822
Municipal Obligations	5,903	-	5,903
Bond Mutual Funds	158,936	-	158,936
Investment Contracts	-	24,122	24,122
Total Ohio Water Development Authority	$ 1,351,661	$ 24,122	$ 1,375,783

	Credit Rating					
Ohio State University:	AAA/Aaa	AA/Aa	A/A-1	BBB/Baa	BB/Ba	B
U.S. Agency Obligations	$ 177,656	$ -	$ -	$ 1,905	$ -	$ -
Corporate Bonds and Notes	80,513	36,851	115,286	65,730	6,469	1,017
Repurchase Agreements	291,424	-	-	-	-	-
Municipal Obligations	1,162	3,255	2,015	-	-	-
Bond Mutual Funds	75,968	12,212	10,082	5,562	33	97
Foreign Bonds	19,661	14,790	3,695	2,115	-	-
Total Ohio State University	$ 646,384	$ 67,108	$ 131,078	$ 75,312	$ 6,502	$ 1,114

	Credit Rating				
Ohio State University (continued):	CCC/Caa	CC/Ca	C	Unrated	Total
U.S. Agency Obligations	$ -	$ -	$ -	$ -	$ 179,561
Corporate Bonds and Notes	379	-	-	7,919	314,164
Repurchase Agreements	-	-	-	-	291,424
Municipal Obligations	-	-	-	-	6,432
Bond Mutual Funds	543	73	180	383	105,133
Foreign Bonds	-	-	-	10,989	51,250
Total Ohio State University	$ 922	$ 73	$ 180	$ 19,291	$ 947,964

	Credit Rating					
University of Cincinnati:	AAA/Aaa	AA/Aa	A/A-1	BBB/Baa	BB/Ba	B
U.S. Agency Obligations	$ 79,676	$ -	$ -	$ -	$ -	$ -
Corporate Bonds and Notes	10,349	45,295	107,264	20,598	-	-
Mortgage and Asset-Backed Securities	-	-	-	-	-	-
Municipal Obligations	18,810	29,059	36,659	2,133	-	-
Bond Mutual Funds	-	46,218	40,530	2,033	16,758	524
Foreign Bonds	10,152	10,222	6,235	-	-	-
Other Investments	-	-	-	-	-	-
Total University of Cincinnati	$ 118,987	$ 130,794	$ 190,688	$ 24,764	$ 16,758	$ 524

University of Cincinnati (continued):	Unrated	Total
U.S. Agency Obligations	$ -	$ 79,676
Corporate Bonds and Notes	115	183,621
Mortgage and Asset-Backed Securities	52,211	52,211
Municipal Obligations	9,551	96,212
Bond Mutual Funds	12,306	118,369
Foreign Bonds	-	26,609
Other Investments	1,285	1,285
Total University of Cincinnati	$ 75,468	$ 557,983

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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 the U.S. government obligations, limited at 100 percent; repurchases agreement counterparties, limited at the lesser of five percent or $250 million; bankers' acceptances, limited at 10 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.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

As of June 30, 2011, all investments meet the requirements of the State's law 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	$2,164,849	7%
Federal Home Loan Bank	2,191,609	7%
Federal Home Loan Mortgage Corporation	1,816,601	6%
STAR Ohio Investment Trust Fund:		
Federal National Mortgage Association	812,319	19%
Federal Home Loan Bank	1,320,842	30%
Federal Home Loan Mortgage Corporation	689,553	16%
School Facilities Commission Component Unit Fund:		
Federal National Mortgage Association	26,362	19%
Federal Home Loan Bank	39,731	29%
Federal Home Loan Mortgage Corporation	24,221	17%
Federal Farm Credit Bank	7,324	5%
Ohio Water Development Authority Component Unit Fund (12/31/10):		
Federal National Mortgage Association	207,979	19%
Federal Home Loan Bank	792,534	8%
Federal Home Loan Mortgage Corporation	506,782	10%

4. Interest Rate Risk

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

Investment policies governing the treasury's cash and investment pool, which is reported as "Cash Equity with Treasurer" and is managed by the Treasurer of State's Office, limit maturities of short term investments to no more than 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.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

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

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

For the State Highway Patrol Retirement System Pension Trust Fund, investment policies require that 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 120 days. Fixed rate notes are required to have an average maturity of 1.3 years.

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, 2011, investments reported as "Cash Equity with Treasurer" have terms that make their fair values highly sensitive to the interest rate changes. The U.S. agency obligations investment type includes $921 million of investments with call dates during fiscal years 2012 and 2013. These investments have maturities between fiscal years 2013 and 2017 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, 2011. Variable rate notes of $31.4 million have quarterly reset dates. U.S. agency and instrumentality obligations of $25 million have quarterly reset dates.

The Lottery Commission Enterprise Fund has collateral on lent securities with reset dates. Variable rate notes and U.S. agency and instrumentality obligations with reset dates are reported as collateral on lent securities. Variable rate notes of $7 million and U.S. agency and instrumentality obligations of $12.5 million have quarterly reset dates.

Also during fiscal year 2011, 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 retirement system's Comprehensive Annual Financial Report.

The following tables list the investment maturities of the investments for the primary government and its major discretely presented component units. All investments at June 30, 2011, meet the requirements of the State's laws and policies, when applicable. The School Facilities Commission Component Unit Fund participates in the State Treasurer's Cash and Investment Pool and does not hold investments separate from the pool. Risks associated with the School Facilities Commission's share of the pool are included in the disclosures for the Primary Government.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Primary Government (including Fiduciary Activities)
Investments Subject to Interest Rate Risk
As of June 30, 2011
(dollars in thousands)

Investment Type	Investment Maturities (in years) Less than 1	1-5	6-10	More than 10	Total
U.S. Government Obligations	$ 1,782,892	$ 6,602,101	$ 2,714,344	$ 5,884,967	$ 16,984,304
U.S. Government Obligations—Strips	12,789	115,238	91,652	87,091	306,770
U.S. Agency Obligations	8,780,214	1,991,405	450,646	3,304,419	14,526,684
U.S. Agency Obligations—Strips	39,946	97,179	134,771	50,313	322,209
Corporate Bonds and Notes	940,453	5,072,972	4,820,847	6,751,959	17,586,231
Corporate Bonds and Notes—Strips	-	-	1,586	114	1,700
Municipal Bonds	200	4,811	10,388	922,397	937,796
Commercial Paper	6,936,906	-	-	-	6,936,906
Repurchase Agreements	503,411	-	-	-	503,411
Mortgage and Asset-Backed Securities	58,561	129,682	530,744	5,644,015	6,363,002
Foreign Bonds	140,701	1,419,260	981,242	2,327,177	4,868,380
High-Yield & Emerging Markets Fixed Income	26,668	247,752	727,839	250,021	1,252,280
Bond Mutual Funds	4,110,268	60,156	52,550	4,444	4,227,418
Investment Contracts	-	6,019	-	-	6,019
Securities Lending Collateral:					
Commercial Paper	487,334	-	-	-	487,334
Repurchase Agreements	973,824	-	-	-	973,824
Variable Rate Notes	38,430	-	-	-	38,430
Master Notes	85,300	-	-	-	85,300
Corporate Bonds	-	38,134	27,510	-	65,644
U.S. Agency Obligations	37,491	-	-	-	37,491
Total Primary Government	$ 24,955,388	$ 15,784,709	$ 10,544,119	$ 25,226,917	$ 76,511,133

Major Component Units
Investments Subject to Interest Rate Risk
As of June 30, 2011
(dollars in thousands)

Ohio Water Development Authority (12/31/10):	Investment Maturities (in years) Less than 1	1-5	6-10	More than 10	Total
U.S. Government Obligations	$ 41,301	$ 179,622	$ 2,253	$ 1,350	$ 224,526
U.S. Agency Obligations	957,714	229,108	-	-	1,186,822
Municipal Obligations	933	4,970	-	-	5,903
Bond Mutual Funds	158,936	-	-	-	158,936
Investment Contracts	-	-	-	24,122	24,122
Total Ohio Water Development Authority	$ 1,158,884	$ 413,700	$ 2,253	$ 25,472	$ 1,600,309

Ohio State University:	Investment Maturities (in years) Less than 1	1-5	6-10	More than 10	Total
U.S. Government Obligations	$ 19,602	$ 111,093	$ 5,044	$ 1,274	$ 137,013
U.S. Agency Obligations	14,362	123,632	20,586	20,981	179,561
Corporate Bonds and Notes	25,843	220,360	45,142	22,819	314,164
Repurchase Agreements	291,424	-	-	-	291,424
Municipal Obligations	797	-	221	5,414	6,432
Bond Mutual Funds	11,337	55,295	26,093	12,408	105,133
Foreign Bonds	6,211	23,525	16,507	5,007	51,250
Total Ohio State University	$ 369,576	$ 533,905	$ 113,593	$ 67,903	$ 1,084,977

University of Cincinnati:	Investment Maturities (in years) Less than 1	1-5	6-10	More than 10	Total
U.S. Government Obligations	$ 2,133	$ 70	$ 899	$ 1,879	$ 4,981
U.S. Government Obligations—Strips	861	654	-	-	1,515
U.S. Agency Obligations	41,305	28,219	23	10,129	79,676
Corporate Bonds and Notes	114,749	63,297	3,821	1,754	183,621
Mortgage and Asset-Backed Securities	2,975	155	9,206	39,875	52,211
Municipal Obligations	27,273	49,947	508	18,484	96,212
Bond Mutual Funds	-	83,400	18,135	16,834	118,369
Foreign Bonds	26,609	-	-	-	26,609
Other Investments	367	918	-	-	1,285
Total University of Cincinnati	$ 216,272	$ 226,660	$ 32,592	$ 88,955	$ 564,479

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, 2011, investments denominated in the currency of foreign nations, as detailed in the tables appearing on the following pages for the primary government and the Ohio State University component unit, 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, 2011
(dollars in thousands)

Currency	Fiduciary Activities			
	Stocks	Bonds	High-Yield & Emerging Markets Fixed Income	Total
Argentinean Peso	$ 559	$ 2,051	3,182	$ 5,792
Australian Dollar	821,683	14,764	-	836,447
Brazilian Real	540,499	83,732	6,479	630,710
British Pound	3,169,605	191,836	1,528	3,362,969
Bulgarian Lev	511	-	-	511
Canadian Dollar	655,348	169,165	-	824,513
Chilean Peso	43,356	874	-	44,230
Chinese Yuan	977	-	-	977
Colombian Peso	4,652	25,093	4,169	33,914
Czech Koruna	49,394	-	-	49,394
Danish Krone	204,954	-	-	204,954
Egyptian Pound	17,866	4,700	67	22,633
Euro	4,300,896	391,522	8,874	4,701,292
Ghana Cedi	-	-	2,484	2,484
Hong Kong Dollar	1,534,842	-	-	1,534,842
Hungarian Forint	37,677	7,231	-	44,908
Indian Rupee	284,268	6,203	646	291,117
Indonesian Rupiah	127,833	46,608	4,665	179,106
Israeli Shekel	92,201	1,012	-	93,213
Japanese Yen	3,235,254	475	126	3,235,855
Malaysian Ringgit	170,425	33,885	4,847	209,157
Mexican Peso	160,864	61,375	5,958	228,197
Moroccan Dirham	773	-	-	773
New Zealand Dollar	121,469	8,132	-	129,601
Norwegian Krone	284,851	-	668	285,519
Nigerian Naira	-	-	264	264
Pakistani Rupee	2,795	-	-	2,795
Peruvian New Sol	-	465	-	465
Philippines Peso	38,972	18,488	-	57,460
Polish Zloty	126,093	24,735	-	150,828
Renminbi Yuan	2,234	-	-	2,234
Russian Ruble	45,437	9,143	-	54,580
Singapore Dollar	263,794	-	-	263,794
South African Rand	405,444	22,692	5,998	434,134
South Korean Won	957,463	21,795	-	979,258
Swedish Krona	411,936	62,501	-	474,437
Swiss Franc	1,004,597	-	-	1,004,597
Taiwan Dollar	661,387	-	-	661,387
Thailand Baht	207,723	10,352	-	218,075
Turkish Lira	206,488	29,328	-	235,816
Uruguayan Peso	-	17,016	-	17,016
Investments Held in Foreign Currency	$20,195,120	$ 1,265,173	$ 49,955	21,510,248
Foreign Investments Held in U.S. Dollars				25,836,997
Total Foreign Investments-Primary Government, including Fiduciary Activities				$47,347,245

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Major Component Unit
International Investments—Foreign Currency Risk
As of June 30, 2011
(dollars in thousands)

Ohio State University:

Currency	Included in the Balance Reported for Common & Preferred Stock	Included in the Balance Reported for Corporate & International Bonds	Total
Australian Dollar	$ 28,874	$ 1,011	$ 29,885
Brazilian Real	2,362	(64)	2,298
British Pound	9,214	5,227	14,441
Canadian Dollar	-	4,698	4,698
Czech Koruna	1,340	-	1,340
Egyptian Pound	837	-	837
Euro	27,338	23,319	50,657
Hong Kong Dollar	5,308	-	5,308
Indian Rupee	1,592	-	1,592
Israeli Shekel	-	7	7
Japanese Yen	1,064	8,689	9,753
Mexican Peso	1,479	2,369	3,848
Singapore Dollar	1,109	-	1,109
South African Rand	8,069	-	8,069
South Korean Won	10,153	-	10,153
Swiss Franc	7,509	-	7,509
Taiwan Dollar	6,602	-	6,602
Thailand Baht	467	-	467
Turkish Lira	1,445	-	1,445
Total Investments Held in Foreign Currency-Ohio State University	$ 114,762	$ 45,256	$ 160,018

D. Securities Lending Transactions

The Treasurer of State participates in the 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.

Consequently, as of June 30, 2011, the State had no credit exposure since the amount the State owed to the borrowers at least equaled or exceeded the amount borrowers owed to the State.

The State invests cash collateral in short-term obligations, which have a weighted average maturity of 83 days or less while the weighted average maturity of securities loans is six days or less.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

According to the lending contracts the Treasurer of State executes for the State's cash and investment pool and for the Ohio Lottery Commission 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 2011, the State had not experienced any losses due to credit or market risk on securities lending activities.

In fiscal year 2011, the Treasurer of State lent U.S. government and agency obligations in exchange for cash collateral.

E. Investment Derivatives
As of June 30, 2011, the State reports the following investment derivatives in its financial statements (dollars in thousands):

Investment Derivatives
As of June 30, 2011
(dollars in thousands)

		Fair Value at 6/30/2011		Increase (Decrease) in Fair Value	
	Notional	Amount	Reported as	Amount	Reported as
Governmental Activities:					
Investment Derivatives:					
Pay-fixed interest rate swaps	$149,030	($16,412)	Other Noncurrent Liability	($3,398)	Operating Restricted Investment Loss - Primary, Secondary and Other Education Function
Fiduciary Funds—Agency:					
Investment Derivatives:					
Call options	4,200	(12)	Investments	22	Refund and Other Liabilities
Credit default swaps	31,326	-	Investments	2,004	Refund and Other Liabilities
Credit linked notes	14,582	14,582	Investments	6,206	Refund and Other Liabilities
Foreign currency contracts	164,444	(3,170)	Investments	(370,985)	Refund and Other Liabilities
Forward contracts	9,408,535	(11,649)	Investments	52,236	Refund and Other Liabilities
Futures contracts	347,330	(1,554)	Investments	(5,653)	Refund and Other Liabilities
Equity swaps	1,417,357	35,177	Investments	35,177	Refund and Other Liabilities
Interest rate swap	4,383	661	Investments	167	Refund and Other Liabilities
S&P 500 Exchange Traded Fund	6,714	6,714	Investments	6,714	Refund and Other Liabilities
Total return swaps	660,772	10,794	Investments	10,794	Refund and Other Liabilities
Warrants	566	566	Investments	566	Refund and Other Liabilities
Major Component Units:					
Investment Derivatives:					
Ohio State University:					
Pay-fixed interest rate swaps	15,927	(1,846)	Other Noncurrent Liability	66	Other Revenues
University of Cincinnati:					
Pay-fixed interest rate swap	24,075	(2,062)	Other Noncurrent Liability	709	Operating Restricted Investment Gain

For governmental activities, the pay-fixed swaps included in the table above do not meet the criteria for hedging derivatives as of June 30, 2011, and are reported as investment derivatives. The decreases in the fair values for fiscal year 2011 of $3.4 million are reported as operating restricted investment losses for the primary, secondary and other education function in the Statement of Activities.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The credit quality ratings of JPMorgan Chase, the counterparty, are Aa1/AA- as of June 30, 2011. The State was not exposed to credit risk because these swaps had negative fair values at June 30, 2011. However, should interest rates change and the fair values of the swaps becomes positive, the State would be exposed to credit risk in the amount of the derivative's positive fair value.

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.

These swaps, maturing March 15, 2025, are associated with Common Schools Bonds, Series 2005A and Series 2005B. The underlying index is a variable rate based on 6 percent of the 1 month LIBOR rate plus 20 basis points. 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 Ohio Public Employees Retirement System, Ohio Police and Fire Pension Fund, School Employees Retirement System of Ohio, and State Teachers Retirement System of Ohio have entered into the derivatives reported in the Agency Fund. All derivatives of these retirement systems are categorized as investment derivatives. The fair values and associated risks of the investment derivatives for the Agency Fund are included in the balances and risks disclosed in the previous sections of this note disclosure.

For the major component units, the pay-fixed swaps for the Ohio State University and the University of Cincinnati component units in the table above do not meet the criteria for hedging derivatives. The increase in fair value for fiscal year 2011 of $66 thousand for the Ohio State University is reported as general other revenue in the Statement of Activities. The increase in fair value of $709 thousand for the University of Cincinnati is reported as an operating investment gain in the Statement of Activities.

The Ohio State University has two pay-fixed swaps reported as investment derivatives. These transactions are designed to manage the interest costs and risks associated with the variable interest rate debt. The first swap, maturing September 1, 2018, has been used to offset the variable interest rate on $17.4 million of the 2010 bond financing for an ambulatory facility. The underlying index is a variable rate based on the 30-day BMA rate at the beginning of each month. The other swap, maturing February 28, 2012, fixes the interest rate on a $2.2 million term loan to fund a 40 percent interest in the Fresenius Partnership. The underlying index is a variable rate based on the 30-day LIBOR rate in effect at the beginning of the month.

The University of Cincinnati's pay-fixed swap is used to protect the University against the potential of rising interest rates within the variable rate market on the 2011B BANS of $24.1 million. The swap matures on June 1, 2030. It has an underlying index of 67 percent LIBOR. The University was not exposed to credit risk because the swap had a negative fair value at June 30, 2011. There are no counterparty collateral posting requirements on the swap.

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, 2011, approximately $186.4 million of the net taxes receivable balance is also reported as deferred revenue on the governmental funds' balance sheet, all of which is reported in the General Fund.

Refund liabilities for income taxes, totaling approximately $655.7 million are reported as "Refund and Other Liabilities" for governmental activities on the Statement of Net Assets and in the General Fund on the governmental funds' Balance Sheet.

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

	Governmental Activities		
	General	Nonmajor Governmental Funds	Total Primary Government
Current-Due Within One Year:			
Income Taxes	$343,844	$ -	$343,844
Sales Taxes	386,550	-	386,550
Motor Vehicle Fuel Taxes	71,512	65,907	137,419
Commercial Activity Taxes	381,144	-	381,144
Public Utility Taxes	91,952	-	91,952
Severance Taxes	-	1,837	1,837
	1,275,002	67,744	1,342,746
Noncurrent-Due in More Than One Year:			
Income Taxes	54,095	-	54,095
Taxes Receivable, Net	$1,329,097	$ 67,744	$1,396,841

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, 2011 (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	$643,999	$1,495	$ -	$12,693	$658,187
Job, Family and Other Human Services	254,559	71,160	-	-	325,719
Nonmajor Governmental Funds	474,663	127,460	-	18,742	620,865
Total Governmental Activities	1,373,221	200,115	-	31,435	1,604,771
Business-Type Activities:					
Major Proprietary Funds:					
Unemployment Compensation	-	-	95	-	95
Nonmajor Proprietary Funds	-	-	-	10,243	10,243
Total Business-Type Activities	-	-	95	10,243	10,338
Intergovernmental Receivable	$1,373,221	$200,115	$ 95	$41,678	$1,615,109

NOTE 5 RECEIVABLES (Continued)

C. Loans Receivable

Loans receivable for the primary government and its discretely presented major component units, as of June 30, 2011, are detailed in the following tables (dollars in thousands):

Primary Government - Loans Receivable

Loan Program	Governmental Activities: General	Governmental Activities: Nonmajor Governmental Funds	Total Primary Government
Economic Development			
Office of Financial Incentives	$ 453,317	$ -	$453,317
Local Infrastructure Improvements	394,638	-	394,638
Housing Finance	195,232	-	195,232
Highway, Transit,			
& Aviation Infrastructure Bank	-	98,638	98,638
School District Solvency Assistance	11,792	-	11,792
Brownfield Revolving Loan	-	3,641	3,641
Wayne Trace Local School District	3,378	-	3,378
Rail Development	-	3,016	3,016
Office of Minority Financial Incentives	1,609	-	1,609
Other Loans Receivable	1,286	-	1,286
Loans Receivable	1,061,252	105,295	1,166,547
Current-Due Within One Year	101,488	19,773	121,261
Noncurrent-Due in More Than One Year	959,764	85,522	1,045,286
Loans Receivable	$1,061,252	$105,295	$1,166,547

Major Component Units - Loans Receivable

Loan Program	Ohio Water Development Authority (12/31/10)	Ohio State University	University of Cincinnati
Water and Wastewater Treatment (including restricted portion)	$ 4,376,955	$ -	$ -
Student	-	92,042	35,111
Other	-	-	2,658
Loans Receivable, Gross	4,376,955	92,042	37,769
Estimated Uncollectible	-	(19,000)	(6,551)
Loans Receivable, Net	4,376,955	73,042	31,218
Current-Due Within One Year	2,591	16,014	6,500
Noncurrent-Due in More Than One Year	4,374,364	57,028	24,718
Loans Receivable, Net	$ 4,376,955	$ 73,042	$ 31,218

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, 2011, consist of the following (dollars in thousands).

Primary Government - Other Receivables

	Governmental Activities				
	Major Governmental Funds				
Types of Receivables	General	Job, Family & Other Human Services	Buckeye Tobacco Settlement Financing Authority Revenue Bonds	Nonmajor Govern-mental Funds	Total
Manufacturers' Rebates	$112,816	$257,201	$ -	$13,538	$383,555
Tobacco Settlement	-	-	283,059	73,863	356,922
Health Facility Bed Assessments	-	106,587	-	-	106,587
Interest	1,353	-	25	430	1,808
Accounts	10,580	17,314	-	2,141	30,035
Environmental Legal Settlements	-	-	-	778	778
Miscellaneous	9,091	615	-	2,482	12,188
Other Receivables, Net	133,840	381,717	283,084	93,232	891,873
Current-Due Within One Year	133,840	381,717	25	19,369	534,951
Noncurrent-Due in More Than One Year	-	-	283,059	73,863	356,922
Other Receivables, Net	$133,840	$381,717	$283,084	$93,232	$891,873

	Business-Type Activities				
	Major Proprietary Funds				
Types of Receivables	Workers' Compensation	Lottery Commission	Unemployment Compensation	Nonmajor Proprietary Funds	Total
Accounts	$130,920	$ -	$130,964	$3,374	$265,258
Interest and Dividends (including restricted portion)	151,306	2,613	-	972	154,891
Lottery Sales Agents	-	44,352	-	-	44,352
Other Receivables, Gross	282,226	46,965	130,964	4,346	464,501
Estimated Uncollectible	(1,048)	(263)	(110,775)	-	(112,086)
Other Receivables, Net-Due Within One Year	$281,178	$ 46,702	$20,189	$4,346	$352,415
Total Primary Government					$1,244,288

NOTE 5 RECEIVABLES (Continued)

Major Component Units - Other Receivables

Types of Receivables	Ohio Water Development Authority (12/31/10)	Ohio State University	University of Cincinnati
Accounts	$ -	$1,052,584	$56,450
Interest	-	26,601	11,713
Investment Trade Receivable (Stock and Bonds Proceeds)	-	-	4
Pledges	-	59,879	65,609
Unbilled Charges	-	-	33,365
Grants	15,215	-	-
Arbitrage	4,167	-	-
Other Receivables, Gross	19,382	1,139,064	167,141
Estimated Uncollectible	-	(678,098)	(25,618)
Other Receivables, Net	19,382	460,966	141,523
Current-Due Within One Year	5	435,856	101,914
Noncurrent-Due Within More Than One Year	19,377	25,110	39,609
Other Receivables, Net	$ 19,382	$460,966	$141,523

The “Other Receivables” balance reported in the fiduciary funds as of June 30, 2011, is comprised of interest due of approximately $1.4 million, investment trade receivable of $5.9 million, and miscellaneous receivables of $1.5 million.

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, 2011, follow (dollars in thousands):

Primary Government - Accrued Liabilities

	Wages and Employee Benefits	Accrued Interest	Total Accrued Liabilities
Governmental Activities:			
Major Governmental Funds:			
General	$113,718	$ -	$113,718
Job, Family and Other Human Services	16,491	-	16,491
Nonmajor Governmental Funds	60,362	-	60,362
	190,571	-	190,571
Reconciliation of fund level statements to government-wide statements due to basis differences	-	172,532	172,532
Total Governmental Activities	190,571	172,532	363,103
Business-Type Activities:			
Nonmajor Proprietary Funds	5,125	-	5,125
Total Primary Government	$195,696	$ 172,532	$368,228

	Wages and Employee Benefits	Health Benefit Claims	Management and Administrative Expenses	Total Accrued Liabilities
Fiduciary Activities:				
State Highway Patrol Retirement System Pension Trust (12/31/2010)	$ 21,542	$ 807	$ -	$ 22,349
Variable College Savings Plan Private-Purpose Trust	-	-	2,382	2,382
Total Fiduciary Activities	$ 21,542	$ 807	$ 2,382	$ 24,731

Major Component Units - Accrued Liabilities

	Wages and Employee Benefits	Self-Insurance	Accrued Interest	Other	Total Accrued Liabilities
Ohio State University	$ 150,617	$ 32,607	$ 8,980	$ 35,607	$ 227,811
University of Cincinnati	39,152	-	5,040	42,458	86,650

NOTE 6 PAYABLES (Continued)

B. Intergovernmental Payable
The intergovernmental payable balances for the primary government, as of June 30, 2011, 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	$ 888,660	$ 113,228	$ 35,730	$ 1,536	$ 1,039,154
Job, Family and Other Human Services ...	-	99,107	-	-	99,107
Nonmajor Governmental Funds	-	302,600	-	-	302,600
Total Governmental Activities	888,660	514,935	35,730	1,536	1,440,861
Business-Type Activities:					
Major Proprietary Funds:					
Unemployment Compensation	-	35	2,611,475	-	2,611,510
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the business-type financial statements...................................	-	-	(2,314,187)	-	(2,314,187)
Total Business-Type Activities	-	35	297,288	-	297,323
Total Primary Government..........................					$ 1,738,184
Fiduciary Activities:					
Holding and Distribution Agency Fund	$ -	$ -	$ 1,180	$ 15,924	$ 17,104
Payroll Withholding and Fringe Benefits Agency Fund	-	27,519	-	-	27,519
Other Agency Fund	122,450	7,366	-	-	129,816
Total Fiduciary Activities	$ 122,450	$ 34,885	$ 1,180	$ 15,924	$ 174,439

As of June 30, 2011, the School Facilities Commission Component Unit Fund reported an intergovernmental payable balance totaling approximately $748 million 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.

NOTE 6 PAYABLES (Continued)

C. Refund and Other Liabilities

Refund and other liabilities for the primary government and its discretely presented major component units reporting significant balances, as of June 30, 2011, consist of the balances, as follows (dollars in thousands):

Primary Government - Refund and Other Liabilities

	Personal Income Tax Estimated Refund Claims	Other	Total
Governmental Activities:			
Major Governmental Funds:			
General	$ 657,591	$ -	$ 657,591
Job, Family and Other Human Services	-	4,364	4,364
Nonmajor Governmental Funds	-	39,404	39,404
	657,591	43,768	701,359
Reconciliation of balances included in the "Refund and Other Liabilities" and "Other Noncurrent Liabilities" balances in the government-wide financial statements	-	167	167
Total Governmental Activities	$ 657,591	$ 43,935	$ 701,526

	Reserve for Compensation Adjustment	Refund and Security Deposits	Compensated Absences	Capital Leases	Other	Total
Business-Type Activities:						
Major Proprietary Funds:						
Workers' Compensation	$1,937,300	$87,664	$27,890	$ -	$32,197	$2,085,051
Lottery Commission	-	43,333	3,808	58,007	1,478	106,626
Unemployment Compensation	-	11,055	-	-	-	11,055
Nonmajor Proprietary Funds	-	3,089	11,489	-	555	15,133
	1,937,300	145,141	43,187	58,007	34,230	2,217,865
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the government-wide financial statements	(1,937,300)	(87,664)	(42,948)	(58,007)	(12,701)	(2,138,620)
Total Business-Type Activities	$ -	$ 57,477	$ 239	$ -	$ 21,529	$ 79,245
Total Primary Government						$ 780,771

NOTE 6 PAYABLES (Continued)

	Child Support Collections	Refund and Security Deposits	Payroll Withholdings	Retirement Systems' Assets	Other	Total
Fiduciary Activities:						
State Highway Patrol Retirement						
System Pension Trust (12/31/2010)....	$ -	$ -	$ -	$ -	$ 69	$ 69
Variable College Savings Plan						
Private-Purpose Trust........................	-	-	-	-	8,107	8,107
STAR Ohio Investment Trust	-	-	-	-	231	231
Agency Funds:						
Holding and Distribution	-	18,911	-	-	-	18,911
Centralized Child Support Collections.....	60,970	-	-	-	-	60,970
Retirement Systems	-	-	-	167,700,462	-	167,700,462
Payroll Withholding and						
Fringe Benefits	-	-	100,921	-	-	100,921
Other	-	411,896	-	19,595	140,431	571,922
Total Fiduciary Activities....................	$ 60,970	$ 430,807	$ 100,921	$ 167,720,057	$ 148,838	$ 168,461,593

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.................	$ 51,022	$ 124,687	$ 11,209	$ 39,518	$ 146,980	$ 373,416
University of Cincinnati.............	32,308	60,894	106,500	-	8,731	208,433

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

A. Interfund Balances

Interfund balances, as of June 30, 2011, consist of the following (in thousands):

	Due To			
	Governmental Activities			
Due from	General	Buckeye Tobacco Settlement Financing Authority Revenue Bonds	Nonmajor Governmental Funds	Total
Major Governmental Funds:				
General	$ 104,991	$ 872,671	$ 986	$ 978,648
Business-Type Activities:				
Nonmajor Proprietary Funds	3,255	-	-	3,255
Total Primary Government	$108,246	$872,671	$986	$981,903

	Business-Type Activities			
	Major Proprietary Fund			
Due from	Workers' Compensation	Nonmajor Proprietary Funds	Total	Total Primary Government
Major Governmental Funds:				
General	$507,441	$10,675	$518,116	$1,496,764
Job, Family, Other Human Services	13,798	-	13,798	13,798
Nonmajor Governmental Funds	186,911	2	186,913	186,913
Total Governmental Activities	708,150	10,677	718,827	1,697,475
Business-Type Activities:				
Major Proprietary Funds:				
Lottery Commission	2,891	-	2,891	2,891
Nonmajor Proprietary Funds	10,919	-	10,919	14,174
Total Business-Type Activities	13,810	-	13,810	17,065
Total Primary Government	$721,960	$10,677	$732,637	$1,714,540

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 $722 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 $715.6 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 fiscal year ended of June 30, 2011, consist of the following (dollars in thousands):

	Transferred to			
	Governmental Activities			
	Major Governmental Funds			
Transferred from	General	Job, Family & Other Human Services	Nonmajor Govern-mental Funds	Total
Major Governmental Funds:				
General	$ -	$ 16,773	$ 1,518,627	$1,535,400
Job, Family and Other Human Services	1,923	-	9	1,932
Buckeye Tobacco Settlement Financing Authority Revenue Bonds	13,836	-	273	14,109
Nonmajor Governmental Funds	297,714	26	196,471	494,211
Total Governmental Activities	313,473	16,799	1,715,380	2,045,652
Major Proprietary Funds:				
Workers' Compensation	8,189	-	5,120	13,309
Lottery Commission	335	-	738,810	739,145
Unemployment Compensation	609	8,190	-	8,799
Nonmajor Proprietary Funds	154,812	-	68,379	223,191
Total Business-Type Activities	163,945	8,190	812,309	984,444
Total Primary Government	$477,418	$24,989	$2,527,689	$3,030,096

	Business-Type Activities			
	Major Proprietary Funds			
Transferred from	Unemployment Compensation	Nonmajor Proprietary Funds	Total	Total Primary Government
Major Governmental Funds:				
General	$8,000	$30,893	$38,893	$1,574,293
Job, Family and Other Human Services	-	-	-	1,932
Buckeye Tobacco Settlement Financing Authority Revenue Bonds	-	-	-	14,109
Nonmajor Governmental Funds	-	-	-	494,211
Total Governmental Activities	8,000	30,893	$38,893	2,084,545
Major Proprietary Funds:				
Workers' Compensation	-	-	-	13,309
Lottery Commission	-	-	-	739,145
Unemployment Compensation	-	-	-	8,799
Nonmajor Proprietary Funds	-	-	-	223,191
Total Business-Type Activities	-	-	-	984,444
Total Primary Government	$8,000	$30,893	$38,893	$3,068,989

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 the 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 2011, the component units reported $1.96 billion in state assistance revenue from the primary government in the Statement of Activities.

Included in “Primary, Secondary, and Other Education” expenses reported for the governmental activities, is the 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.

The primary government also transferred bond proceeds to the School Facilities Commission to pay the State’s share of the cost of rebuilding elementary and secondary school facilities across the State. This assistance is included as a receivable of the Buckeye Tobacco Settlement Financing Authority for $3.83 billion and is being amortized over the projected payment period of the future tobacco settlement receipts.

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			
	Receivable from the 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	$ -	$30,779	$76,560	$1,654,758	$57,016	$1,788,334
Job, Family and Other Human Services ..	-	9,679	-	-	-	-
Buckeye Tobacco Settlement Financing Authority Revenue Bonds....................	3,826,687	-	-	-	-	-
Nonmajor Governmental Funds	-	8,465	-	175,212	-	175,212
Total Governmental Activities.................	3,826,687	48,923	76,560	1,829,970	57,016	1,963,546

Component Units
(dollars in thousands)

	Receivable from the Primary Government	Payable to the Primary Government	Total State Assistance from the Primary Government
Major Component Units:			
School Facilities Commission	$ -	$3,826,687	$60,671
Ohio State University	9,216	-	508,667
University of Cincinnati	4,877	-	204,925
Nonmajor Component Units	34,830	-	1,189,283
Total Component Units	$48,923	$3,826,687	$1,963,546

NOTE 8 CAPITAL ASSETS

A. Primary Government

Capital asset activity, for the year ended June 30, 2011, reported for the primary government was as follows (dollars in thousands):

	Primary Government			
	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	$1,972,225	$139,751	($29,238)	$2,082,738
Buildings	60,998	-	-	60,998
Land Improvements	1,202	37	-	1,239
Construction-in-Progress	1,745,373	459,636	(550,522)	1,654,487
Infrastructure:				
Highway Network:				
General Subsystem	8,492,573	59,263	(7,102)	8,544,734
Priority Subsystem	7,654,329	241,282	(157)	7,895,454
Bridge Network	2,843,787	120,907	(26,782)	2,937,912
Total Capital Assets Not Being Depreciated	22,770,487	1,020,876	(613,801)	23,177,562
Other Capital Assets:				
Buildings	3,627,104	42,700	(42,961)	3,626,843
Land Improvements	411,719	11,070	(6,797)	415,992
Machinery and Equipment	714,419	172,382	(58,705)	828,096
Vehicles	282,360	31,688	(15,574)	298,474
Infrastructure:				
Parks, Recreation and Natural Resources Network	79,641	19,243	-	98,884
Total Other Capital Assets at Historical Cost	5,115,243	277,083	(124,037)	5,268,289
Less Accumulated Depreciation for:				
Buildings	1,820,165	109,209	(20,551)	1,908,823
Land Improvements	223,297	16,484	(3,754)	236,027
Machinery and Equipment	518,231	59,076	(23,683)	553,624
Vehicles	163,948	22,539	(13,940)	172,547
Infrastructure:				
Parks, Recreation and Natural Resources Network	12,035	3,117	-	15,152
Total Accumulated Depreciation	2,737,676	210,425	(61,928)	2,886,173
Other Capital Assets, Net	2,377,567	66,658	(62,109)	2,382,116
Governmental Activities-Capital Assets, Net	$25,148,054	$1,087,534	($675,910)	$25,559,678

For fiscal year 2011, the State charged depreciation expense to the following governmental functions:

Governmental Activities:	***(in 000s)***
Primary, Secondary and Other Education	$1,568
Public Assistance and Medicaid	4,585
Health and Human Services	26,104
Justice and Public Protection	100,801
Environmental Protection and Natural Resources	45,377
Transportation	75,680
General Government	85,503
Community and Economic Development	6,990
Total Depreciation Expense for Governmental Activities	346,608
Gains (Losses) on Capital Asset Disposals Included in Depreciation	(136,183)
Fiscal Year 2011 Increases to Accumulated Depreciation	$210,425

NOTE 8 CAPITAL ASSETS (Continued)

As of June 30, 2011, the State considered the following governmental capital asset balances as being temporarily or permanently impaired and removed from service.

Governmental Activities (net book value):	***(in 000s)***
Temporarily Impaired Assets Removed from Service:	
Buildings	$34,579
Land Improvements	230
Construction-In-Progress	2,280
Total	$37,089

	Primary Government (Continued)			
	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Business-Type Activities:				
Capital Assets Not Being Depreciated:				
Land	$11,994	$ -	$ -	$11,994
Total Capital Assets Not Being Depreciated	11,994	-	-	11,994
Other Capital Assets:				
Buildings	225,867	1,507	(295)	227,079
Land Improvements	66	-	-	66
Machinery and Equipment	141,417	8,721	(9,047)	141,091
Vehicles	4,649	542	(330)	4,861
Total Other Capital Assets at Historical Cost	371,999	10,770	(9,672)	373,097
Less Accumulated Depreciation for:				
Buildings	145,077	7,424	(461)	152,040
Land Improvements	55	1	-	56
Machinery and Equipment	53,893	24,823	(8,960)	69,756
Vehicles	2,522	657	(242)	2,937
Total Accumulated Depreciation	201,547	32,905	(9,663)	224,789
Other Capital Assets, Net	170,452	(22,135)	(9)	148,308
Business-Type Activities - Capital Assets, Net	$182,446	($22,135)	($9)	$160,302

For fiscal year 2011, the State charged depreciation expense to the following business-type functions:

Business-Type Activities	***(in 000s)***
Workers' Compensation	$11,179
Lottery Commission	20,088
Tuition Trust Authority	55
Liquor Control	383
Underground Parking Garage	442
Office of Auditor of State	563
Total Depreciation Expense for Business-Type Activities	32,710
Gains (Losses) on Capital Asset Disposals Included in Depreciation	195
Fiscal year 2011 Increase to Accumulated Depreciation	$32,905

NOTE 8 CAPITAL ASSETS (Continued)

B. Major Component Units

Capital asset activity, for the year ended June 30, 2011, reported for discretely presented major component unit funds with significant capital asset balance was as follows (dollars in thousands):

	Major Component Units			
	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Ohio State University:				
Capital Assets Not Being Depreciated:				
Land	$73,926	$87	$ -	$74,013
Construction-in-Progress	273,226	262,682	-	535,908
Total Capital Assets Not Being Depreciated	347,152	262,769	-	609,921
Other Capital Assets:				
Buildings	3,939,159	86,882	(5,453)	4,020,588
Land Improvements	281,996	27,301	-	309,297
Machinery, Equipment and Vehicles	922,719	96,928	(55,591)	964,056
Library Books and Publications	163,012	4,755	(8,226)	159,541
Total Other Capital Assets at Historical Cost	5,306,886	215,866	(69,270)	5,453,482
Less Accumulated Depreciation for:				
Buildings	1,517,655	132,094	(5,453)	1,644,296
Land Improvements	172,316	10,018	-	182,334
Machinery, Equipment and Vehicles	584,558	93,763	(50,182)	628,139
Library Books and Publications	148,375	3,476	(8,227)	143,624
Total Accumulated Depreciation	2,422,904	239,351	(63,862)	2,598,393
Other Capital Assets, Net	2,883,982	(23,485)	(5,408)	2,855,089
Total Capital Assets, Net	$3,231,134	$239,284	($5,408)	$3,465,010
University of Cincinnati:				
Capital Assets Not Being Depreciated:				
Land	$25,100	$4,788	$ -	$29,888
Construction-in-Progress	46,174	74,661	(18,025)	102,810
Collections of Works of Art and Historical Treasures	14,626	390	-	15,016
Total Capital Assets Not Being Depreciated	85,900	79,839	(18,025)	147,714
Other Capital Assets:				
Buildings	1,851,067	66,111	-	1,917,178
Land Improvements	99,979	8,627	-	108,606
Machinery, Equipment and Vehicles	247,395	24,040	(6,229)	265,206
Library Books and Publications	154,282	8,594	(2,389)	160,487
Infrastructure	115,855	753	-	116,608
Total Other Capital Assets at Historical Cost	2,468,578	108,125	(8,618)	2,568,085
Less Accumulated Depreciation for:				
Buildings	764,091	71,792	-	835,883
Land Improvements	31,221	5,207	-	36,428
Machinery, Equipment and Vehicles	167,620	18,877	(4,212)	182,285
Library Books and Publications	112,111	8,349	(1,720)	118,740
Infrastructure	60,822	4,531	-	65,353
Total Accumulated Depreciation	1,135,865	108,756	(5,932)	1,238,689
Other Capital Assets, Net	1,332,713	(631)	(2,686)	1,329,396
Total Capital Assets, Net	$1,418,613	$79,208	($20,711)	$1,477,110

For fiscal year 2011, Ohio State University and the University of Cincinnati reported approximately $239.4 million and $108.8 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 survivor 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 total years of 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 the 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 but 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 or 60 contributing months 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 calculated on the basis of age, years of credited service, and the final average salary, which is the average of the member's three highest years of earnable salary. 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 of the original base amount regardless of changes in the Consumer Price Index.

The retirement allowance for the defined benefit portion of the combined plan is calculated on the basis of age, years of credited service, and the final average salary, which is the average of the member's three highest years of earnable salary. 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 of the original base amount 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, payments for a specific monthly amount, or various combinations of these options. Participants direct the investment of their accounts by selecting from sixteen professionally managed OPERS investment options.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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 cannot be less than six times or more than 36 times the monthly amount that would be payable to the member under the plan of payment selected, and cannot result in a monthly allowance that is less than 50 percent of that monthly amount.

Employer and employee required contributions to OPERS are established by the Retirement Board and are within the limits authorized by the Ohio Revised Code. The contribution rates are based on percentages of covered employees' gross salaries, which are calculated annually by the retirement system's actuaries. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for regular employees and 18.1 percent of covered payroll for law enforcement employees. Contribution rates for fiscal year 2011, 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, 2010 through June 30, 2011	10.00%	14.00%
Law Enforcement Employees:		
July 1, 2010 through December 31, 2010	11.10%	17.87%
January 1, 2011 through June 30, 2011	11.60%	18.10%

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 were as follows (dollars in thousands):

	2011	2010	2009
Primary Government:			
Regular Employees	$267,671	$241,734	$ 216,623
Law Enforcement Employees............................	4,235	3,889	3,708
Total	$271,906	$245,623	$ 220,331
Major Component Units:			
School Facilities Commission	$378	$345	$303
Ohio Water Development Authority........	101	155	80
Ohio State University..............	97,145	85,332	67,273
University of Cincinnati..........	14,767	13,814	11,950

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 were as follows (dollars in thousands):

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

	2011	2010	2009
Primary Government:			
Employer Contributions	$6,037	$5,085	$4,762
Employee Contributions	12,825	11,114	10,672
Major Component Units:			
Ohio State University:			
Employer Contributions ..	2,942	2,427	2,139
Employee Contributions .	6,864	5,871	5,288
University of Cincinnati:			
Employer Contributions ..	420	372	335
Employee Contributions .	921	812	775

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 (800) 222-7377.

Other Postemployment Benefits (OPEB)

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the defined benefit and combined plans. Members of the defined contribution plan do not qualify for ancillary benefits, including post-employment healthcare coverage.

In order to qualify for post-employment healthcare coverage, age-and-service retirees under the defined benefit and combined plans must have ten or more years of qualifying Ohio service credit. Healthcare coverage for disability benefit recipients and qualified survivor benefit recipients is available. The healthcare coverage provided by OPERS meets the definition of an OPEB as described in GASB Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement healthcare through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement healthcare benefits.

Employer contribution rates are expressed as a percentage of covered payroll of active members. For fiscal year 2011, state employers contributed at a rate of 14 percent of covered payroll and law enforcement employers contributed at 17.87 percent for the period July 1, 2010, through December 31, 2010, and at 18.1 percent for the period January 1, 2011, through June 30, 2011. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for regular employees and 18.1 percent of covered payroll for law enforcement employees. Active members do not make contributions to the OPEB plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment healthcare benefits. The contribution rates for regular and law enforcement employees were as follows:

	Employer Share	
	Defined Benefit Plan	Combined Plan
July 1, 2010 through December 31, 2010	5.00%	4.23%
January 1, 2011 through June 30, 2011	4.00%	6.05%

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the healthcare benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Employer contributions required and made for the last three fiscal years for the defined benefit plan and the defined benefit portion of the combined plan were as follows (dollars in thousands):

	2011	2010	2009
Primary Government:			
Regular Employees	$128,257	$148,549	$196,410
Law Enforcement Employees	1,426	1,694	2,288
Total	$129,683	$150,243	$198,698
Major Component Units:			
School Facilities Commission	$178	$212	$271
Ohio Water Development Authority	58	65	72
Ohio State University	45,894	52,407	60,263
University of Cincinnati	6,977	8,486	10,709

Members of the defined contribution plan may access a Retiree Medical Account upon retirement. During fiscal year 2011, employers paid 4.5 percent of their share into members' accounts. An employee's interest in the medical account for qualifying healthcare expenses vests on the basis of length of service, with 100 percent vesting attained after five years of credited service. 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 required and made for the last three fiscal years for the defined contribution plan were as follows (dollars in thousands):

	2011	2010	2009
Primary Government	$3,112	$2,621	$2,454
Major Component Units:			
Ohio State University	1,516	1,251	1,103
University of Cincinnati	216	192	172

The number of active contributing participants for the primary government was 55,043, as of June 30, 2011.

The Health Care Preservation Plan adopted by the OPERS Retirement Board on September 9, 2004, became effective on January 1, 2007. Member and employer contribution rates increased as of January 1, of each year from 2006 to 2008. Rates for law enforcement employees increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the healthcare plan.

Early Retirement Incentives (ERI)

State agencies, or departments within agencies, may offer voluntary 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. The ERI plan must remain in effect for at least one year and the employees must be given at least thirty days' notice before terminating the plan.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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 350 employees or 40 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 the effective date. The amount of service credit offered cannot exceed five years.

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, 2011, the State had no significant liability balances relative to existing ERI agreements with state employees covered by OPERS. During fiscal year 2011, the State incurred expenditures/expenses totaling $5.3 million for 154 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. STRS benefits are established under Chapter 3307, Ohio Revised Code.

STRS also provides death, survivors', disability, healthcare, and supplemental benefits to members in the defined benefit and combined plans.

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 or the "money-purchase benefit" calculation.

Under the "formula benefit" calculation, the retirement allowance is based on years of credited service and the final average salary, which is the average of the member's three highest salary years. The annual allowance is determined by multiplying the final average salary by 2.2 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.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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.

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.

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 2011 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. 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 fiscal years for the defined benefit and the defined benefit portion of the combined plans were as follows (dollars in thousands):

	2011	2010	2009
Primary Government.......................	$6,571	$8,101	$7,498
Major Component Units:			
Ohio State University.....................	41,446	39,969	38,355
University of Cincinnati.................	15,599	15,274	14,609

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):

	2011	2010	2009
Primary Government:			
Employer Contributions	$102	$106	$98
Employee Contributions	132	177	163
Major Component Units:			
Ohio State University:			
Employer Contributions	3,679	3,290	3,155
Employee Contributions	4,168	3,785	3,633
University of Cincinnati:			
Employer Contributions	993	926	885
Employee Contributions	1,222	1,158	1,107

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, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org .

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Other Postemployment Benefits (OPEB)

Ohio law authorizes STRS to offer a cost-sharing, multiple-employer healthcare plan. STRS provides access to healthcare to eligible retirees who participate in the defined benefit plan or combined plan. Benefits include hospitalization, physician's fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Retirees enrolled in the defined contribution plan receive no post-employment healthcare benefits.

Chapter 3307, Ohio Revised Code, gives the STRS board discretionary authority over how much, if any, of associated healthcare costs are absorbed by the healthcare plan. All benefit recipients, for the most recent year, pay a portion of the healthcare costs in the form of a monthly premium.

Under Ohio law, funding for the post-employment healthcare may be deducted from employer contributions. Of the 14 percent employer contribution rate, one percent of the covered payroll was allocated to post-employment healthcare. The 14 percent employer contribution rate is the maximum rate established under Ohio law.

The employer contribution is financed on a pay-as-you-go basis. As of June 30, 2010 (the most recent information available), net assets available for future healthcare benefits were $2.8 billion. Employer contributions required and made for the last three fiscal years for the defined benefit and the defined benefit portion of the combined plans were as follows (dollars in thousands):

	2011	2010	2009
Primary Government.......................	$505	$623	$577
Major Component Units:			
Ohio State University...................	3,188	3,075	2,950
University of Cincinnati................	1,200	1,175	1,124

The number of eligible benefit recipients for STRS as a whole was 150,480, as of June 30, 2010 (the most recent information available); a breakout of the number of eligible recipients for the primary government and its component units, as of June 30, 2011, is unavailable.

C. State Highway Patrol Retirement System (SHPRS)

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

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

SHPRS is authorized under Chapter 5505, Ohio Revised Code, to provide retirement and disability benefits to retired members and survivor benefits to qualified dependents of deceased members of the Ohio State Highway Patrol. In addition to providing pension benefits, SHPRS is authorized by Chapter 5505, Ohio Revised Code, to provide a post-employment healthcare plan, which is considered to be an other post-employment benefit.

Chapter 5505, Ohio Revised Code, requires contributions by active members and the Ohio State Highway Patrol. The employer and employee contribution rates are established by the General Assembly, and any change in the rates requires legislative action. By law, the employer rate may not exceed three times the employee contribution rate, nor be less than nine percent of the total salaries of contributing members.

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

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."

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

Employees are eligible for pension and healthcare benefits upon reaching both an age and service requirement. Employees with at least 15 years of service credit, but less than 20 years of service credit, may retire at age 55. Employees with at least 20 years of service credit, but less than 25 years of service credit may retire at age 52 or age 48 with reduced benefits. Employees with more than 25 years of service may retire at age 48.

The pension benefit is a percentage of the member's final average salary, which is the average of the member's three highest salary years. For members with at least 15 years of service credit, but less than 20 years of service credit, the percentage is determined by multiplying 1.5 percent times the number of years of service credit. For members with 20 or more years of service credit, the percentage is determined by multiplying 2.5 percent for the first 20 years of service, plus 2.25 percent for the next five years of service, plus two percent for each year in excess of 25 years of service. A member's pension may not exceed 79.25 percent of the final average salary.

Pension Benefits

The employer and employee contribution rates, as of December 31, 2010, were 26.5 percent and ten percent, respectively.

During calendar year 2010, all of the employees' contributions funded pension benefits while 23 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 State's annual pension cost and net pension obligation to SHPRS for the current year were as follows (dollars in thousands):

Annual Required Contribution (ARC)	$22,872
Interest on Net Pension Obligation	206
Adjustment to ARC	(146)
Annual Pension Cost	22,932
Contributions Made	(21,212)
Increase (Decrease) in Net Pension Obligation	1,720
Net Pension Obligation, Beginning of Year	2,579
Net Pension Obligation, End of Year	$4,299

The State's annual pension cost, percentage of annual pension cost contributed, and net pension obligation for the last three calendar years, were as follows (dollars in thousands):

For the Year Ended December 31,	Annual Pension Cost	Percentage of Employer's Annual Pension Cost Contributed	Net Pension Obligation
2010	$22,932	92.5%	$4,298
2009	20,048	102.0%	2,578
2008	21,268	95.5%	2,985

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

As of December 31, 2010, the most recent actuarial valuation date, the plan was 62 percent funded. The actuarial accrued liability was $1.02 billion, and the actuarial value of assets was $631 million, resulting in an unfunded actuarial accrued liability (UAAL) of $386.8 million. The covered payroll (annual payroll of active employees covered by the plan) was $94.8 million, and the ratio of the UAAL to the covered payroll was 408.2 percent.

The Schedule of Funding Progress for Pension Benefits, displayed in the following table, presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time, relative to the actuarial accrued liabilities for benefits.

SHPRS Schedule of Funding Progress Last Three Calendar Years-Pension
(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)
2010	$1,017,770	$630,971	$386,799	62.0%	$94,768	408.2%
2009	940,084	620,357	319,727	66.0%	94,825	337.2%
2008	904,522	603,266	301,256	66.7%	94,302	319.5%

SHPRS used the entry-age, normal actuarial cost method for the Schedule of Funding Progress for the actuarial valuation, dated December 31, 2010. 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 0.3 percent to ten percent 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. Maximum contribution rates were not considered in the projection of actuarially accrued liabilities for pension benefits. The actuarial methods and assumptions do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing in the future.

The unfunded actuarial accrued liability is being amortized using the level-percentage of projected payroll method over an open period. Based upon significant declines in investment values during 2008, the SHPRS actuary was unable to amortize unfunded actuarially accrued pension liabilities over a finite period. Without plan design changes, the system is unlikely to be able to pay off future liabilities.

Other Post Employment Benefits (OPEB)
The healthcare coverage provided by SHPRS is considered to be an OPEB as described in GASB Statement 45. Healthcare benefits are not guaranteed and are subject to change at any time. The OPEB valuation is based on the substantive plan as it is currently presented to plan members, including a historical pattern of cost-sharing between the plan and benefit recipients.

During calendar year 2010, 3.5 percent of the employer's contributions funded healthcare benefits. Active members do not make contributions to the OPEB plan. The cost of retiree healthcare benefits is recognized as claims incurred and premiums paid. The number of active contributing plan participants, as of December 31, 2010, was 1,537.

The State's annual OPEB cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The components of the State's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the State's net OPEB obligation to SHPRS were as follows (dollars in thousands):

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Annual Required Contribution (ARC)	$16,365
Interest on Net OPEB Obligation	2,745
Adjustment to ARC	(3,718)
Annual OPEB Cost	15,392
Contributions Made	(3,700)
Increase (Decrease) in Net OPEB Obligation	11,692
Net OPEB Obligation, Beginning of Year	54,901
Net OPEB Obligation, End of Year	$66,593

The State's annual OPEB cost, percentage of annual OPEB cost contributed, and net OPEB obligation for the last three calendar years, were as follows (dollars in thousands):

For the Year Ended December 31,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	$15,392	24.0%	$66,593
2009	19,081	24.8%	54,900
2008	18,872	25.1%	40,550

As of December 31, 2010, the most recent actuarial valuation, the plan was 25.7 percent funded. The actuarial accrued liability was $406.9 million, and the actuarial value of assets was $104.7 million, resulting in an unfunded actuarial liability (UAAL) of $302.1 million. The covered payroll (annual payroll of active employees covered by the plan) was $94.8 million, and the ratio of the UAAL to the covered payroll was 318.8 percent.

The Schedule of Funding Progress for OPEB, displayed in the following table, presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time, relative to the actuarial accrued liabilities for benefits.

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

(A)	(B)	(C)	(D)	(E)	(F)	(G)
Valuation Year	Actuarial Accrued Liability (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liability (UAAL) (B)-(C)	Ratio of Assets to AAL (C)/(B)	Active Member Payroll	UAAL as Percentage of Active Member Payroll (D)/(F)
2010	$406,864	$104,738	$302,126	25.7%	$94,768	318.8%
2009	287,582	100,748	186,834	35.0%	94,825	197.0%
2008	324,171	95,785	228,386	29.5%	94,302	242.2%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarial determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing in the future. Actuarial calculations reflect a long-term perspective. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Healthcare benefits are advance funded by the employer using the entry-age, normal actuarial cost method for the Schedule of Funding Progress for the actuarial valuation, dated December 31, 2010, for OPEB. Assumptions used in preparing the Schedule of Funding Progress and in determining the annual required contribution include: a five 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 10 percent a year attributable to seniority and merit; and an annual healthcare cost trend rate of nine percent initially, reduced by decrements to an ultimate rate of four percent by 2021. There are no cost-of-living adjustments for OPEB benefits. Maximum contribution rates were not considered in the projection of actuarially accrued liabilities for OPEB benefits.

The unfunded actuarial accrued liability is being amortized using the level-percentage of projected payroll method over an open period of 30 years.

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. Unclassified 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. These contribution rates are ten percent for OPERS and STRS. Employees may also voluntarily make additional contributions to the ARP.

For the year ended June 30, 2011, each public institution of higher education was required to contribute .8 percent of a participating employee's salary to OPERS in cases when the employee would have otherwise 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, 2011, 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 healthcare 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.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

For the State's discretely presented major component units, employer and employee contributions required and made for the year ended June 30, 2011, for the ARP follow (dollars in thousands):

	OPERS	STRS
Major Component Units:		
Ohio State University:		
Employer Contributions	$22,371	$18,463
Employee Contributions	16,910	17,584
University of Cincinnati:		
Employer Contributions	7,465	4,827
Employee Contributions	6,616	6,130

NOTE 10 GENERAL OBLIGATION BONDS

At various times since 1921, Ohio voters, by 19 constitutional amendments (the last adopted May 2010 for research and development programs in support of Ohio industry, commerce, and business), 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, business site development, and veterans compensation. 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 School Capital Facilities Bonds and Higher Education Capital Facilities Bonds. As of June 30, 2011, the General Assembly had authorized the issuance of $3.87 billion in Common Schools Capital Facilities Bonds, of which $3.29 billion has been issued. As of June 30, 2011, the General Assembly had also authorized the issuance of $2.61 billion in Higher Education Capital Facilities Bonds, of which $2.3 billion has been issued.

Through the 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, 2011, the General Assembly has authorized the issuance of approximately $2.77 billion in Highway Capital Improvements Bonds, of which $2.29 billion has been issued.

Constitutional amendments in 1995 and 2005 allowed for the issuance of $3.75 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, 2011, the General Assembly had authorized $3.15 billion of these bonds to be sold (excluding any amounts for unaccreted discount on capital appreciation bonds at issuance), of which $2.88 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, 2011, the General Assembly had authorized the issuance of $231 million in Coal Research and Development Bonds, of which $198 million had been issued. Legislative authorizations for the issuance of Natural Resources Capital Facilities Bonds totaled $350 million, as of June 30, 2011, of which $325 million had been issued.

Constitutional amendments in 2000 and 2008 allowed for outstanding Conservation Projects Bonds of up to $400 million. No more than $50 million may be issued during a fiscal year. As of June 30, 2011, the General Assembly had authorized the issuance of approximately $300 million in Conservation Projects Bonds of which all $300 million had been issued.

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

Through approval of the May 2010 and November 2005 amendments, voters authorized the issuance of $1.2 billion of Third Frontier Research and Development Bonds. Obligations that may be issued are limited to $450 million for fiscal years 2006 through 2011, $225 million in fiscal year 2012, and $175 million in any fiscal year thereafter, plus any obligations unissued from previous fiscal years. As of June 30, 2011, the General Assembly had authorized the issuance of $450 million in Third Frontier Research and Development Bonds, of which $381 million had been issued.

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, beginning with fiscal year 2006, and not more than $15 million may be issued in any of the subsequent fiscal years. The General Assembly had authorized the issuance of $150 million in Site Development Bonds as of June 30, 2011, of which $115 million had been issued.

A 2009 constitutional amendment provides for the issuance of up to $200 million in Veterans Compensation Bonds. No obligations may be issued after December 31, 2013. As of June 30, 2011, the General Assembly had authorized all $200 million in Veterans' Compensation Bonds, of which $50 million had been issued.

General obligation bonds outstanding and future general obligation debt service requirements, as of June 30, 2011, are presented in the table below. 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, 2011. As rates vary, variable-rate bond interest payments and net swap payments vary.

Primary Government-Governmental Activities
Summary of General Obligation Bonds
and Future Funding Requirements
As of June 30, 2011
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Common Schools Capital Facilities	2002-11	1.8%-5.5%	2027	$2,669,081	$580,000
Higher Education Capital Facilities	2002-11	1.4%-5.5%	2031	1,825,394	313,000
Highw ay Capital Improvements	2003-11	2.0%-5.3%	2025	780,497	482,000
Infrastructure Improvements	1992-11	1.8%-6.1%	2031	1,724,859	270,014
Coal Research and Development	2002-10	2.0%-4.3%	2020	22,505	33,000
Natural Resources Capital Facilities	2002-10	2.0%-5.0%	2024	133,048	25,000
Conservation Projects	2002-11	2.0%-5.3%	2026	237,127	-
Third Frontier Research and Development	2007-11	.7%-5.5%	2021	326,696	69,300
Site Development	2007-11	2.0%-5.3%	2021	103,069	35,000
Veterans' Compensation	2011	1.0%-5.0%	2025	50,000	150,000
Total General Obligation Bonds				$7,872,276	$1,957,314

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

Future Funding of Current Interest and Capital Appreciation Bonds:

Year Ending June 30,	Principal	Interest	Total
2012	$538,770	$321,279	$860,049
2013	577,930	291,244	869,174
2014	583,150	265,416	848,566
2015	546,020	239,306	785,326
2016	523,330	215,013	738,343
2017-2021	2,439,255	745,821	3,185,076
2022-2026	1,483,825	246,177	1,730,002
2027-2031	324,425	36,513	360,938
Total Current Interest and Capital Appreciation Bonds	$7,016,705	$2,360,769	$9,377,474

Future Funding of Variable-Rate Bonds:

Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2012	$19,230	$11,048	$11,199	$41,477
2013	18,125	10,633	10,947	39,705
2014	36,045	10,122	10,688	56,855
2015	51,895	9,086	10,270	71,251
2016	62,410	7,767	9,682	79,859
2017-2021	283,155	20,773	36,330	340,258
2022-2026	179,855	5,403	9,041	194,299
Total Variable-Rate Bonds	$650,715	$74,832	$98,157	$823,704

Total General Obligation Bonds	$7,667,420
Unamortized Premium/(Discount), Net	323,301
Deferred Refunding Loss	(118,445)
Total	$7,872,276

For the year ended June 30, 2011, NOTE 15 summarizes changes in general obligation bonds.

Hedging Derivatives

As of June 30, 2011, approximately $345.9 million of Infrastructure Improvement Bonds and Common Schools Bonds have associated cash flow hedges with a fair value of ($36.7) million. The value of these bonds is reported as part of the Bonds and Notes Payable section and the negative fair value of the cash flow hedges is reported in the Other Noncurrent Liabilities section on the Statement of Net Assets. The fair value increased $6.1 million during fiscal year 2011. This increase is reported on the Statement of Net Assets as part of Deferred Outflows of Resources. Fair value of the cash flow hedges is determined using the zero-coupon method.

Terms and objectives of the State’s hedging derivatives are provided in the following table.

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

Hedging Derivatives
As of June 30, 2011
(dollars in thousands)

Issue	Type of Cash Flow Hedge	Notional Amount	Underlying Index	Counterparty's Swap Rate at 06/30/2011	State's Swap Rate at 06/30/2011	Effective Date	Termination (Maturity) Date
Infrastructure Improvements, Series 2001B	Pay-fixed interest rate swap	$63,900	SIFMA Index	0.09%	4.63%	11/29/2001	8/1/2021
Objective: Convert Series 2001B variable-rate bonds into a synthetic fixed rate to minimize exposure to changing interest rates							
Embedded Option: The counterparties may elect to terminate the swap if the SIFMA index averages 7 percent or higher over a 180-day period.							
Credit Quality Ratings of Counterparty: 50% Aa1/AA- JPMorgan Chase; 50% A2/A Morgan Stanley Capital Services							
Infrastructure Improvements, Refunding Series 2004A	Pay-fixed interest rate swap	$55,295	LIBOR (See terms below)	0.37%	3.51%	3/3/2004	2/1/2023
Objective: Convert Series 2004A variable-rate bonds into a synthetic fixed rate to minimize exposure to changing interest rates							
Credit Quality Ratings of Counterparty: A2/A Morgan Stanley Capital Services							
Terms: 63% of LIBOR + 25 basis points							
Common Schools, Series 2003D	Pay-fixed interest rate swap	$67,000	LIBOR (see terms below)	0.37%	3.41%	9/14/2007	3/15/2024
Objective: Convert Series 2003D variable-rate bonds into a synthetic fixed rate to minimize exposure to changing interest rates							
Credit Quality Ratings of Counterparty: 50% Aa1/AA- JPMorgan Chase; 50% A2/A Morgan Stanley Capital Services							
Terms: 65% of 1-month LIBOR + 25 basis points							
Common Schools, Series 2006B	Pay-fixed interest rate swap	$79,840	LIBOR (see terms below)	0.37%	3.20%	6/15/2006	6/15/2026
Objective: Convert Series 2006B variable-rate bonds into a synthetic fixed rate to minimize exposure to changing interest rates							
Credit Quality Ratings of Counterparty: 50% Aa3/A+ UBS AG; 50% Aa1/AA- Royal Bank of Canada							
Terms: 65% of 1-month LIBOR + 25 basis points							
Common Schools, Series 2006C	Pay-fixed interest rate swap	$79,840	LIBOR (see terms below)	0.37%	3.20%	6/15/2006	6/15/2026
Objective: Convert Series 2006C variable-rate bonds into a synthetic fixed rate to minimize exposure to changing interest rates							
Credit Quality Ratings of Counterparty: 50% Aa3/A+ UBS AG; 50% Aa1/AA- Royal Bank of Canada							
Terms: 65% of 1-month LIBOR + 25 basis points							

The State was not exposed to credit risk because these swaps had negative fair values at June 30, 2011. However, should interest rates change and the fair values of the swaps becomes positive, the State would be exposed to credit risk in the amount of the derivative’s positive fair value.

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

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

The 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.

These swaps expose the State to basis risk or a mismatch between the floating rate received on the swap and the variable rate paid on the underlying variable-rate bonds. A mismatch would increase or decrease the interest cost paid by the State.

For Infrastructure Improvement, Series 2001B, the SIFMA municipal swap index has proven to be an effective proxy for the State's variable-rate debt and substantially mitigates basis risk.

For Infrastructure, Series 2004A and for Common Schools, Series 2003D, 2006B, and 2006C, the State assumes the risk of reductions in marginal federal tax rates or elimination of the tax preference for municipal securities, given that the variable swap receipt is based on a taxable index (LIBOR). Those changes would increase the interest rates on the underlying variable-rate debt but would not impact the variable-rate swap receipt based on the LIBOR index.

The 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 may be liable to the counterparty for a payment. Other termination events include failure to pay, bankruptcy, merger without assumption, and illegality. No termination events have occurred.

Advance Refundings

During fiscal year 2011, there were five advance refundings of general obligations bonds. Details on the advanced refundings are presented in the table on the following page.

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 had defeased general obligation bonds from prior years and placed the proceeds in irrevocable trusts. As of June 30, 2011, the balances in these trusts for bonds defeased in prior years were $109.2 million for Infrastructure Improvement Bonds, $9.5 million for Natural Resources Bonds, $511 million for Common Schools Bonds, $39.9 million for Conservation Bonds, and $380.6 million for Higher Education Bonds.

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

Primary Government — Governmental Activities
General Obligation Bonds
Details of Advance Refundings
For the Year Ended June 30, 2011
(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 (Increase) in Debt Service Payments	Economic Gain / (Loss) Resulting from Refunding
Higher Education, Series 2010C...	10/8/2010	$98,560	2.53%	$103,210	$114,143	$12,675/13 yrs	$10,789
Common Schools, Series 2010C...	10/8/2010	129,340	2.64%	141,335	150,986	16,658/13 yrs	14,474
Infrastructure, Series 2010D........	10/8/2010	14,950	2.23%	14,185	15,734	1,466/11 yrs	1,207
Conservation, Series 2010A.........	10/8/2010	26,120	2.08%	25,440	28,206	2,320/10 yrs	1,860
Highw ay Capital, Series P.............	10/20/2010	32,610	1.29%	32,000	35,639	428/ 4 yrs	422
Total		$301,580		$316,170	$344,708		$28,752

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, including its Office of Financial Incentives, and the Ohio Department of Transportation; the Ohio Building Authority (OBA), which has issued revenue bonds on its own behalf and for the Ohio Bureau of Workers' Compensation; and the Buckeye Tobacco Settlement Financing Authority (BTSFA). 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, payable through 2030, are backed with profits derived from the sale of spirituous liquor by the Division of Liquor Control and pledged moneys and related investment earnings held in reserve under a trust agreement with a financial institution.

Revitalization Project Bonds provide financing to enable the remediation or cleanup of contaminated publicly or privately owned lands to allow for their environmentally safe and productive development. The bonds, payable through 2026, are also backed with profits derived from the sale of spirituous liquor by the Division of Liquor Control.

Pledged net liquor revenues through the maturity of the Economic Development and Revitalization Project revenue bonds total approximately $929.6 million. During fiscal year 2011, pledged net revenues were $226 million. Principal and interest requirements for fiscal year 2011 totaled $56.4 million.

Since fiscal year 1998, the Treasurer of State has issued a total of $1.75 billion 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 source of moneys for meeting the principal and interest requirements on the bonds.

Issuances for the State Infrastructure Bank are, in part, used for the acquisition, construction, or improvement of capital assets. Total pledged federal highway receipts and loan repayments through the maturity of the bonds in 2022 are estimated at approximately $1.28 billion. For fiscal year 2011, principal and interest payments on the revenue bonds was $154.5 million and pledged receipts was $147 million.

NOTE 11 REVENUE BONDS AND NOTES (Continued)

BTSFA is authorized by the Ohio General Assembly to issue and to sell obligations, the aggregate principle amount of which shall not exceed $6 billion, exclusive of obligations issued to refund, renew, or advance refund other obligations issued or incurred. On October 29, 2007, BTSFA successfully securitized 100 percent of the projected tobacco settlement receipts for the next 45 years through the issuance of five series of asset-backed revenue bonds, aggregating in the amount of $5.53 billion. The future tobacco settlement receipts, including related investment earnings and net of specified operating and enforcement expenses, have been pledged to repay the bonds, which are payable through 2052. Annual principal and interest payments on the bonds will require 100 percent of the net tobacco settlement receipts. As of June 30, 2011, the total principal and interest payments remaining to be paid on the bonds were $18.38 billion. Principal and interest paid and total net tobacco settlement receipts for fiscal year 2011 were $300 million and $292 million, respectively. In the event that the assets of BTSFA have been exhausted, no amounts will thereafter be paid on the bonds. After the bonds and any related operating expenses have been fully paid, any remaining tobacco settlement receipts will become payable to the State. The bonds include fixed rate serial bonds, fixed rate current interest turbo term bonds, and capital appreciation turbo term bonds which will convert to fixed rate current interest turbo term bonds. They were issued to fund long-lived capital projects at state-supported institutions of higher education and to pay the State's share of the cost of rebuilding elementary and secondary school facilities across the State. Additional information on these bonds can be found in BTSFA's stand-alone financial report.

Revenue bonds accounted for in business-type activities finance the construction costs of 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 bonds are collateralized by lease rental payments pledged by BWC to OBA. The lease rental payments are based on the estimated debt service of the bonds, but are limited to an amount appropriated by the Ohio General Assembly in the biennial budget. Total pledged payments through the maturity of the bonds in 2014 are estimated at approximately $51.6 million. For fiscal year 2011, both the total lease rental payments and the principal and interest payments on the revenue bonds were $19 million.

Revenue bonds outstanding for the primary government, as of June 30, 2011, are presented below.

Primary Government
Summary of Revenue Bonds
As of June 30, 2011
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
Governmental Activities:				
Treasurer of State:				
Economic Development	2004-11	.4%-7.7%	2030	$476,788
Revitalization Project	2003-11	.4%-5.9%	2026	207,900
State Infrastructure Bank	2006-11	2.3%-6.0%	2022	1,008,026
Buckeye Tobacco Settlement Financing Authority	2008	4.4%-7.5%	2052	5,463,311
Total Governmental Activities				7,156,025
Business-Type Activities:				
Bureau of Workers' Compensation	2003	1.6%-4.0%	2014	47,889
Total Business-Type Activities				47,889
Total Revenue Bonds				$7,203,914

Future bond service requirements for revenue bonds of the primary government, as of June 30, 2011, are presented on the following page.

NOTE 11 REVENUE BONDS AND NOTES (Continued)

Primary Government
Future Funding Requirements for Revenue Bonds
As of June 30, 2011
(dollars in thousands)

	Governmental Activities			Business-Type Activities		
Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total
2012	$277,365	$356,823	$634,188	$15,890	$2,326	$18,216
2013	203,660	342,823	546,483	15,915	1,543	17,458
2014	213,695	333,061	546,756	15,200	751	15,951
2015	221,745	322,944	544,689	-	-	-
2016	222,865	312,004	534,869	-	-	-
2017-2021	1,106,170	1,395,108	2,501,278	-	-	-
2022-2026	769,350	1,135,612	1,904,962	-	-	-
2027-2031	613,370	943,887	1,557,257	-	-	-
2032-2036	391,165	771,038	1,162,203	-	-	-
2037-2041	1,104,853	691,899	1,796,752	-	-	-
2042-2046	1,308,830	346,402	1,655,232	-	-	-
2047-2051	559,661	2,979,086	3,538,747	-	-	-
2052	166,969	3,250,331	3,417,300	-	-	-
	7,159,698	13,181,018	20,340,716	47,005	4,620	51,625
Unamortized						
Premium/(Discount), Net	1,346	-	1,346	1,181	-	1,181
Deferred Refunding Loss	(5,019)	-	(5,019)	(297)	-	(297)
Total	$7,156,025	$13,181,018	$20,337,043	$47,889	$4,620	$52,509

	Total		
Year Ending June 30,	Principal	Interest	Total
2012	$293,255	$359,149	$652,404
2013	219,575	344,366	563,941
2014	228,895	333,812	562,707
2015	221,745	322,944	544,689
2016	222,865	312,004	534,869
2017-2021	1,106,170	1,395,108	2,501,278
2022-2026	769,350	1,135,612	1,904,962
2027-2031	613,370	943,887	1,557,257
2032-2036	391,165	771,038	1,162,203
2037-2041	1,104,853	691,899	1,796,752
2042-2046	1,308,830	346,402	1,655,232
2047-2051	559,661	2,979,086	3,538,747
2052	166,969	3,250,331	3,417,300
	7,206,703	13,185,638	20,392,341
Unamortized			
Premium/(Discount), Net	2,527	-	2,527
Deferred Refunding Loss	(5,316)	-	(5,316)
Total	$7,203,914	$13,185,638	$20,389,552

For the year ended June 30, 2011, NOTE 15 summarizes changes in revenue bonds.

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 and 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, 2010, approximately $1.98 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, 2010, were as follows (dollars in thousands):

Year Ending December 31,	Principal	Interest	Total
2011	$115,210	$90,386	$205,596
2012	95,725	85,440	181,165
2013	101,935	80,974	182,909
2014	110,835	76,059	186,894
2015	114,835	70,814	185,649
2016-2020	611,885	269,524	881,409
2021-2025	390,745	145,221	535,966
2026-2030	296,550	51,704	348,254
2031-2035	77,070	7,197	84,267
	1,914,790	877,319	2,792,109
Unamortized Premium/(Discount), Net	107,859	-	107,859
Deferred Refunding Loss	(46,288)	-	(46,288)
Total	$1,976,361	$877,319	$2,853,680

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 resident 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, 2011, are shown on the following page.

NOTE 11 REVENUE BONDS AND NOTES (Continued)

Major Component Units
Future Funding Requirements for Revenue Bonds
As of June 30, 2011
(dollars in thousands)

Year Ending December 31 or June 30,	Ohio Water Development Authority (12/31/2010) Principal	Interest	Total	Ohio State University Principal	Interest	Total
2011	$179,395	$139,142	$318,537			
2012	188,750	131,385	320,135	$537,671	$47,920	$585,591
2013	200,130	123,694	323,824	77,333	44,024	121,357
2014	197,490	115,552	313,042	57,649	41,938	99,587
2015	202,410	107,412	309,822	59,899	40,501	100,400
2016	-	-	-	60,029	39,132	99,161
2016-2020	923,330	410,326	1,333,656	-	-	-
2017-2021	-	-	-	245,064	179,981	425,045
2021-2025	585,350	225,194	810,544	-	-	-
2022-2026	-	-	-	147,604	147,901	295,505
2026-2030	418,875	93,493	512,368	-	-	-
2027-2031	-	-	-	91,265	118,617	209,882
2031-2035	137,475	25,380	162,855	-	-	-
2032-2036	-	-	-	17,200	105,633	122,833
2036-2040	34,660	4,709	39,369	-	-	-
2037-2041	-	-	-	665,160	83,590	748,750
2041-2045	3,175	135	3,310	-	-	-
	3,071,040	1,376,422	4,447,462	1,958,874	849,237	2,808,111
Unamortized Premium/(Discount), Net	148,843	-	148,843	59,830	-	59,830
Deferred Refunding Loss	(82,566)	-	(82,566)	-	-	-
Total	$3,137,317	$1,376,422	$4,513,739	$2,018,704	$849,237	$2,867,941

Year Ending December 31 or June 30,	University of Cincinnati Principal	Interest	Total
2011			
2012	$107,014	$50,638	$157,652
2013	41,293	48,194	89,487
2014	48,325	46,458	94,783
2015	57,600	44,271	101,871
2016	47,708	41,725	89,433
2016-2020	-	-	-
2017-2021	269,106	171,300	440,406
2021-2025	-	-	-
2022-2026	235,315	106,859	342,174
2026-2030	-	-	-
2027-2031	161,530	57,017	218,547
2031-2035	-	-	-
2032-2036	76,735	24,091	100,826
2036-2040	-	-	-
2037-2041	39,465	4,980	44,445
2041-2045	-	-	-
	1,084,091	595,533	1,679,624
Unamortized Premium/(Discount), Net	12,802	-	12,802
Deferred Refunding Loss	-	-	-
Total	$1,096,893	$595,533	$1,692,426

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

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, 2011, are presented in the following table.

Primary Government-Governmental Activities
Summary of Special Obligation Bonds
As of June 30, 2011
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized but Unissued
Ohio Building Authority	1999-11	2.0%-6.1%	2031	$1,607,696	$145,915
Treasurer of State Chapter 154 Bonds	2001-11	2.6%-4.8%	2026	653,157	160,225
Total Special Obligation Bonds				$2,260,853	$306,140

Future special obligation debt service requirements, as of June 30, 2011, are as follows (dollars in thousands):

Year Ending June 30,	Principal	Interest	Total
2012	$305,760	$97,972	$403,732
2013	260,945	84,294	345,239
2014	220,925	73,155	294,080
2015	212,205	63,323	275,528
2016	192,215	54,212	246,427
2017-2021	673,105	157,349	830,454
2022-2026	284,620	42,939	327,559
2027-2031	47,905	5,422	53,327
	2,197,680	578,666	2,776,346
Unamortized			
Premium/(Discount), Net	100,271	-	100,271
Deferred Refunding Loss	(37,098)	-	(37,098)
Total	$2,260,853	$578,666	$2,839,519

For the year ended June 30, 2011, NOTE 15 summarizes changes in special obligation bonds.

During fiscal year 2011, OBA had three current/advance refunding issues. The proceeds of the refunding bonds were used to purchase U.S. Government securities in amounts sufficient, without further investment, to pay, when due, the principle, interest and redemption premium on the bonds being refunded.

Details on the advanced refunding for fiscal year 2011 are presented in the table on the following page.

NOTE 12 SPECIAL OBLIGATION BONDS (Continued)

Primary Government — Governmental Activities
Special Obligation Bonds
Details of Advance Refundings
For the Year Ended June 30, 2011
(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 (Increase) in Debt Service Payments	Economic Gain / (Loss) Resulting from Refunding
Ohio Building Authority:							
Administrative Building 2010 Series C.....	8/31/2010	$148,865	2.75%	$160,515	$170,923	(10,095)/15 yrs	$4,712
Adult Correctional 2010 Series A............	8/31/2010	79,325	2.84%	86,136	89,294	(15,022)/15 yrs	1,056
Juvenile Correctional 2010 Series B.......	8/31/2010	15,005	2.94%	16,018	16,297	(4,272)/15 yrs	(91)
Total		$243,195		$262,669	$276,514		$5,677

In prior years, 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, 2011, $126 million and $32 million of OBA and Chapter 154 special obligations bonds, respectively, are considered defeased and no longer outstanding.

NOTE 13 CERTIFICATES OF PARTICIPATION

A. Primary Government
As of June 30, 2011, approximately $179.9 million in certificate of participation (COP) obligations were reported in governmental activities.

In fiscal year 1992, the Ohio Department of Transportation participated in the issuance of $8.7 million of COP obligations to finance the acquisition of the Panhandle Rail Line Project. Beginning in fiscal year 2005, the Ohio Department of Administrative Services participated in the issuance of $185.2 million 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 the acquisition, construction, or improvement of capital assets.

In fiscal year 2008, the Ohio Department of Administrative Services participated in the issuance of $40.1 million of COP obligations to finance the cost of acquisition of the State Taxation Accounting and Revenue System (STARS).

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, the STARS 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, 2011, are presented in the following table.

NOTE 13 CERTIFICATES OF PARTICIPATION (Continued)

Primary Government — Governmental Activities
Summary of Certificate of Participation Obligations
As of June 30, 2011
(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	$1,435
Department of Administrative Services:				
Ohio Administrative Knowledge System (OAKS)	2005-09	2.5%-5.3%	2019	144,746
State Taxation Accounting and Revenue System (STARS)....	2008	3.5%-5.0%	2019	33,754
Total Certificates of Participation				$179,935

As of June 30, 2011, the primary government's future commitments under the COP financing arrangements were as follows (dollars in thousands):

Year Ending June	Principal	Interest	Total
2012......	$22,180	$7,323	$29,503
2013......	21,610	6,357	27,967
2014......	22,530	5,431	27,961
2015......	23,540	4,401	27,941
2016......	24,645	3,289	27,934
2017-2019......	61,370	3,642	65,012
	175,875	30,443	206,318
Unamortized Premium, Net.....	4,060	-	4,060
Total	$179,935	$30,443	$210,378

For the year ended June 30, 2011, NOTE 15 summarizes changes in COP obligations.

B. Component Units

For the State's component units, approximately $3.8 million in COP obligations are reported in the component unit funds. The obligations finance building construction costs at the Ohio State University.

As of June 30, 2011, future commitments under the COP financing arrangements for the State's component units are detailed in the table below.

Component Units
Future Funding Requirements for Certificate of Participation Obligations
As of June 30, 2011
(dollars in thousands)

	Ohio State University		
Year Ending	Principal	Interest	Total
2012......	$465	$180	$645
2013......	490	156	646
2014......	515	131	646
2015......	540	104	644
2016......	570	76	646
2017-2021......	1,220	62	1,282
Total......	$3,800	$709	$4,509

NOTE 14 OTHER NONCURRENT LIABILITIES

As of June 30, 2011, 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):

Non-Current Liabilities	
Governmental Activities:	
Compensated Absences	$464,077
Net Pension Obligation	4,299
Net OPEB Obligation	66,593
Capital Leases Payable	6,530
Derivatives	53,119
Pollution Remediation Liabilities	4,851
Estimated Claims Payable	10,385
Liability for Escheat Property	219,770
Total Governmental Activities	829,624
Business-Type Activities:	
Compensated Absences	42,948
Capital Leases Payable	58,007
Workers' Compensation:	
Benefits Payable	18,012,600
Other	2,037,665
Unemployment Compensation:	
Intergovernmental Payable	2,314,187
Deferred Prize Awards Payable	643,074
Tuition Benefits Payable	592,599
Total Business-Type Activities	23,701,080
Total Primary Government	$24,530,704

For the year ended June 30, 2011, 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, 2011, was $507 million, of which $464.1 million is allocable to governmental activities and $42.9 million is allocable to business-type activities.

As of June 30, 2011, discretely presented major component units reported a total of $186.7 million in compensated absences liabilities, as detailed by major component unit in NOTE 15.

B. Net Pension Obligation and Net OPEB Obligation

The State recognizes a net pension obligation and a net OPEB obligation in the amount of $4.3 million and $66.6 million, respectively, as of June 30, 2011. The net pension obligation represents the cumulative difference between the annual pension cost and the employer's contributions to the State Highway Patrol Retirement System (SHPRS). The net OPEB obligation represents the cumulative difference between the annual OPEB cost and the employer's contributions to the SHPRS. The SHPRS is a blended component unit reported as a fiduciary pension trust fund. See NOTE 9 for further details.

NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

C. Lease Agreements

The State's primary government leases office buildings and computer and office 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.

Operating leases (leases on assets not recorded in the Statement of Net Assets) contain various renewable 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 2011 were approximately $77.8 million. Fiscal year 2012 future minimum lease commitments for operating leases judged to be noncancelable, as of June 30, 2011, were $3.7 million.

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. Future minimum lease commitments for capital leases judged to be noncancelable, as of June 30, 2011, are below (dollars in thousands):

	Capital Leases		
Year Ending June 30,	Governmental Activities	Business-Type Activities	Total
2012	$ 2,656	$ 18,814	$ 21,470
2013	2,432	18,813	21,245
2014	1,326	25,286	26,612
2015	537	-	537
2016	69	-	69
2017-2021	8	-	8
Total Minimum Lease Payments	7,028	62,913	69,941
Amount for Interest	(498)	(4,906)	(5,404)
Present Value of Net Minimum Lease Payments	$ 6,530	$ 58,007	$ 64,537

As of June 30, 2011, the primary government had the following capital assets under capital leases (dollars in thousands):

	Capital Assets		
	Governmental Activities	Business-Type Activities	Total
Equipment	$16,380	$88,038	$104,418
Vehicles	2,649	-	$2,649
Total	$19,029	$88,038	$107,067

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.

NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

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, 2011, are presented in the table below (dollars in thousands):

Major Component Units

Capital Leases		
Year Ending June 30,	Ohio State University	University of Cincinnati
2012	$ 5,168	$ 11,657
2013	4,181	10,515
2014	2,062	10,687
2015	355	10,293
2016	158	10,952
2017-2021	-	41,241
2022-2026	-	36,037
2027-2031	-	23,652
2032-2036	-	6,959
Total Minimum Lease Payments	11,924	161,993
Amount for Interest	(715)	(55,493)
Present Value of Net Minimum Lease Payments	$ 11,209	$ 106,500
Equipment & Vehicles	$ 43,012	$ 3,226
Buildings	-	183,618
Total	$ 43,012	$ 186,844

D. Derivatives
For governmental activities, the State has reported ($53.1) million of investment and hedging derivatives as of June 30, 2011. Additional information regarding the State's derivatives is included in NOTE 4 and NOTE 10.

As of June 30, 2011, the discretely presented major component units reported a total of ($3.9) million of investment derivatives. Additional information regarding the major component units' derivatives is included in NOTE 4.

E. Litigation Liabilities
In instances when the unfavorable outcome of a pending litigation has been assessed to be probable, liabilities are recorded in the financial statements. As of June 30, 2011, no liabilities ultimately payable from various governmental funds have been recorded for this purpose. For information on the State's loss contingencies arising from pending litigation, see NOTE 19.

F. Pollution Remediation Liabilities
The State recognizes a liability for pollution remediation in the amount $4.9 million, as of June 30, 2011. This represents the cost to the State to the extent that is probable for future clean up and reclamation of polluted sites within the State. See NOTE 19 for further detail.

G. Estimated Claims Payable
For governmental activities, the State recognized $7.1 million in estimated claims liabilities, as of June 30, 2011, for damaged state vehicles covered under the State's self-insured program, which was established in the General Fund for this purpose at the Department of Administrative Services.

Additionally, the State reported $3.3 million in estimated claims for defaulted loans under the Ohio Enterprise Bond Programs at the Department of Development, as of June 30, 2011. The program is included in governmental activities and is accounted for in the Community and Economic Development Special Revenue Fund.

NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

H. 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, 2011, the liability totaled approximately $219.8 million.

I. Worker's Compensation

Benefits Payable

As discussed in NOTE 20, the Worker's 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, 2011, in the amount of approximately $18.01 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.

J. Unemployment Compensation

As of June 30, 2011, the State's Unemployment Compensation Fund is recognizing an intergovernmental payable liability for repayable advances from the Federal government of $2.31 billion. These advances were used for the payment of compensation benefits.

K. 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 three to nine percent, represent the expected long-term rate of return on the assets restricted for the payment of deferred prize awards. Once established for a particular deferred prize award, the interest rate does not fluctuate with changes in the expected long-term rate of return. The difference between the present value and gross amount of the obligations is amortized into income over the terms of the obligations using the interest method. The State reduces prize liabilities by an estimate of the amount of the prize that will ultimately be unclaimed. As of June 30, 2011, this payable totals $643.1 million.

Future payments of prize awards, stated at present value, as of June 30, 2011, follow (dollars in thousands):

Year Ending June 30,	
2012	$ 78,102
2013	77,017
2014	76,926
2015	76,789
2016	76,765
2017-2021	277,587
2022-2026	129,778
2027-2031	65,682
2032-2036	21,857
2037-2041	1,493
	881,996
Unamortized Discount	(238,922)
Net Prize Liability	$643,074

L. Tuition Benefits Payable

The actuarial present value of future tuition benefits payable from the Tuition Trust Authority Enterprise Fund was approximately $592.6 million, as of June 30, 2011. 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 in state universities and state community colleges and termination of participant contracts under the plan.

NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

The following assumptions were used in the actuarial determination of tuition benefits payable: 5.5 percent rate of return, compounded annually, on the investment of current and future assets; a projected annual tuition increase of 3.5 percent in the first year and seven 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, 2010	$	(70.8)
Adjustment to Beginning of Year's Assets		1.7
Interest on the Deficit at 6.5 Percent		(4.5)
Investment Gain		52.3
Lower actual 2011-2012 tuition than assumed		20.3
Change in Assumption for Future Tuition Growth		16.3
Interest Gain on Late Tuition Payouts		0.6
Change in the investment return assumption		(26.8)
Actuarial Deficit, as of June 30, 2011	$	(10.9)

As of June 30, 2011, the market value of actuarial net assets available for the payment of the tuition benefits payable was $581.7 million.

M. Other Liabilities

The Workers' Compensation Enterprise Fund reports approximately $2.04 billion in other noncurrent liabilities, as of June 30, 2011, of which 1.) $1.94 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.) $87.7 million represents premium payment security deposits collected in advance from private employers to reduce credit risk for premiums collected in subsequent periods, and 3.) $12.7 million consists of other miscellaneous liabilities.

NOTE 15 CHANGES IN NONCURRENT LIABILITIES

A. Primary Government

Changes in noncurrent liabilities, for the year ended June 30, 2011, are presented for the primary government in the following table.

Primary Government
Changes in Noncurrent Liabilities
For the Fiscal Year Ended June 30, 2011
(dollars in thousands)

Governmental Activities:	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Amount Due Within One Year
Bonds and Notes Payable:					
General Obligation Bonds (NOTE 10)	$7,343,289	$1,252,246	$723,259	$7,872,276	$557,443
Revenue Bonds (NOTE 11)	6,891,331	435,418	170,724	7,156,025	278,816
Special Obligation Bonds (NOTE 12)	2,338,094	407,046	484,287	2,260,853	313,244
Total Bonds and Notes Payable	16,572,714	2,094,710	1,378,270	17,289,154	1,149,503
Certificates of Participation (NOTE 13)	200,428	7	20,500	179,935	22,255
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences	444,775	348,171	328,869	464,077	72,299
Net Pension Obligation	-	25,511	21,212	4,299	-
Net OPEB Obligation	-	70,293	3,700	66,593	-
Capital Leases Payable	8,624	914	3,008	6,530	2,400
Derivatives..	55,784	3,397	6,062	53,119	-
Litigation Liabilities	6,628	-	6,628	-	-
Pollution Remediation Liabilities	5,902	1,818	2,869	4,851	516
Estimated Claims Payable	10,071	2,030	1,716	10,385	2,476
Liability for Escheat Property	194,585	76,817	51,632	219,770	68,094
Total Other Noncurrent Liabilities	726,369	528,951	425,696	829,624	145,785
Total Noncurrent Liabilities	$17,499,511	$2,623,668	$1,824,466	$18,298,713	$1,317,543
Business-Type Activities:					
Bonds and Notes Payable:					
Revenue Bonds (NOTE 11)	$64,200	$246	$16,557	$47,889	$15,890
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences	42,169	28,009	27,230	42,948	4,796
Capital Leases Payable	66,757	6,944	15,694	58,007	17,590
Workers' Compensation:					
Benefits Payable	17,878,400	2,067,955	1,933,755	18,012,600	1,915,283
Other:					
Adjustment Expenses Liability	1,926,200	171,045	159,945	1,937,300	384,441
Premium Payment Security Deposits ..	87,974	1,093	1,403	87,664	-
Miscellaneous	21,850	22,660	31,809	12,701	12,701
Unemployment Compensation:					
Intergovernmental Payable	2,314,187	-	-	2,314,187	-
Deferred Prize Awards Payable	672,615	48,292	77,833	643,074	45,451
Tuition Benefits Payable	632,900	-	40,301	592,599	81,936
Total Other Noncurrent Liabilities	23,643,052	2,345,998	2,287,970	23,701,080	2,462,198
Total Noncurrent Liabilities	$23,707,252	$2,346,244	$2,304,527	$23,748,969	$2,478,088

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

NOTE 15 CHANGES IN NONCURRENT LIABILITIES (Continued)

For fiscal year 2011, 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 and 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	$577,929
Higher Education Support	264,582
Environmental Protection and Natural Resources	3,058
Transportation	40,529
Community and Economic Development	352,689
Total Interest Expense Charged to Governmental Functions	$1,238,787

B. Component Units

Changes in noncurrent liabilities, for the year ended June 30, 2011 (December 31, 2010 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, 2011
(dollars in thousands)

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Amount Due Within One Year
School Facilities Commission:					
Intergovernmental Payable	$1,336,182	$231,769	$820,254	$747,697	$552,999
Compensated Absences*	824	590	501	913	140
Total	$1,337,006	$232,359	$820,755	$748,610	$553,139
Ohio Water Development Authority (12/31/10):					
Revenue Bonds & Notes Payable (NOTE 11)	$2,294,811	$1,341,992	$499,486	$3,137,317	$179,395
Compensated Absences*	202	116	111	207	-
Total	$2,295,013	$1,342,108	$499,597	$3,137,524	$179,395
Ohio State University:					
Compensated Absences*	$108,988	$23,986	$8,287	$124,687	$8,287
Capital Leases Payable* (NOTE 14)	17,419	422	6,632	11,209	4,767
Derivatives*	1,912	-	66	1,846	-
Other Liabilities*	96,983	116,556	-	213,539	3,978
Revenue Bonds & Notes Payable (NOTE 11)	1,382,421	911,699	275,416	2,018,704	537,671
Certificates of Participation (NOTE 13)	4,245	-	445	3,800	465
Total	$1,611,968	$1,052,663	$290,846	$2,373,785	$555,168
University of Cincinnati:					
Compensated Absences*	$58,649	$3,196	$951	$60,894	$38,036
Capital Leases Payable* (NOTE 14)	140,529	-	34,029	106,500	6,322
Derivatives*	2,771	-	709	2,062	-
Other Liabilities*	41,471	86,052	88,546	38,977	1,088
Revenue Bonds & Notes Payable (NOTE 11)	1,032,114	401,490	336,711	1,096,893	109,267
Total	$1,275,534	$490,738	$460,946	$1,305,326	$154,713

*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 a limited obligation 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, 2011 (December 31, 2010 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	$218,995
Hospital Facilities Bonds	6,745
Ohio Department of Transportation:	
State Transportation Infrastructure Bond Fund Program...	20,680
Total Primary Government	$246,420
Component Units (12/31/10):	
Ohio Water Development Authority	$2,217,275
Ohio Air Quality Development Authority	2,400,000
Total Component Units	$4,617,275

NOTE 17 FUND DEFICITS AND FUND BALANCE REPORTING

A. Fund Deficits

The following individual funds reported deficits that are reflected in the State's basic financial statements, as of June 30, 2011 (dollars in thousands):

Primary Government:	
Major Proprietary Funds:	
Unemployment Compensation......................	($1,926,737)
Component Units:	
Major Component Units:	
School Facilities Commission Fund	($4,170,889)
Nonmajor Component Units:	
Ohio Capital Fund...	(43,715)
Total Component Units............................	($4,214,604)

The Unemployment Compensation Fund deficit disclosed above is due to an unusually high level of benefit claims and a reduction in State revenues as a result of current economic conditions. Federal loans have been required to maintain current benefit levels.

Deficits for the other funds are due to the timing of revenue recognition and the accrual of expenses not recorded under the cash basis of accounting.

NOTE 17 FUND DEFICITS AND FUND BALANCE REPORTING (Continued)

B. Fund Balance Reporting-Constraints by Purpose

Fund balance constraints reported in the governmental funds, as of June 30, 2011, are presented by purpose in the following table:

Primary Government
Fund Balance Constraints by Purpose
(dollars in thousands)

	Major Funds				
	General	Job, Family & Other Human Services	Buckeye Tobacco Settlement Financing Authority Revenue Bonds	Nonmajor Governmental Funds	Total
Fund Balance:					
Nonspendable					
Inventories	$ 32,886	$ -	$ -	$ 57,972	$ 90,858
Noncurrent Portion of Loans Receivable	3,338	-	-	-	3,338
Prepaids	16,163	2,270	-	8,960	27,393
Advances to Local Government	12,693	30,604	-	-	43,297
Total nonspendable	65,080	32,874	-	66,932	164,886
Restricted					
Primary, Secondary and Other Education	1,043	60	-	71,562	72,665
Public Assistance and Medicaid	-	283,437	-	-	283,437
Health and Human Services	-	2,537	-	87,953	90,490
Justice and Public Protection	889	763	-	108,770	110,422
Environmental Protection and Natural Resources	12,721	-	-	90,533	103,254
Transportation	-	-	-	1,163,645	1,163,645
General Government	8,633	28,823	-	14,348	51,804
Community and Economic Development	1,055,366	59	-	238,646	1,294,071
Capital Outlay	-	-	-	490,807	490,807
Debt Service	-	-	5,218,413	77,522	5,295,935
Total Restricted	1,078,652	315,679	5,218,413	2,343,786	8,956,530
Committed					
Primary, Secondary and Other Education	-	-	-	20,497	20,497
Higher Education Support	-	-	-	29	29
Public Assistance and Medicaid	-	52,719	-	-	52,719
Health and Human Services	4,434	6,635	-	14,354	25,423
Justice and Public Protection	817	5,063	-	118,612	124,492
Environmental Protection and Natural Resources	-	-	-	174,892	174,892
Transportation	-	-	-	988	988
General Government	10,211	7,509	-	55,442	73,162
Community and Economic Development	655,748	-	-	65,175	720,923
Total Committed	671,210	71,926	-	449,989	1,193,125
Assigned					
Primary, Secondary and Other Education	55,455	-	-	-	55,455
Public Assistance and Medicaid	289,172	-	-	-	289,172
Health and Human Services	61,304	-	-	-	61,304
Justice and Public Protection	113,665	-	-	-	113,665
Environmental Protection and Natural Resources	13,860	-	-	-	13,860
General Government	1,003,259	-	-	-	1,003,259
Community and Economic Development	79,980	-	-	-	79,980
Total Assigned	1,616,695	-	-	-	1,616,695
Unassigned	(1,208,029)	-	-	(25)	(1,208,054)
Total Fund Balance	$ 2,223,608	$ 420,479	$ 5,218,413	$ 2,860,682	$10,723,182

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 the member states in proportion to their respective cash contributions to the GLPF. The allocation is based on the amount and period of time the state's 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 $187 thousand) to 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, 2010 (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	100.00%

*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, 2010, was as follows (dollars in thousands):

Cash and Investments	$113,310
Other Assets	269
Total Assets	$113,579
Total Liabilities	$1,644
Total Net Assets	111,935
Total Liabilities and Net Assets	$113,579
Total Revenues and Other Additions......	$11,403
Total Expenditures	(4,299)
Net Increase in Net Assets	$7,104

NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

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 or 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 Tobacco Settlement revenue bonds issued by the Buckeye Tobacco Settlement Financing Authority, the Higher Education Capital Facilities general obligation bonds issued by the Ohio Public Facilities Commission (OPFC), and the Higher Education Facilities special obligation bonds, previously issued by the OPFC, for these purposes. The bonds provide funding for capital appropriations, which are available to the local community and technical colleges for spending on capital construction.

Fiscal year 2011 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	$61,610	$16,049	$77,659
Eastern	5,176	1,076	6,252
Lakeland	20,037	1,225	21,262
Lorain County	27,224	409	27,633
Rio Grande	5,533	200	5,733
Sinclair	52,803	780	53,583
Total Local Community Colleges	172,383	19,739	192,122
Technical Colleges:			
Belmont	6,442	42	6,484
Central Ohio	11,318	860	12,178
Hocking	15,952	2,217	18,169
James A. Rhodes	10,791	1,438	12,229
Marion	6,364	1,928	8,292
Zane	6,689	83	6,772
North Central	8,049	1,703	9,752
Stark	25,278	4,843	30,121
Total Technical Colleges	90,883	13,114	103,997
Total	$263,266	$32,853	$296,119

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.

NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

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

During Fiscal year 2011, the State had the following related-party transactions with its related organizations:

- The General Fund reports a $195.2 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 $2.2 million from the General 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, the Petroleum Underground Storage Tank Release Compensation Board, and the Higher Education Facility Commission, were accounted for on the primary government's Ohio Administrative Knowledge 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 $4.4 million for administrative services performed under contract for the distribution of state funding to nonprofit legal aid societies.

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 Commerce, the Department of Transportation, and the Bureau of Workers' Compensation is discussed below.

Department of Commerce
In the Sogg v. Department of Commerce case, the plaintiff claims a provision in Section 169.08(D) of Ohio Revised Code creates an unconstitutional taking of property in violation of takings clause of the United States and Ohio Constitutions. In April 2009, the Supreme Court of Ohio declared Section 169.08(D) unconstitutional. The Court held that the State may not retain the interest earned on unclaimed funds and that claimants are entitled to interest on the funds for the four years prior to the filing of the claim. The case was remanded to the trial court to determine the method for determining the amount of interest owed to each claimant in the class. On August 18, 2009, the trial court issued an opinion in which it found that the eligible class members should be awarded interest on their accounts at the rate of six percent per annum as well as a percentage of the State's liability as attorney's fees. On March 19, 2010, the trial court issued a decision on the contested calculations used to determine the State's total liability. This decision was appealed to the Tenth District Court of Appeals, which reversed the decision in part. The plaintiff-class unsuccessfully sought a discretionary appeal in the Ohio Supreme Court. The trial court ordered Commerce to calculate its liability and share that information with the plaintiff-class counsel. A trial is scheduled for December 22, 2011. The State's ultimate liability will be paid from the Unclaimed Funds Account.

The ultimate outcome of this litigation cannot be presently determined. Accordingly, no provision for any liability resulting from this case has been reported in the financial statements.

NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

Department of Transportation

In litigation between plaintiff Ohio Department of Transportation and Norfolk Southern Railway, the plaintiff sought partial acquisition of property from a larger parcel owned by Norfolk Southern Railway in connection with construction of a new bridge on Interstate 90 in Cleveland. An agreement for the plaintiff to purchase the entire parcel of land for a total of $29.8 million was reached on June 6, 2011. All money had been paid either through the Cuyahoga County Probate Court or directly to the defendant by September 30, 2011, and the final settlement entry was journalized on October 6, 2011.

At June 30, 2011, $26.8 million remains payable to the defendant as a result of this case. A liability of $26.8 million has been included as “Refund and Other Liabilities” for the nonmajor governmental funds in the governmental funds Balance Sheet and for governmental activities in the government-wide Statement of Net Assets.

Bureau of Workers’ Compensation/Industrial Commission (BWC/IC)

A class action case was filed against BWC alleging that non-group-rated employers subsidize group-rated employers, and that this bias in premiums violates various provisions of the Ohio Constitution. Plaintiffs have asked the court to declare the group rating plan unconstitutional and require BWC to repay to the class members all excessive premiums collected by BWC, with interest and attorney fees. In April 2008, plaintiffs filed a motion for a preliminary injunction enjoining BWC from enforcing the group rating statutes during pendency of the action (beginning July 1, 2008). A hearing was held on the injunction request in August 2008. In December 2008, the Cuyahoga County Common Pleas Court issued the requested preliminary injunction restraining BWC from continuing its current group rating plan for the policy year beginning July 1, 2009. At the same time, the common pleas court ordered that BWC enact a group retrospective rating plan for the policy year beginning July 1, 2009. BWC filed an appeal and a motion for stay with the common pleas court. On December 17, 2008, the General Assembly passed House Bill 79 clarifying that Ohio’s group rating program was not intended to be retrospective only. On January 6, 2009, the Governor signed the bill making it effective immediately. On January 7, 2009, BWC filed a motion to dissolve the preliminary injunction and in March 2009 the common pleas court issued an order vacating the preliminary injunction. Plaintiff has filed a motion for class certification and BWC filed a response in opposition. In January 2010, the common pleas court granted class certification and BWC has appealed. Oral arguments on BWC’s appeal of the class certification were held on February 16, 2011. On April 7, 2011, the court issued its written decision affirming the trial court’s decision to grant class certification and remanding the case to trial court. The parties will litigate the merits and the question of damages in the trial court. There is a second case with virtually identical claims that was consolidated with this case but was recently voluntarily dismissed by plaintiff. The ultimate outcome of the litigation cannot presently be determined.

All other legal proceedings are not, in the opinion of management after consultation with the Attorney General, likely to have a material adverse effect on the State’s financial position.

B. Federal Awards

The State of Ohio receives significant awards from the Federal Government in the form of grants and entitlements, including certain non-cash programs. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the spending 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 2010 State of Ohio Single Audit (issued in March 2011), $105 million of federal expenditures were in question as not being appropriate under the terms of the respective grants. The State has requested a consideration for reversal of the questioned costs from the federal government. 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, 2011.

NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

C. Loan Commitments
As of June 30, 2011, commitments to finance program loans from the primary government's budgeted General Fund are detailed below (dollars in thousands):

General Fund	
Ohio Public Works Commission:	
State Capital Improvements Loans	$73,201
Revolving Loans	65,161
Total	$138,362

As of December 31, 2010, loan commitments for the Ohio Water Development Authority, a discretely presented major component unit, were as follows (dollars in thousands):

Water Pollution Control Loan ...	$749,455
Fresh Water	128,448
Drinking Water Assistance	46,423
Community Assistance	8,066
Rural Utility Services	10,373
Other Projects	11,947
Total	$954,712

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

D. Construction Commitments
As of June 30, 2011, the Ohio Department of Transportation had total contractual commitments of approximately $2.5 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 $1.69 billion, $344.8 million, $411 million and $58.4 million, respectively.

As of June 30, 2011, 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/Developmental Disabilities	
Facilities Improvements	$37,579
Parks and Recreation Improvements	10,767
Administrative Services	
Building Improvements	15,313
Youth Services Building Improvements	12,644
Adult Correctional Building Improvements	19,938
Highway Safety Building Improvements	180
Ohio Parks and Natural Resources	9,417
Total	$105,838
Major Component Units	
Ohio State University	$884,160
University of Cincinnati	283,651

NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

E. Tobacco Settlement

In November 1998, the Attorneys General of 46 states, five U.S. territories, and the District of Columbia signed the Master Settlement Agreement (MSA) with the nation's largest tobacco manufacturers. This signaled the end of litigation brought by the Attorneys General against the manufacturers in 1996 for state healthcare 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.

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

While BTSFA's share of the total base payments to the states through 2052 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 BTSFA 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, BTSFA 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 2011, Ohio received $289.3 million, which is approximately $89.7 million or 23.7 percent less than the pre-adjusted base payment for the year.

As of June 30, 2011, the estimated tobacco settlement receivable in the amount of $356.9 million is included in "Other Receivables" reported for the governmental funds. The receivable includes $105.7 million for payments withheld from BTSFA beginning fiscal year 2008 and $73.9 million for payments withheld from the State for fiscal years 2006 and 2007. These amounts were withheld by the cigarette manufacturers when they exercised the market share loss provisions of the MSA. The monies are on deposit in an escrow account until pending litigation between the States and the manufacturers is resolved. Both the Authority and the State contend that they have met their obligations under the MSA and are due the payments withheld.

The Tobacco Settlement receipts 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.

The BTSFA revenue bonds are secured by and payable solely from the tobacco settlement receipts and other collateral pledged under an indenture between BTSFA and U.S. Bank National Association, as trustee. In the event that the assets of BTSFA have been exhausted, no amounts will thereafter be paid on the bonds.

The enforcement of the terms of the MSA has been challenged by lawsuits and may continue to be challenged in the future. In the event of an adverse court ruling, BTFSA may not have adequate financial resources to make payment on the bonds.

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):

NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

Year Ending June 30,	Pre-adjusted MSA Base Payments	Pre-Adjusted Payments from the Strategic Contribution Fund	Total
2012...............	$359,652	$23,694	$383,346
2013...............	363,783	23,966	387,749
2014...............	367,789	24,230	392,019
2015...............	371,684	24,486	396,170
2016...............	376,306	24,791	401,097
2017-2021.......	2,136,348	25,096	2,161,444
2022-2026.......	2,316,649	—	2,316,649
2027-2031.......	2,472,971	—	2,472,971
2032-2036.......	2,640,790	—	2,640,790
2037-2041.......	2,812,833	—	2,812,833
2042-2046.......	2,993,720	—	2,993,720
2047-2051.......	3,187,256	—	3,187,256
2052...............	662,283	—	662,283
Total	$21,062,064	$146,263	$21,208,327

F. Pollution Remediation Activities
During fiscal year 2011, the State was involved in remediation activities for pollution at various sites. These activities include site investigation, cleanup, and monitoring. The following describe the sites and the estimated cost of remediation activities (in general, projects with a liability of less than $100 thousand at June 30 are not listed):

The Ohio Environmental Protection Agency (EPA) is involved in the following pollution remediation activities:

- As a result of the imminent danger to public health, EPA has assumed responsibility for operating and maintaining the collection and treatment system at the Lincoln Fields contaminated water system in Mansfield. The liability at June 30 is estimated at $1.1 million. Cost was estimated by the EPA site coordinator using actual invoices to date.
- As a result of the imminent danger to public health, EPA's director agreed to a cleanup order of the contaminated groundwater for the Village of McConnelsville. The State was also named as an actual or potential responsible party in a lawsuit. At the conclusion of the investigation, the State has obligated itself in some fashion to perform or assist in the remediation. The limit of the State's liability is equal to the $812 thousand that the State collected from a bankruptcy settlement.
- As a result of the imminent danger to public health and the laws of the State regarding construction and demolition debris landfills, the EPA continues its progress in the cleanup of these landfill sites across the State. As of June 30, 2011, the estimated cost of remediation activities currently in progress and additional planned activities is approximately $165 thousand. Cost was estimated by the EPA site coordinator using actual invoices to date.

In accordance with Resource Conservation Recovery Act (RCRA) regulations, the Ohio Department of Natural Resources (DNR) continues pollution monitoring and maintenance activities at the closed Cowan Lake S. P. Wood Treatment Plant at an estimated cost of $326 thousand. DNR estimated the cost using previous invoices to date and projecting the costs over the remaining 19 year commitment to test the site for contamination.

The Ohio Department of Public Safety has been named as a responsible party to remediate pollution resulting from soil (sandstone) contamination that may be coming from a former underground storage facility at one of its sites. Due to the nature of the activity, cost estimates are currently unavailable.

The Ohio Department of Transportation has been named as a responsible party to remediate pollution at seven sites owned by the agency. The pollution at five of the sites is the result of underground storage tank leaks.

NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

Another two sites have contaminated soils on the agency-owned property and contaminated groundwater on the surrounding properties. In total, the June 30 liability to eliminate the pollution and continue monitoring activities is estimated to be $2.6 million. Cost was estimated by the onsite coordinators using actual invoices to date.

The liabilities described above are reported as “Refund and Other Liabilities,” “Other Noncurrent Liabilities-Due in One Year,” and “Other Noncurrent Liabilities-Due in More Than One Year” for governmental activities in the government-wide Statement of Net Assets. The reported liabilities for these activities are estimates and are subject to change over time. Variances in the final costs may result from changes in technology, changes in responsible parties, results of environmental studies, and changes in laws and regulations. Future recoveries from other responsible parties may also reduce the final cost paid by the State.

Capital assets may be created during the pollution remediation process. These capital assets will be reported in accordance with the State’s capital assets policy. As of June 30, 2011, no capital assets were created nor reported as a result of any pollution remediation process.

G. Encumbrances

At June 30, 2011, the State has significant encumbrances of $241.7 million in the General Fund, $1.21 billion in the Job, Family and Other Human Services Special Revenue Fund, and $4.1 billion in the nonmajor governmental funds.

NOTE 20 RISK FINANCING

A. Workers’ Compensation Benefits

The Ohio Workers’ Compensation System, which the Ohio Bureau of Workers’ Compensation and the Industrial Commission of Ohio 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.

“Benefits Payable” of $18.01 billion is reported in the Workers’ Compensation Enterprise Fund (Fund) as of June 30, 2011. This amount represents 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 $1.94 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 Bureau of Workers’ Compensation and the Industrial Commission 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 four 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 $32.5 billion, as of June 30, 2011, and $32.2 billion, as of June 30, 2010. For additional information, refer to the Fund’s separate audited financial report, for the fiscal year ended June 30, 2011.

NOTE 20 RISK FINANCING (Continued)

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.

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

	Fiscal Year 2011	Fiscal Year 2010
Benefits Payable and Compensation Adjustment Expenses Liability, as of July 1	$19,804	$19,246
Incurred Compensation and Compensation Adjustment Benefits.......................	2,239	2,737
Incurred Compensation and Compensation Adjustment Benefit Payments and Other Adjustments	(2,093)	(2,179)
Benefits Payable and Compensation Adjustment Expenses Liability, as of June 30	$19,950	$19,804

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.

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.

NOTE 20 RISK FINANCING (Continued)

As of June 30, 2011, approximately $124.8 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 2011	Fiscal Year 2010
Claims Liabilities, as of July 1	$ 33,046	$ 31,214
Incurred Claims	258,766	243,438
Claims Payments	(257,206)	(241,606)
Claims Liabilities, as of June 30	$ 34,606	$ 33,046

As of June 30, 2011, the resources on deposit in the Agency Fund for the Ohio Med Health Plan exceeded the estimated claims liability by approximately $90.2 million, thereby resulting in a funding surplus. Eighty-five percent or $76.7 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, 2011, 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 two fiscal years were as follows (dollars in thousands):

United Healthcare Plan	Fiscal Year 2011	Fiscal Year 2010
Claims Liabilities, as of July 1	$ 8,582	$ 7,887
Incurred Claims	68,521	69,200
Claims Payments	(68,680)	(68,505)
Claims Liabilities, as of June 30	$ 8,423	$ 8,582

As of June 30, 2011, the estimated claims liability exceeded resources on deposit in the Agency Fund for the United Healthcare Plan by approximately $63.5 million, thereby resulting in a funding deficit. Eighty-five percent or $54 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, 2011, approximately $27.6 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 two fiscal years were as follows (dollars in thousands):

Aetna Plan	Fiscal Year 2011	Fiscal Year 2010
Claims Liabilities, as of July 1	$ 10,129	$ 12,729
Incurred Claims	71,777	75,350
Claims Payments	(73,482)	(77,950)
Claims Liabilities, as of June 30	$ 8,424	$ 10,129

NOTE 20 RISK FINANCING (Continued)

As of June 30, 2011, the resources on deposit in the Agency Fund for the Aetna Plan exceeded the estimated claims liability by approximately $19.1 million, thereby resulting in a funding surplus. Eighty-five percent or $16.3 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, 2011 (December 31, 2010, for the Ohio Water Development Authority), the State issued major debt as detailed in the table below:

Debt Issuances
Subsequent to June 30, 2011
(dollars in thousands)

	Date Issued	Net Interest Rate or True Interest Cost	Amount
Primary Government:			
Ohio Public Facilities Commission-General Obligation Bonds:			
Common Schools Capital Facilities, Refunding Series 2011A	07/19/11	2.79%	$211,530
Higher Education Capital Facilities, Refunding Series 2011A	07/19/11	2.97%	127,765
Infrastructure Improvements, Refunding Series 2011B	07/19/11	2.92%	114,285
Natural Resources, Refunding Series P	07/19/11	2.50%	35,195
Veterans Compensation-Taxable, Series 2011	08/09/11	2.78%	15,910
Common Schools Capital Facilities, Series 2011B	09/21/11	3.32%	300,000
Common Schools Capital Facilities, Refunding Series 2011C	11/14/11	2.82%	63,000
Higher Education Capital Facilities, Refunding Series 2011B	11/14/11	2.83%	28,765
Infrastructure Improvements, Refunding Series 2011C	11/14/11	2.87%	18,320
Third Frontier, Series 2012A	01/10/12	1.64%	80,000
Coal Development, Series L	01/10/12	1.81%	12,000
Common Schools Capital Facilities, Refunding Series 2012A	01/10/12	1.90%	117,420
Total General Obligation Bonds			1,124,190
Ohio Building Authority-Special Obligation Bonds			
State Facilities (Administrative Building), Series 2011A	08/24/11	3.03%	38,595
State Facilities (Adult Correctional Facility), Refunding Series 2011B	08/24/11	2.69%	101,530
Juvenile Correctional Facility, Series 2011B	08/24/11	2.91%	9,215
Total Special Obligation Bonds			149,340
Total Primary Government			$1,273,530
Major Component Units:			
Ohio Water Development Authority Debt:			
Community Assistance Revenue Bonds, Refunding Series 2011	06/02/11	3.00% - 5.00%	$25,730
WPCLF Revenue Bonds, Refunding Water Quality Series 2011A	08/23/11	4.00% - 5.00%	101,210
WPCLF Revenue Bonds-Tax Exempt, Refunding WQ Series 2011B-1	12/21/11	3.00% - 5.00%	76,860
WPCLF Revenue Bonds-Taxable, Refunding WQ Series 2011B-2	12/21/11	0.15% - 1.33%	65,575
Total Ohio Water Development Authority			$269,375
The Ohio State University Debt:			
General Receipts Bonds-Taxable, Series 2011A	10/26/11	4.80%	$500,000
Total The Ohio State University			$500,000
University of Cincinnati Debt:			
Bond Anticipation Notes (BANs):			
Bond Anticipation Notes, Series 2011D	07/21/11	2.00%	$15,990
Bond Anticipation Notes, Series 2011F	12/16/11	2.00%	44,110
Total Bond Anticipation Notes			60,100
General Receipts Bonds:			
General Receipts Bonds-Taxable, Refunding Series 2011E	10/06/11	3.00% - 5.00%	29,125
Total General Receipts Bonds			29,125
Total University of Cincinnati			$89,225

NOTE 21 SUBSEQUENT EVENTS (Continued)

B. Department of Natural Resources

In the *Doner v. Zody* case, approximately 84 landowners seek a writ of mandamus ordering the Ohio Department of Natural Resources (DNR) to appropriate their lands which are alleged to have been “taken” as a result of a 1997 change to the spillway at Grand Lake St. Marys in Mercer County. On August 10, 2009, a Motion to Dismiss based on statute of limitations arguments was filed on behalf of defendant, which was denied on September 30, 2009, by the Ohio Supreme Court. At that time, a schedule was set for the submission of briefs and evidence. Oral argument was held on September 20, 2011. On December 1, 2011, the Ohio Supreme Court ruled unanimously in favor of the plaintiffs, holding that the actions of DNR to modify the spillway and to cease adjusting water levels at Grand Lake St. Marys constituted a taking of the plaintiffs’ property since those decisions caused intermittent, recurrent flooding on their properties. The Court did not specify how much property was taken or what the dollar value of the impact to the property was. Those amounts will be determined by subsequent litigation filed in Mercer County Common Pleas Court. Defendant plans to enter into settlement negotiations, but the ultimate outcome of this litigation cannot be presently determined. Accordingly, no provision for any liability resulting from this case has been reported in the financial statements.

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	%
2010	9,009	68.99	2,897	22.18	863	6.61	290	2.22	13,059	100.00
2009	8,662	66.98	2,948	22.80	1,066	8.24	256	1.98	12,932	100.00
2008	8,683	67.70	2,699	21.04	1,154	9.00	290	2.26	12,826	100.00
2007	8,457	66.50	2,752	21.63	1,120	8.81	389	3.06	12,718	100.00
2006	8,918	70.47	1,940	15.33	1,400	11.07	397	3.13	12,655	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	%
2010	15,198	50.78	8,062	26.93	5,497	18.36	1,175	3.93	29,932	100.00
2009	15,064	50.28	7,480	24.97	6,059	20.22	1,356	4.53	29,959	100.00
2008	15,037	50.14	6,793	22.65	6,745	22.49	1,416	4.72	29,991	100.00
2007	14,650	48.73	6,531	21.72	7,319	24.34	1,564	5.21	30,064	100.00
2006	14,757	49.00	6,650	22.08	8,249	27.39	462	1.53	30,118	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
2011	$406,058	$419,955
2010	357,393	394,017
2009	352,644	407,564
2008	357,396	405,258
2007	403,067	418,936

General Subsystem

Fiscal Year	Estimated	Actual
2011	$258,410	$342,202
2010	209,775	299,450
2009	214,071	347,154
2008	178,252	237,050
2007	196,814	268,839

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	%
2010	52,590	49.74	49,064	46.41	4,024	3.81	43	0.04	105,721	100.00
2009	51,605	48.95	49,745	47.19	3,433	3.26	630	0.60	105,413	100.00
2008	50,383	48.05	50,554	48.22	3,239	3.09	676	0.64	104,852	100.00
2007	50,056	48.09	50,484	48.50	3,493	3.36	51	.05	104,084	100.00
2006	43,942	52.03	38,104	45.12	2,396	2.84	5	.01	84,447	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
2011	$433,593	$409,690
2010	330,580	330,262
2009	308,655	360,451
2008	288,329	313,801
2007	290,732	313,272

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SUPPLEMENTARY SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SUMMARIZED BY FEDERAL AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

FEDERAL AGENCY	
U.S. Department of Health and Human Services	13,933,409,852
U.S. Department of Labor	4,488,604,441
U.S. Department of Agriculture	3,859,086,074
U.S. Department of Education	2,883,283,688
U.S. Department of Transportation	1,528,412,835
U.S. Environmental Protection Agency	558,127,465
U.S. Department of Energy	186,830,133
U.S. Department of Housing and Urban Development	162,413,971
Social Security Administration	97,249,095
U.S. Department of Justice	74,274,102
U.S. Department of Homeland Security	61,801,484
U.S. Department of Defense	41,110,002
U.S. Department of the Interior	26,114,076
U.S. Department of Veterans Affairs	24,769,041
U.S. Department of Commerce	11,145,534
Corporation for National and Community Service	7,734,403
National Endowment for the Arts	5,312,156
U.S. Small Business Administration	4,643,956
U.S. Equal Employment Opportunity Commission	2,359,203
Election Assistance Commission	2,216,665
U.S. Appalachian Regional Commission	946,885
General Services Administration	139,300
U.S. Department of Treasury	21,000
U.S. Department of State Bureau of Education and Cultural Affairs	17,500
TOTAL EXPENDITURES	**27,960,022,861**

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STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Agriculture		
SNAP Cluster:		
10.551	Supplemental Nutrition Assistance Program	$ 2,945,996,703
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	110,898,056
10.561	ARRA -- State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	3,228,110
	Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	114,126,166
	Total SNAP Cluster	*3,060,122,869*
Child Nutrition Cluster:		
10.553	School Breakfast Program	88,427,643
10.555	National School Lunch Program	341,850,978
10.556	Special Milk Program for Children	497,577
10.559	Summer Food Service Program for Children	10,534,807
	Total Child Nutrition Cluster	*441,311,005*
Emergency Food Assistance Cluster:		
10.568	Emergency Food Assistance Program (Administrative Costs)	2,062,792
10.568	ARRA -- Emergency Food Assistance Program (Administrative Costs)	1,182,019
	Total Emergency Food Assistance Program (Administrative Costs)	3,244,811
	Total Emergency Food Assistance Cluster	*3,244,811*
Schools and Roads Cluster:		
10.665	Schools and Roads -- Grants to States	405,864
	Total Schools and Roads Cluster	*405,864*
10.025	Plant and Animal Disease, Pest Control, and Animal Care	1,321,998
10.069	Conservation Reserve Program	63,160
10.103	2009 Aquaculture Grant Program	34,859
10.156	Federal-State Marketing Improvement Program	104,665
10.163	Market Protection and Promotion	2,063,199
10.169	Specialty Crop Block Grant Program	526,858
10.170	Specialty Crop Block Grant Program -- Farm Bill	14,442
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	4,293,236
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	239,192,778
10.558	Child and Adult Care Food Program	89,309,676
10.560	State Administrative Expenses for Child Nutrition	4,093,441
10.565	Commodity Supplemental Food Program	1,452,638
10.572	WIC Farmers' Market Nutrition Program (FMNP)	434,132
10.574	Team Nutrition Grants	55,315
10.576	Senior Farmers Market Nutrition Program	1,725,640
10.579	ARRA -- Child Nutrition Discretionary Grants Limited Availability	747,952
10.580	Special Nutrition Assistance Program, Outreach/Participation Program	155,581
10.582	Fresh Fruit and Vegetable Program	1,946,307
10.603	Emerging Markets Program	22,606
10.652	* Forestry Research	13,176
10.664	Cooperative Forestry Assistance	3,125,258
10.675	Urban and Community Forest Program	10,068
10.676	Forest Legacy Program	54,978
10.678	Forest Stewardship Program	150,000
10.680	Forest Health Protection	62,168
10.688	ARRA -- Recovery Act of 2009 -- Wildland Fire Management	1,940,036
10.902	Soil and Water Conservation	74,231

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Agriculture (Continued)		
10.904	Watershed Protection & Flood Prevention	11,050
10.912	Environmental Quality Incentives Program	112,129
10.913	Farm and Ranch Lands Protection Program	822,010
10.923	Emergency Watershed Protection Program	67,938
	Total U.S. Department of Agriculture	**$3,859,086,074**
U.S. Department of Commerce		
11.407	* Interjurisdictional Fisheries Act of 1986	12,276
11.419	* Coastal Zone Management Administration Awards	32,226
11.419	Coastal Zone Management Administration Awards	2,720,842
11.420	* Coastal Zone Management Estuarine Research Reserves	107,154
11.420	Coastal Zone Management Estuarine Research Reserves	191,897
11.555	Public Safety Interoperable Communications Grant Program	2,261,682
11.558	ARRA -- State Broadband Data and Development Grant Program	758,671
11.611	Manufacturing Extension Partnership	5,060,786
	Total U.S. Department of Commerce	**$11,145,534**
U.S. Department of Defense		
12	FUSRAP Oversight: Diamond Magnesium Site and Luckey Beryllium Site	51,249
12.002	Procurement Technical Assistance for Business Firms	424,159
12.005	Donation of Federal Surplus Personal Property	7,658,454
12.112	Payments to States in Lieu of Real Estate Taxes	318,980
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	715,621
12.400	Military Construction, National Guard	2,019,906
12.401	National Guard Military Operations and Maintenance (O&M) Projects	27,565,886
12.401	ARRA -- National Guard Military Operations and Maintenance (O&M) Projects	2,355,747
	Total National Guard Military Operations and Maintenance (O&M) Projects	29,921,633
	Total U.S. Department of Defense	**$41,110,002**
U.S. Department of Housing and Urban Development		
CDBG -- State Administered Small Cities Program Cluster:		
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	102,020,920
14.255	ARRA -- Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (Recovery Act Funded)	6,463,893
	Total CDBG -- State Administered Small Cities Program Cluster	*108,484,813*
14.231	Emergency Shelter Grants Program	3,544,451
14.235	Supportive Housing Program	282,248
14.239	Home Investment Partnerships Program	32,781,721
14.241	Housing Opportunities for Persons with AIDS	1,145,978
14.256	ARRA -- Neighborhood Stabilization (Recovery Act Funded)	6,137,782
14.257	ARRA -- Homelessness Prevention and Rapid Re--Housing Program (Recovery Act Funded)	9,344,311
14.401	Fair Housing Assistance Program -- State and Local	656,214
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing	36,453
	Total U.S. Department of Housing and Urban Development	**$162,413,971**
U.S. Department of the Interior		
Fish and Wildlife Cluster:		
15.605	* Sport Fish Restoration Program	780,529
15.605	Sport Fish Restoration Program	5,068,464
15.611	* Wildlife Restoration and Basic Hunter Education	1,047,208
15.611	Wildlife Restoration and Basic Hunter Education	3,841,550
	Total Fish and Wildlife Cluster	*10,737,751*

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of the Interior (Continued)		
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	2,996,142
15.252	Abandoned Mine Land Reclamation (AMLR) Program	8,011,681
15.255	* Applied Science Program -- Cooperative Agreements Related to Coal Mining and Reclamation	13,289
15.255	Applied Science Program -- Cooperative Agreements Related to Coal Mining and Reclamation	96,128
15.608	* Fish and Wildlife Management Assistance	7,530
15.608	Fish and Wildlife Management Assistance	320,765
15.615	* Cooperative Endangered Species Conservation Fund	22,969
15.615	Cooperative Endangered Species Conservation Fund	50,250
15.616	Clean Vessel Act	65,675
15.634	* State Wildlife Grants	432,235
15.634	State Wildlife Grants	1,424,502
15.808	* U.S. Geological Survey -- Research and Data Collection	93,549
15.809	National Spatial Data Infrastructure Cooperative Agreements Program	40,535
15.810	* National Cooperative Geologic Mapping Program	159,932
15.814	* National Geological and Geophysical Data Preservation Program	17,450
15.819	* Energy Cooperatives to Support National Coal Resources Data System (NCRDS)	21,199
15.916	Outdoor Recreation -- Acquisition, Development and Planning	1,602,494
	Total U.S. Department of the Interior	**$26,114,076**
U.S. Department of Justice		
JAG Program Cluster:		
16.738	* Edward Byrne Memorial Justice Assistance Grant Program	101,952
16.738	Edward Byrne Memorial Justice Assistance Grant Program	9,498,571
16.803	* ARRA -- Recovery Act -- Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	160,714
16.803	ARRA -- Recovery Act -- Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	19,896,174
	Total JAG Program Cluster	*29,657,411*
16.000	Equitable Sharing Program	2,122,235
16.017	Sexual Assault Services Formula Program	31,296
16.2010-103	Domestic Cannabis Eradication Program	509,094
16.2011-108	Domestic Cannabis Eradication Program	1,898
16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry)	54,546
16.203	Comprehensive Approaches to Sex Offender Management Discretionary Grant (CASOM)	137,224
16.321	Anti-terrorism Emergency Reserve	118,372
16.523	Juvenile Accountability Block Grants	1,721,514
16.528	Enhanced Training and Services to End Violence and Abuse of Women Later in Life	44,267
16.540	Juvenile Justice and Delinquency Prevention -- Allocation to States	783,016
16.548	Title V -- Delinquency Prevention Program	776,877
16.550	* State Justice Statistics Program for Statistical Analysis Centers	50,867
16.554	National Criminal History Improvement Program (NCHIP)	345,246
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	13,663
16.575	Crime Victim Assistance	13,913,054
16.576	Crime Victim Compensation	5,109,333
16.579	Edward Byrne Memorial Formula Grant Program	72,172
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	119,397
16.588	Violence Against Women Formula Grants	4,124,024
16.588	ARRA -- Violence Against Women Formula Grants	2,499,110
	Total Violence Against Women Formula Grants	6,623,134

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U.S. Department of Justice (Continued)		
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	14,516
16.593	Residential Substance Abuse Treatment for State Prisoners	607,928
16.606	State Criminal Alien Assistance Program	1,145,671
16.607	Bulletproof Vest Partnership Program	8,754
16.609	Project Safe Neighborhoods	426,155
16.710	Public Safety Partnership and Community Policing Grants	866,780
16.727	Enforcing Underage Drinking Laws Program	379,448
16.734	* Special Data Collections and Statistical Studies	3,162
16.740	Statewide Automated Victim Information Notification (SAVIN) Program	30,070
16.741	Forensic DNA Backlog Reduction Program	1,322,071
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	580,340
16.744	Anti-Gang Initiative	69,812
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program	21,976
16.746	Capital Case Litigation	141,543
16.750	Support for Adam Walsh Act Implementation Grant Program	42,632
16.754	Harold Rogers Prescription Drug Monitoring Program	231,284
16.801	ARRA -- Recovery Act -- State Victim Assistance Formula Grant Program	300,563
16.802	ARRA -- Recovery Act -- State Victim Compensation Formula Grant Program	2,222,000
16.808	ARRA -- Recovery Act -- Edward Byrne Memorial Competitive Grant Program	2,463,811
16.810	ARRA -- Recovery Act -- Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	766,175
16.812	Second Chance Act Prisoner Reentry Initiative	119,686
16.816	John R. Justice Prosecutors and Defenders Incentive Act	305,109
	Total U.S. Department of Justice	**$74,274,102**
U.S. Department of Labor		
Employment Service Cluster:		
17.207	Employment Service/Wagner-Peyser Funded Activities	29,074,366
17.207	ARRA - Employment Service/Wagner-Peyser Funded Activities	7,530,754
	Total Employment Service/Wagner-Peyser Funded Activities	36,605,120
17.801	Disabled Veterans' Outreach Program (DVOP)	6,432,893
17.804	Local Veterans' Employment Representative Program	1,342,694
	Total Employment Service Cluster	*44,380,707*
WIA Cluster:		
17.258	WIA Adult Program	46,081,966
17.258	ARRA -- WIA Adult Program	5,021,397
	Total WIA Adult Program	51,103,363
17.259	WIA Youth Activities	30,162,026
17.259	ARRA -- WIA Youth Activities	9,691,363
	Total WIA Youth Activities	39,853,389
17.260	WIA Dislocated Workers	24,223,974
17.260	ARRA -- WIA Dislocated Workers	16,812,446
	Total WIA Dislocated Workers	41,036,420
17.277	Workforce Investment Act (WIA) National Emergency Grants	216,407
17.278	WIA Dislocated Worker Formula Grants	23,275,295
	Total WIA Cluster	*155,484,874*
17.002	Labor Force Statistics	2,377,233
17.005	Compensation and Working Conditions	53,509
17.225	Unemployment Insurance	2,351,068,316
17.225	ARRA -- Unemployment Insurance	1,879,675,156
	Total Unemployment Insurance	4,230,743,472
17.235	Senior Community Service Employment Program	7,064,059
17.245	Trade Adjustment Assistance	41,259,872

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U.S. Department of Labor (Continued)		
17.261	WIA Pilots, Demonstrations, and Research Projects	625,038
17.266	Work Incentive Grants	124,711
17.267	* Incentive Grants -- WIA Section 503	1,118,336
17.268	H-1B Job Training Grants	784,442
17.270	Reintegration of Ex-Offenders	20,475
17.271	Work Opportunity Tax Credit Program (WOTC)	1,097,038
17.273	Temporary Labor Certification for Foreign Workers	333,327
17.275	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	1,423,793
17.275	ARRA -- Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	46,338
	Total Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	1,470,131
17.504	Consultation Agreements	1,467,673
17.600	Mine Health and Safety Grants	199,544
	Total U.S. Department of Labor	**$4,488,604,441**
U.S. Department of State Bureau of Education and Cultural Affairs		
19.025	U.S. Ambassadors Fund for Cultural Preservation	17,500
	Total U.S. Department of State Bureau of Education and Cultural Affairs	**$17,500**
U.S. Department of Transportation		
Highway Planning and Construction Cluster: **		
20.205	* Highway Planning and Construction	2,433,917
20.205	Highway Planning and Construction	1,054,267,800
20.205	ARRA -- Highway Planning and Construction	377,313,315
	Total Highway Planning and Construction	1,434,015,032
20.219	Recreational Trails Program	1,733,810
23.003	Appalachian Development Highway System	6,209,173
	Total Highway Planning and Construction Cluster	*1,441,958,015*
Federal Transit Cluster:		
20.507	Federal Transit -- Formula Grants	4,112,700
20.507	ARRA -- Federal Transit -- Formula Grants	5,898,666
	Total Federal Transit --Formula Grants	10,011,366
	Total Federal Transit Cluster	*10,011,366*
Transit Services Programs Cluster:		
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	3,969,569
	Total Transit Services Programs Cluster	*3,969,569*
Highway Safety Cluster:		
20.600	State and Community Highway Safety	32,778,637
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I	3,125,311
20.610	State Traffic Safety Information System Improvement Grants	903,101
20.612	Incentive Grant Program to Increase Motorcyclist Safety	364,485
	Total Highway Safety Cluster	*37,171,534*
20.218	National Motor Carrier Safety	6,897,272
20.231	Performance and Registration Information Systems Management	18,750
20.232	Commercial Driver's License Program Improvement Grant	83,043
20.237	Commercial Vehicle Information Systems and Networks	42,596
20.238	Commercial Driver's License Information System (CDLIS) Modernization Grants	165,111
20.505	Metropolitan Transportation Planning	454,070
20.509	Formula Grants for Other Than Urbanized Areas	24,997,365
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	1,463,069
20.700	Pipeline Safety Program Base Grants	626,191
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	411,233

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U.S. Department of Transportation (Continued)		
20.GG-2010-SA-00-00-00878-00	Breath Test Pilot	2,399
20.GG-2011-SA-00-00-00565-00	Breath Test Pilot	141,252
	Total U.S. Department of Transportation	**$1,528,412,835**
U.S. Department of Treasury		
21	Equitable Sharing Program	21,000
	Total U.S. Department of Treasury	**$21,000**
U.S. Appalachian Regional Commission		
23.002	Appalachian Area Development	24,775
23.008	Appalachian Local Access Roads	649,043
23.011	Appalachian Research, Technical Assistance, and Demonstration Projects	273,067
	Total U.S. Appalachian Regional Commission	**$946,885**
U.S. Equal Employment Opportunity Commission		
30.002	Employment Discrimination -- State and Local Fair Employment Practices Agency Contracts	2,359,203
	Total U.S. Equal Employment Opportunity Commission	**$2,359,203**
General Services Administration		
39.003	Donation of Federal Surplus Personal Property	139,300
	Total General Services Administration	**$139,300**
National Endowment for the Arts		
45.025	Promotion of the Arts -- Partnership Agreements	1,023,600
45.025	ARRA - Promotion of the Arts -- Partnership Agreements	76,000
	Total Promotion of the Arts -- Partnership Agreements	1,099,600
45.310	Grants to States	4,201,436
45.312	National Leadership Grants	11,120
	Total National Endowment for the Arts	**$5,312,156**
U.S. Small Business Administration		
59.037	Small Business Development Centers	4,643,956
	Total U.S. Small Business Administration	**$4,643,956**
U.S. Department of Veterans Affairs		
64.005	Grants to States for Construction of State Home Facilities	1,765,316
64.005	ARRA -- Grants to States for Construction of State Home Facilities	1,249,406
	Total Grants to States for Construction of State Home Facilities	3,014,722
64.014	Veterans State Domiciliary Care	2,425,141
64.015	Veterans State Nursing Home Care	18,385,226
64.124	All-Volunteer Force Educational Assistance	943,952
	Total U.S. Department of Veterans Affairs	**$24,769,041**
U.S. Environmental Protection Agency		
66.001	Air Pollution Control Program Support	4,161,482
66.032	State Indoor Radon Grants	361,325
66.034	Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	523,013
66.039	National Clean Diesel Emissions Reduction Program	668,752
66.039	ARRA -- National Clean Diesel Emissions Reduction Program	3,364,609
	Total National Clean Diesel Emissions Reduction Program	4,033,361
66.040	State Clean Diesel Grant Program	250,554
66.040	ARRA -- State Clean Diesel Grant Program	976,511
	Total State Clean Diesel Grant Program	1,227,065
66.419	Water Pollution Control State, Interstate, and Tribal Program Support	4,978,808

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FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Environmental Protection Agency (Continued)		
66.432	State Public Water System Supervision	3,224,261
66.433	State Underground Water Source Protection	304,911
66.436	Surveys, Studies, Investigations, Demonstrations and Training Grants and Cooperative Agreements -- Section 104(b)(3) of the Clean Water Act	10,545
66.454	Water Quality Management Planning	398,788
66.454	ARRA -- Water Quality Management Planning	1,107,671
	Total Water Quality Management Planning	1,506,459
66.458	Capitalization Grants for Clean Water State Revolving Funds	277,204,390
66.458	ARRA -- Capitalization Grants for Clean Water State Revolving Funds	119,408,763
	Total Capitalization Grants for Clean Water State Revolving Funds	396,613,153
66.460	Nonpoint Source Implementation Grants	5,889,778
66.461	Regional Wetland Program Development Grants	80,144
66.468	Capitalization Grants for Drinking Water State Revolving Funds	101,617,283
66.468	ARRA -- Capitalization Grants for Drinking Water State Revolving Funds	12,424,521
	Total Capitalization Grants for Drinking Water State Revolving Funds	114,041,804
66.469	* Great Lakes Program	135,631
66.469	Great Lakes Program	936,790
66.471	State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	247,663
66.472	Beach Monitoring and Notification Program Implementation Grants	215,194
66.474	Water Protection Grants to the States	70,597
66.605	Performance Partnership Grants	23,067
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	310,458
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	675,301
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	446,843
66.709	Multi-Media Capacity Building Grants for States and Tribes	161,955
66.801	Hazardous Waste Management State Program Support	5,589,816
66.802	Superfund State, Political Subdivision, and Indian Tribe Site -- Specific Cooperative Agreements	824,326
66.804	Underground Storage Tank Prevention, Detection and Compliance Program	825,278
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program	1,370,252
66.805	ARRA -- Leaking Underground Storage Tank Trust Fund Corrective Action Program	5,820,817
	Total Leaking Underground Storage Tank Trust Fund Corrective Action Program	7,191,069
66.813	Alternative or Innovative Treatment Technology Research, Demonstration, Training, and Hazardous Substance Research Grants	6,816
66.817	State and Tribal Response Program Grants	1,132,035
66.818	Brownfield Assessments and Cleanup Cooperative Agreements	2,156,022
66.818	ARRA -- Brownfield Assessments and Cleanup Cooperative Agreements	222,495
	Total Brownfield Assessments and Cleanup Cooperative Agreements	2,378,517
	Total U.S. Environmental Protection Agency	**$558,127,465**
U.S. Department of Energy		
81	Petroleum Violation Escrow Funds	875,220
81.000	Cost Recovery Grants -- Environmental Research	558,112
81.041	* State Energy Program	87,880
81.041	State Energy Program	910,202
81.041	ARRA -- State Energy Program	45,082,201
	Total State Energy Program	46,080,283

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U.S. Department of Energy (Continued)		
81.042	Weatherization Assistance for Low-Income Persons	210,623
81.042	ARRA - Weatherization Assistance for Low-Income Persons	131,617,316
	Total Weatherization Assistance for Low-Income Persons	131,827,939
81.087	* Renewable Energy Research and Development	94,832
81.087	Renewable Energy Research and Development	12,275
81.089	* Fossil Energy Research and Development	123,202
81.104	Office of Environmental Waste Processing	15,284
81.106	Transport of Transuranic Wastes to the Waste Isolation Pilot Plant: State and Tribal concerns, Proposed Solutions	15,092
81.119	State Energy Program Special Projects	130,721
81.119	ARRA -- State Energy Program Special Projects	340,085
	Total State Energy Program Special Projects	470,806
81.122	ARRA -- Electricity Delivery and Energy Reliability, Research, Development and Analysis	290,703
81.127	ARRA -- State Energy Efficient Appliance Rebate Program (EEARP)	3,531,045
81.128	ARRA -- Energy Efficiency and Conservation Block Grant Program (EECBG)	2,919,676
81.214	Environmental Monitoring/Cleanup, Cultural and Resource Mgmt., Emergency Response Research, Outreach, Technical Analysis	15,664
	Total U.S. Department of Energy	**186,830,133**
U.S. Department of Education		
Title I -- Part A Cluster:		
84.010	Title I Grants to Local Educational Agencies	530,354,088
84.389	ARRA -- Title I Grants to Local Educational Agencies, Recovery Act	184,817,689
	Total Title I -- Part A Cluster	*715,171,777*
Special Education Cluster:		
84.027	Special Education -- Grants to States	424,125,082
84.391	ARRA -- Special Education -- Grants to States, Recovery Act	185,999,464
84.173	Special Education -- Preschool Grants	12,533,818
84.392	ARRA -- Special Education -- Preschool Grants, Recovery Act	5,831,970
	Total Special Education Cluster	*628,490,334*
Vocational Rehabilitation Cluster:		
84.126	Rehabilitation Services -- Vocational Rehabilitation Grants to States	89,154,218
84.390	ARRA -- Rehabilitation Services -- Vocational Rehabilitation Grants to States, Recovery Act	10,970,146
	Total Vocational Rehabilitation Cluster	*100,124,364*
Early Intervention Services (IDEA) Cluster:		
84.181	Special Education -- Grants for Infants and Families	14,361,507
84.393	ARRA -- Special Education -- Grants for Infants and Families, Recovery Act	8,523,637
	Total Early Intervention Services (IDEA) Cluster	*22,885,144*
Educational Technology State Grants Cluster:		
84.318	Education Technology State Grants	4,785,187
84.386	ARRA -- Education Technology State Grants, Recovery Act	18,000,810
	Total Educational Technology State Grants Cluster	*22,785,997*
State Fiscal Stabilization Fund Cluster:		
84.394	ARRA -- State Fiscal Stabilization Fund (SFSF) -- Education State Grants, Recovery Act	766,266,214
84.397	ARRA -- State Fiscal Stabilization Fund (SFSF) -- Government Services, Recovery Act	214,488,988
	Total State Fiscal Stabilization Fund Cluster	*980,755,202*

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U.S. Department of Education (Continued)		
Independent Living State Grants Cluster:		
84.169	Independent Living -- State Grants	667,627
84.398	ARRA -- Independent Living -- State Grants, Recovery Act	360,454
	Total Independent Living State Grants Cluster	*1,028,081*
Independent Living Services for Older Individuals Who are Blind Cluster:		
84.177	Rehabilitation Services -- Independent Living Services for Older Individuals Who are Blind	1,179,627
84.399	ARRA -- Independent Living Services for Older Individuals Who are Blind, Recovery Act	724,444
	Total Independent Living Services for Older Individuals Who are Blind Cluster	*1,904,071*
Education of Homeless Children and Youth Cluster:		
84.196	Education for Homeless Children and Youth	2,133,869
84.387	ARRA -- Education for Homeless Children and Youth, Recovery Act	898,760
	Total Education of Homeless Children and Youth Cluster	*3,032,629*
Statewide Data Systems Cluster:		
84.372	Statewide Data Systems	237,915
84.384	ARRA-- Statewide Data Systems, Recovery Act	650
	Total Statewide Data Systems Cluster	*238,565*
Teacher Incentive Fund Cluster:		
84.374	Teacher Incentive Fund	785,945
84.385	ARRA -- Teacher Incentive Fund, Recovery Act	3,918,260
	Total Teacher Incentive Fund Cluster	*4,704,205*
School Improvement Grants Cluster:		
84.377	School Improvement Grants	4,469,890
84.388	ARRA -- School Improvement Grants, Recovery Act	24,389,464
	Total School Improvement Grants Cluster	*28,859,354*
84.000	Consolidated Administrative Fund	7,164,918
84.002	* Adult Education -- Basic Grants to States	115,500
84.002	Adult Education -- Basic Grants to States	16,059,368
84.011	Migrant Education -- State Grant Program	2,959,892
84.013	Title I State Agency Program for Neglected and Delinquent Children	756,791
84.048	Career and Technical Education -- Basic Grants to States	44,921,912
84.144	Migrant Education -- Coordination Program	106,929
84.161	Rehabilitation Services -- Client Assistance Program	295,590
84.184	Safe and Drug-Free Schools and Communities -- National Programs	97,648
84.185	Byrd Honors Scholarships	1,544,683
84.186	Safe and Drug-Free Schools and Communities -- State Grants	2,150,317
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	525,464
84.213	Even Start -- State Educational Agencies	1,859,927
84.215	Fund for the Improvement of Education	41,908
84.235	Rehabilitation Services -- Demonstrations and Training Programs	644,583
84.240	Program of Protection and Advocacy of Individual Rights	541,832
84.243	Tech-Prep Education	4,476,367
84.265	Rehabilitation Training -- State Vocational Rehabilitation Unit In-Service Training	121,488
84.282	Charter Schools	12,229,316
84.287	Twenty-First Century Community Learning Centers	43,881,913
84.293	Foreign Language Assistance	2,964
84.323	Special Education -- State Personnel Development	1,549,692
84.330	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	353,129
84.331	Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	672,755
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	2,865,326
84.343	Assistive Technology -- State Grants for Protection and Advocacy	141,203

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U.S. Department of Education (Continued)		
84.357	Reading First State Grants	11,676,275
84.358	Rural Education	2,253,385
84.365	English Language Acquisition Grants	8,089,867
84.366	Mathematics and Science Partnerships	2,829,407
84.367	Improving Teacher Quality State Grants	107,099,346
84.369	Grants for State Assessments and Related Activities	11,341,981
84.371	Striving Readers	2,162,038
84.378	College Access Challenge Grant Program	137,448
84.395	ARRA -- State Fiscal Stabilization Fund (SFSF) -- Race--to--the--Top Incentive Grants, Recovery Act	12,759,794
84.410	Education Jobs Fund	68,873,009
	Total U.S. Department of Education	**2,883,283,688**
Election Assistance Commission		
90.401	Help America Vote Act Requirements Payments	2,216,665
	Total Election Assistance Commission	**$2,216,665**
U.S. Department of Health and Human Services		
Aging Cluster:		
93.044	Special Programs for the Aging -- Title III, Part B -- Grants for Supportive Services and Senior Centers	15,699,836
93.045	Special Programs for the Aging -- Title III, Part C -- Nutrition Services	22,328,907
93.053	Nutrition Services Incentive Program	4,995,708
93.705	ARRA -- Aging Home-Delivered Nutrition Services for States	199,311
93.707	ARRA -- Aging Congregate Nutrition Services for States	577,375
	Total Aging Cluster	*43,801,137*
Immunization Cluster:		
93.268	Immunization Grants	7,209,110
93.712	ARRA -- Immunization	470,135
	Total Immunization Cluster	*7,679,245*
TANF Cluster:		
93.558	Temporary Assistance for Needy Families	708,156,725
93.714	ARRA -- Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	53,650,997
	Total TANF Cluster	*761,807,722*
CSBG Cluster:		
93.569	Community Services Block Grant	27,453,419
93.710	ARRA -- Community Services Block Grant	11,434,549
	Total CSBG Cluster	*38,887,968*
CCDF Cluster:		
93.575	Child Care and Development Block Grant	82,481,637
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	140,936,227
93.713	ARRA -- Child Care and Development Block Grant	10,461,590
	Total CCDF Cluster	*233,879,454*
Head Start Cluster:		
93.600	Head Start	224,803
	Total Head Start Cluster	*224,803*
Medicaid Cluster:		
93.720	ARRA -- Survey and Certification Ambulatory Surgical Center Healthcare Associated Infection (ASC-HAI) Prevention Initiative	187,565
93.775	State Medicaid Fraud Control Units	3,531,525
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	24,371,062

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Health and Human Services (Continued)		
Medicaid Cluster (Continued):		
93.778	Medical Assistance Program (Medicaid)..	10,227,616,913
93.778	ARRA -- Medical Assistance Program (Medicaid)..	1,249,875,759
	Total Medical Assistance Program (Medicaid)...	11,477,492,672
	Total Medicaid Cluster..	*11,505,582,824*
93	SEOW -- Subcontract..	116,287
93.006	State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program..	91,200
93.041	Special Programs for the Aging -- Title VII, Chapter 3 -- Programs for Prevention of Elder Abuse, Neglect, and Exploitation..	183,308
93.042	Special Programs for the Aging -- Title VII, Chapter 2 -- Long Term Care Ombudsman Services for Older Individuals...	537,853
93.043	Special Programs for the Aging -- Title III, Part D -- Disease Prevention and Health Promotion Services...	789,110
93.048	Special Programs for the Aging -- Title IV and Title II-- Discretionary Projects..	681,910
93.051	Alzheimer's Disease Demonstration -- Grants to States..	536,482
93.052	National Family Caregiver Support, Title III, Part E..	5,592,997
93.069	Public Health Emergency Preparedness..	23,979,293
93.070	Environmental Public Health and Emergency Response..	434,012
93.071	Medicare Enrollment Assistance Program..	119,565
93.086	Healthy Marriage Promotion and Responsible Fatherhood Grants.......................................	485,768
93.089	Emergency Systems for Advance Registration of Volunteer Health Professionals...............	15,000
93.110	Maternal and Child Health Federal Consolidated Programs...	140,958
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs.................	1,228,863
93.127	Emergency Medical Services for Children..	163,134
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices...	336,394
93.136	* Injury Prevention and Control Research and State and Community Based Programs...	265
93.136	Injury Prevention and Control Research and State and Community Based Programs...	1,917,943
93.138	Protection and Advocacy for Individuals with Mental Illness...	1,098,820
93.150	Projects for Assistance in Transition from Homelessness (PATH).......................................	2,100,547
93.165	Grants to State for Loan Repayment Program..	301,921
93.217	Family Planning -- Services..	4,554,576
93.234	Traumatic Brain Injury -- State Demonstration Grant Program..	232,925
93.236	Grants for Dental Public Health Residency Training..	1,182,097
93.240	State Capacity Building...	353,287
93.241	State Rural Hospital Flexibility Program..	671,381
93.243	Substance Abuse and Mental Health Services -- Projects of Regional and National Significance..	4,747,633
93.251	Universal Newborn Hearing Screening...	253,031
93.267	State Grants for Protections and Advocacy Services..	57,584
93.270	Adult Viral Hepatitis Prevention and Control...	77,761
93.275	Substance Abuse and Mental Health Services -- Access to Recovery..................................	1,792,446
93.283	Centers for Disease Control and Prevention -- Investigations and Technical Assistance...	10,550,549
93.301	Small Rural Hospital Improvement Grant Program..	55,958
93.414	ARRA -- State Primary Care Offices..	33,397
93.448	Food Safety and Security Monitoring Project..	680,142
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program..	761,967
93.507	Strengthening Public Health Infrastructure for Improved Health Outcomes.........................	125,699
93.509	Affordable Care Act (ACA) State Health Care Workforce Development Grants..................	50,646
93.511	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review...	299,412
93.518	Affordable Care Act -- Medicare Improvements for Patients and Providers.........................	224,737

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Health and Human Services (Continued)		
93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements	224,533
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	58,506
93.556	Promoting Safe and Stable Families	12,554,890
93.563	Child Support Enforcement	89,281,959
93.563	ARRA -- Child Support Enforcement	53,859,796
	Total Child Support Enforcement	143,141,755
93.564	* Child Support Enforcement Research	45,803
93.566	Refugee and Entrant Assistance -- State Administered Programs	7,480,092
93.568	Low-Income Home Energy Assistance	145,707,199
93.576	Refugee and Entrant Assistance -- Discretionary Grants	840,184
93.584	Refugee and Entrant Assistance -- Targeted Assistance Grants	235,548
93.586	State Court Improvement Program	637,078
93.590	Community-Based Child Abuse Prevention Grants	1,440,720
93.597	Grants to States for Access and Visitation Programs	376,242
93.599	Chafee Education and Training Vouchers Program (ETV)	1,559,368
93.617	Voting Access for Individuals with Disabilities -- Grants to States	501,923
93.618	Voting Access for Individuals with Disabilities -- Grants for Protection and Advocacy Systems	141,961
93.630	Developmental Disabilities Basic Support and Advocacy Grants	4,262,846
93.643	Children's Justice Grants to States	1,155,523
93.645	Child Welfare Services -- State Grants	11,881,671
93.658	Foster Care -- Title IV-E	186,802,633
93.658	ARRA -- Foster Care -- Title IV-E	3,634,471
	Total Foster Care -- Title IV-E	190,437,104
93.659	Adoption Assistance	174,861,759
93.659	ARRA -- Adoption Assistance	5,285,359
	Total Adoption Assistance	180,147,118
93.667	Social Services Block Grant	91,084,233
93.669	Child Abuse and Neglect State Grants	423,917
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters -- Grants to States and Indian Tribes	2,698,415
93.674	Chafee Foster Care Independence Program	4,387,039
93.717	ARRA -- Preventing Healthcare -- Associated Infections	95,845
93.723	ARRA -- Prevention and Wellness-State, Territories and Pacific Islands	1,460,810
93.724	ARRA -- Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	91,205
93.725	ARRA -- Communities Putting Prevention to Work -- Chronic Disease Self-Management Program	441,048
93.767	Children's Health Insurance Program	299,663,475
93.768	Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	478,114
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	1,805,074
93.791	Money Follows the Person Rebalancing Demonstration	16,382,793
93.793	Medicaid Transformation Grants	693,151
93.888	* Specially Selected Health Projects	1,777,661
93.889	National Bioterrorism Hospital Preparedness Program	12,161,987
93.913	Grants to States for Operation of Offices of Rural Health	135,352
93.917	HIV Care Formula Grants	18,338,641
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	602,464
93.940	HIV Prevention Activities -- Health Department Based	6,286,818

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Health and Human Services (Continued)		
93.943	Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	835,189
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	12,108,393
93.945	Assistance Programs for Chronic Disease Prevention and Control	2,271
93.946	Cooperative Agreements to Support State Based Safe Motherhood and Infant Health Initiatives Programs	118,781
93.958	Block Grants for Community Mental Health Services	13,511,908
93.959	Block Grants for Prevention and Treatment of Substance Abuse	66,188,867
93.965	Coal Miners Respiratory Impairment Treatment Clinics and Services	687,812
93.975	National All Schedules Prescription Electronic Reporting Grant	198,393
93.977	Preventive Health Services -- Sexually Transmitted Diseases Control Grants	3,276,035
93.991	Preventative Health and Health Services Block Grant	4,191,427
93.994	Maternal and Child Health Services Block Grant to the States	10,007,398
93.A-89-07-0289	Immunization Registry	493,101
93.A-89-07-0403	Ohio Family Health Survey	46,096
93.HHSF223200840102C	Mammography Quality Standard Act Inspection	324,787
93.HHSH250-200900042C	ARRA -- Student/Resident Experience and Rotation in Community Health Program	13,500
93.T.DOH01	ARRA -- Student/Resident Experiences and Rotations in Community Health (SEARCH)	147,777
	Total U.S. Department of Health and Human Services	**$13,933,409,852**
Corporation for National and Community Service		
94.003	State Commissions	404,854
94.004	Learn and Serve America -- School and Community Based Programs	1,083,776
94.006	AmeriCorps	5,598,855
94.006	ARRA -- AmeriCorps	451,316
	Total AmeriCorps	6,050,171
94.007	Program Development and Innovation Grants	36,234
94.009	Training and Technical Assistance	159,368
	Total Corporation for National and Community Service	**$7,734,403**
Social Security Administration		
Disability Insurance/SSI Cluster:		
96.001	Social Security -- Disability Insurance	91,597,581
	Total Disability Insurance/SSI Cluster	*91,597,581*
96.000	Program Income for Rehabilitating Recipients of Social Security Income and Supplemental Security Income -- Vocational Rehabilitation Program	4,838,272
96.008	Social Security -- Work Incentives Planning and Assistance Program	293,335
96.009	Social Security State Grants for Work Incentives Assistance to Disabled Beneficiaries	169,145
96.SS00-08-60053	Enumeration at Birth	263,427
96.200-2009-M-29348	National Death Index	87,335
	Total Social Security Administration	**$97,249,095**
U.S. Department of Homeland Security		
Homeland Security Cluster:		
97.067	Homeland Security Grant Program	40,265,232
	Total Homeland Security Cluster	*40,265,232*
97.004	State Domestic Preparedness Equipment Support Program	95,090
97.008	Non-Profit Security Program	71,272
97.012	Boating Safety Financial Assistance	4,330,324
97.023	Community Assistance Program -- State Support Services Element (CAP-SSSE)	116,829
97.029	Flood Mitigation Assistance	49,320

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE

U.S. Department of Homeland Security (Continued)

97.036	Disaster Grants -- Public Assistance (Presidentially Declared Disasters).............................	701,287
97.039	Hazard Mitigation Grant..	1,002,221
97.041	National Dam Safety Program..	160,313
97.042	* Emergency Management Performance Grants..	41,451
97.042	Emergency Management Performance Grants..	9,946,648
97.043	State Fire Training Systems Grants..	49,943
97.045	Cooperating Technical Partners...	381,266
97.047	Pre-Disaster Mitigation..	488,373
97.052	Emergency Operations Centers..	31,823
97.053	Citizens Corp...	17,836
97.055	Interoperable Emergency Communications..	969,686
97.056	Port Security Grant Program..	111,859
97.070	Map Modernization Management Support...	184,891
97.073	State Homeland Security Program (SHSP)...	18,803
97.075	Rail and Transit Security Grant Program..	255,695
97.078	Buffer Zone Protection Program (BZPP)..	1,092,523
97.089	Driver's License Security Grant Program..	731,392
97.091	Homeland Security Biowatch Program...	575,250
97.092	Repetitive Flood Claims...	12,521
97.110	Severe Loss Repetitive Program...	99,636
	Total U.S. Department of Homeland Security...	**$61,801,484**
	TOTAL EXPENDITURES...	**$27,960,022,861**

* 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 programs CFDA# 20.205 and CFDA# 20.219 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.

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, 2011. 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 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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

State Universities (Continued)*:*
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
Edison State Community College
Northwest State Community College
Owens State Community College
Southern State Community College
Terra State Community College
Washington State Community College

Other Discretely Presented Component Units:
Ohio Air Quality Development Authority

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.

- *National School Lunch Program (CFDA# 10.555)*
  A portion of the 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.

- *Donation of Federal Surplus Personal Property (CFDA# 12.005)*
  Federal assistance for this program represents the fair market value of donated 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 costs, in conformity with guidelines the U.S. Department of Defense establishes.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *Equitable Sharing Program (CFDA# 16.000)*
  Federal assistance for this program represents the fair market value of the State's portion of seized and forfeited assets.

- *Equitable Sharing Program (CFDA# 21.000)*
  Federal assistance for this program represents the fair market value of the State's portion of seized and forfeited assets.

- *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 2011, 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, 2011, outstanding loans for the Capitalization Grants for Revolving Loan Funds programs totaled approximately $1.215 billion.

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

Capitalization Grant Loan Balance, as of 6/30/10	$989,267,282
Loans without Compliance Requirements	(634,111,900)
Loans transferred without Compliance Requirements	(73,109,741)
Net Loan Balance (Loans with Compliance Requirements)	282,045,641
New Loans Disbursed	240,035,537
Net Principal Repayments Received	(15,646,737)
Capitalized Interest Earned	1,072,636
Current Loan Activity	225,461,436
Ending Loan Balance (Loans with Compliance Requirements)	507,507,077

NOTE 2 CAPITALIZATION GRANTS FOR REVOLVING LOAN FUNDS (Continued)

Administrative Costs	1,657,561
Small System Technical Assistant Costs	553,584
Wellhead Costs	936,969
Administrative Interest Earned	(63)
Loan Account Interest Earned	(168)
Small System Technical Assistant Interest Earned	(1)
Wellhead Interest Earned	(1)
Total Federal Assistance for FY 2011	$ 510,654,958

The total federal assistance for fiscal year 2011, as reported by the Ohio Environmental Protection Agency, for the Clean Water Revolving Fund and the Drinking Water Revolving Fund were $396,613,153 and $114,041,804 respectively.

NOTE 3 INVENTORY BALANCES FOR NON-CASH FEDERAL ASSISTANCE PROGRAMS

As of June 30, 2011, the outstanding inventory balances for the non-cash federal assistance programs are as follows:

CFDA#	Non-Cash Program	Outstanding Balance, as of 6/30/11
10.555	National School Lunch Program	$2,989,686
12.005	Donation of Federal Surplus Personal Property	7,658,454
16.000	Equitable Sharing Program	2,122,235
21.000	Equitable Sharing Program	21,000
39.003	Donation of Federal Surplus Personal Property	139,300
	Total	$12,930,675

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
10.652	Forestry Research	$13,176
11.407	Interjurisdictional Fisheries Act of 1986	12,276
11.419	Coastal Zone Management Administration Awards	32,226
11.420	Coastal Zone Management Estuarine Research Reserves	107,154
15.255	Applied Science Program-Cooperative Agreements Related to Coal Mining and Reclamation	13,289
15.605	Sport Fish Restoration Program	780,529
15.608	Fish and Wildlife Management Assistance	7,530
15.611	Wildlife Restoration and Basic Hunter Education	1,047,208
15.615	Cooperative Endangered Species Conservation Fund	22,969
15.634	State Wildlife Grants	432,235
15.808	U.S. Geological Survey--Research and Data Collection	93,549
15.810	National Cooperative Geologic Mapping Program	159,932
15.814	National Geological and Geophysical Data Preservation Program	17,450

NOTE 4 RESEARCH AND DEVELOPMENT CLUSTER (Continued)

CFDA#	Program	Amount
15.819	Energy Cooperatives to Support National Coal Resources Data System (NCRDS)	21,199
16.550	State Justice Statistics Programs for Analysis Centers	50,867
16.734	Special Data Collections and Statistical Studies	3,162
16.738	Edward Byrne Memorial Justice Assistance Grant Program	101,952
16.803	ARRA – Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	160,714
17.267	Incentive Grants – WIA Section 503	1,118,336
20.205	Highway Planning and Construction	2,433,917
66.469	Great Lakes Program	135,631
81.041	State Energy Program	87,880
81.087	Renewable Energy Research and Development	94,832
81.089	Fossil Energy Research and Development	123,202
84.002	Adult Education – Basic Grants to States	115,500
93.136	Injury Prevention and Control Research and State and Community Based Programs	265
93.564	Child Support Enforcement Research	45,803
93.888	Specially Selected Health Projects	1,777,661
97.042	Emergency Management Performance Grants	41,451
	Total Research and Development Cluster	**$9,051,895**

NOTE 5 TRANSFERS BETWEEN FEDERAL PROGRAMS

During fiscal year 2011, the State made allowable transfers of approximately $38 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 $708.2 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 this program. The following table shows the gross amount drawn for the Temporary Assistance for Needy Families program during fiscal year 2011 and the amount transferred to the Social Services Block Grant program.

Temporary Assistance for Needy Families	$746,159,503
Social Services Block Grant	(38,002,778)
Total Temporary Assistance for Needy Families	**$708,156,725**

NOTE 6 AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009 GRANTS

The State has reported the following federal ARRA programs on the Supplementary Schedule of Expenditures of Federal Awards by Federal Agency and Federal Program.

CFDA#	Program	Amount
10.561	ARRA – State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	$3,228,110
10.568	ARRA – Emergency Food Assistance Program (Administrative Costs)	1,182,019
10.579	ARRA – Child Nutrition Discretionary Grants Limited Availability	747,952
10.688	ARRA – Recovery Act of 2009 - Wildland Fire Management	1,940,036
11.558	ARRA – State Broadband Data and Development Grant Program	758,671
12.401	ARRA – National Guard Military Operations and Maintenance (O&M) Projects	2,355,747

NOTE 6 AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009 GRANTS (Continued)

CFDA#	Program	Amount
14.255	ARRA – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (Recovery Act Funded)	6,463,893
14.256	ARRA – Neighborhood Stabilization Program (Recovery Act Funded)	6,137,782
14.257	ARRA – Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	9,344,311
16.588	ARRA – Violence Against Women Formula Grants	2,499,110
16.801	ARRA – Recovery Act – State Victim Assistance Formula Grant Program	300,563
16.802	ARRA – Recovery Act – State Victim Compensation Formula Grant Program	2,222,000
16.803	ARRA – Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	20,056,888
16.808	ARRA – Recovery Act – Edward Byrne Memorial Competitive Grant Program	2,463,811
16.810	ARRA – Recovery Act – Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	766,175
17.207	ARRA – Employment Service/Wagner-Peyser Funded Activities	7,530,754
17.225	ARRA – Unemployment Insurance	1,879,675,156
17.258	ARRA – WIA Adult Program	5,021,397
17.259	ARRA – WIA Youth Activities	9,691,363
17.260	ARRA – WIA Dislocated Workers	16,812,446
17.275	ARRA – Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	46,338
20.205	ARRA – Highway Planning and Construction	377,313,315
20.507	ARRA – Federal Transit – Formula Grants	5,898,666
45.025	ARRA – Promotion of the Arts – Partnership Agreements	76,000
64.005	ARRA – Grants to States for Construction of State Home Facilities	1,249,406
66.039	ARRA – National Clean Diesel Emissions Reduction Program	3,364,609
66.040	ARRA – State Clean Diesel Grant Program	976,511
66.454	ARRA – Water Quality Management Planning	1,107,671
66.458	ARRA – Capitalization Grants for Clean Water State Revolving Funds	119,408,763
66.468	ARRA – Capitalization Grants for Drinking Water State Revolving Funds	12,424,521
66.805	ARRA – Leaking Underground Storage Tank Trust Fund Corrective Action Program	5,820,817
66.818	ARRA – Brownfield Assessments and Cleanup Cooperative Agreements	222,495
81.041	ARRA – State Energy Program	45,082,201
81.042	ARRA – Weatherization Assistance for Low-Income Persons	131,617,316
81.119	ARRA – State Energy Program Special Projects	340,085
81.122	ARRA – Electricity Delivery and Energy Reliability, Research, Development and Analysis	290,703
81.127	ARRA – State Energy Efficient Appliance Rebate Program (EEARP)	3,531,045
81.128	ARRA – Energy Efficiency and Conservation Block Grant Program (EECBG)	2,919,676
84.384	ARRA – Statewide Data Systems, Recovery Act	650
84.385	ARRA – Teacher Incentive Fund, Recovery Act	3,918,260
84.386	ARRA – Education Technology State Grants, Recovery Act	18,000,810
84.387	ARRA – Education for Homeless Children and Youth, Recovery Act	898,760
84.388	ARRA – School Improvement Grants, Recovery Act	24,389,464
84.389	ARRA – Title I Grants to Local Educational Agencies, Recovery Act	184,817,689
84.390	ARRA – Rehabilitation Services – Vocational Rehabilitation Grants to States, Recovery Act	10,970,146
84.391	ARRA – Special Education – Grants to States, Recovery Act	185,999,464
84.392	ARRA – Special Education – Preschool Grants, Recovery Act	5,831,970
84.393	ARRA – Special Education – Grants for Infants and Families, Recovery Act	8,523,637
84.394	ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act	766,266,214
84.395	ARRA – State Fiscal Stabilization Fund (SFSF) – Race-to-the-Top Incentive Grant, Recovery Act	12,759,794
84.397	ARRA – State Fiscal Stabilization Fund (SFSF) – Government Services, Recovery Act	214,488,988

NOTE 6 AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009 GRANTS (Continued)

CFDA#	Program	Amount
84.398	ARRA – Independent Living State Grants, Recovery Act	360,454
84.399	ARRA – Independent Living Services for Older Individuals Who are Blind, Recovery Act	724,444
93.414	ARRA – State Primary Care Offices	33,397
93.563	ARRA – Child Support Enforcement	53,859,796
93.658	ARRA – Foster Care – Title IV-E	3,634,471
93.659	ARRA – Adoption Assistance	5,285,359
93.705	ARRA – Aging Home-Delivered Nutrition Services for States	199,311
93.707	ARRA – Aging Congregate Nutrition Services for States	577,375
93.710	ARRA – Community Services Block Grant	11,434,549
93.712	ARRA – Immunization	470,135
93.713	ARRA – Child Care and Development Block Grant	10,461,590
93.714	ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	53,650,997
93.717	ARRA – Preventing Healthcare – Associated Infections	95,845
93.720	ARRA – Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative	187,565
93.723	ARRA – Prevention and Wellness-State, Territories and Pacific Islands	1,460,810
93.724	ARRA – Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	91,205
93.725	ARRA – Communities Putting Prevention to Work – Chronic Disease Self-Management Program	441,048
93.778	ARRA – Medical Assistance Program (Medicaid)	1,249,875,759
93.HHSH 250-2009 00042C	ARRA – Student/Resident Experiences and Rotations in Community Health Program	13,500
93.T.DOH01	ARRA – Student/Resident Experiences and Rotations in Community Health (SEARCH)	147,777
94.006	ARRA – AmeriCorps	451,316
	Total ARRA Grants	**$5,521,210,871**

Supplemental Nutrition Assistance Program (CFDA# 10.551) – The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions and assets. This condition prevents the U.S. Department of Agriculture (USDA) from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual state level. Therefore, the State of Ohio cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for approximately 16.55 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2011.

ARRA Capitalization Grants for Clean Water State Revolving Funds (CFDA# 66.458) – Listed on the following pages are the borrowers that received ARRA Clean Water State Revolving Loan Fund (SRF) assistance, the associated Data Universal Numbering System (DUNS) numbers, and the ARRA SRF loan amounts disbursed to each borrower for reimbursement of eligible expenditures.

NOTE 6 AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009 GRANTS (Continued)

Borrower	DUNS	Amount
Akron	944269851	$2,793,411
Allen County	077566644	5,682
Amherst	021152160	100,000
Ansonia	610797396	53,138
Ashtabula County	926038696	1,172,663
Avon Lake	076899087	4,640,731
Ayersville Water and Sewer District	832475651	884,386
Barberton	060421351	1,950,710
Barnesville	170472021	1,655,890
Blanchester	097925671	249,424
Bradner	094807120	202,646
Brook Park	060425006	10,150
Brown County	074718255	95,902
Byesville	105810431	2,274,091
Canton	071700665	62,045
Carroll County	060602849	32,066
Chardon	082328154	49,162
Clark County	191305176	224,697
Columbiana County	020636569	1,985,914
Columbus	198549776	5,988,498
Columbus and Franklin County Metropolitan Park District	040813883	1,198,013
Coshocton County	097545826	1,188,218
Crawford County	074549189	1,857,218
Creston	017284225	5,781
Cuyahoga County Board of Health	142289581	530,240
Dayton	004478194	1,645,732
Defiance	042755751	144,880
Defiance County	068107036	28,239
Delphos	084558956	699,234
Dublin	052445525	546,112
Elyria	010828424	198,217
Euclid	627323371	678,538
Fairfield County	085581937	53,822
Fayette	960622702	48,296
Findlay	084561695	300,000
Franklin County	046430641	1,137,475
Frazeysburg	173376877	374,449
Fremont	087051215	4,332,343
Galion	058276551	510,215
Gallia County	121986228	435,182
Geauga County	076760610	398,877
Geneva	074557620	166,348
Green Springs	046349098	9,356
Greene County	068948348	964,787
Hamilton County	099864738	77,220
Harrisburg	005412189	188,400
Helena	097231575	140,005
Henry County	828464938	9,375
Highland County	781262183	18,750
Hillsboro	043936988	2,668,020
Huber Heights	084753631	308,552
Ironton	081279739	430,282

NOTE 6 AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009 GRANTS (Continued)

Borrower	DUNS	Amount
Jackson Center	170250112	144,624
Jackson County	142371348	5,533
Kent	092622042	917,334
Kirtland	626954767	395,583
Lakewood	020629093	421,287
Lancaster	079417861	534,246
Lawrence County	075004713	2,290,512
Lima	081207169	308,818
Lisbon.	041489683	688,144
Lorain	083321083	3,763,796
Lorain County	079802542	1,433,199
Lowellville	028759595	60,108
Lucas County	068104322	733,088
Lynchburg	036807311	872,912
Lyndhurst	079803151	325,000
Madison County	027146240	2,400
Mahoning County	020643706	136,984
Malinta	088595603	337,387
Mansfield	127367048	678,801
Marion	071640015	2,532,616
Marshallville	945375129	465,000
Marysville	831740134	95,168
Mason	173733507	835,133
McComb	944369669	71,538
Meigs County	092163401	17,799
Mercer County	077568798	182,098
Metropolitan Sewer District	055205657	5,000,000
Miami County	068944164	1,955,975
Montgomery County	071277115	405,953
Morgan County	081309718	27,407
Mount Gilead	170092241	105,360
Mount Vernon	037524733	148,735
Muskingum County	079435137	2,030,517
New Richmond	030963029	2,120
New Vienna	610939840	232,994
Ney	052361917	731,799
Nobel County	154171375	3,934,458
North Royalton	007790199	7,812
North Star	832448786	583,381
Northeast Ohio Regional Sewer District	074554098	4,966,995
Osgood	797718004	1,456,103
Parma	081779829	1,450,600
Payne	079041864	210,243
Pemberville	944231919	1,017,994
Pitsburg	009026035	675,828
Port Clinton	077573640	1,419,260
Portage County	944369719	408,000
Portsmouth	092155043	1,783,101
Put-In-Bay	960896843	172,100
Richfield	081778292	328,699
Richland County	076904812	37,575
Riverside	883096877	20,637

NOTE 6 AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009 GRANTS (Continued)

Borrower	DUNS	Amount
Roseville	032126596	405,637
Sandusky County	077568376	365,745
Sandusky Township Sewer District	118159685	309,060
Scioto County	079438891	84,938
Sebring	016073884	56,099
Sherwood	079068156	669
Shiloh	026974972	47,871
Solon	945349074	76,770
Springboro	076772243	83,514
Stark County	079800751	416,063
Struthers	092626506	4,678,213
Summit County	147483465	253,564
Swanton	828650676	447,374
Timberlake	038090734	400,171
Toledo	099962052	1,477,538
Toronto	052508645	263,891
Tri-Cities North Regional Wastewater Authority	949854939	2,584,094
Troy	828451695	725,692
Trumbull County	070757943	32,549
Twinsburg	023816031	645,994
Uhrichsville	946424710	367,271
Van Wert County	077573087	53,375
Wadsworth	082331018	267,446
Walnut Creek Sewer District	832672554	667,879
Warren	010848216	1,044,662
Warren County	831009225	5,000,000
Washington County	005059535	12,286
Waterville	097237234	125,632
Wayne County	089253249	387,500
Wharton	047212683	906,868
Whitehouse	878972637	273,802
Wickliffe	081776676	79,628
Williams County	020284691	931,393
Williamsburg	781411517	142,104
Willoughby	020626032	688,261
Xenia	092824150	140,158
Yellow Springs	077430825	169,058
Youngstown	080156839	1,462,258
Zanesville	606631562	247,601
Total		$119,408,764

ARRA Capitalization Grants for Drinking Water State Revolving Funds (CFDA# 66.468) – Listed on the following page are the borrowers that received ARRA Drinking Water State Revolving Loan Fund (SRF) assistance, the associated Data Universal Numbering System (DUNS) numbers, and the ARRA SRF loan amounts disbursed to each borrower for reimbursement of eligible expenditures.

NOTE 6 AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009 GRANTS (Continued)

Borrower	DUNS	Amount
Belmont County	068800937	$249,883
Buckeye Lake	049843816	25,358
Buckeye Water District	030552512	12,403
Butler County	964995737	612,021
Byesville	105810431	3,973
Cleveland	961940913	1,240,726
Cumberland	004090741	788,327
Danville	053337515	118,351
Deshler	020278529	573,242
Fostoria	045698941	427,760
Franklin County	046430641	220,622
Hamden	602020518	536,062
Harrisburg	005412189	325,596
Jackson	079427316	170,767
Jackson County Water Company, Inc.	121979991	6,827
Mahoning County	020643706	319,708
Mahoning Valley Sanitary District	077751105	1,904,025
Middleport	142370365	853,482
Old Straitsville Water Association	962205555	139,179
Roseville	032126596	99,352
Scioto Water, Inc.	097539597	39,068
Shawnee	053429341	41,133
Sidney	074724295	54,342
South Solon	800062163	119,470
Tri-County Rural Water and Sewer District	090662966	4,200
Tuppers Plains – Chester Water District	063584049	107,832
Zanesville	606631562	3,430,812
Total		$12,424,521

NOTE 7 WIA Cluster

Prior to July 1, 2010, CFDA 17.260 represented both the WIA Dislocated Worker formula grant and the National Emergency Grants (NEGs). As of July 1, 2010, the CFDA 17.260 will be archived and replaced with two new CFDA numbers. The WIA Dislocated Worker Formula Grant will now be accounted for as CFDA 17.278 and NEGs will now be reported as CFDA 17.277.

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INDEPENDENT ACCOUNTANTS' REPORTS ON COMPLIANCE AND INTERNAL CONTROLS

Dave Yost • 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 John Kasich, 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, 2011, which collectively comprise the State's basic financial statements, and have issued our report thereon dated January 20, 2012, except for our report on the Federal Awards Expenditure Schedule, for which the date is July 15, 2013. 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; Ohio Capital Fund; 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	93%	38%
Aggregate Discretely Presented Component Units	98%	99%
Aggregate Remaining Fund Information	95%	33%
Workers' Compensation	97%	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 the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the State's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the State'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses and other deficiencies we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider the findings listed in the table below, identified in the summary of findings and questioned costs on page 194, and described in the accompanying schedule of findings and questioned costs to be material weaknesses.

State Agency	Material Weakness Finding Numbers
Ohio Department of Job & Family Services	2011-JFS15-039 through 2011-JFS18-042

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the findings listed in the table below, identified in the summary of findings and questioned costs on page 194, and described in the accompanying schedule of findings and questioned costs to be to be significant deficiencies.

State Agency	Significant Deficiency Finding Numbers
Ohio Department of Commerce	2011-COM01-001
Ohio Administrative Knowledge System	2011-OAKS01-002
Ohio Office of Budget and Management	2011-OBM01-006
Ohio Department of Education	2011-EDU04-016

Compliance and Other Matters

As part of reasonably assuring whether the State'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 did note certain matters not requiring inclusion in this report that we reported to the State's management in a separate letter dated January 20, 2012.

The State of Ohio's responses to the findings identified in our audit 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 the State of Ohio's management, the State of Ohio Audit Committee, the Ohio General Assembly, the federal awarding agencies and the pass-through entities. We intend it for no one other than these specified parties.

Dave Yost

Dave Yost
Auditor of State

January 20, 2012, except for our report on the Federal Awards Expenditure Schedule, for which the date is July 15, 2013.

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INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

The Honorable John Kasich, 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 could directly and materially affect each of the State of Ohio's major federal programs for the year ended June 30, 2011. 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 opine on the State of Ohio's compliance based on our audit.

The State of Ohio's basic financial statements include the operations of State Colleges and Universities, which received approximately $4.3 billion in federal awards that is not included in the State of Ohio's Federal Awards Expenditure Schedule for the year, ended June 30, 2011. Our audit of Federal awards, described below, did not include the operations of State Colleges and Universities because the component units engaged other auditors to audit their Federal award programs in accordance with OMB Circular A-133.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the 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 these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State of Ohio's compliance with these requirements.

As described in findings 2011-JFS14-038, 2011-DPS01-055, and 2011-BOR01-056 in the accompanying schedule of findings and questioned costs, the State of Ohio did not comply with requirements regarding Reporting applicable to its Supplemental Nutrition Assistance Program Cluster, Temporary Assistance for Needy Families, Child Support Enforcement, Child Care Cluster, Foster Care – Title IV-E, Adoption Assistance, Social Services Block Grant, Children's Health Insurance Program, and Medicaid Cluster programs; Subrecipient Monitoring applicable to its Homeland Security Cluster; and, Subrecipient Monitoring applicable to its State Fiscal Stabilization Fund Cluster. Compliance with these requirements is necessary, in our opinion, for the State of Ohio to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Ohio complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011.

The results of our auditing procedures also disclosed other instances of noncompliance with these requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. These instances of noncompliance are listed in the table below, identified in the summary of findings and questioned costs on pages 194 through 196 and described in the accompanying schedule of findings and questioned costs.

State Agency	Noncompliance Finding Numbers
Ohio Department of Alcohol and Drug Addiction Services	2011-ADA01-003 through 2011-ADA03-005
Ohio Department of Development	2011-DEV01-007 through 2011-DEV03-009
Ohio Department of Developmental Disabilities	2011-DDD01-011
Ohio Department of Education	2011-EDU01-013 through 2011-EDU03-015
Ohio Department of Health	2011-DOH01-021
Ohio Department of Job & Family Services	2011-JFS01-025 through 2011-JFS13-037
Ohio Department of Mental Health	2011-DMH01-053
Ohio Rehabilitation Services Commission	2011-RSC01-57 and 2011-RSC02-058

Internal Control Over Compliance

The State of Ohio's management is responsible for establishing and maintaining effective internal control over compliance with the 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 the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the items listed in the table below, identified in the summary of findings and questioned costs on pages 194 through 196, and described in the accompanying schedule of findings and questioned costs to be material weaknesses.

State Agency	Material Weakness Finding Numbers
Ohio Department of Alcohol and Drug Addiction Services	2011-ADA01-003 and 2011-ADA02-004
Ohio Office of Budget and Management	2011-OBM01-006
Ohio Department of Development	2011-DEV02-008 through 2011-DEV04-010
Ohio Department of Education	2011-EDU02-014 through 2011-EDU07-019
Ohio Department of Health	2011-DOH01-021 through 2011-DOH04-024
Ohio Department of Job & Family Services	2011-JFS03-027, 2011-JFS05-029, 2011-JFS08-032 through 2011-JFS12-036, and 2011-JFS15-039 through 2011-JFS24-048
Ohio Department of Mental Health	2011-DMH02-054
Ohio Department of Public Safety	2011-DPS01-055
Ohio Board of Regents	2011-BOR01-056
Ohio Rehabilitation Services Commission	2011-RSC01-057
Ohio Department of Transportation	2011-DOT01-059

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the items listed in the table below, identified in the summary of findings and questioned costs on pages 194 through 196, and described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

State Agency	Significant Deficiency Finding Numbers
Ohio Department of Alcohol and Drug Addiction Services	2011-ADA03-005
Ohio Department of Developmental Disabilities	2011-DDD01-011 and 2011-DDD02-012
Ohio Department of Education	2011-EDU01-013
Ohio Environmental Protection Agency	2011-EPA01-020
Ohio Department of Job & Family Services	2011-JFS04-028 and 2011-JFS25-049 through 2011-JFS28-052
Ohio Department of Mental Health	2011-DMH01-053
Ohio Rehabilitation Services Commission	2011-RSC02-058

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. In addition, the State of Ohio's Schedule of Prior Audit Findings and Questioned Costs includes information about the status of comments subsequent to June 30, 2011, which we did not audit and, accordingly, express no opinion on.

We intend this report solely for the information and use of the audit committee, management, the State Legislature, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

Dave Yost

Dave Yost
Auditor of State

March 20, 2012

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)?*	Yes
(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*	Qualified and Unqualified
(d)(1)(vi)	*Are there any reportable findings under § .510?*	Yes
(d)(1)(vii)	*Major Programs (list):*	See pages 189 through 193
(d)(1)(viii)	*Dollar Threshold: Type A\Risk Assessed Type B Programs*	A: >$41,940,034 B: >$ 8,388,007
(d)(1)(ix)	*Low Risk Auditee?*	No

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

OHIO DEPARTMENT OF COMMERCE

1. IT - CHANGE MANAGEMENT

Finding Number	2011-COM01-001
State Agency	Ohio Department of Commerce

SIGNIFICANT DEFICIENCY

Information technology departments establish and follow comprehensive program change control procedures to reasonably ensure only properly tested, reviewed, and approved changes are transferred into the live environment. Controls must also restrict programmer access to the production environment and require only tested and approved program changes to be moved into production by individuals other than those responsible for making changes.

The Ohio Department of Commerce uses the Point of Sale system to maintain inventory and pricing information and to track and process liquor purchase and sales data received from interfacing systems at state-licensed liquor agents. During state fiscal year 2011, the Department processed over $727 million

1 IT - CHANGE MANAGEMENT (Continued)

in state liquor sales through the Point of Sale system. The Office of Budget and Management's Office of Internal Audit (OIA) performed a review of Liquor Control's remediation efforts related to a control weakness reported in the State of Ohio Report for fiscal year 2010 on the lack of program change controls. The Auditor of State's Office reviewed the testing/remediation performed by OIA as part of our state fiscal year 2011 audit. OIA reviewed four change requests related to state fiscal year 2011. Although the requests included some level of prioritization, tracking, and approvals, testing documentation was not retained; and, there was no evidence of ITG or user acceptance testing prior to migration of the changes into production. Documentation was minimal and included before-and-after screen shots.

In addition, there was no evidence of implemented controls over the access to the production environment. As explained in our 2010 comment, to provide for some segregation of duties, the supervisor is responsible for moving changes into the production environment using a specified user account. However, one of the two programmers also had access to use this account to perform this function in the absence of the supervisor and could move his own programs into production. The supervisor also had access to both make changes and move them into production. There were no additional controls in place to monitor use of this ID or changes made and moved by the supervisor.

OIA's testing also indicated the Department drafted ITG Programming Changes Request/Help Desk Ticket Procedures during July 2011, with updates in August 2011, detailing the procedures that must be followed for change management, and included documentation requirements as well as procedures for emergency changes. However, no testing was performed to determine if these procedures were subsequently placed in operation or the controls were operating effectively. In addition, there was no evidence to indicate the revised procedures have been properly communicated to all affected staff.

When standardized procedures for modifying application programs are not followed, there is a greater risk of unauthorized program changes that are not aligned with management's original intentions, requirements, or objectives.

The Division of Liquor Control presently operates an antiquated inventory and financial accounting system known as CICS to run the liquor enterprise. The system, created in 1968, has limited capacity for improvements including options to electronically enhance internal control processes. While the division has taken numerous extraordinary steps to ensure proper controls have been met, they are limited by the capabilities of the current system. Recognizing a need to improve the current system, the division has engaged Centric Consulting to identify requirements for a new system and to prepare a request for proposals. It is anticipated that Centric Consulting will complete their work in the coming weeks at which point the division will consider its available options.

We recommend the Department implement the newly drafted procedures to ensure all program changes are properly authorized, tested, reviewed, and approved by management, and documented approval is obtained before the change is transferred into the live environment. If possible, an individual without the access rights to make program changes should move the changes into the production environment. In the absence of this segregation of duties, control procedures should be developed to monitor migration activity to ensure all migrated changes were authorized. We also recommend the new procedures be formally communicated to all staff members who will be involved in the process and training be provided to the staff as determined necessary. These policies and procedures should be reviewed and updated on a periodic basis to verify they remain current and properly address the Department objectives.

1. IT - CHANGE MANAGEMENT (Continued)

Official's Response and Corrective Action Plan

The Department disagreed with the 2010 finding that the original identified deficiency was significant or material. OBM OIA and AOS have repeated this finding for 2011, with additional comments on the testing of a documented change and the level of testing evidence required. The department disagrees with their position on testing as it is too broad and does not take into account the type of change being made (example: not all changes require UAT or user acceptance testing).

Regardless, the agency has formally adopted, communicated and implemented the newly drafted procedures referred to in the 2011finding. In addition, recognizing a need to improve the current system, the division has engaged a consultant to identify requirements for a new system and to prepare a request for proposals. The new system will be implemented once Administration approval is fully obtained.

Anticipated Completion Date for Corrective Action

Corrective action was completed in August of 2011 and acceptable evidence has already been provided.

Contact Person Responsible for Corrective Action

R. Alan Shellhause, CIO, Ohio Department of Commerce, 77 South High Street, 23rd floor, Columbus, Ohio 43215, Phone: (614) 466-2414, E-Mail: alan.shellhause@com.state.oh.us

Auditor of State's Conclusion

As indicated in the 2010 audit, we are required by professional standards to categorize control deficiencies based on the potential impact of the weakness. We believe the 2011 issues represent a significant deficiency in the design and operating effectiveness of the internal controls and the potential exists for unauthorized program changes that could compromise the integrity of the financial reporting process. Therefore, the finding will remain as stated above.

OHIO ADMINISTRATIVE KNOWLEDGE SYSTEM

1. IT – OHIO ADMINISTRATIVE KNOWLEDGE SYSTEM (OAKS) IT SECURITY

Finding Number	2011-OAKS01-002
State Agency	All Agencies

SIGNIFICANT DEFICIENCY

Effective computer security requires the implementation and enforcement of controls over user accounts. To help reduce the likelihood of unauthorized use of key computer resources, organizations logically restrict access to their computer systems and data. The level of access established must be commensurate to a specific user's job responsibilities and be periodically reviewed by management.

The OAKS application processed approximately $60.1 billion in revenue and $60.3 billion in total expenditures ($55.8 billion non-payroll and $4.5 billion payroll) during state fiscal year 2011. Logical access to the OAKS Financial (FIN) and Human Capital Management (HCM) data was controlled through the database servers and the use of roles and permissions. However, the following exceptions existed regarding access to the FIN and HCM production databases during fiscal year 2011:

- Two of 93 FIN user accounts (2.2%) and two of 85 HCM user accounts (2.4%) had greater than View access but did not require this access based on their job duties.

- Four users had inappropriate access relating to accounts of decreased risk:

  - Two user accounts (one with greater than View access and one with View only access) no longer required access to the FIN and HCM production databases due to the users rolling-off the OAKS project. These accounts were of minimal risk due to TCP/IP access being removed.

  - Two user accounts (one with greater than View access and one with View only access) did not require access to the FIN and HCM production databases based on their job duties. These accounts were of minimal risk due to one account having View access only and the other having an expired and locked account.

Regarding application level security for OAKS FIN or HCM, one user's access to update application security access rights was invalid. This user had separated employment with OAKS; however, the OH_FIN_HD_USER (FIN Help Desk) role and the OH_OAKS_HELPDESK (HCM Help Desk) role, both allowing Update access to security rights, were not removed, as required. As a compensating control, this account was locked, restricting the user from gaining access to this account without the intervention of OAKS security personnel. However the account still presents some risk and should have been deleted.

In addition, access to the OAKS UNIX production servers, which house the OAKS FIN or HCM application, is restricted through UNIX security. Sudo commands allow users to run programs with the security privileges of another, usually highly privileged, user. However, the following inappropriate access to UNIX sudo commands on the production servers existed during fiscal year 2011:

- One user ID had inappropriate access to the Psoft and Uc4 sudo commands.
- One user ID had inappropriate access to the Psoft sudo command.

1. IT – OHIO ADMINISTRATIVE KNOWLEDGE SYSTEM (OAKS) IT SECURITY (Continued)

Without effective appropriate security access controls in place, the risk is increased that unauthorized users have inappropriate access to data files. Unauthorized access could result in inappropriate alteration of data files that could be a misuse or fraudulent misappropriation of state resources or federal program monies. In addition, users with unauthorized, elevated privileges pose a threat to system resources and data as such users could inadvertently or purposely destroy, corrupt, or modify data. Inappropriate read access may result in unnecessary disclosure of personal information or other sensitive data.

Management indicated the individuals with access to the FIN and HCM production database were not rolled off appropriately. Although forms were submitted requesting the roll off, all permissions were not removed and the accounts were not placed in the locked status. The two individuals with elevated permissions were authorized to have access to the test, but not the production environment. Management believed this was simply a mistake in the roll on process. For those with access to sudo commands, these were Data Base Administrators that should have had sudo access, but to a different set of sudo scripts. There was no explanation as to how they obtained this incorrect access other than oversight or mistake. For the invalid OAKS FIN and HCM application access security rights, management believed these issues were caused by a breakdown in the off boarding process.

We recommend that DAS/OIT enforce their process for notifying responsible individuals to remove access after an employee's status changes so that access is adjusted as soon as possible after the change. We also recommend DAS/OIT management continue to complete a full review of user access to the OAKS resources to help ensure all access to these resources is documented and approved, and any extraneous access rights are removed.

Official's Response and Corrective Action Plan

- Oracle monthly validation has been automated. Work on this automation was already underway at the time that the discrepancies were discovered by the auditors, and was completed shortly after the findings
- The PeopleSoft Help Desk role had not previously been part of the monthly ACL used for validation of users with privileged roles in PeopleSoft. This role was added to ACL scripts after the issue was discovered
- Unix SUDO validation is currently being automated. This automation followed resolution of issues in the automation of Windows, Unix, and Oracle validation

Anticipated Completion Date for Corrective Action

- Oracle ACL validation processing was automated by 5/31/11
- PeopleSoft privileged account validation added the Help Desk role by 9/1/11
- Unix SUDO ACL validation processing is currently being automated; target completion date 3/31/12

Contact Person Responsible for Corrective Action

Robert Pardee, OAKS Information Security Officer, 30 W. Spring Street, Columbus, Ohio 43215, Phone: (614) 387-1632*, E-Mail:* bob.pardee@das.ohio.gov

Finding Number	2011-JFS015-039

MATERIAL WEAKNESS

See federal finding # 2011-JFS015-039 on page 285; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2011-JFS16-040

MATERIAL WEAKNESS

See federal finding # 2011-JFS16-040 on page 288; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2011-JFS17-041

MATERIAL WEAKNESS

See federal finding # 2011-JFS17-041 on page 290; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2011-JFS18-042

MATERIAL WEAKNESS

See federal finding # 2011-JFS18-042 on page 292; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2011-OBM101-006

SIGNIFICANT DEFICIENCY

See federal finding # 2011-OBM101-006 on page 205; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2011-EDU04-016

SIGNIFICANT DEFICIENCY

See federal finding # 2011-EDU04-016 on page 228; 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 194 through 196.

The questioned costs are summarized by federal agency, program, and amount on page 197.

The findings and questioned costs are detailed by state agency on pages 199 through 334.

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STATE OF OHIO
JULY 1, 2010 THROUGH JUNE 30, 2011
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
U.S. Department of Agriculture			
Supplemental Nutrition Assistance Program Cluster			
10.551 / 10.561			
	Ohio Department of Job & Family Services	$ 3,059,594,130	
	Other Agencies (Not Tested as a Major Program)	528,739	
	Total SNAP Cluster	$ 3,060,122,869	10.94%
Child Nutrition Cluster			
10.553 / 10.555 / 10.556 / 10.559			
	Ohio Department of Education	$ 438,008,839	
	Other Agencies (Not Tested as a Major Program)	3,302,166	
	Total Child Nutrition Cluster	$ 441,311,005	1.58%
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children		
	Ohio Department of Health	$ 239,192,778	
	Total CFDA # 10.557	$ 239,192,778	0.86%
10.558	Child and Adult Care Food Program		
	Ohio Department of Education	$ 89,309,676	
	Total CFDA # 10.558	$ 89,309,676	0.32%
U.S. Department of Labor			
Employment Service Cluster			
17.207 / 17.801 / 17.804			
	Ohio Department of Job & Family Services	$ 44,380,707	
	Total ES Cluster	$ 44,380,707	0.16%
17.225	Unemployment Insurance		
	Ohio Department of Job & Family Services	$ 4,230,743,472	
	Total CFDA # 17.225	$ 4,230,743,472	15.13%
17.245	Trade Adjustment Assistance		
	Ohio Department of Job & Family Services	$ 41,259,872	
	Total CFDA # 17.245	$ 41,259,872	0.15%
Workforce Investment Act (WIA) Cluster			
17.258 / 17.259 / 17.260 / 17.277 / 17.278			
	Ohio Department of Job & Family Services	$ 145,995,391	
	Other Agencies (Not Tested as a Major Program)	9,489,483	
	Total WIA Cluster	$ 155,484,874	0.56%

STATE OF OHIO
JULY 1, 2010 THROUGH JUNE 30, 2011
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
U.S. Department of Transportation			
Highway Planning and Construction Cluster			
20.205 / 20.219 / 23.003			
	Ohio Department of Transportation	$ 1,439,903,627	
	Other Agencies (Not Tested as a Major Program)	2,054,388	
	Total Highway Planning and Construction Cluster	$ 1,441,958,015	5.16%
U.S. Environmental Protection Agency			
66.458	CAP Grants for Clean Water State Revolving Funds		
	Environmental Protection Agency	$ 396,613,153	
	Total CFDA # 66.458	$ 396,613,153	1.42%
66.468	CAP Grants for Drinking Water State Revolving Funds		
	Environmental Protection Agency	$ 114,041,804	
	Total CFDA # 66.468	$ 114,041,804	0.41%
U.S. Department of Energy			
81.041	State Energy Program		
	Ohio Department of Development	$ 45,339,471	
	Other Agencies (Not Tested as a Major Program)	740,812	
	Total CFDA # 81.041	$ 46,080,283	0.16%
81.042	Weatherization Assistance for Low-Income Persons		
	Ohio Department of Development	$ 131,827,939	
	Total CFDA # 81.042	$ 131,827,939	0.47%
U.S. Department of Education			
Title I - Part A Cluster			
84.010 / 84.389			
	Ohio Department of Education	$ 713,581,530	
	Other Agencies (Not Tested as a Major Program)	1,590,247	
	Total CFDA # 84.010	$ 715,171,777	2.56%
Special Education Cluster			
84.027 / 84.173 / 84.391 / 84.392			
	Ohio Department of Education	$ 623,567,800	
	Other Agencies (Not Tested as a Major Program)	4,922,534	
	Total Special Education Cluster	$ 628,490,334	2.25%

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
Vocational Rehabilitation Cluster			
84.126 / 84.390			
	Rehabilitation Services Commission	$ 98,850,990	
	Other Agencies (Not Tested as a Major Program)	1,273,374	
	Total Rehabilitation Services Cluster	$ 100,124,364	0.36%
84.287	Twenty-First Century Community Learning Centers		
	Ohio Department of Education	$ 43,881,913	
	Total CFDA # 84.287	$ 43,881,913	0.16%
84.367	Improving Teacher Quality State Grants		
	Ohio Department of Education	$ 104,376,140	
	Other Agencies (Not Tested as a Major Program)	2,723,206	
	Total CFDA # 84.367	$ 107,099,346	0.38%
State Fiscal Stabilization Fund Cluster			
84.394/84.397			
	Ohio Department of Education	$ 515,463,552	
	Ohio Board of Regents	287,802,662	
	Ohio Department of Rehabilitation and Correction	177,488,988	
	Total State Fiscal Stabilization Fund Cluster	$ 980,755,202	3.51%
84.410	Education Jobs Fund		
	Ohio Department of Education	$ 68,873,009	
		$ 68,873,009	0.25%
U.S. Department of Health and Human Services			
Temporary Assistance for Needy Families Cluster			
93.558 / 93.714			
	Ohio Department of Job & Family Services	$ 759,616,981	
	Other Agencies (Not Tested as a Major Program)	2,190,741	
	Total TANF Cluster	$ 761,807,722	2.72%
93.563	Child Support Enforcement		
	Ohio Department of Job & Family Services	$ 143,141,755	
	Total CFDA # 93.563	$ 143,141,755	0.51%
Community Services Block Grant Cluster			
93.569 / 93.710			
	Ohio Department of Development	$ 38,887,968	
	Total CSBG Cluster	$ 38,887,968	0.14%

STATE OF OHIO
JULY 1, 2010 THROUGH JUNE 30, 2011
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
Child Care and Development Fund Cluster			
93.575 / 93.596 / 93.713			
	Ohio Department of Job & Family Services	$ 231,280,269	
	Other Agencies (Not Tested as a Major Program)	2,599,185	
	Total CCDF Cluster	$ 233,879,454	0.84%
93.658	Foster Care - Title IV-E		
	Ohio Department of Job & Family Services	$ 188,454,911	
	Other Agencies (Not Tested as a Major Program)	1,982,193	
	Total CFDA # 93.658	$ 190,437,104	0.68%
93.659	Adoption Assistance		
	Ohio Department of Job & Family Services	$ 180,147,118	
	Total CFDA # 93.659	$ 180,147,118	0.64%
93.667	Social Services Block Grant		
	Ohio Department of Job & Family Services	$ 75,136,968	
	Ohio Department of Mental Health	7,208,582	
	Other Agencies (Not Tested as a Major Program)	8,738,683	
	Total CFDA # 93.667	$ 91,084,233	0.33%
93.767	Children's Health Insurance Program		
	Ohio Department of Job & Family Services	$ 262,045,999	
	Ohio Department of Mental Health	30,493,554	
	Other Agencies (Not Tested as a Major Program)	7,123,922	
	Total CFDA # 93.767	$ 299,663,475	1.07%
Medicaid Cluster			
93.720 / 93.775 / 93.777 / 93.778			
	Ohio Department of Job & Family Services	$ 9,547,802,213	
	Ohio Department of Developmental Disabilities	1,057,343,627	
	Ohio Department of Mental Health	401,751,765	
	Other Agencies (Not Tested as a Major Program)	498,685,219	
	Total Medicaid Cluster	$11,505,582,824	41.15%
93.917	HIV Care Formula Grants		
	Ohio Department of Health	$ 18,338,641	
	Total CFDA # 93.917	$ 18,338,641	0.07%
93.959	Block Grants for Prevention and Treatment of Substance Abuse		
	Ohio Department of Alcohol and Drug Addiction Services	$ 66,188,867	
	Total CFDA # 93.959	$ 66,188,867	0.24%

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
Social Security Administration			
Disability Insurance/SSI Cluster			
96.001	Social Security - Disability Insurance		
	Rehabilitation Services Commission	$ 91,597,581	
	Total SSI Cluster	$ 91,597,581	0.33%
U.S. Department of Homeland Security			
97.067	Homeland Security Cluster		
	Ohio Department of Public Safety	$ 39,852,757	
	Other Agencies (Not Tested as a Major Program)	412,475	
	Total CFDA # 97.067	$ 40,265,232	0.14%
Total Major Federal Programs		$26,747,751,764	95.66%
Other Federal Programs		$ 1,212,271,097	4.34%
Total Federal Awards Expenditures		$27,960,022,861	100.00%

STATE OF OHIO
JULY 1, 2010 THROUGH JUNE 30, 2011
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 Alcohol and Drug Addiction Services (ADA)			
1. SAPT – Board Assurances	2011-ADA01-003	Noncompliance/ Material Weakness	199
2. SAPT – Reporting – Transparency Act	2011-ADA02-004	Noncompliance/ Material Weakness	200
3. SAPT– Level of Effort	2011-ADA03-005	Noncompliance/ Significant Deficiency	202
Ohio Office of Budget and Management (BOR)			
1. Schedule of Expenditures of Federal Awards	2011-OBM01-006	Material Weakness	205
Ohio Department of Development (DEV)			
1. Cash Management	2011-DEV01-007	Noncompliance	207
2. Inspections – HWAP Program	2011-DEV02-008	Noncompliance/ Material Weakness	209
3. Matching – SEP Program	2011-DEV03-009	Material Weakness	212
4. Earmarking – CSBG Program	2011-DEV04-010	Material Weakness	214
Ohio Department of Developmental Disabilities (DDD)			
1. Medicaid - Timely Reviews	2011-DDD01-011	Noncompliance/ Significant Deficiency	216
2. Medicaid - Medical Billing System Changes	2011-DDD02-012	Significant Deficiency	218
Ohio Department of Education (EDU)			
1. Various Programs – Earmarking	2011-EDU01-013	Questioned Costs/ Significant Deficiency	220
2. Child Nutrition Cluster & Child Adult Care Food Prg – Sub Mon	2011-EDU02-014	Noncompliance/ Material Weakness	224
3. Child Nutrition Cluster & Child Adult Care Food Prg – Reporting	2011-EDU03-015	Noncompliance/ Material Weakness	226
4. Schedule of Expenditures of Federal Awards	2011-EDU04-016	Material Weakness	228
5. Special Education Cluster – Maintenance of Effort Monitoring	2011-EDU05-017	Material Weakness	230
6. Special Education Cluster – Subrecipient Monitoring	2011-EDU06-018	Material Weakness	231
7. Twenty First Century Community Learning Centers – Sub Mon	2011-EDU07-019	Material Weakness	233
Ohio Environmental Protection Agency (EPA)			
1. Invoice Reviews	2011-EPA01-020	Significant Deficiency	236
Ohio Department of Health (DOH)			
1. Cash Management	2011-DOH01-021	Noncompliance/ Material Weakness	238
2. Federal Reporting – MCH	2011-DOH02-022	Material Weakness	240
3. Indirect Cost – MCH	2011-DOH03-023	Material Weakness	242
4. Earmarking – MCH	2011-DOH04-024	Material Weakness	243

STATE OF OHIO
JULY 1, 2010 THROUGH JUNE 30, 2011
SUMMARY OF FINDINGS AND QUESTIONED COSTS

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE REFERENCE
Ohio Department of Job & Family Services (JFS)			
1. Various Programs – Period of Availability	2011-JFS01-025	Questioned Costs	245
2. MMIS – Claims Reimbursement in Excess of OAC Limits	2011-JFS02-026	Questioned Costs	248
3. Missing Eligibility Documentation – Various Counties	2011-JFS03-027	Questioned Costs/ Material Weakness	252
4. Medicaid/CHIP – Third Party Liability	2011-JFS04-028	Questioned Costs/ Significant Deficiency	259
5. CHIP - Ineligible Recipient - Over 19	2011-JFS05-029	Questioned Costs/ Material Weakness	262
6. Medicaid/CHIP- Ineligible Recipients-CRIS-E/MITS Variance	2011-JFS06-030	Questioned Costs	264
7. TANF – Refusal to Work – Montgomery County	2011-JFS07-031	Questioned Costs	266
8. IEVS – Alert Resolution/Inadequate Documentation	2011-JFS08-032	Questioned Costs/ Material Weakness	268
9. IEVS – Due Dates	2011-JFS09-033	Noncompliance/ Material Weakness	271
10. Medicaid/CHIP – Provider Eligibility	2011-JFS10-034	Noncompliance/ Material Weakness	274
11. Supplemental Nutrition Assistance Program Cluster- Report	2011-JFS11-035	Noncompliance/ Material Weakness	276
12. SSBG & WIA – Subrecipient Monitoring	2011-JFS12-036	Noncompliance/ Material Weakness	278
13. Child Care Cluster - Cash Management	2011-JFS13-037	Noncompliance	281
14. Federal Financial Reports	2011-JFS14-038	Noncompliance	282
15. All Applications – Lack of Internal Testing of Automated Controls	2011-JFS15-039	Material Weakness	285
16. Revenue Reconciliations – Lack of Controls	2011-JFS16-040	Material Weakness	288
17. IT - MMIS Eligibility – Expired Recertification Date	2011-JFS17-041	Material Weakness	290
18. IT - MMIS Eligibility – PMF Code Changes	2011-JFS18-042	Material Weakness	292
19. County Adjustments	2011-JFS19-043	Material Weakness	294
20. Various Prog- County Finance Documentation & Procedures	2011-JFS20-044	Material Weakness	296
21. Medicaid/CHIP - Managed Care	2011-JFS21-045	Material Weakness	298
22. TANF – Internal Control Deficiencies – Various Counties	2011-JFS22-046	Material Weakness	300
23. Unemployment Insurance - Reporting	2011-JFS23-047	Material Weakness	204
24. Foster Care – Private Agency Administrative Procedures	2011-JFS24-048	Material Weakness	306
25. Federal Revenue Controls	2011-JFS25-049	Significant Deficiency	307
26. Medicaid - Drug Rebate Monitoring	2011-JFS26-050	Significant Deficiency	309
27. Medicaid/Chip – Claims Processing & Recon. Int. Controls	2011-JFS27-051	Significant Deficiency	311
28. Supplemental Nutrition Assistance Prog. Cluster– EBT Cards	2011-JFS28-052	Significant Deficiency	312
Ohio Department of Mental Health (DMH)			
1. Subrecipient Monitoring	2011-DMH01-053	Noncompliance/ Significant Deficiency	318
2. SSBG - Community Mental Health Board Assurances	2011-DMH02-054	Material Weakness	321
Ohio Department of Public Safety (DPS)			
1. Subrecipient Monitoring	2011-DPS01-055	Noncompliance/ Material Weakness	323
Ohio Board of Regents (BOR)			
1. Subrecipient Monitoring	2011-BOR01-056	Noncompliance/ Material Weakness	326

STATE OF OHIO
JULY 1, 2010 THROUGH JUNE 30, 2011
SUMMARY OF FINDINGS AND QUESTIONED COSTS

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE REFERENCE
Ohio Rehabilitation Services Commission (RSC)			
1. Vocational Rehab & Social Security Disability Ins–Cash Mgmt	2011-RSC01-057	Noncompliance/ Material Weakness	328
2. Vocational Rehabilitation – Determination of Eligibility	2011-RSC02-058	Noncompliance/ Significant Deficiency	330
Ohio Department of Transportation (DOT)			
1. Davis-Bacon Act – Internal Controls	2011-DOT01-059	Material Weakness	333

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 Office of Budget and Management (OBM)			
1. Schedule of Expenditures of Federal Awards	2011-OBM01-006	Significant Deficiency	205
Ohio Department of Education (EDU)			
4. Schedule of Expenditures of Federal Awards	2011-EDU04-016	Significant Deficiency	228
Ohio Department of Job & Family Services (JFS)			
15. All Applications-Lack of Internal Testing of Automated Controls	2011-JFS15-039	Material Weakness	285
16. Revenue Reconciliations - Lack of Controls	2011-JFS16-040	Material Weakness	288
17. IT - MMIS Eligibility – Expired Recertification Date	2011-JFS17-041	Material Weakness	290
18. IT – MMIS Eligibility – PMF Code Changes	2011-JFS18-042	Material Weakness	292

The findings listed below are only 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 Commerce (COM)			
1. IT - CHANGE MANAGEMENT	2011-COM01-001	Significant Deficiency	181
Ohio Administrative Knowledge System (OAKS) *			
1. IT - OAKS IT SECURITY	2011-OAKS01-002	Significant Deficiency	184

*Both the Ohio Department of Administrative Services and Office of Budget and Management have shared responsibilities for OAKS

STATE OF OHIO
JULY 1, 2010 THROUGH JUNE 30, 2011
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 – Supplemental Nutrition Assistance Program Cluster	245*	99,859
Total U.S. Department of Agriculture		$99,859
U.S. DEPARTMENT OF LABOR		
17.255 – Unemployment Insurance	245	6,281,047
Total U.S. Department of Labor		$6,281,047
U.S. DEPARTMENT OF EDUCATION		
84.027/84.173/84.391/84.392 – Special Education	220	205,060
84.287 – 21st Century Community Learning Centers	220	525,207
Total U.S. Department of Education		$730,267
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
93.558/93.714 – Temporary Assistance for Needy Families Cluster	252, 266*	259
93.575/93.596/93.713 – CCDF Cluster	245, 252	366,747
93.659 – Adoption Assistance	252	4,208
93.767 – Children's Health Insurance Program	248, 252, 259, 262, 264*	54,356
93.720/93.775/93.777/93.778 – Medicaid Cluster	248, 252, 259, 264*	761,084
Total U.S. Department of Health and Human Services		$1,187,374
TOTAL QUESTIONED COSTS - STATE OF OHIO		**$8,298,547**

Note: * Finding number 2011-JFS08-032 on page 268 reported questioned costs for which the amounts could not be determined.

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1. SAPT – BOARD ASSURANCES

Finding Number	2011-ADA01-003
CFDA Number and Title	93.959 – Substance Abuse Prevention and Treatment
Federal Agency	Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed; Suspension and Debarment

NONCOMPLIANCE AND MATERIAL WEAKNESS

2 CFR 180.300, Responsibilities of Participants Regarding Transactions Doing Business with Other Persons, states that:

> When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:
> …
> (a) Checking the EPLS; or
> (b) Collecting a certification from that person; or
> (c) Adding a clause or condition to the covered transaction with that person.

It is management's responsibility to implement a system of internal controls to reasonably assure federal compliance requirements are communicated to subrecipients and the subrecipients agree to abide by applicable laws and regulations, including the verification these subrecipients have not been suspended or debarred. To be effective, the performance of an internal control must be sufficiently documented to provide assurance the control is in place and functioning as intended. It is management's responsibility to monitor these controls procedures to verify they are operating effectively.

During the audit period, the Department disbursed approximately $63.2 million in Substance Abuse Prevention and Treatment (SAPT) funding to the Alcohol and Drug Addiction (ADA) Boards. Annually, the ADA boards submit a signed assurance to the Department which evidences the Board's agreement to abide by applicable federal laws and regulations pertaining to SAPT and certifies they are not suspended or debarred, as specified in 2 CFR part 180. Once the Department reviews and approves the signed assurance and the related Community Plan information, they send an award letter to the Board. However, the Department has no procedures in place to track the receipt of the Board's assurances. Three of 10 (30%) board assurances selected could not be located by the Department. Therefore, we could not determine whether the Board agreed to adhere to applicable laws and regulations and certified they were not suspended or debarred.

Without proper documentation of internal control activities performed, there is an increased risk that procedures may not be working as management intended, not applied consistently, or management's objectives may not be achieved. In addition, if signed assurances are not received from the Board, there is an increased risk that funding passed through to and disbursed by the Board will not be disbursed in compliance with laws and regulations. This could result in unallowable costs charged to the SAPT program. The Department indicated they were unable to locate these board assurances and this appears to be an oversight.

We recommend the Department establish policies and procedures to ensure internal control procedures are consistently performed and adequately documented to reasonably ensure the ADA Boards have met all requirements prior to funding. Specifically, we recommend the Department implement a tracking sheet or other tool to monitor the receipt of the required assurances from the ADA boards and maintain all assurances received.

1. SAPT – BOARD ASSURANCES (Continued)

Official's Response and Corrective Action Plan

ODADAS's plan of corrective action is to implement a tracking process for the receipt of assurances from ADAS/ADAMHS Boards. This Tracking sheet will be utilized to identify which Boards have not submitted the required documentation. The process will further provide a confirmation of receipt. A designated staff person will have the responsibility for distribution of written notification as well as telephone contact with each Board that has not submitted the signed Board Assurance by July 1.

In the event assurance submission remain non-compliant, the implementation of withholding of funds pursuant to OAC 3793:6-1-01 is an option to be considered.

Anticipated Completion Date for Corrective Action

SFY 2012

Contact Person Responsible for Corrective Action

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2. SAPT – REPORTING – TRANSPARENCY ACT

Finding Number	2011-ADA02-004
CFDA Number and Title	93.959 – Substance Abuse Prevention and Treatment
Federal Agency	Department of Health and Human Services
Compliance Requirement	Reporting

NONCOMPLIANCE AND MATERIAL WEAKNESS

The Federal Funding Accountability and Transparency Act (Transparency Act) requires prime recipients of non-ARRA federal awards who make first-tier subawards to report the subaward on the Federal Funding Accountability and Transparency Subaward Reporting System (FSRS) website maintained by the federal Office of Management and Budget. Pursuant to 2 CFR part 170 Appendix A, prime recipients of non-ARRA federal awards made on or after October 1, 2010, are required to report subawards of $25,000 or more to an entity. Prime recipients must report by the end of the month following the month the obligation is made. Additionally, 2 CFR part 25 requires entities to ensure applicants of non-ARRA subawards provide a valid Dun and Bradstreet Data Universal Numbering System (DUNS) number in its subaward application or, if not, prior to receiving the award.

In July of each state fiscal year, the Department provides an award estimate of SAPT funds to each of the 50 County Alcohol and Drug Addiction (ADA) Boards who, in turn, contract with and offer support for alcohol and other drug prevention and treatment programs in their counties. Funding for these estimated awards comes from both current and anticipated federal grants. On December 17, 2010, the federal agency issued the Department's 2011 SAPT grant award, for the period of October 1, 2010 through September 30, 2012, which required the Department to report information on these subawards in accordance with the Transparency Act. Since the new grant award period included three quarters of State Fiscal Year 2011, the Department determined that it would be appropriate to report 75% of the amount awarded in July 2010 to the subaward recipients on the FSRS website.

2. SAPT – REPORTING – TRANSPARENCY ACT (Continued)

Therefore, in January 2011, the Department uploaded the subaward data to the FSRS. However, the Department did not review the data uploaded into FSRS for accuracy and completeness and, as a result, one of 10 (10%) subawards selected for testing was not reported in the FSRS. In addition, the Department indicated that there was another subaward that was not reported. The Department indicated that they were not able to report this subaward because the county board had not provided the required DUNS number.

Without consistent documentation of internal controls over the reporting of the federal requirements, the risk exists that subawards for the SAPT program may not be reported in a timely manner or in compliance with federal requirements. In addition, by not complying with federal reporting requirements, the Department risks federal funding being reduced, taken away, or other sanctions imposed by the federal grantor agency. Management indicated that they felt all the Transparency Act requirements were met to the best of their ability.

We recommend the Department collect and report on the FSRS website all the required information regarding subawards made for all programs subject to the Transparency Act. The Department could require the boards incorporate certain required information, including the DUNS number, into their Community Plan so this information could be evaluated prior to the reporting deadline. We also recommend the Department review the data upload and Transparency Act report for accuracy and completeness. Evidence of the control procedures should be maintained. In addition, management should periodically monitor the control procedures to help ensure they are performed consistently and effectively.

Official's Response and Corrective Action Plan

The Department will obtain and evaluate the boards DUNS number information for accuracy prior to the reporting deadline to identify potential upload errors. The Department will also review the data upload and Transparency Act report for accuracy and completeness. This procedure will be evidenced by a signature/initial by the designated staff.

Anticipated Completion Date for Corrective Action

SFY 2012

Contact Person Responsible for Corrective Action

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3. SAPT – LEVEL OF EFFORT

Finding Number	2011-ADA03-005
CFDA Number and Title	93.959 – Substance Abuse Prevention and Treatment
Federal Agency	Department of Health and Human Services
Compliance Requirement	Level of Effort

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

45 CFR 96.127(c), Requirements regarding tuberculosis, states:

> With respect to services provided for by a State for purposes of compliance with this section, the State shall maintain Statewide expenditures of non-Federal amounts for such services at a level that is not less than an average level of such expenditures maintained by the State for the 2-year period preceding the first fiscal year for which the State receives such a grant…

It is management's responsibility to implement a system of internal controls to reasonably ensure the level of effort requirements are met. To be effective, the performance of an internal control must be sufficiently documented to provide assurance the control is in place and functioning as intended. It is management's responsibility to monitor these controls procedures to verify they are operating effectively.

During the audit period, the Department disbursed approximately $66.2 million in Substance Abuse Prevention and Treatment (SAPT) funding. A majority of these funds are passed through to the 50 County Alcohol and Drug Addiction (ADA) Boards for program purposes. Annually, the ADA boards prepare and submit a funding application, which includes a budget indicating how the funds will be spent. The Department is to review and approve the funding application and send an award letter to the Board. However, the Department had limited policies and procedures in place to ensure that level of effort requirements, as specified in 45 CFR 96.127(c), were met. In addition, the Department did not maintain documentation to support the average level of tuberculosis (TB) expenditures maintained by the State for the two-year period preceding the first fiscal year of receipt of the SAPT grant and, therefore, could not support the calculation of the base amount used to determine compliance with level of effort requirements. The base amount used to determine compliance with level of effort requirements was $26,000 (obtained and tested within previous audit documentation) and would be the amount the Department was required to spend on TB services in order to comply with federal regulations. However, the Department did not make any State disbursements for TB services during fiscal year 2011. Therefore, we were unable to assess compliance with the TB requirement.

Without proper performance and documentation of management's review and approval of internal controls over Level of Effort and maintaining appropriate supporting documentation for the required TB funding levels, there is an increased risk that procedures are not working properly or consistently. In addition, if documentation to support the satisfaction of compliance requirements is not maintained, management cannot be assured that requirements are met. This could result in unallowable costs charged to the SAPT program.

The Department indicated that documentation to support the TB Maintenance of Effort rate previously determined is no longer available, and current staff does not have the historical knowledge to provide clarity on the formula. In addition, the Department has historically relied on the Department of Health and the counties to fund TB services. In addition, the State budget, as enacted, does not appropriate any funding to the Department for TB services.

3. SAPT – LEVEL OF EFFORT (Continued)

We recommend the Department establish policies and procedures to ensure internal control procedures are consistently performed and adequately documented to reasonably ensure the Department is meeting all level of effort requirements. Specifically, we recommend the Department research prior tuberculosis statistics to ensure the accuracy of the base amount. The statistical information and documentation to support the satisfaction of requirements should be maintained in accordance with state and federal records retention policies. In addition, the Department should investigate options for changing the necessary legislation to allow for a State TB appropriation to meet the Federal Level of Effort requirements. After the appropriation is set up and funds are disbursed for TB services, we recommend the Department devise a process to track the TB Level of Effort payments and demonstrate how they are complying with the established requirements.

Official's Response and Corrective Action Plan

The following response was accepted by SAMHSA [Substance Abuse and Mental Health Services Administration] in their review of ODADAS' SAPT Block Grant:

The Department's Assurance Statement require agencies receiving Block Grant funds to: (A) directly or through arrangements with other public or nonprofit private entities, routinely make available tuberculosis services to each individual receiving treatment for such abuse; and (B) in the case of an individual in need of such treatment who is denied admission to a program on the basis of the lack of the capacity of the program to admit the individual, will refer him/her to another provider of tuberculosis services.

Ohio Revised Code Section 339.72 – 339.76, addresses TB treatment. Section 339.75 of revised code reads:

> *"The board of county commissioners of any county may contract with the board of health of a city or general health district or any hospital or other health care facility for the provision of the tuberculosis treatment specified under section 339.73 of the Revised Code. The board shall pay to the board of health or health care facility with which it contracts the amount provided in the contract."*

By Ohio statute, County Commissioners are responsible for funding for TB treatment services. However, there is no method for determining how much was spent in any of the counties. There is no reporting requirement in statute that directs county commissioners to share anything about who they contract with, how much they contracted, or what the source of funds is.

The Department does not expend any state funds for tuberculosis services. County Commissioners contract with local health departments, hospitals or other healthcare facilities to provide TB services.

The Ohio Department of Alcohol and Drug Addiction Services has historically relied on the Ohio Department of Health to report on state funds spent for TB services, as ODADAS itself, does not have funds for this purpose. Currently, the Ohio Department of Health does not have state funds allocated for TB services.

While we can be certain that some amount of funding has been spent for TB treatment, given the incidence of TB in Ohio, ODADAS (through the Ohio Department of Health) has no method currently to verify this.

3. SAPT – LEVEL OF EFFORT (Continued)

Anticipated Completion Date for Corrective Action

Corrective action would entail a change in Ohio Revised Code to develop a reporting mechanism for County Commissioners to identify and report to the state who they contract with, how much they contracted, and what the source of funds is. Alternatively, the Department will seek to collect this information from each board of commissioners on a voluntary basis. A survey for County Commissioners was drafted, however due to personnel changes at ODADAS, implementation was delayed. The draft survey will be completed during SFY 2012 as was indicated in the department's block grant submission.

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO OFFICE OF BUDGET AND MANAGEMENT

1. SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Finding Number	2011-OBM01-006
CFDA Number and Title	84.394/84.397 – State Fiscal Stabilization Fund Cluster
Federal Agency	Department of Education
Compliance Requirement	Schedule of Expenditures of Federal Awards

MATERIAL WEAKNESS

It is management's responsibility to implement internal control procedures which provide reasonable assurance that the State of Ohio's Schedule of Expenditures of Federal Awards (the Schedule) is complete and accurate. Sound internal controls require a review of the Schedule be performed and documented in some manner to verify the information reported by the state agencies is complete and accurate before preparing the Schedule.

The Office of Budget and Management (OBM) provides each state agency that receives federal funds a reporting package containing a template of the Schedule to be used and instructions for completing the reporting package. OBM uses the information returned by the agencies to prepare the overall Schedule and related footnotes for the State of Ohio. In fiscal year 2011, OBM changed the process to no longer provide agencies with OAKS reports/data for each of their programs, but instead provided queries in COGNOS (the State's data warehouse) that the agencies could choose to use to obtain federal revenue and expenditure data from OAKS when the agencies did not have other OAKS reports and queries available with this data. Each agency was provided step-by-step instructions (including screen shots) on how to access the COGNOS queries, along with a description of what data each query contained. These queries prompt the agency to enter certain fields (required and optional) to extract the necessary data. Some example fields include fiscal year, fund, department ID, CFDA number, and grant ID. The various agencies use the reporting packages to provide the expenditure amounts to be reported on the Schedule for each of their federal programs based on their reports and queries, the OBM COGNOS query output, or a combination of both. OBM indicated they review the reporting packages for clerical and mathematical accuracy (i.e., proper CFDAs, footing, cross-footing, and the supporting amounts agree to the totals) in order to identify any discrepancies prior to preparation of the State of Ohio's Schedule. OBM also indicated they compare federal expenditures for the current year to the prior year Schedule in total by program and in total by agency to identify any significant or unusual changes. However, no comparison is done at the program level by agency.

As noted in comment 2011-EDU04-016, the original Schedule submitted to OBM by the Ohio Department of Education (EDU) reported $0 in expenditures for the State Fiscal Stabilization Fund (SFSF) Cluster when it should have reported $515,463,552. OBM's review of the data submitted by EDU did not identify and correct this omission prior to completing the State of Ohio's Schedule. This omission resulted in the State's Schedule being understated by 52.6% for the SFSF Cluster (only $465,291,650 of $980,755,202 total federal expenditures was reported), resulting in nearly a 2% understatement in the State's total federal expenditures. Additionally, the $515,463,552 was not included in footnote 6 of the Notes to the Supplementary Schedule of Expenditures of Federal Awards which identifies the total amount of ARRA grants disbursed during the fiscal year. These variances were brought to OBM's attention by the auditor and the State's Schedule was adjusted prior to submission to the federal government.

Without adequate monitoring and completeness controls over the State of Ohio's Schedule, management cannot reasonably ensure the information reported on the Schedule is accurate and complete. If all expenditures are not accurately reported on the Schedule, the risk is increased that the State of Ohio's Schedule of Expenditures of Federal Awards may be materially misstated and those using it could be relying on inaccurate information. According to management, the error in the Schedule was not identified in their review because the change in total EDU federal expenditures of 10% appeared reasonable due to the phase-out of ARRA funding and a decision was made that no further investigation was necessary.

1. SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

We recommend OBM management strengthen and improve their existing monitoring and oversight controls to help ensure all required expenditures are accurately reported by the individual agencies prior to completing the State of Ohio's Schedule. This could include performing a comparison of the agencies' submissions by program to the previous year's audited Schedule to identify and investigate any significant (pre-determined percentage), unusual, or unexpected variances/fluctuations at the agency level by significant program. Additionally, OBM could calculate estimated/expected total federal expenditures based on OAKS expenditure data or other outside sources and identify total revenue recorded in OAKS from each federal awarding agency. OBM could then compare these amounts to total federal expenditures reported on the draft Schedule to verify the amounts reported are within a reasonable percentage of the estimated amounts to help identify any errors or omissions that could be significant to the Schedule. These reviews should be documented in some manner and the documentation should be maintained. Lastly, we recommend OBM maintain a listing of significant changes for federal programs throughout the year which could be tracked by the respective agencies' Budget Analysts. This list should be used to identify and/or explain significant or unusual fluctuations in a program's expenditure activity.

Official's Response and Corrective Action Plan

To ensure that all federal expenditures recorded in funds that generally are not used for federal grants (as was the case in this particular finding using GRF,) OBM will revise the instructions within the reporting packages to include a reminder that the agencies should review all funds when completing their submissions.

OBM will also perform a comparison of the draft Schedule to the previous year's audited Schedule and identify and investigate any significant (10% and greater than $20 million,) unusual, or unexpected variances/fluctuations in total and by significant program. These reviews will be performed by the Financial Reporting Section and documented in the workpapers.

Additionally, OBM's Financial Reporting Section will discuss significant, unusual, and unexpected changes in federal programs with the respective agencies' Budget Analysts. Financial Reporting will document any relevant changes noted during these discussions and include them in the workpapers.

Anticipated Completion Date for Corrective Action

December 2012

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF DEVELOPMENT

1. CASH MANAGEMENT

Finding Number	2011-DEV01-007
CFDA Number and Title	81.041 – State Energy Program 81.042 – Home Weatherization Assistance Program 93.569/93.710 – Community Services Block Grant 93.568 – Low-Income Home Energy Assistance
Federal Agency	Department of Energy Department of Health and Human Services
Compliance Requirement	Cash Management

NONCOMPLIANCE

U.S. Treasury regulations, 31 CFR part 205, which implemented the Cash Management Improvement Act of 1990 (CMIA), requires state recipients to enter into agreements prescribing specific methods used to draw down federal funds (funding techniques) for selected large federal programs. Those programs not identified within a CMIA agreement are required to comply with section 31 CFR 205.33 (a), which states:

> A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. States should exercise sound cash management in funds transfers to subgrantees in accordance with OMB Circular A–102 (For availability, see 5 CFR 1310.3.).

The State Energy Program (SEP), Home Weatherization Assistance Program (HWAP) and Community Services Block Grant (CSBG) federal programs are all required to adhere to the cash management requirements in the aforementioned CFR section, as they are not identified within the state-wide CMIA agreement. Per discussion with the Deputy Director Accounting Administration at the Office of Budget and Management, it takes three to four business days to administer a disbursement payment through the state accounting system. Furthermore, 45 CFR 92.21 prescribes the basic cash management standard and the methods under which a federal agency will make payments to grantees. Section (b) states "Methods and procedures for payment shall minimize the time elapsing between the transfer of funds [from the awarding agency] and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR Part 205." 31 CFR 205.11 states, in pertinent part:

> (a) A State and a Federal Program Agency must minimize the time elapsing between the transfer of funds from the United States Treasury and the State's payout of funds for Federal assistance program purposes, whether the transfer occurs before or after the payout of funds.
> (b) A State and a Federal Program Agency must limit the amount of funds transferred to the minimum required to meet a State's actual and immediate cash needs.

During fiscal year (FY) 2011, the Department drew down approximately $45,954,950, $131,871,340 and $38,644,353 for the SEP, HWAP and CSBG federal programs, respectively. The Department applied the same drawdown process to all of its federal programs. Generally, an Accounting Fiscal Specialist in the Accounting Department calculated the amount of funds to be drawn based on the Department's cash needs (payroll, administrative costs, payments to subgrantees, etc.) and the current availability of funds. The calculations and coding structure to be used to request the draws were then approved by the Accounting Supervisor. In addition, quarterly, the Accounting Fiscal Specialist performed reconciliations to ensure draws were recorded to the correct fund, grant, and for the correct amounts. These reconciliations compared federal program account statements and balances to the specific draw-downs made by the Department. However, of the 46 draws tested for fiscal year 2011:

1. CASH MANAGEMENT (Continued)

- The Department did not minimize the time elapsing between the receipt and disbursement of funds for four draws. The Department disbursed the related funds seven to 10 days after the draw date, with the average disbursement occurring nine days after the draw date.

- The Department did not limit two draws to its pre-determined immediate needs per the support documents and drew approximately $23,344 more than needed.

- One draw for more than $1.2 million was made on April 28, 2011, from the Low-Income Home Energy Assistance (LI-HEAP) federal program, but was intended to be drawn from the CSBG program per the support documents. The deposit was coded to the CSBG fund and federal program in the state accounting system, Ohio Administrative Knowledge System (OAKS). All payments made from the funds received were paid for the appropriate purposes of the CSBG program and paid from the correct OAKS funds and grants. The Department identified the improper coding while performing the quarterly reconciliations and adjusted the draw accordingly on the federal draw system on June 3, 2011. Although the Department's reconciliation process did detect drawing of funds from one federal program intended for another federal program, the correction was not made for 36 days. Therefore, the Department owes $1,254 in interest to the LI-HEAP federal program.

Not limiting draws to the Department's immediate cash needs, not disbursing funds within the required time period, or not drawing funds from the appropriate and intended federal program could result in noncompliance with the applicable federal compliance requirements. This condition could subject the Department to sanctions or other penalties and a repayment of part of the grant award amount. In addition, noncompliance could subject the Department to paying interest charges on these draws. The Accounting Supervisor did not identify any specific reason for the late disbursements and overdraws other than a longer time to process the disbursement and various reasons originating in the other sections that requested the cash. Management also stated the Department had controls in place to review and approve draws before they are made, but not afterwards until the quarterly reconciliation is performed. This is due to a lack of resources to perform extra reviews after the funds have been requested and deposited.

We recommend the Department evaluate its current cash management control procedures and update them as necessary to reasonably ensure all federal draw requests are disbursed timely, drawn only for immediate cash needs and identified by the appropriate account and fund coding, based on applicable federal regulations. We also recommend the Department establish procedures to periodically monitor its compliance with the cash management requirements as necessary. This would include all appropriate reviews of draw requests after they are initially approved and after they are requested through the applicable federal payment systems.

Official's Response and Corrective Action Plan

While the Ohio Department of Development (ODOD) acknowledges that the Auditor of State (AOS) identified the few exceptions as noted in the finding, we dispute that these rise to the level of a single audit comment.

> *The first bullet point subjectively states that ODOD did not minimize the time between receipt and disbursement of funds, as stated in 45 CFR 92.21. This regulation does not list a specific time frame for the disbursement; it states the time frame must be minimized. ODOD does not have sole control over this process. Approvals must be received from outside of the agency. An average of nine days in our opinion complies with the regulation.*
>
> *The second point states that ODOD drew $23,344 more than needed over two draws out of forty-six tested. ODOD had detective controls in place and realized this error independent of the AOS. Adjustments were made to future draws to offset this difference within a relevant period of time.*

1. CASH MANAGEMENT (Continued)

The final point states that ODOD made a draw from LiHEAP that should have been made from CSBG. All payments made from the funds were paid for the appropriate purposes of the CSBG program. The error was detected by ODOD and corrected 36 days later. Again, the internal reconciliation by ODOD found and corrected this error. The error and correction was completed within the same quarter and was not incorrectly reported to the federal government. This error had no impact on the program.

Anticipated Completion Date for Corrective Action

N/A

Contact Person Responsible for Corrective Action

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Auditor of State's Conclusion

We are required by professional standards to report. Our determinations on the minimum time requirements were based on the Department's ability to request federal funds on a daily basis and the average time noted to disburse funds in OAKS. While the Department's controls did eventually identify and correct the errors, we believe the controls immediately surrounding the draws can be improved to prevent or more timely detect such errors. Therefore, the finding will remain as stated above.

2. INSPECTIONS – HWAP PROGRAM

Finding Number	2011-DEV02-008
CFDA Number and Title	81.042 – Home Weatherization Assistance Program
Federal Agency	Department of Energy
Compliance Requirement	Subrecipient Monitoring

NONCOMPLIANCE AND MATERIAL WEAKNESS

31 USC 7502(f)(2)(B) requires that each pass-through entity "monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means" [such as reporting and periodic contact] to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

In addition, Office of Management and Budget Circular A-133, § _.300 requires recipients of federal awards "maintain internal controls over Federal programs that provide reasonable assurance they are 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."

Weatherization Program Notice 09-1B was issued by the U.S. Department of Energy and was effective March 12, 2009. Part 4.0 deals with Grantee program oversight and states:

2. INSPECTIONS – HWAP PROGRAM (Continued)

> The Grantee must conduct comprehensive monitoring of each subgrantee at least once a year. The Grantee's Plan must include a monitoring plan to provide adequate oversight of use of DOE funds by subgrantees. The comprehensive monitoring must include review of client files and subgrantees records, as well as inspections of *at least* 5 percent of the completed units or units in the process of being weatherized. DOE strongly encourages a higher percentage of units be inspected. If inspection reveals quality control or other problems, Grantee shall increase the number of units monitored and frequency of inspection until all issues are resolved. Detailed review of subgrantee records and inspections must be maintained by the Grantee and be available at the request of DOE monitors.

The Department's fiscal year (FY) 2010 and FY 2011state plans for the Home Weatherization Assistance Program (HWAP) covered the periods April 1, 2010, through March 31, 2011, and April 1, 2011, through March 31, 2012, respectively. Section III.6.3 of the plans discusses the monitoring approach to be used by the Department and states, in part:

> Each Subgrantee will be visited by a technical field representative at least once per program year to review 5% of the completed units. Each Subgrantee will be visited by an administrative field representative at least once every year to review 5% of the completed units' files. Delegate agencies of subgrantees will be visited and reviewed at least every year by the State staff. . . . Reports of monitoring visits are to be completed within 30 days of the visit to the provider. These reports will summarize the findings and, when necessary, direct the Providers to take specific actions to correct issues of noncompliance and/or to develop a plan of action to improve performance.

The American Reinvestment and Recovery Act (ARRA) of 2009, was initiated by the federal government as a direct response to the nation's economic crisis. Part of this response included providing additional federal financial assistance for specific purposes to state and local governments through pre-existing federal programs. During FY 2011, the Department disbursed $129.5 million to subgrantees from the HWAP program. During state FY 2011, the Department had 58 subrecipients that were to be monitored in accordance with the procedures stated within the state plans. However, the Department did not consistently adhere to these requirements, as indentified below.

- For five of eight subrecipients tested, the visit performed by a technical field representative during the fiscal year did not include a review of five percent of their completed weatherized units, in accordance with the 2010 and 2011 state plans. The percent of completed units reviewed ranged from 2.1% to 4.4% for these subrecipients.

- For two of eight subrecipients tested, the visit performed by an administrative field representative during the fiscal year did not include a review of five percent of the completed weatherized units' files, in accordance with the 2010 and 2011 state plans. The percent of completed units' files reviewed were 3.2% and 4.1% for these subrecipients.

- For four of eight subrecipients tested for a visit performed by a technical and/or an administrative field representative during the fiscal year, the related monitoring reports were not completed and issued to the subrecipients within 30 days of the respective visits in accordance with the 2010 and 2011 state plans. The reports were issued between 36 and 66 days after the visits, with the average being approximately 48 days for these monitoring reports.

Under these conditions, the Department did not consistently comply with the additional guidelines issued to them to appropriately administer the HWAP program. Furthermore, the Department did not comply with their State Plans, which indicate to the federal government how administration of the program will occur. If certain guidelines are not met by the Department, then the quality of the services provided by the subrecipient may be less than the minimum standards. Also, certain guidelines may not be met if deficiencies were noted during the Department's review and not corrected timely. Without timely notice of deficiencies to the subrecipients, the Department may be lessening the subrecipients' ability to make appropriate changes to their operations in an efficient manner, which could lead to unnecessary sanctions against them.

2. INSPECTIONS – HWAP PROGRAM (Continued)

Department management stated there was a miscommunication between the Department and the federal government. The Department thought they had the entire grant period (April 1, 2009 through March 31, 2012) to ensure compliance was met with the additional guidelines issued to them by the federal government. Also, concerning the late issuance of reports to the subrecipients, management stated that a conference with the subrecipient occurred after each on-site visit. During the meeting, the subrecipient and reviewer discussed the results of the visit in summary, with the understanding that the results were to be included in the final report. Thus, the subrecipients were aware of the contents of the letter within 30 days after the visit. However, there was no documentation available to evidence when the meetings occurred for the errors noted.

We recommend the Department clarify the requirements with their staff and stress the importance of complying with applicable compliance requirements over the HWAP program by conducting technical and administrative reviews and issuing the required reports within the parameters set in the state plans for this federal program. We also recommend the Department evaluate its internal controls over these reviews and update them as necessary to reasonably ensure compliance. The Department should establish procedures to periodically monitor its compliance with the procedures to ensure these controls are performed as intended by management.

Official's Response and Corrective Action Plan

Although there was an initial misunderstanding by the Department of Development as to the requirements, ODOD has implemented changes to correct the deficiencies noted. They include:

1) *The Community Services Division working with Human Resources to ensure all HWAP team members have position descriptions, performance plans and reviews, and sufficient guidance which align closely with agency expectations of a focus on quality and quantity in HWAP and meeting goals in a timely manner;*
2) *Updated guidance to determine acceptable pass rates for weatherized units and acceptable performance of sub-grantees and delegates;*
3) *Performance targets for both technical and administrative monitoring of HWAP sub-grantees and delegates in accordance with expected performance timelines;*
4) *A system for ensuring excellent customer service and complaint tracking utilizing the Department's Business Response Line. Additionally, customer satisfaction surveys will be implemented in which feedback will determine additional changes.*

Anticipated Completion Date for Corrective Action

All changes have been implemented with the exception of the customer satisfaction surveys. The surveys will be implemented by 9/30/12.

Contact Person Responsible for Corrective Action

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3. MATCHING – SEP PROGRAM

Finding Number	2011-DEV03-009
CFDA Number and Title	81.041 – State Energy Program
Federal Agency	Department of Energy
Compliance Requirement	Matching

MATERIAL WEAKNESS

10 CFR 420.12 (a) contains a state recipient's matching requirement for the State Energy Program (SEP) federal program and states:

> Each State shall provide cash, in kind contributions, or both for SEP activities in an amount totaling not less than 20 percent of the financial assistance allocated to the State under § 420.11(b).

In addition, the Department's agreement with the U.S. Department of Energy (USDOE) for the SEP grant was amended, with amendments number three (effective through September 30, 2010) and number seven (effective through September 30, 2011) being applicable for state fiscal year (FY) 2011. Section "a" of the Matching Contribution heading on page 4 of the third amendment states, in part:

> Total Estimated Project Cost is the sum of the Federal share and Recipient share of the estimated project costs. The Recipient share includes the State matching contribution, and, if applicable, any other funds. The Recipient shall provide cash, in-kind contributions, or both in an amount totaling not less than 20 percent of the annual financial assistance allocated to the Recipient in accordance with 10 CFR 420.11. The Recipient's matching contribution must come from non-Federal sources unless otherwise allowed by law. Cash and in-kind contributions used to meet the matching contribution requirement are subject to the limitations on expenditures described in 10 CFR 420.18(a), but are not subject to the 20 percent limitation in 10 CFR 420.18(b). Neither Warner nor Exxon Petroleum Violation Escrow (PVE) funds may be used to meet the required match. By accepting Federal funds under this award, the Recipient is liable for the required matching contribution as follows: . . .

The USDOE requires the 20% matching requirement be satisfied each federal fiscal year (FFY). The required match for the SEP program was approximately $210,400 for the FFY ended September 30, 2010, and approximately $323,955 for the FFY ended September 30, 2011. During state fiscal year 2011, the Department stated they had procedures in place to help ensure the matching requirement was met. Specifically, the Fiscal Officer of the Department's Office of Energy maintained a tracking spreadsheet to monitor their performance in meeting the match requirement. However, no evidence existed that any supervisory review was performed on the spreadsheet. The Department provided documentation that showed the required 20% match was met; however, the documentation provided by the Office of Energy indicated the match was met exclusively through the use of Exxon PVE funds. The auditor received written confirmation from the USDOE that Exxon Petroleum Violation Escrow funds may not be used to meet the required match for the SEP program. After the auditor received the confirmation from the USDOE that PVE costs could not be used, the Office of Energy researched what costs were used for the matching requirement, but indicated they were unsure which costs were actually used, other than the PVE funds. The Department's Accounting Office was able to provide documentation the match was made with state funds only and not with any PVE funds. Each quarter before the Accounting Office prepared and submitted the SF-425 federal report for this program, it summarized all the expenditures by award. Although the spreadsheet did not calculate whether the 20% match was made, it showed the

3. MATCHING – SEP PROGRAM (Continued)

amount and funding source used to meet the state match for the SEP program. The Accounting Office sent a copy of this spreadsheet to the related program divisions for review. Typically, the program divisions did not respond to the Accounting Office about the spreadsheet. We were unable to determine if the Office of Energy reconciled this spreadsheet to its own tracking sheet or used it in any way. However, the tracking sheet in the Office of Energy used inappropriate data (PVE data) to determine if the state match was made, and the expenditure spreadsheet prepared in the Accounting Office did not calculate whether the match was met. As a result, the Department did not have sufficient controls in place to determine if it met the state match compliance requirement for the SEP program.

If internal controls do not function as designed, a risk exists the Department will not comply with the matching requirements of the SEP. If specific compliance requirements are not met, the Department could be sanctioned or otherwise penalized and risk losing federal funding, or have federal funding reduced in future years. Department management from the Office of Energy stated they thought the PVE funds could be used to meet match requirements.

We recommend the Department evaluate its current control procedures and update them as necessary to reasonably ensure it complies with all SEP matching requirements. These procedures should include a thorough supervisory review of any documentation used to monitor compliance with specific requirements, as well as effective communication (with response) between the Accounting Office and various program divisions receiving the expenditure spreadsheet. We also recommend management periodically monitor the process to help ensure that internal controls are in place and operating as intended and initiate necessary actions to resolve any noncompliance that results. The performance of all controls, including supervisory reviews and monitoring procedures, should be documented in some way to evidence they were performed timely and accurately, allowing management to place reliance on them. Additionally, we recommend management ensure that applicable employees are aware of all matching requirements so that proper monitoring over meeting specific requirements can be accomplished.

Official's Response and Corrective Action Plan

The Ohio Department of Development (ODOD) disagrees that this finding by the Auditor of State (AOS) rises to the level of a single audit comment. Despite the errors noted on the Office of Energy's internal spreadsheet, ODOD's controls in the Accounting Office detected the errors and made adjustments to report the correct amounts; as noted in the finding. Therefore both the amount and nature of funds used for match were reported correctly and there was no impact to the program.

Anticipated Completion Date for Corrective Action

N/A

Contact Person Responsible for Corrective Action

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Auditor of State's Conclusion

We are required by professional standards to categorize control deficiencies based on the potential impact of the weakness. Although the Department did comply with the stated match requirement, we believe the issues identified represent weakness in the design and/or operating effectiveness of the internal controls which could have a material impact on the Department's ability to meet matching requirements. Therefore, the finding will remain as stated above.

4. EARMARKING – CSBG PROGRAM

Finding Number	2011-DEV04-010
CFDA Number and Title	93.569/93.710 – Community Services Block Grant
Federal Agency	Department of Health and Human Services
Compliance Requirement	Earmarking

MATERIAL WEAKNESS

Office of Management and Budget Circular A-133, § _.300 (b) requires that recipients of federal awards "[m]aintain 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." It is management's responsibility to design, implement, and monitor these controls to reasonably ensure compliance with the applicable requirements.

42 USC 9907 (b)(2) states:

> No State may spend more than the greater of $55,000, or 5 percent, of the grant received under section 9905 of this title or State allotment received under section 9906 of this title for administrative expenses, including monitoring activities. Funds to be spent for such expenses shall be taken from the portion of the grant under section 9905 of this title or State allotment that remains after the State makes grants to eligible entities under subsection (a) of this section. The cost of activities conducted under paragraph (1)(A) shall not be considered to be administrative expenses. The startup cost and cost of administrative activities conducted under subsection (c) of this section shall be considered to be administrative expenses.

The Department received grant awards from the Department of Health and Human Services for the Community Services Block Grant (CSBG) federal program. During state fiscal year (FY) 2011, the Department had four active grants for the program, three of which were awards granted annually and active for a two federal fiscal year period (October 1 through the following September 30 is one federal fiscal year). This included grant number DEVFN905, which was issued for the time period October 1, 2008, through September 30, 2010, ending within state FY 2011; and grant number DEVFN940, issued for the time period October 1, 2009, through September 30, 2011. The Department subgranted the majority of the funds received for the program to eligible subrecipients. The remaining expenditures were used for administrative purposes (payroll costs, travel expenditures, and other similar uses).

The Department indicated they had one internal control in place to help ensure grant monies were not expended in excess of the program's five percent administrative cost limit. The Department maintained a Grant History report which tracked all individual draws and disbursements of the program by grant award. This document was used by the fiscal office to prepare a Grant Status Report which documented the grant ceiling, expenditures, refunds, outstanding obligations, and available balances of a grant. The Report also included administrative ceilings, expenses, and encumbrances to track the administrative costs of the subrecipients (since the administrative earmarking requirement is set at 5% for combined state and subrecipients administrative costs). For state level administrative costs, the Department totaled all non-subsidy payment costs. Both the state and subrecipient administrative costs were then totaled, and tracked on the Grant Status Report to help verify the 5% earmarking requirement was not exceeded. A supervisor was to review the report to monitor and track the earmarking requirements had not been exceeded. However, there was no evidence to indicate this supervisory review took place. In addition, the Department exceeded the administrative cost allowed limits for two of the four program awards, as shown below, indicating the controls were not functioning as intended.

4. EARMARKING – CSBG PROGRAM (Continued)

- Grant number DEVFN905 was awarded to the Department for the amount of $27,124,229. Based on this amount and the five percent ceiling on administrative expenditures of the grant, the Department could spend a maximum of approximately $1,356,211 in administrative costs over the life of the grant. However, supporting financial records showed the Department spent approximately $1,356,568 as of the end of the grant in administrative costs or approximately $357 more than what was allowed.

- Grant number DEVFN940 was also awarded to the Department in the amount of $27,124,229. The maximum amount of administrative expenditures allowable for the life of this grant would also be $1,356,211. However, supporting financial records showed that as of the end of state FY 2011, the Department spent approximately $1,646,264 in administrative costs or approximately $290,053 more than what was allowed. Thus, the Department had already spent more than the allowable maximum of administrative costs before the life of the grant had ended.

If internal controls do not function as designed, a risk exists the Department will not be in compliance with the five percent administrative cost limit. If specific compliance requirements are not met concerning administrative expenditures, the Department could be held to sanctions or other penalties and be forced to repay a part of the grant award amount. In addition, future funds to the Department could be reduced or eliminated by the federal government. Department management stated the administrative cost overages were most likely caused by management oversight, and will contact the awarding agency for guidance as how to handle this matter.

We recommend the Department evaluate its current control procedures and update them as necessary to reasonably ensure it complies with all CSBG earmarking requirements. These procedures should include a thorough supervisory review, which should be documented in some way. We also recommend management periodically monitor the process to help ensure that internal controls are in place and operating as intended and initiate necessary actions to resolve any noncompliance that results. Additionally, we recommend management ensure that applicable employees are aware of all earmarking requirements so that proper monitoring over meeting specific requirements can be accomplished.

Official's Response and Corrective Action Plan

The Ohio Department of Development (ODOD) had two active CSBG grants at June 30, 2011. Per the Department of Health and Human Services, the department may charge administrative costs to either grant so long as the final reports submitted by ODOD for fiscal years 2011 and 2012 do not exceed the 5% in total. However, ODOD has implemented changes to alleviate the deficiencies noted in the audit. This includes both the program office as well as the finance office maintaining a separate spreadsheet to track administrative costs. Periodic comparisons between the two will occur to ensure that the amounts reconcile.

Anticipated Completion Date for Corrective Action

Completed and implemented.

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF DEVELOPMENTAL DISABILITIES

1. MEDICAID – TIMELY REVIEWS

Finding Number	2011-DDD01-011
CFDA Number and Title	93.778 Medical Assistance Program
Federal Agency	Department of Health and Human Services
Compliance Requirement	Subrecipient Monitoring

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

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:

. . .

(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.

. . .

§___. 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.

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 2011, the Department received and disbursed approximately $236.5 million to the 88 counties for the Medical Assistance Program. Currently, the Department's External Audit Office obtains each county board's A-133 Single Audit report from the Auditor of State's website. An External Auditor within the office reviews the report for any audit findings specific to Medicaid and completes an audit review form. The external auditor enters the date the report was received, reviewed, the results of the review and if corrective action was required into a subrecipient monitoring spreadsheet. If there are audit findings identified, the Department is required to issue a management decision to the county and ensure the county takes proper corrective action. The external auditor also enters the date the corrective action was received into the subrecipient monitoring spreadsheet. The Audit Chief is to review the subrecipient monitoring spreadsheet as necessary to ensure the timeliness of management

1. MEDICAID – TIMELY REVIEWS (Continued)

decisions and corrective actions. However, for four of 20 (20%) county board audits selected for testing, the Department did not issue the management decision within six months of receipt of the audit report. The management decisions issued ranged from one to 69 days late. In addition, the Department received one of five (20%) corrective actions plans 77 days after the management decision was issued, but the Department's follow up with the county board wasn't timely.

Under these circumstances, the Department may not be reasonably assured they have met the requirements of OMB Circular A-133. In addition, if the Department does not review subrecipient A-133 audit reports in a timely fashion, there is a risk that instances of subrecipient noncompliance will not be identified and corrective action may not be initiated timely. The Department indicated that, due to changes in staffing and workload demands, there were delays in reviewing county board audits and following up on any necessary corrective action.

We recommend the Department continue to review A-133 audits, complete the subrecipient monitoring spreadsheet, and monitor the progress of their reviews to ensure that management decisions and the appropriate corrective actions are taken timely by the subrecipients. Additional procedures should be implemented to notify management of decisions or corrective action plans approaching their deadlines so appropriate and timely decisions and follow-up with the subrecipient can be made. In addition, we recommend management impress upon staff the importance of performing reviews and obtaining corrective action from the subrecipients in a timely manner.

Official's Response and Corrective Action Plan

DODD has created a spreadsheet to track when audit reports are received from the county. This spreadsheet then calculates when the management decision is due based upon the receipt date to ensure timely completion.

DODD has also revised its subrecipient monitoring spreadsheet to include a clear indication of whether an actual Corrective Action Plan is required from the county board or just a response regarding discrepancies noted in their Schedule of Expenditures of Federal Awards.

Anticipated Completion Date for Corrective Action

April 30, 2012

Contact Person Responsible for Corrective Action

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2. MEDICAID – MEDICAID BILLING SYSTEM CHANGES

Finding Number	2011-DDD02-012
CFDA Number and Title	93.778 - Medical Assistance Program
Federal Agency	Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed; Allowable Costs/Cost Principles

SIGNIFICANT DEFICIENCY

To maintain the integrity of essential data, a system of internal controls must exist to help ensure all changes to standing data are being made completely, accurately, and only by authorized personnel. These control procedures must include reviews of who is accessing the data. Additionally, it is imperative that procedures are in place to reconcile changes made within the system to the original change authorization. These controls will help ensure the continual integrity of standing Medicaid billing payment data.

The Department disbursed approximately $648.4 million to Medicaid providers during the fiscal year. When a licensed medical provider is deemed an eligible Medicaid provider by the Department, an authorization letter is sent to the provider to notify them they have been approved to provide services to eligible Medicaid recipients with developmental disabilities. The letter outlines the specific allowable Medicaid service areas for which the provider may bill the Department. Also, providers submit forms to the Department to update their business information, such as address, phone number, etc. An Account Examiner uses the authorization letters and forms to enter and/or update the providers' information and approved service area codes in the Medicaid Billing System (MBS). Providers utilize MBS to submit on-line payment requests for services provided, and MBS performs edit checks to ensure there are no invalid service area codes entered for the provider. MBS then interfaces with the State's Medicaid System at the Ohio Department of Job and Family Services, which performs edit checks to ensure only services to eligible recipients were being paid to the providers. However, during fiscal year 2011, the Department did not have a process in place to approve additions or changes to provider data before the information was entered into MBS by the Account Examiner. Furthermore, there was no requirement to periodically reconcile any additions or changes made to coding in MBS.

If changes made to provider information are not reviewed and approved prior to entry into MBS, the Department increases the risk that payments could be made for ineligible services and/or inaccurate rates. Without proper controls in place to reconcile changes made, the Department heightens the risk that errors could occur during the change process that, again, could result in incorrect payments. The Department indicated that, due to staffing issues, a formalized approval process was not established. The Department also indicated they have compensating controls in place to ensure that a provider is authorized to provide the services billed and, therefore, they feel the risk of incorrect payments made for ineligible services due to the lack of a formalized process is limited. However, the compensating controls mentioned above were brought to our attention late in the audit and we did not test these compensating controls. Therefore, we cannot place reliance on them.

We recommend the Department implement policies and procedures to reasonably ensure all coding changes have appropriate prior authorization by a supervisor before the changes occur within MBS. Additionally, we recommend the Department perform periodic reconciliations of changes to MBS coding. Management should monitor these control procedures to help ensure they are properly implemented and operating as designed.

2. MEDICAID – MEDICAID BILLING SYSTEM CHANGES (Continued)

Official's Response and Corrective Action Plan

DODD implemented the Provider Certification Wizard (PCW) on October 29, 2011, which now requires providers to enter changes/additions themselves. Additionally, there are controls in place between MBS and the Payment Authorization for Waiver Services (PAWS) system that would prevent claims from being processed and paid that were not authorized.

Anticipated Completion Date for Corrective Action

Completed. The Provider Certification Wizard became effective October 29, 2011.

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF EDUCATION

1. VARIOUS PROGRAMS – EARMARKING

Finding Number	2011-EDU01-013
CFDA Number and Title	84.010/84.389 – Title I Grants to Local Educational Agencies (LEAs) 84.027/84.173/84.391/84.392 – Special Education Cluster 84.287 – Twenty First Century Community Learning Centers (CCLC) 84.410 – Education Jobs Fund
Federal Agency	Department of Education
Compliance Requirement	Earmarking

QUESTIONED COSTS – TWENTY FIRST CCLC AND SPECIAL EDUCATION CLUSTER $730,267

NONCOMPLIANCE – TITLE I GRANTS TO LEAs

SIGNIFICANT DEFICIENCY – ALL PROGRAMS LISTED ABOVE

20 USC 7172 relates to the earmarking requirements of the Twenty First CCLC program and states, in part:

. . .

(b) State Allotments

(1) From the funds appropriated under section 7176 of this title for any fiscal year...the Secretary shall allot to each State for the fiscal year an amount...

(c) State Use of Funds

. . .

(2) State Administration - A State educational agency may not use more than 2 percent of the amount made available to the State under subsection (b) of this section for-

(A) the administrative costs of carrying out its responsibilities under this part;

. . .

(3) State Activities - A State educational agency may not use more than 3 percent of the amount made available under subsection (b) of this section for the following activities:

(A) Monitoring and evaluation of programs and activities assisted under this part.
(B) Providing capacity building, training, and technical assistance under this part.
(C) Comprehensive evaluation…of the effectiveness of programs and activities assisted under this part
(D) Providing training and technical assistance to eligible entities who are applicants for or recipients of awards under this part.

20 USC 1419(d) relates to the administrative and state-level activities earmarking requirements of the IDEA, Preschool Grants program (Special Education Cluster) and states, in part:

. . .

(1) In general - Each State may reserve not more than the amount described in paragraph (2) for administration…

1. VARIOUS PROGRAMS – EARMARKING (Continued)

(2) Amount described - For each fiscal year the Secretary shall determine and report to the State educational agency an amount…cumulatively adjusted by the Secretary for each succeeding fiscal year…

. . .

20 USC 6303 relates to the school improvement earmarking requirements of the Title I program and states, in part:

(a) State reservations - Each State shall reserve…4 percent of the amount received under such subpart…to carry out…the State's responsibilities…including, carrying out the State educational agency's statewide system of technical assistance and support for local educational agencies.

(b) Uses - Of the amount reserved under subsection (a) of this section for any fiscal year, the State educational agency-

(1) shall allocate not less than 95 percent of that amount directly to local educational agencies…

. . .

Additionally, guidance provided by the United States Department of Education (USDE) relating to consolidation of administrative funds allowed under the Elementary and Secondary Education Act (ESEA) states that "An . . . SEA must be able to show (1) the amount of administrative funds from each program for each grant year that the agency consolidated for administrative activities; (2) that the amount consolidated from each program does not exceed any statutory or regulatory cap on administrative funds."

It is management's responsibility to implement a system of internal controls to reasonably assure federal earmarking requirements are met and not exceeded for a program's grant award. To be effective, the performance of an internal control must be sufficiently documented to provide assurance the control is in place and operating as intended. In addition, management must periodically monitor these control procedures to help ensure they are operating effectively and as intended by management.

During state fiscal year 2011, the Department disbursed approximately $1.4 billion in federal funding for the Title I, Special Education Cluster, Education Jobs Fund, and Twenty First CCLC programs to eligible subrecipients. Each of these programs has federal earmarking requirements imposed upon the grant awards received from the USDE, typically relating to administrative costs. For the Title I and Twenty First CCLC programs, the Department opted to consolidate their administrative funds in accordance with the ESEA. In order to ensure administrative earmarking requirements are met for these programs, the Department takes each grant award amount received and multiplies by the administrative earmarking percentage requirement for the respective program. The Department then totals those amounts to come up with a total project amount for consolidated administrative costs that cannot be exceeded. The Department follows the First in First out (FIFO) method for grant expenditures. Therefore, although the total project amount cannot be exceeded for administrative costs, it is possible for multiple grant awards for a program to charge that project, potentially resulting in earmarks being exceeded for an individual grant. For the Special Education Cluster and Education Jobs Fund programs, the Department does not consolidate their administrative funds. For these programs, the Department sets up a project amount for each earmarking requirement for the respective program. The Department follows the same philosophy for other earmarking requirements not related to administrative costs, such as the school improvement earmarking requirement for the Title I program. These project amounts then cannot be exceeded for the programs. Since the Department uses FIFO, multiple grant awards for a program can charge the project. However, there are no controls in place at the Department to ensure earmarking requirements for each program's grant award are not exceeded.

1. VARIOUS PROGRAMS – EARMARKING (Continued)

Noncompliance with these earmarking requirements is as follows:

- The Department received $36,795,125 for the Twenty First CCLC program in a Federal Fiscal Year 2008 grant award from USDE. Pursuant to 20 USC 7172 (c)(2), only $735,902 of the award could be drawn down into the consolidated administrative fund to be used for administrative costs. However, $946,157 was drawn from the 2008 award into the consolidated administrative fund. Therefore, the Department exceeded their federal administrative earmarking cap for the 2008 grant award by $210,255, resulting in questioned costs.

- The Department received $40,540,890 for the Twenty First CCLC program in a Federal Fiscal Year 2009 grant award from USDE. Pursuant to 20 USC 7172 (c)(3), only $1,216,227 could be used for State-Level activities. However, $1,531,179 of the award was coded to State-Level activity expenditures for the program. Therefore, the Department exceeded the State-Level activities earmarking cap for the 2009 grant award by $314,952, resulting in questioned costs.

- The Department's Federal Fiscal Year 2008 grant award from USDE for the IDEA, Preschool Grants program specified a limit of $619,829 for administrative costs. However, $637,575 of the award was coded as administrative costs for the program. Therefore, the Department exceeded their administrative earmarking cap by $17,746, resulting in questioned costs.

- The Department's Federal Fiscal Year 2009 grant award from USDE for the IDEA, Preschool Grants program specified a limit of $642,485 for administrative costs. However, $829,799 of the award was coded as administrative costs for the program. Therefore, the Department exceeded their administrative earmarking cap by $187,314, resulting in questioned costs.

- The Department received $507,373,006 for the Title I program in a Federal Fiscal Year 2008 grant from USDE. Pursuant to 20 USC 6303(a), a minimum of $20,294,920 should be used for school improvement activities. The Department met this earmark by expending $23,304,618 of the grant award for school improvement activities. Pursuant to 20 USC 6303 (b)(1), the Department was required to pass through 95 percent of the expended amount ($22,139,387) directly to LEAs. However, the Department only passed through $21,881,004 of the grant award to LEAs and, therefore, did not meet the federal earmarking compliance requirement by $258,383. This does not result in questioned costs for the program as the Department under spent the minimum earmarking requirement.

If the Department does not have controls in place to ensure federal earmarking compliance requirements are met for each program's grant award, this puts the Department at risk for not complying with the requirements which could result in sanctions imposed by the federal grantor agency. Additionally, the Department could be required to repay those funds to the federal government and future funds could be eliminated or reduced. According to management, because they use the FIFO method, the Department does not need to track earmarking requirements by grant award. As long as the Department is allocating the grant award and controlling expenditures based on that fiscal year's grant earmarking requirements and ensuring the allocation is not exceeded, they are in compliance with federal earmarking compliance requirements. Since the Department uses the FIFO method for funding these allocations, the funds are drawn from the oldest available grant, not necessarily the grant the allocation was based on. Therefore, multiple grant awards may be used to fulfill an allocation.

We recommend the Department implement internal control procedures to ensure federal earmarking requirements are met and not exceeded for each program's grant award. The internal control procedures should be sufficiently documented to provide assurance the controls are in place and operating as intended. If the Department still wants to use the FIFO methodology, they should work with the federal grantor agency to determine how the methodology may be utilized while maintaining compliance with federal earmarking requirements. Management should periodically monitor the established internal control procedures to ensure they are operating effectively and as intended by management.

1. VARIOUS PROGRAMS – EARMARKING (Continued)

Official's Response and Corrective Action Plan

The Department respectfully disagrees with the Auditor of State's interpretation of the Federal earmarking requirements as it relates to expenditures and the draw of federal funds. The Department generally has used the First-In, First-Out (FIFO) method of drawing federal funds since around 1996, except for a limited period beginning around 2001. This method of drawing funds maximizes the educational benefits to the students of Ohio.

The Department has stringent budgetary controls on both federal grant awards and the related earmark allocations. These controls are used to ensure that expenditures attributed to these allocations are not exceeded. To meet obligations against allocations, utilizing the FIFO method, the Department draws the federal funds from the oldest eligible grant award (FIFO). Due to the varying rate of spending among a grant's earmarks, and because claims against grant year allocations vary (e.g., the Department may receive a school district's claim for funds from the 09 allocation before they have finalized claims against 08,) there is not a direct tie between the expenditure coded against an allocation and the federal grant year from which the funds were drawn.

The FIFO methodology has been reviewed by both state and federal auditors without question, including an extensive review in 2004 by the United States Department of Education (USDE). The Department is working with the USDE to reaffirm its use of this methodology.

Anticipated Completion Date for Corrective Action

The Department is working with the USDE to reaffirm its use of this methodology. The anticipated completed date is not known at this time.

Contact Person Responsible for Corrective Action

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Auditor of State's Conclusion

The documentation provided for audit indicates the stated earmarking requirements were not met. We attempted to get clarification regarding the Department's position on the FIFO method in relation to the earmarking requirements. However, the federal representatives consulted during the audit were not able to make a determination at that time and indicated they would continue to research the issue. As a result, the finding will remain as stated above.

2. CHILD NUTRITION CLUSTER & CHILD AND ADULT CARE FOOD PROGRAM – SUBRECIPIENT MONITORING

Finding Number	2011-EDU02-014
CFDA Number and Title	10.553/10.555/10.556/10.559 – Child Nutrition Cluster 10.558 – Child and Adult Care Food Program
Federal Agency	Department of Agriculture
Compliance Requirement	Subrecipient Monitoring

<u>NONCOMPLIANCE AND MATERIAL WEAKNESS</u>

OMB Circular A-133, Subpart D, §___400(d) states, in part, that a pass-through entity shall perform the following for the Federal subawards 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.
>
> . . .

7 CFR section 225.7 (d)(2)(ii)(D) relates to the timeliness of these subreceipient reviews for the Summer Food Service Program (SFSP) within the Child Nutrition Cluster and states, in part, that State agencies shall "review each sponsor at least once every three years".

7 CFR section 226.6(m)(6)(i) relates to the timeliness of these subrecipient reviews for the Child and Adult Care Food Program (CACFP) and states: "Independent centers and sponsoring organizations of 1 to 100 facilities must be reviewed at least once every three years. . .".

During state fiscal year 2011, the Department disbursed approximately $10.3 million to subrecipients of SFSP and $88.1 million to subrecipients of CACFP. The purpose of SFSP is to provide nutritious meals and snacks to low-income children while school is not in session. CACFP provides nutritious meals and snacks to low-income children and adults enrolled in institutions such as child care centers and adult day care centers. Sponsors and sponsoring organizations that participate in SFSP and CACFP submit requests for reimbursement of administrative expenses and meals served to eligible individuals online via the Claims Reimbursement and Reporting System (CRRS). Each year, the Department assigns sponsors and sponsoring organizations in need of a review to a consultant who is responsible for completing the review. The status of these reviews is tracked in a spreadsheet for SFSP and in CRRS for CACFP. However, not all of the reviews were performed timely during the audit period, as indicated below.

- For one of 14 (7%) SFSP sponsor reviews tested, the review was not conducted within the past three years. It took four years for the review to be completed.

- For two of 25 (8%) CACFP sponsoring organization (with one to 100 facilities) reviews tested, the review was not conducted within the past three years. It took four years for these reviews to be completed.

Without timely reviews, there is a greater risk that instances of noncompliance will not be identified by the Department and corrective action may not be initiated within a reasonable period of time. As a result, the Department risks reimbursing sponsoring organizations not in compliance with applicable laws and regulations of the program. This also puts the Department at risk for not complying with Federal

2. CHILD NUTRITION CLUSTER & CHILD AND ADULT CARE FOOD PROGRAM – SUBRECIPIENT MONITORING (Continued)

subrecipient monitoring requirements, which could result in sanctions imposed by the federal grantor agency. According to management, the date of the previous review of the SFSP sponsor could not be verified, and thus, caused the timing of the current review to be altered. According to management, a consultant was not assigned to the CACFP sponsoring organizations during the correct year.

We recommend the Department review and improve their current procedures over subrecipient reviews to ensure reviews are performed timely in accordance with federal regulations. We also recommend the Department utilize CRRS to track SFSP subrecipient reviews so that all reviews would be in a centralized location. This would help ensure previous review dates can be verified and that reviews are scheduled and completed within the prescribed timeframe for the program. We further recommend the Department implement procedures to help ensure sponsoring organizations are assigned to a consultant in the correct year that a review is required. Management should periodically monitor the established procedures to ensure they are operating effectively and as intended.

Official's Response and Corrective Action Plan

SFSP

For fiscal year 2012, the Ohio SFSP will be utilizing an online Review (monitoring) module within the Claims Reimbursement and Reporting System (CRRS). This module contains a tracking mechanism that will be utilized to enter all aspects of the monitoring visit from start to finish (i.e., scheduling, conducting, closing, findings, corrective action, fiscal over claims, appeals, etc.). Once a review is completed, the next review will be scheduled. To begin the tracking process, the CRRS developers will utilize the current Excel worksheet and dump the data into CRRS; thus, creating an online record of when all previous reviews were completed and scheduling of the next review. At any time, the consultants or leadership can insert dates into the tracking system and identify the sponsors that require a review. This system will provide the State agency with greater oversight of the SFSP monitoring requirement.

CACFP

Regions were reassigned in December 2011. All consultants have an assigned region, and are responsible for ensuring the sponsor reviews in that region are scheduled and completed by September 30th of each year.

In addition, the Office for Child Nutrition, Child and Adult Care Food Program hired a Management Analyst in December 2011 to assist with the tracking of CACFP management reviews. The individual will monitor the number of reviews that must be completed, and the sponsors who need to have a review scheduled within a program year. The individual will also track the review throughout the cycle in CRRS, assure all aspects of the review have been completed, and enter pertinent dates (i.e., corrective action due date, fiscal appeals, Serious deficiencies, termination appeals, etc.) into CRRS. This position will also manage the SFSP review tracking within CRRS. The Assistant Director will monitor the progress of the reviews.

2. CHILD NUTRITION CLUSTER & CHILD AND ADULT CARE FOOD PROGRAM – SUBRECIPIENT MONITORING (Continued)

Anticipated Completion Date for Corrective Action

SFSP

The actions will be implemented by 06/30/2012.

CACFP

The regions were reassigned on 12/15/2011. The Management Analyst began working with the Department on 12/19/2011.

Contact Person Responsible for Corrective Action

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3. CHILD NUTRITION CLUSTER & CHILD AND ADULT CARE FOOD PROGRAM – REPORTING

Finding Number	2011-EDU03-015
CFDA Number and Title	10.553/10.555/10.556/10.559 – Child Nutrition Cluster 10.558 – Child and Adult Care Food Program
Federal Agency	Department of Agriculture
Compliance Requirement	Reporting

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

The Federal Funding Accountability and Transparency Act (Transparency Act) requires prime recipients of non-ARRA federal awards who make first-tier subawards to report the subaward on the Federal Funding Accountability and Transparency Subaward Reporting System (FSRS) website maintained by the federal Office of Management and Budget. Pursuant to 2 CFR part 170 Appendix A, prime recipients of non-ARRA federal awards made on or after October 1, 2010, are required to report subawards of $25,000 or more to an entity. Prime recipients must report by the end of the month following the month the obligation is made. Additionally, 2 CFR part 25 requires entities to ensure applicants of non-ARRA subawards provide a valid Dun and Bradstreet Data Universal Numbering System (DUNS) number in its subaward application or, if not, prior to receiving the award.

The Child Nutrition Cluster (CNC) consists of the School Lunch, Breakfast, Special Milk, and Summer Food Service Programs which provide nutritious meals to low-income children enrolled in school. The Child and Adult Care Food Program (CACFP) provides nutritious meals and snacks to low-income children and adults enrolled in institutions such as child care centers and adult day care centers. The Department receives grants from the United States Department of Agriculture on a federal fiscal year (October 1 through September 30) basis to fund CNC and CACFP. The Department then reimburses sponsors of the CNC and CACFP for eligible meals served to participants and a portion of their administrative expenses. Sponsors submit monthly claims for reimbursement online through the Claims Reimbursement Reporting System.

Since the state fiscal year 2011 CNC and CACFP grants were awarded to the Department on October 1, 2010, and the Department used the grants to reimburse sponsors (i.e. “subawards”), the Department is required to collect and report information on these subawards in accordance with the Transparency Act.

3. CHILD NUTRITION CLUSTER & CHILD AND ADULT CARE FOOD PROGRAM – REPORTING (Continued)

During the fiscal year, the Department disbursed $314.3 million to sponsors of CNC and $55.7 million to sponsors of CACFP which is subject to the Transparency Act. However, the Department did not collect and report information on the FSRS website regarding applicable subawards made during the fiscal year. Additionally, the Department did not ensure applicants of the subawards had provided a valid DUNS number either in its application or prior to receiving reimbursement.

By not complying with federal reporting requirements, the Department risks federal funding being reduced, taken away, or other sanctions imposed by the federal grantor agency. Without sponsors providing a valid DUNS number to the Department to be included in the transparency report, the Federal government is not able to use the number to better identify organizations that are receiving federal funds and to provide consistent name and address data for other electronic grant application systems. According to management, the Transparency Act and DUNS number requirements are new and the Department was unaware of their obligation to collect and report subaward information during the fiscal year.

We recommend the Department collect and report on the FSRS website the required information regarding subawards made for all programs subject to the Transparency Act. The Department should work with the federal grantor agency to determine how reimbursements to sponsors for CNC and CACFP need to be reported to FSRS in accordance with the Transparency Act. Also, the Department should work with sponsors of the programs to ensure they are providing valid DUNS numbers to the Department either in their application or before they are reimbursed by the Department.

Official's Response and Corrective Action Plan

The State agency (SA) has taken numerous steps to correct this finding since learning of the deficiency in January 2012. The following information outlines the completed and remaining actions.

1. *Created an office DUNS number policy*
2. *Identified sponsors with and without a DUNS number*
3. *Contacted the Claims Reimbursement and Reporting System (CRRS) developer to assist with dissemination of reimbursement data to the federal government*
4. *Created a PowerPoint tutorial on how to get a DUNS number*
5. *Sent an e-blast to all child nutrition sponsors, containing the DUNS Number policy and the consequences of not submitting a DUNS number to the state agency by April 1, 2012. (No additional reimbursements would be processed until the SA receives the DUNS number.)*
6. *Placed an announcement on the CRRS website alerting all program sponsors (National School Lunch Program (NSLP), Child and Adult Care Food Program (CACFP), and Summer Food Service Program (SFSP)) concerning the need for a DUNS number, link to DUNS policy, tutorial and DUNS number form for submitting to the SA*
7. *Created a spreadsheet of sponsors submitting DUNS numbers*
8. *Manually updated the spreadsheet to include the 9 digit zip code*
9. *Included all DUNS number requirements as part of all new sponsor trainings for the NSLP, CACFP, SFSP; all new sponsors will have to get a DUNS number as part of the application process*
10. *Once all existing sponsors have submitted their DUNS number, the reimbursement received from the USDA will be included in the spreadsheet. Information for all sponsors receiving $25,000 or more will be submitted to the transparency website, for fiscal year 2011.*
11. *The DUNS numbers will be exported into CRRS.*
12. *The CRRS developers will assist in creating a monthly report for fiscal year 2012. Any sponsor, year-to-date, that meets the $25,000 threshold will be submitted to the federal website.*

3. CHILD NUTRITION CLUSTER & CHILD AND ADULT CARE FOOD PROGRAM – REPORTING (Continued)

Anticipated Completion Date for Corrective Action

The corrective action began immediately upon learning of the deficiency. The first dissemination of reimbursement information to the federal website for fiscal year 2011 should occur before 06/01/2012

Contact Person Responsible for Corrective Action

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4. SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Finding Number	2011-EDU04-016
CFDA Number and Title	84.394/84.397 – State Fiscal Stabilization Fund Cluster
Federal Agency	Department of Education
Compliance Requirement	Schedule of Expenditures of Federal Awards

MATERIAL WEAKNESS

It is management's responsibility to implement internal control procedures which provide reasonable assurance that the Department's portion of the Schedule of Expenditures of Federal Awards (the Schedule) submitted to the Office of Budget and Management (OBM) is complete and accurate. Sound internal controls require a review of the Schedule be performed and documented in some manner, prior to submission, to verify that the information reported by the Department is complete and accurate, and that all transactions and adjustments are appropriately reflected in the State's accounting system.

OBM provides each State agency that receives federal funds a reporting package containing a template of the Schedule, detailed instructions for completing the reporting package, and step-by-step instructions (with screen shots) for running queries in COGNOS to obtain expenditure activity. According to Education personnel, the Budget Analyst within the Department's Office of Grants Management prepares the Schedule and attachments based on OAKS data. Department management is to review the draft Schedule and attachments to reasonably ensure completeness and accuracy prior to submission to OBM. However, the original Schedule submitted to OBM reported $0 in expenditures for the State Fiscal Stabilization Fund (SFSF) Cluster when it should have reported $515,463,552. This omission resulted in the SFSF Cluster being understated on the State's federal schedule by the same amount, which represents 52.6% of $980,755,202 total federal expenditures which should have been reported for the cluster. This variance was brought to OBM's attention by the auditor and the State's Schedule was adjusted prior to submission to the federal government.

Without adequate management reviews and a consistent documented method for completing the Schedule, the Department cannot reasonably ensure the information reported to OBM for inclusion the on the State's Schedule is accurate and complete. If all expenditures are not accurately reported on the Schedule, the risk is increased that the State of Ohio's Schedule of Expenditures of Federal Awards may be materially misstated and those using the report could be relying on inaccurate information. This could result in a reduction in program funds and/or penalties from federal grantor agencies. According to

4. SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

management, the error noted was due to an oversight when running the COGNOS queries for preparation of the Schedule. When the queries were run, the SFSF Cluster was inadvertently left out because it is funded through their GRF account which is different than all of the other federal programs at the Department. During the review process, multiple people missed the zero reported expenditures for the SFSF Cluster.

We recommend management strengthen existing controls to agree the Schedule to OAKS and ensure all required elements have been accurately reported prior to submitting the information to OBM. This could include performing a comparison of the draft Schedule to the previous year's audited Schedule to identify and investigate any significant, unusual, or unexpected variances/fluctuations. This review should be documented in some manner and the documentation should be maintained.

Official's Response and Corrective Action Plan

The State Fiscal Stabilization Fund (SFSF) was placed in a General Revenue Fund (GRF) fund by OBM. This created a unique situation since the Department had not administered federal funds using GRF coding. When state reports were created for the completion of the federal schedule, this GRF fund was inadvertently left off the reports. This corrective action plan describes the agency's intent to identify inconsistencies for new and/or existing federal grants.

- *The Department will develop independent COGNOS reports to be compared to OBM's COGNOS reports. This will ensure the Department includes all federal grants regardless of state accounting codes. The two reports will specifically compare Column A of the OBM generated report with the Department's report. This data will include total disbursements by Grant id and Fund. The reviewer (Budget Analyst and/or designee) will run this new COGNOS report to compare the data to Column A on the Attachment A – Disbursements worksheet contained in the current year's federal schedule as provided by OBM. From this review any differences or omissions either way will be investigated. OBM will be contacted if any variances cannot be explained. Also, the reviewer will document the discrepancy at the bottom of the Attachment A worksheet.*

- *Once Attachment A is complete, using the completed SEFA worksheet the reviewer will complete and attach a variance grid – comparing information reported on the SEFA forms for both the current and the previous years. No draft will be submitted to management for review unless the variance grid identifies changes with a documented explanation. For example, if CFDA 84.186 – Safe and Drug Free Schools has $0 reported as disbursements on the fiscal year 2012 Federal Schedule, the reviewer will note the grant is no longer awarded to state educational agencies (SEAs) by the United States Department of Education. When all variances are appropriately documented, the variance grid will be attached to a copy of the current year's draft of the Federal Schedule (SEFA and Attachment A worksheets) for management's review.*

Anticipated Completion Date for Corrective Action

July 2012 – prior to beginning the fiscal year 2012 Federal Schedule

Contact Person Responsible for Corrective Action

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5. SPECIAL EDUCATION CLUSTER – MAINTENANCE OF EFFORT MONITORING

Finding Number	2011-EDU05-017
CFDA Number and Title	84.027/84.173/84.391/84.392 – Special Education Cluster
Federal Agency	Department of Education
Compliance Requirement	Maintenance of Effort

<u>MATERIAL WEAKNESS</u>

34 CFR Section 300.203 relates to the maintenance of effort requirements under Part B of the Individuals with Disabilities Education Act (IDEA) for funds provided by the U.S. Department of Education to Local Education Agencies (LEA) and states, in part, that:

> (a) ...funds provided to an LEA under Part B of the Act must not be used to reduce the level of expenditures for the education of children with disabilities made by the LEA from local funds below the level of those expenditures for the preceding fiscal year.
>
> (b) ...the SEA [State Education Agency] must determine that an LEA complies with paragraph (a) of this section for purposes of establishing the LEA's eligibility for an award for a fiscal year...
>
> ...

In state fiscal year 2011, the Department disbursed $610.3 million in funds authorized under IDEA to LEAs throughout the State of Ohio. The Department uses an excess cost report application to monitor LEAs to help ensure maintenance of effort requirements are being met for the entities. However, the Department implemented a new excess cost report application during the fiscal year which was not operating properly. Therefore, the Department was unable to ensure LEAs met the maintenance of effort requirement for the Special Education Cluster during the fiscal year. In addition, the Department did not monitor the LEAs using an alternative method, such as requiring the LEAs to self-report the information and then performing a comparison of the data to ensure fiscal effort requirements were met.

If excess cost report application is not functioning properly and there are no additional procedures in place to monitor maintenance of, the Department and the LEAs are at risk of noncompliance with federal requirements over the Special Education Cluster. Noncompliance could result in funding reductions and/or sanctions from the grantor agency. According to management, the Department is currently working to fix the excess cost report application. In addition, the Department has informed the U.S. Department of Education they are behind in monitoring the LEAs due to the issues with the excess cost report application.

We recommend the Department continue to work on getting the excess cost report application functioning properly so reports can be reviewed to ensure compliance with federal requirements. If the application cannot be restored promptly, the Department should have the LEAs self-report the data needed to perform a review to ensure the entity is in compliance with applicable requirements. If the entity is not in compliance, proper sanctions should be imposed.

5. SPECIAL EDUCATION CLUSTER – MAINTENANCE OF EFFORT MONITORING (Continued)

Official's Response and Corrective Action Plan

Changes implemented by the United States Department of Education in regards to the Excess Cost report caused a complete overhaul of OEC's Excess Cost Report. Due to the complexity of the report and associated computer application, the application was not completed timely and OEC fell behind in monitoring. The application has been fixed and is now operational. OEC is currently in the process of completing reviews for the fiscal year 2010 period. OEC will start the review of fiscal year 2011 shortly and be current by May of 2012.

Anticipated Completion Date for Corrective Action

The application for excess cost has been fixed. OEC will complete maintenance of effort reviews as outlined in the planned corrective action, and expects to be on track by 05/31/2012.

Contact Person Responsible for Corrective Action

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6. SPECIAL EDUCATION CLUSTER – SUBRECIPIENT MONITORING

Finding Number	2011-EDU06-018
CFDA Number and Title	84.027/84.173/84.391/84.392 – Special Education Cluster
Federal Agency	Department of Education
Compliance Requirement	Subrecipient Monitoring

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 subawards it makes:

. . .

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

. . .

31 USC Section 7502(f)(2) states, in part:

. . .

Each pass-through entity shall . . . (B) monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means.

. . .

6. SPECIAL EDUCATION CLUSTER – SUBRECIPIENT MONITORING (Continued)

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 program. In addition, management should periodically monitor these procedures to ensure they are operating effectively and as intended, as well as to ensure proper documentation is being maintained.

In state fiscal year 2011, the Department disbursed $610.3 million in federal funding for the Special Education Cluster to eligible subrecipients. The Department's Office for Exceptional Children (OEC) is responsible for monitoring subgrant activities to ensure that applicable federal requirements and performance goals are being met for the Special Education Cluster. To accomplish this, the OEC has set up a process to conduct onsite monitoring reviews of subrecipients to review accounting records, reports, and other relevant documentation to ensure the subrecipient complied with applicable regulations. Review report letters are then sent to the subrecipients and corrective action plans are required for those where noncompliance was noted. These corrective action plans are to be reviewed and approved by OEC to ensure the plans are effective and in compliance with applicable laws and regulations. During the fiscal year, the Department received 31 corrective action plans related to onsite monitoring reviews performed during state fiscal year 2010; however, the Department did not maintain consistent documentation to demonstrate these plans were reviewed and approved. Therefore, we could not determine if the Department approved these plans submitted by the subrecipients.

According to management, subrecipients may have been contacted by phone, e-mail, or letter, but no consistent method was used and not all approvals were maintained. Additionally, some employees had left the Department and management could not access their files to obtain any approval they may have had. Management also indicated the review work was combined among a few different offices during this time period and the CAP approval process was not formalized during the transition.

Without maintaining consistent supporting documentation for the approval of corrective action plans, management cannot be reasonably assured the corrective action plans were reviewed timely, were effective, and were in compliance with applicable laws and regulations. Additionally, corrective action plans could go unapproved or not be properly implemented by the subrecipient, which increases the risk that funds could be misspent and used for unallowable expenditures for the program.

We recommend the Department create and implement policies to require that approval of corrective action plans submitted by the subrecipients are documented consistently in some manner, such as an approval letter, and the documentation be maintained in accordance with their records retention schedule. The policy should include procedures to ensure supporting documentation is accessible in a central file or location so others can obtain it when necessary, especially when employees leave the Department or are on extended leave. This central file or location could be on a shared repository or drive so documentation can be maintained electronically with the possibility of data backups and retrieval. Management should periodically monitor and evaluate these controls to ensure they are operating effectively and as intended.

Official's Response and Corrective Action Plan

During state fiscal year 2011, OEC completed subrecipient monitoring for 50 LEAs. OEC implemented a policy and procedure for the corrective action plan review and approval process. This process is outlined in the "CAP Guidelines for Approval" document which was developed in December of 2011. The steps in the process, and the specific roles and responsibilities of OEC staff and management are outlined in the guidelines. The final step in the process includes informing subrecipients of whether the corrective action plans are approved or denied.

Also, a "Corrective Action Plan Review Form" was developed, and will document OEC review and approval of each plan. Each OEC staff person who reviews an action plan will complete a form, identify whether the corrective action plan was approved or required revisions, identify the respective approval dates, note comments, and sign the form.

6. SPECIAL EDUCATION CLUSTER – SUBRECIPIENT MONITORING (Continued)

Anticipated Completion Date for Corrective Action

The new approval process for subrecipient monitoring corrective action plans was implemented by OEC in December 2011 for the fiscal year 2012 subrecipient Corrective Action Plan process.

Contact Person Responsible for Corrective Action

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7. TWENTY FIRST CENTURY COMMUNITY LEARNING CENTERS – SUBRECIPIENT MONITORING

Finding Number	2011-EDU07-019
CFDA Number and Title	84.287 – Twenty First Century Community Learning Centers
Federal Agency	Department of Education
Compliance Requirement	Subrecipient Monitoring

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 subawards it makes:

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

31 USC 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."

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 program. In addition, management must periodically monitor these procedures to ensure they are operating effectively and as intended, as well as to ensure proper documentation is being maintained.

During state fiscal year 2011, the Department disbursed approximately $43.3 million in federal funding for the Twenty First Century Community Learning Centers program to eligible subrecipients. These subrecipients are primarily local school districts, but can also include community-based organizations, institutions of higher learning, and local governments. The Department provides funds to these subrecipients on a five-year cycle, and is responsible for monitoring their use of funds. As part of the monitoring process established by the Department, an on-site review is required twice during the grant cycle, typically during the second and fourth years. If issues are found during these reviews, the Department will notify the subrecipient that they must complete a Corrective Action Plan (CAP). These CAPs are to be reviewed and approved by the Department to ensure they are effective and in compliance with applicable laws and regulations. However, the consultants performing these reviews did not

7. TWENTY FIRST CENTURY COMMUNITY LEARNING CENTERS – SUBRECIPIENT MONITORING (Continued)

adequately document the receipt and approval of CAPs that were required by the subrecipients. The Department had six CAPs due during the fiscal year relating to reviews performed during state fiscal year 2010, but the CAPs were never recorded as received or approved. In addition, no evidence of the CAPs in question could be located.

According to management, employees who worked on the CAPs were in the process of developing a database to make all of the reviews paperless; however, the employees left the Department before the database was completed and fully functional. The CAPs could not be extracted from the database at the time of testing and no paper evidence could be located.

Without adequate supporting documentation on file, management cannot be reasonably assured that corrective action plans were submitted by the subrecipients for review and approval. Additionally, corrective action plans could go unapproved or not be properly implemented by the subrecipient, which increases the risk that funds could be misspent and used for unallowable expenditures for the program.

We recommend the Department create and implement policies to ensure corrective action plans submitted by subrecipients are maintained in accordance with their records retention schedule. The policy should include procedures to ensure supporting documentation is accessible in a central file or location so others can obtain it when necessary, especially when employees leave the Department or are on extended leave. This central file or location could be on a shared repository or drive so documentation can be maintained electronically with the possibility of data backups and retrieval. Management should periodically monitor and evaluate these controls to ensure they are operating effectively and as intended.

Official's Response and Corrective Action Plan

Effective immediately, the 21st CCLC program will adhere to the following process to ensure that required correspondence is sent in a timely manner and that supporting documentation is appropriately filed and accessible in a central file or location.

As written in the office procedure, all subrecipients found to be in noncompliance with the binder review and/or the site visit process will receive a monitoring results letter/CAPA letter within 60 days of receiving all required documents from the subrecipient.

The 21st CCLC program has created a 21st CCLC internal monitoring process to ensure performance and compliance of the subrecipient monitoring process (i.e., monitoring log, document/file management and records retention). The following outlines the internal monitoring process and periodic evaluation method.

A. <u>Internal Monitoring Log and Database Alignment</u>

21st CCLC staff will be required to keep an internal monitoring log that is comprised of the subrecipient monitoring (SRM) tracking sheet elements. The SRM tracking sheet will be housed on the 21st CCLC database and updated by the 21st CCLC data manager. The Associate Director will oversee the data manager and ensure alignment of the 21st CCLC monitoring log and 21st CCLC database. Each month, the Associate Director will conduct a 10% random review of monitoring logs with the 21st CCLC staff and ensure alignment with the 21st CCLC database and appropriate documentation/file management.

The random review will help ensure effective record management and timely monitoring of 21st CCLC subrecipients. In addition to the monthly monitoring, the 21st CCLC Data Manager will copy the respective 21st staff member and the Associate Director on all email correspondence to the subrecipient.

7. TWENTY FIRST CENTURY COMMUNITY LEARNING CENTERS – SUBRECIPIENT MONITORING (Continued)

B. Internal Monitoring and File Management

A second component to the internal monitoring is file management. The Associate Director will ensure that all 21st CCLC staff will be trained on the 21st CCLC filing policy and procedure. Each filing location will be maintained and accessible to all 21st CCLC staff. 21st CCLC documentation filed will serve as a backup to 21st CCLC electronic documentation that is located on the 21st CCLC database. Items such as subrecipient monitoring documents and grant award information will be contained in the grantee file. During the monthly 10% random review of the 21st CCLC monitoring log, the Associate Director will also review the associated files to ensure all documents are contained in the 21st CCLC grant file.

As the 21st CCLC database will also be used to store records, the 21st CCLC Data Manager will train all 21st CCLC staff on how to operate the database system. Each 21st CCLC staff member will be trained annually and each session will be documented as evidence of the training.

C. Internal Monitoring and Records Retention Schedule

Based on guidelines from the United States Department of Education (USDE), all documents associated with the 21st CCLC grant must be maintained for a minimum of 5 years following the end of the grant whereupon they are reviewed to determine their need for destruction. Once the grant has been successfully closed, the files are boxed and forwarded to Cintas, the Department's warehouse for record storage. Documentation is kept on file for tracking purposes and can be retrieved within a day's notice.

The Associate Director and 21st CCLC Grants Manager will ensure 21st CCLC files are maintained in accordance with USDE 21st CCLC guidelines. The 21st CCLC Grant Manager will maintain the 21st CCLC record retention schedule.

Anticipated Completion Date for Corrective Action

The anticipated completion date for corrective action is 04/01/2012. The policy has been written and submitted for approval by management. Upon approval, the policy will be effective immediately.

Contact Person Responsible for Corrective Action

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OHIO ENVIRONMENTAL PROTECTION AGENCY

1. CWSRF AND DWSRF – INVOICE REVIEWS

Finding Number	2011-EPA01-020
CFDA Number and Title	66.458 – Capitalization Grants for Clean Water State Revolving Funds 66.468 – Capitalization Grants for Drinking Water State Revolving Funds
Federal Agency	Environmental Protection Agency
Compliance Requirement	Activities Allowed or Unallowed; Allowable Costs/Cost Principles

SIGNIFICANT DEFICIENCY

Sound accounting practices require management to devise and implement an adequate internal control structure capable of providing them with reasonable assurance their objectives are being achieved. As the prime recipient of the Capitalization Grants for Clean Water State Revolving Funds and Drinking Water State Revolving Funds programs, the Ohio Environmental Protection Agency (the Department or EPA) must include internal controls that reasonably ensure amounts paid to the borrowers (usually local government agencies), through the Ohio Water Development Authority (OWDA), are processed accurately, completely, and in compliance with federal laws and regulations.

During state fiscal year 2011, the Department expended approximately $200.6 million from the Capitalization Grants for Clean Water State Revolving Funds program (CWSRF) and $39.4 million from the Capitalization Grants for Drinking Water State Revolving Funds program (DWSRF) for local government water construction projects. EPA is the State's prime recipient of CWSRF and DWSRF and shares responsibility for the management of these programs with OWDA, as stated in Ohio Rev. Code 6111.036. An Inter-Agency agreement between EPA and OWDA describes the responsibilities to be performed by each agency. Prior to beginning a project, the applicant submits a loan application and, if approved and selected, enters into a loan agreement with OWDA and EPA. Once the loan agreement is signed, EPA prepares a Disbursement Protocol agreement for the payment of the project's expenses. The Disbursement Protocol includes the borrower, project name and identification number, eligible costs, interest, and source(s) of funds for the disbursements. This protocol also includes the project contingency cost, which is an amount that can only be disbursed after written authorization from the Department. Current policies require the borrower to submit invoices and payment requests to OWDA for reimbursement. OWDA then reviews the payment requests and invoices for reasonableness and compliance with the contract, approves the payment requests and invoices, and submits copies of the payment requests, invoices and disbursement vouchers to EPA. The Department indicated that EPA coordinators then review the documentation and ensure the total funding for the project is not exceeded and then save electronic copies of the information. If the eligible disbursement amount of the contract is approached or exceeded by a payment request, OWDA notifies the Department and they discuss how to suspend or terminate further payment pending notice to the Borrower. However, there is no evidence EPA reviewed the documents to ensure the costs were for allowable activities. In addition, there is no additional monitoring performed by EPA over OWDA to ensure that OWDA is correctly performing the duties identified in the interagency agreement and that OWDA is accurately ensuring grant funds requested are for allowable activities.

Without monitoring of the invoices submitted for reimbursement by the borrower, EPA cannot be reasonably assured OWDA's review process insures payments made to borrowers were for allowable activities. In addition, if EPA does not perform monitoring reviews over OWDA, there is a risk that non-compliance will not be identified in a timely manner or identified at all. A misuse or abuse of federal funds could result in disallowed costs, repayment of federal funds, and fines and penalties.

1. CWSRF AND DWSRF – INVOICE REVIEWS (Continued)

EPA indicated that it is OWDA's responsibility to review invoices to ensure costs reimbursed are within the total eligible project amount and disburse funds to recipients. The eligible loan amount is determined by EPA when the loan is awarded. Therefore, EPA does not feel it is necessary to review invoices or otherwise monitor OWDA's activities.

We recommend EPA, as the sole designated USEPA grant award recipient, expand internal control procedures to include a review of the activities OWDA performs on its behalf as part of the inter-agency agreement. EPA monitoring procedures could include a review of selected invoices submitted by the borrower and approved and paid by OWDA; and/or on-site monitoring at OWDA to evaluate their compliance with the interagency agreement and Federal CWSRF and DWSRF program requirements. EPA should implement and adequately document monitoring controls to provide EPA management reasonable assurance of timeliness and consistency. In addition, we recommend EPA management perform periodic monitoring to ensure the control procedures performed by EPA staff over OWDA's disbursement approval process are operating effectively and as intended.

Official's Response and Corrective Action Plan

EPA presently uses several monitoring controls over the eligibility of the requests by recipients for disbursement of funds from the SRFs. In particular to this finding, as OWDA forwards to EPA copies of conforming invoices for disbursements from recipients, EPA reviews the conforming requests. By entering the conforming invoices for these requests into its project database system, EPA will verify its review. EPA managers will periodically inspect the documentation of the EPA review of the conforming disbursement requests.

The review by EPA of OWDA's determination of conforming disbursement requests constitutes EPA's review of OWDA's eligibility determination of disbursement requests.

Anticipated Completion Date for Corrective Action

EPA will begin entering the conforming disbursement requests into its project data base by February 1, 2012. Managers will periodically inspect those records subsequently.

Contact Person Responsible for Corrective Action

David Reiff, Manager, Assistance Administration Section, Division of Environmental and Financial Assistance, Ohio Environmental Protection Agency, PO Box 1049, Columbus, OH 43216-1049, Phone: (614) 644-2798, E-Mail: dave.reiff@epa.state.oh.us

1. CASH MANAGEMENT

Finding Number	2011-DOH01-021
CFDA Number and Title	10.557 – Special Supplemental Food Program for Women, Infants, and Children (WIC) 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
Compliance Requirement	Cash Management

NONCOMPLIANCE AND MATERIAL WEAKNESS

U.S. Treasury regulations, 31 CFR part 205, which implemented the Cash Management Improvement Act of 1990 (CMIA), require state recipients to enter into agreements which prescribe specific methods of drawing down federal funds (funding techniques) for selected large programs. The WIC program is covered by such an agreement. The state fiscal year 2011 CMIA Agreement between the State of Ohio and the United States Department of the Treasury, paragraph 6.3.2, specifically requires the WIC program to use the Pre-Issuance technique of drawing federal funds. Paragraph 6.2.1 states this funding technique requires "The State shall request funds such that they are deposited in a State account not more than three days prior to the day the State makes a disbursement. The request shall be made in accordance with the appropriate Federal agency cut-off time specified in Exhibit I. The amount of the request shall be the amount the State expects to disburse. This funding technique is not interest neutral." The HIV Care and MCH Block Grant programs are covered by 31 CFR 205.33 Subpart B, which states, in part:

> A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

During the fiscal year, the Ohio Department of Health (the Department or DOH) drew down $181,271,904, $17,394,825, and $21,034,630 in federal funds for the WIC, HIV, and MCH federal programs, respectively. The Department utilized information primarily from the Grants Management Information System 2.0 (GMIS) and the OAKS accounting system to determine the amount of cash to be drawn. This amount was based on a cumulative calculation of immediate cash needs. However, for 26 out of 74 draws selected for testing, the total amount of cash draw down was not disbursed within the guidelines for timely submission for each of the federal programs listed above. The total amount for these 26 draws was $37,129,443, broken out as follows:

Program	Number of Draws not Disbursed Timely	Amount of Draw
WIC	8	$25,535,906
HIV	5	$5,332,912
MCH	13	$6,260,625
Total	26	$37,129,443

1. CASH MANAGEMENT (Continued)

Additionally, the Department attempts to utilize the OAKS Business Intelligence (BI) system to perform a reconciliation of cash draws. However, the Federal Reconciliation report provided to us did not appear to be complete or show any evidence of review and approval.

Without proper documentation to evidence review and approval, management is unable to provide reasonable assurance the Department is in compliance with the applicable requirements documented above. Specifically, the untimely disbursement of funds and not limiting draws to the Department's immediate need resulted in noncompliance with the CMIA requirements. This condition could subject the Department to sanctions or other penalties and a repayment of part of the grant award amount. In addition, noncompliance could subject the Department to paying interest charges on these draws.

According to the Cash Management Supervisor, the cash draw downs are based on an accumulated calculation of standing data for each subrecipient. Therefore, a variety of factors could impact the timeliness between when funds are deposited and disbursed. Also, the Cash Management Supervisor could not explain why they were unable to obtain the complete Federal Reconciliation report from the system.

We recommend the Department ensure all implemented control procedures are adequately documented to provide assurance they are performed timely and consistently. We also recommend the Department continue to develop a system to reasonably ensure they are drawing federal funds only for immediate cash needs. Finally, the Department should continue to maintain documentation for the specific expenditures for which the money is being drawn and any other documentation deemed necessary to support all drawdown calculation amounts. However, this documentation could be maintained in electronic form to avoid the cost of printing and storing paper documents.

Official's Response and Corrective Action Plan

ODH Cash Management Unit has recently gone through a change in management (February 2012) so that processes can be thoroughly reviewed for efficiency and accuracy as it relates to timely disbursement. ODH Management is committed to ensuring compliance and accountability with the recent changes and continued improvements to the Cash Management process.

Management will conduct a thorough review for efficiency and risk. It recognizes four areas related to remediation of this finding: 1) the current process, 2) the systematic issues (some of which may be out of ODH's control), 3) management of exceptions and 4) the implementation of potential change if it is determined that the timelines for OAKS processes cannot be changed. If necessary, the ODH may need to entertain higher level discussions with OBM to help resolve systematic changes in process to ensure disbursement of payments in a timely manner.

ODH requested that the Auditors provide the specific voucher numbers reviewed so that a complete analysis can be performed by Management. Management will take steps immediately to review the identified federal draw packets and examine documentation to determine how quickly disbursements are being made from the date federal monies are received. ODH will continue to work with the AOS to implement adequate standards to remediate future findings.

Meetings will be scheduled with OMIS to go over report priorities and to begin documenting when anticipated reports can be developed or enhanced so that they become useful tools for reconciliation and Management review. Management will also review and determine temporary solutions that can be put in place until reports are available.

1. CASH MANAGEMENT (Continued)

Anticipated Completion Date for Corrective Action

This review will be completed by June 30, 2012

Contact Person Responsible for Corrective Action

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2. FEDERAL REPORTING – MCH

Finding Number	2011-DOH02-022
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
Compliance Requirement	Federal Reporting

MATERIAL WEAKNESS

42 USC Section 706 states, in part:

(a) Annual reporting requirements; form, etc.

(1) Each State shall prepare and submit to the Secretary annual reports on its activities under this subchapter. Each such report shall be prepared by, or in consultation with, the State maternal and child health agency. In order properly to evaluate and to compare the performance of different States assisted under this subchapter and to assure the proper expenditure of funds under this subchapter, such reports shall be in such standardized form and contain such information (including information described in paragraph (2)) as the Secretary determines (after consultation with the States) to be necessary (A) to secure an accurate description of those activities, (B) to secure a complete record of the purposes for which funds were spent, of the recipients of such funds, (C) to describe the extent to which the State has met the goals and objectives it set forth under section 705(a)(2)(B)(i) of this title and the national health objectives referred to in section 701(a) of this title, and (D) to determine the extent to which funds were expended consistent with the State's application transmitted under section 705(a) of this title. Copies of the report shall be provided, upon request, to any interested public agency, and each such agency may provide its views on these reports to the Congress.

During state fiscal year 2011, the Department submitted the federal fiscal year 2009 Annual Report for the MCH program with the federal fiscal year 2011 application. This report, the Maternal and Child Health Services Title V Block Grant Application for 2011 Annual Report, contained critical statistical information about the number of individuals served, the type of services provided, and the proportion of health coverage by race, and included various supporting forms and schedules. However, the Department could not provide any documentation to support the data contained in Form 7 and Form 8 of the report, detailing the number of individuals served under Title V, the classification of individuals and the percentage of Health coverage. Therefore, we were unable to determine if the information reported was accurate and complete.

2. FEDERAL REPORTING – MCH (Continued)

The inaccuracies in the annual report could affect current and future funding received by the Department. The information contained within the Annual Report is used by the federal grantor agency in determining the types and amounts of funding to provide for each state. The inaccuracies could result in the State losing necessary funding to support specific activity types.

Management indicated the information contained in the report is derived from several different sources. The Department did not maintain support from each of the different sources, they simply added to the current reported amount each time further information was provided. The individual responsible for collecting data to be reported was no longer an employee of the Department at the time the audit was being conducted which may have resulted in the lack of documentation available for review.

We recommend the Department evaluate current procedures and implement additional policies and procedures as necessary to provide reasonable assurance the data being reported for the MCH program is reasonable and agrees to supporting documentation. DOH should maintain all necessary support documentation in accordance with state and federal records retention policies in order to substantiate the numbers reported.

Official's Response and Corrective Action Plan

Beginning with the FFY 2012 MCH BG Application, a data collection form was implemented to collect the information to be reported in Form 7 and Form 8 that reflects the number of individuals served by any Title V program including the type of services provided, the total number of deliveries in the state, the number of infants entitled to benefits and the proportion of health coverage by race. The data collection forms will report this information by Bureau (under the Division of Family and Community Health Services) and will list the specific program the data originated from, the data source used for reporting purposes, and the contact person responsible for reporting the data. The data collection forms will be filed on-line and identified staff will have access to pull this information when necessary (e.g. for auditing purposes).

Anticipated Completion Date for Corrective Action

Process completed November 2011

Contact Person Responsible for Corrective Action

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3. INDIRECT COSTS – MCH

Finding Number	2011-DOH03-023
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
Compliance Requirement	Allowable Costs

SIGNIFICANT DEFICIENCY

Office of Management and Budget Circular A-133, § _.300 requires recipients of federal awards to maintain internal controls over federal programs that provide reasonable assurance they are 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. It is management's responsibility to design, implement, and monitor these controls to reasonably ensure compliance with the applicable requirements.

During state fiscal year 2011, the Department had approximately $2.9 million in indirect costs for the MCH program. The Department coordinates with OBM Shared Services in order to process indirect costs. The OBM Accounting Specialist prepares and sends the indirect cost allocation tables to DOH, which detail the total payroll costs for the period and the calculated indirect costs based on the predetermined rate established by the Federal Agency. The DOH Fiscal Specialist within the Financial Reporting and Control Unit reconciles the indirect cost allocation tables to the internal OAKS BI downloads and indirect cost calculations. The Fiscal Specialist notifies the Grants Services Unit Chief all figures agree as evidenced via email notification. However, seven of 11 (63.6%) items tested did not include emails from the Fiscal Specialist to evidence documentation of the control.

If appropriate internal controls are not in place, consistently applied, and properly supported by documentation, management cannot reasonably be assured that indirect cost amounts are being properly calculated.

We recommend the Department devise and implement appropriate internal controls, as required, and utilize these controls on a consistent basis to help ensure the proper amount of indirect costs are being reported. As with most control 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 reconciliation and review/approval.

Official's Response and Corrective Action Plan

ODH will ensure that all e-mails regarding the indirect allocation are moved to a special folder in Outlook. This process will begin with the indirect allocation for budget date March 1, 2012. The fiscal specialist will forward an e-mail to the Reporting Manager indicating that the indirect table calculations are correct (Tick mark the grant file with initials and date). The Reporting Manager will complete a random sample utilizing the OBM indirect table and the fiscal specialist OAKS BI data to check for accuracy (Tick mark the grant file with initials and date). The Reporting Manager will send an e-mail to the GSU Chief that the calculations are correct (a copy of the e-mail will be placed in the grant file).

3. INDIRECT COSTS – MCH (Continued)

Anticipated Completion Date for Corrective Action

The indirect allocation process will be completed with the April 1, 2012 indirect posting.

Contact Person Responsible for Corrective Action

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4. MONITORING CONTROLS – EARMARKING

Finding Number	2011-DOH04-024
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
Compliance Requirement	Matching, Level of Effort, and Earmarking

SIGNIFICANT DEFICIENCY

Office of Management and Budget Circular A-133, § _.300 requires recipients of federal awards to maintain internal controls over federal programs that provide reasonable assurance they are 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. It is management's responsibility to design, implement, and monitor these controls to reasonably ensure compliance with the applicable requirements.

Additionally, 42 USC 705 (a)(3)(A) states:

> Unless a lesser percentage is established in the State's notice of award for a given fiscal year, the state must use at least 30% of payment amounts for preventive and primary care services for children

42 USC 705 (a)(3)(B) states:

> Unless a lesser percentage is established in the State's notice of award for a given fiscal year, the state must use at least 30% of payment amounts for children with special health care needs

42 USC 704(d)) states:

> A State may not use more than 10 percent of allotted funds for administrative expenses

The Department identifies funds to meet earmarking requirements as part of the grant application process for the MCH program. During state fiscal year 2011, the Department began utilizing the OAKS Business Intelligence system to prepare a Quarterly Earmarking Report. The Quarterly Earmarking Report identifies the various earmarking categories, as well as the budgeted amount identified during the grant application process. However, since the Department did not have this monitoring procedure fully in place for MCH grant DOH17H9F1 (which had an grant period of October 1, 2008 - September 30, 2010), the Department was unable to provide adequate documentation evidencing compliance with the applicable requirements for earmarking for this specific grant.

4. MONITORING CONTROLS – EARMARKING (Continued)

If appropriate internal controls in place and operating effectively and consistently, management cannot reasonably be assured that earmarking requirements are being met. Additionally, without consistent documentation of earmarking requirements, the risk is increased that disbursements for MCH may be processed inaccurately and/or for reporting activities.

Based on discussions with MCH staff, it appears as if the Department tried to implement adequate Earmarking monitoring controls for the MCH grant, but the implementation of these controls was still a work in progress during state fiscal year 2011.

We recommend management ensure implemented control procedures are applied to obtain reasonable assurance the Department is in compliance with the earmarking requirements. The controls identified should be adequately documented to provide management assurance they are performed timely and consistently. Additionally, all documentation evidencing the completion of the controls should be maintained.

Official's Response and Corrective Action Plan

The Department has established a method to track the percentage of disbursements related to the MCH-BG earmarks (July 1, 2010). On a quarterly basis, the Department will continue to review earmark disbursements to ensure the level of compliance. The Budget Unit will continue to compile MCH Block Grant Quarterly Reports. The Budget Unit will email the quarterly report to the designated Program representative and receive confirmation from the Program of receipt and validation of the report. The Budget Unit will save both the quarterly reports and Program confirmation for future requested access for documentation.

Anticipated Completion Date for Corrective Action

Completed July 1, 2010, no further action is required.

Contact Person Responsible for Corrective Action

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1. VARIOUS PROGRAMS – PERIOD OF AVAILABILITY

Finding Number	2011-JFS01-025
CFDA Number and Title	10.551/10.561 – SNAP Cluster 17.225 – Unemployment Insurance 93.575/93.596/93.713 – CCDF Cluster
Federal Agency	Department of Agriculture Department of Labor Department of Health and Human Services
Compliance Requirement	Period of Availability

<u>QUESTIONED COSTS</u> $6,747,653

The uniform administrative requirements for grants to state and local governments are contained in 45 CFR 92 for Department of Health and Human Services (HHS) programs, 7 CFR 3016 for Department of Agriculture programs (USDA), and 29 CFR 97 for Department of Labor (DOL) programs. 45 CFR 92.3, 7 CFR 3016.3, and 29 CFR 97.3 define certain term, including:

> *Obligations* means the amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the grantee during the same or a future period.
>
> *Acquisition cost* of an item of purchased equipment means the net invoice unit price of the property including the cost of modifications, attachments, accessories, or auxiliary apparatus necessary to make the property usable for the purpose for which it was acquired. Other charges such as the cost of installation, transportation, taxes, duty or protective in-transit insurance, shall be included or excluded from the unit acquisition cost in accordance with the grantee's regular accounting practices.

45 CFR 92.23, 7 CFR 3016.23 and 29 CFR 97.23 relate to the period of availability (POA) of funds for the related federal agency programs, and state:

> (a) *General.* Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent 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 (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF–269). The Federal agency may extend this deadline at the request of the grantee.

45 CFR 98.60 relates to the availability of funds for CCDF and states, in part:

> (d) The following obligation and liquidation provisions apply to States and Territories:
>
> (1) Discretionary Fund allotments shall be obligated in the fiscal year in which funds are awarded or in the succeeding fiscal year. Unliquidated obligations as of the end of the succeeding fiscal year shall be liquidated within one year.
>
> (2) (i) Mandatory Funds for States re-questing Matching Funds per §98.53 shall be obligated in the fiscal year in which the funds are granted and are available until expended.
> (ii) Mandatory Funds for States that do not request Matching Funds are available until expended.

1. VARIOUS PROGRAMS – PERIOD OF AVAILABILITY (Continued)

(3) Both the Federal and non-Federal share of the Matching Fund shall be obligated in the fiscal year in which the funds are granted and liquidated no later than the end of the succeeding fiscal year.

In addition, the Unemployment Insurance (UI) Program Annual Funding Agreement for Fiscal Year 2010 Funds, part 4, provides additional guidance related to period of availability. Regarding administrative costs, the agreement states:

UI Administration – These funds are available for obligation by the Grantee (State) beginning October 1, 2009 through December 21, 2010, unless an extension is otherwise approved. Funds are to be expended and liquidated by March 31, 2011, except that such fund for automation acquisitions shall be available for obligation by the Grantee (State) through September 30, 2012 (See Clause 12, Paragraph E).

The Department received federal funds from the USDA to administer the Supplemental Nutrition Assistance Program Cluster (SNAP) federal program, funds from the DOL to administer the Unemployment Insurance (UI) federal program, and funds from the HHS to administer the Child Care and Development Fund Cluster (CCDF) federal program. Typically, these federal programs award funds on a federal fiscal year (FFY), which begins October 1 and ends on the following September 30. The POA requirement comprises three components: the timeframe to obligate, the timeframe to liquidate (make payment on) the funds, and the timeframe to claim the funds.

Department personnel identified the obligation and liquidation dates for each grant utilized in state fiscal year 2011. Using this information, the POA requirements specific to the federal programs tested, discussion with a representative from HHS, review of the grant award documents, and an audit computer program, we analyzed all of the expenditure transactions listed in OAKS (Ohio Administrative Knowledge System) made by the Department during state fiscal year 2011. This analysis, a review of various documents, and discussions with Department personnel identified several disbursements, totaling $6,747,653 in state and federal funds, which were obligated and/or liquidated (paid) outside of the POA period, as detailed below, resulting in questioned costs. These transactions related primarily to payroll travel, and other administrative costs (purchased personal services, rent, etc.).

Program	Grant #	Cost Type	Obligated Late	Liquidated Late	Total
CCDF	JFSFCM10	Admin	366,747	-	$ 366,747
SNAP	JFSFFB09	Travel	-	62	$ 62
SNAP	JFSFFB10	Travel	163	1,265	$ 1,428
SNAP	JFSFFB08	Payroll	-	69	$ 69
SNAP	JFSFFB10	Admin	-	98,300	$ 98,300 *
Total SNAP			163	99,696	$ 99,859
UI	JFSFUI10	Travel	92	572	$ 664
UI	JFSFUI10	Payroll	7,068	-	$ 7,068
UI	JFSFUE10	Payroll	274,136	-	$ 274,136
UI	JFSFUE10	Admin	205,308	59,790	$ 265,098
UI	JFSFUI09	Admin	-	527,471	$ 527,471
UI	JFSFUI10	Admin	1,367,121	3,839,489	$ 5,206,610
Total UI			1,853,725	4,427,322	$ 6,281,047
Total			$ 2,220,635	$ 4,527,018	$ 6,747,653

* - the Department indicated these were state matching funds

1. VARIOUS PROGRAMS – PERIOD OF AVAILABILITY (Continued)

The Department provided no documentation to indicate they received any approvals from the federal grantor agencies to extend the POA times. Of the programs questioned, only the SNAP program included specific provisions for carryover. 7 CFR 235.5 indicates 20 percent of certain portions of the SNAP award, calculated using a prescribed formula, can remain available for obligation and expenditure in the second fiscal year. However, there was no indication from Department personnel, in the reports from the Department to the federal government, in the coding of the transactions, or in any other documentation provided for audit that such a carryover had been calculated and implemented for this grant period. Therefore, we were not able to determine that such a carryover was applicable and was properly calculated in accordance with the formula set forth in the CFR, or which expenditure transactions, if any, were applied to the carryover.

The Department indicated they believed most of these funds were obligated by the creation of the encumbrance and related purchase order in the State's accounting system. However, these items were related to term contracts/schedules and were payable on a fee-for-service basis. Therefore, the obligation did not occur until the services were rendered. In addition, it appears some of these issues may be caused by the fact the Department's current chart of accounts does not properly identify the correct obligation and liquidation dates for all grants.

We recommend the Department evaluate their current policies and procedures and chart of accounts related to processing expenditure transactions and update as necessary to reasonably assure compliance with the POA requirements. This should include a review of the grant coding prior to finalizing the information in the system to help ensure that items are coded to the proper award. We also recommend the Department review grant balances prior to the expiration of the available period to determine if any unpaid obligations exist and request documentation for all obligations made near the end of the period of availability so that management is capable of effectively determining when the obligation was made. The Department should more closely monitor cash requests and subsequent expenditures to help ensure that funds are spent within the grant's period of availability (obligation and liquidation). In the event the POA requirements cannot be met for a particular transaction or set of transactions, the Department should seek to obtain an extension of the POA timeframe or a waiver from complying with the stated requirements from the federal government.

Official's Response and Corrective Action Plan

Ohio Department of Job and Family Services (ODJFS) is committed to meeting federal compliance requirements for its grants. The Office of Fiscal and Monitoring Services (OFMS) will also consider the auditor's guidance related to obligations for term contracts and other issues noted within the finding. In light of this finding, OFMS staff will review the processes and related internal controls over grant accounting. Once a review of the grant accounting process relative to this finding is completed, OFMS will implement any necessary internal controls to prevent and detect any further occurrences.

Anticipated Completion Date for Corrective Action

OFMS will implement any necessary internal controls to prevent and detect any further occurrences by December 30, 2012.

Contact Person Responsible for Corrective Action

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2. IT - MMIS – CLAIMS REIMBURSED IN EXCESS OF OAC LIMITS

Finding Number	2011-JFS02-026
CFDA Number and Title	93.767 – Children's Health Insurance Program 93.720/93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs

<u>QUESTIONED COSTS</u> $551,405

42 USC 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) indicates 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 variety 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.

Ohio Administrative Code (OAC) 5101:3-10-03, which is part of the Ohio state plan, states:

> 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 that may be reimbursed during the time period specified unless an additional quantity has been prior authorized. This quantity has been established as a guideline without a prior authorization and not to reflect a definitive amount. In all cases, the dispensing of medical supplies and equipment is based on medical necessity which can be documented in the consumer's medical record and prescribed by an eligible prescriber. 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. The Medicaid Management Information System (MMIS, replaced in August 2011 by MITS - Medicaid Information Technology System) was used to calculate the reimbursement to medical providers and managed care entities for services

2. IT - MMIS – CLAIMS REIMBURSED IN EXCESS OF OAC LIMITS (Continued)

rendered to eligible recipients based on these limits. The vast majority of the programmed edits in the MMIS system will automatically deny claims, or reduce the units allowed when a provider submits units that exceed the maximum unit limits defined in appendix A.

MMIS edits to prevent Medicaid and Children's Health Insurance Program (CHIP) provider payments above the unit or price limits set in the OAC were either not designed or not functioning properly for 73 Medicaid procedure codes. As a result, Medicaid and CHIP providers were reimbursed in excess of the limits contained in the OAC in 6,066 instances. However, we were not able to separately determine the amounts that related to each program; therefore, the excess reimbursements for the 73 procedure codes totaling $551,405 were questioned for the Medicaid Cluster.

The following table shows the procedure codes/descriptions related to the 10 highest dollar amounts of excess provider reimbursement:

	Procedure Code / Medical Supply	OAC Limit for Unit or Dollar Amount	FY11 Range of Reimbursement Over OAC Limit	Total Questioned Cost	Total Count
1.	E0781: Ambulatory Infusion Pump	$8.73 per day	$15.90-$270.63 per day	$152,826	1,380
2.	B4224: Parenteral Nutrition Administration Kit	1 per day	2 - 31 per day	$151,447	1,397
3.	A4305: Drug Delivery System	1 per day	2 - 31 per day	$136,846	1,545
4.	E0791: Parenteral Infusion Pump	$8.73 per day	$17.46-$261.90 per day	$27,412	232
5.	B4220: Parenteral Nutrition Supply Kit	1 per day	2 - 31 per day	$19,580	726
6.	E0604: Breast Pump	$2.25 per day	$11.25-$202.50 per day	$9,626	149
7.	E0935: Passive Motion Exercise Device	$18.18 per day	$36.36-$545.40 per day	$7,835	29
8.	E0730: TENS Unit	$322.39 per 4 years	$328.94-$517.39 per 4 years	$5,505	53
9.	A7030: Full Face Mask Interface, CPAP	1 per year	2 - 4 per year	$2,891	26
10.	E0140: Walker with Trunk Support	1 per 5 years	2 per 5 years	$2,400	12

Certain procedure codes have a one-unit-per-day or specified dollar amount per-day OAC limit. However, many of these claims were submitted on a weekly or monthly basis instead of daily, and the units submitted for the billing period were all listed under one date of service (such as seven units for one week, 30 units for one month). This process was contrary to the policy and could not provide assurance only one item was billed for each allowable day. There were 5,467 instances (representing 5,298 actual claims) in excess of the unit or dollar amount per-day limit, totaling $506,207, included in the questioned cost amount. We attempted to get clarification regarding the practice from the federal agency, but no formal determination was provided. 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.

2. IT - MMIS – CLAIMS REIMBURSED IN EXCESS OF OAC LIMITS (Continued)

The Department's Office of Ohio Health Plan (OHP) management indicated the MMIS edits designed to limit quantity and usage of DME procedure codes did not effectively prohibit the over-payment of the aforementioned codes. Over the last five years, OHP has continued to create, test, and implement additional edits in production based on audit findings. However, edits have not been implemented for all scenarios and the functionality of edits in production continues to be reviewed; therefore, excess reimbursements still occurred.

In addition, OHP management indicated that some Medicaid claims may be submitted for multiple units but without corresponding dates of service. For example, one claim containing seven units of a procedure code with a one-per-day OAC limit may only have one date of service listed on the claim for all seven units. In these cases, OHP management indicated it is reasonable to assume each of the seven units is used once per day. OHP management stated the quantity allowed will be based on the reasonableness of the units submitted for the time period, and on medical necessity as determined by the department. However, without individual claim dates of service for each of the maximum-limit units submitted, we could not verify all units were used according to the OAC limits.

We recommend ODJFS complete the update of their utilization and review edits within the new MITS system to help prohibit further overpayment of Medicaid and/or CHIP 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 MITS to ensure they are in compliance with state and federal standards and operating, as designed. Finally, for procedure codes with a one-unit per-day or specified dollar amount per-day limit, we recommend ODJFS propose a clarification in the OAC to stipulate acceptable billing methods, or modify the maximum units language in the appendix to allow a one-week/one-month supply for items where daily billing is not practical or deemed necessary.

Official's Response and Corrective Action Plan

*The Department disagrees with the questioned cost amount of $551,405. After careful analysis, we agree to a questioned cost of **$37,744**. A summary of our analysis follows:*

Note: The Department provided an extensive summary of their analysis and a detailed chart related to the various procedures analyzed. However, due to its size, this information has not been included here, but is included in the working papers and can be obtained from the contact listed below.

Summary

Our analysis of the AOS questioned costs based on OAC rules and program policy reduced the questioned costs to $37,744. 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 2011 data that the AOS reviewed. SURS did not separate the 2011 data, and it would take extensive man-hours to go back and isolate just the 2011 recoveries.

On August 2, 2011 ODJFS implemented a new claims payment system. The Medicaid Information Technology System (MITS) has enhanced capability and flexibility to adjudicate claims per program rule coverage and limitations. Prepayment limit parameters/utilization review criteria and system audits have been carried forward and enhanced from the previous claims payment system, such enhancement is an on-going work in progress. ODJFS will continue to review, test and update as necessary these prepayment system controls.

2. IT - MMIS – CLAIMS REIMBURSED IN EXCESS OF OAC LIMITS (Continued)

ODJFS has enacted rule language in OAC rule 5101:3-10-03 to more clearly address the AOS concern regarding the "Program limit 1 a day."

ODJFS will investigate the new MITS system functionality to implement either prepayment claim system functionality to better align claims adjudication of the rental of wheelchairs with the Department's current rule language in OAC 5101:3-16 or will propose rule language to align OAC rule 5101:3-10-16 to general DME rent to purchase policy.

Additionally, ODJFS will investigate the new MITS system functionality to implement either prepayment claim system functionality to better align claims adjudication of the rental or purchase of transcutaneous electrical nerve stimulators (TENS) with the Department's current rule language in OAC 5101:3-15 or will propose rule language to align OAC rule 5101:3-10-15 to general DME rent to purchase policy.

This is a repeat audit finding; ODJFS disagreed with the 2010 questioned cost amount of $846,749. After careful analysis, ODJFS agreed to a questioned cost of $151,597, a summary of ODJFS' analysis was inclusive of the 2010 corrective action. OHP did revise DME OAC; the effective date was 3/30/11. The 2010 audit findings were reviewed by the Department of Health and Human Services-Centers for Medicare and Medicaid Services (HHS-CMS), which is one of our federal cognizant agencies; HHS-CMS did not agree with how they (AOS) questioned the costs, CMS agreed to the questioned cost analysis as calculated by ODJFS of $151,597.

Anticipated Completion Date for Corrective Action

Implement either prepayment claim system functionality to better align claims adjudication of the rental of wheelchairs with the Department's current rule language in OAC 5101:3-16 or propose rule language to OAC rule 5101:3-10-16 - December 31, 2012.

Implement either prepayment claim system functionality to better align claims adjudication of the rental or purchase of transcutaneous electrical nerve stimulators (TENS) with the Department's current rule language in OAC 5101:3-15 or propose rule language to OAC rule 5101:3-10-15 - December 31, 2012.

Contact Person Responsible for Corrective Action

Don Sabol, OHP, Medicaid Health System Administrator, Ohio Department of Job & Family Services, 50 W. Town Street, Suite 400, Columbus Ohio 43215, Phone: (614)-752-4589, E-Mail: don.sabol@jfs.ohio.gov

Auditor of State's Conclusion

The Department did not provide the analysis referenced above as part of our testing or subsequent follow-up, nor did they provide any supporting documentation which was not included in the electronic system used to make determinations about the allowability of the claims. Therefore, we cannot draw any conclusions about the accuracy or reliability of the additional analysis performed by the Department. As part of our audit, we did attempt to obtain written confirmation from the HHS-CMS representative regarding their position on this issue. However, the HHS-CMS representative did not provide the requested information for us to consider in our testing.

In addition, OMB Circular A-133 §.___ 510(a)(3) requires us to report known or projected questioned costs exceeding $10,000. Therefore, we must report this finding, regardless of whether the questioned amount is $37,744 or $551,405.

3. MISSING ELIGIBILITY DOCUMENTATION – VARIOUS COUNTIES

Finding Number	2011-JFS03-027
CFDA Number and Title	93.558/93.714 – TANF Cluster 93.575/93.596 – Child Care Cluster 93.659 – Adoption Assistance 93.767 – Children's Health Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Allowable Costs and Cost Principles

<u>QUESTIONED COSTS AND MATERIAL WEAKNESS</u> $216,517

45 CFR 206.10(a)(5)(i) states, in part:

> Financial assistance and medical care and services included in the plan shall be furnished promptly to eligible individuals without any delay attributable to the agency's administrative process, and shall be continued regularly to all eligible individuals until they are found ineligible.....

45 CFR 206.10(a)(8)

> Each decision regarding eligibility or ineligibility will be supported by facts in the applicant's or recipient's case record....

42 USC Section 673 (a) (3) states, in part:

> …
>
> In no case may the amount of the adoption assistance payment…exceed the foster care maintenance payment which would have been paid during the period if the child with respect to whom the adoption assistance payment is made had been in a foster family home.

When administering federal grant awards for the Ohio Department of Job and Family Services (ODJFS), each County Department of Job and Family Services' management is responsible in providing reasonable assurance only eligible individuals receive assistance and information reported to ODJFS is accurate and complete. In order for county management to ensure and verify this, it is imperative that appropriate supporting documentation be maintained for all amounts reported and case files contain all pertinent information relating to the case and be readily accessible for review and/or reference. ODJFS management is responsible for monitoring county activities to help ensure they are in compliance with federal and State requirements.

During state fiscal year 2011, ODJFS provided approximately $13.1 billion in Medicaid, $354 million in CHIP, $467 million in TANF Ohio Works First (OWF), $98.6 million in Adoption Assistance, and $188 million in Child Care benefits to recipients based on information provided by the 88 CDJFS. However, testing of eligibility and compliance with federal rules and regulations could not be performed for certain recipients from four of five counties selected for testing because the case documentation was not available for review. The following missing documentation (required by ODJFS to support eligibility determinations) and/or control weaknesses were noted during our review, as detailed below:

3. MISSING ELIGIBILITY DOCUMENTATION – VARIOUS COUNTIES (Continued)

Medicaid and TANF OWF:

- Five of 120 (4.2% Medicaid and TANF OWF case files tested (two at Cuyahoga; two at Franklin; and one at Lucas) did not contain a checklist, CRIS-E screen prints and/or caseworker's notes in the CRIS-E 'CLRC' comment screen to evidence the caseworker's verification of the recipient's income.

- Five of 120 (4.2%) Medicaid and TANF OWF case files tested (five at Cuyahoga) did not contain CRIS-E screen prints or caseworker's notes in the CRIS-E 'CLRC' comment screen to evidence the caseworker's verification of the recipient's income and no complete, signed application was provided.

- One of 120 (0.8%) Medicaid and TANF OWF case files tested at Cuyahoga County did not contain a complete, signed application.

CHIP

- Three of 100 (3%) CHIP case files tested (two at Cuyahoga and one at Franklin) did not contain a complete and/or applicant signed application and, therefore, we were not able to verify that an accurate eligibility determination was made.

- Four of 100 (4%) CHIP case files tested (two at Cuyahoga and two at Franklin) did not contain a complete and/or applicant signed application, JFS 7220 Healthy Start Checklist, or a JFS 7105 Application/Reapplication Verification Checklist. Therefore, we could not verify that all necessary documentation was received to make an eligibility determination.

- One of 100 (1%) CHIP case files tested at Cuyahoga County did not contain a JFS 7220 Healthy Start Checklist or a JFS 7105 Application/Reapplication Verification Checklist signed by the Caseworker to evidence that all necessary documents were received in order to determine eligibility.

Adoption Assistance

- 24 of 80 (30%) Adoption Assistance cases tested (nine at Cuyahoga; five at Franklin; four at Hamilton; and six at Montgomery) did not have a copy of the annual continuing eligibility determination that was completed during state fiscal year 2011.

- Two of 80 (2.5%) Adoption Assistance cases tested (both at Montgomery) did not have the signature of the appropriate CDJFS personnel on the Adoption Assistance agreement.

Child Care

- Seven of 50 (14%) child care case files tested (seven at Cuyahoga) did not contain the Notice of Approval of Application for Assistance, JFS Form 4074.

- One of 50 (5%) child care case files tested (one at Lucas) did not contain the client signed "Your Right and Responsibilities" section of the application.

3. MISSING ELIGIBILITY DOCUMENTATION – VARIOUS COUNTIES (Continued)

The related CDJFS was not able to provide documentation from the case files or other sources to support the eligibility determinations, as required by the federal regulations cited above, for 13 of the Medicaid and CHIP recipients noted above. Therefore, we will question the costs for all benefits paid to these 13 recipients during the ineligible period during fiscal year 2011, or $212,309 (eight CHIP recipients totaling $29,401 and five Medicaid recipients totaling $182,908). In addition, the related CDJFS was not able to provide documentation that the Adoption Assistance payment did not exceed the cost of the FCM payment for six of the Adoption Assistance recipients noted above. Therefore, we will question the payments for the six recipients, totaling $4,208 – projected to an amount greater than $10,000. This brings the combined total questioned cost to $216,517.

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, the Department may not be able to fully support or ensure payments were made only to or on behalf of eligible recipients and that the Department complied with all federal rules and regulations which could and did result in questionable benefits. According to the County management, the missing case files and other supporting documentation were due, in part, to the large number of case files maintained by the County.

ODJFS management (OHP-Ohio Health Plans) stated that training sessions have been given to county personnel, via monthly video conferences, that include the importance of maintaining all relevant and required case documentation. The large volume of documentation flowing into the metro counties, however, may contribute to some documentation being temporarily misplaced. OHP will continue to address this issue with all counties and Office of Fiscal and Monitoring (OFMS) will follow-up with the cited counties during the audit resolution phase to obtain the missing documentation for the cases cited in the finding.

We recommend ODJFS work with CDJFS management to ensure they have current policies and procedures and/or implement new control procedures to reasonably ensure all case files have adequate supporting documentation to support the benefit payments made to eligible recipients. ODJFS should communicate to County management and their staff the importance of these policies and procedures and ensure the procedures are carried out as intended. In addition, ODJFS management should perform periodic reviews of the case files to reasonably ensure established controls and record retention procedures are being followed by CDJFS personnel.

Official's Response and Corrective Action Plan

<u>Cuyahoga</u>

Medicaid and TANF OWF: Currently internal QC staff is reviewing new OWF cases as they are established to ensure that the required verifications, signatures and applications are in the case record. Findings from these reviews are sent to the Center Manager, Team Coordinator and Team Leaders for correction within 5 days. Team Leaders discuss reoccurring errors with the staff member in question and provide coaching if needed. CURE staff monitors completion of corrections.

CHIP: CHIP cases are processed through the Neighborhood Family Service Centers which would require training of all staff members. As the topic fits with scheduled training, the Professional Development Department will be instructed to include the findings of this audit with their training materials with an emphasis on ensuring the proper documentation is contained in the case record when determining eligibility for CHIP. The audit findings will also be presented at the next Center Manager / Team Coordinator joint meeting to encourage this message is taken back to the centers through all-staff or unit meetings.

3. MISSING ELIGIBILITY DOCUMENTATION – VARIOUS COUNTIES (Continued)

Adoption Assistance: In order for an annual re-determination to be completed, the CCDCFS worker sends a re-determination packet to the adoptive parents. When the parents fill out and send the completed packet, the worker then completes the annual re-determination as required. If the re-determination packet is not received, only the worker can send a new packet to the parents. As an agency we have no means of enforcement and we solely rely on the customer's co-operation. Based on the federal instructions, we cannot stop the subsidy payment derived from the parents not completing and returning the re-determination package.

Child Care: Child care is now centralized in Cuyahoga County. The cases pulled for the audit fell in a time period when child care was in the process of being centralized and we were moving from a back-end scanning process to a front-end scanning process. We anticipate that future audits will find the necessary documentation in the case record. The audit findings were discussed with the Manager of the Child Care Department. In addition the Professional Development Staff are currently training all agency eligibility staff on the new CCIDS system and have been instructed to incorporate into the training the need for the Notice of Approval of Application for Assistance (Form 4074) to be scanned into the electronic case record.

Franklin

TANF: In one finding, the eligibility worker used the wrong verification code (DV versus DE or SX) to denote an electronic data match verification and source. Staff will create a desk aid listing verification code types and explanations, in plain language, of which code to use for source types. This will shared with all case managers for use as a reference. This will be completed by 06/30/2012.

The second finding resulted from the applicant failing to report income. The information was matched on AEDSW and the worker attempted to secure documentation but household failed to respond. Case was terminated as a result. Franklin County will request the Fraud Control Specialist at ODJFS to aid in development and presentation of material specifically for data match processing procedures. In addition to this, Franklin County will request the material also include telephonic interviewing skills needed to help identify questionable situations. The Policy Compliance Manager will contact ODJFS Fraud Control Specialist by April 30, 2012.

*CHIP: Four of 100 (4%) CHIP case files tested (two at Cuyahoga, **one at Franklin**, and one at Lucas) did not contain a complete and/or applicant signed application and, therefore, we were not able to verify that an accurate eligibility determination was made. For this finding, in particular, we submitted the application, but the AOS was not able to read our file. We are attaching the file again which shows Franklin County did have an electronic copy application signed by the applicant in accordance with ODJFS policy. **We do not agree that this case should be found in error.***

*CHIP: Five of 100 (5%) CHIP case files tested (two at Cuyahoga**, two at Franklin**, and one at Lucas) did not contain a complete and/or applicant signed application, JFS 7220 Healthy Start Checklist, or a JFS 7105 Application/Reapplication Verification Checklist. Therefore, we could not verify that all necessary documentation was received to make an eligibility determination.*

We concur with the finding for one of the two cases cited for Franklin County (except income as a case is determined eligible for a one year continuous eligibility, so an income change would not affect eligibility during the time tested- Effective April 1, 2010 - any child found eligible for Medicaid remains eligible for one year regardless of changes in family income, household size, household composition, or any other circumstances unless the child: is no longer an Ohio resident, dies, reaches age 19, or fails to pay a required premium.) The following action will be conducted to address this finding; specifically regarding no application or verification follow up letter being maintained in the case file:

3. MISSING ELIGIBILITY DOCUMENTATION – VARIOUS COUNTIES (Continued)

Franklin County will provide a new training package for clerical support staff responsible for scanning in documentation for the eligibility worker. Content manager is our electronic record scanning and storage system and the processes regarding taxonomy (correctly labeling documentation) will be re-visited. This training is currently underway and will conclude by the end of the 4th quarter of this state fiscal year (06/30/2012). An email will be sent to all Center Directors and Executive Assistants regarding this error finding and the need for supervisors to review records and remind staff of securing and labeling proper documentation. This will be completed by 04/30/2012. Additionally, clerical support supervisors shall random review of documents scanned in by staff to verify compliance with requirements. This will be an ongoing process to begin by 06/30/2012 – as we will develop a review sheet for use in this process.

However, the case referred from Franklin County Children's Services for a Healthy Start case to be opened as part of the Pre Termination Review (ex parte process in federal law) process, in accordance with ODJFS, would not need an application as the IV-E application and receipt of benefits is an acceptable application for Medicaid as it is received as a concurrent benefit based on cash eligibility. Based on Medicaid Eligibility Manual Section 5101:1-38-01.2(G)(3)(c) denoted the administrative agency SHALL "not require an individual complete or sign an application unless all individuals who sign the initial application, or signed an application at a prior redetermination, no longer reside in the household." The child turning of age was in custody of the Children's Services Agency and they act in loco parentis for the individual (sign the application). The original application is housed in PCSA and the referral form verifies child was in receipt of cash (IVE) and eligible for Medicaid. ***We do <u>not</u> agree this case should be found in error.***

Adoption Assistance: We do not believe that a corrective action is required based on the following:

Franklin County Children Services (FCCS) has consulted with Ohio Department of Job and Family Services (JFS) concerning the issue of the 1451 (B) Title IV-E Adoption Assistance Continuing Eligibility Determination not being returned to our Agency as outlined in our letters to families annually. We were concerned how this would specifically affect continuing eligibility. Attached is the response from the State of Ohio correlating with the section in the Child Welfare Policy Manual. Attached you will find a copy of the 2/21/12 response from Chante Slacum at ODJFS and a copy of section 8.2B.9 of the JFS Child Welfare Policy Manual.

Franklin County Children Services follows procedure 5101:2-49-10 (A) (Copies of this rule effective 4/1/10 and amended 12/15/11 were provided). The Public children services agency (PCSA) responsible for the Title IV-E adoption assistance (AA) agreement ***<u>shall provide</u>*** *the adoptive parent (s) with the JFS 01451B "Title IV-E Adoption Assistance Continuing Eligibility Determination* ***<u>annually</u>*** *or whenever there is a significant change in the family situation."*

We provide all of our families on an annual basis the 1451B to complete. The entire sample of 12 included documentation that the 1451B was sent to the adoptive parent and this documentation was contained in the Adoption Assistance youth record. The AOS staff person noted this when she performed the testing.

There is nothing in rule that states the family must send the annual reviews back. An Adoption Assistance case cannot be terminated or suspended due to the fact that an annual review is not completed and returned by the adoptive parent. (See attached 5101:2-49-13 Termination of Adoption Assistance Effective 4/1/10 amended 12/15/11).

The agency cannot ***<u>make</u>*** *an adoptive parent complete and send back an annual1451 (B) form nor are there any actions FCCS may take if the adoptive parents are non-compliant.*

We will continue to send out the 1451B to all adoptive parents annually and will include all those returned in the Adoption Assistance record for the youth.

3. MISSING ELIGIBILITY DOCUMENTATION – VARIOUS COUNTIES (Continued)

Hamilton
Current Federal policy does not allow for negative action to be taken against consumer (adoptive parent) in the instance that non-compliance for failure to provide/complete program redetermination unlike other assistance programs (TANF, SNAP, Medicaid). However, we have begun to utilize SACWIS report, internal tracking of redetermination pending list, and a notice to the parent of their failure to provide necessary redetermination documents.

Lucas
Medicaid and TANF OWF: Supervisor will discuss documentation of cases with worker and give the worker a copy of the documentation standard procedure. Supervisor will spot check cases to ensure that worker documents cases correctly in the future.

Child Care: After researching this case, we found that this was a worker oversight, and the supervisor discussed this with the worker at the time of the county's review of the case. As an extra precaution, the supervisor sent the childcare eligibility staff a directive to ensure all rights and responsibility forms is scanned into Onbase. Directive sent 3-14-2012.

Montgomery
Adoption Assistance: (a) 90 days prior to the Adoption Assistance annual continuing eligibility determination due date, a report will be run from SACWIS for a list of determinations due. From the list, the annual determination paperwork will be prepared and mailed to the Adoptive Parent. If no response is received within 30 days of the due date, a second notice will be mailed to the Adoptive parent. Once the annual determination paperwork is received from the Adoptive parent, the determination will be entered into SACWIS within five working days. However, according to Rule 5101:2-49-10 effective April 1, 2010, if the Adoptive parent does not respond to Montgomery County's attempt to gather the needed information for the annual determination there is no recourse that can be taken by Montgomery County.

(b) All Adoption Assistance agreements will be processed by the Eligibility staff and then given to the Eligibility Supervisor for review to ensure the agreement is completed correctly and all required signatures are on the agreement.

ODJFS
Adoption Assistance: County agencies need to comply with rule 5101:2-49-10 Annual Redetermination of Continuing Eligibility. To remedy the above findings, our office plans on contacting the counties listed and provide technical assistance (TA) to make sure they will have a copy of the annual determination as well as making sure they understand which CDJFS staff signs the adoption assistance agreement.

Anticipated Completion Date for Corrective Action

Cuyahoga
Medicaid and TANF OWF: Ongoing oversight will be provided throughout December 31, 2012.

CHIP: Discussion with the Center Managers and Team Coordinators will take place by April 30, 2012. Staff will have received unit or all staff reminders by June 30, 2012. Discussion will be added to training as appropriate to the topics being presented.

Adoption Assistance: The Adoption Assistance annual re-determination issue is an ongoing process. Supervisors will monitor due dates more closely and will request adoptive parents return their information more timely.

Child Care: Training will be completed by May 31, 2012.

3. MISSING ELIGIBILITY DOCUMENTATION – VARIOUS COUNTIES (Continued)

Franklin
Medicaid, TANF OWF, CHIP: June 30, 2012.

Adoption Assistance: N/A

Hamilton
September 30, 2011

Lucas
Medicaid and TAND OWF: March 19, 2012 with on-going spot checks.

Child Care: March 14, 2012

Montgomery
Adoption Assistance: (a) 4/1/12; (b) Completed 01/01/2011 – (This process was put in place 01/2011 however the agreements that were reviewed were prior to 01/2011.)

ODJFS
Adoption Assistance: Counties will be contacted by March 31, 2012.

Contact Person Responsible for Corrective Action

Cuyahoga

Barbara T. Wright, Manager, Program Integrity and Professional Development, Cuyahoga County, 1641 Payne Ave, Room 330, Cleveland, Ohio 44114, Phone: (216) 987-6643, E-Mail: WRIGHB01@odjfs.state.oh.us or Audrey Beasley, Business Services Manager, Cuyahoga County, 3955 Euclid Avenue, Cleveland, Ohio, 44115, Phone: (216) 432-2675, E-Mail: beasla01@odjfs.state.oh.us

Franklin

Rachel Hopmoen , Policy Compliance Manager, Franklin County, 1721 Northland Park Avenue, Columbus, OH 43229, Phone: (614) 233-2013, E-Mail: rachelk@fcdjfs.franklincountyohio.gov or Shelia Kochis, C.P.A., M.P.A., Audit Administrator, Franklin County, 855 W. Mound Street, Columbus, OH 43223, Phone: (614) 275-2742, E-Mail: spkochis@fccs.co.franklin.oh.us

Hamilton

Olayinka Alao, Revenue Enhancement Supervisor, Hamilton County, 222 East Central Parkway, Cincinnati, OH 45202, Phone: (513) 946-1891, E-Mail: alaoo@jfs.hamilton-co.org

Lucas

Kim Orzechowski, Program Administrator, Lucas County, 3210 Monroe St., Toledo OH, Phone: (419) 213-8850, E-Mail: Orzeck@odjfs.state.oh.us or Serena Rayford, Program Administrator, Lucas County, 3210 Monroe St., Toledo, OH, Phone: (419) -213-8920 E-Mail Address: rayfos@odjfs.state.oh.us

Montgomery

David Hess, Assistant Director Finance and Administrative Services, Montgomery County, 3304 N. Main St., Dayton, OH 45405, Phone: (937) 276-1731, E-Mail: hessd01@odjfs.state.oh.us or Vary Welch, Manager, Child Care Services Network, 1111 S. Edwin C. Moses Blvd., Dayton, OH 45422-3080, Phone (937) 225-4748, E-Mail: WelchV@odjfs,state.oh.us

3. MISSING ELIGIBILITY DOCUMENTATION – VARIOUS COUNTIES (Continued)

ODJFS

Dan Shook, OFC/Bureau of Administration and Fiscal Accountability (BAFA) Bureau Chief, 50 West Town Street, Columbus, Ohio, 43215, Lazarus Building, 6th floor, Phone: (614) 752-0619, E-Mail: Dan.Shook@jfs.ohio.gov

Auditor of State's Conclusion

For the Franklin County CHIP exceptions, the additional information Franklin County provided only included the instruction page of the application. No complete and signed application was provided. In the other instance, Franklin County states that a Pre Termination case was opened and referred from Franklin County Children's Services. However, this explanation was not provided during our testing and therefore, we cannot conclude on the reliability of the explanation.

Regarding Adoption Assistance, the county files tested did not contain the continuing eligibility documentation as stated in the comment. We are aware that a change has occurred in the OAC requirements; however, we believe the redetermination document or evidence supporting appropriate follow-up on the documentation not returned is important and should be maintained in the related case files.

Based on the above, the finding will remain as stated.

4. MEDICAID/CHIP – THIRD PARTY LIABILITY

Finding Number	2011-JFS04-028
CFDA Number and Title	93.767 – Children's Health Insurance Program 93.720/93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Allowable Costs and Cost Principles

<u>QUESTIONED COSTS AND MATERIAL WEAKNESS</u> $27,192

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 so that the agency may process claims under the third party liability payment procedures specified in §433.139 (b) through (f)…

…

4. MEDICAID/CHIP – THIRD PARTY LIABILITY (Continued)

42 CFR 433.139 (b) states, in part:

> 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 & Family Services (CDJFS) process the application and related information for initial Medicaid eligibility and eligibility redeterminations. During the initial application or redetermination process, the CDJFS' are responsible for identifying if the applicant has any third party insurance coverage and noting this in the CRIS-E system. If a potential Medicaid recipient states that they have third party insurance but has no proof or incomplete proof of insurance, the CDJFS is responsible for entering the information into CRIS-E, setting the system to cost avoid, and marking the record as "Client Statement". An insurance verification is automatically generated and sent to the insurance company to verify the information. The verifications are received and processed by the ODJFS Cost Avoidance Unit. If proof of the third party insurance is provided at the time of initial application or redetermination, including the policy name and number, dates of coverage, and insurance types, then the CDJFS enters the information as "Verified" and sets the system to cost avoid. The system is set to cost-avoid to ensure that any claims related to the third party insurance coverage are billed to that insurance company before billing Medicaid. The county-level third party liability (TPL) information uploads from CRIS-E into a TPL database in MMIS to be used in claims processing. The Cost Avoidance Unit conducted monthly reviews of the third party liability records from various counties; however, during these reviews, Cost Avoidance Unit personnel verified information through applicable CRIS-E and MMIS screens only. However, these reviews did not include an examination of proofs of insurance for Medicaid recipients maintained at the county-level.

Of the 60 insurance verifications selected for testing from the 31,481 TPL cases entered into CRIS-E or MMIS during state fiscal year 2011, 35 cases (58.3%; with a greater potential impact to the population) were identified where the information in the TPL database was not accurate, complete, and/or properly supported. Eight of these cases, all entered by a CDJFS, resulted in $27,192 in questioned costs. For all eight cases, the recipients' proof of insurance was not on file; therefore, we were unable to determine if the insurance information entered in CRIS-E was accurate and complete. Therefore, any claims paid during the audit period would be questionable. We were not able to readily determine whether Medicaid or CHIP funds were used to reimburse the questioned claims and therefore, we will associate all questioned costs with the Medicaid program. The remaining 27 cases were instances in which the insurance coverage dates, the insurance coverage types, or the insurance company policy number was not entered correctly and completely into the system. This also included cases where the proof of insurance on file was not adequate to determine the proper insurance coverage dates or insurance coverage types. These discrepancies did not result in claims being incorrectly billed to Medicaid.

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 the related federal program when they were, in fact, covered by a third party insurance company. In addition, if the cost avoidance actions set up in the system are not properly supported, management may not be able to substantiate decisions to avoid Medicaid and/or CHIP claim costs which may result in disputes with insurance companies. Management indicated there is a high level of employee turnover at the CDJFS and this may contribute to increased errors in performing cost avoidance at the county level. In addition, the county case workers are not properly following procedures which could also be contributed to the high turnover.

4. MEDICAID/CHIP – THIRD PARTY LIABILITY (Continued)

We recommend the Cost Avoidance Unit strengthen policies and procedures related to county training. We also recommend management communicate to case workers the importance of entering data into the TPL Master File accurately and completely. ODJFS management should also perform frequent 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. This review should also include a review of the proofs of insurance maintained at the county level for Medicaid recipients. These procedures should be performed timely, thoroughly documented and reviewed by the appropriate supervisory personnel. In addition, based on the extent of the errors noted at the CDJFS, management should also consider reducing the involvement of the CDJFS in the cost avoidance process. This could include setting up the system to generate insurance verifications for all TPL records entered at the county level, which would result in verifications being received and processed by ODJFS' Cost Avoidance Unit.

Official's Response and Corrective Action Plan

The Department disagrees with the questioned cost of $27,192. After analysis and validation, we agree to a questioned cost of $1,316.23. Documentation supporting the Departments calculation is available for review at request by CMS or OBM.

Factors Mitigating the Questioned Status of Payments Cited by AOS

1) *Usual policy coverage determined by Carrier type: Medical, Pharmacy, Vision, Dental etc.*

2) *Policy holders covering biological children not required to cover all members of household.*

3) *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. AOS disregarded Origin Date of TPL which is the date the county is notified of coverage by client.*

4) ***OHP has in place strong internal controls by contracting with HMS** [Health Management Services] for the identification and recovery of identified third party resources on a post payment basis. Mental Health claims are part of the Pay & Chase process.*

As part of our ongoing planned corrective action, quality control checks of county generated records which began in 2009 will continue. TPL records entered by the counties are reviewed for accuracy at random intervals. Feedback is provided to the counties via a spreadsheet. Management will ensure that the quality control checks will be maintained.

We also present a TPL topic during the spring County Director's Annual Conferences each year. This is another avenue we use to reach out and teach county case workers and supervisors.

We will be reducing the involvement of the CDJFS in the cost avoidance process, SFY12, as we get more involved in carrier data matching which will allow us to use the most correct and current TPL information coming directly from the insurance carrier. We have taken steps to have all incoming CRIS-e records (County) cross over as non-verified. This will allow us to confirm and update county data.

Note: The Department provided an extensive summary of their analysis and a detailed chart related to their analysis. However, due to its size, this information has not been included here, but is included in the working papers and can be obtained from the contact listed below.

4. MEDICAID/CHIP – THIRD PARTY LIABILITY (Continued)

Anticipated Completion Date for Corrective Action

June 30, 2013

Contact Person Responsible for Corrective Action

Kristi Walker, TPL Supervisor (Cost Avoidance, Buy-In), Ohio Department of Job & Family Services, 50 W. Town St., 4th floor, B4030, Columbus, OH 43215, Phone: (614) 752-3775, E-Mail: Kristi.Walker@jfs.ohio.gov

Auditor of State's Conclusion

The Department provided the analysis referenced above as part of our testing; however, they did not provide additional support to validate the analysis. Therefore, we cannot draw any conclusions about the accuracy or reliability of the additional analysis performed by the Department. The Department indicated the origin date of some of the insurance records was after the service date and, therefore, the system did not cost avoid. However, the Department provided no evidence to indicate the claim was properly adjusted or cost avoided after the information was entered. For all other claims questioned, no additional information was provided to support that questionable claims were recovered on a post-payment basis. Therefore, the finding will remain as stated above

5. CHIP – INELIGIBLE RECIPIENT – OVER 19

Finding Number	2011-JFS05-029
CFDA Number and Title	93.767 – Children's Health Insurance Program
Federal Agency	Department of Health and Human Services
Compliance Requirement	Eligibility

QUESTIONED COSTS AND MATERIAL WEAKNESS $18,730

42 CFR 457.320 states, in part:

> (a) Eligibility Standards. 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).

. . .

Ohio Admin. Code 5101:1-40-08.2 (C) (6) states:

> An individual receiving Medicaid under this covered group remains eligible through the end of the month he or she turns nineteen.

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.

5. CHIP – INELIGIBLE RECIPIENT – OVER 19 (Continued)

As medical claims from providers are received by the Department, they are uploaded in the Medicaid Management Information System (MMIS) (in August 2011, MMIS was replaced with the Medicaid Information Technology System (MITS)). The Department utilizes the Client Registry Information System – Enhanced (CRIS-E) to determine eligibility and MMIS/MITS 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/MITS. In order to be eligible for the Children's Health Insurance Program (CHIP), the individual must be less than 19 years old unless they meet specific exemption criteria. A CHIP 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. Two of 60 CHIP (3.3%) claims tested were on behalf of one individual who was not eligible to receive CHIP benefits on the dates of service. In addition, we performed CHIP control and substantive testing at five counties. One of twenty Montgomery county CHIP (5%) recipients was not eligible to receive CHIP benefits on the dates of service. In all three of the cases noted above, the recipient exceeded the maximum allowable age for the CHIP 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 two individuals during the times they were ineligible, totaling $18,730.

The lack of sufficient edit checks and controls over the timely review of CRIS-E alerts increases the risk of errors during processing of CHIP 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. ODJFS management agreed the recipient was not eligible for CHIP during the dates of service. Management indicated they relied on the county case worker responsible for the case to re-determine eligibility at the time of the alert.

We recommend the Department revise the edits within CRIS-E to automatically terminate eligibility in the month after the recipients 19th birthday unless an appropriate exemption is entered. Until this change can be made, we recommend the Department evaluate the process at the county level to reasonably ensure case workers are addressing alerts timely and adequately. We also recommend the Department perform periodic testing to help ensure the automated controls are functioning properly and monitor the counties' compliance with the established requirements on a regular basis. This may require the Department implement edits within CRIS-E to notify the Department if timely re-determinations are not made. In addition, we recommend the Department evaluate a sample selection of CHIP payments to verify that reimbursements are properly computed within MITS 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

The Medicaid Eligibility Technical Assistance and Compliance Unit will provide training on processing of CRIS-E alerts to CDJFS staff during regularly scheduled video conference sessions. Video conferences are scheduled every other month throughout the year. Training on alerts will be conducted twice over the next twelve months during the June 6, 2012 and the December 5, 2012 sessions. The training will cover the importance of timely completion of the alerts, how to complete case processing based on the alerts, pre-termination review requirements, documentation requirements and time frames for completion of the alerts.

5. CHIP – INELIGIBLE RECIPIENT – OVER 19 (Continued)

The Medicaid Eligibility Technical Assistance and Compliance Unit will include training on processing of CRIS-E alerts in the Medicaid Matters Newsletter. The newsletter is published and posted to the OHP inner-web every other month. The target audience for the newsletter is CDJFS staff. The articles will include information on the importance of timely completion of the alerts, how to complete case processing based on the alerts, pre-termination review requirements, documentation requirements and time frames for completion of the alerts. These training topics will be included in the July, 2012 and the January, 2013 editions of the newsletter.

This is a repeat finding from 2010 and CMS has reviewed our Corrective Action Plan for 2010 as well as all supporting documentation and has determined that the questioned cost were not to be paid by the State. The above corrective action was completed as stated in the 2010 Corrective Action Plan on December 31, 2011.

Anticipated Completion Date for Corrective Action

Video conference training will be completed on June 6, 2012 and the December 5, 2012.

Medicaid Matters Newsletter training information will be included in the July, 2012 and the January, 2013 editions of the newsletter.

Contact Person Responsible for Corrective Action

Shawn Lotts, Medicaid Health Systems Administrator, Ohio Department of Job & Family Services, 50 W. Town Street, 4th Floor, Columbus, Ohio 43215, Phone: (614) 752-3585, E-Mail: Shawn.Lotts@JFS.Ohio.gov

6. MEDICAID/CHIP – INELIGIBLE RECIPIENT – CRIS-E/MITS VARIANCES

Finding Number	2011-JFS06-030
CFDA Number and Title	93.767 – Children's Health Insurance Program 93.720/93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Eligibility

<u>QUESTIONED COSTS AND MATERIAL WEAKNESS</u> $6,524

42 CFR 435.10, State Plan requirements, states:

A State plan must---

(a) Provide that the requirements of this part are met; and
(b) Specify the groups to whom Medicaid is provided, as specified in subparts B, C, and D of this part, and the conditions of eligibility for individuals in those groups.

It is management's responsibility to implement policies and procedures to provide reasonable assurance that only persons who meet all eligibility criteria as specified in the State Plan and subparts B, C, and D of 42 CFR 435.10 are able to receive benefits.

6. MEDICAID/CHIP – INELIGIBLE RECIPIENT – CRISE-E/MITS VARIANCES (Continued)

During state fiscal year 2011, the Department disbursed approximately $13.1 billion in Medicaid funds and $354 million in CHIP funds to or on behalf of recipients who were determined eligible. Under the current process, the County Departments of Job & Family Services (CDJFS) are responsible for processing the application and related information for initial Medicaid and CHIP eligibility and eligibility redeterminations and entering the information into the State's Client Registry Information System – Enhanced (CRIS-E). The CRIS-E system is programmed with State Plan recipient eligibility requirements to determine whether the recipient is eligible to receive Medicaid or CHIP. Once the determination is made, the CRIS-E system uploads the eligibility information to the Medicaid Management Information System (MMIS) (in August 2011, MMIS was replaced with the Medicaid Information Technology System (MITS)). The Department utilizes MMIS/MITS to determine whether payments for medical services are allowable and to verify recipient and provider eligibility. As medical claims are received from providers, they are uploaded in MMIS/MITS. However, the information isn't always exchanged with CRIS-E. Therefore, the eligibility determination in CRIS-E does not always match the information in MMIS/MITS. This appears to be the case for two of 120 (1.67%; with a potential impact to 4.3% of the population) recipients tested (one Medicaid recipient and one CHIP recipient) where the recipient was not eligible to receive benefits on the date of service per CRIS-E. In addition, we performed CHIP control and substantive testing at five counties. One of twenty Montgomery county CHIP (5%) recipients was not eligible to receive CHIP benefits on the date of service per CRIS-E. Because CRIS-E is the State's official eligibility determination system and no additional information was submitted to support the information entered into MMIS/MITS to substantiate eligibility, we will question costs for all claims paid for services provided to these three individuals during the time they were ineligible, totaling $299 for Medicaid and $6,225 for CHIP (projected to be more than $10,000).

Without insuring CRIS-E is up to date and agrees to MMIS/MITS, there is an increased risk that Medicaid claims processed and paid will not be accurate or allowable. 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. The Department indicated the recipients were eligible at the time of services and a glitch in the system was to blame.

We recommend the Department correct the system error which allowed benefit payments to these ineligible recipients. We also recommend the Department implement procedures to regularly evaluate a sample selection of Medicaid and CHIP payments to verify the recipient's eligibility and that reimbursements are properly computed within MMIS/MITS based on CRIS-E's eligibility determination. 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

MITS went live on August 2nd 2011. The CRIS-E eligibility system feeds eligibility information to the MITS system via an electronic interface every several hours. The ELG-0013-D, 'Transaction Error Report', is generated daily to list transaction errors between the two systems. OHP analysts will continue to monitor this report to identify and correct any errors occurring during the systems' interface. This monitoring process will be ongoing.

OHP management meets with the MITS vendor, HP, several times a week to discuss 'trouble tickets' submitted by stakeholders through the MITS Non-Provider Help mailbox. This mailbox allows county agencies, state agencies, vendors, contractors, managed care plans, and ODJFS staff to submit eligibility issues for resolution. OHP and HP work to identify issues, request prioritization to have the issue corrected in an upcoming system update (or release), plan and execute user acceptance testing and implementation of the release, and communication to stakeholders of the release. Meetings will continue to be scheduled as needed until recipient eligibility interface issues are resolved.

6. MEDICAID/CHIP – INELIGIBLE RECIPIENT – CRISE-E/MITS VARIANCES (Continued)

When counties identify cases where eligibility in CRIS-E are not reflected in the MITS system, they submit an electronic form (JFS 07102) to the OHP Buy-In Unit. Staff in this unit have MITS access enabling them to correct MITS eligibility spans so they reflect the status of eligibility maintained by the CRIS-E system. OHP management monitors the submission of 07102 forms and the timely completion of the MITS eligibility changes.

Anticipated Completion Date for Corrective Action

Each of these corrective action measures has been in effect since the implementation of the MITS system August 2, 2011; these measures will be ongoing.

Contact Person Responsible for Corrective Action

Patrick A. Tighe, Acting Bureau Chief, Ohio Department of Job & Family Services, 50 W Town Street 4th Floor, Columbus, OH 43215, Phone: (614) 752-3635, E-Mail: Patrick.Tighe@jfs.ohio.gov

7. TANF – REFUSAL TO WORK – MONTGOMERY COUNTY

Finding Number	2011-JFS07-031
CFDA Number and Title	93.558/93.714 – TANF Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Special Tests and Provisions

QUESTIONED COSTS $259

45 CFR 261.14(a) states:

> If an individual refuses to engage in work required under section 407 of the Act, the State must reduce or terminate the amount of assistance payable to the family, subject to any good cause or other exceptions the State may establish. Such a reduction is governed by the provisions of §261.16.

Ohio Revised Code Section 5107.16(A) states, in part:

> If a member of an assistance group fails or refuses, without good cause, to comply in full with a provision of a self-sufficiency contract entered into under section 5107.14 of the Revised Code, a county department of job and family services shall sanction the assistance group . . .
>
> . . .

As subrecipients of ODJFS, current procedures of the County Department of Job and Family Services require an Assistance Group (AG - a group of individuals treated as a unit when determining eligibility and benefit amounts) to be sanctioned when there is refusal to work by the recipient. However, one of 100 (1%) TANF Ohio Works First (OWF) assistance groups selected for testing from five counties was not in compliance with their self-sufficiency contract (employability contract and plan) and did not have good cause for refusing to work. The Montgomery County Department of Job and Family Services did not properly sanction or deny the recipient's TANF-OWF benefits in a timely manner for refusing to work. The recipient should have been sanctioned as of November 1, 2010; but since the sanction was not processed prior to November 1st it did not go into effect until December 1, 2010. As a result, we are questioning costs totaling $259 (projected to be more than $10,000), the amount of TANF-OWF benefits paid during the time the assistance group should have been sanctioned.

7. TANF – REFUSAL TO WORK – MONTGOMERY COUNTY (Continued)

If sanctions are not properly utilized in compliance with federal requirements, there is an increased risk the Department will pay benefits to individuals who are not eligible to receive them, or for improper amounts, which could result in Federal fines and penalties. According to county management, the case worker entered the sanctioned information on October 8, 2010, with a beginning sanction date of November 1, 2010; however, the case was not processed until November 8, 2010 and the sanction was authorized effective until November 30, 2010.

We recommend ODJFS work with the County management to ensure they are complying with current policies and procedures to reasonably ensure only eligible individuals receive assistance and sanctions are imposed in a timely manner. ODJFS should communicate the importance of these policies and procedures to County management and their staff to reasonably ensure they are carried out as management intended.

Official's Response and Corrective Action Plan

Montgomery County
The Agency has transferred all work required OWF cases into one unit for monitoring. The Agency has had in place a Sanction Unit. The unit is working to ensure that timely sanctions are taken when work activity failures are reported.

ODJFS
The sanction process is covered in CRIS-E training, with desk aids, compliance tools, monthly video conferences, and individual county assistance provided by the Program Policy unit. In addition, Office of Fiscal & Monitoring Services, Bureau of Monitoring and Consulting Services, works with counties to improve performance and accountability by identifying opportunities for operational improvement and risk reduction through consulting services, providing technical materials and tools.

County agencies have been handling increased caseloads with fewer employees, but are still maintaining efforts to improve error rates. The error rate of 1 out of 100 cited is very low.

Anticipated Completion Date for Corrective Action

Montgomery County
The Unit that houses all the cases was put in place 10/31/2011. The Sanctions unit is ongoing and processing sanctions as the failures occur.

ODJFS
Continuous improvement efforts including the aforementioned training are ongoing.

Contact Person Responsible for Corrective Action

Montgomery County
John O'Pry, Manager, Montgomery County, 1111 Edwin C. Moses Blvd. Dayton, Oh 45422, Phone: (937) 225-4517, E-Mail: opryj@odjfs.state.oh.us

ODJFS
Roger Meyer, Chief, Customer Service/Audit Resolutions, Ohio Department of Job & Family Services, 50 W. Town Street, Columbus, Ohio 43218-2709, Phone: (614) 644-1800, E-Mail: roger.meyer@jfs.ohio.gov

8. IEVS/CRIS-E – ALERT RESOLUTION/INADEQUATE DOCUMENTATION

Finding Number	2011-JFS08-032
CFDA Number and Title	10.551/10.561 – SNAP Cluster 93.558/93.714 – TANF Cluster 93.767 – Children's Health Insurance Program 93.720/93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs, Eligibility, Special Tests and Provisions

QUESTIONED COST AND MATERIAL WEAKNESS — Undetermined Amount

7 CFR 272.8(e) states:

> *Documentation.* The State agency must document, as required by § 273.3(f)(6), information obtained through the IEVS both when an adverse action is and is not instituted.

7 CFR 273.2(f)(6) states:

> *Documentation*. Case files must be documented to support eligibility, ineligibility, and benefit level determinations. Documentation shall be in sufficient detail to permit a reviewer to determine the reasonableness and accuracy of the determination.

45 CFR 205.56(a)(1)(iv) states, in part:

> For individuals who are recipients when the information is received or for whom a decision could not be made prior to authorization of benefits, the State agency shall . . . initiate a notice of case action or entry in the case record that no case action is necessary . . .

Ohio Admin Code Section 5101:1-1-36(E)(3) states:

> Once the CDJFS completes the IEVS match process, the results will be recorded in CRIS-E history.

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 forwarded to the appropriate county for investigation; the results of the investigation are to be documented in CRIS-E. This documentation includes running record comments, resolution codes, and other supporting screens such as budget and employment history screens used in the determination of benefits. Through the resolution of IEVS alerts, budget and employment information may be updated, resulting in the recipient's eligibility determination being re-performed. An adjustment of eligibility for all program benefits could occur. However, the IEVS documentation was not consistently maintained in CRIS-E. Cuyahoga, Franklin, Hamilton, Lucas, and Montgomery counties represented approximately 41% of the nearly 3.1 million IEVS high priority alerts issued in state fiscal year 2011. Of the 60 high-priority IEVS alert matches tested for the five selected counties:

8. IEVS/CRIS-E – ALERT RESOLUTION/INADEQUATE DOCUMENTATION (Continued)

- 58 impacted multiple programs. Five of these 58 applicable matches (8.6% with a potential impact of approximately $267 million, $66 million, $26 million, and $989 million for SNAP, TANF, CHIP, and Medicaid respectively) (from Hamilton County) had not been resolved properly for all programs. As of 08/25/2011, ODJFS advised Hamilton CDJFS to review the Assistance Group (AG) record, contact the AG, obtain verifications as necessary, determine eligibility, and make appropriate case adjustments. In addition, because of ongoing issues with alert resolution and delinquencies, ODJFS required Hamilton CDJFS to implement a Continuous Improvement Plan (CIP) that included an analysis of the causal factors, a timetable for the corrective action to be taken, and a description of the monitoring tool to be used to measure progress; however, the errors continued to occur. Federal and state rules allow eight months to establish a claim. As of the date of this report, documentation of their results for these five alerts was not available as they were still listed as "Active." Additional examination by the ODJFS Bureau of Program Integrity validated that two of the unresolved alerts would not likely cause potential overpayments, but three of the unresolved alerts would likely result in potential overpayments. Therefore, an undetermined amount is questioned for the TANF, Medicaid, CHIP, and SNAP programs.

- 10 of 60 matches (16.7% with a potential impact of approximately $518 million, $127 million, $50 million, and $1.9 billion for SNAP, TANF, CHIP, and Medicaid respectively) did not have proper result codes. Five of the 10 (all from Hamilton County) had no result code at all and it appears these alerts were never followed up on (worked). The remaining five (from Franklin, Hamilton, and Montgomery counties) were miscoded as either "Z" ("Other") or "V" ("Couldn't Verify"), despite documentation available in CRIS-E that would support the use of a different code. These exceptions did not have an impact on eligibility or the benefit amounts.

- Five of 60 matches contained result codes that required supporting documentation to be retained in the "CLRC" running comments screen. For one (Montgomery County) of these five matches (20%) the CLRC screen did not appear to include proper documentation. This exception did not have an impact on eligibility or benefit amounts.

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.

ODJFS management indicated the noncompliance can be attributed to the following:

- A lack of cooperation and timely response from employers, which delays the receipt of information necessary to complete the alerts timely and accurately.

- The county case load size has increased which makes it hard to manage and work. The increased case load is attributed to the fact the counties are facing staffing shortages (due to funding cuts, retirements, hiring freezes, and lay-offs). An increase in the number of public assistance cases has been occurring this past year due to similar reasons.

- The Department is limited in the extent that control policies and procedures can be levied on the counties. Currently, state and federal policy does not provide for sanctions or incentives to ensure/encourage timely completion of matches.

8. IEVS/CRIS-E – ALERT RESOLUTION/INADEQUATE DOCUMENTATION (Continued)

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 with applicable requirements, and provide evidence the alert has been processed, resolved, and documented. These documentation requirements should be explicitly identified in the sub-grant agreements with the counties and include appropriate ramifications for noncompliance with the stated requirements.

We also recommend the Department, as the pass-through entity, monitor the activities of their county subrecipients during the award period to determine if they are following the established controls and are complying with the requirements. Specific training and more stringent monitoring and follow up should occur for Hamilton County since a significant number of exceptions were identified in their activities.

Official's Response and Corrective Action Plan

The Medicaid Eligibility Technical Assistance and Compliance Unit will provide IEVS training to CDJFS staff during regularly scheduled video conference sessions. Video conferences are scheduled every other month throughout the year. IEVS training will be conducted twice over the next twelve months during the June 6, 2012 and the December 5, 2012 sessions. The training will cover the importance of timely completion of the IEVS alerts, how to complete IEVS alerts, IEVS documentation requirements and time frames for completion of the alerts.

The Medicaid Eligibility Technical Assistance and Compliance Unit will include IEVS training in the Medicaid Matters Newsletter. The newsletter is published and posted to the OHP inner-web every other month. The target audience for the newsletter is CDJFS staff. The articles will include information on the importance of timely completion of the IEVS alerts, how to complete IEVS alerts, and time frames for completion of the alerts. These training topics will be included in the July, 2012 and the January, 2013 editions of the newsletter.

OHP will continue to participate in the IEVS Filtering Consideration Workgroup through the Office of Fiscal and Monitoring Services. The Fraud Control Section in OFMS conducts training to CDJFS staff on IEVS completion, and is represented in this workgroup.

The Fraud Control Section in the OFMS Bureau of Program Integrity (BPI) will offer training and technical assistance to Hamilton County. IEVS training will be offered to all counties during the quarterly fraud control meeting in June to reiterate the importance of timely and accurate completion and proper documentation of IEVS matches. This training will include how to process and resolve IEVS matches in a timely manner and proper documentation of the process. The training will include a session for developing and implementing thorough and consistent supervisory reviews.

Currently IEVS match timeliness of completion rates are reviewed monthly by the Fraud Control Section of BPI. Counties that are consistently out of compliance with the eighty percent timeliness rating are required to complete a continuous improvement plan. Detailed IEVS reviews are completed on a triennial basis as prescribed by OAC 5101:1-1-36. This practice is accepted by our Federal Grantor agency. The recommendation to further monitor the county subrecipients during the award period is not cost effective, feasible, or supported by law.

8. IEVS/CRIS-E – ALERT RESOLUTION/INADEQUATE DOCUMENTATION (Continued)

The subgrant agreement is intended to identify the basic expectations of ODJFS with regards to the county government as a subrecipient of the department (i.e., establish overall terms, conditions, and requirements governing the administration and use of the financial assistance received. The recommendation to explicitly identify the documentation requirements in the sub grant agreements and include appropriate ramifications for non compliance is not feasible. The sheer number of programs and the underlying compliance requirements for each program that are applicable to county agency operations makes it impractical to require this level of detail in the subgrant agreement.

Anticipated Completion Date for Corrective Action

Video conference training will be completed on June 6, 2012 and the December 5, 2012.

Medicaid Matters Newsletter training information will be included in the July, 2012 and the January, 2013 editions of the newsletter.

The Fraud Control Section will conduct IEVS training at its June 2012 quarterly fraud control meeting with CDJFS.

Contact Person Responsible for Corrective Action

Shawn Lotts, Medicaid Health Systems Administrator, Ohio Department of Job & Family Services , 50 W. Town St. 4th Floor, Columbus, Ohio 43215, Phone: (614) 752-3585, E-Mail: shawn.lotts@jfs.ohio.gov or Diana Skinner, Administrative Officer 3, Ohio Department of Job & Family Services, 30 E. Broad St., 38th Floor, Columbus, Ohio 43215, Phone: (614).752-3146, E-Mail: Diana.skinner@jfs.ohio.gov

9. IEVS DUE DATES

Finding Number	2011-JFS09-033
CFDA Number and Title	10.551/10.561 – SNAP Cluster 93.558/93.714 – TANF Cluster 93.767 – Children's Health Insurance Program (CHIP) 93.720/93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs, Eligibility, Special Tests and Provisions

NONCOMPLIANCE AND MATERIAL WEAKNESS

7 CFR 272.8(c)(2) states the following regarding SNAP (formerly 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.

9. IEVS DUE DATES (Continued)

In addition, OAC 5101:4-7-09 (Q)(4) outlines the following guidelines for SNAP IEVS alerts:

> County agencies shall initiate and pursue the actions specified in this paragraph of this rule so that the actions are completed within 90 days from receipt of the information.

45 CFR 205.56(a)(1) (iv) states the following regarding TANF:

> 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, except that: Completion of action may be delayed beyond forty-five (45) days on no more than twenty (20) percent of the information items targeted for follow-up, if:
>
> (A) The reason that the action cannot be completed within forty-five (45) days is the nonreceipt of requested third-party verification; and
>
> (B) Action is completed promptly, when third party verification is received or at the next time eligibility is redetermined, whichever is earlier. If action is completed when eligibility is redetermined and third party verification has not been received, the State agency shall make its decision based on information provided by the recipient and any other information in its possession.

42 CFR 435.952 states the following regarding Medicaid IEVS alerts:

> (c) Except as specified in §435.953 of this subpart and paragraph (d) of this section, for recipients, the agency must, within 45 days of receipt of an item of information, request verification (if appropriate), determine whether the information affects eligibility or the amount of medical assistance payment, and either initiate a notice of case action to advise the recipient of any adverse action the agency intends to take or make an entry in the case file that no further action is necessary.
>
> (d) Subject to paragraph (e) of this section, if the agency does not receive requested third party verification with-in the 45-day period after receipt of in-formation, the agency may determine whether the information affects eligibility or correct amount of medical assistance payment after the 45-day period. . . .
>
> (e) 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.

The Department has implemented the Income and Eligibility Verification System (IEVS) which compares income, as reported by the recipients, to information maintained by outside (i.e. collateral) 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 state fiscal year 2011 audit, five counties were selected for testing for the timely completion of IEVS alerts in accordance with the federal regulations and ODJFS standards set forth in the IEVS CRIS-E Alert Processing Instruction Guide. These five counties (Cuyahoga, Franklin, Hamilton, Lucas, and Montgomery) represented approximately 41% of the nearly 3.1 million IEVS high priority alerts issued in state fiscal year 2011. However, five of 60 IEVS high priority alerts tested at these five counties (8.5% with a potential impact to approximately $264 million, $65 million, $25 million, and $978 million for SNAP, TANF, CHIP, and Medicaid respectively) were not resolved by the mandated timeframe and there was no documentation to indicate a third-party verification was pending. These unresolved alerts were for Medicaid and CHIP benefits and found in Franklin and Hamilton counties. Of the five delinquent high priority alerts:

9. IEVS DUE DATES (Continued)

- Three were resolved one to 50 days beyond the due date.
- Two were resolved 51 to 500 days beyond the due date.

No additional recipient benefits appeared to be issued as a result of these errors.

Not completing the IEVS alerts within the established timelines increases the risk that benefits given to ineligible recipients or 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 management indicated the alert resolution delinquencies were caused by:

- A lack of cooperation and timely response from employers which delays the receipt of information necessary to complete the alerts timely and accurately.
- An increase in the county case load size which makes it hard to manage and work. The increased case load is attributed to the fact the counties are facing staffing shortages (due to funding cuts, retirements, hiring freezes, and lay-offs). An increase in the number of public assistance cases has been occurring this past year due to similar reasons.
- The Department's limited ability to enforce control policies and procedures at the counties. Currently, state and federal policy does not provide for sanctions or incentives to ensure/encourage timely completion of matches.

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 the federal regulations and IEVS CRIS-E Alert Processing Instruction Guide. These procedures must include reviews by the County IEVS Coordinator or other supervisory personnel (through CRIS-E) to monitor the status of IEVS alerts. Such requirements should be explicitly identified in the sub-grant agreements with the counties and include appropriate ramifications for noncompliance with the stated requirements. We also recommend the Department, as the pass-through entity, monitor the activities of their county subrecipients during the award period to determine if they are following the established controls and are complying with the due date requirements.

Official's Response and Corrective Action Plan

The Medicaid Eligibility Technical Assistance and Compliance Unit has and will continue to provide IEVS training to CDJFS staff during regularly scheduled video conference sessions. Video conferences are scheduled every other month throughout the year. IEVS training will be conducted twice over the next twelve months during the June 6, 2012 and the December 5, 2012 sessions. The training covers the importance of timely completion of the IEVS alerts, how to complete IEVS alerts, IEVS documentation requirements and time frames for completion of the alerts.

The Medicaid Eligibility Technical Assistance and Compliance Unit will include IEVS training in the Medicaid Matters Newsletter. The newsletter is published and posted to the OHP inner-web every other month. The target audience for the newsletter is CDJFS staff. The articles will include information on the importance of timely completion of the IEVS alerts, how to complete IEVS alerts, and time frames for completion of the alerts. These training topics will be included in the July, 2012 and the January, 2013 editions of the newsletter.

OHP will continue to participate in the IEVS Filtering Consideration Workgroup through the Office of Fiscal and Monitoring Services. The Fraud Control Section in OFMS conducts training to CDJFS staff on IEVS completion, and is represented in this workgroup.

9. IEVS DUE DATES (Continued)

The Fraud Control Section (FCS) will provide a IEVS overview training at its quarterly meeting with CDJFS in June 2012 to reiterate the importance of timely and accurate completion and documentation of IEVS matches. This training will include how to process and resolve IEVS matches in a timely manner and proper documentation of the process. The training will include a session for developing and implementing thorough and consistent supervisory reviews.

The timely completion of IEVS matches is monitored by FCS monthly. A continuous improvement plan (CIP) is required for counties that are consistently out of compliance (fall below the 80% timeliness rating for more than 4 consecutive months). A CIP format was developed in 2011 and monitoring procedures for IEVS delinquency rates were finalized on September 1, 2011. FCS will continue to monitor the timeliness of completion rates and will work with the counties to provide input and technical assistance as needed.

Anticipated Completion Date for Corrective Action

Prior Training:
Three levels of IEVS training was provided to the counties; IEVS basic training was provided on November 23, 2009, IEVS Intermediate training was on January 26, 2010, and IEVS Advanced training was provided on March 30, 2010. The advanced training had a section devoted to supervisory reviews.

Future Training:
Video conference training will be completed on June 6, 2012 and the December 5, 2012.

Medicaid Matters Newsletter training information will be included in the July, 2012 and the January, 2013 editions of the newsletter.

The Fraud Control Section will conduct IEVS training at the quarterly fraud control meeting in June, 2012. IEVS match completion rates will be monitored monthly.

Contact Person Responsible for Corrective Action

Shawn Lotts, Medicaid Health Systems Administrator, Ohio Department of Job & Family Services , 50 W. Town St. 4th Floor, Columbus, Ohio 43215, Phone: (614) 752-3585, E-Mail: shawn.lotts@jfs.ohio.gov or Diana Skinner, Administrative Officer 3, Ohio Department of Job & Family Services, 30 E. Broad St., 38th Floor, Columbus, Ohio 43215, Phone: (614).752-3146, E-Mail: Diana.skinner@jfs.ohio.gov

10. MEDICAID/CHIP – PROVIDER ELIGIBILITY

Finding Number	2011-JFS10-034
CFDA Number and Title	93.767 – Children's Health Insurance Program 93.720/93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Special Tests and Provisions

NONCOMPLIANCE AND MATERIAL WEAKNESS

In order for a provider to enroll in the Medicaid program, they must comply with applicable laws and regulations pertaining to Medicaid, including Section 1902 of the Social Security Act; Title 42, Chapter IV, Parts 442, 482 through 489 of the Code of Federal Regulations; and Chapter 5101:3 of the Ohio Administrative Code. The Provider Enrollment Unit has created a Provider Enrollment Manual which

10. MEDICAID/CHIP – PROVIDER ELIGIBILITY (Continued)

combines all the requirements for a provider to be enrolled in the Medicaid program. It is imperative that management monitor and oversee the process of granting Medicaid eligibility to new providers to reasonably ensure compliance with applicable laws and regulations. Controls must be adequately documented to provide management with assurance the controls are performed timely and consistently.

The Department disbursed approximately $13.5 billion to providers for Medicaid ($13.1 billion) and CHIP ($354 million) during state fiscal year 2011. The Provider Enrollment Unit is responsible for enrolling providers in the Medicaid/CHIP programs. During state fiscal year 2011, the Unit enrolled 8,963 providers. To apply for enrollment in the program, each provider must complete and submit an application packet to the Provider Enrollment Unit for review and approval. The Provider Enrollment Unit maintains a Provider Enrollment Manual listing all documentation required for enrollment of each type of provider, as well as instructions for keying provider information in MMIS (in August 2011, MMIS was replaced with the Medicaid Information Technology System (MITS)). Required documentation for enrollment and keying instructions for MMIS/MITS varies by the type of provider. Upon review of the application packet, the Provider Enrollment Unit is to ensure all applicable requirements were met and documentation was submitted, as specified in the Provider Enrollment Manual. Either the Provider Enrollment Unit Supervisor or the Lead Worker reviews a sample of applications and documentation to verify the provider was appropriately approved and information was keyed correctly into MMIS/MITS. While the Department has established certain internal controls and practices to verify requirements are met, these controls were not consistently followed and were not always effective, as indicated below:

- While the Department indicated they pulled a sample of applications for review, there was no documentation to support which applications were selected and reviewed. Therefore, we could not ensure our population was complete and could not verify that all applications sampled were actually reviewed and evidenced.

- Two of 60 (3.33%) provider files selected for testing were not provided; therefore, we were unable to determine if the appropriate application materials were submitted by the provider in compliance with program requirements or if the Department reviewed and approved this information. There were no payments made to either of these two providers and therefore, we will not question costs.

- Two of 60 (3.33%) provider files had an effective date in MMIS that did not match the effective date on the provider application. The errors did not result in any ineligible payments to the providers and therefore, we will not question costs.

If a complete listing of applications sampled and reviewed is not completed and maintained, management has no method for identifying how many applications were reviewed and cannot ensure that controls are operating consistently and effectively. In addition, without consistently obtaining, maintaining and reviewing provider applications, the Department may not be able to fully support or ensure payments were only made to eligible providers which could result in questioned costs. The client indicated the cause of the issues could be related to the current changes in the application process and MITS.

We recommend the Department implement and/or strengthen internal controls related to the review and storage of provider application information. The method for selection of the provider applications to review should be formally documented so management can ensure that reviews are accurately and consistently performed. The application packet and evidence of the control procedures performed should be maintained to provide management with assurance the controls are operating consistently and effectively.

10. MEDICAID/CHIP – PROVIDER ELIGIBILITY (Continued)

Official's Response and Corrective Action Plan

During the 2nd half of State Fiscal Year 2011, our focus became preparation for the go-live date of the new Medicaid Information Technology System (MITS). As we anticipated going live with the new system on August 2, 2011, Provider Enrollment was given a final date for processing paper applications in June, 2011. In order to meet this deadline, we identified various other milestone dates prior to this date. Due to this we were not able to consistently maintain our quality assurance review of 20 applications/changes per week. We did resume as time permitted, but the auditors sample did not find any of these applications.

MITS has changed the way we review applications primarily because we no longer have paper applications and the entire enrollment process in now online. We are resuming the quality assurance review process consistently on a weekly basis effective April, 2012. This process will include a review of 20 newly enrolled applications to verify that all application requirements have been met and the enrollment was completed accurately. As any errors with effective dates are found, the quality assurance review staff member will work directly with the enrollment staff member who completed the enrollment and correct the provider record accordingly. MITS includes an audit function that tracks all changes made to the record. Information tracked includes the individual who made the enrollment or change, the date the enrollment/change was completed and what was changed.

Additionally, we will keep a record of the 20 applications (by Medicaid provider ID) that are reviewed as part of this quality assurance process.

Anticipated Completion Date for Corrective Action

We are resuming consistent quality assurance reviews effective April 30, 2012.

Contact Person Responsible for Corrective Action

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11. SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM CLUSTER – REPORTING

Finding Number	2011-JFS11-035
CFDA Number and Title	10.551/10.561– SNAP Cluster
Federal Agency	Department of Agriculture
Compliance Requirement	Reporting

NONCOMPLIANCE AND MATERIAL WEAKNESS

7 CFR Section 273.18 (a) requires States to establish a claim against households and demand repayment if a household receives more SNAP benefits than it is entitled to receive. 7 CFR Section 273.18 (m) requires States to create and maintain a system of records for monitoring these claims against households. These State systems generate the data entered on the FNS-209, *Status of Claims against Households* report. States are required by 7 CFR 273.18 (m)(5) to complete the FNS-209 report on a quarterly basis, even if the State has not collected any payments for the quarter. This report is due 30 calendar days after the end of each calendar quarter, but the U.S Department of Agriculture's Food and Nutrition Services (FNS) allows an additional seven days for mailing the report to the regional offices.

11. SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM CLUSTER – REPORTING (Continued)

It is management's responsibility to implement control policies and procedures to reasonably ensure federal reports are submitted timely and are accurate, complete, and in compliance with program requirements. It is imperative that management be able to produce the underlying data and related program documentation required to prepare and support these reports.

ODJFS utilizes certain CRIS-E reports to compile household claims information counties submit that is required to be reported on the FNS-209. However, ODJFS did not complete and submit the FNS-209 reports for the 2^{nd}, 3^{rd}, and 4^{th} quarters for state fiscal year 2011. As a result, required information was not provided to the federal awarding agency and we could also not test ODJFS' controls over these reports.

Untimely reporting to the federal government could subject the Department to sanctions, limiting the amount of funding for program activities. According to the Fiscal Officer, the programming of the CRIS-E GBV033RA report used to complete the FNS-209 report became corrupt and a plan was coordinated and approved by the FNS regional office to correct the programming of the GBV033RA report, however, no documentation was provided to support this approval.

We recommend the Department strengthen existing policies and procedures to provide reasonable assurance federal reports are submitted timely and in compliance with federal requirements. We also recommend the Department consider pursuing alternative methods of gathering the data necessary to complete and submit federal reports when there are problems with reports produced by CRIS-E so as to not delay federal reporting for an extended period of time.

Official's Response and Corrective Action Plan

Federal Reporting will review processes in working with the Bureau of Program Integrity and the Office of Information Services related to issues of gathering reporting data for timely submission.

An escalation process to strengthen existing policies and procedures will be developed to provide reasonable assurance for the submission of timely and compliant federal reports.

Please note that communications directed to and received from the federal awarding agency acknowledging the issues surrounding the CRIS-E system and late submission of the report can be made available upon request.

Anticipated Completion Date for Corrective Action

The completion date will June 30, 2012

Contact Person Responsible for Corrective Action

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12. SSBG AND WIA – SUBRECIPIENT MONITORING

Finding Number	2011-JFS12-036
CFDA Number and Title	17.258/17.259/17.260 – WIA Cluster 93.667 – Social Services Block Grant
Federal Agency	Department of Health and Human Services
Compliance Requirement	Subrecipient Monitoring

NONCOMPLIANCE AND MATERIAL WEAKNESS

The Office of Management and Budget's (OMB) Circular A-133 states, in part:

§__.400 Responsibilities

. . .

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

. . .

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

(4) Ensure that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

. . .

It is management's responsibility to implement policies and procedures to monitor subrecipients to help ensure they have complied with the rules and regulations pertaining to their Federal programs and have met the objectives of those programs.

During state fiscal year 2011, the Ohio Department of Job and Family Services (ODJFS) disbursed approximately $8 million in federal funding from the Social Services Block Grant (SSBG) to a subrecipient who was responsible for purchasing and distributing food to eligible households through the Ohio foodbank network. The Department received a copy of the subrecipient's A-133 report, however:

- The documentation provided by the Department contained conflicting information regarding their receipt of the subrecipient's A-133 report and the related management decision was issued approximately eight months late. In addition, there was no documentation by the Department to verify whether or not the subrecipient took appropriate and timely corrective action on all audit findings.

- The grant agreement with this subrecipient identified these funds as Temporary Assistance for Needy Families (TANF) – Title XX transfer (SSBG), however, the CFDA number was identified as TANF instead of SSBG. As a result, the subrecipient's federal schedule reported funding related to this agreement as TANF instead of SSBG, totaling $6,375,000.

12. SSBG AND WIA – SUBRECIPIENT MONITORING (Continued)

In addition, ODJFS administers the Workforce Improvement Act (WIA) program through 20 local WIA areas, comprised of multiple counties in order to meet legal requirements for populations. During fiscal year 2011, approximately $129 million was passed through to these areas agencies. One of the Department's subrecipient monitoring controls involves reviewing the A-133 audit reports received related to the area agencies and issuing management decisions (or "final determinations") on the findings contained in those reports. The cover letter is sent to the WIA agencies as part of this process asserts the final determinations are being made "as required by OMB A-133 §.400 (d)(5)". Of the 17 subrecipient audits selected for testing, five had findings which required a Management Decision. For four out the five applicable A-133 audit reports tested, the Management Decisions were not made within six months of the receipt of the audit and the Department did not ensure appropriate corrective action related to the audit findings were carried out in a timely manner. Three of the four exceptions were for the Franklin County WIA Local Area (program years 2005 through 2007) and one was for the Monroe, Morgan, Noble, and Washington Counties WIA Local Area (program year 2007). The reports in question did not receive their final determination letters until one to two years after the mandated date.

Without maintaining the necessary documentation, the Department is unable to provide adequate assurance the funds disbursed to subrecipients are in compliance with the Federal rules and regulations. This increases the risk that necessary corrective actions may not be properly or timely implemented resulting in noncompliance, fines and penalties, and/or the identification of questioned costs, which could impact the amount of federal funding received in subsequent years.

According to management for the SSBG program, the Department was following the Code of Federal Regulations (CFR) guidelines for monitoring visits rather than the A-133 requirements. The Audit Resolution Officer indicated this was an oversight by the related program area staff on the requirements of the subrecipient. As for the WIA program, according to the Department's Office of Fiscal and Monitoring Services, the delay in the Management Decisions was due to the findings noted in the A-133 Audit Reports. Specifically for the Franklin County WIA Local Area, management put the reviews of the program year 2005 through 2007 audits on hold due to negotiations between the Department and the Local Area concerning the program year 2004 audit findings. However, the findings in 2005 through 2007 were not related to the same issues as the 2004 audit.

We recommend the Department continue to review, develop, and improve its policies and procedures over subrecipients to ensure:

- All management decisions are performed and communicated to subrecipients within six months of receiving the A-133 audit report. Should an ongoing issue delay the management decision for a specific finding, the Department should provide an interim communication with decisions on the remaining findings, with an estimated date for the final decision. All final decisions should reference these interim communications.

- Subrecipients submit their corrective action responses to the Department within 30 days of receipt of the management decision. Follow-up communications should be sent to any subrecipient whose correctiive action is not received timely.

- The Department ensure all grant agreements and related subrecipients' Federal Schedules accurately report the correct CFDA number and federal award amounts passed through by the Department. If discrepancies are identified, such as the aforementioned transfers between SSBG and TANF, the Department should notify the subrecipient so that adjustments can be made to the current and/or future schedules.

12. SSBG AND WIA – SUBRECIPIENT MONITORING (Continued)

Official's Response and Corrective Action Plan

ODJFS agrees the CFDA number for the food bank grant should have been for SSBG. At the time the subgrant was created, there was internal debate and discussion as to which federal program these expenditures should be reported. Future subgrants awarded with TANF Title XX Transfer funds will be categorized under, and use, the CFDA number for SSBG as funding was transferred to this federal grant and the SSBG compliance requirements are applicable.

All A-133 audit reports are received and processed by ODJFS' Audit Resolution Section (ARS), which is part of the Office of Fiscal & Monitoring Services (OFMS). A-133 audits are not processed by the ODJFS program areas; hence they are not required to separately review the A-133 report. The program areas are an active part of the audit resolution process. During the review process by ARS identified ODJFS audit findings from the A-133 and other reports are presented to the program areas for review and input to all corrective action plans.

The audit resolution process is a function of management which may be subject to change. Therefore, the audit resolution process is subject to change which is what occurred during the period covered by this audit finding.

ODJFS agrees OMB Circular A-133 audit findings must be cleared timely and a management decisions must be communicated to the subrecipients. The ARS has tracking processes in place to help ensure management decisions are timely with a goal to meet the federal time standards. However, in some cases, further research and information gathering is necessary to fully understand and address issues identified in the audit findings. Therefore, occasional delays may occur. This is also true for subrecipient corrective action plans depending on the audit finding and complexity of related issues.

ODJFS believes the current audit resolution process can effectively address these past issues. OMB Circular A-133 audits are now obtained directly from the Ohio Auditor of State as part of a cooperative agreement. This helps expedite resolution. The tracking process combined with changes to the Executive Audit Committee process should address timeliness issues.

We recognize that further monitoring is not a management decision. However, as a compensating control, the ODJFS monitoring area does include reviews of subrecipient OMB Circular A-133 audit reports as part its planning and risk assessment process. Material findings are considered and often discussed with subrecipients. Technical assistance is also provided to help alleviate issues and ensure federal compliance requirements are being met.

Collectively, we feel these efforts should resolve the audit finding.

Anticipated Completion Date for Corrective Action

The Audit Resolution Section will continue to strive for timely resolution of all subrecipient audit reports; we welcome constructive input and feedback; however we feel that at this time we are meeting our obligations. Our procedures have been vastly revised and improved starting in November 2010; a copy of our procedures can be made available upon request

Contact Person Responsible for Corrective Action

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13. CCDF CLUSTER – CASH MANAGEMENT

Finding Number	2011-JFS13-037
CFDA Number and Title	93.575/93.596/93.713 – CCDF Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Cash Management

NONCOMPLIANCE

31 CFR Section 205.15(d) states:

> *Mandatory matching of Federal funds.* In programs utilizing mandatory matching of Federal funds with State funds, a State must not arbitrarily assign its earliest costs to the Federal Government. A State incurs interest liabilities if it draws Federal funds in advance and/or in excess of the required proportion of agreed upon levels of State contributions in programs utilizing mandatory matching of Federal funds with State funds.

The A-133 Compliance Supplement issued by the Office of Management and Budget (OMB) further explains this requirement for the Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF) federal program (CFDA 93.596), by stating that "For the Matching Fund's (CFDA 93.596) [cash management] requirement, the drawdown of Federal cash should not exceed the federally funded portion of the State's Matching Funds, taking into account the State matching requirements. …" Although both the Mandatory and Matching Funds are contained in the CFDA 93.596 portion of the CCDF cluster program, this cash management requirement applies to only the Matching Fund, similar to the matching requirement of the program.

As stated in its Corrective Action Plan response to this comment in the prior audit report, the Department established separate grant numbers, effective April 14, 2010, for each component of the CCDF cluster - Matching, Mandatory and Discretionary Funds. However, the Department did not indicate any other controls were implemented to monitor the activity posted for these grant numbers for compliance with the cash management requirements. During state fiscal year (SFY) 2011, the Department received revenues of $136,416,246 and spent $143,803,632 related to the Mandatory and Matching Funds portion for CFDA 93.596. Of these amounts, $79,736,753 in revenues and $79,882,137 in expenditures related exclusively to the Matching Funds portion of the CCDF Cluster federal program. However, as shown by the following table, the Department did not comply with the Matching Funds' cash management requirement for two of the four quarters tested.

FFY	OAKS Grant #	Quarter Ending	Federal Draws	Expenditures	Variance
2,010	JFSFCG10	September 30, 2010	41,004,573	35,360,425	5,644,148
2,011	JFSFCG11	December 31, 2010	6,487,637	7,360,745	(873,108)
2,011	JFSFCG11	March 31, 2011	7,230,894	7,230,887	7
2,011	JFSFCG11	June 30, 2011	25,013,649	29,930,082	(4,916,433)
Totals			$79,736,753	$79,882,139	(145,386)

Noncompliance with the stated cash management requirement could subject the Department to sanctions or other penalties and/or a repayment of grant funds. In addition, future funds could be reduced or eliminated. ODJFS management stated they could not be in noncompliance with the cash management provisions cited above because they had met the applicable matching requirements for this program, as a whole. In addition, they used the new grants for the entire year for revenue coding, but didn't use them for expenditure coding until October 2010.

13. CCDF CLUSTER – CASH MANAGEMENT (Continued)

We recommend ODJFS evaluate their current processes and procedures related to the federal draws and update/implement them as necessary to reasonably ensure controls are in place and operating as intended on a consistent basis to reasonably ensure revenue for the federal program is processed accurately, recorded in a timely manner, and in compliance with the program's cash management requirements. These controls should include regular monitoring of the activity coded to the new grant numbers created for the matching funds to reasonably ensure federal funds are not drawn in excess of the expenditures for the related time period. In addition, we recommend management periodically monitor the established control procedures to help ensure they are being performed timely, consistently, and effectively.

Official's Response and Corrective Action Plan

Cash Management will implement an internal control process to monitor grant activity posted to Matching, Mandatory and Discretionary funding for compliance with cash management requirements by reconciling the cash draw to the expenditures quarterly.

Anticipated Completion Date for Corrective Action

The internal control process will be developed by 06/30/12

Contact Person Responsible for Corrective Action

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14. FEDERAL FINANCIAL REPORTS

Finding Number	2011-JFS14-038
CFDA Number and Title	10.551/10.561 – SNAP Cluster 93.558/93.714 – TANF Cluster 93.563 – Child Support Enforcement 93.575/93.596/93.713 – CCDF Cluster 93.658 – Foster Care – Title IV-E 93.659 – Adoption Assistance 93.667 – Social Services Block Grant 93.767 – Children's Health Insurance Program 93.720/93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services
Compliance Requirement	Reporting

NONCOMPLIANCE

45 CFR 92 contains the Department of Health and Human Services uniform administrative requirements for grants to state and local governments. The Department of Agriculture prepared similar uniform administrative requirements in 7 CFR 3016. 45 CFR 92.20 relates to financial administration and contains standards for financial management systems. Specifically, section 92.20 states, in part:

14. FEDERAL FINANCIAL REPORTS (Continued)

(a) A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to—

(1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
(2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Per the associated grant awards, federal regulations, and other guidance for the federal programs that it administers, the Department is required to prepare and submit various financial reports to the awarding federal agencies. Most of these reports contain specific instructions on how to prepare the related report which the federal program requires and what must be reported as expenditures for the program. It is management's responsibility to design and implement control policies and procedures to reasonably ensure that required reports are completed accurately, in accordance with the specific instructions, and submitted when due.

The Department has employed a state-supervised, county-administered approach for each of the nine major federal programs listed above. Under this approach, historically these programs were considered to be an extension of the Department and included within the State of Ohio's reporting entity and related single audit report, even though county financial information was not otherwise incorporated into the State's financial statements. As a result, the Department included the actual expenditures of the counties in the federal financial reports which it submitted to the federal grantor agencies. However, effective January 1, 2009, the Department changed the recognition of the county level operations to be that of a subrecipient. This change required the counties report the operations and financial transactions processed at the county level for these nine federal programs within their individual county's single audit.

Although the change in recognition was effective January 1, 2009, the Department continued to prepare the federal financial reports during fiscal year 2011 using the same universal methodology for all programs by incorporating the actual expenditures from the counties in the Department's federal reports. Since the Department uses the cash basis to produce the federal reports for the programs listed above, this method is contrary to the instructions for preparing certain reports, such as:

- SF-269 report, applicable to the SNAP Cluster program, which states "For reports prepared on a cash basis, outlays are the sum of actual cash disbursements for direct costs for goods and services, the amount of indirect expense charged, the value of in-kind contributions applied, and the amount of cash advances and payments made to subrecipients."

- OCSE-396A report, applicable to the Child Support Enforcement program, which states "***Expenditures (Cols. A, B, C & D).*** Under the requirements of 45 CFR 304.25(a), expenditures are actual payments made to vendors, service providers and contractors or for administrative, personnel, or other cost items. Include also indirect costs allocable to the quarter being reported in accordance with an approved cost allocation plan. To be allowable, all expenditures must be in accordance with the approved title IV-D State Plan and all applicable statutes, regulations and policies. For this reporting form the terms "expenditure" and "cost" are used interchangeably. Expenditure estimates are not acceptable in these columns. "Advances" of funds to another State agency, a local agency or a private entity are not considered expenditures for these purposes. The amounts reported in these columns must be actual, verifiable transactions supported by readily available accounting records and source documentation or an approved cost allocation plan, as applicable."

However, it is not clear if the same method is in accordance with the instructions for other required financial reports which are less explicit. For example, the instructions for the ACF-696 report, applicable to the Child Care Cluster, states reported expenditures "… must be actual obligations or expenditures made under the State's plan and in accordance with all applicable statues and regulations." Therefore, it is not clear if the Department complied with the reporting requirements for the other programs.

14. FEDERAL FINANCIAL REPORTS (Continued)

Incorrectly reporting expenditures on the federal reports could subject the Department to fines and/or penalties from the grantor agencies. In addition, noncompliance could subject the Department to the repayment of current awards or the loss of future awards. Management indicated they didn't think a change in their reporting practice was necessary as of January 1, 2009, because they had not changed any of their other procedures related to how these activities were processed. They also indicated they believed there would not be a material difference between the amounts disbursed at the counties and the amounts disbursed by the Department to these subrecipients; however, no documentation was readily available to support this position. As part of the Corrective Action Plan the Department provided to this comment in the prior audit, the Department stated that it "will once again contact our federal awarding agencies to determine whether they consider a change in established reporting procedures to be necessary or desirable. Past responses from the cognizant federal awarding agencies have been somewhat inconsistent, but we have not been contacted to change our reporting process." The Department was not able to provide documentation that this contact took place.

We recommend the Department review the instructions for preparing each required federal financial report and follow the directions therein for completing the federal reports that it submits to the federal agencies. If there are no instructions to the reports or the reports don't address this issue concerning federal funds disbursed to subrecipients, we recommend the Department contact the awarding federal agency and obtain written guidance from it about what should be included in the reports.

Official's Response and Corrective Action Plan

ODJFS gives a high priority to the department's compliance with applicable federal reporting requirements. The reporting processes currently used within ODJFS allow for consistent treatment within our accounting structure and allow for the most accurate federal reporting of expenditures.

While the Auditor of State chooses to characterize the resulting situation as a lack of clarity as to whether ODJFS is in compliance with federal reporting requirements, it appears equally valid to conclude that no evidence has been adduced to support a conclusion that the department is not compliant with federal reporting requirements. The federal agencies review our federal reports and procedures and have accepted our reports.

In light of the uncertainty resulting from the audit finding, ODJFS will continue to communicate with our federal awarding agencies to determine whether they consider a change in established reporting procedures to be necessary or desirable. Past responses from the cognizant federal awarding agencies have been somewhat inconsistent, but we have not been contacted to change our reporting process.

Anticipated Completion Date for Corrective Action

An anticipated completion date cannot be given at this time as ODJFS continues to seek feedback from the appropriate federal awarding agencies with potential guidance regarding this finding.

Contact Person Responsible for Corrective Action

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15. IT – ALL APPLICATIONS – LACK OF INTERNAL TESTING OF AUTOMATED CONTROLS

Finding Number	2011-JFS15-039
CFDA Number and Title	All Programs Administered by the Department
Federal Agency	Department of Agriculture Department of Health and Human Services Department of Labor
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs, Eligibility, Reporting, Special Tests and Provisions

<u>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 eligibility 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, to help meet the conditions under which the Department of Health and Human Services will approve federal financial participation with various programs, 45 CFR 95.621 (f)(2)(iii) requires states to perform risk analyses to ensure appropriate safeguards are incorporated into new and existing systems on a periodic basis and whenever significant system changes occur. Also, 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.

The Department places immeasurable reliance on a number of complex information systems (CRIS-E, MMIS [replaced by MITS as of August 2, 2011], SETS, FACSIS, SACWIS, CFIS, OFIS, OJI and ERIC) to record and process eligibility and financial information for the SNAP ($3.1 billion), Medicaid ($11.5 billion), CHIP ($299 million), TANF ($762 million), Child Support ($89 million), Foster Care ($190 million), Adoption Assistance ($180 million), WIA ($155 million), and Unemployment Insurance ($4.2 billion) 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, where applicable, were achieved. Comprehensive independent evaluations of the integrity of financial transaction processing were not performed at ODJFS to provide assurance data was authorized and entered completely and accurately; the automated applications correctly processed all transactions; payments, eligibility determinations, state and federal reporting, or other system outputs were accurately produced and reconciled; and the general computer controls over the supporting hardware and software were designed and securely operating as intended. Instead, management relied heavily on the Department's Office of Information Services (OIS) personnel who were directly responsible for the maintenance, security, and support of the ADP environment and on external auditors to review, monitor, and troubleshoot problems as they arose. However, the OIS individuals may not have the necessary knowledge of the federal 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, auditing standards preclude external auditors from considering their own audit procedures as part of the Department's internal controls.

15. IT – ALL APPLICATIONS – LACK OF INTERNAL TESTING OF AUTOMATED CONTROLS (Continued)

Near the end of state fiscal year 2011, the Department requested the State's Office of Internal Audit (OIA) to conduct general IT control testing of all the audit significant systems of the Department on a three year cycle. The initial phase of the testing was to include general controls testing related to CRIS-E, SETS, and OJI for state fiscal year 2012. However, these reviews were still in process at the time of our audit and; therefore, the results could not be considered for fiscal year 2011.

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.

OIS management indicated they cannot afford the expense of creating a separate/independent office to do risk analysis on development activities, but are working with OIA to perform certain reviews. They also indicated all development bureaus adhere to a system development life cycle (SDLC) protocol. OIS acknowledges this is an ongoing challenge they can ill afford to undertake and are confident the present approach to system development ensures an acceptable level of confidence. Additionally, OIS capitalizes on the use of independent verification and validation reports (IV&V's) as well as federal and state audit efforts, such as the state single audit, to validate and verify development/production applications.

We recommend ODJFS follow through with their plan to work with OIA to complete the annual independent evaluations in accordance with program guidelines. In addition to the planned general control testing, we recommend assessments of the automated application controls for these systems, including transaction testing of critical operations and functions, be performed by or in conjunction with knowledgeable ODJFS program staff to help provide assurance all components of the systems are operating as designed, payments and eligibility determinations are accurate, and, all financial and other reports are produced with integrity. ODJFS should evaluate the results of all evaluations performed to help ensure timely corrective action is taken to address risk areas and/or control weaknesses identified.

Official's Response and Corrective Action Plan

The Department of Job and Family Services is working in conjunction with the Office of Budget and Management Office of Internal Audit to remediate this audit finding. The Office of Internal Audit provides internal audits for state agencies according to an annual plan. The reports, findings and recommendations of these audits are reported to the independent State Audit Committee in accordance with ORC 126.46.

The Department of Job and Family Services audit plan for FY2012 includes an IT General Controls review of the CRIS-E, SETS, and OJI applications.

Audit objectives were developed to align with requirements of 45 CFR 95.621 utilizing the National Institute of Standards and Technology (NIST) security framework found in Special Publication (SP) 800-53. Broad objectives for the audit include:

A. Provide management with reasonable assurance that the three systems are "operating effectively and in accordance with program guidelines".

B. Provide management with reasonable assurance that appropriate safeguards are incorporated into these systems, in accordance with 45 CFR 95.621.

15. IT – ALL APPLICATIONS – LACK OF INTERNAL TESTING OF AUTOMATED CONTROLS (Continued)

These safeguards are in the following areas:

1. *Determination and implementation of appropriate security requirements*
2. *Establishment of a security plan and policies and procedures*
3. *Physical security of ADP resources*
4. *Equipment security to protect equipment from theft and unauthorized use*
5. *Software and data security*
6. *Telecommunications security*
7. *Personnel security*
8. *Contingency plans and Emergency preparedness*
9. *Designation of an Agency ADP Security Manager*
10. *Periodic risk analyses*

C. Provide management with reasonable assurance that the Benefits Accuracy Measurements (BAM) unit is adhering to federal requirements for ensuring unemployment benefits processing accuracy and integrity.

D. Provide management with reasonable assurance that the CRIS-E system properly calculates benefit eligibility based upon CDJFS entered data.

The three applications will also be assessed against the following Control Objectives for Information and related Technology (COBIT):

1. *Application Controls*
2. *Acquire and Maintain Application Software*
3. *Manage Changes*

The OBM audit leads have over 20 years of IT experience and are CISA certified. They will work with ODJFS management and technical leads to get a basis of understanding for the performance of the systems.

The assessed effectiveness of the control environment will be presented to ODJFS during biweekly status meeting throughout the audit period and will culminate with a management assurance memorandum at the end of the audit period that will be reported to ODJFS management.

ODJFS Leaders will be responsible for management responses for any areas of remediation and the status of the finding will be reported to the State Audit Committee.

ODJFS believes that its day-to-day business processes supplemented by the new annual OIA audit, along with the recurring federal reviews conducted by the Internal Revenue Service and the Department of Health and Human Services provide management with reasonable assurance that program objectives and requirements are being met and that manual and automated controls are operating effectively.

Anticipated Completion Date for Corrective Action

The IT general controls audit of CRIS-E, SETS and OJI will be conducted in FY2012 with a target completion date of June 29, 2012. The remaining systems will be audited in accordance with the audit plans for subsequent fiscal years with a target of three systems reviewed per fiscal year. The review cycle will then be repeated once all systems have been reviewed.

Contact Person Responsible for Corrective Action

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16. REVENUE RECONCILIATION – LACK OF CONTROL

Finding Number	2011-JFS16-040
CFDA Number and Title	All Federal Programs of the Department
Federal Agency	Department of Agriculture Department of Labor Department of Health and Human Services
Compliance Requirement	Cash Management

MATERIAL WEAKNESS

Office of Management and Budget Circular A-133, § _.300 (b) requires that recipients of federal awards "[m]aintain 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." It is management's responsibility to design, implement, and monitor these controls to reasonably ensure compliance with the applicable requirements. These controls must include maintaining appropriate supporting documentation for all transactions and performing timely reconciliation procedures to help ensure the transactions processed are accurate and complete.

During state fiscal year 2011, the Department received and processed through the state accounting system, OAKS (Ohio Administrative Knowledge System), approximately $13.9 billion in federal revenue related to the 13 major and 50 other federal programs it administered. Although the Department had several controls in place to review the coding of revenue data transactions before and during data entry into OAKS (input), ODJFS did not have sufficient controls in place to reconcile what was entered and/or the amount of federal funds drawn to what was subsequently posted to OAKS (output) for these federal programs. In addition, coding errors and adjustments to OAKS were identified in other testing areas which indicate the input controls alone did not sufficiently reduce the risk of errors. A control the Department had used in previous years to reconcile the revenue using internal grant ledgers, OAKS inquiry/report, and a Summary Tracking Spreadsheet was discontinued for all of fiscal year 2011.

If the input documents/transactions are not reconciled with the output results in OAKS, then coding errors and/or changes to the coding of the transactions made either through an override or adjustment of the intended coding by an internal or external source or by a glitch in the OAKS system as it processed the data could occur. Without a reconciliation of all federal revenue received to what was recorded, the risk exists that revenues for the federal programs may not be processed accurately, recorded for the proper program in a timely manner, or in compliance with federal requirements. In addition, management cannot reasonably be assured the accounting records and/or federal reports produced from those records are accurate and complete. This also creates a risk that internal controls may not be working in a manner intended by management.

Department management stated they had a reconciliation procedure in place in previous fiscal years but the manual reconciliation procedure was suspended as the Department attempted to implement a new, automated process of tracking/monitoring federal grants, thereby replacing the discontinued reconciliation control. However, the new control process did not work as intended and was itself put on hold while the Department tried to resolve the implementation problems. Management stated they restored the manual reconciliation control for all federal programs at the beginning of fiscal year 2012. Upon further discussion with Department management, the manual reconciliation did not capture OAKS data after processing, and thus also would not have reconciled revenue transactions after entry to those results after being processed in OAKS.

16. REVENUE RECONCILIATION – LACK OF CONTROL (Continued)

We recommend ODJFS management evaluate their current processes and procedures related to the federal draws and update/implement them as necessary to reasonably ensure controls are in place and operating as intended on a consistent basis to reasonably ensure revenue for each federal program is processed accurately, recorded in a timely manner, and in compliance with federal requirements. These controls should include a periodic reconciliation of revenue drawn from awarding agencies and entered into the accounting system to that posted in the OAKS system to verify the transactions were processed accurately, completely, and appropriately. In addition, management should periodically monitor the established control procedures to help ensure they are being performed timely, consistently, and effectively.

Official's Response and Corrective Action Plan

Ohio Department of Job and Family Services (ODJFS) Office of Fiscal and Monitoring Services (OFMS) Cash Management Section, is in the process of developing procedures to address the AOS concern that draw request information originally entered into OAKS could change or be altered after it is entered into OAKS.

ODJFS will compare revenue documents scanned into File Net to current OAKS draw documents to ensure amounts originally drawn through OAKS are still the same as those reported in OAKS. The comparison will occur at least ninety days after entry into OAKS.

ODJFS draws daily from nine different letters of credit. Draws from three letters of credit will be randomly selected bi-weekly to compare to current OAKS data for the selected draws. This process will verify whether or not the originally drawn dollar amounts have changed in OAKS since the revenue document details were entered. This process will allow us to compare eighteen documents per quarter.

The supervisor and/or section chief will check, sign and date all document comparisons. These documents will be scanned, electronically filed and available for review upon request.

Anticipated Completion Date for Corrective Action

The Federal Draw Unit will prepare procedures to include a verification process to identify if the original dollar amounts drawn have been changed or altered in OAKS since the revenue documentation details were entered. A supervisor and/or section chief will check, sign and date all documented comparisons. The procedures will be completed by 6/30/12.

Contact Person Responsible for Corrective Action

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17. IT - MMIS ELIGIBILITY – EXPIRED RECERTIFICATION DATES

Finding Number	2011-JFS17-041
CFDA Number and Title	93.767 – Children's Health Insurance Program 93.720/93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs, Special Tests and Provisions

<u>MATERIAL WEAKNESS</u>

In order for a provider to enroll in the Medicaid program, they must comply with applicable laws and regulations pertaining to Medicaid, including Section 1902 of the Social Security Act; Title 42, Chapter IV, Parts 442, 482 through 489 of the Code of Federal Regulations; and Chapter 5101:3 of the Ohio Administrative Code. The Provider Enrollment Unit has created a Provider Enrollment Manual which combines all the requirements for a provider to be enrolled in the Medicaid program. It is imperative that management monitor and oversee the process of granting Medicaid eligibility to new providers to reasonably ensure compliance with applicable laws and regulations. Controls must be adequately documented to provide management with assurance the controls are performed timely and consistently.

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 & Family Services.

During state fiscal year 2011, the Department disbursed approximately $12.5 billion is state and federal funds to medical providers and managed care entities for services rendered to eligible recipients based on determinations made by the Medicaid Management Information System (MMIS). The medical providers were required to complete an application process and possess valid licensure and accreditations before being eligible to receive reimbursement through MMIS. Once the provider was approved, they were marked as active in MMIS and allowed to submit claims for reimbursement until the provider was marked inactive (for example through voluntary withdrawal from MMIS, license becomes invalid, death, etc.). The provider's recertification date, the date when the provider's license will expire if not renewed, was also entered into the MMIS application. However, changes in the status for providers other than physicians, osteopaths, or podiatrists were not always received and updated by ODJFS. In addition, even though recertification data was updated on a monthly basis for all physicians, osteopaths, and podiatrists, the MMIS application did not revoke or even report providers with an expired recertification date. As of June 2011, 18,746 (approximately 34%) of the 55,700 active medical providers on the MMIS provider master file that required current medical license information had a recertification date that had expired more than 120 days previously. Payments totaling $5,467 we made to 33 of these expired providers for 74 claims submitted and paid after the providers' 120 day grace period.

Without controls in place to help ensure providers have met licensure and/or accreditation requirements, ineligible providers marked as active may receive reimbursement from the Medicaid and/or CHIP programs resulting in potential questioned costs. Inappropriate reimbursement of federal claims could subject the Department to possible federal sanctions.

Management from the Department's Office of Ohio Health Plans (OHP) indicated the 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. ODJFS continues to have a vision of working with all of the provider boards as their human capital resources permit. In addition, the MMIS

17. IT - MMIS ELIGIBILITY – EXPIRED RECERTIFICATION DATES (Continued)

system used during state fiscal year 2011 did not have an alert or flag that is triggered when MMIS recertification dates are expired. The Department implemented the primary functionality of the new Medicaid Information Technology System (MITS) in August 2011, and is planning to include a direct interface with the appropriate boards for a real time exchange of information in future enhancements to the system.

We recommend ODJFS work with the various licensing boards to verify all medical providers possess a valid license or accreditation, if required. The Department should establish a process to review potentially ineligible providers and provide timely inactivation in the new MITS when ineligibility is established. The process should ensure the active status listed for all providers in MITS is verified as correct. Any licensing board updates should be thoroughly reviewed on a timely basis to ensure the most current provider status information. We also recommend the Department implement detective controls to regularly report and review all providers with an expired recertification date. These payment exceptions should be suspended until proper resolution denies or approves the claims.

Official's Response and Corrective Action Plan

All of the records that were part of the sample for this audit and provided back to OHP for review are being updated with current license expiration information in MITS. Currently this process includes a verification of the license on the licensing board websites and a change to the provider record in MITS. Other than an automated update with file upload from the Ohio Medical Board for physicians, all other license verifications and updates were manually identified and resolved by staff in the MMIS system. We had limited report capability in MMIS to identify license issues and resolve them proactively.

However, in MITS we are able to run a monthly report from the Provider Subsystem, PRV-0002-M, License Expiration Report, which lists by expiration date and then by provider type, all provider records that have an expired license date in the system and those that are set to expire that month and one month forward.

Network Management Section is using the February 1, 2012, report to verify all providers who show expired license dates in MITS as of that date and update the provider record accordingly.

Once all expired licenses are verified and updated, Network Management staff will use the report to identify and verify expiring licenses proactively.

ODJFS/OHP will continue to work with Ohio's licensing boards to both maintain effective and current communication about provider license status and to examine options for electronic interface as part of future phases in MITS. Our goal is to have automated updates of license information in MITS through direct system interfaces between MITS and the license board systems. We are only in beginning phase discussions for this and it is not possible to identify an implementation date yet.

Anticipated Completion Date for Corrective Action

Updating all currently expired licenses in MITS using the new Cold Report functionality will take several months. We anticipate a completion date by August, 2012.

Contact Person Responsible for Corrective Action

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18. IT - MMIS ELIGIBILITY – PMF CODE CHANGES

Finding Number	2011-JFS18-042
CFDA Number and Title	93.767 – Children's Health Insurance Program 93.720/93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs, Special Tests and Provisions

MATERIAL WEAKNESS

To help ensure data integrity, it is prudent that data input for electronic processing be properly authorized and accurately input. Another method of ensuring data integrity is to establish a separation of duties among those inputting data and those reviewing and approving the integrity of that data. Additionally, in situations where data is incorrectly input, procedures are established for the correction and resubmission of erroneous input data.

ODJFS maintained the Medicaid Management Information System (MMIS) that processed claims for reimbursement to medical providers for eligible services rendered. During state fiscal year 2011, MMIS processed over 80 million claims from providers resulting in over $12.5 billion in Medicaid and Children's Health Insurance (CHIP) reimbursements to these providers. The providers submit changes to their Medicaid accounts to the Department's Office of Ohio Health Plans (OHP). OHP then input the changes into the MMIS Provider Master file for processing. Procedures during the audit period required change requests to be documented, authorized, date stamped by the individual entering the data, and date stamped by the supervisor who reviews the data entered. However, these procedures were not consistently followed during state fiscal year 2011 for changes to the Provider Master File, as indicated below:

- Documentation could not be provided for 27 of the 60 changes tested (45%; with a potential impact to approximately $5.6 billion of the population.
- The change requests to the Provider Master File were not signed with an authorizing signature from the provider for five out of 33 (15%; with a potential impact to approximately $1.8 billion of the population).
- Change requests to the Provider Master File were not date stamped by the staff member signifying the change was complete for nine out of 33 (18%; with a potential impact to approximately $2.3 billion of the population).
- Change requests to the Provider Master File were not date stamped by the supervisor or lead worker signifying the change was reviewed for each of the 33 available change requests (100%).
- Of the 33 changes where documentation was available, four were either not found in the MITS application or the change was made incorrectly (12%; with a potential impact to approximately $1.5 billion of the population).

If a provider's status is updated incorrectly, without proper support, or from an unauthorized source, non-eligible providers or provider groups could receive reimbursement from Medicaid and/or CHIP. OHP management indicated all requested support information could not be located for provider master file updates, but could not offer any explanation as to why this documentation was not available.

We recommend OHP ensure all change request documentation and required date stamps are provided when making changes to the Provider Master File. We also recommend Ohio Health Plans' management assign an employee to periodically conduct and document reviews of the change requests input to the Provider Master File to help ensure the information is accurate and complete, and that established controls are operating as intended.

18. IT - MMIS ELIGIBILITY – PMF CODE CHANGES (Continued)

Official's Response and Corrective Action Plan

On August 2, 2011, OHP launched its new Medicaid Information Technology System (MITS). This system includes an audit function for every change that is made to a provider record. This feature eliminates the need for staff to manually print before and after screenshots and date stamp/initial the change as we did in the former MMIS system to document the change. Every panel in the provider subsystem that can be updated or changed includes an audit function that can be easily accessed to identify all the changes made, who made them and when they were made. Our Provider Enrollment Manual will be amended during the next 8 -10 months to reflect the new audit functionality in MITS.

Additionally, MITS portal design now allows providers to make some changes on-line on their own; without OHP review and approval. These changes are currently limited to address change and contact information changes. Other changes to the provider record still require a formal request from the provider. This is now the only paper process that we have in Provider Enrollment until full "change request" functionality can be built in the MITS portal. This significant reduction in paper allows our staffs time to make sure all requests include appropriate documentation to complete the requested change in MITS. Additionally, all change request documents are scanned and uploaded to the provider record in the system so we have a complete master file record for each provider in MITS.

OHP is planning to develop functionality in MITS so that all provider change requests will be made through the on-line web portal. Our goal is for providers to submit a change request including all supporting documentation through the portal, just like applicants submit their enrollment applications today. This means that a change request will not be processed or completed until all required documentation is uploaded in the system. This design change to MITS has been identified but a date for implementation is not available yet.

Anticipated Completion Date for Corrective Action

The corrective action is already in place with the new functionality in MITS. Provider Enrollment Manual will be amended to reflect all of the MITS related process changes with an expected completion date sometime in December, 2012.

Contact Person Responsible for Corrective Action

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19. COUNTY ADJUSTMENTS

Finding Number	2011-JFS19-043
CFDA Number and Title	93.558/93.714 – TANF Cluster 93.575/93.596/93.713 – CCDF Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Subrecipient Monitoring

MATERIAL WEAKNESS

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

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:

(1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.

(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.

…

The Department distributed approximately $233.9 million and $773.6 million during fiscal year 2011 from the Child Care and Development (CCDF) and Temporary Assistance for Needy Families (TANF) major programs, respectively, to subrecipient county agencies in the form of reimbursements, advance-funded draws, and/or earned incentives. As the counties spent these funds during the quarter, the costs were charged to the corresponding program (determined by the county) and entered into QUIC+ (county accounting system), which interfaced with the Department's County Finance Information System (CFIS), which interfaced with the state accounting system, OAKS (Ohio Administrative Knowledge System).

Many of the services provided at the county level were eligible to be paid from either the CCDF or the TANF federal programs, or from state funds. However, differences existed between the federal program for which a county requested funds/recorded the expenditures and the federal program from which the Department drew down funds. As part of normal operations, the Department reconciled county expenditures to the related budgets and made an adjustment to move excess reported expenditures to another funding source. Effective May 1, 2010, the Department made an operational change to administer the CCDF program at the state level and realized that CCDF program fund costs charged by the counties were larger than the related federal award to the State. Between September and November, 2010, the Department adjusted county-level expenditure amounts for the Federal FY 2010 CCDF and TANF awards by moving expenditures from CCDF to TANF. Although these adjustments occurred during

19. COUNTY ADJUSTMENTS (Continued)

state fiscal year 2011, they significantly altered expenditures originally recorded in calendar years 2009 and 2010 at both the State and county levels. This had a significant impact on the counties' schedules of federal financial assistance for 2009 and 2010, many of which had already been finalized and included in released audit reports. The effect on the individual county subrecipients varied. However, the table below identifies the significance of the adjustments in total at the state level.

Funding source	Grant- Fund	Adjustments From CCDF	Adjustments To TANF
CCDF			
Federal CCDF-Mandatory/Matching	JFSFCM10-3H70	($194,006,384)	
State funds only	JFSFSTFO-GRF	87,545,969	
Federal CCDF-Discretionary	JFSFCD09-3H70	63,305	
Federal CCDF-Discretionary Stimulus	JFSFCD09S-3H70	257,774	
TANF			
State funds only	JFSFSTFO-GRF		$29,837,912
Federal TANF	JFSFTF10-3V60		76,301,424
	Total	($106,139,336)	$106,139,336

The only evidence the Department provided to us about communicating the adjustments to the counties was the following CFIS Alert, which would have been forwarded to county personnel in a format similar to an e-mail:

> BCFTA [Department's Bureau of County Finance and Technical Assistance] has updated the config file to move SFY10 Child Care Services between the five grants which make up Child Care Services CCDF & Child Care Services TANF. After the config file is processed, your county will only have an Over/Under balance in the federal FFY10 TANF grant which will be reconciled with the state during the July-September 2010 closeout. Please contact your Fiscal Supervisor with any questions.

This communication was vague and did not mention the adjustments specifically, the reason for them, or the magnitude of them. In addition, the CFIS Alert was sent on October 19, 2010, after the adjustments had already been made. Moreover, the Department made the adjustments without taking into consideration the impact they would have on the varying county fiscal years or the effect on the counties' audits, either completed or in progress. As a result, the Department did not provide sufficient and adequate communications to their county subrecipients about the adjustments, as required to prepare SEFA, in accordance with Office of Management and Budget's Circular A-133 ¶ 400(d).

Department management stated they make these types of adjustments routinely as part of the closeout/reconciliation process, but what sets these adjustments apart from the "normal" adjustments is the magnitude of the adjustments. Management stated the adjustments were necessary because the counties have a tendency of recording costs that can be charged to either CCDF or TANF to the CCDF program almost automatically without considering using TANF funds.

We recommend the Department monitor the expenditures of the counties to ensure they mirror the same program as recorded by the Department. We also recommend the Department inform the counties of all adjustment and the reason for the change in a timely manner. If large adjustments between multiple federal programs are contemplated in the future, the Department should seek written approval or a waiver from the federal agencies in advance of making the adjustments. If such adjustments are made, the Department should provide a more complete and detailed explanation to the subrecipients affected.

19. COUNTY ADJUSTMENTS (Continued)

Official's Response and Corrective Action Plan

BCFTA has already put a process into place by which counties are notified immediately if adjustments are made by the State. In addition, ODJFS has expanded the level of adjustment capability available to the county agencies and most adjustments can now be done at the subrecipients' level. In cases where the State must make the adjustment the Department will provide a complete explanation to the county agencies. ODJFS will seek guidance from our cognizant agency to determine the requirements for prior approval of adjustments made at the state level.

Anticipated Completion Date for Corrective Action

The above corrective action is currently in effect, supporting documentation is available upon request.

Contact Person Responsible for Corrective Action

Donna Tucker, Acting Bureau Chief, Bureau of County Finance and Technical Assistance, Ohio Department of Job & Family Services, 30 East Broad Street, 37th Floor; Columbus, Ohio 43215, Phone: (614) 466-6067, E-Mail: donna.tucker@jfs.ohio.gov

20. VARIOUS PROGRAMS – COUNTY FINANCE DOCUMENTATION AND PROCEDURES

Finding Number	2011-JFS20-044
CFDA Number and Title	10.551/10.561 – SNAP Cluster 17.258/17.259/17.260/17.277/17.278 – WIA Cluster 93.558/93.714 – TANF Cluster 93.563 – Child Support Enforcement 93.575/93.596/93.713 – CCDF Cluster 93.658 – Foster Care – Title IV-E 93.659 – Adoption Assistance 93.667 – Social Services Block Grant 93.767 – Children's Health Insurance Program 93.720/93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Labor Department of Health and Human Services
Compliance Requirement	Allowable Costs, Reporting

<u>MATERIAL WEAKNESS</u>

Office of Management and Budget Circular A-133, § _.300 requires recipients of federal awards "[m]aintain internal controls over Federal programs that provide reasonable assurance they are 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." It is management's responsibility to design, implement, and monitor these controls to reasonably ensure compliance with the applicable requirements. These controls must include maintaining appropriate supporting documentation for all transactions and performing timely reconciliation procedures to help ensure the transactions processed are accurate and complete.

20. VARIOUS PROGRAMS – COUNTY FINANCE DOCUMENTATION AND PROCEDURES (Continued)

The Ohio Department of Job and Family Services (ODJFS) distributed approximately $866 million during fiscal year 2011 from the major programs listed above to subrecipient county agencies/WIA local areas in the form of reimbursements, advance-funded draws, and/or earned incentives. The Department used the County Finance Information System (CFIS) to assist in providing grant management controls and oversight in this draw and disbursement process. However, the Department did not consistently apply its established controls during the year or accurately record/reconcile the amounts from the subrecipients, as noted below.

- The receiving county agency/area was required to submit monthly 02750, 02827, 02820, and/or 01992 reports showing the beginning cash balance, receipts, disbursements, and the ending cash balance; along with a report cover sheet signed by the County Auditor and County Director/Local Area Director certifying the accuracy of the data. One of the Departmental control procedures required that departmental Bureau of County Finance and Technical Assistance employees review and initial the cover sheet of the reports received from the counties/local areas to indicate the documents were mathematically accurate. However, the designated employee did not initial the cover page for six of 84 tested reports (six monthly reports for 10 of the 88 counties and six monthly reports for four of the 20 local areas). This equals a control failure of 7.1%, with a potential impact to $61.5 million of the population.

- The amounts (receipts, disbursements, balances, accruals, or obligations) listed on the monthly Department-generated reconciliation schedule used by the Department to compare the data on the county/local area reports to the related CFIS (1.A or 1.F) report did not agree for one of the 30 (3.3%) reports tested.

Without consistent performance and documentation of internal controls, and the ability to obtain accurate report data from the county level in a timely manner, the risk exists that draws and subsequent disbursements or expenditures for the federal programs may be processed inaccurately or for unallowable activities. In addition, management cannot reasonably be assured the accounting records are accurate or federal reports produced from those records are accurate. This also increases the risk that internal controls may not be established or working in a manner intended by management.

Management of the Department indicated the lack of signatures on the Signature Pages and report cover letters was due to human oversight. Department management could not explain why the variances existed on the reports from the counties/local areas.

We recommend Department management evaluate their current processes and procedures related to the draws and disbursements to counties/WIA local areas and update/implement them as necessary to reasonably ensure controls are in place and operating as intended on a consistent basis which reasonably ensure payments to the counties are accurate, complete, and representative of actual program activity. The Department should amend, as needed, its written policies and procedures so they address all significant aspects in the disbursement process. These policies and procedures should include, but not be limited to, requiring:

- Evidence be maintained to document the occurrence of the established controls, such as document reviews and sign-offs.
- Records, such as the monthly 02750, 02827, 02820, and/or 01992 reports, be received timely and filed in a manner so that they can be readily retrieved.
- Explanations or other reasons why variances in the reconciliation process occurred and how the variances were resolved.

These written policies and procedures should be formally approved and communicated to all affected employees in the disbursement process. In addition, management should periodically monitor the established control procedures to help ensure they are performed timely, consistently, and effectively.

20. VARIOUS PROGRAMS – COUNTY FINANCE DOCUMENTATION AND PROCEDURES (Continued)

Official's Response and Corrective Action Plan

Effective with SFY12, ODJFS changed the certification of funds requirement from a monthly process to a quarterly process. With the change in this requirement, BCFTA also revised the monitoring procedure. The revised procedure should provide reasonable assurance that the county agencies' records accurately reflect the fiscal activity uploaded into CFS/OAKS for the quarter.

In addition, ODJFS automated the process and the quarterly certification forms are now generated from data uploaded into CFIS, rather than completed at the county level. The automation of these reports will eliminate the data-matching problem noted by AOS. ODJFS also revised the monitoring procedure for the completion and return of the forms. During the first four quarters after the implementation of the quarterly process, BCFTA is reviewing discrepancies and assisting the county subrecipients with reconciliation of their county records and CFIS records. ODJFS expects this process to be completed by July 1, 2012, the beginning of SFY 13. At that time, monitoring of the return of the forms will be limited to ensuring the documents are returned and have the required signatures. A copy of the revised procedure is available upon request.

Anticipated Completion Date for Corrective Action

Revised procedure was effective October 1, 2011.

Contact Person Responsible for Corrective Action

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21. MEDICAID/CHIP – MANAGED CARE

Finding Number	2011-JFS21-045
CFDA Number and Title	93.767 – Children's Health Insurance Program 93.720/93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed; Special Tests and Provisions

<u>MATERIAL WEAKNESS</u>

42 CFR Section 438.207, states, in part:

(a) Basic rule. The State must ensure, through its contracts, that each MCO, PIHP, and PAHP gives assurances to the State and provides supporting documentation that demonstrates that it has the capacity to serve the expected enrollment in its service area in accordance with the State's standards for access to care under this subpart.

(b) Nature of supporting documentation. Each MCO, PIHP, and PAHP must submit documentation to the State, in a format specified by the State to demonstrate that it complies with the following requirements:

(1) Offers an appropriate range of preventive, primary care, and specialty services that is adequate for the anticipated number of enrollees for the service area.

21. MEDICAID/CHIP – MANAGED CARE (Continued)

(2) Maintains a network of providers that is sufficient in number, mix, and geographic distribution to meet the needs of the anticipated number of enrollees in the service area.

…

Sound internal control procedures require management to monitor and oversee operations of the Managed Care program to provide reasonable assurance the Managed Care Plans (MCP) are in compliance with provider panel and provider capacity requirements. Controls must be adequately documented to provide management with assurance the controls are performed timely and consistently.

The Department expended approximately $5.06 billion ($4.88 billion for Medicaid and $175 million for CHIP) related to Managed Care during state fiscal year 2011. The program requires each MCP to contract with a minimum number of providers to help ensure MCP members have access to services covered by Medicaid. Monthly, MCPs submit reports identifying the number of providers for each provider type, as well as identifying the primary care physician capacity and hospital capacity. The Department creates provider panel reports with the information submitted by the MCPs. The Department has established certain internal controls and practices to review the monthly provider panel reports and verify requirements are met; however, these controls were not consistently followed, as indicated below. Of the 20 provider panel reports selected for testing:

- Five (25%; with a potential impact to 41.5% of the population) did not contain evidence the Department reviewed the report and verified the provider panel and provider capacity requirements were met.

- One (5%; with a potential impact to 18.1% of the population) was not reviewed timely. The provider panel report review occurred almost four months after the month of the provider panel report.

- One (5%; with a potential impact to 18.1% of the population) had provider requirement information that did not agree to the requirements established by the Managed Care program, as specified in the MCP contract. Even though the requirement information in the provider panel reports was not up to date, the provider met the requirements as specified in the MCP contract.

Without proper documentation of management's review and approval of internal controls, there is an increased risk that procedures may not be working as intended or may not be consistently applied. If control procedures are not performed and documented thoroughly and consistently, management is unable to provide reasonable assurance that the Managed Care program is in compliance with provider panel and provider capacity requirements. The Senior Program Administrator indicated the exceptions noted are due to oversight and a limited number of staff. Additionally, the process of manually updating the Provider Panel Reports with changes from the MCP Agreement can be very cumbersome.

We recommend the Department implement and/or strengthen internal controls related to the review of the provider panel reports. The Department should select a sample of provider panel reports to review on a regular basis to ensure that information contained within the reports agree to the requirements listed in the MCP Agreements. Evidence of such reviews should be maintained to provide management with assurance the controls are operating consistently and effectively.

21. MEDICAID/CHIP – MANAGED CARE (Continued)

Official's Response and Corrective Action Plan

The review information contained within the form is related to review by the contract administrator that has been assigned to conduct general oversight of the managed care plan. The review of the reports for violations and compliance is conducted by a dedicated staff member other than the contract administrator. Review by the dedicated staff member is currently not evidenced on the report. As a Planned Corrective Action, the Department will modify the report to contain evidence that the dedicated compliance staff member has reviewed the report for compliance. In addition, reports will be monitored more frequently to assure review by the contract administrators.

In regards to the incorrect contract requirement that was contained on the reporting form, while the error did not affect identification of a violation the department is working with our vendor to correct the error.

Anticipated Completion Date for Corrective Action

The department will have the reporting form modified for the April report and will work with the vendor to have the information on the report corrected by April 30, 2012.

Contact Person Responsible for Corrective Action

Catherine Spindler, MHSA 1, Ohio Department of Job & Family Services, 50 E Town St, Suite 400, Columbus, Ohio 43215, Phone: (614) 752-4683, E-Mail: Catherine.Spindler@jfs.ohio.gov

22. TANF – INTERNAL CONTROL DEFICIENCIES – VARIOUS COUNTIES

Finding Number	2011-JFS22-046
CFDA Number and Title	93.558/93.714 – TANF Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Special Tests and Provisions

MATERIAL WEAKNESS

County agencies are advanced or reimbursed federal monies to administer various programs on behalf of the Ohio Department of Job and Family Services (ODJFS). Counties are responsible for maintaining complete records and case files in accordance with ODJFS rules and guidelines. It is the responsibility of county management to implement control policies and procedures to reasonably ensure their case files are reviewed and complete. It is the responsibility of ODJFS management to implement monitoring controls and procedures to reasonably ensure county agencies are maintaining appropriate documentation to support state-paid benefits.

During fiscal year 2011, ODJFS disbursed approximately $467 million in benefits related to the Ohio Works First portion of the TANF program. In order to maintain these benefits and/or avoid sanctions, recipients must comply with certain special requirements which are to be documented and maintained in the recipients' case files at the related 88 counties. However, three of five counties tested had weaknesses in their internal controls which, in some instances, resulted in inaccurate information, as noted below. The error rates listed represent the results of testing for the program as a whole and at the individual counties.

22. TANF – INTERNAL CONTROL DEFICIENCIES – VARIOUS COUNTIES (Continued)

Part 1 - Child Support Non-Cooperation

Of the 100 child support non-cooperation sanctions selected for testing at the counties, 14 recipients (14%) did not evidence their signature and date on the self-sufficiency contract or employability contract.

- *Cuyahoga County* - Five of 20 (25%) self-sufficiency contracts were not signed and dated by the recipient. The county was unable to provide the recipient's employability contract for testing.
- *Lucas County* - Three of 20 (15%) employability contracts were not signed and dated by the recipient. The county was unable to provide the recipient's employability contract for testing.
- *Montgomery County* - Six of 20 (30%) self-sufficiency contracts were not signed and dated by the recipient.

Of the 100 child support non-cooperation sanctions selected for testing at the counties, 10 recipients (10%) did not evidence their signature and date on the self-sufficiency plan or employability plan.

- *Cuyahoga County* - Four of 20 (20%) self-sufficiency plans were not signed and dated by the recipient. The county was unable to provide four recipient's employability plan for testing.
- *Montgomery County* - Six of 20 (30%) self-sufficiency plans were not signed and dated by the recipient and the case manager.

Of the 100 child support non-cooperation sanctions selected for testing at the counties, four Case Managers (4%) did not evidence their signature and date on the self-sufficiency contract or employability contract.

- *Lucas County* - Three of 20 (15%) employability contracts were not signed and dated by the Case Manager. The county was unable to provide three recipient's employability contract for testing.
- *Montgomery County* - One of 20 (5%) self-sufficiency contracts was not signed and dated by the Case Manager.

Part 3 - Penalty for Refusal to Work

Of the 100 penalty for refusal to work sanctions selected for testing at the counties, three recipients (3%) did not evidence their signature and date on the self-sufficiency contract.

- *Cuyahoga County* – One of 20 (5%) self-sufficiency contracts was not signed and dated by the recipient. The county was unable to provide one recipient's self-sufficiency contract for testing.
- *Montgomery County* – Two of 20 (10%) self-sufficiency contracts were not signed and dated by the recipient.

Of the 100 child support non-cooperation sanctions selected for testing at the counties, five recipients (5%) did not evidence their signature and date on the self-sufficiency plan or employability plan.

- *Cuyahoga County* – One of 20 (5%) self-sufficiency plans was not signed and dated by the recipient. The county was unable to provide one recipient's self-sufficiency plan for testing.
- *Montgomery County* – Four of 20 (20%) self-sufficiency plans were not signed and dated by the recipient.

Of the 100 child support non-cooperation sanctions selected for testing at the counties, one Case Manager (1%) did not evidence their signature and date on the self-sufficiency contract or employability contract.

- *Montgomery County* - One of 20 (5%) self-sufficiency contracts was not signed and dated by the Case Manager.

22. TANF – INTERNAL CONTROL DEFICIENCIES – VARIOUS COUNTIES (Continued)

Of the 100 child support non-cooperation sanctions selected for testing at the counties, one Case Manager (1%) did not evidence their signature and date on the self-sufficiency plan.

- *Montgomery County* - One of 20 (5%) self-sufficiency plans was not signed and dated by the Case Manager.

Part 4 - Adult Custodial Parent with Child under Six when Childcare is Not Available
Of the 100 penalty for refusal to work sanctions selected for testing at the counties, one recipient (1%) did not evidence their signature and date on the self-sufficiency contract.

- *Montgomery County* – One of 20 (5%) self-sufficiency contracts was not signed and dated by the recipient.

Of the 100 child support non-cooperation sanctions selected for testing at the counties, one recipient (1%) did not evidence their signature and date on the self-sufficiency plan or employability plan.

- *Montgomery County* – One of 20 (5%) self-sufficiency plans was not signed and dated by the recipient.

Without appropriate reviews and approvals, there is an increased risk of benefit payments being made to ineligible recipients or for inappropriate amounts, although no unallowable benefits were identified for the individuals selected for testing. Under these conditions, reports submitted to the federal awarding agency may not include all activity of the reporting period, may not be supported by underlying accounting or performance records, and/or may not be presented in accordance with program requirements. According to County management, a signed copy of the self-sufficiency or employability contracts and/or plans in the recipient's case file was an oversight by the caseworkers.

We recommended the Department review their policies and procedures regarding the approvals of documentation to ensure controls are in place and operating as management intended at the county level. These policies and procedures should be adequately communicated to staff responsible for program areas. Furthermore, management should perform periodic reviews of case files and other pertinent documentation to determine if approvals are being obtained, controls are consistently applied and documented as intended, and all required supporting documents are maintained within the case files.

Official's Response and Corrective Action Plan

Cuyahoga
Training was provided on November 15, 2011 for all TANF / OWF staff responsible for case establishment following a re-structuring of our JET (Jobs Education & Training) unit. Beginning in February, 2012, Cuyahoga County began a new internal QC process for new TANF / OWF cases. Internal QC staff is reviewing new OWF cases as they are established to ensure that the required verifications, signatures and applications are in the case record. Findings from these reviews, which are completed in our Rushmore / Case Review System, are sent to the Center Manager, Team Coordinator and Team Leaders for correction within 5 days. Team Leaders discuss reoccurring errors with the staff member in question and provide coaching if needed. CURE staff monitors completion of corrections. Since this review began, errors and omissions have decreased significantly.

Lucas
Lucas County JFS will take a two pronged approach to avoid future findings as stated above. The first approach addresses the sanction unit receiving a referral from Child Support without checking for a SSC/SSP prior to implementing the sanction. A directive was sent out to all sanction unit workers on 1-26-2012 directing them to check for a current ECP before sanctioning. In addition, one worker in particular was counseled by the supervisor to ensure no further sanctions are taken without a SSC/SSP.

22. TANF – INTERNAL CONTROL DEFICIENCIES – VARIOUS COUNTIES (Continued)

In addition, the sanction unit supervisors will spot check CSEA sanctions to ensure the required ECP's are in the case.

The second approach is the development of an OWF Eligibility Unit that holds all OWF work required cases. This Unit was established to address interface problems between Eligibility Workers and Work Activity Case Managers. The OWF Unit, with its clear mandate to handle all OWF cases in accordance with work activity regulations, should ensure that all referrals for Work Activity assessments are made as appropriate. The OWF Unit was established in October, 2011, and we are already realizing improved and timely processing of OWF cases (particularly relative to sanction actions and work activity assignments). In addition, Work Activities required clients are being monitored monthly to ensure that new recipients, or those coming off of a sanction, are being referred to assessment groups. The OWF unit was implemented in October 2011.

Montgomery
The Agency will place all work required individuals into a specialized unit. They will be trained on the requirement to have a signed Self Sufficiency Contract and Plan in the case.

Anticipated Completion Date for Corrective Action

Cuyahoga
This review will be ongoing through December 31, 2012.

Lucas
The corrective action is already implemented as of October 31, 2011.

Montgomery
The Agency started a Work Activity Unit 10/3/11 and all work required cases were transferred to them. The Supervisor of the Unit and the Manager of that Division have been reviewing cases weekly to ensure proper assignments, hours and paperwork are in the case. Staff of the unit is reminded in the monthly unit meetings to ensure all documentation is in the case.

Contact Person Responsible for Corrective Action

Cuyahoga
Barbara T. Wright, Manager, Program Integrity and Professional Development, Cuyahoga County, 1641 Payne Ave, Room 330, Cleveland, Ohio 44114, Phone: (216) 987-6643, E-Mail: WRIGHB01@odjfs.state.oh.us

Lucas
Cindy Ginter and Carol Rehm, Program Administrator and Associate Director, Lucas County, 3210 Monroe St., Toledo, Oh. 43606, Phone: (419) 213-8236 and (419) 213-8813, E-Mail: gintec@odjfs.state.oh.us and *rehmc@odjfs.state.oh.us*

Montgomery

John O'Pry, Manager, Montgomery County, 1111 Edwin C. Moses Blvd. Dayton, Oh 45422, Phone: (937) 225-4517, E-Mail: opryj@odjfs.state.oh.us

23. UNEMPLOYMENT INSURANCE – REPORTING

Finding Number	2011- JFS23-047
CFDA Number and Title	17.225 – Unemployment Insurance
Federal Agency	Department of Labor
Compliance Requirement	Reporting

MATERIAL WEAKNESS

UI Reports Handbooks No. 336 and No. 401 contain instructions for completing and submitting various reports for the Unemployment Insurance (UI) program. Included in the handbook is the ETA 227 report, described in section IV-3 of the Handbook, which states:

> The ETA 227 report provides information on overpayments of intrastate and interstate claims under the state unemployment compensation (UI), and under federal UI programs; i.e., programs providing unemployment compensation for federal employees (UCFE) and ex-service members (UCX), established under Chapter 85, Title 5, U.S. Code. This report will include claims for regular, state additional, and federal-state extended benefits (EB). ... The ETA 227 report is due quarterly on the first day of the second month after the quarter of reference.

It is management's responsibility to implement control policies and procedures to reasonably ensure the federal reports they submit are accurate, complete, and in compliance with program requirements. It is imperative that management be able to provide the underlying data and related program documentation required to prepare and support these reports.

The Department had established a control whereby it would take a "snapshot" of the OJI (Ohio Job Insurance) computer system and Benefit Payment Control management staff would reconcile the snapshot to the ETA 227 report before submitting the report. However, for the first two quarters of state fiscal year 2011, the Department could not provide documentation that it reconciled the reports to supporting documentation before it submitted the reports. As such, amounts were pulled from the OJI computer system and sent to the U.S. Department of Labor without any verification of the accuracy of the amounts. Beginning with the third quarter of state fiscal year 2011, the Department did maintain a spreadsheet throughout the quarter to keep track of the numbers. However the numbers on the spreadsheet did not all agree to the numbers that were submitted, as detailed below.

The ETA 227 quarterly reports reported a total of approximately $474 million in Accounts Receivable for state fiscal year 2011. However, the third and fourth quarter spreadsheets maintained by the Department did not trace and agree to the final numbers reported on the ETA 227 reports. Specifically:

ETA 227 Report Line	**Variance noted for ETA 227 3rd quarter report**	**Variance noted for ETA 227 4th quarter report**
Section A – UI Fraud	Overstated by $43,558	Overstated by $9,657
Section A – UI Nonfraud	Understated by $43,298	Understated by $8,220
Section B – Fraud Controllable	Overstated by $52,933	Overstated by $10,263
Section B – Nonfraud Controllable	Understated by $122,995	Understated by $8,828
Section B – Fraud Noncontrollable	Overstated by $33,688	Overstated by $6,086
Section B – Nonfraud Noncontrollable	Understated by $33,427	Understated by $4,648

The net total for all of these variances for both the 3rd and 4th quarters were below 1%.

23. UNEMPLOYMENT INSURANCE – REPORTING (Continued)

If the underlying data for the submitted reports cannot be readily verified, the Department and the federal government may not be reasonably assured the information is accurate and complete. Reporting inaccurate or incomplete information and submitting the reports late could subject the Department to federal sanctions, limiting the amount of funding for program activities.

ODJFS management indicated they were unable to implement an improved reconciliation control system for the 227 reports until the third quarter of state fiscal year 2011. Regarding the supporting documentation not agreeing to the final reported numbers, it was explained to us that the ETA 227 data they receive from their System Support team continues to have issues when a single overpayment contains both fraud and non-fraud dollars, and when the systemic entries are in conflict (i.e. a non-fraud overpayment, but with a fraud turning point). They are aware of the problem and continue to make efforts to correct and refine the process.

We recommend the Department work on improving the policies and procedures they devised and implemented during state fiscal year 2011 to provide better assurance the federal reports are accurate, complete, submitted timely, and in compliance with federal requirements. At a minimum, the procedures should include a review of the reports and verifying the amounts on them before the reports are submitted. In addition, the Department should continue working to address the IT issues which are leading to the misstatements noted.

Official's Response and Corrective Action Plan

We agree with the finding. In May 2011, the Office of UC, Benefit Payment Control (BPC) implemented an improved reconciliation control process for the ETA-227 report. This new reconciliation approach simplifies and improves the verification process and completes the review before transmitting the report to USDOL. Copies of this reconciliation will continue to be maintained by BPC management.

BPC management used this new data formatting to successfully reconcile the quarters ending 06/30/2011, 09/30/2011 and 12/31/2011. Copies of this reconciliation are maintained by the BPC Unit for review. The US DOL previously had Ohio under a Corrective Action Plan to address these same reconciliation concerns. In a letter to the Department dated September 27, 2011 US DOL determined that Ohio has addressed and corrected this issue to their satisfaction.

Further, in a program letter (UIPL 08-12) issued by the USDOL on January 8, 2012 the requirements for the ETA-227 have been changed, rendering any further programming on the past report as moot. The Office of UC, BPC will be working to comply with the newly issued report requirements.

Anticipated Completion Date for Corrective Action

Completed May 31, 2011

Contact Person Responsible for Corrective Action

Mickey E. Ford, Benefit Payment Control, Section Chief, Ohio Department of Job & Family Services, 4020 E. Fifth Ave. Columbus, OH 43219, Phone: (614) 466-0153, E-Mail: Mickey.Ford@jfs.ohio.gov

24. FOSTER CARE – PRIVATE AGENCY ADMINISTRATIVE PROCEDURES

Finding Number	2011-JFS24-048
CFDA Number and Title	93.658 – Foster Care – Title IV-E
Federal Agency	Department of Health and Human Services
Compliance Requirement	Eligibility

MATERIAL WEAKNESS

42 USC 671(a) states, in part:

> In order for a State to be eligible for payments under this part, it shall have a plan approved by the Secretary which . . .
>
> . . .
>
> (10) provides for the establishment or designation of a State authority or authorities which shall be responsible for establishing and maintaining standards for foster family homes and child care institutions which are reasonably in accord with recommended standards of national organizations concerned with standards. . . related to admission policies, safety, sanitation, and protection of civil rights, and provides that the standards so established shall be applied by the State to any foster family home or child care institution . . .
>
> . . .

Ohio Administrative Code (OAC) 5101:2-5-13 outlines the required minimum policies for certain functions being performed by private child placing agencies (PCPA) or private noncustodial agencies (PNA). This section also requires the PCPAs and PNAs to submit their policies, plans, and procedures to ODJFS at the time of initial certification; time of an amended certification; request for approval of any foster home function; when there are revisions to the policy, plan, or procedures; and, when a change in law requires a change in the agency's policy.

It is management's responsibility to establish policies and procedures which reasonably ensure compliance with these requirements.

ODJFS Foster Care licensing policies require PCPAs/PNAs to submit their administrative procedures, among other things, prior to an on-site review being scheduled for certification. Any revisions to the policies are to be submitted prior to recertification. These administrative procedures are to be maintained at ODJFS in the agency review file to evidence all health and safety requirements have been met. However, for 23 of 25 (92%) PCPAs/PNAs selected for testing, ODJFS did not provide a copy of the agency's administrative procedures.

If adequate documentation is not maintained to evidence agencies have submitted required materials, questions regarding whether the agency was properly licensed could arise. This could result in the certification of agencies who have not met all requirements, or the accidental revocation of the agency's license to operate. In addition, a loss of federal funding could occur. According to management, everything that was available had been provided.

We recommend ODJFS review all current PCPAs/PNAs review files to ensure copies of the agency administrative procedures are on file. We further recommend management strengthen current policies to reasonably ensure proper documentation is maintained and readily accessible to personnel that are responsible for licensing agencies and ensuring their compliance with applicable requirements.

24. FOSTER CARE – PRIVATE AGENCY ADMINISTRATIVE PROCEDURES (Continued)

Official's Response and Corrective Action Plan

Administrative policies and procedures for all agencies are required prior to initial certification. Copies of agency policies and procedures are uploaded to FileNet by the assigned licensing specialist. Agencies are not approved for initial or recertification without providing an up to date copy of required policies and procedure.

Beginning in SFY 2010, Foster Care Certification and Re-certification reviews were being done in the recently implemented Ohio Foster Care Licensing System (OFCL). In this system, records are captured electronically and the physical records are no longer maintained in the Central Office. Records can be viewed in OFCL (FileNet) by the appropriate staff or through access granted by the MIS department. Records also can be printed off from OFCL.

Anticipated Completion Date for Corrective Action

Agency policies and procedures will be made available upon request.

Contact Person Responsible for Corrective Action

Barbara Manuel, Bureau Chief, Ohio Department of Job & Family Services, 50 W. Town Street Columbus, Ohio 43215, Phone: (614) 752-2129, E-Mail: Barbara.manuel@jfs.oh.gov

25. FEDERAL REVENUE CONTROLS

Finding Number	2011-JFS25-049
CFDA Number and Title	All Federal Programs of the Department
Federal Agency	Department of Agriculture Department of Labor Department of Health and Human Services
Compliance Requirement	Cash Management

<u>SIGNIFICANT DEFICIENCY</u>

Office of Management and Budget Circular A-133, § _.300(b) requires recipients of federal awards "[m]aintain 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." It is management's responsibility to design, implement, and monitor these controls to reasonably ensure compliance with the applicable requirements. These controls must include maintaining appropriate supporting documentation for all transactions and performing timely reconciliation procedures to help ensure the transactions processed are accurate and complete.

During fiscal year 2011, the Department received and processed through the state accounting system, OAKS (Ohio Administrative Knowledge System), approximately $15.8 billion in federal revenue related to the 13 major federal programs it administered. Although the Department had established controls over the federal revenue / cash management process, it did not apply the controls consistently throughout the year, as noted below.

25. FEDERAL REVENUE CONTROLS (Continued)

- One control procedure required, on a daily basis, the Federal Cash Draw Unit Supervisor or authorized individual review and approve each Revenue Direct Journal Entry spreadsheet for accuracy and completeness (the draw requests were supported by vouchers/expenditures) and ensure the coding and amounts entered into OAKS direct journal entry are correct, as evidenced by their initials or signature on the spreadsheet. However, for one of 60 federal revenue draws tested (1.7%; with a potential impact to $255 million of the population), there was no evidence to indicate the Federal Cash Draw Unit Supervisor or authorized individual reviewed the Revenue Direct Journal Entry spreadsheet, as required.

- The second control procedure required, on a daily basis, the Federal Cash Draw Unit Supervisor or authorized individual review and approve the Request for Payment (Smartlink II or ASAP Confirmation) printout to verify the amounts and account numbers on them correspond to the Revenue Direct Journal Entry spreadsheet, Ohio Administrative Knowledge System Payment Detail Report, and supporting documentation for accuracy and completeness, by signing the Smartlink II or ASAP Confirmation printout. However, for two of 57 federal revenue draws tested (3.5%; with a potential impact to $315.5 million of the population), there was no evidence to indicate the Federal Cash Draw Unit Supervisor or authorized individual reviewed the Request for Payment printout, as required.

Without consistent performance and documentation of internal controls, and the maintenance of required records to support the draw and receipt of federal funds, the risk exists that revenues for the federal programs may not be processed accurately, recorded for the proper program in a timely manner, or in compliance with federal requirements. In addition, management cannot reasonably be assured the accounting records are accurate or federal reports produced from those records are accurate. This also increases the risk that internal controls may not be working in a manner intended by management. Department management stated the lack of the reviewed Revenue Direct Journal Entry spreadsheet Request for Payment printout was due to an oversight.

We recommend ODJFS management evaluate their current processes and procedures related to the federal draw drawdown process and update/implement them as necessary to reasonably ensure controls are in place and operating as intended on a consistent basis to reasonably ensure federal revenues for the federal programs are processed accurately, recorded in a timely manner, and in compliance with federal requirements. These controls should include a secondary review for any modifications that may occur to verify the changes are accurate and appropriate. In addition, management should periodically monitor the established control procedures to help ensure they are being performed timely, consistently, and effectively.

Official's Response and Corrective Action Plan

Cash Management will strengthen existing procedures to test and validate randomly selected documents quarterly to review document signature authorizations. Documentation tested and validated will be reviewed and signed off on by the Section Chief or designee after each review.

Anticipated Completion Date for Corrective Action

Staff will go back to beginning of SFY '11 to test and validate information forward. The documentation tested and validated process will be completed by April 30, 2012.

Contact Person Responsible for Corrective Action

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26. MEDICAID – DRUG REBATE MONITORING

Finding Number	2011-JFS26-050
CFDA Number and Title	93.720/93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Allowable Costs/Cost Principles

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 within 30 days, 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. 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.

During fiscal year 2011, the Department received drug rebates totaling approximately $173.3 million. The Department contracted with a third party administrator to perform the processing and collection of these rebates. 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, to investigate all invoice payments not received within 30 days after mailing, and ensure interest is collected appropriately on late payments. During the fiscal year, the Department received a SAS 70 report related to the general controls of the contractor for calendar year 2010 and an Agreed-Upon Procedures report designed to test for compliance with the specific drug rebate requirements for fiscal year 2010. The Department performed and documented their review of the Agreed-Upon Procedures Report; however, the Department could not provide evidence of their review of the SAS 70 report to ensure the contractor's general controls were working properly and to ensure any relevant user control considerations noted in the report were properly addressed by Departmental controls.

Without proper documentation of management's review and approval of internal controls, there is an increased risk that procedures may not be working as intended or may not be consistently applied. If the SAS 70 report is not reviewed and evidence of this review is not maintained, management is unable to provide reasonable assurance any issues noted within the SAS 70 were properly identified and addressed, or that appropriate compensating controls are in place to address any weaknesses or relevant user control considerations noted. The Ohio Department of Job and Family Services management stated they felt their review of the Agreed-Upon Procedures Report was sufficient.

We recommend the Department perform their review of the annual SAS 70 report (now referred to as a SOC1 report) over the drug rebate contractor. These monitoring procedures should be documented to provide management with reasonable assurance the required review was performed timely, thoroughly, and that all applicable user control considerations and weaknesses identified were properly addressed by the Department.

26. MEDICAID – DRUG REBATE MONITORING (Continued)

Official's Response and Corrective Action Plan

ODJFS disagrees with the recommendation. A review of the SAS 70 report will not strengthen or enhance the existing controls ODJFS has in place to monitor the drug rebate contractor's compliance with federal provisions.

ODJFS's internal control structure provides for an independent audit firm to annually conduct compliance testing specific to ODFJS's transactional processes in order to ensure the contractor is adhering to federal requirements and ODJFS contract provisions. The agreed-upon procedures report annually submitted to ODJFS by the independent auditor provides definitive evidence as to whether the contractor is compliant with federal requirements and ODJFS contract provisions.

In contrast, the SAS 70 report is a controls oriented review related to the general processes of the contractor. It does not include compliance testing and does not address controls related to federal regulations or include specific testing of requirements unique to ODJFS. As a result, it provides no definitive assurance of the contractor's compliance with federal requirements as it pertains to processing ODJFS transactions.

While it has been recommended the SAS 70 report be reviewed, there are no federal provisions requiring such action and the Auditor of the State has yet to provide a cogent rationale as to how such a review would strengthen ODJFS's existing system of internal controls or to demonstrate that our current system of internal control is not sufficient to provide reasonable assurance of compliance by the contractor. While we are appreciative of the Auditor of State's concern, ODJFS management has a responsibility to avoid unnecessary costs which provide no additional benefit to our administration of federal programs.

Anticipated Completion Date for Corrective Action

This would not be applicable as the agency doesn't believe corrective action is necessary.

Contact Person Responsible for Corrective Action

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Auditor of State's Conclusion

Even though the Department obtained and evidenced their review of a report on agreed-upon procedures designed to test for compliance with the specific drug rebate requirements, this report did not address the design and operating effectiveness of general controls. In addition, the SAS 70 includes controls the user organization should apply to reduce risk (See controls described on pages 25 of the SAS 70 report dated January 31, 2011). Since the SAS 70 was not reviewed, the Department could not conclude on the adequacy of general controls or address any of the user control considerations in the SAS 70 report. We believe the control failure noted represents a significant deficiency and, therefore, the finding will remain as stated.

27. MEDICAID/CHIP – CLAIMS PROCESSING AND RECONCILIATION INTERNAL CONTROLS

Finding Number	2011-JFS27-051
CFDA Number and Title	93.767 – Children's Health Insurance Program 93.720/93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed; Allowable Costs/Cost Principles

<u>SIGNIFICANT DEFICIENCY</u>

It is management's responsibility to implement control policies and procedures to reasonably ensure compliance with federal and state laws and regulations. It is imperative that management monitor and oversee the process of entering Medicaid/CHIP claims to reasonably ensure compliance with applicable laws and regulations. Controls must also be adequately documented to provide management with assurance the controls are performed timely and consistently.

The Claims Processing Section within the Department's Bureau of Provider Services is responsible for processing paper claims submitted by medical providers that include attachments. In addition, following the adjudication process in MMIS, the Claims Processing and Claims Reconciliation sections process all claims that go into suspension (did not pass one or more edit checks), regardless of whether the claim was keyed internally, processed by the Department's vendor (for paper claims without attachments), or submitted by the provider through Electronic Data Interchange (EDI). During the audit period, the Department processed 36,371 total claims with an override code (approved for payment) from those initially suspended. Under the current system, the Claims Processing Section Chief is to perform a monthly review of claims that went into suspension and have an override or deny code. However, the Department did not document these reviews. No review is performed on internally processed claims that did not go into suspension (passed all MMIS edit checks) for potential keying errors.

In addition, the Claims Reconciliation section within the Department's Bureau of Provider Services processes claims adjustments. These claims adjustments are usually submitted by the provider, but they can also be submitted by the Office of Ohio Health Plan's section. Under the current system, the Lead Worker is to perform a thorough review of claims adjustments entered into MMIS by new Claims Examiners, including a review of all claims processed by the Claims Examiner until a sufficiently low error rate is achieved. Once Claims Examiners are fully trained, the Lead Worker is to conduct periodic reviews, varying in frequency for up to six months depending on the findings of previous batches and supervision needs of the individual. However, the Department did not maintain documentation to support the reviews performed.

Without performing proper review of the claims and adjustments entered into the MMIS system and maintaining documentation of the reviews, management cannot be reasonably assured that control activities were operating effectively or consistently. In addition, there is an increased risk the Department will make payments that are unallowable, incorrect, or incomplete. Claims processed in error and/or processing inaccuracies by the electronic systems which may impact Department funds could go undetected. The Department indicated the control weaknesses were due to staffing shortages.

We recommend the Department implement and/or strengthen internal controls related to the review of the claims and claims adjustment processing. Evidence of such reviews should be maintained to provide management with assurance the controls are operating consistently and effectively. Management should ensure the sample selected for review is sufficient.

27. MEDICAID/CHIP – CLAIMS PROCESSING AND RECONCILIATION INTERNAL CONTROLS

Official's Response and Corrective Action Plan

Although the reviews were completed, no documentation was done for the reviews. However with the implementation of MITS, there is an audit trail function and reporting that can be pulled for each claim record that was keyed into Interchange or the application for suspense override codes. The audit trail function in MITS allows management to determine what errors were made and address it with staff. This function will be utilized during quarterly and/or annual performance reviews.

Anticipated Completion Date for Corrective Action

05/01/2012

Contact Person Responsible for Corrective Action

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28. SNAP CLUSTER – EBT CARD MONITORING

Finding Number	2011-JFS28-052
CFDA Number and Title	10.551/10.561 – SNAP Cluster
Federal Agency	Department of Agriculture
Compliance Requirement	Special Tests and Provisions

SIGNIFICANT DEFICIENCY

Federal regulations require the State to properly determine eligibility for SNAP benefits and to investigate any case of alleged intentional program violations. Through its subrecipient agreements with the 88 counties, ODJFS has transferred certain aspects of the process for complying with these requirements to the county departments. However, ODJFS remains ultimately responsible for the State's overall compliance.

For state fiscal years 2010 and 2011, ODJFS issued approximately $2.6 and $2.9 billion in benefits, respectively, through more than 1.5 million active EBT cards. Over 330,000 of these cards were reissued to recipients in each of these fiscal years; however, information was not available to identify the value of any benefits transferred to these reissued cards. Our evaluation identified the following with regard to EBT card reissuances:

- ODJFS has contracted with a service organization to issue/reissue EBT cards based on information provided by CRIS-E, the State's eligibility computer system, and to report certain information to ODJFS on a regular basis. However, no statistics or other information regarding percentage of cards reissued, timing of reissuance, the amount of benefits transferred to new cards, or recipients with multiple reissuances in one month or for consecutive months have been requested from the service organization to assist in the Department's ability to properly monitor EBT card activities.

- The service organization does provide a monthly Card Issuance Tracking Report which lists any recipient who has received 10 or more reissuances since the inception of the EBT card system in March of 2006. ODJFS receives this report, does a cursory review to identify any obvious errors, and then makes these reports available to the counties via the EPPIC system. Each CDJFS is responsible for obtaining these reports and following up on the items identified. However:

28. SNAP CLUSTER – EBT CARD MONITORING (Continued)

- ODJFS has not developed any standard policies or procedures for the counties to follow in evaluating and documenting their evaluation of these cases.

- No documentation is required to be included in CRIS-E to identify the recipients requiring follow-up, to indicate what follow-up was performed, or note the results of that follow-up for the recipients included on the Card Issuance Tracking Report. Although there are requirements in the Ohio Administrative Code for general documentation in case files and for claims against assistance groups for (un)intentional overpayments identified, there are no requirements regarding monitoring and documentation of follow-up on potential fraud cases identified. In addition, as indicated in the county testing section below, county departments do not consistently document their procedures and results related to follow-up performed, if any.

- ODJFS does not directly monitor the counties' activities to ensure appropriate follow-up was conducted for the recipients identified on the Card Issuance Tracking Report or to verify that benefits were properly adjusted, if necessary.

• Approximately 20% of the 1.5 million total active cards (as of August 2011 but is also representative of prior fiscal year data) were reissued in both fiscal years 2010 and 2011.

SFY	EBT Cards Reissued	
2010	Returned	9,516
	Lost	187,685
	Replaced	35,915
	Stolen	53,029
	Damaged	25,500
	Total	**311,645**
2011	Returned	9,475
	Lost	218,464
	Replaced	23,399
	Stolen	57,643
	Damaged	30,498
	Total	**339,479**

• The Card Issuance Tracking Report (from March 2006 to August 2011) contained 17,008 recipient cases with 10 or more reissued cards, as detailed below. Nearly 230,000 cards were reissued to these 17,008 recipients. There were approximately 1.5 million active cards as of August 2011. We attempted to obtain documentation related to selected cases from these reissued cards, as indicated in the county testing section below.

Card Count Group	# of Recipients	Percent of Count
10 - 16	14,166	83.29%
17 - 22	2,002	11.77%
23 - 29	601	3.53%
30 - 35	143	0.84%
36 - 42	64	0.38%
43 - 48	23	0.14%
49 - 55	5	0.03%
56 - 61	2	0.01%
62 - 68	1	0.01%
69 - 75	1	0.01%
Totals	17,008	100%

28. SNAP CLUSTER – EBT CARD MONITORING (Continued)

- Knowledge and procedures related to EBT card reissuances and fraud are not consistent among the counties. In addition, varying degrees of monitoring occurred at the county departments, ranging from none and/or solely relying on external tips to more sophisticated processes. It appeared that in some instances, the CDJFS was limited in their ability to monitor potential fraud due to staff and/or funding reductions while some maintained their fraud units regardless of budget concerns. We inquired with county departments about their knowledge of the Card Issuance Tracking Report; how the report/EPPIC is used to identify, monitor, and combat fraud; if (complaints about) potentially fraudulent cases are referred to internal and/or external investigators; and, if there were written policies and procedures to outline their process for monitoring, identifying, and combating fraud. Of the 10 county departments (five metro and five others) interviewed:

  - Four were not aware of the existence of the Card Issuance Tracking Report.
  - Five did not utilize the Card Issuance Tracking Report.
  - Five forward the information from the Card Issuance Tracking Report to an internal investigator or case worker.
  - All forwarded information from tips on potentially fraudulent cases to external parties (i.e., local law enforcement, local prosecuting attorney, and Ohio Department of Public Safety) for further investigation.
  - None had written policies and procedures to outline the processes and requirements for monitoring, identifying, and combating fraud related to the EBT Card system.

- County departments are not consistently following up on cases identified on the Card Issuance Tracking Report and/or maintaining documentation of their follow-up. We identified the recipient that had the highest number of EBT card reissuances since March 2006 (from the table above) for each of the 10 county departments tested and requested information or documentation of their follow-up on the case. The results were as follows:

County	# Reissued to Selected Recipient	County Information Provided
Hamilton	75	County was aware of issue and provided details and reasons as to so many reissuances; however, they did not maintain notes in CRIS-e or other documentation.
Franklin	63	County department did not perform any monitoring or follow-up on the case until after our audit inquiries. An overpayment was identified; the investigation is ongoing.
Lucas	56	County department did not perform any monitoring or follow-up on the case to identify potential fraud.
Cuyahoga	47	County department did not perform any monitoring or follow-up on the case to identify potential fraud.
Montgomery	47	County department did not perform any monitoring or follow-up on the case to identify potential fraud.
Richland	29	County department did not perform any monitoring or follow-up on the case to identify potential fraud.
Columbiana	27	County department did not perform any monitoring or follow-up on the case to identify potential fraud.
Sandusky	26	County department did not perform any monitoring or follow-up on the case to identify potential fraud.
Athens	24	County department did not perform any monitoring or follow-up on the case to identify potential fraud.
Crawford	19	County provided case notes on the selected case which indicated follow-up with income verifications, misuse of card by another person in the household, and dependents in the assistance group.

28. SNAP CLUSTER – EBT CARD MONITORING (Continued)

Under these conditions, the risk that SNAP benefits are being misused or diverted to individuals other than the authorized recipient of these benefits is greatly increased. To help mitigate these risks, we recommend ODJFS:

- Request the service organization provide statistical and other data, including the reissuance date, for EBT card reissuances which would allow ODJFS and the county departments to more readily identify individuals who should be investigated for possible noncompliance with program requirements. Such information should include, but not be limited to, percentage of cards reissued, date of last reissuance, amount of benefits transferred to new cards, and recipients with multiple reissuances in one month or for consecutive months. Appropriate follow-up should be conducted to evaluate any recipient who is identified as a risk, based on the analysis of this information.

- Develop formal, written policies and procedures for evaluating each recipient identified for follow-up. These policies and procedures should document the roles and responsibilities of both ODJFS and CDJFS personnel and require standard documentation be included in the case file and/or CRIS-E system for each issue investigated, including any impact on eligibility or benefits. As part of this process, ODJFS should evaluate the current Ohio Revised Code and Ohio Administrative Code and update as necessary to ensure the requirements related to follow-up on EBT card reissuances and other fraud activities are properly addressed.

- Release guidelines/best practices for counties regarding the monitoring of re-issuances and EBT card fraud as well as training on how to create and use EPPIC reports to identify and address potential fraud.

- Develop a monitoring system to evaluate compliance with the established policies, procedures, and documentation requirements at both the state and county levels. Such a system could utilize CRIS-E system alerts or other automated tools to identify, track, and evaluate progress on recipient follow-up.

- Coordinate with the federal awarding agency and the Ohio General Assembly to increase penalties for those who commit fraud against the program and to develop penalties for those who abuse the card reissuance process. These parties should also coordinate and implement additional verification controls for re-issuing EBT cards and monitor the use of EBT cards at retail locations to prevent fraud. A key element of these additional controls should include effective communication with local law enforcement about prosecuted fraud cases so that appropriate follow through and monitoring of the respective recipient’s account/activity can occur in a timely manner.

- Work with the county departments to identify and understand their needs, then request the service organization improve the functionality of the Card Issuance Tracking Report so county departments can better sort through and manipulate the data to identify trends in card reissuances that could potentially identify fraud. At a minimum, this should include a flag to identify when a recipient with more than 10 reissuances is added to the report for the first time, as well as a column to identify the number of reissuances within a certain period (i.e., calendar year or state fiscal year). This would allow each CDJFS to better identify new recipients added, recipients that have remained stagnant in reissuances, recipients that have left the program, or recipients that have multiple reissuances within a period indicating potential fraud from this cumulative and often very lengthy report.

28. SNAP CLUSTER – EBT CARD MONITORING (Continued)

Official's Response and Corrective Action Plan

The EBT Section is working with Affiliated Computer Services (ACS) to modify the card reissuance reports to identify individuals for investigation for possible noncompliance. The following specific enhancements are being pursued through a contract amendment with ACS:

- *Card Issuance Tracking Reports (monthly report) to*
  - *retain the current issuance count column (issuances since start of program)*
  - *add a cardholder to the report when the total number of re-issuances accumulates to 10 or more since the initiation of the ACS EBT program (i.e. March, 2006)*
  - *add a flag (**) to the cumulative count number when the cardholder appears on this report for the first time*
  - *add new issuance count columns for cumulative count of card issuances during the current calendar year and during the current calendar month*
  - *add a flag (**) to the cumulative count for current calendar year if the cardholder has had a card issuance action for three consecutive months*
  - *add a flag (**) to the cumulative count for current month if the cardholder has had more than one card issuance during the current month*
  - *add account balance "at the time of latest card replacement"*

- *Card Issue and Replace Reports (both daily and monthly reports) to*
  - *add account balance "at the time of latest card replacement"*
  - *add percent of total period (daily or monthly) card reissues by status*

Follow-up is being conducted to evaluate any recipient who is identified as a risk based on the analysis of the FNS Multiple Card Replacement Report. The Office of Family Assistance is coordinating case reviews for recipients who have had 10 or more EBT card reissuances in the last year.

- *EBT Section completes the initial case review in CRIS-E and EPPIC*
- *EBT Section contacts county EBT coordinator to request a county review and resolution.*
- *EBT Section documents the CRIS-E running record comments (CLRC) for each case and include the initial review findings, contact name, referral date and due date.*
- *Upon the county review findings, EBT Section documents county case findings*
- *A final report will be created for the case review results.*

The Office of Fiscal and Monitoring is implementing a 'cross-match' of recipient and retailer data available through Ohio's EPPIC system (as well as retailer information we receive from FNS) in order to identify recipients who may be misusing benefits and to identify retailers with questionable patterns of redemption.

The BV/Fraud Unit in the Bureau of Program Integrity is establishing 'cross-reference' procedures with County Departments of Job and Family Services. Specifically, the process will look at data and trends for

- *recipients with multiple card issuance vs. usage at retailers on FNS alert lists*
- *recipients with multiple 'suspect' transactions over time, vs. the retailers at which these transactions occur*
- *recipients with out-of-state transactions in non-border states that occur over multiple months along with the retailers at which these transactions occur.*

The EBT Section is working with the Ohio Department of Public Safety (DPS) to establish 'cross-reference' procedures. The DPS investigation techniques to identify potential fraud will be reviewed.

28. SNAP CLUSTER – EBT CARD MONITORING (Continued)

Training activities have been scheduled on how to create and use EPPIC reports to identify and address potential fraud:

- *Bureau of Program Integrity will be providing investigation training at the Ohio Council on Welfare Fraud Conference in March, 2012.*
- *Ohio's Assistant Agent in Charge of Enforcement at the Columbus District of the Ohio Department of Public Safety will be presenting on Retailer EBT Trafficking.*
- *EBT Section and Bureau of Integrity Fraud Control Unit will be providing a workshop at the OJFSDA Annual Training Conference - EPPIC Reporting-Card Replacements and Fraud Control on May 24, 2012. This session will provide information on the access and use of EPPIC Reporting to assist county department of job and family services offices to detect multiple card replacement problems and fraud.*

The EBT Section is working with ACS to improve the functionality of the Card Issuance Tracking Report so county departments can better identify trends in card reissuances that could potentially identify fraud.

Anticipated Completion Date for Corrective Action

June 30, 2012

Contact Person Responsible for Corrective Action

Christina Thomas, EBT Section Chief, Ohio Department of Job & Family Services, 50 W. Town Street, Columbus, Ohio 43218-2709, Phone: (614) 644-1319, E-Mail: Christina.Thomas@jfs.ohio.gov

1. MEDICAID, CHIP & SSBG – SUBRECIPIENT MONITORING

Finding Number	2011-DMH01-053
CFDA Number and Title	93.667 – Social Services Block Grant 93.767 – Children's Health Insurance Program 93.778 – Medical Assistance Program
Federal Agency	Department of Health and Human Services
Compliance Requirement	Subrecipient Monitoring

<u>NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY – MEDICAID AND CHIP</u>

<u>NONCOMPLIANCE AND MATERIAL WEAKNESS – SOCIAL SERVICES BLOCK GRANT</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:
>
> …
>
> (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
>
> (4) Ensure that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for the fiscal year.
>
> . . .

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 state fiscal year 2011, the Department received and disbursed approximately $411.5 million in federal funding for the Medicaid Assistance Program, $7.8 million for the Children's Health Insurance Program (CHIP), and $7.2 million for the Social Services Block Grant (SSBG) to the 50 Community Mental Health (CMH) boards who are 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 these audit reports and enters the information from each report, including whether a Corrective Action Plan (CAP) will be required, in an access database. From this access database, the Community Audit Program Manager has the ability to generate various reports, including which CMH boards have not submitted their single audit report and which CMH boards still have not submitted a CAP. Once information is entered into the access database, the reports are evaluated utilizing the Risk Assessment Tool developed by the Community Audit Program. Based upon the Risk Assessment Tool, the Community Audit Program Manager determines whether or not an on-site visit is necessary for the CMH boards. However, the following weaknesses existed in the processes during fiscal year 2011:

1. MEDICAID, CHIP, AND SSBG – SUBRECIPIENT MONITORING (Continued)

- The Department performed five on-site visits during the audit period. Four on-site visits included a review of the programmatic records (i.e. allowability of individual transactions) for Medicaid and SSBG. The remaining on-site monitoring visit only demonstrated a review of financial records (i.e., total receipt and disbursement comparisons); no programmatic records were evaluated. In addition, one of the boards selected for a site visit had also been visited in fiscal year 2010. Even though the CHIP program wasn't identified on the on-site checklists, the Department indicated that all five of the reviews performed included CHIP because Medicaid and CHIP are disbursed to the Boards on one electronic fund transfer.

- Even though a limited amount of on-site visits were conducted, the Department did not perform sufficient additional during-the-award monitoring procedures to increase coverage and ensure the accuracy and allowability of payments reported by the subrecipient. The Department placed primary reliance on the A-133 audits of the boards. However, the Department's risk assessments and evaluation of these A-133 audits did not include (1) determining which federal programs were tested as a major federal program in the A-133 audit to help determine the amount of coverage obtained from A-133 audits and (2) ensuring that program funding passed through to subrecipients is included on the subrecipient's federal schedule and appears accurate. One of 10 (10%; with a greater potential impact to the population) A-133 board audits selected for testing did not identify the amount of Medicaid, SSBG or CHIP received from the Department on the board's Schedule of Federal Award Expenditures.

Under these circumstances, the Department may not be reasonably assured they have met the requirements of OMB Circular A-133, or that the CMH boards have met the requirements of the Medicaid, CHIP, and SSBG programs. If the Department does not perform appropriate monitoring procedures, there is a risk that instances of noncompliance by the subrecipient will go undetected.

According to the Department, only a limited amount of on-site reviews were performed due to insufficient staffing levels. The Department believed the on-site reviews performed were sufficient for program compliance purposes. In addition, the Community Audit Program Manager indicated that it is difficult to determine the accuracy of federal funding reported on the subrecipient's federal schedule since the subrecipient may receive Medicaid, CHIP, and SSBG funding from several different state agencies.

We recommend the Department continue to develop and enhance their subrecipient monitoring process. These procedures could include, but not be limited to, the following:

- Monitoring of the subrecipient's use of federal awards during the award period through an appropriate number of 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. Other procedures could include requesting the board provide supporting documentation for certain transactions or compliance requirements and reviewing this information.

- Identifying which federal programs were tested as major programs in the subrecipient's A-133 audit. This will help the Department to determine the amount of coverage and subsequently, the level of reliance the Department can place on these types of audits. The determination of coverage could be used within the Department's risk assessment tool to help identify subrecipients for potential on-site visits.

1. MEDICAID, CHIP, AND SSBG – SUBRECIPIENT MONITORING (Continued)

Official's Response and Corrective Action Plan

The Department's current monitoring methodology is based on which subrecipients pose the most risk to the Department by performing a series of analyses to determine the use of pass-through funds in our Desk Reviews. Based on our Desk Reviews, the Department determines what site visits to be performed during a given year. For SFY 2011, we performed five on-site reviews and hope to increase this number for SFY 2012, in an effort to enhance our subrecipient monitoring processes.

The Department will continue to re-evaluate our processes, including identifying which federal programs were tested as major programs in our subrecipients' A-133 audits. We will also aim to increase monitoring of our subrecipients' use of federal awards during the award period, to include:

Funds requiring match
Staffing size and experience
Amount of Funds disbursed
Adequacy of Internal Controls
Stable accounting systems
Policy and Procedures for their Subrecipients
Variety of funding
Timely submission of financial reports
Timely submission of program requirements
Reported irregularities (i.e. illegal acts, fraud, etc.)
Revenue to Expense Ratios
Net Assets Reserve Ratios
Total Revenue
Audit Findings
Community Plan Budget in line with current allocation
Administration to Allocated Revenue Ratio

Anticipated Completion Date for Corrective Action

07/01/2011

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 Columbus, OH 43215, Phone: (614) 466-9958, E-Mail: jill.stotridge@mh.ohio.gov

2. SSBG – COMMUNITY MENTAL HEALTH BOARD PLANS

Finding Number	2011-DMH02-xxxx
CFDA Number and Title	93.667 – Social Services Block Grant
Federal Agency	Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed; Subrecipient Monitoring

<u>MATERIAL WEAKNESS</u>

It is management's responsibility to implement a system of internal controls to reasonably assure federal compliance requirements are communicated to subrecipients and subrecipients agree to abide by applicable laws and regulations. To be effective, the performance of an internal control must be sufficiently documented to provide assurance the control is in place and functioning as intended. It is management's responsibility to monitor these controls procedures to verify they are operating effectively.

During the audit period, the Department disbursed approximately $7.2 million in SSBG funding to the Community Mental Health (CMH) Boards. Biennially, the Department awards each CMH Board a tentative two year allocation of SSBG funds. The CMH Board prepares and submits a Community Plan, which serves as a funding application, and a signed Agreement and Assurances page, which evidences the Board's agreement to abide by the requirements as stated in the Community Plan Allocation Guidelines, applicable federal laws and regulations, and suspension and debarment requirements. The Department's Director reviews and approves the Community Plan and sends an approval letter to the CMH Board. The Approval Letter states the Department has only "conditionally" approved the Community Plan and the final approval of the Community Plan will occur 30 to 60 days after the receipt of the CMH Board's budget, narrative, and a Rights & Grievance Report. However, the Department does not evidence the final review and approval of the Board's grant allocation.

Without proper documentation of internal control activities performed, there is an increased risk that procedures may not be working as management intended, not applied consistently, or management's objectives may not be achieved. In addition, there is an increased risk the Department will disburse SSBG funding prior to final approval of the Board's allocation. This could result in unallowable costs charged to the SSBG program. The Department indicated that SSBG funding would not have been distributed to CMH Boards prior to receipt, review, and approval of the Board's file. However, they recognize the need for greater clarity and improved process management.

We recommend the Department establish policies and procedures to ensure internal control procedures are consistently performed and adequately documented to reasonably ensure the CMH Boards have met all requirements prior to funding. Specifically, we recommend the Department review, approve, and evidence final approval of the Community Plan/SSBG allocation. We also recommend the Department implement a tracking sheet or other tool to monitor the receipt of the required budgets and narratives, etc. from the CMH boards. These procedures should be documented and the Department should maintain the documentation to evidence performance of the procedures.

Official's Response and Corrective Action Plan

Background on the SFY 2010-2011 Community Plan Process

The Ohio Department of Mental Health (the Department) regularly works collaboratively with Boards to accommodate local issues and technical assistance requests related to Community Plan process compliance. The intent of conditional approval language in the SFY 2010-2011 Community Plan

2. SSBG – COMMUNITY MENTAL HEALTH BOARD PLANS (Continued)

approval process was to serve as notification of conditional and partial approval of Community Plans for Boards that, according to their local by-laws and governance (i.e. Board meeting schedules, agency contract timelines, etc.), must also approve supporting documents that make up the Community Plan. As noted in the joint ODMH and ODADAS conditional approval letters, the SFY 2010-2011 Community Plans were deemed complete upon receipt of the signed Agreement and Assurances document.

The Department had the following process controls in place for the SFY 2010-2011 Community Plan process:

- *A tracking sheet to monitor the receipt and review of Board assurances and other documentation requirements;*
- *Community Plan guidelines development and oversight group comprised of Department and ODADAS staff;*
- *The Directors' authorized letter evidencing receipt and approval of the Board Signature Page for Community Plan Provision of ADAMH Services. The Agreement and Assurances were intended to serve as a subset of the approval process.*

Corrective Action

While the Department maintained an internal review, monitoring and approval process for the signed Agreement and Assurances document included as part of the SFY 2010-2011 Community Plan, the Department recognizes the need for greater clarity and improved process management to meet the Auditor of State's compliance and assurance standards. As recommended by the Auditor of State, the Department will document the internal control procedures used to verify and reasonably ensure that ADAMHS and CMH Boards meet all assurance requirements prior to funding.

In SFY 2012, the Department initiated the following quality improvement steps based on the Auditor of State's recommendations, specifically:

- *Inclusion of authorized signature lines for both sub-awardee/recipient of funds and Department representative in the SFY 2012-2013 Agreement and Assurances document;*
- *The Department has created the position of Community Planning and Grants Management Compliance Monitoring Manager in the Division of Program and Policy Development (PPD) to provide oversight and quality assurance to community planning and recovery initiatives management;*
- *For the SFY 2010-2011 period, the Community Plan and Block Grant/General Revenue Funding special project funding to the community processes resided in different offices within PPD. Beginning in SFY 2012, both activities will reside the in the Office of Community Planning and Recovery Initiatives within PPD.*

Anticipated Completion Date for Corrective Action

7/1/2011

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 Columbus, OH 43215, Phone: (614) 466-9958, E-Mail: jill.stotridge@mh.ohio.gov

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF PUBLIC SAFETY

1. SUBRECIPIENT MONITORING

Finding Number	2011-DPS01-055
CFDA Number and Title	97.067 – Homeland Security Grant Program
Federal Agency	Department of Homeland Security
Compliance Requirement	Subrecipient Monitoring

NONCOMPLIANCE AND MATERIAL WEAKNESS

Pass-through entities are 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 (OMB) Circular A-133, which states, in part:

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 adjustment of the pass-through entity's own records.

In addition, OMB Circular A-133, § _.300 requires recipients of federal awards "maintain internal controls over Federal programs that provide reasonable assurance they are 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." It is management's responsibility to design, implement, and monitor these controls to reasonably ensure compliance with the applicable requirements. It is imperative that control procedures be adequately documented to evidence they are performed timely; consistently; as intended and by an appropriate level of management, enabling management to place reliance on them.

During fiscal year (FY) 2011, the Ohio Department of Public Safety (Department) administered the Homeland Security Grant Program (HSGP) federal program and distributed $33.8 million of the $39.9 million total spent of these funds directly to 88 county subrecipients. The Department initially made the subrecipients aware the funds they received were federal funds of the HSGP program, came from the U.S. Department of Homeland Security, and the subrecipients may be subject to the laws and regulations of OMB Circular A-133, as stated in grant agreements with. All 88 of the subrecipients were subject to a

1. SUBRECIPIENT MONITORING (Continued)

single audit requirement, as all had received and spent more than $500,000 in total federal funds during their respective fiscal year. As part of its subrecipient monitoring requirements, the Department was required to receive audit reports for the subrecipients' 2009 fiscal year from all of its 88 county subrecipients during the audit period. The Department was responsible for reviewing these audit reports as part of its responsibilities as a pass-through entity of federal funds. The Department performed on-site visits of some of the subrecipients and performed desk reviews for subrecipient requests for funds during the year; however:

- The Department did not provide any documentation to indicate they received audit reports from any of the 88 county subrecipients or to show it had any on-going communication with the subrecipients about obtaining the audit reports within the appropriate time-frame or about the status of the late audits.

- The Department indicated it had controls in place to review subrecipient audit reports; however, there were no documented occurrence of the controls related to this process. In addition, the Department did not have any documentation to indicate these reviews had been performed to determine if there were findings, if the subrecipients accurately included the HSGP program on their Schedule of Expenditures of Federal Awards, if a corrective action plan was necessary, if a management decision was required, or what impact a finding at the subrecipient level would have on the Department.

If the Department does not comply with subrecipient monitoring requirements, as well as have adequate documented controls in place over this monitoring, the risk exists that instances of subrecipient noncompliance will not be identified by the Department. Any noncompliance may cause federal funding to be reduced or taken away, or sanctions to be imposed by the federal grantor agency. Noncompliance could also result in the Department having to repay part or all of the grant awards to the federal government if questioned costs would be identified. In addition, if controls are not in place and properly evidenced, the Department cannot be reasonably assured that controls are operating as intended and the Department is adequately performing its responsibilities as a pass-through entity of federal funds. Department management stated the Department was short staffed and did not have the human resources available to accomplish the workload or obtaining and reviewing the subrecipient audit reports.

We recommend the Department:

- Be more proactive in contacting the subrecipients to determine the status of their audit report submission. All communication with subrecipients should be documented in some manner for evidential purposes.

- Devise and implement specific policies and control procedures over the receipt and review of subrecipient audit reports, and utilize these controls on a consistent basis to help ensure compliance with its responsibilities as a pass-through entity per OMB Circular A-133. Controls should be documented to evidence that the Department reviewed the subrecipients' audit reports, provided adequate follow-up on any audit comments received by the subrecipients and determined if the subrecipients accurately included federal programs on their Schedule of Expenditures of Federal Awards with the appropriate Catalog of Federal Domestic Assistance (CFDA) title, number, federal awarding agency, at the correct amounts and that the audits tested programs passed through by the Department as major federal programs.

- Implement procedures which provide for an appropriate segregation of job duties over the subrecipient monitoring process and require that multiple levels of staff are responsible for the overall quality of the subrecipient monitoring process.

- Put appropriate monitoring controls in place to help ensure the process is being conducted appropriately.

1. SUBRECIPIENT MONITORING (Continued)

Official's Response and Corrective Action Plan

The Ohio Emergency Management Agency (Ohio EMA) has policies and procedures in place for reviewing sub-recipient single audit reports in accordance with OMB A-133. However, these procedures were not operational during state fiscal year 2011 as reviews were not conducted due to a shortage in staffing within the fiscal section at Ohio EMA caused by a retirement, resignation, and staff on medical leave/disability. The procedures in place, as documented in the Ohio EMA Fiscal Branch Procedures, include obtaining the single audit reports and management letter from either the Auditor of State or the sub-recipient. A review is then conducted of the audit report and management letter to include notating issues identified directly related to the federal funds passed through, as well as any financial management or control issues identified that may pose a risk to the administration of federal funds by the sub-recipient. In addition, a comparison of the federal schedule with Ohio EMA spending reports is conducted and variances or issues are notated and followed-up on. All documentation of the review and the review form are placed in a file for each sub-recipient and is reviewed and signed off on by an appropriate Ohio EMA manager. A master spreadsheet compiling the issues identified for each sub-recipient is also maintained for quick reference and tracking of reviews conducted. Based on past experience, Ohio EMA has found on-site and desk monitoring reviews to provide stronger assurances of sub-recipient compliance. These reviews did occur during the state fiscal year.

OMB A-133 single audit reviews were conducted in the previous state fiscal year and are on track to be completed in the current fiscal year. A fiscal supervisor was moved over to the Preparedness Grants Branch in June, 2012 to solely conduct on-site monitoring and single audit report reviews. Dedicating a full-time position to Ohio EMA's monitoring efforts will not only ensure the full completion, but offers better coordination and follow-up of the issues identified and provides adequate segregation of duties.

Anticipated Completion Date for Corrective Action

Corrective action has been taken in SFY 2012.

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO BOARD OF REGENTS

1. SUBRECIPIENT MONITORING

Finding Number	2011-BOR01-056
CFDA Number and Title	84.394/84.397 – State Fiscal Stabilization Fund Cluster
Federal Agency	Department of Education
Compliance Requirement	Subrecipient Monitoring

<u>NONCOMPLIANCE AND MATERIAL WEAKNESS</u>

The Ohio Board of Regents 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 (OMB) Circular A-133, which states, in part:

> **Subpart D—Federal Agencies and Pass-Through Entities**
>
> **§ .400 Responsibilities.**
>
> …
>
> **(d) Pass-through entity responsibilities.** A pass-through entity shall perform the following for the Federal awards it makes:
>
> …
>
> 2. Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
>
> 3. Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
>
> 4. Ensure that subrecipients expending $300,000 *($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 adjustment of the pass-through entity's own records.

In addition, OMB Circular A-133, § _.300 requires recipients of federal awards "maintain internal controls over Federal programs that provide reasonable assurance they are 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." It is management's responsibility to design, implement, and monitor these controls to reasonably ensure compliance with the applicable requirements. It is imperative that control procedures be adequately documented to evidence they are performed timely; consistently; as intended and by an appropriate level of management, enabling management to place reliance on them.

1. SUBRECIPIENT MONITORING (Continued)

During fiscal year (FY) 2011, the Board was in the second year of administering the State Fiscal Stabilization Fund Cluster (SFSF) federal program awarded to it from the federal government in accordance with the American Recovery and Reinvestment Act (ARRA) of 2009. The Board distributed these funds ($287.8 million in FY 2011) directly to public institutions of higher education in monthly installments throughout state fiscal years 2010 and 2011. After receiving the award, the Board initially made the subrecipients aware the funds they received were federal funds of the SFSF program and came from the U.S. Department of Education, but did not enter into grant agreements with the subrecipients nor indicate the subrecipients may be subject to the laws and regulations of OMB Circular A-133. All 37 of the subrecipients were subject to a single audit requirement, as all had received and spent more than $500,000 in total federal funds during their respective fiscal year. As part of its subrecipient monitoring requirements, the Board received audit reports for the subrecipients' 2010 fiscal year from all 37 of its subrecipients during the audit period. The Board was responsible for reviewing these audit reports as part of its responsibilities as a pass-through entity of federal funds. However, the Board did not fulfill its subrecipient monitoring responsibilities, as follows:

- The Board did not have any documentation that it had informed the subrecipients they may be subject to having a single audit performed in accordance with OMB Circular A-133 or had otherwise made them aware of this requirement. Although reports were received for all subrecipients, none of the six subrecipients tested submitted their audit reports to the Board timely (the audits were late from 18 to 51 days, with the average being 35 days late). The Board did not have any documentation to show it had any on-going communication with the subrecipients about obtaining the audit reports within the appropriate time-frame or about the status of the late audits.

- The Board indicated it had controls in place to review subrecipient audit reports; however, there were no documented policies or procedures related to this process. In addition, the Board did not have any documentation to indicate these reviews had been performed to determine if there were findings, if the subrecipients accurately included the SFSF program on their Schedule of Expenditures of Federal Awards, if a corrective action plan was necessary, if a management decision was required, or what impact a finding at the subrecipient level would have on the Board.

- The Board did not have proper segregation of duties over this subrecipient monitoring process. One individual was responsible for performing the report review process in its entirety, with no supervisory oversight or review.

If the Board does not make its subrecipients aware of specific federal laws and regulations, including the single audit and report requirements of OMB Circular A-133, the Board cannot be reasonably assured that subrecipients will comply with the requirements. If the Board does not comply with subrecipient monitoring requirements, as well as have adequate documented controls in place over this monitoring, the risk exists that instances of subrecipient noncompliance will not be identified by the Board. Any noncompliance may cause federal funding to be reduced or taken away, or sanctions to be imposed by the federal grantor agency. Noncompliance could also result in the Board having to repay part or all of the grant awards to the federal government if questioned costs would be identified. In addition, if controls are not in place and properly evidenced, the Board cannot be reasonably assured that controls are operating as intended and the Board is adequately performing its responsibilities as a pass-through entity of federal funds.

Board management stated the former Vice Chancellor of Finance left her position early in FY 2012 and was the only person in charge of performing the subrecipient monitoring duties in accordance with OMB Circular A-133. The current management was unable to locate any documentation of the specific control procedures that were in place over this specific monitoring and whether the monitoring functions had been performed.

1. SUBRECIPIENT MONITORING (Continued)

We recommend the Board:

- Accurately inform its subrecipients of all laws and regulations, including the audit report deadlines included in OMB Circular A-133 and other federal requirements, in advance of, or concurrent with, the disbursement of funds to the subrecipients.
- Be more proactive in contacting the subrecipients to determine the status of their audit report submission. All communication with subrecipients should be documented in some manner for evidential purposes.
- Devise and implement specific policies and procedures and controls over the reviews of subrecipient audit reports, and utilize these controls on a consistent basis to help ensure compliance with its responsibilities as a pass-through entity per OMB Circular A-133. Controls should be documented to evidence that the Board reviewed the subrecipients' audit reports, provided adequate follow-up on any audit comments received by the subrecipients and determined if the subrecipients accurately included federal programs on their Schedule of Expenditures of Federal Awards with the appropriate Catalog of Federal Domestic Assistance (CFDA) title, number, federal awarding agency, at the correct amounts and that the audits tested programs passed through by the Board as major federal programs.
- Implement procedures which provide for an appropriate segregation of job duties over the subrecipient monitoring process and require that multiple levels of staff are responsible for the overall quality of the subrecipient monitoring process.
- Put appropriate monitoring controls in place to help ensure the process is being conducted appropriately.

Official's Response and Corrective Action Plan

The Board of Regents distributed the final State Fiscal Stabilization Fund (SFSF) grant funds in June 2011, thus by the time the audit commenced, the grant was closed. However, once the above matter was brought to our attention, the Board focused on taking immediate corrective action. In addition to the SFSF Monitoring Plan submitted to the US Department of Education, the Board has now documented a procedure specific to SFSF subrecipient monitoring of A-133 audit reports. Per that procedure, all FY10 and FY11 subrecipients' single audit reports were reviewed in accordance with OMB Circular A-133. Please note there were no audit findings on SFSF for either fiscal year in those subrecipient single audit reports. Correspondence regarding submission of FY11 single audit reports between the Board, the Auditor of State's Quality Assurance Division and the schools has been documented. In addition, the procedure provides for segregation of duties over the subrecipient monitoring process.

Anticipated Completion Date for Corrective Action

The corrective action has already taken place.

Contact Person Responsible for Corrective Action

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OHIO REHABILITATION SERVICES COMMISSION

1. VOCATIONAL REHABILITATION AND SOCIAL SECURITY DISABILITY INSURANCE – CASH MANAGEMENT

Finding Number	2011-RSC01-057
CFDA Number and Title	84.126/84.390 – Vocational Rehabilitation Cluster 96.001 – Social Security Disability Insurance
Federal Agency	Department of Education Social Security Administration
Compliance Requirement	Cash Management

NONCOMPLIANCE AND MATERIAL WEAKNESS

The Cash Management Improvement Act (CMIA) Agreement between the State of Ohio and the U.S. Commission of Treasury requires the Ohio Rehabilitation Services Commission to utilize the Ohio Pre-issuance Methodology (OPM) when requesting federal funds for the Vocational Rehabilitation and Social Security Disability Insurance programs. Section 6.2.1 of the agreement regarding OPM states, in part:

> The State shall request funds such that they are deposited in a State account not more than three days prior to the day the State makes a disbursement. . . The amount of the request shall be the amount the State expects to disburse. . .

During state fiscal year 2011, the Ohio Rehabilitation Services Commission drew down approximately $100 million and $89.6 million in federal funding for the Vocational Rehabilitation (VR) and the Social Security Disability Insurance (SSDI) programs, respectively. The Commission prepares a daily cash forecast to determine the amount of federal funds to draw that includes the beginning cash balance, estimated expenditures, and pending deposits. The estimated expenditure amounts include the actual subsidy expenses for the VR and SSDI programs and estimated expenses for payroll and administrative costs. The Commission was unable to provide a listing of the accounts payable transactions supporting the amount of federal funds being drawn. As a result, the Commission's federal revenue draws were compared to actual expenses paid three days following the receipt of the federal revenue draw. However:

> Vocational Rehabilitation:
> For two of eleven (18% or $14,124,095 of the population) revenue draws selected for testing, the Commission did not disburse the federal funds within three days of receipt, totaling $7,200,000. The Commission disbursed these federal funds within seven to 18 business days.
>
> Social Security Insurance Disability:
> For five of eleven (45% or $50,934,303 of the population) revenue draws selected for testing, the Commission did not disburse the federal funds within three days of receipt, totaling $15,695,000. The Commission disbursed these federal funds within six to 21 business days.

As a result, it appears as the Commission's internal controls over Cash Management were not operating effectively to reasonably ensure compliance with the CMIA Agreement.

Without timely disbursement of funds, interest penalties may be incurred by the State of Ohio for the funds drawn and not disbursed in accordance with federal requirements and the CMIA Agreement. According to management, the State of Ohio Financials Process Manual requires an agency to have funding available in OAKS at the time the voucher is approved and it may take up to a week for OAKS to process these payments. In addition, OAKS requires the funding for payroll to be available the Saturday prior to the Friday pay day. Six of the draws included funds for payroll and two draws included excess funds anticipating a possible federal shutdown in April 2011.

1. VOCATIONAL REHABILITATION AND SOCIAL SECURITY DISABILITY INSURANCE – CASH MANAGEMENT (Continued)

We recommend the Commission reinforce and strengthen their existing controls to reasonably ensure all requests for Vocational Rehabilitation and Social Security Disability Insurance federal funds are disbursed timely in accordance with the guidelines set forth in the CMIA Agreement. We also recommend the Commission establish and document procedures to monitor cash balances and reconcile estimated expenditures to actual expenditures to reasonably ensure federal funds are drawn down consistent with the Commission's immediate cash needs.

Official's Response and Corrective Action Plan

ORSC draws federal funds under the Vocational Rehabilitation program an average of two to threetimes per week and under the Social Security Disability Insurance program an average of two times per week. The State Accounting System, OAKS, will not process transaction for ORSC unless there are sufficient funds available to cover those transactions.

ORSC has put in place sufficient procedures to draw cash for case service payments for both programs as well as administrative payments such as rent, contract doctor payments fo the Social Security Disability Insurance program and indirect cost charges.

The transactions in question involved drawing for payroll. ORSC was operating under the assumption that sufficient cash needed to be in place prior to payroll posting the weekend before pay date. After further discussions with the State Office of Budget and Management, ORSC determined that it was sufficient to draw cash on the Monday or Tuesday of a pay week and still meet the cash management requirements. Consequently, ORSC draw procedures for payroll were revised in November, 2011.

Anticipated Completion Date for Corrective Action

The corrective action has already been implemented effective November, 2011.

Contact Person Responsible for Corrective Action

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2. VOCATIONAL REHABILITATION – DETERMINATION OF ELIGIBILITY

Finding Number	2011-RSC02-058
CFDA Number and Title	84.126/84.390 – Vocational Rehabilitation Cluster
Federal Agency	Department of Education
Compliance Requirement	Eligibility

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

34 CFR 361.42 states, in part:

> In order to determine whether an individual is eligible for vocational rehabilitation services . . . the designated State unit must conduct an assessment for determining eligibility and priority for services -

2. VOCATIONAL REHABILITATION – DETERMINATION OF ELIGIBILITY (Continued)

(a) Eligibility requirements . . . The designated State unit's determination of an applicant's eligibility for vocational rehabilitation services must be based only on the following requirements: . . .

(i) A determination by qualified personnel that the applicant has a physical or mental impairment . . .

34 CFR 361.45 (a) states, in part:

(1) An individualized plan for employment (IPE) . . . is developed and implemented in a timely manner for each individual determined to be eligible for vocational rehabilitation services. . .

29 USC 722(a)(6) states, in part:

The designated State unit shall determine whether an individual is eligible for vocational rehabilitation services . . . within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for the services unless –

(A) exceptional and unforeseen circumstances beyond the control of the designated State unit preclude making an eligibility determination within 60 days and the designated State unit and the individual agree to a specific extension of time; or

(B) the designated State unit is exploring an individual's abilities, capabilities, and capacity to perform in work situations

It is management's responsibility to implement control policies and procedures to provide reasonable assurance proper documentation supporting eligibility determinations are reviewed, approved, and maintained in the consumer's case file.

During state fiscal year 2011, the Commission disbursed approximately $59 million of federal funds, or 59% of total program expenditures, for subsidy benefit payments for the Vocational Rehabilitation (VR) Program. VR subsidy payments are for services that may benefit an individual with mental or physical disabilities to obtain or maintain employment. However, the eligibility for these individuals was not always properly documented or evaluated timely, as detailed below.

- Two of 60 (3%) consumer case files selected for testing did not include the signed Certificate of Eligibility. However, the consumer's eligibility was subsequently determined based on the physician's evaluations of physical or mental disability or substantial handicap documented in the consumer's case file.

- One of 53 (2%) consumer case files selected for testing did not include the signed Individual Plan for Employment; therefore, the vocational guidance and counseling provided to the consumer could not be verified.

- Seven of 40 (17.5% or $15,614,613 of the population) consumer case files selected for testing were not determined eligible within 60 days of the application for services as required by the federal laws and regulations. The days late ranged from nine to 131 for five of these items; we were unable to determine the days late for the remaining two case files due to the missing Certificate of Eligibility form. However, eligibility for all seven individuals was subsequently determined and since an extension for eligibility was not included within the consumer's case file, it was difficult to determine the reason for the untimely eligibility determinations.

2. VOCATIONAL REHABILITATION – DETERMINATION OF ELIGIBILITY (Continued)

By not maintaining required documentation within the case file or performing eligibility determinations timely, the Commission increases the risk of inaccurate information being entered into the Case Authorization Tracking System (CATS) through Ohio System for Computer Assisted Rehabilitation (OSCAR), resulting in improper payments being made on behalf of an ineligible recipient or the Commission incurring unnecessary and inappropriate costs. According to management, the missing documents from the consumer case files were an oversight and at no point did an ineligible consumer receive VR benefits. Furthermore, management indicated these consumers were eligible for VR services based on additional documents maintained in their consumer case files.

We recommend the Commission reinforce their current policies and procedures to reasonably ensure the Vocational Rehabilitation program's counselor and/or supervisor ensures the proper supporting documentation is maintained in the consumer's case file verifying all eligibility determinations. The Commission should develop a checklist for each counselor or supervisor to utilize as case reviews are performed to help ensure all of the required eligibility documents are maintained. We also recommend the Commission ensure all eligibility determinations are made within 60 days of applying for services as required by federal law for the Vocational Rehabilitation program. If an eligibility determination is not completed within 60 days, the Commission's management should follow-up with the case workers to ensure proper documentation is maintained and an explanation of the delay is documented within the case file.

Official's Response and Corrective Action Plan

In October 2011, ORSC implemented a new Vocation Rehabilitation case management system call AWARE. One of the benefits of this system is that it enforces compliance and provides "activity due" lists integrated into the case management process. Those lists will help counseling staff stay on top o casework details such as the need for a time extension for an eligibility decision.

As well, ORSC recently conducted a Kaizen event in collaboration with Lean Ohio that was designed to restructure the intake and eligibility processes so that we can not only meet the 60 day federal guideline but work toward a goal of an average eligibility determination timeframe of 30 days. ORSC staff and staff from our partners are currently being trained on the implementation of this new model. It is scheduled to go into effect in April of 2012.

In addition to this new process, we are exploring the use of new and/or additional technology that can improve date collection and potentially impact the speed with which eligibility decisions are made.

As we implement these new processes and initiatives we will also be implementing quality assurance procedures and new management reports to closely monitor our progress towards achievement of these goals.

Anticipated Completion Date for Corrective Action

The new case management system, AWARE, was implemented in October of 2012.

The revised intake and eligibility processes are scheduled for implementation in April of 2012.

Contact Person Responsible for Corrective Action

Susan Pugh, Deputy Director, Bureau of Vocation Rehabilitation, Ohio Rehabilitation Services Commission, 150 E. Campus View Boulevard, Columbus, OH 43235, Phone: (614) 438-1763, E-Mail: susan.pugh@rsc.ohio.gov

1. DAVIS-BACON ACT – INTERNAL CONTROLS

Finding Number	2011-DOT01-059
CFDA Number and Title	20.205/20.219/23.003 – Highway Planning and Construction Cluster
Federal Agency	Department of Transportation Appalachian Regional Commission
Compliance Requirement	Davis-Bacon Act

<u>MATERIAL WEAKNESS</u>

The Davis-Bacon Act requires laborers and mechanics employed on federally assisted construction contracts in excess of $2,000 to be paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (40 USC 276a to 276 a-7). It is management's responsibility to implement policies and procedures tho help ensure compliance with this requirement and management's directives.

The Ohio Department of Transportation (the Department or ODOT)'s Enforcement of Prevailing Wage Policy requires the District Prevailing Wage Coordinators (DPWC) communicate prevailing wage requirements to the contractor at a preconstruction conference, conduct and document wage interviews of workers from various classifications on each active project, and perform a detailed review of 30% of the certified weekly payrolls from contractors to ensure compliance with prevailing wage rates. The District Prevailing Wage Coordinators are to document this review and verification by initialing and/or check marking the certified weekly payroll sheet. During fiscal year (FY) 2011, the Department had 563 federal projects subject to the employee interview and preconstruction conferences. While procedures were in place, these procedures were not consistently followed during fiscal year 2011. Specifically, for nine of 60 (15%) projects selected for testing, there was no evidence the employees were interviewed to ensure prevailing wage rate requirements were communicated to the employees, nor was the Department able to provide the federal regulations that would allow a project receiving federal funds to be exempt from this interview process if certain requirements were met.

Without documenting the procedures performed, there is a risk that internal controls may not be established or working in the manner intended by management. ODOT's risk of noncompliance with prevailing wage laws could increase without the implementation of a consistently applied review and reporting process by each of the districts. According to the Department's State Prevailing Wage Coordinator, some individual districts were unable to meet the requirements for preconstruction conferences and wage rate interviews due to District Prevailing Wage Coordinators having scheduling conflicts and/or being out on disability leave. Each District only has one DPWC, so if that employee in unavailable for an extended period of time, the requirements for the Davis-Bacon Act may not be adhered to.

We recommend the Department ensure policies and procedures regarding the Davis-Bacon Act and prevailing wage requirements are established, communicated to all appropriate personnel, and consistently applied by all the districts and divisions. In addition, the Department should:

- Establish a backup for each District Prevailing Wage Coordinator for those instances where the DPWC is unable to attend the required meetings, interviews, etc.

- Maintain specific documentation regarding the individual reviews performed by the District Prevailing Wage Coordinators.

1. DAVIS-BACON ACT – INTERNAL CONTROLS (Continued)

- Identify the federal requirements that provide for exceptions to the rules established by the Department.
- Continue to provide training to DPWC's.
- Perform quality assurance reviews to verify the District Prevailing Wage Coordinators are completing monthly prevailing wage reports, including the specifics of the payrolls examined, and conducting prevailing wage interviews, and submitting the information to the Central Office Prevailing Wage Coordinator for review.

Official's Response and Corrective Action Plan

Regarding the findings associated with the interviews, the Department offers the following corrective action plan.

1) *The District Prevailing Wage Coordinators have been instructed to document their individual prevailing wage reviews using the Department's wage interview form. This form is to be used for every site review and shall be maintained in the Project's file. This requirement will be reiterated to all District Prevailing Wage Coordinators.*

2) *Twice a year, the Department holds a semi-annual meeting for all District Prevailing Wage Coordinators. This meeting is to communicate any changes to all of the District Prevailing Wage Coordinators and to ensure consistency throughout the State. In addition, the Department is currently revising the Prevailing Wage Coordinator manual and is planning an in depth training for all District Prevailing Wage Coordinators on the revised manual. This training will be on-going.*

3) *The Department will continue to perform reviews of the Districts in order to verify the District Prevailing Wage Coordinators are completing the monthly prevailing wage reports, including the specifics of the payrolls examined, and conducting prevailing wage interviews, and submitting the information to the Central Office Prevailing Wage Coordinator for review.*

Anticipated Completion Date for Corrective Action

August 1, 2012

Contact Person Responsible for Corrective Action

Sarah S. Lee, DBE Program Manager, Ohio Department of Transportation, 1980 W. Broad Street, Columbus, Ohio 43223, Phone: (614) 466-7699, E-Mail: sarah.lee@dot.state.oh.us

SUPPLEMENTAL INFORMATION

AGENCY	FINDING SUMMARY	CURRENT STATUS
Ohio Department of Commerce	2010-COM01-001 **IT – Change Management**	Comment repeated in fiscal year 2011, 2011-COM01-001. Department of Commerce Management considers the finding remediated as of August 2011. Comment first reported fiscal year 2009.
Ohio Department of Administrative Services	2010-OAKS01-002 **IT – OAKS IT Security**	Comment repeated in fiscal year 2011, 2011-OAKS01-002. Ohio Department of Administrative Services Management considers the finding partially remediated in fiscal year 2011. Additional remediation will be completed in fiscal year 2012. Comment first reported fiscal year 2010.
Ohio Department of Alcohol and Drug Addiction Services	2010-ADA01-003 **SAPT-Board Assurances**	Comment repeated in fiscal year 2011, 2011-ADA01-003. Ohio Department of Alcohol and Drug Addiction Services Management reports the finding is anticipated to be remediated during fiscal year 2012. Comment first reported fiscal year 2010.
	2010-ADA02-004 **SAPT-Level of Effort**	Comment repeated for fiscal year 2011, 2011-ADA-03-005. Comment first reported fiscal year 2010.
Ohio Department of Development	2010-DEV01-005 **Federal Reporting - CSBG**	The finding has been fully corrected. Comment first reported fiscal year 2010.
Ohio Department of Developmental Disabilities	2010-DDD01-006 **Medicaid – Medical Billing System Changes**	Comment repeated in fiscal year 2011, 2011-DDD02-012. Ohio Department of Developmental Disabilities Management considers the finding remediated as of fiscal year 2012. Comment first reported fiscal year 2010.
Ohio Department of Education	2010-EDU01-007 **Schedule of Expenditures of Federal Awards**	Comment repeated in fiscal year 2011, 2011-EDU04-016. Ohio Department of Education Management reports the finding is anticipated to be remediated during fiscal year 2012. Comment first reported fiscal year 2010.
	2010-EDU02-008 **Child Nutrition Cluster – Reporting Internal Controls**	The finding has been fully corrected. Comment first reported fiscal year 2010.
Ohio Department of Health	2010-DOH01-009 **Public Health Emergency Preparedness – Period of Availability**	This item is no longer considered a reportable item under the provisions of OMB Circular A-133. Comment first reported fiscal year 2010.

AGENCY	FINDING SUMMARY	CURRENT STATUS
Ohio Department of Health (Continued)	2010-DOH02-010 **Subrecipient Monitoring-Various Programs**	The finding has been fully corrected. Comment first reported fiscal year 2010.
	2010-DOH03-011 **Cash Management**	Comment repeated in fiscal year 2011, 2011-DOH01-021. Ohio Department of Health Management considers the finding remediated as of November 2011. Comment first reported fiscal year 2008.
	2010-DOH04-012 **Maintenance of Effort - HIV**	The finding has been fully corrected. Comment first reported in fiscal year 2010.
	2010-DOH05-013 **Lack of Monitoring Controls for Level of Effort and Earmarking**	Comment repeated in fiscal year 2011, 2011-DOH04-024. Ohio Department of Health Management reports the finding was partially corrected during fiscal year 2011. The Ohio Department of Health is working with the Auditor of State to ensure full remediation. Comment first reported fiscal year 2005.
	2010-DOH06-014 **Federal Reporting - MCH**	Comment repeated in fiscal year 2011, 2011-DOH02-022. Ohio Department of Health Management considers the finding remediated as of November 2011. Comment first reported fiscal year 2010.
	2010-DOH07-015 **IT – Program Change Controls**	A related comment for fiscal year 2011 has been included in the Management Letter for the Ohio Department of Health. Comment first reported fiscal year 2003.
Ohio Department of Job and Family Services	2010-JFS01-016 **Various Programs – Period of Availability**	Comment repeated in fiscal year 2011, 2011-JFS01-025. A review and determination of a reduction in the questioned cost is pending with the U.S. Department of Health and Human Services. Comment first reported fiscal year 2009.
	2010-JFS02-017 **MMIS – Claims Reimb in Excess of OAC Limits**	Comment repeated in fiscal year 2011, 2011-JFS02-026. Ohio Department of Job and Family Services Management reports remediation is planned during fiscal year 2013. The U.S. Department of Health and Human Services-Centers for Medicare and Medicaid Services reduced the questioned cost from $846,749 to $151,597. Comment first reported fiscal year 2006.
	2010-JFS03-018 **County Subrecipient Agreements/ Payments**	The finding has been fully corrected. Comment first reported in fiscal year 2009.

AGENCY	FINDING SUMMARY	CURRENT STATUS
Ohio Department of Job and Family Services (Continued)	2010-JFS04-019 **Medicaid/CHIP/ TANF – Missing Documents – Various Counties**	Comment repeated in fiscal year 2011, 2011-JFS03-027. Ohio Department of Job and Family Services Management considers the finding remediated as of fiscal year 2012. Comment first reported fiscal year 2006.
	2010-JFS05-020 **Medicaid/CHIP – Third Party Liability**	Comment repeated in fiscal year 2011, 2011-JFS04-028. Ohio Department of Job and Family Services Management reports the finding is anticipated to be remediated in fiscal year 2012. Comment first reported fiscal year 2010.
	2010-JFS06-021 **CHIP – Ineligible Recipient**	Comment repeated in fiscal year 2011, 2011-JFS05-029. Ohio Department of Job and Family Services Management considers the finding remediated as of December 2011. Comment first reported fiscal year 2007.
	2010-JFS07-022 **Medicaid – Ineligible Recipient**	Comment repeated in fiscal year 2011, 2011-JFS06-030. No remediation is necessary. The U.S. Department of Health and Human Services-Centers for Medicare and Medicaid Services determined that the questioned cost was not repayable. Comment first reported fiscal year 2010.
	2010-JFS08-023 **Child Care Cluster – Cash Management**	Comment repeated in fiscal year 2011, 2011-JFS13-037. Ohio Department of Job and Family Services Management considers the finding remediated as of fiscal year 2012. Comment first reported fiscal year 2008.
	2010-JFS09-024 **IEVS – Alert Resolution/ Inadequate Documentation**	Comment repeated in fiscal year 2011, 2011-JFS08-032. Ohio Department of Job and Family Services Management considers the finding remediated as of October 2011. Comment first reported fiscal year 2005.
	2010-JFS10-025 **IEVS – Due Dates**	Comment repeated in fiscal year 2011, 2011-JFS09-033. Ohio Department of Job and Family Services Management considers the finding remediated as of August 2011. Comment first reported fiscal year 1997.
	2010-JFS11-026 **Medicaid/CHIP – Provider Eligibility**	Comment repeated in fiscal year 2011, 2011-JFS10-034. Ohio Department of Job and Family Services Management considers the finding remediated as of fiscal year 2012. Comment first reported fiscal year 2010.

AGENCY	FINDING SUMMARY	CURRENT STATUS
Ohio Department of Job and Family Services (Continued)	2010-JFS12-027 **IEVS – IRS Information Unprotected**	A related comment for fiscal year 2011 has been included in the Management Letter for the Ohio Department of Job and Family Services. Comment first reported fiscal year 2010.
	2010-JFS13-028 **Various Programs – Cash Management**	A related comment for fiscal year 2011 has been included in the Management Letter for the Ohio Department of Job and Family Services. Comment first reported fiscal year 2009.
	2010-JFS14-029 **Federal Financial Reports**	Comment repeated in fiscal year 2011, 2011-JFS14-038. A review by the U.S. Department of Health and Human Services is pending. Comment first reported fiscal year 2009.
	2010-JFS15-030 **All Applications – Lack of Internal Testing of Auto-mated Controls**	Comment repeated in fiscal year 2011, 2011-JFS15-039. Ohio Department of Job and Family Services Management reports remediation is currently ongoing with three of the systems anticipated to be corrected during fiscal year 2012. Comment first reported fiscal year 1999.
	2010-JFS16-031 **IT – CSRs/ Overrides of CRIS-E**	A related comment for fiscal year 2011 has been included in the Management Letter for the Ohio Department of Job and Family Services. Comment first reported fiscal year 1997.
	2010-JFS17-032 **Federal Revenue Controls**	Comment repeated in fiscal year 2011, 2011-JFS25-049. Ohio Department of Job and Family Services Management considers the finding remediated as of fiscal year 2012. Comment first reported fiscal year 2010.
	2010-JFS18-033 **IT – MMIS Eligibility – PDD and Provider Charge Code Changes**	A related comment for fiscal year 2011 has been included in the Management Letter for the Ohio Department of Job and Family Services. Comment first reported fiscal year 2010.
	2010-JFS19-034 **IT – MMIS Eligibility – PMF Code Changes**	Comment repeated in fiscal year 2011, 2011-JFS18-042. Ohio Department of Job and Family Services Management considers the finding remediated as of August 2011. Comment first reported fiscal year 2010.
	2010-JFS20-035 **Various Programs – County Finance Documentation and Procedures**	Comment repeated in fiscal year 2011, 2011-JFS20-044. Ohio Department of Job and Family Services Management considers the finding remediated as of September 2011. Comment first reported fiscal year 2009.

AGENCY	FINDING SUMMARY	CURRENT STATUS
Ohio Department of Job and Family Services (Continued)	2010-JFS21-036 **Medicaid/CHIP – Managed Care**	Comment repeated in fiscal year 2011, 2011-JFS21-045. Ohio Department of Job and Family Services Management considers the finding remediated as of fiscal year 2012. Comment first reported fiscal year 2010.
	2010-JFS22-037 **IT – OJI – Lack of Control Totals**	A related comment for fiscal year 2011 has been included in the Management Letter for the Ohio Department of Job and Family Services. Comment first reported fiscal year 2010.
	2010-JFS23-038 **Unemployment Insurance – Reporting**	Comment repeated in fiscal year 2011, 2011-JFS23-047. Ohio Department of Job and Family Services Management considers the finding remediated as of fiscal year 2012. Comment first reported fiscal year 2009.
	2010-JFS24-039 **Medicaid – Drug Rebate Monitoring**	Comment repeated in fiscal year 2011, 2011-JFS26-050. Ohio Department of Job and Family Services Management reports this finding has been repeated for fiscal year 2011. Comment first reported fiscal year 2010.
	2010-JFS25-040 **Medicaid/CHIP – Claims Processing and Reconciliation Internal Controls**	Comment repeated in fiscal year 2011, 2011-JFS27-051. Ohio Department of Job and Family Services Management reports the finding is anticipated to be remediated during fiscal year 2012. Comment first reported fiscal year 2010.
	2010-JFS26-041 **TANF – Internal Control Deficiencies – Various Counties**	Comment repeated in fiscal year 2011, 2011-JFS22-046. Ohio Department of Job and Family Services Management considers the finding remediated as of December 2011. Comment first reported fiscal year 2010.
	2010-JFS27-042 **Unemployment Insurance – Tax Contributions – Evidence of Controls**	A related comment for fiscal year 2011 has been included in the Management Letter for the Ohio Department of Job and Family Services. Comment first reported fiscal year 2010.
Ohio Department of Mental Health	2010-DMH01-043 **Subrecipient Monitoring**	Comment repeated in fiscal year 2011, 2011-DMH01-053. Ohio Department of Mental Health Management considers the finding remediated as of July 2011. Comment first reported fiscal year 2001.
	2010-DMH02-044 **SSBG – Community Mental Health Board Assurances**	Comment repeated in fiscal year 2011, 2011-DMH02-054. Ohio Department of Mental Health Management considers the finding remediated as of July 2011. Comment first reported fiscal year 2010.

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STATE OF OHIO SINGLE AUDIT

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JULY 30, 2013

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