



**Auditor of State
Betty Montgomery**

STATE OF OHIO
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

TABLE OF CONTENTS

FINANCIAL SECTION	Page
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	19
Statement of Activities	21
Fund Financial Statements:	
Balance Sheet -- Governmental Funds	23
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.....	26
Statement of Revenues, Expenditures and Changes in Fund Balances --	
Governmental Funds	27
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund	
Balances of Governmental Funds to the Statement of Activities	29
Statement of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual	
(Non-GAAP Budgetary Basis) -- General Fund and Major Special Revenue Funds	31
Statement of Net Assets -- Proprietary Funds -- Enterprise	35
Statement of Revenues, Expenses and Changes in Fund Net Assets --	
Proprietary Funds -- Enterprise	37
Statement of Cash Flows -- Proprietary Funds -- Enterprise	39
Statement of Fiduciary Net Assets -- Fiduciary Funds	43
Statement of Changes in Fiduciary Net Assets -- Fiduciary Funds.....	46
Discretely Presented Component Unit Financial Statements:	
Combining Statement of Net Assets.....	47
Combining Statement of Activities.....	49
Notes to the Financial Statements.....	52
Required Supplementary Information	114
SUPPLEMENTARY SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS	
Supplementary Schedule of Expenditures of Federal Awards Summarized by Federal Agency.....	117
Supplementary Schedule of Expenditures of Federal Awards by Federal Agency and	
Federal Program.....	119
Notes to the Supplementary Schedule of Expenditures of Federal Awards.....	129

STATE OF OHIO
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
TABLE OF CONTENTS

AUDITORS' REPORTS ON COMPLIANCE AND INTERNAL CONTROLS	Page
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	135
Report of Independent Accountants on Compliance with Requirements Applicable to Major Federal Programs and Internal Control over Compliance in Accordance with OMB Circular A-133	139
Schedule of Findings and Questioned Costs:	
Summary of Auditors' Results	143
Major Federal Awards Programs	146
Summary of Findings and Questioned Costs	150
Summary of Questioned Costs by Federal Agency	153
Schedule of Findings and Questioned Costs by State Agency	
Ohio Office of Criminal Justice Services (CJS).....	154
Ohio Department of Education (EDU)	157
Ohio Department of Health (DOH)	166
Ohio Department of Job and Family Services (JFS)	170
Ohio Department of Mental Health (DMH)	267
Ohio Department of Mental Retardation and Developmental Disabilities (DMR)	269

SUPPLEMENTAL INFORMATION

Status of Prior Single Audit Findings	273
Corrective Action Plan	287

NOTE:

The State of Ohio *Comprehensive Annual Financial Report* for fiscal year ended June 30, 2003, has been issued in a separate report by the Ohio Office of Budget and Management. This report can be viewed at the following website: www.state.oh.us/obm/

**FINANCIAL
SECTION**



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Ohio (the State) as of and for the year ended June 30, 2003, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following organizations:

Primary Government: Capitol Square Review and Advisory Board (Underground Parking Garage); Office of the Auditor of State; Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio; State Treasury Asset Reserve of Ohio; Treasurer of State Lease Revenue Bonds; Tobacco Use Prevention and Control Foundation; Office of Business Development; and Variable College Savings Plan.

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

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

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

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Revenues / Additions
Governmental Activities	3%	0%
Business-Type Activities	88%	41%
Aggregate Discretely Presented Component Units	75%	90%
Aggregate Remaining Fund Information	96%	18%
Workers' Compensation	100 %	100 %
Ohio Building Authority	100 %	100 %
Underground Parking Garage	100 %	100 %
Office of Auditor of State	100 %	100 %

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

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

The Honorable Bob Taft, Governor

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Ohio as of June 30, 2003, and respective changes in financial position and cash flows, where applicable, and respective budgetary comparisons for the general and major special revenue funds thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, during the year ended June 30, 2003, the State of Ohio changed its method of accounting for certain workers' compensation self-insurance liabilities.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2003, on our consideration of the State of Ohio's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Ohio's basic financial statements. The accompanying Supplementary Schedule of Expenditures of Federal Awards Summarized by Federal Agency and Supplementary Schedule of Expenditures of Federal Awards by Federal Agency and Federal Program (schedules) are presented for purposes of additional analysis as required by U.S. Office of Budget and Management Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



BETTY MONTGOMERY
Auditor of State

December 12, 2003

State of Ohio

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2003

(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, 2003. The management's discussion and analysis section should be read in conjunction with the preceding transmittal letter and the State's financial statements, which follow.

Financial Highlights

Government-wide Financial Statements

Net assets of the State's primary government reported in the amount of \$18.6 billion, as of June 30, 2003, decreased \$2.8 billion since the previous year. Net assets of the State's component units reported in the amount of \$8.8 billion, as of June 30, 2003, decreased \$447.9 million since the end of last fiscal year.

Fund Financial Statements

Governmental funds reported combined ending fund balances of \$3.89 billion that was comprised of \$680.2 million reserved for specific purposes, such as for debt service, state and local government highway construction, and federal programs; \$5.11 billion reserved for nonappropriable items, such as encumbrances, noncurrent loans, loan commitments, and inventories; \$3.9 million in designations for compensated absences; and a \$1.91 billion deficit.

As of June 30, 2003, the General Fund's fund balance was approximately \$192.8 million, including \$275.2 million reserved for specific purposes; \$319.8 million reserved for nonappropriable items; and a deficit of \$402.2 million. The General Fund's fund balance declined by \$569.5 million or 74.7 percent during fiscal year 2003. Despite weaker-than-expected tax revenue for fiscal year 2003, the General Fund ended the year with an overall positive fund balance. This was primarily due to reductions in budgeted spending for major programs other than Medicaid and Temporary Assistance to Needy Families, the availability of \$247.2 million for spending in fiscal year 2003 from resources designated for budget stabilization (also known as the "Rainy Day" Fund), various transfers-in from other funds, including a \$280.9 million transfer from the Tobacco Settlement Fund, and a \$193 million federal grant award under the Jobs and Growth Tax Relief Reconciliation Act of 2003.

Proprietary funds reported net assets of \$1.78 billion, as of June 30, 2003, a decrease of \$2.15 billion since June 30, 2002. Most of the net amount of the decline was due to the \$1.34 billion, \$625.7 million, and \$248.7 million net losses reported for the Workers' Compensation, Unemployment Compensation, and Tuition Trust Authority enterprise funds, respectively. The loss for the Workers' Compensation Enterprise Fund is attributable to \$640.6 million in premium dividend reductions and refund expenses, and benefits and claims expenses that exceeded premium and assessment income by \$1.19 billion. For the Unemployment Compensation Enterprise Fund, benefits and claims expenses of \$1.78 billion exceeded total operating and nonoperating revenues by approximately \$561 million. The Tuition Trust Authority's decline resulted from tuition benefit expenses exceeding income from the sale of tuition credits by \$270.6 million, due to an increase in tuition benefit expense as a result of high tuition growth during fiscal year 2003 and the estimated increase in the projected future tuition growth, combined with a decrease in unit sales compared with the unusually high sales in fiscal year 2002.

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

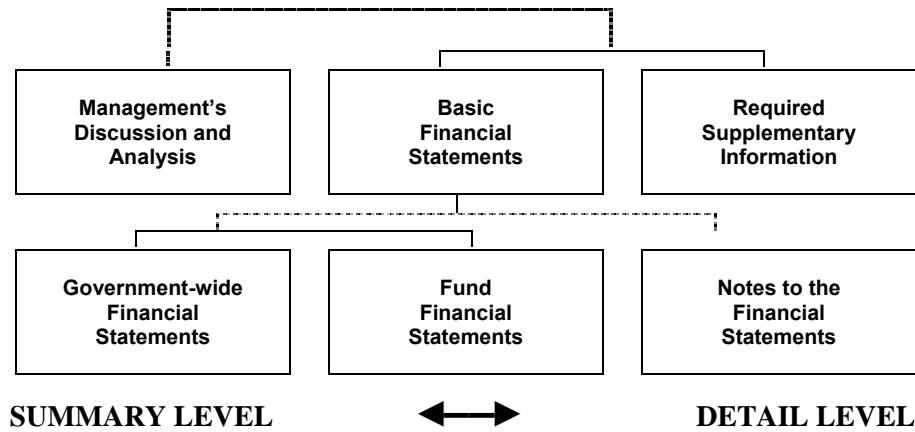
Overall, the total long-term debt for the State's primary government increased \$664.2 million or 7.7 percent during fiscal year 2003 to end the fiscal year with a reported balance of \$9.32 billion in long-term debt. During the year, the State issued \$1.61 billion in general obligation bonds, of which \$549.1 million (net of \$33.6 million in deep discounts at issuance) were refunding bonds, \$327.5 million in revenue bonds, of which \$142.5 million were refunding bonds, and \$602.3 million in special obligation bonds, of which \$442.3 million were refunding bonds. Changes in the primary government's long-term debt for fiscal year 2003 can be found in NOTE 15.

Overview of the Financial Statements

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

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

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



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

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

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

The basic financial statements section also includes notes that more fully explain the information in the government-wide and fund financial statements; the notes provide more detailed data that are essential to a full understanding of the data presented in the financial statements. The notes to the financial statements can be found on pages 52 through 113 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 114 and 115 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	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balance 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Revenues, Expenses, and Changes in Net Assets • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Changes in Fiduciary Net Assets
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

Government-wide Financial Statements

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

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

The State's government-wide financial statements, which can be found on pages 19 through 22 of this report, are divided into three categories as follows.

Governmental Activities — Most of the State's basic services are reported under this category, such as primary, secondary and other education, higher education support, public assistance and Medicaid, health and human services, justice and public protection, environmental protection and natural resources, transportation, general government, community and economic development, and intergovernmental. Taxes, federal grants, charges for

services, including license, permit, and other fee income, fines, and forfeitures, and restricted investment income finance most of these activities.

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

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

Fund Financial Statements

The fund financial statements provide more detailed information about the State's most significant funds — not the State as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. State law and bond covenants mandate the use of some funds. The Ohio General Assembly establishes other funds to control and manage money for particular purposes or to show that the State is properly using certain taxes and grants.

The State employs fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The State has three kinds of funds — governmental funds, proprietary funds, and fiduciary funds.

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

The State's governmental funds include the General Fund and 14 special revenue funds, 22 debt service funds, and 10 capital projects funds. Under separate columns, information is presented in the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund and the Job, Family and Other Human Services, Education, Highway Operating, and Revenue Distribution special revenue funds, all of which are considered major funds. Data from the other 42 governmental funds, which are classified as nonmajor funds, are combined into a single, aggregated presentation under a single column on the fund financial statements. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

The basic governmental fund financial statements can be found on pages 23 through 34 of this report while the combining fund statements and schedules can be found on pages 131 through 191 of the State's CAFR.

Proprietary Funds — Services for which the State charges customers a fee are generally reported in proprietary funds. Financial statements for the proprietary funds, which are classified as enterprise funds, provide both long- and short-term financial information. Like the government-wide financial statements, the State prepares the proprietary fund financial statements applying the accrual basis of accounting and an economic resources focus. The eight enterprise funds, all of which are considered to be major funds, are the same as the State's business-type activities reported in the government-wide financial statements, but the proprietary fund financial statements provide more detail and additional information, such as information on cash flows. The basic proprietary fund financial statements can be found on pages 35 through 42 of this report.

Fiduciary Funds — The State is the trustee, or fiduciary, for assets that — because of a trust arrangement — can only be used for the trust beneficiaries. The State is responsible for ensuring the assets reported in these funds are used for their intended purposes. All of the State’s fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. The State excludes the State Highway Patrol Retirement System Pension Trust Fund, Variable College Savings Plan Private-Purpose Trust Fund, STAR Ohio Investment Trust Fund, and the agency funds from its government-wide financial statements because the State cannot use these assets to finance its operations. The basic fiduciary fund financial statements can be found on pages 43 through 46 of this report.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Assets. During fiscal year 2003, as shown in the table on the following page, the combined net assets of the State’s primary government decreased \$2.76 billion or 12.9 percent. Net assets reported for governmental activities decreased \$611.6 million or 3.5 percent and business-type activities decreased \$2.15 billion or 54.6 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, 2003
With Comparatives as of June 30, 2002
(dollars in thousands)**

	As of June 30, 2003			As of June 30, 2002 (as restated)		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Assets:						
Current and Other Noncurrent Assets	\$10,288,456	\$24,213,259	\$34,501,715	\$10,955,148	\$25,655,009	\$36,610,157
Capital Assets	22,368,509	211,908	22,580,417	21,619,224	238,338	21,857,562
Total Assets	32,656,965	24,425,167	57,082,132	32,574,372	25,893,347	58,467,719
Liabilities:						
Current and Other Liabilities	6,101,273	3,836,997	9,938,270	6,115,123	4,489,351	10,604,474
Noncurrent Liabilities	9,695,277	18,805,672	28,500,949	8,987,221	17,473,966	26,461,187
Total Liabilities	15,796,550	22,642,669	38,439,219	15,102,344	21,963,317	37,065,661
Net Assets:						
Invested in Capital Assets, Net of Related Debt	19,261,553	19,827	19,281,380	18,653,976	24,197	18,678,173
Restricted	1,870,890	2,026,857	3,897,747	1,878,515	3,918,679	5,797,194
Unrestricted/(Deficit)	(4,272,028)	(264,186)	(4,536,214)	(3,060,463)	(12,846)	(3,073,309)
Total Net Assets	\$16,860,415	\$1,782,498	\$18,642,913	\$17,472,028	\$ 3,930,030	\$21,402,058

As of June 30, 2003, the primary government’s investment in capital assets (i.e., land, buildings, land improvements, machinery and equipment, vehicles, infrastructure, and construction-in-progress), less related outstanding debt, was \$19.28 billion. Restricted net assets were approximately \$3.90 billion, resulting in a \$4.54 billion deficit. Net assets are restricted when constraints on their use are 1.) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2.) legally imposed through constitutional or enabling legislation. Unrestricted net assets consist of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

The government-wide Statement of Net Assets reflects a \$4.27 billion deficit for governmental activities. The State of Ohio, like many other state governments, issues general and special obligation debt, the proceeds of which benefit local governments and component units. The proceeds are used to build facilities for public-assisted colleges and universities and local school districts and finance infrastructure improvements for local governments. The policy of selling general obligation and special obligation bonds for these purposes has been the practice for many years. Of the \$8.70 billion of outstanding general obligation and special obligation debt at June 30, 2003, \$5.21 billion is attributable to debt issued for state assistance to component units (School Facilities Commission and the colleges and universities) and local governments. The balance sheets of component unit and local government recipients reflect ownership of the related constructed capital assets without the burden of recording the debt. Unspent proceeds related to these bond issuances are included on the Statement of Net Assets as restricted net assets. By issuing such debt, the State is left to reflect significant liabilities without the benefit of recording the capital assets constructed with the proceeds from the debt issuances.

Additionally, as of June 30, 2003, the State's governmental activities have significant unfunded liabilities for compensated absences in the amount of \$383.6 million (see NOTE 14A.) and a \$774.2 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 2003 and 2002 (as restated), follows.

**Primary Government
Statement of Activities
For the Fiscal Year Ended June 30, 2003
With Comparatives for the Fiscal Year Ended June 30, 2002 (as restated)**
(dollars in thousands)

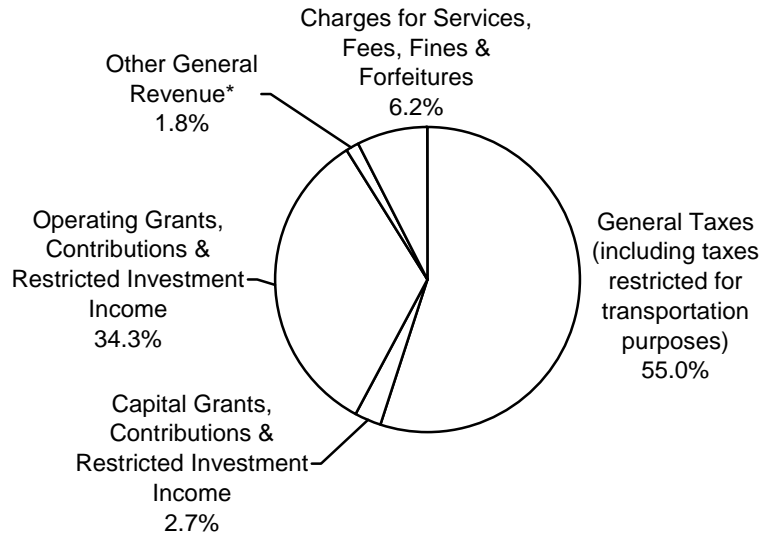
	Fiscal Year 2003			Fiscal Year 2002 (as restated)		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Program Revenues:						
Charges for Services, Fees, Fines and Forfeitures.....	\$ 2,176,902	\$ 4,989,469	\$ 7,166,371	\$ 2,282,572	\$ 5,766,327	\$ 8,048,899
Operating Grants, Contributions & Restricted Investment Income/(Loss).....	11,911,301	1,895,246	13,806,547	11,230,106	(59,232)	11,170,874
Capital Grants, Contributions & Restricted Investment Income/(Loss).....	930,497	956	931,453	942,200	—	942,200
Total Program Revenues	15,018,700	6,885,671	21,904,371	14,454,878	5,707,095	20,161,973
General Revenues:						
General Taxes	17,633,793	—	17,633,793	16,911,481	—	16,911,481
Taxes Restricted for Transportation	1,462,608	—	1,462,608	1,451,767	—	1,451,767
Tobacco Settlement.....	369,619	—	369,619	368,588	—	368,588
Escheat Property	43,173	—	43,173	50,745	—	50,745
Unrestricted Investment Income.....	5,285	29,726	35,011	72,262	—	72,262
Federal.....	193,033	44	193,077	—	346,891	346,891
Other.....	1,802	4,822	6,624	33	2,449	2,482
Total General Revenues	19,709,313	34,592	19,743,905	18,854,876	349,340	19,204,216
Total Revenues	34,728,013	6,920,263	41,648,276	33,309,754	6,056,435	39,366,189
Expenses:						
Primary, Secondary and Other Education	8,498,696	—	8,498,696	8,141,634	—	8,141,634
Higher Education Support.....	2,515,379	—	2,515,379	2,710,111	—	2,710,111
Public Assistance and Medicaid	12,683,617	—	12,683,617	11,953,033	—	11,953,033
Health and Human Services.....	2,930,071	—	2,930,071	2,847,339	—	2,847,339
Justice and Public Protection.....	2,435,774	—	2,435,774	2,451,328	—	2,451,328
Environmental Protection and Natural Resources.....	403,445	—	403,445	371,103	—	371,103
Transportation.....	1,532,040	—	1,532,040	1,507,932	—	1,507,932
General Government	486,013	—	486,013	762,725	—	762,725
Community and Economic Development	739,814	—	739,814	766,464	—	766,464
Intergovernmental.....	3,675,073	—	3,675,073	3,617,678	—	3,617,678
Interest on Long-Term Debt (excludes interest charged as program expense)	195,559	—	195,559	203,811	—	203,811
Workers' Compensation	—	4,088,796	4,088,796	—	4,565,493	4,565,493
Lottery Commission.....	—	1,523,764	1,523,764	—	1,467,203	1,467,203
Unemployment Compensation	—	1,838,949	1,838,949	—	1,660,148	1,660,148
Ohio Building Authority	—	30,824	30,824	—	33,724	33,724
Tuition Trust Authority.....	—	388,469	388,469	—	284,960	284,960
Liquor Control	—	354,547	354,547	—	339,294	339,294
Underground Parking Garage.....	—	2,515	2,515	—	2,336	2,336
Office of Auditor of State.....	—	84,087	84,087	—	78,302	78,302
Total Expenses	36,095,481	8,311,951	44,407,432	35,333,158	8,431,460	43,764,618
Deficiency Before Special Items & Transfers	(1,367,468)	(1,391,688)	(2,759,156)	(2,023,404)	(2,375,025)	(4,398,429)
Special Items	—	11	11	—	26	26
Transfers-Internal Activities	755,855	(755,855)	—	743,821	(743,821)	—
Change in Net Assets	(611,613)	(2,147,532)	(2,759,145)	(1,279,583)	(3,118,820)	(4,398,403)
Net Assets, July 1 (as restated).....	17,472,028	3,930,030	21,402,058	18,751,611	7,048,850	25,800,461
Net Assets, June 30.....	\$16,860,415	\$ 1,782,498	\$18,642,913	\$17,472,028	\$ 3,930,030	\$21,402,058

Governmental Activities

The \$611.6 million decrease in net assets during fiscal year 2003 primarily resulted from lower-than-expected tax revenues, while increased spending in the Primary, Secondary and Other Education, and the Public Assistance and Medicaid functions more than offset decreased spending levels in other State functions and required the State to spend \$247.2 million in resources, which had been designated for budget stabilization purposes, as of the end of fiscal year 2002. The State attributes most of the slow growth in tax revenues to a slowdown in the economy. Also, increased spending in the State's largest public assistance-related program, Medicaid, most likely resulted from a slowdown in the economy and overall increases in health care costs.

The following chart illustrates revenue sources of governmental activities as percentages of total revenues reported for the fiscal year ended June 30, 2003.

**Governmental Activities — Sources of Revenue
Fiscal Year 2003**

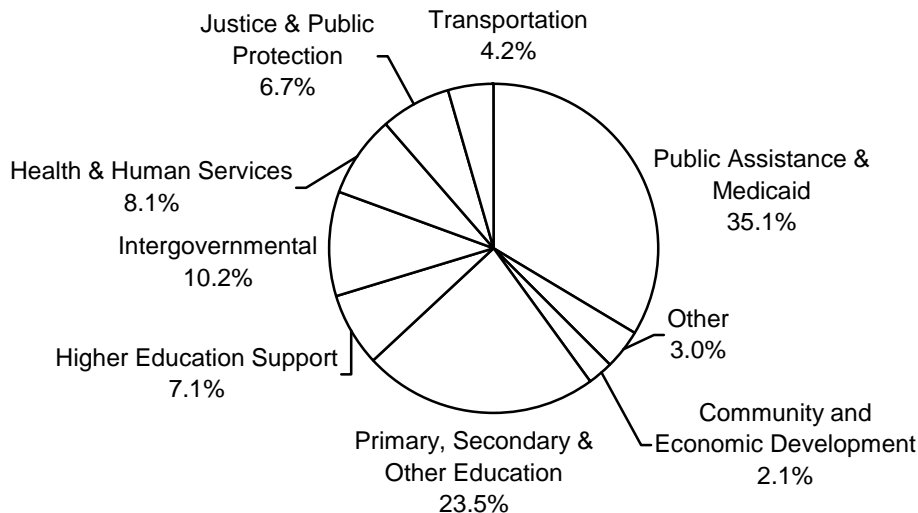


*Other General Revenue includes Tobacco Settlement, Escheat Property, Unrestricted Investment Income, Federal, and Other

Total FY 03 Revenue for Governmental Activities = \$34.73 Billion

The following chart illustrates expenses by program of governmental activities as percentages of total program expenses reported for the fiscal year ended June 30, 2003.

**Governmental Activities — Expenses by Program
Fiscal Year 2003**



Total FY 03 Program Expenses for Governmental Activities = \$36.10 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, 2003 and 2002 (as restated). The net cost (total program expenses less revenues generated by the program) represents the financial burden that was placed on the State's taxpayers by each of these programs; costs not covered by program revenues are essentially funded with the State's general revenues, which are primarily comprised of taxes, tobacco settlement revenue, escheat property, unrestricted investment income, and unrestricted federal revenue.

Program Expenses and Net Costs of Governmental Activities by Program
For the Fiscal Year Ended June 30, 2003
With Comparatives for the Fiscal Year Ended June 30, 2002 (as restated)
(dollars in thousands)

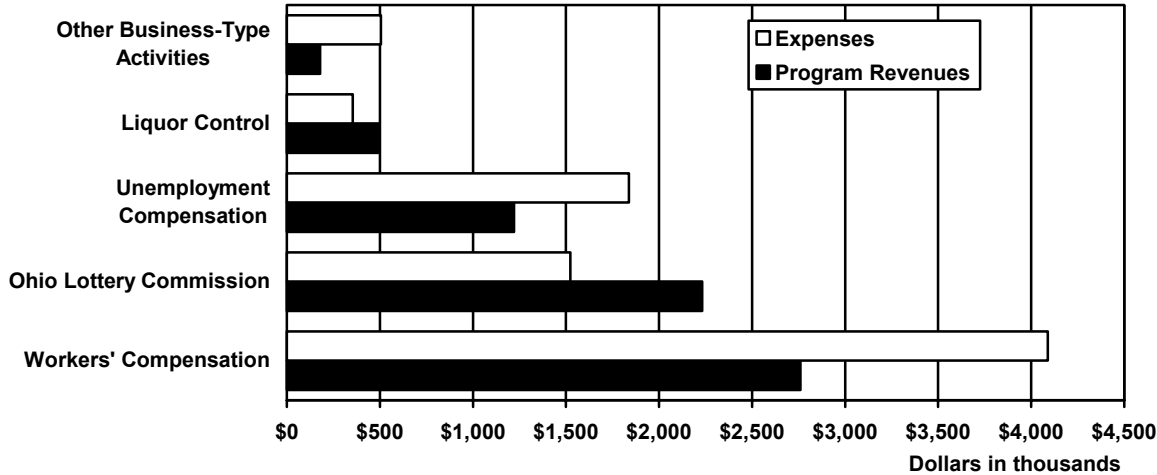
For the Fiscal Year Ended June 30, 2003				
Program	Program Expenses	Net Cost of Program	Net Cost as Percentage of Total Expenses for Program	Net Cost as Percentage of Total Expenses — All Programs
Primary, Secondary and Other Education	\$ 8,498,696	\$ 7,234,432	85.1%	20.0%
Higher Education Support	2,515,379	2,491,806	99.1	6.9
Public Assistance and Medicaid.....	12,683,617	3,798,634	29.9	10.5
Health and Human Services	2,930,071	1,164,789	39.8	3.2
Justice and Public Protection	2,435,774	1,584,283	65.0	4.4
Environmental Protection and Natural Resources.....	403,445	179,562	44.5	0.5
Transportation	1,532,040	515,201	33.6	1.4
General Government.....	486,013	77,450	15.9	0.2
Community and Economic Development	739,814	159,992	21.6	0.5
Intergovernmental	3,675,073	3,675,073	100.0	10.2
Interest on Long-Term Debt	195,559	195,559	100.0	0.6
Total Governmental Activities	\$36,095,481	\$21,076,781	58.4	58.4%
For the Fiscal Year Ended June 30, 2002 (as restated)				
Program	Program Expenses	Net Cost of Program	Net Cost as Percentage of Total Expenses for Program	Net Cost as Percentage of Total Expenses — All Programs
Primary, Secondary and Other Education	\$ 8,141,634	\$6,922,682	85.0%	19.6%
Higher Education Support	2,710,111	2,693,576	99.4	7.6
Public Assistance and Medicaid.....	11,953,033	3,633,295	30.4	10.3
Health and Human Services	2,847,339	1,255,820	44.1	3.6
Justice and Public Protection	2,451,328	1,579,888	64.5	4.5
Environmental Protection and Natural Resources.....	371,103	137,928	37.2	0.4
Transportation	1,507,932	455,452	30.2	1.3
General Government.....	762,725	224,047	29.4	0.6
Community and Economic Development	766,464	154,103	20.1	0.4
Intergovernmental	3,617,678	3,617,678	100.0	10.2
Interest on Long-Term Debt	203,811	203,811	100.0	.6
Total Governmental Activities	\$35,333,158	\$20,878,280	59.1	59.1%

Business-Type Activities

The State's enterprise funds reported net assets of \$1.78 billion, as of June 30, 2003, as compared to \$3.93 billion in net assets, as of June 30, 2002. These results were caused in part by the Workers' Compensation Fund, which reported net assets of \$552.4 million, as of June 30, 2003, as compared to \$1.89 billion in net assets, as of June 30, 2002, a 70.8 percent decrease. Also contributing to the decline in business-type activities was the Un-

employment Compensation Fund, which reported net assets of \$1.29 billion, as of June 30, 2003, as compared to \$1.91 billion, a 32.7 percent decrease since June 30, 2002. Finally, the Tuition Trust Authority Fund reported a net assets deficit of \$319 million at June 30, 2003, as compared to a net assets deficit of \$70.3 million at June 30, 2002, a 353.8 percent decrease in net assets. The chart below compares program expenses and program revenues for business-type activities.

**Business-Type Activities — Expenses and Program Revenues
Fiscal Year 2003**



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, 2003 and June 30, 2002 (dollars in thousands).

	General Fund	Other Major Funds	Nonmajor Govern- mental Funds	Total Governmental Funds
<i>As of and for the Fiscal Year Ended June 30, 2003:</i>				
Unreserved/Undesignated				
Fund Balance (Deficit).....	\$ (402,238)	\$(1,685,904)	\$ 175,701	\$(1,912,441)
Designated Fund Balance.....	—	—	3,941	3,941
Total Fund Balance.....	192,787	1,033,826	2,660,290	3,886,903
Total Revenues.....	21,748,682	9,936,211	3,115,188	34,800,081
Total Expenditures.....	22,428,880	10,135,171	5,122,383	37,686,434
<i>As of and for the Fiscal Year Ended June 30, 2002 (as restated):</i>				
Unreserved/Undesignated				
Fund Balance (Deficit).....	\$ —	\$(1,100,447)	\$ 180,380	\$(920,067)
Designated Fund Balance.....	206,214	—	2,487	208,701
Total Fund Balance.....	762,250	1,208,810	2,557,631	4,528,691
Total Revenues.....	20,504,274	9,626,312	2,999,212	33,129,798
Total Expenditures.....	21,897,458	9,736,767	5,045,933	36,680,158

General Fund

Fund balance for the General Fund, the main operating fund of the State, had decreased by \$569.5 million during the current fiscal year. Key factors for the decline were lower personal income tax collections resulting from a slowdown in the economy and mandated spending increases in the Medicaid Program and for primary and secondary education, which were largely due to changes in funding methods prompted by the DeRolph court case.

General Fund Budgetary Highlights

The State ended the second year of its biennial budget period on June 30, 2003 with a General Fund budgetary fund balance (i.e., cash less encumbrances) of \$537 million. Total budgetary sources for the General Fund (including \$434.4 million in transfers from other funds) in the amount of \$23.4 billion were below final estimates by \$252.4 million or 1.1 percent during fiscal year 2003, while total tax receipts were below final estimates by \$47.7

million or 0.3 percent. In fiscal year 2003 the State raised the cigarette tax, and as a result, cigarette tax revenue in fiscal year 2003 was \$600 million as compared to \$281.3 million for fiscal year 2002, a 113.3 percent increase. The State also received a \$193 million federal grant award under the Jobs and Growth Tax Relief Reconciliation Act of 2003, which was deposited into the General Fund.

The weaker-than-expected revenue picture primarily resulted from lower-than-anticipated receipts from personal income tax. Total budgetary uses for the General Fund (including \$47.4 million in transfers to other funds) in the amount of \$24.3 billion were below final estimates by \$908.4 million or 3.6 percent for fiscal year 2003.

Additionally, with legislative authorization, OBM made the following significant resource reallocations to fill the existing gap between actual spending and actual revenues caused by revenue shortfalls during fiscal year 2003:

- \$247.2 million, which had been designated in the General Fund for budget stabilization purposes, was reallocated for spending. While there was \$180.7 million remaining at June 30, 2003 for future budget stabilization purposes, there was no designation of fund balance in the General Fund for budget stabilization purposes on a GAAP basis, since the State's reported designation for budget stabilization could not exceed the amount of residual fund balance that remained after the posting of reserves for specific purposes and nonappropriable items.
- \$280.9 million from tobacco settlement revenues was transferred to the General Fund, as authorized under legislation.

On July 1, 2002, the Governor issued an executive order directing a total of approximately \$375 million in the General Revenue Fund (GRF) spending cutbacks for fiscal year 2003 (based on prior appropriations) by agencies and departments in his administration, as well as limitations on hiring, travel, and major purchases. The GRF is the largest, non-GAAP, budgetary-basis operating fund included in the State's General Fund. This cutback order reflected and was consistent with prior budget balancing discussions between the Governor and General Assembly. Annual cutbacks ranged generally from 7.5 to 15 percent, with allocation of amounts and manners determined by the Director of the Ohio Office of Budget and Management (OBM) in consultation with the affected agencies and departments. Excluded from those cutbacks were elementary and secondary education, higher education, alcohol and drug addiction services, and the adjutant general. Also expressly excluded were appropriations for debt service including lease rental contracts, and all state office building rent, and ad valorem property tax relief payments (made to local taxing entities).

Based on continuing reduced revenue collections (particularly, personal income taxes and sales tax receipts for the holidays) and projected additional Medicaid spending of \$40 million, OBM in late January announced an additional GRF shortfall of \$720 million for fiscal year 2003. The Governor ordered immediate additional reductions in appropriations spending intended to generate an estimated \$121.6 million of GRF savings through the end of the fiscal year (expressly excepted were appropriations for or relating to debt service on State obligations). The Governor also proposed for the General Assembly's prompt consideration the following additional revenue enhancements, transfers and expenditure reductions for fiscal year 2003 requiring legislative authorization to achieve the indicated financial effects as estimated by OBM:

- A 2.5-percent reduction in local government fund distributions to most subdivisions and local libraries, producing an estimated \$30 million in savings. This reduction is in addition to the prior local government fund distribution adjustments noted below.
- Transfers to the GRF from unclaimed funds (\$35 million) and various other funds (\$21.4 million).
- A one-month acceleration in sales tax collections by vendors filing electronically, to produce \$286 million.
- An additional increase in the cigarette tax of 45 cents per pack (to a total of \$1.00 a pack), to produce approximately \$140 million.
- A doubling of the current taxes on spirituous liquor and beer and wine, to net an additional \$18.7 million.

The Governor proposed enactment of these legislative authorizations by March 1, 2003 in order to produce the indicated financial effects by the June 30 end of the fiscal year and biennium. The General Assembly gave its final approval on February 25 to legislation authorizing the first three elements (see above) of the Governor's proposal, but that legislation did not include the proposed additional taxes on cigarettes and spirituous liquor and beer and wine.

OBM projected at the time that the Governor's proposal to the General Assembly and the additional expenditure reductions ordered by the Governor in January, coupled with the previously authorized reallocation of the then

available moneys designated for budget stabilization purposes to the GRF, would result in a positive GRF budgetary fund balance at June 30, 2003. To offset the General Assembly's enactment of legislation that did not include the proposed additional taxes on cigarettes and liquor, beer and wine, the Governor on March 25 ordered additional reductions in GRF appropriations spending aggregating \$142.5 million for the balance of fiscal year 2003. Included were reductions (generally at an annualized rate of 2.5 percent) of \$90.6 million in State foundation and parity aid to school districts and an additional \$9.3 million in Department of Education administration spending, \$39.2 million in instructional support to higher education institutions, and other selected reductions totaling \$3.4 million. The Governor also identified approximately \$20 million in excess food stamp administration funds available to offset the need for further expenditure reductions. Expressly excepted from those reductions were appropriations for or relating to debt service on state obligations.

Based on the Administration's continuing monitoring of revenues, and as an anticipated step in the then ongoing 2004-05 biennial budget and appropriations process, OBM reported revised revenue estimates to the General Assembly on June 11, 2003. Those estimates revised fiscal year 2003 revenues downward by an additional \$200 million over OBM's January 2003 adjusted baseline, based primarily on updated income and sales tax receipts through May 31, 2003. The Governor and OBM addressed this additional fiscal year 2003 revenue shortfall through additional expenditure controls and by drawing upon \$193 million of federal block grant aid made available to the State prior to June 30 under the federal Jobs and Growth Tax Relief Reconciliation Act of 2003, which became effective on May 28, 2003.

Additional appropriations actions during the biennium, affecting most subdivisions and local libraries in the State, relate to the various local government assistance funds. The original appropriations act capped the amount to be distributed in fiscal years 2002 and 2003 to essentially the equivalent monthly payment amounts in fiscal years 2000 and 2001. Subsequent legislation amended the level to the lesser of those prior fiscal year amounts or the amount that would have been distributed under the standard formula.

Other Major Governmental Funds

Fund balance for the Job, Family and Other Human Services Fund, as of June 30, 2003, totaled \$289.0 million, an increase of \$68.4 million since June 30, 2002. Revenues exceeded expenditures by \$83.1 million, and of the excess of revenues over expenditures, \$14.7 million in net transfers-out were made to other funds.

Fund balance for the Education Fund, as of June 30, 2003, totaled \$22.6 million, a decrease of \$6.2 million since June 30, 2002. Fiscal year 2003 net transfers-in for the fund in the amount of \$616.6 million was not enough to cover the excess of expenditures over revenues reported for the fund in the amount of \$622.8 million.

Fund balance for the Highway Operating Fund, as of June 30, 2003, totaled \$615.7 million, a decrease of \$225.1 million since June 30, 2002. The decline was caused by increased transportation spending of \$1.91 billion for fiscal year 2003 compared with \$1.86 billion during the previous fiscal year, a decline in the fund's revenues from \$1.46 billion in fiscal year 2002 to \$1.44 billion in fiscal year 2003, and a slight decline in net transfers-in for fiscal year 2003 of \$7.3 million when compared to fiscal year 2002 results.

Fund balance for the Revenue Distribution Fund, as of June 30, 2003, totaled \$106.6 million, a decrease of \$12.2 million since June 30, 2002. Fiscal year 2003 net transfers-out to other governmental funds of \$825.9 million were higher than the \$731.3 million transfers-out reported for fiscal year 2002, thus causing the decrease in fund balance.

Proprietary Funds

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

For the Workers' Compensation Fund, the decrease in net assets was primarily due to premium reductions and refund expenses of \$640.6 million, and benefits and claims expenses of \$3.36 billion exceeded total operating and nonoperating revenues by approximately \$601.2 million.

The Workers Compensation Oversight Commission approved a one-time 75-percent premium reduction for Ohio private employers for the policy period July 1, 2002 through December 31, 2002, which produced estimated savings of \$600 million to these employers. The Oversight Commission also approved a one-time 50-percent premium reduction for public taxing district employers for their policy year beginning January 1, 2002, which was expected to produce estimated savings of \$144 million to these employers through December 31, 2002, with \$72 million of the estimated premium reduction reflected in premium reduction and refund expenses in fiscal year 2003.

Workers' compensation benefits and claims expenses were \$3.36 billion in fiscal year 2003 as compared to \$2.93 billion in fiscal year 2002. The increase in workers' compensation benefits is due in part to increased utilization of medical services and medical cost inflation. A continuing decline in the number of newly awarded permanent total disability claims has helped to reduce the impact of the increased medical costs.

The Bureau of Workers' Compensation Fund experienced net investment income of \$575.4 million, compared to a loss on investment income of \$430.1 million reported in the previous fiscal year. The increase in investment income was primarily attributable to an increase of \$43 million in the fair value of the investment portfolio in fiscal year 2003, compared to a \$1.1 billion decline in fair value during fiscal year 2002.

The Unemployment Compensation Enterprise Fund reported a net loss of \$625.7 million during fiscal year 2003. Unemployment benefits and claims expenses of \$1.78 billion exceeded total operating and nonoperating revenues by approximately \$560.9 million. Investment income for the fund during fiscal year 2003 was \$93.0 million, down \$32.1 million or 25.6 percent from fiscal year 2002. The fund's net loss resulted despite the deposit of an additional \$326.9 million in federal funds received during fiscal year 2003 for the payment of extended unemployment benefits to laid-off workers in Ohio for an additional 13 weeks.

For the Tuition Trust Authority Fund, the \$318.9 million deficit, as of June 30, 2003, resulted when the fund reported a net loss of \$248.7 million for fiscal year 2003. By June 30, 2003, tuition benefits payable had dramatically increased because of the estimated increase in future tuition growth. Although the Authority had an increase in investment income of \$45.9 million compared to fiscal year 2002, the decrease in sale of tuition units and an increase in tuition benefit expense greatly contributed to the net loss. In fiscal year 2003, the Authority had sales of \$110.7 million, a decrease of \$55.6 million, or 33.4 percent, compared to fiscal year 2002. Tuition benefit expense was \$381.2 million, an increase of \$102.5 million, or 36.8 percent, over tuition benefit expense for fiscal year 2002.

The Lottery Commission Fund reported approximately \$708.2 million in income before transfers of \$641.4 million and \$189 thousand to the Education and General funds, respectively, posting a \$66.6 million gain in the fund's net assets during fiscal year 2003. The Liquor Control Fund reported a net gain of \$109 thousand after transferring \$115.0 million to the General Fund and \$23.5 million to other governmental funds. In fiscal year 2003, transfers from the proprietary funds to the governmental funds totaled \$826.5 million, up \$19.1 million or 2.4 percent when compared to the \$807.4 million in transfers-out reported for fiscal year 2002.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2003 and June 30, 2002, the State had invested \$22.58 billion and \$21.86 billion, net of accumulated depreciation of \$1.86 billion and \$1.71 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, 2003
With Comparatives as of June 30, 2002
(dollars in thousands)

	As of June 30, 2003			As of June 30, 2002		
	Govern- mental Activities	Business-Type Activities	Total	Govern- mental Activities	Business-Type Activities	Total
Land	\$ 1,530,958	\$ 12,631	\$1,543,589	\$ 1,479,858	\$ 12,631	\$1,492,489
Buildings	1,895,700	141,111	2,036,811	1,886,367	136,066	2,022,433
Land Improvements	110,112	18	110,130	87,207	19	87,226
Machinery and Equipment	141,753	54,799	196,552	102,831	78,341	181,172
Vehicles	125,334	2,393	127,727	121,077	2,454	123,531
Infrastructure:						
Highway Network:						
General Subsystem	8,059,076	—	8,059,076	8,049,949	—	8,049,949
Priority Subsystem	6,570,628	—	6,570,628	6,351,727	—	6,351,727
Bridge Network	2,255,567	—	2,255,567	2,223,044	—	2,223,044
Parks, Recreation, and Natural Resources System	17,836	—	17,836	14,662	—	14,662
	20,706,964	210,952	20,917,916	20,316,722	229,511	20,546,233
Construction-in-Progress	1,661,545	956	1,662,501	1,302,502	8,827	1,311,329
Total Capital Assets, Net	\$22,368,509	\$211,908	\$22,580,417	\$21,619,224	\$238,338	\$21,857,562

During fiscal year 2003, the State recognized \$156.2 million in annual depreciation expense relative to its other general governmental capital assets as compared with \$152.8 million in depreciation expense recognized in fiscal year 2002.

Additionally, the State completed construction on a variety of projects at various state facilities during fiscal year 2003 totaling approximately \$435 million, as compared with \$473.5 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 3.3 percent (a 3.5 percent increase for governmental activities and a 11.1 percent decrease for business-type activities). As further detailed in NOTE 19D. of the notes to the financial statements, the State had \$205.6 million in major construction commitments (unrelated to infrastructure), as of June 30, 2003, as compared with the \$227.9 million balance reported for June 30, 2002.

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 42,527 in lane miles of highway (12,210 in lane miles for the priority highway subsystem and 30,317 in lane miles for the general highway subsystem) and approximately 80.6 million square feet of deck area that comprises more than 12,000 bridges for which the State has the responsibility for ongoing maintenance.

Ohio accounts for its pavement network in two subsystems: *Priority*, which comprises interstate highways, free-ways, 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 2002, indicates that only 3.1 percent and 1.8 percent of the priority and general subsystems, respectively, were assigned a "poor" condition rating. For calendar year 2001, only 4.2 percent and 3.0 percent of the priority and general subsystems, respectively, were assigned a "poor" condition rating.

For the bridge network, it is the State's intention to allow no more than 15 percent of the total number of square feet of deck area to be in "fair" or "poor" condition. The most recent condition assessment, completed by the Ohio Department of Transportation for calendar year 2002, indicates that only 3.0 percent and .01 percent of the number of square feet of bridge deck area were considered to be in "fair" and "poor" conditions, respectively. For calendar year 2001, only 3.3 percent and .04 percent of the number of square feet of bridge deck area were considered to be in "fair" and "poor" conditions, respectively.

For calendar year 2002, total actual maintenance and preservation costs for the priority and general subsystems were \$273.8 million and \$209.5 million, respectively, compared to estimated costs of \$243.7 million for the priority system and \$135.1 million for the general system while total actual maintenance and preservation costs for the bridge network was \$229.1 million compared to estimated costs of \$180.4 million. For the previous calendar year, total actual maintenance and preservation costs for the priority and general subsystems were \$319.5 million and \$152 million, respectively, compared to estimated costs of \$251.2 million for the priority system and \$111 million for the general system while total actual maintenance and preservation costs for the bridge network was \$210.1 million compared to estimated costs of \$192.1 million.

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

Debt — Bonds and Notes Payable and Certificates of Participation Obligations

As of June 30, 2003 and June 30, 2002, the State had total debt of \$9.32 billion and \$8.66 billion, respectively, as shown in the table below.

Bonds and Notes Payable and Certificates of Participation As of June 30, 2003 With Comparatives as of June 30, 2002 (dollars in thousands)

	As of June 30, 2003			As of June 30, 2002		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Bonds and Notes Payable:						
General Obligation Bonds	\$4,603,842	\$ —	\$4,603,842	\$3,771,129	\$ —	\$3,771,129
Revenue Bonds and Notes.....	450,598	167,310	617,908	297,638	190,723	488,361
Special Obligation Bonds	4,093,614	—	4,093,614	4,389,102	—	4,389,102
Certificates of Participation.....	7,370	—	7,370	9,900	—	9,900
Total Debt.....	<u>\$9,155,424</u>	<u>\$167,310</u>	<u>\$9,322,734</u>	<u>\$8,467,769</u>	<u>\$190,723</u>	<u>\$8,658,492</u>

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

During fiscal year 2003, the State issued \$1.61 billion in general obligation bonds, \$327.5 million in revenue bonds, and \$602.3 million in special obligation bonds, of which \$1.13 billion (net of \$33.6 million in deep discounts at issuance) were refunding bonds. The total increase in the State's debt obligations for the current fiscal year was 7.7 percent (an 8.1 percent increase for governmental activities and a 12.3 percent decrease for business-type activities).

Credit Ratings

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

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

On December 19, 2001, Moody's changed their "credit outlook" on the State from "stable" to "negative," while on July 9, 2003, S&P changed their "credit outlook" on the State from "negative" to "stable." The change in credit outlook is not a precursor to a rating change, but is an indication over the intermediate to longer term of a potential change.

Limitations on Debt

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

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

Conditions Expected to Affect Future Operations

For the past three years, Ohio's economy has been in a recession that has been characterized by layoffs and falling corporate profits. However, the forecast for the State of Ohio's economy is for a moderate economic recovery similar to what is projected for the nation. Through the end of November 2003, actual tax revenues for fiscal year 2004 have been consistent with the Office of Budget and Management's projections for fiscal year 2004.

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

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

The Act provides for total GRF biennial expenditures of approximately \$48.8 billion. Those authorized GRF expenditures for fiscal year 2004 are approximately 5.8 percent higher than the actual fiscal year 2003 expenditures (taking into account fiscal year 2003 expenditure reductions), and for fiscal year 2005 are approximately 3.5 percent higher than for fiscal year 2004. The following are examples of increases in authorized GRF biennial expenditures compared with actual fiscal year 2002-03 expenditures in major program categories: primary and secondary education 5.1 percent; higher education 4.4 percent; mental health and mental retardation 4.1 percent; Medicaid 19.9 percent; and adult and juvenile corrections 5.7 percent.

The above expenditure levels reflect among other expenditure controls in the Act: Medicaid cost containment measures including pharmacy cost management initiatives, limited expenditure growth for institutional services and implementation of managed care for higher-cost populations; continued phase-out of certain tangible personal property tax relief payments to local governments; the closing by consolidation of three institutional facilities during the biennium; adjustments in eligibility guidelines for subsidized child care from 185 percent to 150 percent of the federal poverty level, and freezing certain reimbursement rates; no compensation increases for most state employees in fiscal year 2004 and limited one-time increases in fiscal year 2005; and continued limitation on local government assistance fund distributions to most subdivisions and local libraries to the lesser of the equivalent monthly payments in fiscal years 2000 and 2001 or the amount that would have been distributed under the standard formula.

The GRF expenditure authorizations for the biennium also reflect and are supported by revenue enhancement actions contained in the Act including:

- A one-cent increase in the State sales tax (to six percent) for the biennium (expiring June 30, 2005), projected to generate approximately \$1.25 billion in each fiscal year to which it applies.
- Expansion of the sales tax base to include dry-cleaning/laundry services, towing, personal care, and other services, and satellite television, projected in the aggregate to produce approximately \$69 million annually. (The inclusion of satellite television in the sales tax base, projected to produce approximately \$21 million annually, is subject to a legal challenge.)
- Movement of local telephone companies from the public utility tax base to the corporate franchise and sales tax, projected to produce approximately \$29 million annually.
- Elimination of the sales tax exemption for WATS and 800 telecom services coupled with the enactment of a more limited exemption for call centers, projected to produce approximately \$64 million annually.
- Adjustments in the corporate franchise tax through the adoption of the Uniform Division of Income for Tax Purposes Act for apportionment of business income among states, and an increase in the corporate alternative minimum tax, projected in the aggregate to produce approximately \$35 million annually.

The Act also reflects the draw down during the biennium of an additional approximately \$582 million of federal block grant and Medicaid assistance aid made available to the State under the federal Jobs and Growth Tax Relief Reconciliation Act of 2003.

Contacting the Ohio Office of Budget and Management

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

BASIC FINANCIAL STATEMENTS

STATE OF OHIO
STATEMENT OF NET ASSETS
JUNE 30, 2003
(dollars in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS:				
Cash Equity with Treasurer.....	\$ 4,167,693	\$ 49,504	\$ 4,217,197	\$ 331,171
Cash and Cash Equivalents.....	76,797	2,095,257	2,172,054	725,924
Investments.....	740,078	14,382,573	15,122,651	3,737,273
Collateral on Lent Securities.....	1,485,828	2,501,452	3,987,280	110,836
Deposit with Federal Government.....	—	1,190,542	1,190,542	—
Taxes Receivable.....	982,334	—	982,334	—
Intergovernmental Receivable.....	1,588,533	5,493	1,594,026	47,927
Premiums and Assessments Receivable.....	—	1,567,971	1,567,971	—
Investment Trade Receivable.....	—	381,989	381,989	—
Loans Receivable, Net.....	847,838	—	847,838	226,289
Receivable from Primary Government.....	—	—	—	26,074
Other Receivables.....	299,162	359,604	658,766	674,308
Inventories.....	43,508	29,043	72,551	46,758
Other Assets.....	56,685	13,493	70,178	341,967
Restricted Assets:				
Cash Equity with Treasurer.....	—	—	—	16,351
Cash and Cash Equivalents.....	—	1,891	1,891	90,428
Investments.....	—	1,634,447	1,634,447	1,154,874
Collateral on Lent Securities.....	—	—	—	5,485
Loans Receivable, Net.....	—	—	—	2,520,041
Capital Assets Being Depreciated, Net.....	2,235,203	198,321	2,433,524	5,449,732
Capital Assets Not Being Depreciated.....	20,133,306	13,587	20,146,893	1,013,106
TOTAL ASSETS.....	32,656,965	24,425,167	57,082,132	16,518,544
LIABILITIES:				
Accounts Payable.....	470,217	34,265	504,482	368,949
Accrued Liabilities.....	238,398	3,899	242,297	328,517
Medicaid Claims Payable.....	1,046,634	—	1,046,634	—
Obligations Under Securities Lending.....	1,485,828	2,501,452	3,987,280	116,321
Investment Trade Payable.....	—	1,990,631	1,990,631	—
Intergovernmental Payable.....	1,123,104	375	1,123,479	3,007
Internal Balances.....	782,195	(782,195)	—	—
Payable to Component Units.....	26,074	—	26,074	—
Deferred Revenue.....	156,662	2,017	158,679	184,759
Benefits Payable.....	—	13,148	13,148	—
Refund and Other Liabilities.....	772,161	73,405	845,566	95,758
Noncurrent Liabilities:				
Bonds and Notes Payable:				
Due in One Year.....	865,004	3,730	868,734	543,430
Due in More Than One Year.....	8,283,050	163,580	8,446,630	3,204,039
Certificates of Participation:				
Due in One Year.....	890	—	890	1,070
Due in More Than One Year.....	6,480	—	6,480	7,740
Other Noncurrent Liabilities:				
Due in One Year.....	96,268	2,397,735	2,494,003	955,680
Due in More Than One Year.....	443,585	16,240,627	16,684,212	1,923,326
TOTAL LIABILITIES.....	15,796,550	22,642,669	38,439,219	7,732,596

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

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
NET ASSETS:				
<i>Invested in Capital Assets,</i>				
<i>Net of Related Debt.....</i>	19,261,553	19,827	19,281,380	4,579,028
<i>Restricted for:</i>				
<i>Primary, Secondary and Other Education</i>	5,128	—	5,128	—
<i>Transportation and Highway Safety.....</i>	638,615	—	638,615	—
<i>State and Local Government</i>				
<i>Highway Construction.....</i>	124,022	—	124,022	—
<i>Federal Programs.....</i>	75,967	—	75,967	36
<i>Coal Research</i>				
<i>and Development Program.....</i>	8,488	—	8,488	—
<i>Clean Ohio Program.....</i>	79,457	—	79,457	—
<i>Debt Service.....</i>	—	—	—	1,838,858
<i>Intergovernmental and Capital Purposes..</i>	929,213	—	929,213	16,351
<i>Enterprise Bond Program.....</i>	10,000	—	10,000	—
<i>Workers' Compensation.....</i>	—	545,756	545,756	—
<i>Deferred Lottery Prizes.....</i>	—	169,822	169,822	—
<i>Unemployment Compensation.....</i>	—	1,286,679	1,286,679	—
<i>Ohio Building Authority.....</i>	—	24,600	24,600	—
<i>Nonexpendable for</i>				
<i>Colleges and Universities.....</i>	—	—	—	1,736,585
<i>Expendable for</i>				
<i>Colleges and Universities.....</i>	—	—	—	1,045,836
<i>Unrestricted/(Deficits).....</i>	(4,272,028)	(264,186)	(4,536,214)	(430,746)
TOTAL NET ASSETS.....	\$ 16,860,415	\$ 1,782,498	\$ 18,642,913	\$ 8,785,948

STATE OF OHIO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(dollars in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES				NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES, FEES, FINES AND FORFEITURES	OPERATING GRANTS, CONTRIBUTIONS AND RESTRICTED INVESTMENT INCOME/(LOSS)	CAPITAL GRANTS, CONTRIBUTIONS AND RESTRICTED INVESTMENT INCOME/(LOSS)		
PRIMARY GOVERNMENT:						
GOVERNMENTAL ACTIVITIES:						
Primary, Secondary and Other Education.....	\$ 8,498,696	65,651	\$ 1,198,613	\$ —	\$ (7,234,432)	
Higher Education Support	2,515,379	3,164	20,409	—	(2,491,806)	
Public Assistance and Medicaid	12,683,617	526,679	8,358,304	—	(3,798,634)	
Health and Human Services	2,930,071	107,668	1,650,626	6,988	(1,164,789)	
Justice and Public Protection	2,435,774	694,517	155,320	1,654	(1,584,283)	
Environmental Protection and Natural Resources.....	403,445	152,501	70,293	1,089	(179,562)	
Transportation	1,532,040	35,768	60,720	920,351	(515,201)	
General Government	486,013	330,249	77,899	415	(77,450)	
Community and Economic Development.....	739,814	260,705	319,117	—	(159,992)	
Intergovernmental.....	3,675,073	—	—	—	(3,675,073)	
Interest on Long-Term Debt (excludes interest charged as program expense).....	195,559	—	—	—	(195,559)	
TOTAL GOVERNMENTAL ACTIVITIES	36,095,481	2,176,902	11,911,301	930,497	(21,076,781)	
BUSINESS-TYPE ACTIVITIES:						
Workers' Compensation.....	4,088,796	2,184,192	575,402	—	(1,329,202)	
Lottery Commission.....	1,523,764	2,083,108	148,797	—	708,141	
Unemployment Compensation.....	1,838,949	50,634	1,170,969	—	(617,346)	
Ohio Building Authority.....	30,824	27,358	30	—	(3,436)	
Tuition Trust Authority.....	388,469	105,865	—	—	(282,604)	
Liquor Control.....	354,547	493,195	—	—	138,648	
Underground Parking Garage.....	2,515	2,526	48	956	1,015	
Office of Auditor of State.....	84,087	42,591	—	—	(41,496)	
TOTAL BUSINESS-TYPE ACTIVITIES...	8,311,951	4,989,469	1,895,246	956	(1,426,280)	
TOTAL PRIMARY GOVERNMENT.....	\$ 44,407,432	\$ 7,166,371	\$ 13,806,547	\$ 931,453	\$ (22,503,061)	
COMPONENT UNITS:						
School Facilities Commission.....	\$ 1,440,939	\$ 16	\$ 34,697	\$ —	\$ (1,406,226)	
Ohio Water Development Authority.....	92,337	122,319	109,889	—	139,871	
Ohio State University.....	2,495,148	1,480,641	482,228	97,357	(434,922)	
University of Cincinnati.....	785,917	283,560	223,852	7,609	(270,896)	
Other Component Units.....	3,599,133	2,000,054	369,216	50,815	(1,179,048)	
TOTAL COMPONENT UNITS.....	\$ 8,413,474	\$ 3,886,590	\$ 1,219,882	\$ 155,781	\$ (3,151,221)	

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

PRIMARY GOVERNMENT

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
CHANGES IN NET ASSETS:				
Net Expense.....	\$ (21,076,781)	\$ (1,426,280)	\$ (22,503,061)	\$ (3,151,221)
General Revenues:				
Taxes:				
Income.....	8,231,233	—	8,231,233	—
Sales.....	6,470,645	—	6,470,645	—
Corporate and Public Utility	1,682,945	—	1,682,945	—
Cigarette.....	599,943	—	599,943	—
Other.....	649,027	—	649,027	—
Restricted for Transportation Purposes:				
Motor Vehicle Fuel Taxes.....	1,462,608	—	1,462,608	—
Total Taxes.....	19,096,401	—	19,096,401	—
Tobacco Settlement.....	369,619	—	369,619	—
Escheat Property.....	43,173	—	43,173	—
Unrestricted Investment Income.....	5,285	29,726	35,011	125,377
State Assistance	—	—	—	2,382,389
Federal.....	193,033	44	193,077	—
Other.....	1,802	4,822	6,624	45,124
Contributions.....	—	—	—	59,817
Special Items.....	—	11	11	90,147
Transfers-Internal Activities.....	755,855	(755,855)	—	—
TOTAL GENERAL REVENUES CONTRIBUTIONS, SPECIAL ITEMS AND TRANSFERS.....				
	20,465,168	(721,252)	19,743,916	2,702,854
CHANGE IN NET ASSETS.....	(611,613)	(2,147,532)	(2,759,145)	(448,367)
NET ASSETS, JULY 1 (as restated)..	17,472,028	3,930,030	21,402,058	9,234,315
NET ASSETS, JUNE 30.....	\$ 16,860,415	\$ 1,782,498	\$ 18,642,913	\$ 8,785,948

STATE OF OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003
(dollars in thousands)

	MAJOR FUNDS		
	<u>GENERAL</u>	<u>JOB, FAMILY AND OTHER HUMAN SERVICES</u>	<u>EDUCATION</u>
ASSETS:			
Cash Equity with Treasurer	\$ 979,273	\$ 197,608	\$ 43,234
Cash and Cash Equivalents	11,799	5,654	437
Investments	195,724	28,791	4,039
Collateral on Lent Securities	350,946	72,599	15,333
Taxes Receivable	734,024	—	—
Intergovernmental Receivable	618,063	544,173	119,718
Loans Receivable, Net	24,754	—	8,980
Interfund Receivable	245,634	6	3
Other Receivables	227,121	41,812	1,142
Inventories	19,159	—	—
Other Assets	16,886	1,920	4,390
TOTAL ASSETS	\$ 3,423,383	\$ 892,563	\$ 197,276
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts Payable	\$ 111,740	\$ 44,704	\$ 3,408
Accrued Liabilities	83,079	9,952	1,228
Medicaid Claims Payable	1,046,634	—	—
Obligations Under Securities Lending	350,946	72,599	15,333
Intergovernmental Payable	286,726	233,144	78,654
Interfund Payable	560,554	15,012	3,033
Payable to Component Units	7,127	694	—
Deferred Revenue	104,209	218,207	73,064
Refund and Other Liabilities	675,540	9,276	—
Liability for Escheat Property	4,041	—	—
TOTAL LIABILITIES	3,230,596	603,588	174,720
FUND BALANCES:			
Reserved for:			
Debt Service	—	—	—
Encumbrances	276,566	1,202,707	66,333
Noncurrent Portion of Loans Receivable	24,134	—	8,423
Loan Commitments	—	—	—
Inventories	19,159	—	—
State and Local Highway Construction	—	—	—
Federal Programs	—	458	7,994
Other	275,166	33,914	203
Unreserved/Designated	—	—	—
Unreserved/Undesignated (Deficits):			
General Fund	(402,238)	—	—
Special Revenue Funds	—	(948,104)	(60,397)
Debt Service Funds	—	—	—
Capital Projects Funds	—	—	—
TOTAL FUND BALANCES	192,787	288,975	22,556
TOTAL LIABILITIES AND FUND BALANCES ...	\$ 3,423,383	\$ 892,563	\$ 197,276

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

<u>HIGHWAY OPERATING</u>	<u>REVENUE DISTRIBUTION</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL</u>
\$ 694,863	\$ 286,981	\$ 1,965,734	\$ 4,167,693
229	5,206	53,472	76,797
—	—	511,524	740,078
233,084	95,972	717,894	1,485,828
38,238	205,679	4,393	982,334
85,505	—	221,074	1,588,533
63,695	—	750,409	847,838
—	—	3,311	248,954
1,823	39	27,225	299,162
24,349	—	—	43,508
3,185	—	11,571	37,952
<u>\$ 1,144,971</u>	<u>\$ 593,877</u>	<u>\$ 4,266,607</u>	<u>\$ 10,518,677</u>
\$ 144,007	\$ —	\$ 166,358	\$ 470,217
15,802	—	28,829	138,890
—	—	—	1,046,634
233,084	95,972	717,894	1,485,828
3,758	302,454	218,368	1,123,104
94,662	56	357,832	1,031,149
137	—	17,604	25,562
37,832	18,400	88,147	539,859
—	70,389	11,285	766,490
—	—	—	4,041
<u>529,282</u>	<u>487,271</u>	<u>1,606,317</u>	<u>6,631,774</u>
—	—	115,101	115,101
1,190,108	—	1,426,043	4,161,757
58,034	—	734,395	824,986
—	—	84,956	84,956
24,349	—	—	43,508
—	124,022	—	124,022
—	—	62,142	70,594
3,185	—	58,011	370,479
—	—	3,941	3,941
—	—	—	(402,238)
(659,987)	(17,416)	433,591	(1,252,313)
—	—	(49)	(49)
—	—	(257,841)	(257,841)
<u>615,689</u>	<u>106,606</u>	<u>2,660,290</u>	<u>3,886,903</u>
<u>\$ 1,144,971</u>	<u>\$ 593,877</u>	<u>\$ 4,266,607</u>	<u>\$ 10,518,677</u>

THIS PAGE INTENTIONALLY LEFT BLANK

STATE OF OHIO
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2003
(dollars in thousands)

Total Fund Balances for Governmental Funds..... **\$ 3,886,903**

Total net assets reported for governmental activities in the Statement of Net Assets is different because:

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds. Those assets consist of:

Infrastructure, net of \$727 accumulated depreciation.....	16,903,107
Land.....	1,530,958
Buildings and Improvements, net of \$1,125,318 accumulated depreciation.....	1,895,700
Land Improvements, net of \$115,784 accumulated depreciation.....	110,112
Machinery and Equipment, net of \$287,583 accumulated depreciation.....	141,753
Vehicles, net of \$104,917 accumulated depreciation.....	125,334
Construction-in-Progress.....	1,661,545
	<u>22,368,509</u>

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.....	108,458
Intergovernmental Receivable.....	266,970
Other Receivables:	
Accounts.....	6,912
Interest.....	857
	<u>383,197</u>

Unamortized bond issue costs are not financial resources, and therefore, are not reported in the funds.

18,733

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

Accrued Liabilities:	
Interest Payable.....	(96,822)
Other	(2,686)
Payable to Component Units.....	(512)
Refund and Other Liabilities.....	(5,671)
Bonds and Notes Payable:	
General Obligation Bonds.....	(4,603,842)
Revenue Bonds.....	(450,598)
Special Obligation Bonds.....	(4,093,614)
Certificates of Participation.....	(7,370)
Other Noncurrent Liabilities:	
Compensated Absences.....	(383,636)
Capital Leases Payable.....	(4,888)
Litigation Liabilities.....	(10,000)
Liability for Escheat Property.....	(137,288)
	<u>(9,796,927)</u>

Total Net Assets of Governmental Activities..... **\$ 16,860,415**

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, 2003
(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	JOB, FAMILY AND OTHER HUMAN SERVICES	EDUCATION
REVENUES:			
Income Taxes	\$ 7,374,239	\$ —	\$ —
Sales Taxes	6,153,743	—	—
Corporate and Public Utility Taxes	1,302,968	—	—
Motor Vehicle Fuel Taxes	—	—	—
Cigarette Taxes	599,941	—	—
Other Taxes	595,498	4,582	—
Licenses, Permits and Fees	115,199	424,294	791
Sales, Services and Charges	44,899	—	314
Federal Government	5,251,885	3,846,908	1,160,028
Tobacco Settlement	—	—	—
Escheat Property	84,642	—	—
Investment Income	33,095	10,584	3,568
Other	192,573	84,777	51,404
TOTAL REVENUES	<u>21,748,682</u>	<u>4,371,145</u>	<u>1,216,105</u>
EXPENDITURES:			
CURRENT OPERATING:			
Primary, Secondary and Other Education	6,646,595	135	1,799,514
Higher Education Support	2,096,533	649	18,292
Public Assistance and Medicaid	8,962,534	3,768,308	—
Health and Human Services	1,075,498	477,334	182
Justice and Public Protection	1,778,564	24,577	20,782
Environmental Protection and Natural Resources	115,971	—	—
Transportation	28,786	—	—
General Government	317,236	3,931	100
Community and Economic Development	110,066	4,911	—
INTERGOVERNMENTAL	1,294,797	—	—
CAPITAL OUTLAY	—	8,192	—
DEBT SERVICE	2,300	—	—
TOTAL EXPENDITURES	<u>22,428,880</u>	<u>4,288,037</u>	<u>1,838,870</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(680,198)</u>	<u>83,108</u>	<u>(622,765)</u>
OTHER FINANCING SOURCES (USES):			
Bonds Issued	470,000	—	—
Refunding Bonds Issued	—	—	—
Payment to Refunded Bond Escrow Agents	—	—	—
Bond Premiums	—	—	—
Bond Discounts	—	—	—
Capital Leases	2,692	—	—
Transfers-in	630,122	19,275	652,452
Transfers-out	(991,261)	(33,944)	(35,874)
TOTAL OTHER FINANCING SOURCES (USES)	<u>111,553</u>	<u>(14,669)</u>	<u>616,578</u>
NET CHANGE IN FUND BALANCES	<u>(568,645)</u>	<u>68,439</u>	<u>(6,187)</u>
FUND BALANCES, JULY 1 (as restated)	762,250	220,536	28,743
Increase (Decrease) for Changes in Inventories	(818)	—	—
FUND BALANCES, JUNE 30	<u>\$ 192,787</u>	<u>\$ 288,975</u>	<u>\$ 22,556</u>

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

<u>HIGHWAY OPERATING</u>	<u>REVENUE DISTRIBUTION</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL</u>
\$ —	\$ 829,840	\$ 6,051	\$ 8,210,130
—	301,263	15,637	6,470,643
—	366,275	13,700	1,682,943
370,092	1,047,119	45,397	1,462,608
—	—	2	599,943
—	11,252	37,695	649,027
70,772	351,965	601,408	1,564,429
2,048	22	40,345	87,628
954,797	—	1,757,095	12,970,713
—	—	369,619	369,619
—	—	—	84,642
16,414	1,149	56,782	121,592
25,889	64	171,457	526,164
<u>1,440,012</u>	<u>2,908,949</u>	<u>3,115,188</u>	<u>34,800,081</u>
—	—	4,920	8,451,164
—	—	292,585	2,408,059
—	—	306	12,731,148
—	—	1,341,307	2,894,321
—	—	524,309	2,348,232
—	—	253,148	369,119
1,913,070	—	184	1,942,040
—	—	180,699	501,966
—	—	603,111	718,088
—	2,095,194	183,236	3,573,227
—	—	489,874	498,066
—	—	1,248,704	1,251,004
<u>1,913,070</u>	<u>2,095,194</u>	<u>5,122,383</u>	<u>37,686,434</u>
<u>(473,058)</u>	<u>813,755</u>	<u>(2,007,195)</u>	<u>(2,886,353)</u>
—	—	935,000	1,405,000
—	—	1,025,040	1,025,040
—	—	(1,091,881)	(1,091,881)
—	—	188,952	188,952
—	—	(33,649)	(33,649)
—	—	699	3,391
524,079	1,786	1,423,283	3,250,997
(268,753)	(827,720)	(337,590)	(2,495,142)
<u>255,326</u>	<u>(825,934)</u>	<u>2,109,854</u>	<u>2,252,708</u>
<u>(217,732)</u>	<u>(12,179)</u>	<u>102,659</u>	<u>(633,645)</u>
840,746	118,785	2,557,631	4,528,691
(7,325)	—	—	(8,143)
<u>\$ 615,689</u>	<u>\$ 106,606</u>	<u>\$ 2,660,290</u>	<u>\$ 3,886,903</u>

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, 2003

(dollars in thousands)

Net Change in Fund Balances -- Total Governmental Funds.....	\$ (633,645)
Change in Inventories.....	(8,143)
	<u>(641,788)</u>

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.....	905,520	
Depreciation Expense.....	(156,235)	
	<u>749,285</u>	<u>749,285</u>

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. In the current period, proceeds were received from:

General Obligation Bonds.....	(1,060,000)	
Revenue Bonds.....	(185,000)	
Special Obligation Bonds.....	(160,000)	
Refunding Bonds, including Bond Premium/Discount, Net.....	(1,162,494)	
Premiums and Discounts, Net:		
Revenue Bonds.....	(14,367)	
Special Obligation Bonds.....	(3,482)	
Deferred Refunding Loss.....	78,627	
	<u>78,627</u>	
Total Bond Proceeds.....		<u>(2,506,716)</u>

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:

<i>Debt Principal Retirement and Defeasements:</i>		
General Obligation Bonds.....	853,200	
Revenue Bonds.....	43,380	
Special Obligation Bonds.....	919,029	
Certificates of Participation.....	2,530	
Capital Lease Payments.....	(955)	
	<u>1,817,184</u>	<u>1,817,184</u>

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds. (42,865)

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:

<i>Increase in Bond Issue Costs Included in Other Assets</i>	12,126	
<i>Increase in Accrued Interest and Other Accrued Liabilities</i>	(8,163)	
<i>Increase in Payable to Component Units</i>	(4)	
<i>Amortization of Bond Premiums/Accretion of Bond Discount, Net</i>	4,312	
<i>Amortization of Deferred Refunding Loss</i>	(3,390)	
<i>Decrease in Intergovernmental Payables</i>	19,689	
<i>Increase in Compensated Absences</i>	(1,708)	
<i>Decrease in Refund and Other Liabilities</i>	11,893	
<i>Decrease in Litigation Liabilities</i>	20,000	
<i>Increase in Liability for Escheat Property</i>	(41,468)	
	<hr/>	
<i>Total additional expenditures</i>		<u>13,287</u>
<i>Change in Net Assets of Governmental Activities</i>		<u>\$ (611,613)</u>

STATE OF OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -- BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2003

(dollars in thousands)

	GENERAL			
	BUDGET			VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES:				
Income Taxes	\$ 995,000	\$ 7,501,000	\$ 7,420,657	\$ (80,343)
Sales Taxes	1,077,490	6,361,499	6,397,945	36,446
Corporate and Public Utility Taxes	72,327	1,300,001	1,305,727	5,726
Motor Vehicle Fuel Taxes	—	—	—	—
Cigarette Taxes.....	75,002	583,200	599,941	16,741
Other Taxes	28,077	621,699	595,407	(26,292)
Licenses, Permits and Fees	95,396	121,465	122,139	674
Sales, Services and Charges	51,734	51,734	52,295	561
Federal Government	859,138	4,927,289	5,129,600	202,311
Tobacco Settlement.....	—	—	—	—
Investment Income	3,473	53,474	17,739	(35,735)
Other	976,885	1,742,556	1,323,573	(418,983)
TOTAL REVENUES.....	4,234,522	23,263,917	22,965,023	(298,894)
BUDGETARY EXPENDITURES:				
CURRENT OPERATING:				
Primary, Secondary and Other Education	6,669,105	6,515,744	6,334,376	181,368
Higher Education Support	2,391,231	2,100,627	2,091,756	8,871
Public Assistance and Medicaid	9,297,680	9,496,947	9,416,330	80,617
Health and Human Services	1,423,627	1,339,981	1,268,879	71,102
Justice and Public Protection	2,202,082	2,055,307	1,902,758	152,549
Environmental Protection and Natural Resources	193,851	169,500	147,429	22,071
Transportation	75,829	67,122	64,585	2,537
General Government	790,219	781,781	577,340	204,441
Community and Economic Development	266,027	243,555	222,354	21,201
INTERGOVERNMENTAL.....	1,384,797	1,389,489	1,316,176	73,313
CAPITAL OUTLAY	—	—	—	—
DEBT SERVICE.....	1,051,404	1,043,647	908,601	135,046
TOTAL BUDGETARY EXPENDITURES.....	25,745,852	25,203,700	24,250,584	953,116
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES.....	(21,511,330)	(1,939,783)	(1,285,561)	654,222
OTHER FINANCING SOURCES (USES):				
Bond Proceeds	—	—	—	—
Transfers-in	19,565	387,920	434,376	46,456
Transfers-out	(1,265)	(2,639)	(47,369)	(44,730)
TOTAL OTHER FINANCING SOURCES (USES).....	18,300	385,281	387,007	1,726
NET CHANGE IN FUND BALANCES.....	(21,493,030)	(1,554,502)	(898,554)	655,948
BUDGETARY FUND BALANCES (DEFICITS), JULY 1	847,562	847,562	847,562	—
Outstanding Encumbrances at Beginning of Fiscal Year	587,945	587,945	587,945	—
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30	<u>\$(20,057,523)</u>	<u>\$ (118,995)</u>	<u>\$ 536,953</u>	<u>\$ 655,948</u>

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

JOB, FAMILY AND OTHER HUMAN SERVICES

EDUCATION

JOB, FAMILY AND OTHER HUMAN SERVICES				EDUCATION			
BUDGET		ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)	BUDGET		ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
ORIGINAL	FINAL			ORIGINAL	FINAL		
		\$ —				\$ —	
		—				—	
		—				—	
		—				—	
		—				—	
		4,582				—	
		416,681				791	
		—				314	
		3,060,557				1,155,873	
		—				—	
		10,562				3,026	
		150,796				25,668	
		3,643,178				1,185,672	
\$ 270	\$ 270	153	\$ 117	\$ 1,997,620	\$ 2,238,201	1,901,038	\$ 337,163
3,257	3,257	1,204	2,053	13,886	16,779	10,930	5,849
5,016,253	5,106,903	4,488,474	618,429	—	—	—	—
568,616	588,421	526,632	61,789	270	294	195	99
79,066	82,209	36,510	45,699	37,413	40,535	21,956	18,579
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
1,950	2,043	1,821	222	—	100	100	—
10,152	10,152	10,152	—	—	—	—	—
—	—	—	—	—	—	—	—
11,134	28,413	9,738	18,675	—	—	—	—
—	—	—	—	—	—	—	—
\$ 5,690,698	\$ 5,821,668	5,074,684	\$ 746,984	\$ 2,049,189	\$ 2,295,909	1,934,219	\$ 361,690
		(1,431,506)				(748,547)	
		—				—	
		—				671,659	
		(12,218)				(30,120)	
		(12,218)				641,539	
		(1,443,724)				(107,008)	
		(831,090)				58,093	
		1,008,142				12,447	
		\$ (1,266,672)				\$ (36,468)	

(continued)

STATE OF OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -- BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2003

(dollars in thousands)
(continued)

	HIGHWAY OPERATING			VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
	BUDGET		ACTUAL	
	ORIGINAL	FINAL		
REVENUES:				
Income Taxes			\$ —	
Sales Taxes			—	
Corporate and Public Utility Taxes			—	
Motor Vehicle Fuel Taxes			385,459	
Cigarette Taxes.....			—	
Other Taxes			—	
Licenses, Permits and Fees			70,816	
Sales, Services and Charges			2,048	
Federal Government			946,002	
Tobacco Settlement.....			—	
Investment Income			24,496	
Other			88,081	
TOTAL REVENUES.....			1,516,902	
BUDGETARY EXPENDITURES:				
CURRENT OPERATING:				
Primary, Secondary and Other Education	\$ —	\$ —	—	\$ —
Higher Education Support	—	—	—	—
Public Assistance and Medicaid	—	—	—	—
Health and Human Services	—	—	—	—
Justice and Public Protection	—	—	—	—
Environmental Protection and Natural Resources	—	—	—	—
Transportation	4,158,155	4,246,360	3,297,801	948,559
General Government	—	—	—	—
Community and Economic Development	—	—	—	—
INTERGOVERNMENTAL.....	—	—	—	—
CAPITAL OUTLAY	—	—	—	—
DEBT SERVICE.....	80,054	83,354	62,994	20,360
TOTAL BUDGETARY EXPENDITURES.....	\$ 4,238,209	\$ 4,329,714	3,360,795	\$ 968,919
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES.....			(1,843,893)	
OTHER FINANCING SOURCES (USES):				
Bond Proceeds			—	
Transfers-in			524,003	
Transfers-out			(204,859)	
TOTAL OTHER FINANCING SOURCES (USES).....			319,144	
NET CHANGE IN FUND BALANCES.....			(1,524,749)	
BUDGETARY FUND BALANCES (DEFICITS), JULY 1.....			(558,174)	
Outstanding Encumbrances at Beginning of Fiscal Year			1,445,748	
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30			\$ (637,175)	

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

REVENUE DISTRIBUTION

BUDGET		ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
ORIGINAL	FINAL		
		\$ 829,840	
		301,264	
		367,475	
		1,096,435	
		—	
		11,252	
		530,792	
		22	
		—	
		—	
		1,467	
		63	
		3,138,610	
\$ —	\$ —	—	\$ —
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
2,589,663	2,591,511	2,307,799	283,712
—	—	—	—
—	—	—	—
\$ 2,589,663	\$ 2,591,511	2,307,799	\$ 283,712
		830,811	
		—	
		1,786	
		(815,820)	
		(814,034)	
		16,777	
		263,049	
		—	
		\$ 279,826	

STATE OF OHIO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS -- ENTERPRISE
JUNE 30, 2003
(dollars in thousands)

	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer.....	\$ 1,779	\$ 17,016	\$ —
Cash and Cash Equivalents.....	2,075,862	8,930	1,515
Investments.....	—	—	67,502
Collateral on Lent Securities.....	2,079,647	7,394	14,604
Restricted Assets:			
Cash Equity with Treasurer.....	—	16,654	—
Cash and Cash Equivalents.....	—	—	—
Investments.....	—	63,140	—
Collateral on Lent Securities.....	—	397,732	—
Other Receivables.....	—	2,815	—
Deposit with Federal Government.....	—	—	1,190,542
Intergovernmental Receivable.....	—	—	5,493
Premiums and Assessments Receivable.....	1,049,831	—	13,234
Investment Trade Receivable.....	381,989	—	—
Interfund Receivable.....	57,765	—	—
Other Receivables.....	273,108	45,136	8,492
Inventories.....	—	—	—
Other Assets.....	2,005	3,666	6,662
TOTAL CURRENT ASSETS.....	5,921,986	562,483	1,308,044
NONCURRENT ASSETS:			
Restricted Assets:			
Cash and Cash Equivalents.....	1,891	—	—
Investments.....	—	1,016,438	—
Investments.....	14,085,343	—	—
Premiums and Assessments Receivable.....	487,974	—	16,932
Interfund Receivable.....	723,687	—	—
Other Receivables.....	—	—	—
Capital Assets Being Depreciated, Net.....	141,921	44,887	—
Capital Assets Not Being Depreciated.....	12,631	—	—
TOTAL NONCURRENT ASSETS.....	15,453,447	1,061,325	16,932
TOTAL ASSETS.....	21,375,433	1,623,808	1,324,976
CURRENT LIABILITIES:			
Accounts Payable.....	5,490	8,949	—
Accrued Liabilities.....	—	—	—
Obligations Under Securities Lending.....	2,079,647	405,126	14,604
Investment Trade Payable.....	1,990,631	—	—
Intergovernmental Payable.....	—	—	—
Deferred Prize Awards Payable.....	—	82,609	—
Interfund Payable.....	—	390	—
Deferred Revenue.....	14,535	1,929	—
Benefits Payable.....	1,688,700	—	13,148
Refund and Other Liabilities.....	559,688	40,813	10,545
Bonds and Notes Payable.....	—	—	—
TOTAL CURRENT LIABILITIES.....	6,338,691	539,816	38,297
NONCURRENT LIABILITIES:			
Deferred Prize Awards Payable.....	—	846,616	—
Interfund Payable.....	—	4,143	—
Deferred Revenue.....	387,901	—	—
Benefits Payable.....	12,618,671	—	—
Refund and Other Liabilities.....	1,329,046	32,468	—
Bonds and Notes Payable.....	148,745	—	—
TOTAL NONCURRENT LIABILITIES.....	14,484,363	883,227	—
TOTAL LIABILITIES.....	20,823,054	1,423,043	38,297
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt.....	6,623	764	—
Restricted for Deferred Lottery Prizes.....	—	169,822	—
Unrestricted (Deficits).....	545,756	30,179	1,286,679
TOTAL NET ASSETS (DEFICITS).....	\$ 552,379	\$ 200,765	\$ 1,286,679

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

OHIO BUILDING AUTHORITY	TUITION TRUST AUTHORITY	LIQUOR CONTROL	UNDERGROUND PARKING GARAGE	OFFICE OF AUDITOR OF STATE	TOTAL
\$ —	\$ 45	\$ 5,335	\$ 2,120	\$ 6,555	\$ 32,850
451	908	7,320	—	—	2,094,986
24,517	—	—	—	—	92,019
7	347	1,009	712	—	2,103,720
—	—	—	—	—	16,654
—	271	—	—	—	271
—	70,629	—	—	—	133,769
—	—	—	—	—	397,732
—	—	—	—	—	2,815
—	—	—	—	—	1,190,542
—	—	—	—	—	5,493
—	—	—	—	—	1,063,065
—	—	—	—	—	381,989
—	—	—	—	1,823	59,588
5,480	1,179	—	34	8,525	341,954
—	—	29,043	—	—	29,043
596	—	152	—	412	13,493
31,051	73,379	42,859	2,866	17,315	7,959,983
—	—	—	—	—	1,891
—	618,009	—	—	—	1,634,447
—	71,442	—	—	—	14,156,785
—	—	—	—	—	504,906
—	—	—	—	7,385	731,072
14,835	—	—	—	—	14,835
—	117	1,032	6,452	3,912	198,321
—	—	—	956	—	13,587
14,835	689,568	1,032	7,408	11,297	17,255,844
45,886	762,947	43,891	10,274	28,612	25,215,827
2,198	376	16,856	14	382	34,265
326	74	744	52	2,703	3,899
7	347	1,009	712	—	2,501,452
—	—	—	—	—	1,990,631
—	—	375	—	—	375
—	—	—	—	—	82,609
—	—	1,429	2	—	1,821
81	—	—	7	—	16,552
—	70,900	—	—	—	1,772,748
109	600	1,370	10	1,261	614,396
3,730	—	—	—	—	3,730
6,451	72,297	21,783	797	4,346	7,022,478
—	—	—	—	—	846,616
—	—	2,279	222	—	6,644
—	—	—	—	—	387,901
—	1,009,600	—	—	—	13,628,271
—	—	2,346	107	13,872	1,377,839
14,835	—	—	—	—	163,580
14,835	1,009,600	4,625	329	13,872	16,410,851
21,286	1,081,897	26,408	1,126	18,218	23,433,329
—	117	1,032	7,408	3,883	19,827
—	—	—	—	—	169,822
24,600	(319,067)	16,451	1,740	6,511	1,592,849
\$ 24,600	\$ (318,950)	\$ 17,483	\$ 9,148	\$ 10,394	\$ 1,782,498

STATE OF OHIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS -- ENTERPRISE FOR THE FISCAL YEAR ENDED JUNE 30, 2003

(dollars in thousands)

	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
OPERATING REVENUES:			
Charges for Sales and Services.....	\$ —	\$ 2,078,254	\$ 20,905
Premium and Assessment Income.....	2,174,938	—	751,075
Federal Government.....	—	—	340,654
Investment Income.....	—	—	92,950
Other.....	9,254	4,854	16,019
TOTAL OPERATING REVENUES.....	2,184,192	2,083,108	1,221,603
OPERATING EXPENSES:			
Costs of Sales and Services.....	—	—	—
Administration.....	54,081	84,882	—
Premium Dividend Reductions and Refunds.....	640,563	—	—
Bonuses and Commissions.....	—	137,030	—
Prizes.....	—	1,208,193	—
Benefits and Claims.....	3,360,782	—	1,783,184
Depreciation.....	18,565	15,178	—
Other.....	14,805	639	55,765
TOTAL OPERATING EXPENSES.....	4,088,796	1,445,922	1,838,949
OPERATING INCOME (LOSS).....	(1,904,604)	637,186	(617,346)
NONOPERATING REVENUES (EXPENSES):			
Investment Income.....	575,402	148,797	585
Interest Expense.....	—	(3,075)	—
Federal Grants.....	—	11	44
Other.....	—	(74,767)	—
TOTAL NONOPERATING REVENUES (EXPENSES).....	575,402	70,966	629
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS.....	(1,329,202)	708,152	(616,717)
CAPITAL CONTRIBUTIONS AND TRANSFERS:			
Capital Contributions.....	—	—	—
Transfers-in.....	—	—	881
Transfers-out.....	(7,909)	(641,541)	(9,907)
TOTAL TRANSFERS.....	(7,909)	(641,541)	(9,026)
NET INCOME (LOSS).....	(1,337,111)	66,611	(625,743)
NET ASSETS (DEFICITS), JULY 1	1,889,490	134,154	1,912,422
NET ASSETS (DEFICITS), JUNE 30.....	\$ 552,379	\$ 200,765	\$ 1,286,679

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

OHIO BUILDING AUTHORITY	TUITION TRUST AUTHORITY	LIQUOR CONTROL	UNDERGROUND PARKING GARAGE	OFFICE OF AUDITOR OF STATE	TOTAL
\$ 24,788	\$ 110,655	\$ 492,098	\$ 2,526	\$ 42,443	\$ 2,771,669
—	—	—	—	—	2,926,013
—	—	—	—	—	340,654
—	29,141	—	—	—	122,091
2,570	6	1,097	2	148	33,950
27,358	139,802	493,195	2,528	42,591	6,194,377
24,054	—	301,750	—	71,847	397,651
3,551	7,101	52,224	1,976	9,234	213,049
—	—	—	—	—	640,563
—	—	—	—	—	137,030
—	—	—	—	—	1,208,193
—	381,239	—	—	—	5,525,205
—	129	229	539	2,988	37,628
1,725	—	344	—	18	73,296
29,330	388,469	354,547	2,515	84,087	8,232,615
(1,972)	(248,667)	138,648	13	(41,496)	(2,038,238)
30	—	—	46	—	724,860
(1,494)	—	—	—	—	(4,569)
—	—	—	—	—	55
—	—	—	—	26	(74,741)
(1,464)	—	—	46	26	645,605
(3,436)	(248,667)	138,648	59	(41,470)	(1,392,633)
—	—	—	956	—	956
27,874	—	—	—	41,917	70,672
(27,874)	—	(138,539)	(757)	—	(826,527)
—	—	(138,539)	199	41,917	(754,899)
(3,436)	(248,667)	109	258	447	(2,147,532)
28,036	(70,283)	17,374	8,890	9,947	3,930,030
\$ 24,600	\$ (318,950)	\$ 17,483	\$ 9,148	\$ 10,394	\$ 1,782,498

STATE OF OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(dollars in thousands)

	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers.....	\$ —	\$ 2,065,239	\$ 35,765
Cash Received from Premiums and Assessments.....	679,851	—	748,364
Cash Received from Reciprocal Transactions with Other Funds.....	43,767	63	—
Cash Received from the Federal Government for Extended Benefits..	—	—	326,944
Other Operating Cash Receipts.....	16,630	4,791	9,493
Cash Payments to Suppliers for Goods and Services.....	(74,922)	(62,292)	—
Cash Payments to Employees for Services.....	(243,379)	(22,880)	—
Cash Payments for Benefits and Claims.....	(2,079,895)	—	(1,784,768)
Cash Payments for Lottery Prizes.....	—	(1,346,120)	—
Cash Payments for Bonuses and Commissions.....	—	(136,994)	—
Cash Payments for Premium Reductions and Refunds.....	(125,775)	—	—
Cash Payments for Reciprocal Transactions with Other Funds.....	(3)	(434)	—
Other Operating Cash Payments.....	—	(639)	(14,749)
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES.....	(1,783,726)	500,734	(678,951)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers-in	—	—	881
Transfers-out	(7,909)	(641,541)	(9,907)
Federal Grants.....	—	—	44
NET CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES.....	(7,909)	(641,541)	(8,982)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal Payments on Bonds and Capital Leases.....	(10,000)	(13,049)	—
Payments for Bond Refunding-William Green Building.....	(10,460)	—	—
Interest Paid	(8,175)	(3,075)	—
Acquisition and Construction of Capital Assets	(7,564)	(983)	—
Proceeds from Sales of Capital Assets	100	56	—
NET CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES.....	(36,099)	(17,051)	—
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of Investments.....	(38,387,011)	(503,785)	(12,109,067)
Proceeds from the Sales and Maturities of Investments	39,358,969	635,858	12,702,730
Investment Income Received	624,773	22,303	93,535
Borrower Rebates and Agent Fees.....	(79,429)	(5,827)	—
NET CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES.....	1,517,302	148,549	687,198
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(310,432)	(9,309)	(735)
CASH AND CASH EQUIVALENTS, JULY 1.....	2,389,964	51,909	2,250
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 2,079,532	\$ 42,600	\$ 1,515

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

OHIO BUILDING AUTHORITY	TUITION TRUST AUTHORITY	LIQUOR CONTROL	UNDERGROUND PARKING GARAGE	OFFICE OF AUDITOR OF STATE	TOTAL
\$ 24,054	\$ 105,865	\$ 490,244	\$ 1,969	\$ 34,551	\$ 2,757,687
—	—	—	—	—	1,428,215
1,182	—	3	560	8,204	53,779
—	—	—	—	—	326,944
1,854	—	1,086	2	289	34,145
(28,201)	(1,168)	(341,384)	(529)	(9,394)	(517,890)
(1,079)	(4,461)	(17,451)	(1,297)	(68,625)	(359,172)
—	—	—	—	—	(3,864,663)
—	—	—	—	—	(1,346,120)
—	—	—	—	—	(136,994)
—	—	—	—	—	(125,775)
—	(77)	(84)	(1)	—	(599)
—	(35,751)	(33)	(2)	(55)	(51,229)
(2,190)	64,408	132,381	702	(35,030)	(1,801,672)
27,874	—	—	—	—	28,755
(27,874)	—	(138,539)	(757)	34,163	(792,364)
—	—	—	—	—	44
—	—	(138,539)	(757)	34,163	(763,565)
(3,531)	—	—	—	—	(26,580)
—	—	—	—	—	(10,460)
(1,394)	—	—	—	—	(12,644)
3,531	(54)	(263)	(72)	(2,024)	(7,429)
—	—	10	—	68	234
(1,394)	(54)	(253)	(72)	(1,956)	(56,879)
(55,463)	(229,264)	—	—	—	(51,284,590)
58,926	139,527	—	—	—	52,896,010
245	21,376	—	62	—	762,294
—	—	—	—	—	(85,256)
3,708	(68,361)	—	62	—	2,288,458
124	(4,007)	(6,411)	(65)	(2,823)	(333,658)
327	5,231	19,066	2,185	9,378	2,480,310
\$ 451	\$ 1,224	\$ 12,655	\$ 2,120	\$ 6,555	\$ 2,146,652

(continued)

STATE OF OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

(dollars in thousands)

(continued)

	<u>WORKERS'</u> <u>COMPENSATION</u>	<u>OHIO</u> <u>LOTTERY</u> <u>COMMISSION</u>	<u>UNEMPLOYMENT</u> <u>COMPENSATION</u>
RECONCILIATION OF OPERATING INCOME TO NET			
CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss).....	\$ (1,904,604)	\$ 637,186	\$ (617,346)
Adjustments to Reconcile Operating Income (Loss) to			
Net Cash Provided (Used) by Operating Activities:			
Investment Income.....	—	—	(92,950)
Depreciation	18,565	15,178	—
Provision for Uncollectible Accounts.....	56,395	—	—
Amortization of Premiums and Discounts.....	435	—	—
Interest on Bonds, Notes and Capital Leases.....	8,175	—	—
Decrease (Increase) in Assets:			
Premiums and Assessments Receivable.....	(825,555)	—	(17,073)
Intergovernmental Receivable.....	—	—	1,148
Other Receivables	(81,395)	(13,456)	48,671
Interfund Receivable.....	(70,116)	—	—
Inventories	—	—	—
Other Assets	98	537	114
Increase (Decrease) in Liabilities:			
Accounts Payable	(6,145)	(2,268)	—
Accrued Liabilities.....	—	—	—
Intergovernmental Payable.....	—	—	(911)
Deferred Prize Awards Payable.....	—	(137,648)	—
Interfund Payable.....	—	931	—
Deferred Revenue	(10,650)	441	—
Benefits Payable.....	1,040,199	—	(672)
Refund and Other Liabilities.....	(9,128)	(167)	68
NET CASH FLOWS PROVIDED (USED) BY			
 OPERATING ACTIVITIES.....	<u>\$ (1,783,726)</u>	<u>\$ 500,734</u>	<u>\$ (678,951)</u>
NONCASH INVESTING,			
CAPITAL AND FINANCING ACTIVITIES:			
Change in Fair Value of Investments.....	\$ 42,871	\$ 78,830	\$ —
Refunding Bond Proceeds for Defeasance of Debt.....	154,150	—	—
Contributions of Capital Assets from Other Funds.....	—	—	—

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

<u>OHIO BUILDING AUTHORITY</u>	<u>TUITION TRUST AUTHORITY</u>	<u>LIQUOR CONTROL</u>	<u>UNDERGROUND PARKING GARAGE</u>	<u>OFFICE OF AUDITOR OF STATE</u>	<u>TOTAL</u>
\$ (1,972)	\$ (248,667)	\$ 138,648	\$ 13	\$ (41,496)	\$ (2,038,238)
—	(29,141)	—	—	—	(122,091)
—	129	229	539	2,988	37,628
—	—	—	—	—	56,395
(144)	—	—	—	—	291
—	—	—	—	—	8,175
—	—	—	—	—	(842,628)
—	—	—	—	—	1,148
(92)	(560)	—	(7)	141	(46,698)
—	—	10	—	—	(70,106)
—	—	(3,293)	—	—	(3,293)
(29)	—	(30)	—	(413)	277
155	85	(2,923)	(34)	(207)	(11,337)
—	6	95	1	192	294
—	—	8	—	—	(903)
—	—	—	—	—	(137,648)
—	—	407	205	—	1,543
(105)	—	—	1	—	(10,313)
—	342,300	—	—	—	1,381,827
(3)	256	(770)	(16)	3,765	(5,995)
<u>\$ (2,190)</u>	<u>\$ 64,408</u>	<u>\$ 132,381</u>	<u>\$ 702</u>	<u>\$ (35,030)</u>	<u>\$ (1,801,672)</u>

\$ —	\$ —	\$ —	\$ —	\$ —	\$ 121,701
—	—	—	—	—	154,150
—	—	—	956	—	956

STATE OF OHIO
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003
(dollars in thousands)

	PENSION TRUST	PRIVATE- PURPOSE TRUST	INVESTMENT TRUST
	STATE HIGHWAY PATROL RETIREMENT SYSTEM (as of 12/31/02)	VARIABLE COLLEGE SAVINGS PLAN	STAR OHIO
ASSETS:			
Cash Equity with Treasurer.....	\$ —	\$ —	\$ —
Cash and Cash Equivalents.....	12,794	189,566	—
Investments (at fair value):			
U.S. Government and Agency Obligations.....	24,299	—	4,789,195
Common and Preferred Stock.....	238,362	—	—
Corporate Bonds and Notes.....	46,264	—	—
Foreign Stocks and Bonds.....	56,327	—	—
Commercial Paper.....	—	—	554,465
Repurchase Agreements.....	—	—	23,655
Mutual Funds.....	—	2,233,310	—
Real Estate.....	79,223	—	—
Venture Capital.....	—	—	—
Direct Mortgage Loans.....	53,988	—	—
State Treasury Asset Reserve of Ohio (STAROhio).....	—	—	—
Collateral on Lent Securities.....	110,188	—	1,161,154
Employer Contributions Receivable.....	1,503	—	—
Employee Contributions Receivable.....	1,426	—	—
Investment Trade Receivable.....	—	33,139	—
Other Receivables.....	1,291	—	—
Other Assets.....	43	—	—
Capital Assets, Net.....	135	—	—
TOTAL ASSETS.....	625,843	2,456,015	6,528,469
LIABILITIES:			
Accounts Payable.....	1,156	—	—
Accrued Liabilities.....	1,033	3,498	—
Obligations Under Securities Lending.....	110,188	—	1,161,154
Investment Trade Payable.....	—	33,756	—
Intergovernmental Payable.....	—	—	—
Refund and Other Liabilities.....	50	—	409
TOTAL LIABILITIES.....	112,427	37,254	1,161,563
NET ASSETS:			
Held in Trust for:			
Employees' Pension Benefits.....	439,670	—	—
Employees' Postemployment Healthcare Benefits.....	73,746	—	—
Individuals, Organizations and Other Governments.....	—	2,418,761	—
Pool Participants.....	—	—	5,366,906
TOTAL NET ASSETS.....	\$ 513,416	\$ 2,418,761	\$ 5,366,906

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

AGENCY

\$ 168,377
246,551

12,713,864
46,985,355
10,175,722
20,215,452
2,056,095
122,598
5,363,618
11,144,649
1,470,209
120,501
39,938
197,673

—
—
—
1,274
426,509
—

111,448,385

—
—
197,673
—
66,811
111,183,901

111,448,385

\$ —

THIS PAGE INTENTIONALLY LEFT BLANK

STATE OF OHIO
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(dollars in thousands)

	<u>PENSION TRUST</u>	<u>PRIVATE- PURPOSE TRUST</u>	<u>INVESTMENT TRUST</u>
	STATE HIGHWAY PATROL RETIREMENT SYSTEM (for the fiscal year ended 12/31/02)	VARIABLE COLLEGE SAVINGS PLAN	STAR OHIO
ADDITIONS:			
Contributions from:			
Employer.....	\$ 18,705	\$ —	\$ —
Employees.....	7,563	—	—
Plan Participants.....	—	839,709	—
Other.....	999	—	—
Total Contributions.....	<u>27,267</u>	<u>839,709</u>	<u>—</u>
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments.....	(62,878)	12,603	—
Interest, Dividends and Other.....	16,622	37,836	92,441
Total Investment Income.....	<u>(46,256)</u>	<u>50,439</u>	<u>92,441</u>
Less: Investment Expense.....	3,340	15,358	4,688
Net Investment Income.....	<u>(49,596)</u>	<u>35,081</u>	<u>87,753</u>
Capital Share and Individual Account Transactions:			
Shares Sold.....	—	—	20,743,364
Reinvested Distributions.....	—	—	87,754
Shares Redeemed.....	—	—	(21,746,082)
Net Capital Share and Individual Account Transactions.....	<u>—</u>	<u>—</u>	<u>(914,964)</u>
TOTAL ADDITIONS.....	<u>(22,329)</u>	<u>874,790</u>	<u>(827,211)</u>
DEDUCTIONS:			
Pension Benefits Paid to Participants or Beneficiaries.....	31,325	—	—
Healthcare Benefits Paid to Participants or Beneficiaries....	7,025	—	—
Refunds of Employee Contributions.....	266	—	—
Administrative Expense.....	541	—	—
Transfers to Other Retirement Systems.....	1,054	—	—
Distributions to Shareholders and Plan Participants.....	—	185,551	87,754
TOTAL DEDUCTIONS.....	<u>40,211</u>	<u>185,551</u>	<u>87,754</u>
CHANGE IN NET ASSETS HELD FOR:			
Employees' Pension Benefits.....	(52,544)	—	—
Employees' Postemployment Healthcare Benefits.....	(9,996)	—	—
Individuals, Organizations and Other Governments.....	—	689,239	—
Pool Participants.....	—	—	(914,965)
NET ASSETS, JULY 1.....	<u>575,956</u>	<u>1,729,522</u>	<u>6,281,871</u>
NET ASSETS, JUNE 30.....	<u>\$ 513,416</u>	<u>\$ 2,418,761</u>	<u>\$ 5,366,906</u>

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, 2003
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY (as of 12/31/02)	OHIO STATE UNIVERSITY
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer.....	\$ 310,326	\$ 15	\$ —
Cash and Cash Equivalents.....	—	56	255,223
Investments.....	—	90,662	581,482
Collateral on Lent Securities.....	103,846	—	—
Intergovernmental Receivable.....	18,264	267	4,804
Loans Receivable, Net.....	—	1,450	10,400
Receivable from Primary Government.....	—	—	7,135
Other Receivables.....	365	12	300,621
Inventories.....	—	—	18,129
Other Assets.....	26	—	43,595
TOTAL CURRENT ASSETS.....	432,827	92,462	1,221,389
NONCURRENT ASSETS:			
Restricted Assets:			
Cash Equity with Treasurer.....	—	—	—
Cash and Cash Equivalents.....	—	14,066	16,125
Investments.....	—	961,744	—
Collateral on Lent Securities.....	—	—	—
Loans Receivable, Net.....	—	2,520,041	—
Investments.....	—	30,093	1,017,094
Loans Receivable, Net.....	—	20,214	49,016
Other Receivables.....	—	1,775	43,499
Other Assets.....	—	16,370	—
Capital Assets Being Depreciated, Net.....	25	1,251	1,589,687
Capital Assets Not Being Depreciated.....	—	539	279,668
TOTAL NONCURRENT ASSETS.....	25	3,566,093	2,995,089
TOTAL ASSETS.....	432,852	3,658,555	4,216,478
CURRENT LIABILITIES:			
Accounts Payable.....	6,773	40,872	159,709
Accrued Liabilities.....	161	6,910	112,927
Obligations Under Securities Lending.....	103,846	—	—
Intergovernmental Payable.....	748,200	2,240	—
Deferred Revenue.....	—	—	89,674
Refund and Other Liabilities.....	62	43	63,364
Bonds and Notes Payable.....	—	105,653	343,471
Certificates of Participation.....	—	—	980
TOTAL CURRENT LIABILITIES.....	859,042	155,718	770,125
NONCURRENT LIABILITIES:			
Intergovernmental Payable.....	1,385,342	—	—
Deferred Revenue.....	—	—	8,000
Refund and Other Liabilities.....	349	134	176,748
Bonds and Notes Payable.....	—	1,509,311	217,160
Certificates of Participation.....	—	—	6,900
TOTAL NONCURRENT LIABILITIES.....	1,385,691	1,509,445	408,808
TOTAL LIABILITIES.....	2,244,733	1,665,163	1,178,933
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt.....	25	1,790	1,266,371
Restricted for:			
Federal Programs.....	—	—	—
Debt Service.....	—	1,838,858	—
Intergovernmental and Capital Purposes.....	—	—	—
Nonexpendable:			
Scholarships and Fellowships.....	—	—	—
Research.....	—	—	—
Endowments and Quasi-Endowments.....	—	—	791,188
Affiliated Organizations.....	—	—	—
Loans, Grants and Other College and University Purposes.....	—	—	—
Expendable:			
Scholarships and Fellowships.....	—	—	—
Research.....	—	—	—
Instructional Department Uses.....	—	—	—
Student and Public Services.....	—	—	—
Academic Support.....	—	—	—
Debt Service.....	—	—	—
Capital Purposes.....	—	—	4,944
Endowments and Quasi-Endowments.....	—	—	113,806
Current Operations.....	—	—	289,216
Affiliated Organizations.....	—	—	—
Loans, Grants and Other College and University Purposes.....	—	—	37,272
Unrestricted (Deficits).....	(1,811,906)	152,744	534,748
TOTAL NET ASSETS (DEFICITS).....	\$ (1,811,881)	\$ 1,993,392	\$ 3,037,545

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
\$ —	\$ 20,830	\$ 331,171
62,156	408,489	725,924
72,937	611,268	1,356,349
—	6,990	110,836
—	24,592	47,927
3,292	20,899	36,041
379	18,560	26,074
60,479	223,816	585,293
4,772	23,857	46,758
20,692	49,429	113,742
224,707	1,408,730	3,380,115
—	16,351	16,351
—	60,237	90,428
—	193,130	1,154,874
—	5,485	5,485
—	—	2,520,041
984,667	349,070	2,380,924
28,072	92,946	190,248
35,276	8,465	89,015
200,134	11,721	228,225
802,588	3,056,181	5,449,732
278,858	454,041	1,013,106
2,329,595	4,247,627	13,138,429
2,554,302	5,656,357	16,518,544
47,870	113,725	368,949
65,283	143,236	328,517
—	12,475	116,321
379	388	751,207
12,769	201,841	304,284
35,187	85,057	183,713
35,531	58,775	543,430
90	—	1,070
197,109	615,497	2,597,491
—	—	1,385,342
—	1,698	9,698
190,887	160,168	528,286
474,245	1,003,323	3,204,039
840	—	7,740
665,972	1,165,189	5,135,105
863,081	1,780,686	7,732,596
585,748	2,725,094	4,579,028
—	36	36
—	—	1,838,858
—	16,351	16,351
90,107	53,783	143,890
71,618	1,107	72,725
465,541	62,471	1,319,200
193,058	—	193,058
—	7,712	7,712
31,447	34,235	65,682
90,877	8,439	99,316
26,178	17,306	43,484
22,532	7,376	29,908
27,569	5,530	33,099
8,124	2,388	10,512
—	34,860	39,804
107,233	12,384	233,423
2,944	17,296	309,456
25,456	—	25,456
16,242	102,182	155,696
(73,453)	767,121	(430,746)
\$ 1,691,221	\$ 3,875,671	\$ 8,785,948

STATE OF OHIO
COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY (for the year ended 12/31/02)	OHIO STATE UNIVERSITY
EXPENSES:			
Primary, Secondary and Other Education.....	\$ 28,349	\$ —	\$ —
Community and Economic Development.....	—	—	—
Intergovernmental	1,412,575	842	—
Cost of Services.....	—	81,317	—
Administration.....	—	9,891	—
Education and General:			
Instruction and Departmental Research.....	—	—	569,710
Separately Budgeted Research.....	—	—	303,057
Public Service.....	—	—	114,916
Academic Support.....	—	—	90,786
Student Services.....	—	—	62,356
Institutional Support.....	—	—	110,144
Operation and Maintenance of Plant.....	—	—	68,154
Scholarships and Fellowships.....	—	—	41,489
Auxiliary Services.....	—	—	164,130
Hospitals.....	—	—	809,584
Interest on Long-Term Debt.....	—	—	17,594
Depreciation.....	15	255	140,608
Other.....	—	32	2,620
TOTAL EXPENSES.....	1,440,939	92,337	2,495,148
PROGRAM REVENUES:			
Charges for Services, Fees, Fines and Forfeitures.....	16	122,319	1,480,641
Operating Grants, Contributions and Restricted Investment Income.....	34,697	109,889	482,228
Capital Grants, Contributions and Restricted Investment Income.....	—	—	97,357
TOTAL PROGRAM REVENUES.....	34,713	232,208	2,060,226
NET PROGRAM (EXPENSE) REVENUE	(1,406,226)	139,871	(434,922)
GENERAL REVENUES:			
Unrestricted Investment Income.....	—	2,986	69,754
State Assistance.....	460,804	—	494,241
Other.....	—	—	1,178
TOTAL GENERAL REVENUES.....	460,804	2,986	565,173
CONTRIBUTIONS TO ENDOWMENTS AND PERMANENT FUND PRINCIPAL.....	—	—	46,026
SPECIAL ITEMS.....	—	—	53,489
CHANGE IN NET ASSETS.....	(945,422)	142,857	229,766
NET ASSETS (DEFICITS), JULY 1 (as restated).....	(866,459)	1,850,535	2,807,779
NET ASSETS (DEFICITS), JUNE 30.....	\$ (1,811,881)	\$ 1,993,392	\$ 3,037,545

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
\$ —	\$ 56,418	\$ 84,767
—	2,445	2,445
—	46,853	1,460,270
—	—	81,317
—	—	9,891
234,615	1,197,068	2,001,393
119,596	139,371	562,024
45,520	112,985	273,421
57,623	278,926	427,335
31,904	195,854	290,114
64,577	325,829	500,550
50,596	228,571	347,321
11,281	133,420	186,190
70,611	441,886	676,627
—	169,445	979,029
16,995	39,355	73,944
57,389	212,862	411,129
25,210	17,845	45,707
785,917	3,599,133	8,413,474
283,560	2,000,054	3,886,590
223,852	369,216	1,219,882
7,609	50,815	155,781
515,021	2,420,085	5,262,253
(270,896)	(1,179,048)	(3,151,221)
—	52,637	125,377
219,263	1,208,081	2,382,389
9,998	33,948	45,124
229,261	1,294,666	2,552,890
12,774	1,017	59,817
8,137	28,521	90,147
(20,724)	145,156	(448,367)
1,711,945	3,730,515	9,234,315
\$ 1,691,221	\$ 3,875,671	\$ 8,785,948

THIS PAGE INTENTIONALLY LEFT BLANK



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Ohio, as of June 30, 2003, and for the year then ended, conform with generally accepted accounting principles (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are included in the GASB's *Codification of Governmental Accounting and Financial Reporting Standards*. The State's significant accounting policies are as follows.

A. Financial Reporting Entity

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

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

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

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

1. Blended Component Units

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

2. Discretely Presented Component Units

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

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

- School Facilities Commission
- Arts and Sports Facilities Commission
- SchoolNet Commission

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

Ohio Water Development Authority

- Ohio State University
- University of Cincinnati
- Ohio University
- Miami University
- University of Akron
- Bowling Green State University
- Kent State University
- University of Toledo
- Cleveland State University
- Youngstown State University
- Wright State University
- Shawnee State University
- Central State University

Medical College of Ohio at Toledo

- Terra State Community College
- Columbus State Community College
- Clark State Community College
- Edison State Community College
- Southern State Community College
- Washington State Community College
- Cincinnati State Community College
- Northwest State Community College
- Owens State Community College

3. Joint Ventures and Related Organizations

As discussed in more detail in NOTE 18, the State participates in several joint ventures and has related organizations. The State does not include the financial activities of these organizations in its financial statements, in conformity with GASB Statement No. 14.



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation

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

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

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

- The *Invested in Capital Assets, Net of Related Debt* component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The portion of debt attributable to significant unspent related debt proceeds at year-end are not included in the calculation of this net assets component.
- The *Restricted Net Assets* component represents net assets with constraints placed on their use that are either 1.) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2.) imposed by law through constitutional provisions or enabling legislation. For component units with permanent endowments, restricted net assets are displayed in two additional components — expendable and nonexpendable. Nonexpendable net assets are those that are required to be retained in perpetuity.
- The *Unrestricted Net Assets* component consists of net assets that do not meet the definition of the preceding two components.

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

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

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

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

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

Operating revenues for the State's proprietary funds mainly consist of charges for sales and services and premium and assessment income since these revenues result from exchange transactions associated with the principal activity of the respective enterprise fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Investment income and revenue from the federal government for extended unemployment benefits are also reported as operating revenues for the Unemployment Compensation Fund, since these



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

sources provide significant funding for the payment of unemployment benefits – the fund’s principal activity. Investment income for the Tuition Trust Authority Fund is also reported as operating revenue, since this source provides significant funding for the payment of tuition benefits. Nonoperating revenues for the proprietary funds result from nonexchange transactions or ancillary activities; nonoperating revenues are primarily comprised of investment income and federal operating grants.

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

The State reports the following major governmental funds:

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

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

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

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

Revenue Distribution Special Revenue Fund — This fund accounts for tax relief and aid to local government programs, which derive funding from tax and

other revenues levied, collected, and designated by the State for these purposes.

The State reports the following major proprietary funds:

Workers’ Compensation Enterprise Fund — This fund accounts for the operations of the Ohio Bureau of Workers’ Compensation and the Ohio Industrial Commission, which provide workers’ compensation insurance services.

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

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

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

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

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

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

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

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, 2002.



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The State reports the following major component unit funds:

The *School Facilities Commission*, which accounts for grants that provide assistance to local school districts for the construction of school buildings, is a discretely presented governmental component unit that uses special revenue fund reporting.

The *Ohio Water Development Authority*, *Ohio State University*, and *University of Cincinnati* funds are business-type activities that use proprietary fund reporting. The financial statements for the Ohio Water Development Authority, which provides financial assistance to local governments for the construction of wastewater and sewage facilities, are presented for the fiscal year ended December 31, 2002. The Ohio State University Fund accounts for the university's operations, including its health system, super-computer center, agricultural research and development center, and other legally separate entities subject to the control of the university's board. The University of Cincinnati Fund accounts for the university's operations, including its related foundation.

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

For revenue arising from exchange transactions (i.e., charges for goods and services), the State recognizes revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions when the exchange takes

place. The State defers revenue recognition when resources are received in advance of the exchange.

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

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

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

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

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

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

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

- Personal income taxes
- Sales and use taxes
- Motor vehicle fuel taxes
- Charges for goods and services



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Federal government grants
- Investment income

The State recognizes assets from derived tax revenues (e.g., personal income, sales, motor vehicle fuel taxes) in the fiscal year when the exchange transaction on which the tax is imposed occurs or when the resources are received, whichever occurs first. The State recognizes derived tax revenues, net of estimated refunds and estimated uncollectible amounts, in the same period that the assets are recognized, provided that the underlying exchange transaction has occurred and the revenues are collected during the 60-day availability period.

For revenue arising from exchange transactions (i.e., charges for goods and services), the State defers revenue recognition when resources are received in advance of the exchange or when resources earned from the exchange are not received during the availability period.

The governmental funds recognize federal government revenue in the period when all applicable eligibility requirements have been met and resources are available. Resources transmitted in advance of the State meeting eligibility requirements are reported as deferred revenue. Also, the State defers revenue recognition for reimbursement-type grant programs if the reimbursement is not received during the availability period (within 60-days of year-end or soon enough thereafter to be used to pay liabilities of the current period).

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

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

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

General capital asset acquisitions are reported as expenditures in the governmental funds. Proceeds from general long-term debt issuances, including refunding bond proceeds, bond premiums, and ac-

quisitions under capital leases are reported as other financing sources while bond discounts and payments to bond escrow agents are reported as other financing uses.

D. Budgetary Process

As the Ohio Revised Code requires, the Governor submits biennial operating and capital budgets to the General Assembly. All proposed expenditures for the State and estimated revenues and borrowings for a biennium comprise the budget, which includes those funds of the State subject to appropriation pursuant to state law.

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

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

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

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

- Vietnam Conflict Compensation
- General Obligations
- Economic Development Revenue Bonds
- Infrastructure Bank Revenue Bonds
- Revitalization Project Revenue Bonds
- Higher Education Facilities Special Obligations
- Mental Health Facilities Special Obligations
- Parks and Recreation Facilities Special Obligations



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

School Building Program Special Obligations
Ohio Building Authority Special Obligations
Transportation Certificates of Participation

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

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

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

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

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

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

E. Cash Equity with Treasurer and Cash and Cash Equivalents

Cash equity with Treasurer consists of pooled demand deposits and investments carried at fair value. The State's cash pool under the Treasurer of State's administration has the general characteristics of a demand deposit account whereby additional cash can be deposited at any time and can also be effec-

tively withdrawn at any time, within certain budgetary limitations, without prior notice or penalty.

Cash and cash equivalents include amounts on deposit with financial institutions and cash on hand. The cash and cash equivalents account also includes investments with original maturities of three months or less from the date of acquisition for the Bureau of Workers' Compensation, Lottery Commission, and Tuition Trust Authority enterprise funds and the Medical College of Ohio and the Columbus State Community College component unit funds.

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

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

F. Investments

Investments include long-term investments that may be restricted by law or other legal instruments. With the exception of certain money market investments, which have remaining maturities at the time of purchase of one year or less and are carried at amortized cost, and holdings in the State Treasury Asset Reserve of Ohio (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



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

revenue. Additional disclosures on taxes receivable can be found in NOTE 5A.

H. Intergovernmental Receivable

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

I. Inventories

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

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

J. Restricted Assets

The primary government reports assets restricted for payment of workers' compensation benefits, deferred prize awards (Ohio Lotto), and tuition benefits in the enterprise funds for the Bureau of Workers' Compensation, Lottery Commission, and Tuition Trust Authority, respectively.

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

K. Capital Assets

Primary Government

The State reports capital assets purchased with governmental fund resources in the government-wide financial statements at historical cost, or at estimated historical cost when no historical records exist. Donated fixed assets are valued at their estimated fair value on the donation date. The State does not report capital assets purchased with governmental fund resources in the fund financial statements. Governmental capital assets are reported net of accumulated depreciation, except for land, construction-in-progress, transportation infrastructure assets, and individual works of art and his-

torical treasures, including historical land improvements and buildings. Infrastructure assets are reported using the "modified approach," as discussed below, and therefore are not depreciable. Individual works of art and historical treasures, including historical land improvements and buildings, are considered to be inexhaustible, and therefore, are not depreciable.

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

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

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

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

The State does not capitalize collections of works of art or historical treasures that can be found at the Governor's residence, Malabar Farm (i.e., Louis Bromfield estate), which the Ohio Department of Natural Resources operates, the Ohio Arts Council,



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the State Library of Ohio, and the Capitol Square Review and Advisory Board for the following reasons:

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

The State has established the following capitalization thresholds:

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

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

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

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

Discretely Presented Component Unit Funds

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

L. Noncurrent Liabilities

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

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

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

M. Compensated Absences

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

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

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

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



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

N. Fund Balance

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

Reserved

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

Unreserved/Designated

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

Unreserved/Undesignated

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

O. Risk Management

The State's primary government is self-insured for claims under its traditional healthcare plans and for vehicle liability while it has placed public official fidelity bonding with a private insurer. The State self-funds tort liability and most property losses on a pay-as-you-go basis; however, selected state agencies have acquired private insurance for their property losses. While not the predominant participants, the State's primary government and its discretely presented component units participate in a public entity

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

P. Interfund Balances and Activities

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

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

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

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

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

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

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



NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Q. Intra-Entity Balances and Activities

Balances due between the primary government and its discretely presented component units are re-

ported as receivables from component units or primary government and payables to component units or primary government. For each major component unit, the nature and amount of significant transactions with the primary government are disclosed in NOTE 7.

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

NOTE 2 RESTATEMENTS AND CHANGES IN ACCOUNTING PRINCIPLES AND STANDARDS

A. Restatements — Primary Government

Restatements of fund balances/net assets, as of June 30, 2002, for the primary government are presented in the following table (dollars in thousands).

The increase in the intergovernmental receivable balance was a correction to the calculation of reim-

bursements due from the federal government for childcare programs at the Ohio Department of Job and Family Services. The increase in the interfund payable balance resulted from a change in the application of accounting principle that restated amounts owed to the Ohio Bureau of Workers' Compensation for workers' compensation claims.

	Governmental Funds						Total
	General	Job, Family and Other Human Services	Highway Operating	Other Major Governmental Funds	Total Major Governmental Funds	Nonmajor Governmental Funds	
Fund Balance, as of June 30, 2002, As Previously Reported	\$875,457	\$143,359	\$814,692	\$147,528	\$1,981,036	\$2,567,502	\$4,548,538
Corrections:							
Increase/(Decrease) to Assets:							
Cash Equity with Treasurer	5,696	—	—	—	5,696	—	5,696
Intergovernmental Receivable.....	—	77,177	—	—	77,177	—	77,177
Other Receivable-Interest	1,348	—	—	—	1,348	—	1,348
Inventories.....	(1,306)	—	1,306	—	—	—	—
	5,738	77,177	1,306	—	84,221	—	84,221
Change in the Application of Principle: (Increase)/Decrease to Liabilities:							
Interfund Payable	(118,945)	—	24,748	—	(94,197)	(9,871)	(104,068)
Fund Balance, July 1, 2002, As Restated	\$762,250	\$220,536	\$840,746	\$147,528	\$1,971,060	\$2,557,631	\$4,528,691
		Govern- mental Activities					
Net Assets, as of June 30, 2002, As Previously Reported.....	\$17,467,070						
Corrections:							
Increase/(Decrease) to Assets:							
Cash Equity with Treasurer.....	5,696						
Intergovernmental Receivable	101,671						
Other Receivable-Interest	1,659						
	109,026						
Change in the Application of Principle: (Increase)/Decrease to Liabilities:							
Interfund Payable	(104,068)						
	4,958						
Net Assets, July 1, 2002, As Restated..	\$17,472,028						



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

B. Restatements — Component Unit Funds

Restatements of net assets, as of June 30, 2002, are summarized for the discretely presented component unit funds below (dollars in thousands).

	Major Component Units					Total
	School Facilities Commission	Ohio Water Development Authority (12/31/02)	Ohio State University	University of Cincinnati	Nonmajor Component Units	
Net Assets, as of June 30, 2002, As Previously Reported	\$(866,459)	\$1,850,535	\$2,807,779	\$1,711,945	\$3,739,245	\$9,243,045
Change in Accounting Principle: (Increase)/Decrease to Liabilities:						
Deferred Revenue	—	—	—	—	4,896	4,896
Refund and Other Liabilities	—	—	—	—	(9,602)	(9,602)
	—	—	—	—	(4,706)	(4,706)
Corrections:						
Increase/(Decrease) to Assets:						
Capital Assets Being Depreciated, Net....	—	—	—	—	(2,194)	(2,194)
(Increase)/Decrease to Liabilities:						
Interfund Payable.....	—	—	—	—	—	—
Refund and Other Liabilities	—	—	—	—	(1,830)	(1,830)
	—	—	—	—	(4,024)	(4,024)
Increase/(Decrease) for Restatement	—	—	—	—	(8,730)	(8,730)
Net Assets, July 1, 2002, As Restated	\$(866,459)	\$1,850,535	\$2,807,779	\$1,711,945	\$3,730,515	\$9,234,315

C. Recently Issued Accounting Pronouncements

In May 2002, the GASB amended GASB Statement No. 14, *The Financial Reporting Entity*, and established additional guidance on the application of existing standards for the assessment of potential component units in determining a government's financial reporting entity when it issued GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The provisions of GASB Statement No. 39 are effective for financial statements presented for periods beginning after June 15, 2003.

In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3*. exposed to risks that have the potential to result in losses. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2004.

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



NOTE 3 GAAP versus NON-GAAP BUDGETARY BASIS

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

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

Original budget amounts in the accompanying budgetary statements have been taken from the first complete appropriated budget for fiscal year 2003.

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 2003, whenever signed into law or otherwise legally authorized.

For fiscal year 2003, no excess of expenditures over appropriations were reported in individual funds.

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



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

Primary Government
Reconciliation of GAAP Basis Fund Balances to Non-GAAP Budgetary Basis Fund Balances
For the General Fund and Major Special Revenue Funds
As of June 30, 2003
(dollars in thousands)

	Major Special Revenue Funds				
	General	Job, Family, and Other Human Services	Education	Highway Operating	Revenue Distribution
Total Fund Balances - GAAP Basis	\$ 192,787	\$ 288,975	\$ 22,556	\$ 615,689	\$ 106,606
Less: Reserved Fund Balances	595,025	1,237,079	82,953	1,275,676	124,022
Unreserved/Undesignated Fund Balances —					
GAAP Basis	(402,238)	(948,104)	(60,397)	(659,987)	(17,416)
Revenue Accruals/Adjustments:					
Cash Equity with Treasurer	(31,158)	(3,172)	(591)	(7,383)	(8,697)
Taxes Receivable	(734,024)	—	—	(38,238)	(205,679)
Intergovernmental Receivable	(618,063)	(544,173)	(119,718)	(85,505)	—
Loans Receivable, Net	(24,754)	—	(8,980)	(63,695)	—
Interfund Receivable	(245,634)	(6)	(3)	—	—
Other Receivables	(227,121)	(41,812)	(1,142)	(1,823)	(39)
Inventories	(19,159)	—	—	(24,349)	—
Other Assets	(16,886)	(1,920)	(4,390)	(3,185)	—
Deferred Revenue	104,209	218,207	73,064	37,832	18,400
Total Revenue Accruals/Adjustments	(1,812,590)	(372,876)	(61,760)	(186,346)	(196,015)
Expenditure Accruals/Adjustments:					
Accounts Payable	111,740	44,704	3,408	144,007	—
Accrued Liabilities	83,079	9,952	1,228	15,802	—
Medicaid Claims Payable	1,046,634	—	—	—	—
Intergovernmental Payable	286,726	233,144	78,654	3,758	302,454
Interfund Payable	560,554	15,012	3,033	94,662	56
Payable to Component Units	7,127	694	—	137	—
Refund and Other Liabilities	675,540	9,276	—	—	70,389
Liability for Escheat Property	4,041	—	—	—	—
Total Expenditure Accruals/Adjustments	2,775,441	312,782	86,323	258,366	372,899
Other Adjustments:					
Fund Balance Reclassifications:					
From Unreserved (Non-GAAP Budgetary Basis)					
to Reserved for:					
Noncurrent Portion of Loans Receivable	24,134	—	8,423	58,034	—
Inventories	19,159	—	—	24,349	—
State and Local Highway Construction	—	—	—	—	124,022
Federal Programs	—	458	7,994	—	—
Other	275,166	33,914	203	3,185	—
Cash and Investments Held					
Outside of State Treasury	(207,523)	(34,445)	(4,476)	(229)	(3,664)
Total Other Adjustments	110,936	(73)	12,144	85,339	120,358
Total Basis Differences	1,073,787	(60,167)	36,707	157,359	297,242
TIMING DIFFERENCES					
Encumbrances	(134,596)	(258,401)	(12,778)	(134,547)	—
Budgetary Fund Balances (Deficits) —					
Non-GAAP Basis	\$ 536,953	\$(1,266,672)	\$ (36,468)	\$ (637,175)	\$ 279,826



NOTE 4 DEPOSITS AND INVESTMENTS

A. Legal Requirements

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

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

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

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

- Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest;
- Bonds, notes, debentures, or other obligations or securities issued by any federal government agency, or the Export-Import Bank of Washington;
- Repurchase agreements in the securities enumerated above;
- Interim deposits in the eligible institutions applying for interim moneys;
- Bonds and other obligations of the State of Ohio;
- The Treasurer of State's investment pool;
- Linked deposits, reduced-rate deposits at financial institutions that provide reduced-rate loans to small businesses, as authorized under Section 135.63, Ohio Revised Code;

- Agricultural linked deposits, reduced-rate deposits at financial institutions that provide reduced-rate loans to agricultural businesses, as authorized under Section 135.74, Ohio Revised Code;
- Reverse repurchase agreements with any eligible financial institution that is a member of the Federal Reserve System or federal home loan bank, or any recognized U.S. government securities dealer;
- Securities lending agreements with any eligible financial institution that is a member of the federal reserve system or federal home loan bank, or any recognized U.S. government securities dealer;
- Commercial paper, rated in one of the two highest rating categories by two nationally recognized rating agencies and not exceeding five percent of the investment portfolio;
- Bankers' acceptances maturing in 270 days or less and not exceeding 10 percent of the investment portfolio;
- Debt of domestic corporations and foreign nations diplomatically recognized by the United States, rated investment grade by nationally recognized rating agencies and, in the aggregate, not exceeding five percent of the investment portfolio; and
- No-load money market funds consisting of U.S. government and agency obligations and repurchase agreements secured by such obligations.

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

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



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

mortgage loans, limited partnerships, venture capital, real estate, and/or 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 <http://www.ohiotreasurer.org>.

C. Deposits

1. Primary Government

As of June 30, 2003, the carrying amount of deposits was (dollars in thousands) \$756,843 and the bank balance was \$774,795. Of the bank balance, \$28,890 was fully insured or collateralized with securities held by the primary government or its agent in the primary government's name (Category 1), \$723,214 was collateralized with securities held by the pledging financial institution's trust department or its agent in the primary government's name (Category 2), and \$22,691, although meeting legal collateralization requirements, was categorized as uninsured and uncollateralized (Category 3).

2. Component Units

As of June 30, 2003, the carrying amount of deposits was (dollars in thousands) \$575,384, and the bank balance was \$639,096. Of the bank balance, \$52,605 was fully insured or collateralized with securities held by the respective component units or their agents in the component unit's name (Category 1), \$437,195 was collateralized with securities held by

the pledging financial institution's trust department or its agent in the respective component unit's name (Category 2), and \$149,296, although meeting legal collateralization requirements, was categorized as uninsured and uncollateralized (Category 3).

D. Investments

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

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

The levels of credit risk assumed by the primary government and its discretely presented component units and the carrying amount and fair value of investments, as of June 30, 2003, are detailed in the tables on the following page.



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Primary Government
(dollars in thousands)

	Category 1	Category 2	Category 3	Total Fair Value
U.S. Government & Agency Obligations:				
Not on Securities Loan	\$ 15,752,022	\$ —	\$ 6,194,770	\$ 21,946,792
On Securities Loan	—	—	52,295	52,295
Common and Preferred Stock	47,569,188	—	3,088,375	50,657,563
Corporate Bonds and Notes:				
Not on Securities Loan	9,464,055	—	1,688,304	11,152,359
On Securities Loan	—	—	41,327	41,327
Foreign Stocks and Bonds	20,306,779	—	1,222,847	21,529,626
Commercial Paper	3,202,869	—	2,075,471	5,278,340
Repurchase Agreements	151,049	23,646	357	175,052
High-Yield & Emerging Markets				
Fixed Income Securities	906,741	—	—	906,741
Mortgage and Asset-Backed Securities	4,767,667	—	—	4,767,667
Securities Lending Collateral:				
U.S. Government & Agency Obligations	9,977	—	1,226,844	1,236,821
Repurchase Agreements	1,202,552	—	—	1,202,552
Common and Preferred Stock	—	—	325,994	325,994
Corporate Bonds and Notes	563,225	—	343,674	906,899
Foreign Stocks and Bonds	—	—	182,536	182,536
Commercial Paper	1,465,277	—	—	1,465,277
	<u>\$105,361,401</u>	<u>\$23,646</u>	<u>\$16,442,794</u>	<u>121,827,841</u>
Investments Held by Broker-dealers under Securities Loans with Cash Collateral:				
U.S. Government and Agency Obligations				4,539,032
Common and Preferred Stock				387,689
Corporate Bonds and Notes				353,936
Foreign Stocks and Bonds				168,539
Mortgage and Asset-Backed Securities				16,966
Mutual Funds				7,424,631
Real Estate				11,223,872
Venture Capital				1,470,209
Limited Partnerships				631,556
Investment Contracts				887
Securities Lending Collateral — Mutual Funds				254,299
Deposit with Federal Government				1,190,542
Component Units' Equity in State Treasurer's Cash and Investment Pool				
(including associated Collateral on Lent Securities)				(463,843)
Component Units' Equity in the State Treasury Asset Reserve of Ohio (STAR Ohio)				(699,512)
Total Investments — Primary Government				<u><u>\$148,326,644</u></u>

Component Units
(dollars in thousands)

	Category 1	Category 2	Category 3	Total Fair Value
U.S. Government & Agency Obligations	\$207,498	\$ 642,518	\$500,032	\$1,350,048
Common and Preferred Stock	577,080	920,528	9,069	1,506,677
Corporate Bonds and Notes	128,435	196,513	58,543	383,491
Commercial Paper	48	—	—	48
Repurchase Agreements	—	113,734	58,976	172,710
Negotiable Certificates of Deposit	—	30,000	21,500	51,500
Other Investments	1,235	—	19	1,254
	<u>\$914,296</u>	<u>\$1,903,293</u>	<u>\$648,139</u>	<u>3,465,728</u>
Investment in State Treasurer's Cash and Investment Pool				
(including associated Collateral on Lent Securities)				463,843
Investment in the State Treasury Asset Reserve of Ohio (STAR Ohio)				699,512
Mutual Funds				790,099
Real Estate				66,001
Direct Mortgages				24,911
Life Insurance				1,271
Limited Partnerships				7,054
Investment Contracts				78,539
Total Investments — Component Units				<u><u>\$5,596,958</u></u>



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The total carrying amount of deposits and investments, as of June 30, 2003, reported for the primary government and its component units is (dollars in thousands) \$155,091,796. The total carrying amount of deposits and investments categorized and disclosed in this note is \$155,255,829. A reconciliation of the difference is presented in the table below.

E. Securities Lending Transactions

The Treasurer of State, Bureau of Workers' Compensation (BWC), and the State Highway Patrol Retirement System participate in securities lending programs for securities included in the "Cash Equity with Treasurer" and "Investments" accounts and the STAR Ohio program. Each lending program is administered by a custodial agent bank, whereby certain securities are transferred to an independent broker-dealer (borrower) in exchange for collateral. The State requires its custodial agents to ensure that the State's lent securities are collateralized at no less than 102 percent of fair value. Consequently, as of June 30, 2003, the State had no credit exposure since the amount the State owed to borrowers exceeded the amount borrowers owed the State.

For loan contracts the Treasurer executes for the

State's cash and investment pool, which is reported in the financial statements as "Cash Equity with Treasurer," and for the Ohio Lottery Commission's Structured Investment Portfolio, which is reported as "Restricted Investments," the lending agent may not lend more than 50 percent of the total average portfolio. For the STAR Ohio program, no more than 25 percent of the STAR Ohio investment portfolio may be lent up to seven days and no more than 10 percent of the portfolio for terms up to 30 days. For securities lending contracts the Treasurer of State executes for the Tobacco Use Prevention and Control Foundation, the financial activities of which are reported in the Tobacco Settlement Special Revenue Fund, a minimum of 10 percent of the portfolio must be invested overnight and the following limits must be met:

- 25 percent of the portfolio may be on loan for up to seven days,
- 25 percent of the portfolio may be on loan from seven to 14 days,
- 25 percent of the portfolio may be on loan from 15 to 30 days, and
- 25 percent of the portfolio may be on loan for greater than 30 days, but not more than 90 days.

**Reconciliation of Deposit and Investments Disclosures
With Financial Statements
As of June 30, 2003
(dollars in thousands)**

	Government-Wide Statement of Net Assets			Fiduciary Funds	Total
	Governmental Activities	Business-Type Activities	Component Units	Statement of Net Assets	
Cash Equity with Treasurer.....	\$4,167,693	\$ 49,504	\$ 331,171	\$ 168,377	\$ 4,716,745
Cash and Cash Equivalents.....	76,797	2,095,257	725,924	448,911	3,346,889
Investments.....	740,078	14,382,573	3,737,273	118,507,089	137,367,013
Collateral on Lent Securities.....	1,485,828	2,501,452	110,836	1,469,015	5,567,131
Deposit with Federal Government.....	—	1,190,542	—	—	1,190,542
Restricted Assets:					
Cash Equity with Treasurer.....	—	—	16,351	—	16,351
Cash and Cash Equivalents.....	—	1,891	90,428	—	92,319
Investments.....	—	1,634,447	1,154,874	—	2,789,321
Collateral on Lent Securities.....	—	—	5,485	—	5,485
Total Reporting Entity.....	\$6,470,396	\$21,855,666	\$6,172,342	\$120,593,392	\$155,091,796
			Primary Government:		
			Deposits.....		\$ 756,843
			Investments.....		148,326,644
					149,083,487
			Component Units:		
			Deposits.....		575,384
			Investments.....		5,596,958
					6,172,342
			Total Carrying Amount of Deposits and Investments.....		155,255,829
			Outstanding Warrants and Other Reconciling Items.....		(164,033)
			Total Reporting Entity.....		\$155,091,796



NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

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

According to the lending contracts the Treasurer of State executes for the State's cash and investment pool and for the Ohio Lottery Commission, the securities lending agent is to indemnify the Treasurer of State for any losses resulting from either the default of a borrower or any violations of the security lending policy. Security lending agents for the STAR Ohio Program have an errors and omissions policy for loan losses of up to a maximum of \$250 thousand per loss, not to exceed \$5 million in total. As of June 30, 2003, the lending agent had deposited collateral with the Treasurer of State to cover a total loan loss of up to \$252 thousand under the securities lending agreement executed for the Tobacco Use Prevention and Control Foundation. Loan contracts for the Bureau of Workers Compensation do not provide any loss indemnification by securities lending agents in cases of borrower default. During fiscal year 2003, the State had not experienced any losses due to credit or market risk on securities lending activities.

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

F. Derivatives

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

As of June 30, 2003, the Bureau of Workers' Compensation Enterprise Fund held approximately \$5.2 billion in certain mortgage and asset-backed securities (primarily classified under the "U.S. Government and Agency Obligations" investment type), which the fund classified as derivatives. The overall return or yield on mortgage and asset-backed securities depends on the interest amount collected over the life of the security and the change in the fair value. Although the Bureau will receive the full principal amount, if prepaid, the interest income that would have been collected during the remaining period to maturity is lost. Accordingly, the yields and maturities of mortgage and asset-backed securities generally depend on when the underlying loan principal and interest are repaid. If the market rates fall below a loan's contractual rate, it is generally to the borrower's advantage to repay the existing loan and obtain new, lower interest rate financing.

Through the use of international money managers, the Bureau of Workers' Compensation also enters into various foreign currency exchange contracts to manage exposure to changes in foreign currency exchange rates on its international securities holdings. A forward currency exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risk associated with such contracts includes movement in the value of foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. The fair value of the forward currency contracts receivable for the Bureau was \$478 thousand, as of June 30, 2003.

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



NOTE 5 RECEIVABLES

A. Taxes Receivables — Primary Government

Current taxes receivable are expected to be collected in the next fiscal year while noncurrent taxes receivable are not expected to be collected until more than one year from the balance sheet date. As of June 30, 2003, approximately \$108.5 million of the net taxes receivable balance is also reported as deferred revenue on the governmental funds' balance sheet, of which \$97.1 million is reported in the General Fund and \$11.4 million is reported in the Revenue Distribution Special Revenue Fund.

Refund liabilities for income, corporation franchise, and sales taxes, totaling approximately \$745.9 million, are reported for governmental activities as "Refunds and Other Liabilities" on the Statement of Net Assets, of which, \$675.5 million is reported in the General Fund and \$70.4 million is reported in the Revenue Distribution Special Revenue Fund on the governmental funds' balance sheet.

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

	Governmental Activities				
	Major Governmental Funds			Nonmajor Govern- mental Funds	Total Primary Government
	General	Highway Operating	Revenue Distribution		
Current-Due Within One Year:					
Income Taxes	\$279,425	\$ —	\$ 43,313	\$ 174	\$322,912
Sales Taxes	348,813	—	28,655	544	378,012
Motor Vehicle Fuel Taxes	—	38,238	98,581	1,875	138,694
Public Utility Taxes	66,425	—	30,513	—	96,938
Other Taxes	—	—	—	1,800	1,800
	694,663	38,238	201,062	4,393	938,356
Noncurrent-Due in More Than One Year:					
Income Taxes	39,361	—	4,617	—	43,978
Taxes Receivable, Net.....	<u>\$734,024</u>	<u>\$38,238</u>	<u>\$205,679</u>	<u>\$4,393</u>	<u>\$982,334</u>

B. Intergovernmental Receivables — Primary Government

The intergovernmental receivable balance reported for the primary government, all of which is expected to be collected within the next fiscal year, consisted of the following, as of June 30, 2003 (dollars in thousands).

	From Nonexchange Programs		From Sales of Goods and Services		Total Primary Government
	Federal Government	Local Government	Other State Governments	Local Government	
	Governmental Activities:				
Major Governmental Funds:					
General	\$ 588,041	\$ 21,074	\$ —	\$ 8,948	\$ 618,063
Job, Family and Other Human Services	449,323	94,850	—	—	544,173
Education	57,938	61,780	—	—	119,718
Highway Operating	85,505	—	—	—	85,505
Nonmajor Governmental Funds	201,635	16,860	—	2,579	221,074
Total Governmental Activities	1,382,442	194,564	—	11,527	1,588,533
Business-Type Activities:					
Unemployment Compensation	—	—	5,493	—	5,493
Intergovernmental Receivable	<u>\$1,382,442</u>	<u>\$194,564</u>	<u>\$5,493</u>	<u>\$11,527</u>	<u>\$1,594,026</u>



NOTE 5 RECEIVABLES (Continued)

C. Loans Receivable

Loans receivable for the primary government and its discretely presented component units, as of June 30, 2003, are detailed in the following tables (dollars in thousands).

Primary Government — Loans Receivable

Loan Program	Governmental Activities				
	Major Governmental Funds			Nonmajor Governmental Funds	Total Primary Government
	General	Education	Highway Operating		
School District Solvency Assistance.....	\$ 9,201	\$ —	\$ —	\$ —	\$ 9,201
Vocational Education.....	209	59	—	—	268
Wayne Trace Local School District.....	4,838	—	—	—	4,838
Vocational School Assistance	—	8,341	—	—	8,341
Physician Loan Repayment.....	—	295	—	—	295
Nurses Education Assistance.....	—	285	—	—	285
Office of Minority Financial Incentives.....	1,681	—	—	—	1,681
Rail Development.....	—	—	—	3,668	3,668
Office of Business Development	—	—	—	303,482	303,482
Ohio Housing Finance Agency	—	—	—	237,787	237,787
Small Government Fire Departments	329	—	—	—	329
Higher Education Research Investment Loans	—	—	—	1,316	1,316
Highway, Transit, & Aviation Infrastructure Bank ..	—	—	63,695	—	63,695
Natural Resources.....	—	—	—	86	86
Local Infrastructure Improvements	—	—	—	226,337	226,337
Columbiana County Economic Stabilization	1,806	—	—	—	1,806
State Workforce Development.....	6,678	—	—	—	6,678
Professional Development	742	—	—	—	742
Loans Receivable, Gross	25,484	8,980	63,695	772,676	870,835
Estimated Uncollectible	(730)	—	—	(22,267)	(22,997)
Loans Receivable, Net	<u>\$24,754</u>	<u>\$8,980</u>	<u>\$63,695</u>	<u>\$750,409</u>	<u>\$847,838</u>
Current-Due Within One Year	\$ 9,809	\$1,788	\$ 5,661	\$102,170	\$119,428
Noncurrent-Due in More Than One Year.....	14,945	7,192	58,034	648,239	728,410
Loans Receivable, Net	<u>\$24,754</u>	<u>\$8,980</u>	<u>\$63,695</u>	<u>\$750,409</u>	<u>\$847,838</u>

Component Units — Loans Receivable

Loan Program	Ohio Water Development Authority (12/31/02)	Ohio State University	University of Cincinnati	Other Component Units	Total Component Units
Water and Wastewater Treatment (including restricted portion)	\$21,664	\$ —	\$ —	\$ —	\$ 21,664
Student.....	—	70,571	35,185	122,640	228,396
Other	—	—	590	1,409	1,999
Loans Receivable, Gross	21,664	70,571	35,775	124,049	252,059
Estimated Uncollectible	—	(11,155)	(4,411)	(10,204)	(25,770)
Loans Receivable, Net	<u>\$21,664</u>	<u>\$59,416</u>	<u>\$31,364</u>	<u>\$113,845</u>	<u>\$226,289</u>
Current-Due Within One Year	\$ 1,450	\$10,400	\$ 3,292	\$ 20,899	\$ 36,041
Noncurrent-Due in More Than One Year.....	20,214	49,016	28,072	92,946	190,248
Loans Receivable, Net	<u>\$21,664</u>	<u>\$59,416</u>	<u>\$31,364</u>	<u>\$113,845</u>	<u>\$226,289</u>



NOTE 5 RECEIVABLES (Continued)

D. Other Receivables

Other receivables for the primary government and its discretely presented components, as of June 30, 2003, consisted of the following (dollars in thousands).

Primary Government — Other Receivables

Type of Receivable	Governmental Activities							Total
	Major Governmental Funds							
	General	Job, Family & Other Human Services	Education	Highway Operating	Revenue Distribution	Nonmajor Govern- mental Funds		
Accounts	\$ 4,036	\$ —	\$1,114	\$1,107	\$—	\$10,062	\$ 16,319	
Drug Manufacturers' Rebates Women, Infants and Children Program Rebates	202,770	—	—	—	—	—	202,770	
Health Facility Bed Assessments	—	39,407	—	—	—	12,051	12,051	
Interest	1,438	94	28	716	39	3,196	5,511	
Leases	—	—	—	—	—	1,662	1,662	
Miscellaneous	18,877	2,311	—	—	—	254	21,442	
Other Receivables, Net- Due Within One Year	<u>\$227,121</u>	<u>\$41,812</u>	<u>\$1,142</u>	<u>\$1,823</u>	<u>\$39</u>	<u>\$27,225</u>	<u>\$299,162</u>	
Type of Receivable	Workers' Compen- sation	Lottery Commis- sion	Unemploy- ment Compen- sation	Ohio Building Authority	Office of Auditor of State	Other Proprietary Funds	Total	
Accounts	\$785,812	\$ —	\$63,689	\$ 904	\$8,555	\$1,179	\$860,139	
Interest and Dividends (including restricted portion)	87,570	2,815	—	846	—	2	91,233	
Leases	—	—	—	18,565	—	—	18,565	
Lottery Sales Agents	—	45,592	—	—	—	—	45,592	
Miscellaneous	—	—	—	—	—	32	32	
Other Receivables, Gross	873,382	48,407	63,689	20,315	8,555	1,213	1,015,561	
Estimated Uncollectible	(600,274)	(456)	(55,197)	—	(30)	—	(655,957)	
Other Receivables, Net	<u>\$273,108</u>	<u>\$47,951</u>	<u>\$ 8,492</u>	<u>\$20,315</u>	<u>\$8,525</u>	<u>\$1,213</u>	<u>\$359,604</u>	
Current-Due Within One Year	\$273,108	\$47,951	\$ 8,492	\$ 5,480	\$8,525	\$1,213	\$344,769	
Noncurrent-Due in More Than One Year	—	—	—	14,835	—	—	14,835	
Other Receivables, Net	<u>\$273,108</u>	<u>\$47,951</u>	<u>\$ 8,492</u>	<u>\$20,315</u>	<u>\$8,525</u>	<u>\$1,213</u>	<u>\$359,604</u>	
Total Primary Government							<u>\$658,766</u>	

Component Units — Other Receivables

Type of Receivable	School Facilities Com- mission	Ohio Water Develop- ment Authority (12/31/02)	Ohio State University	University of Cincinnati	Other Com- ponent Units	Total Com- ponent Units
Accounts	\$ —	\$ —	\$425,938	\$22,565	\$174,908	\$623,411
Interest	365	—	15,752	5,825	5,395	27,337
Pledges	—	—	62,322	49,382	17,145	128,849
Miscellaneous	—	1,787	—	20,200	66,558	88,545
Other Receivables, Gross	365	1,787	504,012	97,972	264,006	868,142
Estimated Uncollectible	—	—	(159,892)	(2,217)	(31,725)	(193,834)
Other Receivables, Net	<u>\$365</u>	<u>\$1,787</u>	<u>\$344,120</u>	<u>\$95,755</u>	<u>\$232,281</u>	<u>\$674,308</u>
Current-Due Within One Year	\$365	\$ 12	\$300,621	\$60,479	\$223,816	\$585,293
Noncurrent-Due in More Than One Year	—	1,775	43,499	35,276	8,465	89,015
Other Receivables, Net	<u>\$365</u>	<u>\$1,787</u>	<u>\$344,120</u>	<u>\$95,755</u>	<u>\$232,281</u>	<u>\$674,308</u>



NOTE 5 RECEIVABLES (Continued)

The "Other Receivables" balance reported in the fiduciary funds in the amount of \$2.6 million is comprised of interest due, as of June 30, 2003.

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

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

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

Year Ending June 30,	Leases Receivable		
	Governmental Activities	Business- Type Activities	Total
2004	\$ 169	\$ 4,926	\$ 5,095
2005	169	4,923	5,092
2006	169	4,922	5,091
2007	169	4,860	5,029
2008	169	2,719	2,888
Thereafter ..	1,159	—	1,159
Total Minimum Lease Pay- ments.....	2,004	22,350	24,354
Amount for interest	(342)	(6,154)	(6,496)
Present Value of Net Mini- mum Lease Payments	1,662	16,196	17,858
Unearned Income.....	—	2,369	2,369
	<u>\$1,662</u>	<u>\$18,565</u>	<u>\$20,227</u>

NOTE 6 PAYABLES

A. Accrued Liabilities

Details on accrued liabilities for the primary government and its discretely presented component units, as of June 30, 2003, follow (dollars in thousands).

Primary Government — Accrued Liabilities

	Wages	Health Benefit Claims	Accrued Interest	Vehicle Liability Claims	Total Accrued Liabilities
Governmental Activities:					
Major Governmental Funds:					
General.....	\$ 79,032	\$4,047	\$ —	\$ —	\$ 83,079
Job, Family and Other Human Services	9,517	435	—	—	9,952
Education	1,157	71	—	—	1,228
Highway Operating	15,347	455	—	—	15,802
Nonmajor Governmental Funds	27,274	1,237	318	—	28,829
	<u>132,327</u>	<u>6,245</u>	<u>318</u>	<u>—</u>	<u>138,890</u>
Reconciliation of balances in fund financial statements to government-wide financial statements due to basis differences.....	—	—	96,822	2,686	99,508
Total Governmental Activities.....	<u>132,327</u>	<u>6,245</u>	<u>97,140</u>	<u>2,686</u>	<u>238,398</u>
Business-Type Activities:					
Ohio Building Authority.....	—	—	326	—	326
Tuition Trust Authority	74	—	—	—	74
Liquor Control.....	710	34	—	—	744
Underground Parking Garage	48	4	—	—	52
Office of Auditor of State	2,617	86	—	—	2,703
Total Business-Type Activities.....	<u>3,449</u>	<u>124</u>	<u>326</u>	<u>—</u>	<u>3,899</u>
Total Primary Government.....	<u>\$135,776</u>	<u>\$6,369</u>	<u>\$97,466</u>	<u>\$2,686</u>	<u>\$242,297</u>



NOTE 6 PAYABLES (Continued)

Primary Government — Accrued Liabilities (Continued)

	Wages	Health Benefit Claims	Management and Administrative Expenses	Total Accrued Liabilities
Fiduciary Activities:				
State Highway Patrol Retirement System Pension Trust (12/31/02).....	\$914	\$119	\$ —	\$1,033
Variable College Savings Plan Private-Purpose Trust	—	—	3,498	3,498
Total Fiduciary Activities.....	<u>\$914</u>	<u>\$119</u>	<u>\$3,498</u>	<u>\$4,531</u>

Component Units — Accrued Liabilities

	Wages and Employee Benefits	Accrued Interest	Other	Total Accrued Liabilities
Major Component Units:				
School Facilities Commission.....	\$ 149	\$ —	\$ 12	\$ 161
Ohio Water Development Authority (12/31/02)...	—	6,910	—	6,910
Ohio State University.....	111,584	1,343	—	112,927
University of Cincinnati.....	62,586	2,697	—	65,283
Nonmajor Component Units.....	118,183	7,528	17,525	143,236
Total Component Units.....	<u>\$292,502</u>	<u>\$18,478</u>	<u>\$17,537</u>	<u>\$328,517</u>

B. Intergovernmental Payable

The intergovernmental payable balances for the primary government and its discretely presented component units, as of June 30, 2003, are comprised of the following (dollars in thousands).

Primary Government — Intergovernmental Payable

	Local Government			Other State Governments	Total
	Shared Revenue and Local Permissive Taxes	Subsidies and Other	Federal Government		
Governmental Activities:					
Major Governmental Funds:					
General.....	\$235,565	\$ 51,161	\$ —	\$ —	\$ 286,726
Job, Family and Other Human Services	—	232,861	283	—	233,144
Education	—	78,245	409	—	78,654
Highway Operating	—	3,758	—	—	3,758
Revenue Distribution	300,271	—	—	2,183	302,454
Nonmajor Governmental Funds	—	218,368	—	—	218,368
Total Governmental Activities.....	<u>535,836</u>	<u>584,393</u>	<u>692</u>	<u>2,183</u>	<u>1,123,104</u>
Business-Type Activities:					
Liquor Control.....	—	375	—	—	375
Total Business-Type Activities.....	<u>—</u>	<u>375</u>	<u>—</u>	<u>—</u>	<u>375</u>
Total Primary Government.....	<u>\$535,836</u>	<u>\$584,768</u>	<u>\$692</u>	<u>\$2,183</u>	<u>\$1,123,479</u>
Fiduciary Activities:					
Holding and Distribution Agency Fund	\$ —	\$ —	\$1,934	\$7,313	\$ 9,247
Payroll Withholding and Fringe Benefits Agency Fund	—	359	—	—	359
Other Agency Fund	53,017	4,188	—	—	57,205
Total Fiduciary Activities.....	<u>\$53,017</u>	<u>\$4,547</u>	<u>\$1,934</u>	<u>\$7,313</u>	<u>\$66,811</u>



NOTE 6 PAYABLES (Continued)

Component Units — Intergovernmental Payable

	Local Government			Total
	Subsidies to Local Government	Other	Federal Arbitrage	
Major Component Units:				
School Facilities Commission	\$2,133,542	\$ —	\$ —	\$ 2,133,542
Ohio Water Development Authority (12/31/02)	—	—	2,240	2,240
University of Cincinnati	—	379	—	379
Nonmajor Component Units	—	388	—	388
	2,133,542	767	2,240	2,136,549
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the government-wide financial statements ...	(2,133,542)	—	—	(2,133,542)
Total Component Units	\$ —	\$767	\$2,240	\$ 3,007

C. Refund and Other Liabilities

Refund and other liabilities for the primary government and its discretely presented component units, as of June 30, 2003, were comprised of the following (dollars in thousands).

Primary Government — Refund and Other Liabilities

	Estimated Tax Refund Claims			Interest on Lawyers' Trust Accounts	Other	Total
	Personal Income Tax	Corporation Franchise Tax	Total Tax Refund Liabilities			
Governmental Activities:						
Major Governmental Funds:						
General	\$500,777	\$174,729	\$675,506	\$ —	\$ 34	\$675,540
Job, Family and Other Human Services	—	—	—	7,245	2,031	9,276
Revenue Distribution	64,766	5,623	70,389	—	—	70,389
Nonmajor Governmental Funds	—	—	—	—	11,285	11,285
	565,543	180,352	745,895	7,245	13,350	766,490
Reconciliation of balances in fund financial statements to government-wide financial statements due to basis differences	—	—	—	—	5,671	5,671
Total Governmental Activities	\$565,543	\$180,352	\$745,895	\$7,245	\$19,021	\$772,161
Business-Type Activities:						
Workers' Compensation	\$1,673,704	\$82,991	\$22,015	\$ —	\$110,024	\$1,888,734
Lottery Commission	—	—	2,376	44,122	26,783	73,281
Unemployment Compensation	—	10,545	—	—	—	10,545
Ohio Building Authority	—	—	109	—	—	109
Tuition Trust Authority	—	—	138	—	462	600
Liquor Control	—	—	2,879	—	837	3,716
Underground Parking Garage	—	—	117	—	—	117
Office of Auditor of State	—	48	7,193	29	7,863	15,133
	1,673,704	93,584	34,827	44,151	145,969	1,992,235
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the government-wide financial statements	(1,673,704)	(82,991)	(34,580)	(44,151)	(83,404)	(1,918,830)
Total Business-Type Activities	\$ —	\$10,593	\$ 247	\$ —	\$ 62,565	\$ 73,405



NOTE 6 PAYABLES (Continued)

Primary Government — Refund and Other Liabilities (Continued)

	Child Support Collections	Refund & Security Deposits	Payroll Withholdings	Retirement Systems' Assets	Other	Total
Fiduciary Activities:						
State Highway Patrol Retirement						
System Pension Trust (12/31/02) ..	\$ —	\$ —	\$ —	\$ —	\$ 50	\$ 50
STAR Ohio Investment Trust	—	—	—	—	409	409
Agency Funds	113,739	477,508	97,467	110,456,320	38,867	111,183,901
Total Fiduciary Activities	<u>\$113,739</u>	<u>\$477,508</u>	<u>\$97,467</u>	<u>\$110,456,320</u>	<u>\$39,326</u>	<u>\$111,184,360</u>

Component Units — Refund and Other Liabilities

	Refund & Security Deposits	Compensated Absences	Capital Leases	Obligations Under Annuity Life Agreements	Other	Total
Major Component Units:						
School Facilities Commission	\$ —	\$ 411	\$ —	\$ —	\$ —	\$ 411
Ohio Water Development Authority (12/31/02)	—	177	—	—	—	177
Ohio State University	80,283	64,541	17,723	48,485	29,080	240,112
University of Cincinnati	30,627	58,465	135,262	—	1,720	226,074
Nonmajor Component Units	42,398	97,346	48,205	2,514	54,762	245,225
	153,308	220,940	201,190	50,999	85,562	711,999
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the government-wide financial statements	(89,510)	(217,875)	(201,190)	(50,999)	(56,667)	(616,241)
Total Component Units	<u>\$63,798</u>	<u>\$ 3,065</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$28,895</u>	<u>\$ 95,758</u>



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

A. Interfund Balances

Interfund balances, as of June 30, 2003, consisted of the following (dollars in thousands):

Due from	Due to				Total
	Governmental Activities				
	Major Governmental Funds				
General	Job, Family and Other Human Services	Education	Nonmajor Governmental Funds		
Major Governmental Funds:					
General.....	\$ —	\$ 6	\$ 3	\$ 2,905	\$ 2,914
Job, Family and Other Human Services.....	—	—	—	—	—
Education.....	—	—	—	—	—
Highway Operating.....	—	—	—	—	—
Revenue Distribution.....	—	—	—	56	56
Nonmajor Governmental Funds.....	244,400	—	—	350	244,750
Total Governmental Activities.....	244,400	6	3	3,311	247,720
Business-Type Activities:					
Lottery Commission.....	—	—	—	—	—
Liquor Control.....	1,234	—	—	—	1,234
Underground Parking Garage.....	—	—	—	—	—
Total Business-Type Activities.....	1,234	—	—	—	1,234
Total Primary Government.....	\$245,634	\$ 6	\$ 3	\$ 3,311	\$248,954

	Business-Type Activities			Total Primary Government
	Workers' Compensation	Office of Auditor of State	Total	
Major Governmental Funds:				
General.....	\$548,432	\$9,208	\$557,640	\$ 560,554
Job, Family and Other Human Services.....	15,012	—	15,012	15,012
Education.....	3,033	—	3,033	3,033
Highway Operating.....	94,662	—	94,662	94,662
Revenue Distribution.....	—	—	—	56
Nonmajor Governmental Funds.....	113,082	—	113,082	357,832
Total Governmental Activities.....	774,221	9,208	783,429	1,031,149
Business-Type Activities:				
Lottery Commission.....	4,533	—	4,533	4,533
Liquor Control.....	2,474	—	2,474	3,708
Underground Parking Garage.....	224	—	224	224
Total Business-Type Activities.....	7,231	—	7,231	8,465
Total Primary Government.....	\$781,452	\$9,208	\$790,660	\$1,039,614

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

Included in the interfund balances above is \$244.4 million due to the General Fund from the nonmajor governmental funds for interfund loans made to support housing programs at the Ohio Housing Finance Agency, which is accounted for in the Community and Economic Development Special Revenue Fund. Of the total interfund loan balance, ap-

proximately \$214.3 million is not expected to be collected in the subsequent fiscal year.

Additionally, the State's primary government is permitted to pay its workers' compensation liability on a terminal-funding (pay-as-you-go) basis. As a result, the Workers' Compensation Enterprise Fund recognized \$781.5 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 \$774.2 million in the internal balance reported for governmental activities.



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

C. Component Units

For fiscal year 2003, the component units reported \$2.38 billion in state assistance revenue from the primary government in the Statement of Activities.

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

Additionally, the primary government provided financial support to the colleges and universities in the

form of state appropriations for instructional and non-instructional purposes and capital appropriations for construction. This assistance is included in "Higher Education Support" expenses reported for governmental activities.

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

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

Primary Government	Payable to Component Units	Program Expenses for State Assistance to Component Units			
		Primary, Secondary and Other Education Function	Higher Education Support Function	Community and Economic Development Function	Total State Assistance to Component Units
Major Governmental Funds:					
General.....	\$ 7,127	\$491,879	\$1,660,050	\$20,200	\$2,172,129
Job, Family and Other Human Services	694	—	—	—	—
Education	—	—	—	—	—
Highway Operating	137	—	—	—	—
Nonmajor Governmental Funds	17,604	10,804	199,453	—	210,257
	25,562	502,683	1,859,503	20,200	\$2,382,386
Reconciliation of balances included in the "Payable to Component Units" balance in the government-wide financial statements	512	2	—	1	3
Total Governmental Activities.....	\$26,074	\$502,685	\$1,859,503	\$20,201	\$2,382,389
Component Unit	Receivable from Primary Government	Total State Assistance From the Primary Government			
Major Governmental Component Unit:					
School Facilities Commission.....	\$ —	\$ 460,804			
Nonmajor Governmental Component Units:					
Arts and Sports Facilities Commission	—	20,200			
SchoolNet Commission	387	41,879			
	387	522,883			
Reconciling Items to Balance with Government-wide Financial Statements:					
Arts and Sports Facilities Commission	7	1			
SchoolNet Commission	505	2			
	899	522,886			
Other Major Component Units:					
Ohio State University	7,135	494,241			
University of Cincinnati	379	219,263			
Other Nonmajor Component Units	17,661	1,145,999			
	25,175	1,859,503			
Total Component Units.....	\$26,074	\$2,382,389			



NOTE 8 CAPITAL ASSETS

Capital asset activity reported for the primary government and its discretely presented component units, for the year ended June 30, 2003, was as follows (dollars in thousands):

	Primary Government			Balance June 30, 2003
	Balance July 1, 2002	Increases	Decreases	
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Buildings	\$ 47,780	\$ 6,822	\$ —	\$ 54,602
Land	1,479,858	59,324	(8,224)	1,530,958
Land Improvements	930	—	—	930
Construction-in-Progress	1,302,502	781,575	(422,532)	1,661,545
Infrastructure:				
Highway Network:				
General Subsystem	8,049,949	9,127	—	8,059,076
Priority Subsystem	6,351,727	224,205	(5,304)	6,570,628
Bridge Network	2,223,044	32,523	—	2,255,567
Total Capital Assets Not Being Depreciated	<u>19,455,790</u>	<u>1,113,576</u>	<u>(436,060)</u>	<u>20,133,306</u>
Other Capital Assets:				
Buildings	2,881,142	87,979	(2,705)	2,966,416
Land Improvements	194,699	31,976	(1,709)	224,966
Machinery and Equipment	361,693	83,264	(15,621)	429,336
Vehicles	219,094	29,639	(18,482)	230,251
Infrastructure:				
Parks, Recreation and Natural Resources Network	<u>14,686</u>	<u>8,956</u>	<u>(5,079)</u>	<u>18,563</u>
Total Other Capital Assets at historical cost	<u>3,671,314</u>	<u>241,814</u>	<u>(43,596)</u>	<u>3,869,532</u>
Less Accumulated Depreciation for:				
Buildings	1,042,555	85,012	(2,249)	1,125,318
Land Improvements	108,422	8,790	(1,428)	115,784
Machinery and Equipment	258,862	41,908	(13,187)	287,583
Vehicles	98,017	19,822	(12,922)	104,917
Infrastructure:				
Parks, Recreation and Naturals Resources Network	<u>24</u>	<u>703</u>	<u>—</u>	<u>727</u>
Total Accumulated Depreciation	<u>1,507,880</u>	<u>156,235</u>	<u>(29,786)</u>	<u>1,634,329</u>
Other Capital Assets, Net	<u>2,163,434</u>	<u>85,579</u>	<u>(13,810)</u>	<u>2,235,203</u>
Governmental Activities- Capital Assets, Net	<u>\$21,619,224</u>	<u>\$1,199,155</u>	<u>\$(449,870)</u>	<u>\$22,368,509</u>

For fiscal year 2003, the State charged depreciation expense to the following governmental functions:

Governmental Activities:	
Primary, Secondary and Other Education	\$ 1,545
Higher Education Support	15
Public Assistance and Medicaid	3,027
Health and Human Services	24,313
Justice and Public Protection	54,151
Environmental Protection and Natural Resources	11,423
Transportation	23,291
General Government	35,810
Community and Economic Development	2,660
Total Depreciation Expense for Governmental Activities	<u>\$156,235</u>



NOTE 8 CAPITAL ASSETS (Continued)

	Primary Government			Balance June 30, 2003
	Balance July 1, 2002	Increases	Decreases	
Business-Type Activities:				
Capital Assets Not Being Depreciated:				
Land.....	\$ 12,631	\$ —	\$ —	\$ 12,631
Construction-in-Progress	8,827	4,640	(12,511)	956
Total Capital Assets Not Being Depreciated.....	21,458	4,640	(12,511)	13,587
Other Capital Assets:				
Buildings	243,473	13,255	—	256,728
Land Improvements	66	—	—	66
Machinery and Equipment	171,116	5,778	(13,559)	163,335
Vehicles	4,927	648	(723)	4,852
Total Other Capital Assets at historical cost.....	419,582	19,681	(14,282)	424,981
Less Accumulated Depreciation for:				
Buildings	107,407	8,210	—	115,617
Land Improvements	47	1	—	48
Machinery and Equipment	92,775	24,821	(9,060)	108,536
Vehicles	2,473	589	(603)	2,459
Total Accumulated Depreciation	202,702	33,621	(9,663)	226,660
Other Capital Assets, Net	216,880	(13,940)	(4,619)	198,321
Business-Type Activities- Capital Assets, Net	\$238,338	\$(9,300)	\$(17,130)	\$211,908

For fiscal year 2003, the State charged depreciation expense to the following business-type functions:

Business-Type Activities:	
Workers' Compensation	\$18,565
Lottery Commission	15,178
Tuition Trust Authority	129
Liquor Control.....	229
Underground Parking Garage	539
Office of Auditor of State	2,988
Total Depreciation Expense for Business-Type Activities	37,628
Losses on Capital Asset Disposals Included in Depreciation ...	(4,007)
Fiscal Year 2003 Increases to Accumulated Depreciation	\$33,621

Component Units

	Balance July 1, 2002 (as restated)	Increases	Decreases	Balance June 30, 2003
	Capital Assets Not Being Depreciated:			
Land:				
Ohio State University	\$ 37,654	\$ 4,371	\$ —	\$ 42,025
University of Cincinnati	17,912	50	—	17,962
All Other Component Units	191,805	3,420	(670)	194,555
Total Land.....	247,371	7,841	(670)	254,542
Land Improvements:				
All Other Component Units	15,104	1,695	—	16,799
Total Land Improvements	15,104	1,695	—	16,799

(Continued)



NOTE 8 CAPITAL ASSETS (Continued)

	Component Units (Continued)			
	Balance July 1, 2002 (as restated)	Increases	Decreases	
Construction-in-Progress:				
Ohio State University	104,309	141,450	(8,116)	237,643
University of Cincinnati	141,788	114,529	—	256,317
All Other Component Units	369,070	230,092	(374,869)	224,293
Total Construction-in-Progress	615,167	486,071	(382,985)	718,253
Collections of Works of Art and Historical Treasures:				
University of Cincinnati	4,264	315	—	4,579
All Other Component Units	18,178	758	(3)	18,933
Total Collections of Works of Art and Historical Treasures	22,442	1,073	(3)	23,512
Total Capital Assets Not Being Depreciated	900,084	496,680	(383,658)	1,013,106
Other Capital Assets:				
Buildings:				
Ohio State University	2,085,107	60,372	(4,105)	2,141,374
University of Cincinnati	1,039,424	78,941	(40,153)	1,078,212
All Other Component Units	3,642,550	353,913	(12,202)	3,984,261
Total Buildings	6,767,081	493,226	(56,460)	7,203,847
Land Improvements:				
Ohio State University	180,291	1,668	—	181,959
University of Cincinnati	21,591	215	—	21,806
All Other Component Units	126,231	4,649	—	130,880
Total Land Improvements	328,113	6,532	—	334,645
Machinery, Equipment and Vehicles:				
Ohio State University	680,175	62,482	(86,782)	655,875
University of Cincinnati	132,943	17,514	(9,002)	141,455
All Other Component Units	817,234	100,559	(44,492)	873,301
Total Machinery, Equipment and Vehicles	1,630,352	180,555	(140,276)	1,670,631
Library Books and Publications:				
Ohio State University	159,763	3,427	(4,718)	158,472
University of Cincinnati	109,789	9,050	(1,165)	117,674
All Other Component Units	360,264	16,379	(3,682)	372,961
Total Library Books and Publications	629,816	28,856	(9,565)	649,107
Infrastructure:				
University of Cincinnati	54,633	207	—	54,840
All Other Component Units	273,035	56,611	(1)	329,645
Total Infrastructure	327,668	56,818	(1)	384,485
Total Other Capital Assets at historical cost	9,683,030	765,987	(206,302)	10,242,715

(Continued)



**STATE OF OHIO
NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2003

NOTE 8 CAPITAL ASSETS (Continued)

	Component Units (Continued)			
	Balance July 1, 2002 (as restated)	Increases	Decreases	Balance June 30, 2003
Less Accumulated Depreciation for:				
Buildings:				
Ohio State University	801,423	63,618	(1)	865,040
University of Cincinnati	390,250	35,411	(25,331)	400,330
All Other Component Units	1,536,643	99,007	(8,775)	1,626,875
Total Buildings	<u>2,728,316</u>	<u>198,036</u>	<u>(34,107)</u>	<u>2,892,245</u>
Land Improvements:				
Ohio State University	96,382	8,033	—	104,415
University of Cincinnati	4,549	999	—	5,548
All Other Component Units	55,453	5,637	—	61,090
Total Land Improvements	<u>156,384</u>	<u>14,669</u>	<u>—</u>	<u>171,053</u>
Machinery, Equipment and Vehicles:				
Ohio State University	467,572	60,766	(77,099)	451,239
University of Cincinnati	91,905	12,138	(9,389)	94,654
All Other Component Units	547,049	73,540	(39,877)	580,712
Total Machinery, Equipment and Vehicles	<u>1,106,526</u>	<u>146,444</u>	<u>(126,365)</u>	<u>1,126,605</u>
Library Books and Publications:				
Ohio State University	119,108	8,191	—	127,299
University of Cincinnati	70,807	5,963	(1,165)	75,605
All Other Component Units	228,107	18,086	(2,903)	243,290
Total Library Books and Publications.....	<u>418,022</u>	<u>32,240</u>	<u>(4,068)</u>	<u>446,194</u>
Infrastructure:				
University of Cincinnati	32,384	2,878	—	35,262
All Other Component Units	109,211	12,414	(1)	121,624
Total Infrastructure.....	<u>141,595</u>	<u>15,292</u>	<u>(1)</u>	<u>156,886</u>
Total Accumulated Depreciation.....	<u>4,550,843</u>	<u>406,681</u>	<u>(164,541)</u>	<u>4,792,983</u>
Other Capital Assets, Net.....	<u>5,132,187</u>	<u>359,306</u>	<u>(41,761)</u>	<u>5,449,732</u>
Component Units- Capital Assets, Net.....	<u>\$6,032,271</u>	<u>\$855,986</u>	<u>\$(425,419)</u>	<u>\$6,462,838</u>

For fiscal year 2003, depreciation expense for the State's component units was as follows:

Component Units:

School Facilities Commission.....	\$ 15
Ohio Water Development Authority (for the year ended 12/31/02).....	255
Ohio State University.....	140,608
University of Cincinnati.....	57,389
Other Component Units.....	<u>212,862</u>
Total Depreciation Expense for Component Units.....	411,129
Net Gains/(Losses) on Capital Asset Disposals Included in Depreciation	<u>(4,448)</u>
Fiscal Year 2003 Increases to Accumulated Depreciation.....	<u>\$406,681</u>



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

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

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

A. Ohio Public Employees Retirement System (OPERS)

Pension Benefits

OPERS is a cost-sharing, defined benefit multiple-employer public employee retirement plan, and, beginning January 1, 2003, includes a defined contribution plan, and a combined plan that includes features of both the defined benefit plan and the defined contribution plan.

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

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

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

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

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

The retirement allowance for the defined contribution plan is based entirely on the proceeds of retirees' individual retirement plans. Retirees may choose to receive either a lump-sum distribution or a monthly annuity for life. Participants direct the investment of their accounts by selecting from nine professionally managed investment options.

Employer and employee required contributions to OPERS are established under the Ohio Revised Code and are based on percentages of covered employees' gross salaries, which are calculated annually by the retirement system's actuaries. Contribution rates for fiscal year 2003, which are the same for the defined benefit, defined contribution, and combined plans, were as follows:

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



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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, for the year ended June 30, 2003, the combined plan) follow (dollars in thousands):

Primary Government		
For the Year Ended June 30,	Employer's Contribution for Regular Employees	Employer's Contribution for Law Enforcement Employees
2003	\$224,267	\$3,596
2002	228,637	3,646
2001	164,474	3,177

Component Units	
For the Year Ended June 30,	Employer's Contribution for Regular Employees
2003	\$112,547
2002	109,668
2001	72,686

Employer and employee contributions required and made for the fiscal year 2003 for the defined contribution program and the defined contribution part of the combined plan follow (dollars in thousands):

For the Fiscal Year Ended June 30, 2003		
	Employer's Contribution	Employee's Contribution
Primary Government:	\$530	\$1,137
Component Units:	448	879

OPERS issues a stand-alone financial report, copies of which may be obtained by making a written request to: Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 466-2085 or 1-800-222-PERS.

Other Postemployment Benefits

Members of the defined contribution plan may access a Retiree Medical Account upon retirement. During fiscal year 2003, employers paid 4.81 percent of their share into members' accounts. An employee's interest in the medical account for qualify-

ing healthcare expenses vests on the basis of length of service, with 100 percent vesting attained after 10 years of service credit. Employers make no further contributions to a member's medical account after retirement, nor do employers have any further obligation to provide postemployment healthcare benefits.

Employer contributions are as follows (dollars in thousands):

Employers' Contribution For the Fiscal Year Ended June 30, 2003	
Primary Government:	\$300
Component Units:	253

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

Healthcare coverage for disability recipients and primary survivor recipients is also available to members of the defined benefit and combined plans. Chapter 145, Ohio Revised Code, provides the statutory authority for employer contributions. For fiscal year 2003, the portion of the employer rate that is used to fund healthcare is 5.0 percent of covered payroll for law enforcement and regular employees. Employees do not fund any portion of healthcare costs.

Benefits in the defined benefit and combined plans are advance-funded using the entry-age, normal cost method. Significant actuarial assumptions, based on the latest actuarial review performed as of December 31, 2001 (the latest information available), include a rate of return on investments of 8.0 percent, an annual increase in total payroll for active employees of 4.0 percent compounded annually for inflation (assuming no change in the number of active employees), and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Healthcare premiums were assumed to increase 4.0 percent annually.



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Net assets available for payment of benefits at December 31, 2001 were \$11.6 billion. The actuarially accrued liability and the assets in excess of actuarial accrued liability were \$16.4 billion and \$4.8 billion, respectively. All investments are carried at market value.

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

The State's actuarially required and actual contributions for the defined benefit plan and the defined benefit portion of the combined plan are as follows (dollars in thousands):

Primary Government:	
(for the fiscal year ended June 30, 2003)	
Regular Employees	\$134,938
Law Enforcement Employees	<u>1,537</u>
Total.....	<u><u>\$136,475</u></u>

Component Units:	
(for the fiscal year ended June 30, 2003).	
	<u><u>\$67,718</u></u>

The number of active contributing participants for the primary government was 59,831, as of June 30, 2003.

B. State Teachers Retirement System of Ohio (STRS)

Pension Benefits

STRS is a cost-sharing, defined benefit multiple-employer public employee retirement plan, which includes a defined contribution plan, and a combined plan that includes features of both the defined benefit plan and the defined contribution plan.

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

Under the "formula benefit" calculation, the retirement allowance is based on years of credited ser-

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

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

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

Employees hired after July 1, 2001 may choose to participate in the combined plan or the defined contribution plan, in lieu of participation in the defined benefit plan. Participants in the defined contribution plan are eligible to retire at age 50. Employee and employer contributions are placed into individual member accounts, and members direct the investment of their accounts by selecting from nine professionally managed investment options. Retirees may choose to receive either a lump-sum distribution or a monthly annuity for life.

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



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

as a lump sum or as a lifetime monthly annuity at age 50.

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

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

Employer and employee required contributions to STRS are established by the Board and limited under the Ohio Revised Code to employer and employee rates of 14 percent and 10 percent, respectively, and are based on percentages of covered employees' gross salaries, which are calculated annually by the retirement system's actuary.

Contribution rates for fiscal year 2003 were 14 percent for employers and 9.3 percent for employees for the defined benefit, defined contribution, and combined plans. For the defined benefit and combined plans, 13 percent of the employer rate is used to fund pension obligations. The difference between the total employer rate and the share used to fund pension obligations is the percentage used to fund the STRS healthcare program. For the defined contribution plan, 10.5 percent of the employer's share is deposited into individual employee accounts, while 3.5 percent is paid to the defined benefit plan.

Employer contributions required and made for the last three years to the defined benefit plan (and, for the year ended June 30, 2003, the defined benefit part of the combined plan) are as follows (dollars in thousands):

For the Year Ended June 30,	Primary Government	Component Units
2003	\$7,248	\$128,174
2002	5,420	88,184
2001	5,177	93,410

Employer and employee contributions required and made for fiscal year 2003 for the defined contribution plan and the defined contribution part of the combined plan follow (dollars in thousands):

For the Fiscal Year Ended June 30, 2003		
	Employer's Contribution	Employee's Contribution
Primary Government:	\$ 96	\$ 138
Component Units:	2,224	2,734

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

Other Postemployment Benefits

The STRS plan provides comprehensive healthcare benefits to retirees and their dependents that are enrolled in the defined benefit and combined plans. Retirees are required to make healthcare premium payments at amounts that vary according to each retiree's years of credited service and choice of healthcare provider. Retirees must pay additional premiums for covered spouses and dependents. Chapter 3307, Ohio Revised Code, gives the STRS board discretionary authority over how much, if any, of associated healthcare costs are absorbed by the plan. Currently, employer contributions equal to 1.0 percent of covered payroll are allocated to pay for healthcare benefits.

Retirees enrolled in the defined contribution plan receive no postemployment healthcare benefits.

The employer contribution is financed on a pay-as-you-go basis. As of June 30, 2002 (the most recent information available), net assets available for future healthcare benefits were \$3.0 billion. Net healthcare costs paid by the primary government and its component units, for the year ended June 30, 2003, totaled approximately \$557 thousand and \$9.86 million, respectively. The number of eligible benefit recipients for STRS as a whole was 105,300, as of June 30, 2002; a breakout of the number of eligible recipients for the primary government and its component units, as of June 30, 2003, is unavailable.

C. State Highway Patrol Retirement System (SHPRS)

Pension Benefits

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

The plan issues a stand-alone financial report that includes financial statements and required supplementary information, and the State reports the plan



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

as a pension trust fund. Copies of the financial report may be obtained by writing to the Ohio State Highway Patrol Retirement System, 6161 Busch Boulevard, Suite 119, Columbus, Ohio 43229-2553, or by calling (614) 431-0781 or 1-800-860-2268.

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

Contribution rates for calendar year 2002 are as follows:

Contribution Rates	
Employee Share	Employer Share
9.50%	23.50%

During calendar year 2002, all of the employees' contributions funded pension benefits while 18.75 percent of the employer's contributions funded pension benefits. The difference in the total employer rates charged and the employer rates applicable to the funding of pension benefits is applied to the funding of postemployment healthcare benefits.

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

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

Securities traded on a national exchange are valued at the last reported sales price at the current exchange rate. The fair value of real estate investments is based on independent appraisals. For ac-

tuarial purposes, assets are valued with a method that amortizes each year's investment gain or loss over a closed, four-year period.

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

For the Year Ended December 31,	Primary Government	Percentage of Employer's Annual Pension Cost Contributed
2002	\$15,393	100%
2001	13,765	100%
2000	11,686	100%

SHPRS used the entry-age, normal actuarial cost method for the Schedule of Funding Progress for the actuarial valuation, dated December 31, 2002. Assumptions used in preparing the Schedule of Funding Progress and in determining the annual required contribution include: an 8.0 percent rate of return on investments; projected salary increase of 4.0 percent attributable to inflation and additional projected salary increases ranging from .3 percent to 3.7 percent a year attributable to seniority and merit; price inflation was assumed to be at least 3.0 percent a year; and postretirement increases each year equal to 3.0 percent after the retiree reaches age 53.

The unfunded actuarial accrued liability is being amortized using the level-percentage of projected payroll method over a closed period of 32 years.

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

Other Postemployment Benefits

In addition to providing pension benefits, SHPRS pays health insurance claims on behalf of all persons receiving a monthly pension or survivor benefit and Medicare Part B basic premiums for those eligible benefit recipients upon proof of coverage. The number of active contributing plan participants, as of December 31, 2002, was 1,548. The cost of retiree healthcare benefits is recognized as claims are incurred and premiums are paid. The calendar year 2002 expense was \$7.0 million.

Healthcare benefits are established in Chapter 5505, Ohio Revised Code, and are advance funded by the employer on the same actuarially determined basis (using the same assumptions) as are the SHPRS pension benefits, as previously discussed. In addition, the assumption that projected healthcare premiums would increase at a rate of 4.0 percent,



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

**SHPRS Schedule of Funding Progress
Last Three Calendar Years**
(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)
2002 (a)	\$663,070	\$527,604	\$135,466	79.6%	\$78,997	171.5%
2002	668,606	492,431	176,175	73.7	78,997	223.0
2001	636,715	551,279	85,436	86.6	76,344	111.9
2000 (a)	594,223	570,040	24,183	95.9	69,028	35.0
2000	607,411	570,040	37,371	93.8	69,028	54.1

(a) Change in assumption or method.

compounded annually, due to inflation, was also used in the valuation. Net assets available for benefits allocated to healthcare costs at December 31, 2002 were \$88.5 million, and included investments carried at fair value, as previously described.

As of December 31, 2002, the unfunded actuarial accrued liability for healthcare benefits, the portion of the present value of plan promises to pay benefits in the future that are not covered by future normal cost contributions, was \$73.6 million; the actuarial accrued liability for healthcare benefits at that date was \$162.1 million.

Employer contributions are made in accordance with actuarially determined requirements. The employer contribution requirement was approximately \$3.9 million or 4.75 percent of active member payroll for the period, January 1 through December 31, 2002.

D. Alternative Retirement Plan (ARP)

Pension Benefits

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

The Board of Trustees of each public institution of higher education enters into contracts with each approved retirement plan provider. Once established, full-time faculty and unclassified employees who are hired subsequent to the establishment of the ARP, or who had less than five years of service credit under the existing retirement plans, may choose to enroll in the ARP. The choice is irrevocable for as long

as the employee remains continuously employed in a position for which the ARP is available. For those employees that choose to join the ARP, any prior employee contributions that had been made to STRS or OPERS would be transferred to the ARP. The Ohio Department of Insurance has designated eight companies as being eligible to serve as plan providers for the ARP.

Ohio law requires that employee contributions be made to the ARP in an amount equal to those that would otherwise have been required by the retirement system that applies to the employee's position. Therefore, employees who would have otherwise been enrolled in STRS or OPERS would contribute 9.3 percent or 8.5 percent of their gross salaries', respectively. Employees may also voluntarily make additional contributions to the ARP.

Ohio law also requires each public institution of higher education contribute 3.5 percent of a participating employee's gross salary for the year ended June 30, 2003 to STRS in cases when the employee would have otherwise been enrolled in STRS.

For the year ended June 30, 2003, employers were not required to contribute to the ARP on behalf of employees that would otherwise have been enrolled in OPERS.

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



NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

and related investment income generated by each participant's choice of investment options.

Employer and employee contributions required and paid for the year ended June 30, 2003, totaled \$52.8 million and \$41.0 million, respectively.

NOTE 10 GENERAL OBLIGATION BONDS

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

amounts for unaccreted discount on capital appreciation bonds at issuance), of which \$1.80 billion had been issued (net of \$214 million in unaccreted discounts at issuance).

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

A 1968 constitutional amendment authorized the issuance of Highway Obligations in amounts up to \$100 million in any calendar year, with no more than \$500 million in principal amount outstanding at any one time. The aggregate of General Assembly authorizations, as of June 30, 2003, for Highway Obligations, was approximately \$1.75 billion, all of which had been issued.

A 1999 constitutional amendment provided for the issuance of Common Schools Capital Facilities Bonds and Higher Education Capital Facilities Bonds. As of June 30, 2003, the General Assembly had authorized the issuance of \$1.98 billion in Common Schools Capital Facilities Bonds, of which \$1.19 billion had been issued. As of June 30, 2003, the General Assembly had also authorized the issuance of \$1.80 billion in Higher Education Capital Facilities Bonds, of which \$1.10 billion had been issued.

Coal Research and Development Bonds and Parks, Recreation, and Natural Resources Bonds may be issued as long as the outstanding principal amounts do not exceed \$100 and \$200 million, respectively. As of June 30, 2003, the General Assembly had authorized the issuance of \$150 million in Coal Research and Development Bonds, of which \$137 million had been issued. Legislative authorizations for the issuance of Natural Resources Capital Facilities Bonds totaled \$287 million, as of June 30, 2003 of which \$240 million had been issued.

Through approval of the November 1995 amendment, voters authorized the issuance of Highway Capital Improvements Bonds in amounts up to \$220 million in any fiscal year (plus any prior fiscal years' principal amounts not issued under the new authorization), with no more than \$1.2 billion outstanding at any time. As of June 30, 2003, the General Assembly had authorized the issuance of approximately \$1.35 billion in Highway Capital Improvements Bonds, of which \$1.14 billion had been issued.

During fiscal year 2002, the State issued \$50 million in Conservation Projects Bonds for the first time. Not more than \$50 million in Conservation Projects Bonds may be issued in a fiscal year and not more than \$200 million may be issued. As of June 30, 2003, the General Assembly had authorized the issuance of approximately \$100 million in Conservation Projects Bonds, of which \$50 million had been issued.

Constitutional amendments in 1987 and 1995 allowed for the issuance of \$2.4 billion of general obligation bonds for infrastructure improvements (Infrastructure Bonds), of which no more than \$120 million may be issued in any fiscal year. As of June 30, 2003, the General Assembly had authorized \$2.04 billion of these bonds to be sold (excluding any

General obligation bonds outstanding and future general obligation debt service requirements, as of June 30, 2003, are presented in the table on the following page.

For the year ended June 30, 2003, NOTE 15 summarizes changes in general obligation bonds.



NOTE 10 GENERAL OBLIGATION BONDS (Continued)

**Primary Government-Governmental Activities
Summary of General Obligation Bonds
and Future Funding Requirements
As of June 30, 2003
(dollars in thousands)**

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Common Schools Capital Facilities	2000-03	4.2%-5.4%	2023	\$1,158,993	\$ 793,000
Higher Education Capital Facilities	2000-03	3.9%-5.4%	2023	1,057,607	698,000
Highway Capital Improvements	1997-03	3.4%-5.0%	2013	747,739	215,000
Infrastructure Improvements	1990-03	2.0%-7.6%	2023	1,320,340	240,014
Highway Obligations	1994-97	4.5%-4.8%	2005	43,500	—
Coal Research and Development	1996-02	3.9%-5.0%	2013	41,428	13,000
Natural Resources Capital Facilities	1995-03	3.0%-5.6%	2018	185,214	47,000
Conservation Projects	2002	4.3%	2017	49,021	50,000
Total General Obligation Bonds				<u>\$4,603,842</u>	<u>\$2,056,014</u>

Future Funding of Current Interest and Capital Appreciation Bonds:

Year Ending June 30,	Principal	Interest	Total
2004	\$ 344,760	\$ 195,590	\$ 540,350
2005	333,225	181,172	514,397
2006	323,035	167,140	490,175
2007	322,915	153,595	476,510
2008	324,095	139,675	463,770
2009-2013	1,363,500	501,675	1,865,175
2014-2018	783,500	246,512	1,030,012
2019-2023	602,470	75,897	678,367
Total Current Interest and Capital Appreciation Bonds	<u>4,397,500</u>	<u>\$1,661,256</u>	<u>\$6,058,756</u>

Future Funding of Variable-Rate Bonds:

Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2004	—	\$ 1,974	\$ 5,330	\$ 7,304
2005	—	2,118	5,640	7,758
2006	—	2,118	5,640	7,758
2007	—	2,118	5,640	7,758
2008	—	2,118	5,640	7,758
2009-2013	8,055	10,402	15,132	33,589
2014-2018	173,515	6,789	9,598	189,902
2019-2023	44,730	739	2,613	48,082
Total Variable-Rate Bonds	<u>226,300</u>	<u>\$28,376</u>	<u>\$55,233</u>	<u>\$309,909</u>
Total General Obligation Bonds	4,623,800			
Unamortized Discount/ (Premium), Net	34,106			
Deferred Refunding Loss	(54,064)			
Total Carrying Amount	<u>\$4,603,842</u>			

For the variable-rate bonds, using the assumption that current interest rates remain the same over their term, the above interest and net swap payment amounts are based on rates, as of June 30, 2003. As rates vary, variable-rate bond interest payments and net swap payments vary.



NOTE 10 GENERAL OBLIGATION BONDS (Continued)

As of June 30, 2003, the outstanding balance reported for Infrastructure Improvement Bonds included approximately \$226.3 million in variable-rate bonds with interest-rate swaps.

The swap counterparty with 14.1 percent of the State's total swap portfolio is rated Aaa/AAA and the swap counterparty with 85.9 percent of the State's total swap portfolio is rated Aa3/A+. Each counterparty is required to pledge collateral to a third party when their respective credit rating, as determined by specified nationally recognized credit rating agencies, falls below the trigger level defined in the swap agreement. This arrangement protects the State by mitigating the credit risk, and therefore, termination risk, inherent in the swap. Collateral on all swaps must be in the form of cash or U.S. government securities held by a third-party custodian. Net payments are made on the same date, as specified in the agreements.

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

Other details on each variable-rate bond issue are discussed below.

Infrastructure Improvements-Series 2001B

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

The bonds and the related swap agreement mature on August 1, 2021, and the swap's notional amount of \$63.9 million matches the \$63.9 million variable-

rate bonds. The swap was entered into at the same time the bonds were issued in November 2001. Starting in fiscal year 2015, the notional value of the swap and the principal amount of the associated debt decline. Under the swap, the State pays the counterparty a fixed payment of 3.65 percent and receives a variable payment based on The Bond Market Association Municipal Swap Index™ (BMA). As of June 30, 2003, the BMA index rate was .98 percent while the variable-rate on the bonds was .90 percent. In the event, the 180-day average of the BMA index rate exceeds seven percent, the counterparty can knock-out (cancel) the swap. If the counterparty exercises its option to cancel, the State would be exposed to higher floating rates.

Because interest rates have declined since execution of the swap, the swap had a negative fair value of \$9.5 million, as of June 30, 2003, based on quoted market prices. Consequently, the State was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

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

Infrastructure Improvements-Refunding Series 2003B

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

The swap's notional amount of \$104.3 million matches the \$104.3 million variable-rate bonds. The swap was entered into at the same time the bonds were issued in February 2003. The swap matures on August 1, 2008, and the Series 2003 variable-rate bonds mature on August 1, 2018. This mismatch in terms allows the State to increase its variable rate exposure after August 1, 2008, which is



NOTE 10 GENERAL OBLIGATION BONDS (Continued)

consistent with its long-term asset/liability management policy objective.

Under the swap, the State pays the counterparty a fixed payment of 2.01 percent and receives a variable payment based on the actual bond rate. As of June 30, 2003, the variable-rate on the bonds was .95 percent.

Because interest rates have declined since execution of the swap, the swap had a negative fair value of \$3.3 million, as of June 30, 2003, based on quoted market prices. Consequently, the State was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

*Infrastructure Improvements-
Refunding Series 2003D*

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

The swap's notional amount of \$58.1 million matches the \$58.1 million variable-rate bonds. The swap was entered into at the same time the bonds were issued in March 2003. The swap matures on February 1, 2010, and the Series 2003 variable-rate bonds mature on February 1, 2019. This mismatch in terms allows the State to increase its variable rate exposure after February 1, 2010, which is

consistent with its long-term asset/liability management policy objective.

Under the swap, the State pays the counterparty a fixed payment of 2.09 percent and receives a variable payment based on the actual bond rate. As of June 30, 2003, the variable-rate on the bonds was .95 percent.

Because interest rates have declined since execution of the swap, the swap had a negative fair value of \$1.5 million, as of June 30, 2003, based on quoted market prices. Consequently, the State was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

During fiscal year 2003, the State defeased a number of general obligation bond issues *in substance* when the net proceeds of refunding bonds (after payment of underwriting fees and bond issue costs) were deposited with escrow agents to provide for all future principal and interest payments on the old bonds. A resulting economic gain/(loss) from an advance refunding represents the difference between the present values of the debt service payments on the old and new debt. Details on the advance refundings for fiscal year 2003 are presented in the table on the following page.

In prior years, the Treasurer of State defeased certain Infrastructure Improvement Bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the various trust accounts' assets and liabilities for the defeased bonds are not included in the State's financial statements. As of June 30, 2003, \$32.5 million of Infrastructure Improvement Bonds are considered defeased and no longer outstanding.



NOTE 10 GENERAL OBLIGATION BONDS (Continued)

**Governmental Activities
General Obligation Bonds
Details of Advance Refundings
For the Year Ended June 30, 2003**
(dollars in thousands)

Refunding Bond Issue	Date of Refunding	Amount of Refunding Bonds Issued	Average Interest Rates of Refunding Bonds	Carrying Amount of Bonds Refunded <i>(in substance)</i>	Refunding Bond Proceeds Placed in Escrow	Reduction in Debt Service Payments	Economic Gain Resulting from Refunding
Higher Education Facilities Series 2002C	11/21/02	\$ 54,975	5.42%	\$ 56,200	\$ 63,084	\$4,896 over next 12 years	\$ 3,015
Infrastructure Improvements Series 2002A	8/15/02	59,920	5.44%	60,450	66,598	\$3,220 over next 17 years	2,791
Infrastructure Improvements Series 2003A	2/1/03	233,585	4.86%	235,680	253,837	\$9,144 over next 13 years	7,206
Infrastructure Improvements Series 2003B & C	2/26/03	122,187 ^A	3.25% ^C	122,195	134,157	\$9,161 over next 15 years	8,437
Infrastructure Improvements Series 2003D & E	3/20/03	60,804 ^B	3.21% ^C	60,805	71,089	\$5,193 over next 16 years	4,961
Natural Resources Capital Facilities Series H	8/15/02	17,640	3.48%	16,760	18,029	\$1,152 over next 8 years	901
Total.....		<u>\$549,111</u>		<u>\$552,090</u>	<u>\$606,794</u>		<u>\$27,311</u>

^A Series B is comprised of \$11,630 in serial bonds and \$104,315 in term bonds; Series C is comprised of \$6,242 in capital appreciation bonds, net of unaccreted discount of \$19,673 at issuance.

^B Series D is comprised of \$58,085 in term bonds; Series E is comprised of \$2,719 in capital appreciation bonds, net of unaccreted discount of \$13,976 at issuance.

^C True interest cost rate.

NOTE 11 REVENUE BONDS AND NOTES

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

A. Primary Government

Economic development bonds, issued by the Treasurer of State for the Office of Business Development's Direct Loan Program, provide financing for loans and loan guarantees to businesses within the

State for economic development projects that create or retain jobs in the State. The taxable bonds are backed with profits derived from the sale of spirituous liquor by the Division of Liquor Control and pledged moneys and related investment earnings held in reserve under a trust agreement with a financial institution.

Revitalization Project revenue bonds provide financing to enable the remediation or clean up of contaminated publicly or privately owned lands to allow for their environmentally safe and productive development. During fiscal year 2003, the Treasurer of State issued \$50 million in Revitalization Project bonds, which are also backed with profits derived from the sale of spirituous liquor by the Division of Liquor Control.

Since fiscal year 1998, the Treasurer of State has issued a total of \$190 million in State Infrastructure Bank Bonds for various highway construction



NOTE 11 REVENUE BONDS AND NOTES (Continued)

**Primary Government
Revenue Bonds
As of June 30, 2003**
(dollars in thousands)

	Fiscal Year Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
Governmental Activities:				
Treasurer of State:				
Economic Development	1997	6.9%-7.8%	2022	\$139,345
State Infrastructure Bank	1998-03	2.0%-5.0%	2010	256,856
Revitalization Project	2003	3.0%-5.0%	2018	54,397
Total Governmental Activities				<u>450,598</u>
Business-Type Activities:				
Bureau of Workers' Compensation	2003	1.6%-4.0%	2014	148,745
Ohio Building Authority	1986-97	4.8%-9.8%	2008	18,565
Total Business-Type Activities				<u>167,310</u>
Total Revenue Bonds				<u>\$617,908</u>

projects sponsored by the Department of Transportation. The State has pledged federal highway receipts as the primary source of moneys for meeting the principal and interest requirements on the bonds.

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

Revenue bonds outstanding for the primary government, as of June 30, 2003, are presented in the table at the top of the following page.

For the year ended June 30, 2003, NOTE 15 summarizes changes in revenue bonds. Future bond service requirements for revenue bonds of the primary government, as of June 30, 2003, are presented in the table below.

In December 1998, the Treasurer of State entered into a forward purchase refunding agreement to advance refund approximately \$102 million in Series 1996 Taxable Development Assistance Bonds on October 1, 2006. Under the terms of the bond purchase agreement, the underwriter has agreed to purchase approximately \$102 million in Series 1998

**Primary Government
Future Funding Requirements for Revenue Bonds
As of June 30, 2003**
(dollars in thousands)

Year Ending June 30,	Governmental Activities			Business-Type Activities			Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 46,575	\$ 24,115	\$ 70,690	\$ 3,730	\$ 7,390	\$ 11,120	\$ 50,305	\$ 31,505	\$ 81,810
2005	47,515	21,895	69,410	9,187	9,024	18,211	56,702	30,919	87,621
2006	48,500	19,488	67,988	17,511	8,551	26,062	66,011	28,039	94,050
2007	49,585	17,060	66,645	18,656	6,255	24,911	68,241	23,315	91,556
2008	50,750	14,468	65,218	17,695	5,386	23,081	68,445	19,854	88,299
2009-2013	93,810	46,163	139,973	79,605	15,451	95,056	173,415	61,614	235,029
2014-2018	60,195	26,118	86,313	15,200	751	15,951	75,395	26,869	102,264
2019-2023	37,840	6,074	43,914	—	—	—	37,840	6,074	43,914
	434,770	175,381	610,151	161,584	52,808	214,392	596,354	228,189	824,543
Net Unamortized Premium/(Discount)....	15,828	—	15,828	11,023	—	11,023	26,851	—	26,851
Deferred Refunding Loss.....	—	—	—	(5,297)	—	(5,297)	(5,297)	—	(5,297)
Total	<u>\$450,598</u>	<u>\$175,381</u>	<u>\$625,979</u>	<u>\$167,310</u>	<u>\$52,808</u>	<u>\$220,118</u>	<u>\$617,908</u>	<u>\$228,189</u>	<u>\$846,097</u>



NOTE 11 REVENUE BONDS AND NOTES (Continued)

Taxable Development Assistance Refunding Bonds and deliver to the escrow agent on or before August 25, 2006 cash and/or direct U.S. government obligations sufficient to provide for the redemption of the refunded bonds on October 1, 2006. Because the State has not taken delivery of the proceeds from the issuance of the Series 1998 Taxable Development Assistance Refunding Bonds, as of June 30, 2003, no obligation for the refunding bonds has been included in the financial statements.

During fiscal year 2003, the Bureau of Workers' Compensation issued \$142.5 million in revenue bonds through the Ohio Building Authority. The net refunding bond proceeds in the amount of \$152.8 million (after payment of \$1.3 million in bond issue costs and underwriter's discount) and \$10.3 million in existing debt service reserve moneys were placed with an escrow agent to defease *in substance* approximately \$160 million in principal and interest for the Series 1993A William Green Building revenue bonds.

The reacquisition price of the new debt exceeded the net carrying amount of the old debt by \$5.1 million, thus resulting in a deferred refunding loss that is amortized over the life of the new debt. Interest rates on the new bonds range from 1.6 to 4.0 percent compared to interest rates on the old bonds that ranged from 3.25 to 5.13 percent.

As a result of the refunding, the Bureau reduced its total debt service requirements by \$19.3 million and obtained an economic gain of \$8.9 million.

B. Component Units

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

A portion of OWDA's outstanding bonds has been issued for the Water Pollution Control Loan Program, which provides low-cost financing to LGAs for the construction of wastewater treatment facilities. In the event pledged program revenues, which consist of interest payments from the LGAs as reimbursement for construction costs, are not sufficient to meet debt service requirements for the bonds, the General Assembly may appropriate moneys for the

full replenishment of a bond reserve. As of December 31, 2002, approximately \$736.7 million in bonds were outstanding for this program.

Future bond service requirements for the Water Pollution Control Loan Program revenue bonds, as of December 31, 2002, are as follows (dollars in thousands):

Year Ending December 31,	Principal	Interest	Total
2003	\$ 37,315	\$ 37,729	\$ 75,044
2004	33,355	35,866	69,221
2005	34,925	34,010	68,935
2006	36,585	32,099	68,684
2007	37,950	30,156	68,106
2008-2012	212,225	119,473	331,698
2013-2017	205,885	63,015	268,900
2018-2022	129,375	17,249	146,624
2023-2027	5,985	150	6,135
	733,600	369,747	1,103,347
Net Unamortized Premium/(Discount).	7,131	—	7,131
Deferred Refunding Loss	(4,022)	—	(4,022)
Total	\$736,709	\$369,747	\$1,106,456

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

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

Of the outstanding revenue bonds and notes reported for the OWDA component unit fund, approximately \$107.4 million in bonds had adjustable interest rates that are reset weekly at rates determined by the remarketing agency. As of December 31, 2002, the rates for \$100.4 million and \$7 million of the variable-rate bonds were 1.5 percent and 1.64 percent, respectively.

Future bond service requirements for revenue bonds and notes reported for the discretely presented component units, as of June 30, 2003, are presented in the table on the following page.



NOTE 11 REVENUE BONDS AND NOTES (Continued)

**Component Units
Future Funding Requirements for Revenue Bonds
As of June 30, 2003
(dollars in thousands)**

Year Ending December 31 or June 30,	Ohio Water Development Authority (12/31/02)			Ohio State University			University of Cincinnati		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2003.....	\$ 105,895	\$ 80,411	\$ 186,306						
2004.....	110,790	75,222	186,012	\$343,471	\$ 13,220	\$356,691	\$ 35,407	\$ 24,850	\$ 60,257
2005.....	103,995	70,152	174,147	9,790	10,605	20,395	17,746	23,929	41,675
2006.....	102,390	65,019	167,409	9,462	10,235	19,697	21,121	23,178	44,299
2007.....	103,345	59,921	163,266	9,624	9,856	19,480	21,935	22,255	44,190
2008.....	—	—	—	12,085	9,452	21,537	20,705	21,221	41,926
2008-2012.....	446,680	230,409	677,089	—	—	—	—	—	—
2009-2013.....	—	—	—	52,865	39,476	92,341	101,360	91,297	192,657
2013-2017.....	374,670	121,195	495,865	—	—	—	—	—	—
2014-2018.....	—	—	—	39,434	27,541	66,975	113,989	64,137	178,126
2018-2022.....	237,865	38,628	276,493	—	—	—	—	—	—
2019-2023.....	—	—	—	34,165	17,389	51,554	91,405	34,950	126,355
2023-2027.....	34,635	2,881	37,516	—	—	—	—	—	—
2024-2028.....	—	—	—	27,780	9,708	37,488	64,574	14,623	79,197
2029-2033.....	—	—	—	21,955	2,051	24,006	23,420	2,080	25,500
	<u>1,620,265</u>	<u>743,838</u>	<u>2,364,103</u>	<u>560,631</u>	<u>149,533</u>	<u>710,164</u>	<u>511,662</u>	<u>322,520</u>	<u>834,182</u>
Net Unamortized Premium/(Discount)....	18,984	—	18,984	—	—	—	(1,886)	—	(1,886)
Deferred Refunding Loss.....	(24,285)	—	(24,285)	—	—	—	—	—	—
Total.....	<u>\$1,614,964</u>	<u>\$743,838</u>	<u>\$2,358,802</u>	<u>\$560,631</u>	<u>\$149,533</u>	<u>\$710,164</u>	<u>\$509,776</u>	<u>\$322,520</u>	<u>\$832,296</u>

Year Ending December 31 or June 30,	Kent State University			Other Component Units			Total Component Units		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2003.....							\$ 105,895	\$ 80,411	\$ 186,306
2004.....	\$ 1,815	\$ 11,946	\$ 13,761	\$ 56,635	\$ 36,575	\$ 93,210	548,118	161,813	709,931
2005.....	1,860	11,860	13,720	33,204	34,487	67,691	166,595	151,033	317,628
2006.....	1,715	11,771	13,486	33,181	33,050	66,231	167,869	143,253	311,122
2007.....	2,790	11,689	14,479	34,293	32,447	66,740	171,987	136,168	308,155
2008.....	2,720	11,543	14,263	32,552	31,004	63,556	68,062	73,220	141,282
2008-2012.....	—	—	—	—	—	—	446,680	230,409	677,089
2009-2013.....	22,290	55,399	77,689	164,369	129,047	293,416	340,884	315,219	656,103
2013-2017.....	—	—	—	—	—	—	374,670	121,195	495,865
2014-2018.....	40,515	47,432	87,947	146,190	87,626	233,816	340,128	226,736	566,864
2018-2022.....	—	—	—	—	—	—	237,865	38,628	276,493
2019-2023.....	52,290	35,858	88,148	97,866	55,630	153,496	275,726	143,827	419,553
2023-2027.....	—	—	—	—	—	—	34,635	2,881	37,516
2024-2028.....	67,495	22,018	89,513	91,443	31,513	122,956	251,292	77,862	329,154
2029-2033.....	80,900	7,395	88,295	91,469	11,515	102,984	217,744	23,041	240,785
	<u>274,390</u>	<u>226,911</u>	<u>501,301</u>	<u>781,202</u>	<u>482,894</u>	<u>1,264,096</u>	<u>3,748,150</u>	<u>1,925,696</u>	<u>5,673,846</u>
Net Unamortized Premium/(Discount)....	—	—	—	6,506	—	6,506	23,604	—	23,604
Deferred Refunding Loss.....	—	—	—	—	—	—	(24,285)	—	(24,285)
Total.....	<u>\$274,390</u>	<u>\$226,911</u>	<u>\$501,301</u>	<u>\$787,708</u>	<u>\$482,894</u>	<u>\$1,270,602</u>	<u>\$3,747,469</u>	<u>\$1,925,696</u>	<u>\$5,673,165</u>



NOTE 12 SPECIAL OBLIGATION BONDS

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

OBA bonds finance the capital costs of categories of facilities including correctional facilities and office buildings for state departments and agencies and, in some cases, related facilities for local governments.

Under the authority of Chapter 154, Ohio Revised Code, the Treasurer of State is the issuer of special obligation bonds that finance the cost of capital facilities for state-supported institutions of higher education, mental health and retardation institutions, and parks and recreation. Prior to September 14, 2000, when House Bill 640 became effective and reassigned the issuing authority for these obligations to the Treasurer of State, the Ohio Public Facilities Commission issued the Chapter 154 bonds.

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

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

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

Special obligation bonds outstanding and bonds authorized but unissued, as of June 30, 2003, are presented in the table below.

For the year ended June 30, 2003, NOTE 15 summarizes changes in special obligation bonds.

**Primary Government-Governmental Activities
Special Obligation Bonds
As of June 30, 2003
(dollars in thousands)**

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Ohio Building Authority	1986-03	2.0%-9.8%	2022	\$2,234,175	\$603,710
Treasurer of State:					
Chapter 154 Bonds:					
Higher Education Facilities	1994-03	3.2%-6.0%	2013	1,319,818	—
Mental Health Facilities.....	1993-03	3.1%-6.0%	2018	300,994	77,915
Parks and Recreation Facilities	1993-03	2.5%-5.5%	2017	106,392	48,100
Elementary and Secondary Education ...	1997-99	4.0%-5.6%	2008	132,235	—
Total Special Obligation Bonds.....				<u>\$4,093,614</u>	<u>\$729,725</u>



NOTE 12 SPECIAL OBLIGATION BONDS (Continued)

Future special obligation debt service requirements, as of June 30, 2003, are as follows (dollars in thousands):

Year Ending June 30,	Principal	Interest	Total
2004	\$ 463,570	\$ 197,051	\$ 660,621
2005	448,708	182,732	631,440
2006	438,569	159,911	598,480
2007	436,249	130,200	566,449
2008	420,640	109,380	530,020
2009-2013	1,312,735	307,924	1,620,659
2014-2018	470,855	81,860	552,715
2019-2023	90,289	7,514	97,803
	<u>4,081,615</u>	<u>1,176,572</u>	<u>5,258,187</u>
Net Unamortized Premium/ (Discount).....	76,446	—	76,446
Deferred Refunding Loss	<u>(64,447)</u>	<u>—</u>	<u>(64,447)</u>
Total	<u>\$4,093,614</u>	<u>\$1,176,572</u>	<u>\$5,270,186</u>

bond issues *in substance* when the net proceeds of refunding bonds (after payment of underwriting fees and bond issue costs) were deposited with escrow agents to provide for all future principal and interest payments on the old bonds. A resulting economic gain/(loss) from an advance refunding represents the difference between the present values of the debt service payments on the old and new debt. Details on the advance refundings for fiscal year 2003 are presented in the table below.

In prior years, the OBA and the Treasurer of State defeased certain bond issues by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the various trust accounts' assets and liabilities for the defeased bonds are not included in the State's financial statements. As of June 30, 2003, \$379.3 million and \$567.4 million of OBA and Chapter 154 special obligation bonds, respectively, are considered defeased and no longer outstanding.

During fiscal year 2003, the OBA and the Treasurer of State defeased a number of special obligation

**Governmental Activities
Special Obligation Bonds
Details of Advance Refundings
For the Year Ended June 30, 2003**
(dollars in thousands)

Refunding Bond Issue	Date of Refunding	Amount of Refunding Bonds Issued	Average Interest Rates of Refunding Bonds	Carrying Amount of Bonds Refunded <i>(in substance)</i>	Refunding Bond Proceeds Placed in Escrow	Reduction in Debt Service Payments	Economic Gain Resulting from Refunding
Ohio Building Authority:							
Adult Correctional Building 2002 Series B	9/27/02	\$ 90,560	3.7%	\$ 91,000	\$102,441	\$5,235 over next 14 years	\$ 4,064
Chapter 154 Bonds:							
Higher Education Facilities Series II-2002A	8/15/02	253,275	3.5%	260,300	276,854	\$7,218 over next 10 years	6,657
Mental Health Facilities Series II-2002B	8/15/02	38,065	3.1%	39,175	41,133	\$1,051 over next 8 years	896
Parks & Recreation Facilities Series II-2002B	8/15/02	9,675	2.5%	9,400	9,770	\$323 over next 5 years	331
Higher Education Facilities Series II-2003A	2/1/03	36,065	3.2%	37,000	39,561	\$826 over next 7 years	369
Mental Health Facilities Series II-2003A	2/1/03	8,215	3.4%	8,310	8,992	\$154 over next 8 years	92
Parks & Recreation Facilities Series II-2003A	2/1/03	6,425	3.6%	5,830	6,335	\$193 over next 9 years	92
Total.....		<u>\$442,280</u>		<u>\$451,015</u>	<u>\$485,086</u>		<u>\$12,501</u>



NOTE 13 CERTIFICATES OF PARTICIPATION

As of June 30, 2003, approximately \$7.4 million in certificate of participation (COP) obligations were reported in governmental activities.

In fiscal year 1992, the Ohio Department of Transportation participated in the issuance of \$8.7 million of COP obligations to finance the acquisition of the Panhandle Rail Line Project. During fiscal year 1996, the Department also participated in the issuance of \$10.2 million in COP obligations to provide assistance to the Rickenbacker Port Authority for facility improvements at the Rickenbacker International Airport in Franklin and Pickaway counties.

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

Obligations outstanding for the primary government under COP financing arrangements, as of June 30, 2003, are presented in the first table below.

As of June 30, 2003, the primary government's future commitments under the COP financing arrangements are as follows (dollars in thousands):

Year Ending June 30,	Principal	Interest	Total
2004	\$ 890	\$ 465	\$1,355
2005	945	408	1,353
2006	1,005	348	1,353
2007	800	285	1,085
2008	520	242	762
2009-2012..	3,210	609	3,819
Total	<u>\$7,370</u>	<u>\$2,357</u>	<u>\$9,727</u>

For the year ended June 30, 2003, NOTE 15 summarizes changes in COP obligations.

For the State's component units, approximately \$8.8 million in COP obligations are reported in the component unit funds. The obligations finance building construction costs at the Ohio State University and University of Cincinnati.

As of June 30, 2003, future commitments under the COP financing arrangements for the State's component units are detailed in the second table below.

**Primary Government — Governmental Activities
Certificate of Participation Obligations
As of June 30, 2003
(dollars in thousands)**

	Fiscal Year Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
Department of Transportation:				
Panhandle Rail Line Project	1992	6.5%	2012	\$5,510
Rickenbacker Port Authority Improvements.....	1996	6.1%	2007	1,860
Total Certificates of Participation				<u>\$7,370</u>

**Component Units
Future Funding Requirements for Certificate of Participation Obligations
As of June 30, 2003
(dollars in thousands)**

Year Ending June 30,	Ohio State University			University of Cincinnati			Total Component Units		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 980	\$ 361	\$ 1,341	\$ 90	\$ 51	\$ 141	\$1,070	\$ 412	\$ 1,482
2005	720	321	1,041	90	46	136	810	367	1,177
2006	355	293	648	90	41	131	445	334	779
2007	360	277	637	90	36	126	450	313	763
2008	390	260	650	95	31	126	485	291	776
2009-2013.....	2,230	1,001	3,231	475	78	553	2,705	1,079	3,784
2014-2018.....	2,845	373	3,218	—	—	—	2,845	373	3,218
Total	<u>\$7,880</u>	<u>\$2,886</u>	<u>\$10,766</u>	<u>\$ 930</u>	<u>\$ 283</u>	<u>\$1,213</u>	<u>\$8,810</u>	<u>\$3,169</u>	<u>\$11,979</u>



NOTE 14 OTHER NONCURRENT LIABILITIES

As of June 30, 2003, in addition to bonds and certificate of participation obligations discussed in NOTES 10 through 13, the State reports the following non-current liabilities in its financial statements (dollars in thousands):

Governmental Activities:	
Compensated Absences	\$ 383,637
Capital Leases Payable	4,888
Litigation Liabilities	10,000
Liability for Escheat Property	141,328
Total Governmental Activities	539,853
Business-Type Activities:	
Compensated Absences	34,580
Capital Leases Payable	44,151
Workers' Compensation:	
Deferred Revenue	402,436
Benefits Payable	14,307,371
Other	1,832,271
Deferred Prize Awards Payable	929,225
Tuition Benefits Payable	1,080,500
Workers Compensation Claims-	
Auditor of State's Office	7,828
Total Business-Type Activities	18,638,362
Total Primary Government	\$19,178,215
Component Units:	
Compensated Absences	\$ 220,940
Capital Leases Payable	201,190
Intergovernmental Payable	2,133,542
Deferred Revenue	129,223
Other	194,111
Total Component Units	\$ 2,879,006

For the year ended June 30, 2003, 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, 2003, was \$418.2 million, of which \$383.6 million is allocable to governmental activities and \$34.6 million is allocable to business-type activities.

As of June 30, 2003, \$220.9 million of the "Other Noncurrent Liabilities" balance reported for component units represents compensated absences.

B. Lease Agreements

The State's primary government leases office buildings and office and computer equipment. Although the lease terms vary, most leases are renewable subject to biennial appropriations by the General Assembly. If the likelihood of the exercise of a fiscal funding clause in the lease agreement is, in the management's judgment, remote, then the lease is

considered noncancelable for financial reporting purposes and is reported as a fund expenditure/expense for operating leases or as a liability for capital leases.

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

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

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

The primary government's total operating lease expenditures/expenses for fiscal year 2003 were approximately \$94.3 million.

Future minimum lease commitments for operating leases and capital leases judged to be noncancelable, as of June 30, 2003, are as follows (dollars in thousands):

<u>Primary Government</u>	
Year Ending June 30,	Operating Leases
2004	\$4,596
2005	1,372
2006	82
2007	8
2008	3
Total minimum lease payments	\$6,061

<u>Capital Leases</u>			
Year Ending June 30,	Govern- mental Activities	Business- Type Activities	Total
2004	\$1,971	\$16,115	\$18,086
2005	1,470	16,115	17,585
2006	1,158	16,114	17,272
2007	740	7	747
2008	413	6	419
Total Mini- mum Lease Payments	5,752	48,357	54,109
Amount for interest	(864)	(4,206)	(5,070)
Present Value of Net Mini- mum Lease Payments	\$4,888	\$44,151	\$49,039



NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

As of June 30, 2003, the primary government had the following capital assets under capital leases (dollars in thousands):

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Equipment....	\$7,748	\$69,460	\$77,208
Vehicles.....	113	—	113
Total	<u>\$7,861</u>	<u>\$69,460</u>	<u>\$77,321</u>

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

Capital leases are reported under the "Refund and Other Liabilities" account in the proprietary funds. For the component units, capital lease obligations are included under the "Other Liabilities" account. Future minimum lease commitments for capital leases judged to be noncancelable and capital assets under capital leases for the component unit funds, as of June 30, 2003, are presented in the table below.

C. Litigation Liabilities

In instances when the unfavorable outcome of pending litigation has been assessed to be probable, liabilities are recorded in the financial statements. As of June 30, 2003, \$10 million in liabilities ultimately payable from various governmental funds has been recorded for this purpose.

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

D. Liability for Escheat Property

The State records a liability for escheat property to the extent that it is probable that the escheat property will be reclaimed and paid to claimants. As of June 30, 2003, this liability totaled approximately \$141.3 million.

E. Workers' Compensation

Deferred Revenue

Deferred revenue in the amount of \$402.4 million is reported as a noncurrent liability in the Workers' Compensation Enterprise Fund. This balance represents employer assessments for disabled workers benefits and for self-insuring employers guaranty deposits received or in the course of collection, but not yet recognized.

Benefits Payable

As discussed in NOTE 20A., the Workers' Compensation Enterprise Fund provides benefits to employees for losses sustained from job-related injury, disease, or death. The Bureau has computed a reserve for compensation, as of June 30, 2003, in the amount of approximately \$14.3 billion. The reserve, which includes estimates for reported claims and claims incurred but not reported, is included in the "Benefits Payable" balance reported for the enterprise fund.

**Component Units
Future Funding Requirements for Capital Lease Obligations
and Capital Assets Acquired Under Leases
As of June 30, 2003
(dollars in thousands)**

Year Ending June 30,	Ohio State University	University of Cincinnati	Other Component Units	Total Component Units
2004.....	\$ 5,411	\$ 11,047	\$12,729	\$ 29,187
2005.....	4,750	11,046	9,561	25,357
2006.....	4,605	11,197	8,155	23,957
2007.....	3,065	11,647	6,662	21,374
2008.....	740	11,862	5,254	17,856
2009-2013	822	58,729	12,126	71,677
2014-2018	—	46,584	394	46,978
2019-2023	—	59,434	—	59,434
Total Minimum Lease Payments....	19,393	221,546	54,881	295,820
Amount for Interest.....	(1,670)	(86,284)	(6,676)	(94,630)
Present Value of Net Minimum Lease Payments.....	<u>\$17,723</u>	<u>\$135,262</u>	<u>\$48,205</u>	<u>\$201,190</u>
Land.....	\$ —	\$ —	\$ 140	\$ 140
Buildings.....	—	140,338	7,441	147,779
Land Improvements.....	—	—	785	785
Equipment.....	31,740	—	73,697	105,437
Total.....	<u>\$31,740</u>	<u>\$140,338</u>	<u>\$82,063</u>	<u>\$254,141</u>



NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

F. Deferred Prize Awards Payable

Deferred prize awards payable in installments over future years totaling approximately \$929.2 million, as of June 30, 2003, are reported at present value based upon interest rates the Treasurer of State provides the Lottery Commission Enterprise Fund. The interest rates, ranging from 4.0 to 11.7 percent, represent the expected long-term rate of return on the assets restricted for the payment of deferred prize awards. Once established for a particular deferred prize award, the interest rate does not fluctuate with changes in the expected long-term rate of return. The difference between the present value and gross amount of the obligations is amortized into income over the terms of the obligations using the interest method.

The present value of future payments of unpaid prize awards, as of June 30, 2003, is as follows (dollars in thousands):

Year Ending June 30,	
2004.....	\$ 142,713
2005.....	136,504
2006.....	127,126
2007.....	116,039
2008.....	100,569
2009-2013.....	349,280
2014-2018.....	302,376
2019-2023.....	177,370
	1,451,977
Unamortized Discount.....	<u>(522,752)</u>
Net Prize Liability	<u>\$ 929,225</u>

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

G. Tuition Benefits Payable

The actuarial present value of future tuition benefits payable from the Tuition Trust Authority Enterprise Fund were \$1.08 billion, as of June 30, 2003. The valuation method reflects the present value of estimated tuition benefits that will be paid in future years and is adjusted for the effects of projected tuition increases at state universities and state community colleges and termination of plan participation.

The following assumptions were used in the actuarial determination of tuition benefits payable: 7 percent rate of return, compounded annually, on the investment of current and future assets; a projected annual tuition increase of 16.2 percent and 10 percent annually thereafter; and a 2.5 percent Consumer Price Index inflation rate. The projected tuition growth rates represent a change in the assumption for annual tuition growth from 10 percent for

2004, nine percent for 2005, and 6.5 percent annually thereafter. The effect of changes in assumptions are summarized below (dollars in millions):

Actuarial Deficit, as of June 30, 2002	\$ (23.8)
Interest on the Deficit at 7.5 Percent	(1.8)
Recognition of Shortfall	
in Investment Returns	(25.0)
Additional Deficit from New Unit Purchases ..	(12.5)
Credits Redeemed at Lower Rate2
Higher-Than-Assumed Tuition Increase	(.8)
Budget Savings6
Fewer-Than-Expected Units/	
Credits Redeemed	(5.5)
Interest Gain on Late Tuition Payouts4
Change in Investment Return	(31.1)
Changes in Annual Tuition Growth Assumption ..	(174.3)
Other	2.4
	<hr/>
Actuarial Deficit, as of June 30, 2003 -Before	
Actuarial Present Value (APV) Basis Points	
Revenue	(271.2)
APV of Payments from Variable Program	34.8
	<hr/>
Actuarial Deficit, as of June 30, 2003	<u>\$ (236.4)</u>

As of June 30, 2003, the actuarial value of net assets available for payment of the tuition benefits payable was \$809.3 million. In determining the actuarial value of net assets available, the Authority has applied the smoothed methodology. This methodology recognizes annually one-third of the difference between assets at fair value and the expected assets based on the actuarial investment return assumption. Consequently, the assets used to determine the program's surplus are not the same as the market or cost value of the program's assets reported in the Authority's financial statements.

Other Liabilities

The Workers' Compensation Enterprise Fund reports approximately \$1.83 billion in other noncurrent liabilities, as of June 30, 2003, of which 1.) \$1.67 billion is comprised of the compensation adjustment expenses liability for estimated future expenses to be incurred in the settlement of claims, as discussed further in NOTE 20A., 2.) \$82.9 million represents premium payment security deposits collected in advance from private employers to reduce credit risk for premiums collected in subsequent periods, and 3.) \$75.5 million consists of other miscellaneous liabilities.

Additionally, the Office of the Auditor of State Enterprise Fund reports \$7.8 million in other liabilities for estimated workers' compensation claims payable. For the payment of the claims, the General Fund transfers resources to the Office of the Auditor of State Enterprise Fund. As claims expenses are incurred, transfers from the General Fund are accrued.



NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

Accordingly, the General Fund reported an interfund payable to the Bureau of Workers' Compensation Enterprise Fund in an amount equal to the workers' compensation claims payable reported in the Office of Auditor of State Enterprise Fund, as of June 30, 2003 (See NOTE 7A.).

mental payable balance totaling approximately \$2.13 billion for long-term funding contracts the Commission has with local school districts. The contracts commit the State to cover the costs of construction of facilities of the school districts once the districts have met certain eligibility requirements.

H. Intergovernmental Payable

As of June 30, 2003, the School Facilities Commission Component Unit Fund reports an intergovern-

NOTE 15 CHANGES IN NONCURRENT LIABILITIES

Primary Government

Changes in noncurrent liabilities, for the year ended June 30, 2003, are presented for the primary government in the following table.

**Primary Government
Changes in Noncurrent Liabilities
For the Fiscal Year Ended June 30, 2003
(dollars in thousands)**

	Balance July 1, 2002 (as restated)	Additions	Reductions	Balance June 30, 2003	Amount Due Within One Year
Governmental Activities:					
Bonds and Notes Payable:					
General Obligation Bonds (NOTE 10).....	\$ 3,771,129	\$1,756,488	\$ (923,775)	\$ 4,603,842	\$ 344,835
Revenue Bonds (NOTE 11)	297,638	199,367	(46,407)	450,598	46,985
Special Obligations (NOTE 12)	4,389,102	669,617	(965,105)	4,093,614	473,184
Total Bonds and Notes Payable	<u>8,457,869</u>	<u>2,625,472</u>	<u>(1,935,287)</u>	<u>9,148,054</u>	<u>865,004</u>
Certificates of Participation (NOTE 13)	9,900	—	(2,530)	7,370	890
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences	381,929	335,659	(333,951)	383,637	50,235
Capital Leases Payable	3,933	3,391	(2,436)	4,888	1,593
Litigation Liabilities	30,000	10,000	(30,000)	10,000	—
Liability for Escheat Property	103,590	80,346	(42,608)	141,328	44,440
Total Other Noncurrent Liabilities	<u>519,452</u>	<u>429,396</u>	<u>(408,995)</u>	<u>539,853</u>	<u>96,268</u>
Governmental Activities-Noncurrent Liabilities	<u>8,987,221</u>	<u>3,054,868</u>	<u>(2,346,812)</u>	<u>9,695,277</u>	<u>962,162</u>
Business-Type Activities:					
Bonds and Notes Payable:					
Revenue Bonds (NOTE 11)	190,723	196,895	(220,308)	167,310	3,730
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences	33,551	32,193	(31,164)	34,580	1,467
Capital Leases Payable	57,171	29	(13,049)	44,151	13,841
Workers' Compensation:					
Deferred Revenue	413,086	40,263	(50,913)	402,436	14,535
Benefits Payable	13,267,172	3,196,199	(2,156,000)	14,307,371	1,688,700
Other:					
Adjustment Expenses Liability	1,620,334	164,370	(111,000)	1,673,704	450,738
Premium Payment Security Deposits	81,272	4,397	(2,678)	82,991	—
Miscellaneous	74,513	70,594	(69,531)	75,576	74,502
Deferred Prize Awards Payable	997,944	76,963	(145,682)	929,225	82,609
Tuition Benefits Payable	738,200	381,239	(38,939)	1,080,500	70,900
Workers' Compensation Claims-					
Auditor of State's Office	4,013	3,815	—	7,828	443
Total Other Noncurrent Liabilities	<u>17,287,256</u>	<u>3,970,062</u>	<u>(2,618,956)</u>	<u>18,638,362</u>	<u>2,397,735</u>
Business-Type Activities-Noncurrent Liabilities	<u>17,477,979</u>	<u>4,166,957</u>	<u>(2,839,264)</u>	<u>18,805,672</u>	<u>2,401,465</u>
Total Primary Government	<u>\$26,465,200</u>	<u>\$7,221,825</u>	<u>\$(5,186,076)</u>	<u>\$28,500,949</u>	<u>\$3,363,627</u>



NOTE 15 CHANGES IN NONCURRENT LIABILITIES (Continued)

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

For fiscal year 2003, the State's primary government included interest expense on its debt issues in the following governmental functions rather than reporting it separately as interest expense. The related borrowings are essential to the creation or continuing existence of the programs they finance. The various state subsidy programs supported by the borrowings provide direct state assistance to local governments for their respective capital construction or research projects. None of the financing provided under these programs benefits the general operations of the primary government, and accordingly, such expense is not reported separately on

the Statement of Activities under the expense category for interest on long-term debt.

	<i>(dollars in thousands)</i>
Governmental Activities:	
Primary, Secondary and Other Education	\$ 59,010
Higher Education Support	115,611
Environmental Protection and Natural Resources	368
Transportation	4
Community and Economic Development	17,256
Intergovernmental	<u>87,716</u>
Total Interest Expense	
Charged to Governmental Functions .	<u><u>\$279,965</u></u>

Component Units

Changes in noncurrent liabilities, for the year ended June 30, 2003 (December 31, 2002 for the Ohio Water Development Authority), are presented in the following table for the State's discretely presented component units.

**Component Units
Changes in Noncurrent Liabilities
For the Fiscal Year Ended June 30, 2003**
(dollars in thousands)

	Balance July 1, 2002 (as restated)	Additions	Reductions	Balance June 30, 2003	Amount Due Within One Year
Bonds and Notes Payable:					
Revenue Bonds (NOTE 11):					
Ohio Water Development Authority	\$ 1,420,920	\$ 624,097	\$ (430,053)	\$ 1,614,964	\$ 105,653
Ohio State University	551,319	124,497	(115,185)	560,631	343,471
University of Cincinnati	427,684	117,806	(35,714)	509,776	35,531
All Other Component Units	880,333	320,390	(138,625)	1,062,098	58,775
Total Bonds and Notes Payable	<u>3,280,256</u>	<u>1,186,790</u>	<u>(719,577)</u>	<u>3,747,469</u>	<u>543,430</u>
Certificates of Participation (NOTE 13):					
Ohio State University	8,805	—	(925)	7,880	980
University of Cincinnati	1,180	—	(250)	930	90
Total Certificates of Participation	<u>9,985</u>	<u>—</u>	<u>(1,175)</u>	<u>8,810</u>	<u>1,070</u>
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences:					
Ohio State University	61,327	8,140	(4,926)	64,541	4,926
University of Cincinnati	56,662	2,959	(1,156)	58,465	30,734
All Other Component Units	90,033	34,474	(26,573)	97,934	26,952
Total Compensated Absences	<u>208,022</u>	<u>45,573</u>	<u>(32,655)</u>	<u>220,940</u>	<u>62,612</u>
Capital Leases Payable:					
Ohio State University	20,982	2,497	(5,756)	17,723	4,755
University of Cincinnati	138,317	—	(3,055)	135,262	4,111
All Other Component Units	42,783	19,162	(13,740)	48,205	10,807
Total Capital Leases Payable	<u>202,082</u>	<u>21,659</u>	<u>(22,551)</u>	<u>201,190</u>	<u>19,673</u>
Intergovernmental Payable:					
School Facilities Commission	1,343,734	1,385,531	(595,723)	2,133,542	748,200
Deferred Revenue:					
Ohio State University	103,775	1,365,221	(1,371,322)	97,674	89,674
All Other Component Units	28,862	29,944	(27,257)	31,549	29,851
Total Deferred Revenue	<u>132,637</u>	<u>1,395,165</u>	<u>(1,398,579)</u>	<u>129,223</u>	<u>119,525</u>

(Continued)



NOTE 15 CHANGES IN NONCURRENT LIABILITIES (Continued)

Component Units
Changes in Other Noncurrent Liabilities (Continued)
For the Fiscal Year Ended June 30, 2003
(dollars in thousands)

	Balance July 1, 2002 (as restated)	Additions	Reductions	Balance June 30, 2003	Amount Due Within One Year
Other Liabilities:					
Ohio State University.....	139,518	19,497	(50,279)	108,736	4,571
University of Cincinnati.....	29,693	98,484	(95,830)	32,347	342
All Other Component Units.....	73,304	4,499	(24,775)	53,028	757
Total Other Liabilities.....	242,515	122,480	(170,884)	194,111	5,670
Total Other Noncurrent Liabilities.....	2,128,990	2,970,408	(2,220,392)	2,879,006	955,680
Component Units-Noncurrent Liabilities	<u>\$5,419,231</u>	<u>\$4,157,198</u>	<u>\$(2,941,144)</u>	<u>\$6,635,285</u>	<u>\$1,500,180</u>

NOTE 16 NO COMMITMENT DEBT

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

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

pledge of the faith and credit of the State. Accordingly, these bonds are not reflected in the accompanying financial statements.

As of June 30, 2003, revenue bonds and notes outstanding that represent "no commitment" debt for the State are as follows (dollars in thousands):

Organization	Outstanding Amount
Ohio Department of Development:	
Ohio Housing Finance Agency	\$2,247,458
Ohio Enterprise Bond Program.....	148,195
Hospital Facilities Bonds.....	25,500
Total No Commitment Debt	<u>\$2,421,153</u>

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

A. Fund Deficits

The following individual funds reported deficits that are reflected in the State's basic financial statements, as of June 30, 2003 (dollars in thousands):

Primary Government:

Major Funds:

Tuition Trust Authority Enterprise Fund... \$(318,950)

Nonmajor Governmental Funds:

Mental Health and Retardation
Special Revenue Fund..... \$(35,776)

Local Infrastructure Improvements
General Obligations Debt Service
Fund..... (49)

Administrative Services Building
Improvements Capital Projects Fund ... (10,364)

Total \$(46,189)

Component Units:

School Facilities Commission Fund \$(1,811,881)

B. "Other" Fund Balance Reserves and Designations

Details on the "Reserved for Other" account reported for the governmental funds, as of June 30, 2003, are presented in the table on the following page.

The unreserved fund balance for nonmajor special revenue funds is designated for compensated absences in the amount of \$3.9 million, as of June 30, 2003.



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

**Primary Government
Governmental Funds — Reserved for Other
As of June 30, 2003
(dollars in thousands)**

	General Fund	Job, Family and Other Human Services	Education	Highway Operating	Nonmajor Govern- mental Funds	Total Govern- mental Funds
Other Assets — Prepays.....	\$ 16,886	\$ 1,920	\$203	\$3,185	\$ 5,723	\$ 27,917
Advances to Local Governments	16,262	31,994	—	—	—	48,256
Department of Development's Office of Minority Financial Incentives — Mini-Loan Program Deposits	171	—	—	—	—	171
Noncurrent Portion of Interfund Receivables.....	241,847	—	—	—	—	241,847
Assets in Excess of Debt Service Requirements.....	—	—	—	—	3	3
Ohio Enterprise Bond Program	—	—	—	—	10,000	10,000
Coal Research and Development Program.....	—	—	—	—	8,486	8,486
Long-Term Leases Receivable	—	—	—	—	1,643	1,643
Special Purpose Restrictions: Health and Human Services.....	—	—	—	—	1,696	1,696
Environmental Protection and Natural Resources	—	—	—	—	354	354
Community and Economic Development.....	—	—	—	—	30,106	30,106
Total Reserved for Other	<u>\$275,166</u>	<u>\$33,914</u>	<u>\$203</u>	<u>\$3,185</u>	<u>\$58,011</u>	<u>\$370,479</u>

NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS

A. Joint Ventures

Great Lakes Protection Fund (GLPF)

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

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

Annually, one-third of the GLPF's net earnings is allocated and paid to member states in proportion to their respective cash contributions to the GLPF. The allocation is based on the amount and period of time the states' contributions were invested. GLPF earnings distributions are to be used by the states to fi-

nance projects that are compatible with the GLPF's objectives. Ohio applies its distribution to the operations of its own protection program, known as the Lake Erie Protection Program, which is modeled after the GLPF. For the year ended December 31, 2002, however, the State did not receive its annual distribution since the GLPF reported an investment loss.

Required contributions and contributions received from the states, which border the Great Lakes, as of December 31, 2002 (the GLPF's year-end), are as follows (dollars in thousands):

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

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



NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

Summary financial information for the GLPF, for the fiscal year ended December 31, 2002, is as follows (dollars in thousands):

Cash and Investments	\$ 94,980
Other Assets	427
Total Assets	\$ 95,407
Total Liabilities	\$ 412
Total Fund Equity	94,995
Total Liabilities and Fund Equity ...	\$ 95,407
Total Revenues and Other Additions*	\$(17,578)
Total Expenditures	(5,244)
Net Decrease in Fund Equity	\$(22,822)

*Includes \$12,455 for unrealized loss on investments.

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 whom state officials appoint two and three members, respectively; the remaining members are appointed by the local school boards located in the respective technical college district.

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

Fiscal year 2003 expenses that were included in the "Higher Education Support" function under governmental activities in the Statement of Activities for state assistance to the local community and technical colleges are presented below (dollars in thousands).

	Operating Subsidies	Capital Subsidies	Total
Local Community Colleges:			
Cuyahoga Community College	\$ 45,077	\$ 6,840	\$ 51,917
Jefferson Community College	3,823	56	3,879
Lakeland Community College	14,915	243	15,158
Lorain County Community College.....	22,009	232	22,241
Rio Grande Community College.....	4,264	178	4,442
Sinclair Community College....	42,328	1,717	44,045
Total Local Community Colleges.....	132,416	9,266	141,682
Technical Colleges:			
Belmont Technical College.....	4,864	83	4,947
Central Ohio Technical College.....	4,439	324	4,763
Hocking Technical College	16,542	4,363	20,905
James A. Rhodes State College (formerly Lima Technical College)	7,460	11	7,471
Marion Technical College	3,722	15	3,737
Muskingum Area Technical College.....	5,159	347	5,506
North Central State College....	7,033	821	7,854
Stark State College of Technology.....	11,098	4,360	15,458
Total Technical Colleges.....	60,317	10,324	70,641
Total	\$192,733	\$19,590	\$212,323

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

B. Related Organizations

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

During fiscal year 2003, the State had the following related-party transactions with its related organizations:



NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

- The primary government distributed \$2.7 million in motor vehicle fuel excise tax collections from the Revenue Distribution Fund to the Ohio Turnpike Commission.
- Separate funds, established for the Petroleum Underground Storage Tank Release Compensation Board, the Ohio Air Quality Development Authority, and the Higher Education Facility Commission, were accounted for on the primary government's Central Accounting System. The primary purpose of the funds is to streamline payroll and other administrative disbursement processing for these organizations. The financial activities of the funds, which do not receive any funding support from the primary government, have been included in the agency funds.
- From the Job, Family and Other Human Services Fund, the Public Defender's Office paid approximately \$638 thousand in compensation to the Ohio Legal Assistance Foundation for administrative services performed under contract for the distribution of state funding to nonprofit legal aid societies. Also, during fiscal year 2003, the Ohio Legal Assistance Foundation received approximately \$1.5 million in state assistance paid from the Job, Family and Other Human Services Fund.

NOTE 19 CONTINGENCIES AND COMMITMENTS

A. Litigation

The State, its units, and employees are parties to numerous legal proceedings, which normally occur in governmental operations.

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

As previously discussed in NOTE 14C, the State has recognized \$10 million in liabilities for pending litigation, the unfavorable outcome of which has been assessed to be probable. All other legal proceedings are not, in the opinion of management after

consultation with the Attorney General, likely to have a material adverse effect on the State's financial position.

B. Federal Awards

The State of Ohio receives significant awards from the federal government in the form of grants and entitlements, including certain non-cash programs (which are not included in the basic financial statements). Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to either the Federal Single Audit or to financial compliance audits by the grantor agencies of the federal government or their designees. Disallowances and sanctions as a result of these audits may become liabilities to the State.

As a result of the fiscal year 2002 State of Ohio Single Audit (completed in February 2003), \$151.8 million of federal expenditures are in question as not being appropriate under the terms of the respective grants. The amount of expenditures, which may be ultimately disallowed by the grantor, cannot be determined at this time, and consequently, no provision for any liability or adjustments for this matter has been recognized in the State's financial statements for the fiscal year ended June 30, 2003.

C. Tax Refund Claims

As of June 30, 2003, income tax refund claims estimated in the amount of \$7 million were pending an official determination of the Tax Commissioner at the Ohio Department of Taxation. The claims arose from refund claims taxpayers filed for tax periods occurring in fiscal year 2003 and in prior years. No



NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

liability has been reported in the financial statements for this matter.

D. Construction Commitments

As of June 30, 2003, the Ohio Department of Transportation had total contractual commitments of approximately \$1.59 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 \$824.4 million, \$316.6 million, \$370 million, and \$75.4 million, respectively. As of June 30, 2003, other major non-highway construction commitments for the primary government's budgeted capital projects funds are as follows (dollars in thousands):

Mental Health/Mental Retardation	
Facilities Improvements.....	\$ 18,137
Parks and Recreation Improvements.....	20,745
Administrative Services	
Building Improvements.....	64,184
Youth Services Building Improvements.....	14,071
Transportation Building Improvements.....	76
Adult Correctional Building Improvements..	54,287
Highway Safety Building Improvements.....	14,408
Ohio Parks and Natural Resources.....	19,647
Total.....	<u>\$205,555</u>

E. Tobacco Settlement

In November 1998, the Attorneys General of 46 states, five U.S. territories, and the District of Columbia signed the Master Settlement Agreement (MSA) with the nation's largest tobacco manufacturers. This signaled the end of litigation brought by the Attorneys General against the manufacturers in 1996 for state health care expenses attributed to smoking-related claims. The remaining four states (Florida, Minnesota, Mississippi, and Texas) settled separately.

According to the MSA, participating tobacco manufacturers are required to adhere to a variety of new marketing and lobbying restrictions and provide payments to the states in perpetuity.

While Ohio's share of the total base payments to the states through 2025 will not change over time, the amount of the annual payment is subject to a number of adjustments, including an inflation adjustment and a volume adjustment. Some of these adjustments (for example, inflation) should contribute to an increase in the payments and others (for example, domestic cigarette sales volume) may decrease the payments. But the net effect of these adjustment factors on future payments is very uncertain, which makes it difficult to speculate on how different Ohio's real payments will be from the pre-adjusted base payment amounts.

In addition to the base payments, Ohio will receive payments from the Strategic Contribution Fund. The Strategic Contribution Fund was established to reward states that played leadership roles in the tobacco litigation and settlement negotiations. Allocations from the fund are based on a state's contribution to the litigation and settlement with the tobacco companies. These payments are also subject to the adjustment factors outlined in the MSA.

A schedule of pre-adjusted base payments and payments from the Strategic Contribution Fund for the State of Ohio in future years follows (dollars in thousands):

Year Ending June 30,	Pre-adjusted MSA Base Payments	Pre-adjusted Payments From the Strategic Contribution Fund	Total
2004	\$ 352,827	\$ —	\$ 352,827
2005	352,827	—	352,827
2006	352,827	—	352,827
2007	352,827	—	352,827
2008	359,829	23,950	383,779
2009-2013 ..	1,799,147	119,750	1,918,897
2014-2018 ..	1,842,520	95,800	1,938,320
2019-2023 ..	2,016,011	—	2,016,011
2024-2025 ..	806,405	—	806,405
Total	<u>\$8,235,220</u>	<u>\$239,500</u>	<u>\$8,474,720</u>

During fiscal year 2003, Ohio received \$369.6 million, which was approximately \$53.1 million or 12.6 percent less than the pre-adjusted base payment for the year. For the last four fiscal years, with fiscal year 2000 being the first year when base payments were made to the states under the settlement, the State has received a total of about \$1.47 billion, which is approximately \$167.9 million or 10.3 percent less than the total of the pre-adjusted base payments established for the last three fiscal years.

The moneys provide funding for the construction of elementary and secondary school capital facilities, new programs for smoking cessation and other health-related purposes, biomedical research and technology, and assistance to the tobacco-growing areas in Ohio. Before the end of fiscal year 2003, the State transferred \$280.5 million in tobacco settlement revenues from the Special Revenue Fund to the General Fund to help make up for a shortfall in estimated tax revenues for fiscal year 2003. Also, the General Assembly has authorized the transfer of up to an additional \$242.8 million in tobacco settlement revenues, if needed to balance the fiscal year 2004 budget in the event of continued revenue shortfalls in the General Fund.



NOTE 20 RISK FINANCING

A. Workers' Compensation Benefits

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

The "Benefits Payable" account balance reported in the Workers' Compensation Enterprise Fund, as of June 30, 2003, in the amount of approximately \$14.3 billion includes reserves for indemnity and medical claims resulting from work-related injuries or illnesses, including actuarial estimates for both reported claims and claims incurred but not reported. The liability is based on the estimated ultimate cost of settling claims, including the effects of inflation and other societal and economic factors and projections as to future events, including claims frequency, severity, persistency, and inflationary trends for medical claims reserves. The compensation adjustment expenses liability, which is included in "Other Liabilities" in the amount of approximately \$1.7 billion, is an estimate of future expenses to be incurred in the settlement of claims. The estimate for this liability is based on projected claim-related expenses, estimated costs of the managed care Health Partnership Program, and the reserve for compensation.

Management of the Ohio Bureau of Workers' Compensation and the Industrial Commission of Ohio believes that the reported liability estimates are adequate. While management uses available information to estimate liabilities, future changes to the reserves for compensation and compensation adjustment expenses may be necessary based on claims

experience and changing claims frequency and severity conditions. The methods of making such estimates and for establishing the resulting liabilities are reviewed and updated quarterly based upon current circumstances. Any adjustments resulting from changes in estimates are recognized in the current period.

Benefits payable and the compensation adjustment expenses liability have been discounted at 5.5 percent to reflect the present value of future benefit payments. The selected discount rate approximates an average yield on United States government securities with durations similar to the expected claims underlying the Fund's reserves. The undiscounted reserves for the benefits and compensation adjustment expenses totaled \$32.3 billion, as of June 30, 2003, and \$30.6 billion, as of June 30, 2002. For additional information, refer to the Fund's separate audited financial report, for the fiscal year ended June 30, 2003.

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

B. State Employee Healthcare Plans

Employees of the primary government have the option of participating in the Ohio Med Health Plan or the United Healthcare Plan, which are fully self-insured health benefit plans. Ohio Med, a preferred provider organization, was established July 1, 1989, while United Healthcare, a health maintenance organization, became a self-insured healthcare plan of the State on July 1, 2002. Medical Mutual of Ohio administers the Ohio Med plan under a claims administration contract with the primary government.

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

	Fiscal Year 2003	Fiscal Year 2002
Benefits Payable and Compensation Adjustment Expenses Liability, as of July 1	\$14,888	\$14,112
Incurred Compensation and Compensation Adjustment Benefits	2,916	2,662
Incurred Compensation and Compensation Adjustment Benefit Payments	(2,267)	(2,158)
Change in Liability Due to Decrease in Discount Rate	444	272
Benefits Payable and Compensation Adjustment Expenses Liability, as of June 30	<u>\$15,981</u>	<u>\$14,888</u>



NOTE 20 RISK FINANCING (Continued)

The United Healthcare Plan has a similar contract with the primary government to serve as claims administrator. Benefits offered under the United Healthcare Plan under the State's administration are essentially the same as the benefits offered before the plan became a self-insured arrangement for the State.

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

Governmental and proprietary funds pay a share of the costs for claims settlement based on the number of employees opting for plan participation and the type of coverage selected by participants. The payments are reported in the Payroll Withholding and Fringe Benefits Agency Fund until such time that the primary government pays the accumulated resources to Medical Mutual of Ohio or United Healthcare for claims settlement.

For governmental funds, the primary government recognizes claims as expenditures to the extent that the amounts are payable with expendable available financial resources. For governmental and business-type activities, claims are recognized in the Statement of Activities as expenses when incurred.

As of June 30, 2003, approximately \$43 million in total assets was available in the Agency Fund and on deposit with Medical Mutual to cover claims. Changes in the balance of Ohio Med health claims liabilities during the past two fiscal years are as follows (dollars in thousands):

Ohio Med Plan		
	Fiscal Year 2003	Fiscal Year 2002 <i>(as restated)</i>
Claims Liabilities, as of July 1	\$ 22,744	\$ 20,469
Incurred Claims	265,890	153,739
Claims Payments	(249,185)	(151,464)
Claims Liabilities, as of June 30	<u>\$ 39,449</u>	<u>\$ 22,744</u>

As of June 30, 2003, the resources on deposit in the Payroll Withholding and Fringe Benefits Agency Fund and on deposit with Medical Mutual of Ohio for the payment of claims under the Ohio Med Plan exceeded the estimated claims liability by approximately \$3.6 million, thereby resulting in a funding surplus. The surplus was reallocated back to the governmental and proprietary funds, with a resulting reduction in expenditures/expenses.

As of June 30, 2003, approximately \$6.8 million in total assets was available in the Agency Fund and on deposit with United Healthcare to cover claims incurred by June 30. Changes in the balance of United Healthcare claims liabilities during the past fiscal year (the year in which the plan was established) are as follows (dollars in thousands):

United Healthcare Plan	
	Fiscal Year 2003
Claims Liabilities, as of July 1	\$ —
Incurred Claims	76,077
Claims Payments	(62,440)
Claims Liabilities, as of June 30	<u>\$ 13,637</u>

As of June 30, 2003, the estimated claims liability of the United Healthcare Plan exceeded the resources on deposit in the Payroll Withholding and Fringe Benefits Agency Fund for the payment of claims by approximately \$6.8 million, thereby, resulting in a funding deficit. The net claims liability, which was payable from expendable financial resources in the governmental funds, as of June 30, 2003, was reported as a fund liability in the governmental and proprietary funds.

C. Other Risk Financing Programs

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



NOTE 21 SUBSEQUENT EVENTS

A. Bond Issuances and Authorizations

Subsequent to June 30, 2003 (December 31, 2002 for the Ohio Water Development Authority), the State issued major debt as detailed in the table below. As specified in legislation passed prior to June

30, 2003, the General Assembly approved a \$635 million increase in the bond issue authorization for the Highway Capital Improvement general obligation bonds, which became effective after June 30, 2003.

**Debt Issuances
Subsequent to June 30, 2003
(dollars in thousands)**

	Date	Interest Coupon Rates	Amount
Primary Government:			
<i>Ohio Public Facilities Commission-General Obligation Bonds:</i>			
Common Schools Capital Facilities-Series 2003B	July 22, 2003	4.4%*	\$200,000
<i>Treasurer of State-General Obligation Bonds:</i>			
Infrastructure Improvements-Series 2003F	Dec. 4, 2003		120,000
Total General Obligation Bonds.....			<u>320,000</u>
<i>Treasurer of State-Revenue Bonds:</i>			
Innovation Ohio (Taxable)-Series 2003	July 17, 2003	5.4%*	50,000
Research and Development (Taxable)-Series 2003B	Oct. 30, 2003	5.7%*	50,000
Total Revenue Bonds			<u>100,000</u>
<i>Ohio Building Authority Special Obligation Bonds:</i>			
Department of Administrative Services State Facilities-Series 2003A	July 10, 2003	4.1%*	100,000
State Facilities Refunding (DiSalle/Lausche/Ocasek)-Series 2003A	July 10, 2003	1.8%*	18,540
Total Special Obligation Bonds.....			<u>118,540</u>
Total Primary Government			<u>\$538,540</u>
Major Component Units:			
<i>Ohio Water Development Authority Revenue Bonds and Notes:</i>			
Water Pollution Control Loan Fund Water Quality - Series 2003 Refunding	June 30, 2003	3.0%-5.3%	\$161,430
Research and Development Loan Advance -Series 2003-A	August 28, 2003	Variable Rate	26,700
Total Ohio Water Development Authority			<u>188,130</u>
<i>Ohio State University General Receipts Bonds:</i>			
Series 2003B	Sept. 11, 2003	1.8%-5.2%	233,780
Series 2003C	Sept. 11, 2003	.9%-1.0%	121,295
Total Ohio State University			<u>355,075</u>
Total Major Component Units			<u>\$543,205</u>

*True Interest Cost

B. Tuition Trust Authority

In August 2003, the Board of Directors for the Tuition Trust Authority passed a resolution to limit the amount of total annual contributions participants could make the Guaranteed Savings Plan to \$2,000 per beneficiary. Later, the Authority's Board passed

a resolution, effective October 8, 2003, to temporarily suspend sales of new enrollments for the Guaranteed Savings Plan through December 31, 2004 and to temporarily suspend contributions to existing plan accounts from January 1, 2004 through December 31, 2004.

**REQUIRED
SUPPLEMENTARY
INFORMATION**



Pavement Network

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

Ohio accounts for its pavement network in two subsystems: *Priority*, which comprises interstate

highways, freeways, and multi-lane portions of the National Highway System, and *General*, which comprises two-lane routes outside of cities.

For the Priority Subsystem, it is the State's intention to maintain at least 75 percent of the pavement at a PCR level of at least 65, and to allow no more than 25 percent of the pavement to fall below a 65 PCR level. For the General Subsystem, it is the State's intention to maintain at least 75 percent of the pavement at a PCR level of at least 55, and to allow no more than 25 percent of the pavement to fall below a 55 PCR level.

Condition Assessment Data for the Pavement Network

Priority Subsystem:	PCR	Calendar Year 2002		Calendar Year 2001	
		Lane-Miles	%	Lane-Miles	%
Excellent	85-100	7,483	61.29%	6,753	55.74%
Good	75-84	2,498	20.46	2,688	22.19
Fair	65-74	1,849	15.14	2,162	17.85
Poor	Less than 65	380	3.11	511	4.22
		<u>12,210</u>	<u>100.00%</u>	<u>12,114</u>	<u>100.00%</u>

General Subsystem:	PCR	Calendar Year 2002		Calendar Year 2001	
		Lane-Miles	%	Lane-Miles	%
Excellent	85-100	11,997	39.57%	10,635	34.89%
Good	75-84	6,496	21.43	6,547	21.47
Fair	55-74	11,278	37.20	12,393	40.65
Poor	Less than 55	546	1.80	912	2.99
		<u>30,317</u>	<u>100.00%</u>	<u>30,487</u>	<u>100.00%</u>

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

	Fiscal Year 2003	Fiscal Year 2002
Priority Subsystem:		
Estimated	\$243,722	\$251,216
Actual	273,834	319,518
General Subsystem:		
Estimated	\$135,149	\$110,956
Actual	209,530	151,978



Bridge Network

The Ohio Department of Transportation conducts annual inspections of all bridges in the State's Bridge Network. The inspections cover major structural items such as piers and abutments, and assign a general appraisal condition rating from 0 (minimum) to nine (maximum) based on a composite measure of these major structural items.

It is the State's intention to maintain at least 85 percent of the square feet of deck area at a general appraisal condition rating level of at least five, and to allow no more than 15 percent of the number of square feet of deck area to fall below a general appraisal condition rating level of five.

Condition Assessment Data for the Bridge Network

	General Appraisal Rating	Calendar Year 2002		Calendar Year 2001	
		Square Feet of Deck Area	%	Square Feet of Deck Area	%
Excellent	7-9	45,143,958	56.01%	43,395,068	53.56%
Good	5-6	33,066,880	41.02	34,898,954	43.08
Fair.....	3-4	2,387,969	2.96	2,687,455	3.32
Poor	0-2	8,788	.01	30,112	.04
		<u>80,607,595</u>	<u>100.00%</u>	<u>81,011,589</u>	<u>100.00%</u>

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

	Fiscal Year 2003	Fiscal Year 2002
Estimated.....	\$180,358	\$192,105
Actual	229,077	210,084

THIS PAGE INTENTIONALLY LEFT BLANK

**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, 2003**

FEDERAL AGENCY

U.S. Department of Health and Human Services.....	\$8,417,312,726
U.S. Department of Labor.....	2,093,690,809
U.S. Department of Agriculture.....	1,486,723,543
U.S. Department of Transportation.....	968,899,169
U.S. Department of Education.....	968,519,647
U.S. Environmental Protection Agency.....	420,587,920
U.S. Department of Treasury.....	193,041,441
U.S. Department of Housing and Urban Development.....	137,266,276
Social Security Administration.....	82,964,426
U.S. Department of Justice.....	68,568,509
U.S. Department of Energy.....	23,939,525
U.S. Department of Defense.....	21,112,964
Federal Emergency Management Agency.....	20,749,075
U.S. Department of the Interior.....	19,865,102
U.S. Department of Veterans Affairs.....	19,034,854
Corporation for National and Community Service.....	8,629,038
National Foundation on the Arts and the Humanities.....	6,124,934
U.S. Small Business Administration.....	3,355,364
U.S. Equal Employment Opportunity Commission.....	3,126,134
U.S. Department of Commerce.....	2,493,651
U.S. Appalachian Regional Commission.....	879,432
U.S. General Services Administration.....	14,720
U.S. Nuclear Regulatory Commission.....	1,979
U.S. Consumer Product Safety Commission.....	475
	<hr/>
TOTAL EXPENDITURES.....	\$14,966,901,713
	<hr/> <hr/>

THIS PAGE INTENTIONALLY LEFT BLANK

**STATE OF OHIO
 SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 BY FEDERAL AGENCY AND FEDERAL PROGRAM
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE

U.S. Department of Agriculture

Food Stamp Cluster:

10.551	Food Stamps.....	\$845,203,778
10.561	State Administrative Matching Grants for Food Stamp Program.....	115,272,986
	Total Food Stamp Cluster.....	960,476,764

Child Nutrition Cluster:

10.553	School Breakfast Program.....	38,768,494
10.555	National School Lunch Program.....	178,169,065
10.556	Special Milk Program for Children.....	743,729
10.559	Summer Food Service Program for Children.....	4,286,332
	Total Child Nutrition Cluster.....	221,967,620

10	Cooperative Pest Recordkeeping Contract.....	19,564
10	Beef Quality Assurance.....	66,354
10	Pesticide Data Program.....	667,084
10	Marketing Specialty Crops.....	274,258
10	Communication Media Grant.....	496,603
10	Homeland Security -- Animal Disease Surveillance Response.....	26,545
10	Homeland Security -- CAPS.....	130,607
10	CAPS -- Emerald Ash Borer Eradication.....	210,580
10	APHIS -- Johne's Disease Program.....	4,988
10	Farmland Preservation.....	1,612,800
10.025	Plant and Animal Disease, Pest Control, and Animal Care.....	68,587
10.153	Market News.....	10,208
10.163	Market Protection and Promotion.....	1,070,625
10.353	National Rural Development Partnership.....	85,883
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection.....	4,958,273
10.550	Food Donation.....	34,344,740
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children...	191,106,959
10.558	Child and Adult Care Food Program.....	57,754,005
10.560	State Administrative Expenses for Child Nutrition.....	3,591,837
10.565	Commodity Supplemental Food Program.....	300,925
10.568	Emergency Food Assistance Program (Administrative Costs).....	2,002,372
10.570	Nutrition Services Incentive.....	3,474,937
10.572	WIC Farmers' Market Nutrition Program (FMNP).....	204,716
10.576	Senior Farmers Market Nutrition Program.....	1,287,825
10.664	Cooperative Forestry Assistance.....	434,017
10.665	School and Roads -- Grants to States.....	73,867
	Total U.S. Department of Agriculture.....	\$1,486,723,543

U.S. Department of Commerce

11.307	Economic Adjustment Assistance.....	\$186,968
11.419	Coastal Zone Management Administration Awards.....	1,859,101
11.420	Coastal Zone Management Estuarine Research Reserves.....	428,582
11.420	* Coastal Zone Management Estuarine Research Reserves.....	19,000
	Total U.S. Department of Commerce.....	\$2,493,651

U.S. Department of Defense

12	FUSRAP Oversight: Diamond Magnesium Site and Luckey Beryllim Site....	\$40,027
12.002	Procurement Technical Assistance for Business Firms.....	329,122
12.005	Donation of Federal Surplus Property.....	757,795
12.112	Payments to States in Lieu of Real Estate Taxes.....	313,540
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services.....	787,149

**STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE

U.S. Department of Defense (Continued)

12.401	National Guard Military Operations and Maintenance (O&M) Projects.....	18,830,506
12.630	Basic, Applied, and Advanced Research in Science and Engineering.....	54,825
	Total U.S. Department of Defense.....	\$21,112,964

U.S. Department of Housing and Urban Development

14.182	Lower Income Housing Assistance Program -- Section 8 Moderate Rehabilitation.....	\$50,827,785
14.227	Community Development Block Grants\Special Purpose Grants\ Technical Assistance Program.....	30,000
14.228	Community Development Block Grants/State's Program.....	54,554,369
14.231	Emergency Shelter Grants Program.....	3,166,170
14.238	Shelter Plus Care.....	168,504
14.239	HOME Investment Partnerships Program.....	26,069,379
14.241	Housing Opportunities for Persons with AIDS.....	902,659
14.246	Community Development Block Grants/Brownfields Economic Development Initiative.....	529,800
14.401	Fair Housing Assistance Program -- State and Local.....	1,017,610
	Total U.S. Department of Housing and Urban Development.....	\$137,266,276

U.S. Department of the Interior

Fish and Wildlife Cluster:

15.605	Sport Fish Restoration.....	\$5,226,578
15.611	Wildlife Restoration.....	3,602,962
	Total Fish and Wildlife Cluster.....	8,829,540
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining.....	1,785,086
15.252	Abandoned Mine Land Reclamation (AMLR) Program.....	8,398,160
15.615	Cooperative Endangered Species Conservation Fund.....	5,554
15.615	* Cooperative Endangered Species Conservation Fund.....	6,400
15.616	Clean Vessel Act.....	113,739
15.634	State Wildlife Grants.....	312,323
15.808	* U.S. Geological Survey -- Research and Data Acquisition.....	21,345
15.810	National Cooperative Geologic Mapping Program.....	392,955
	Total U.S. Department of the Interior.....	\$19,865,102

U.S. Department of Justice

16.007	State Domestic Preparedness Equipment Support Program.....	\$5,420,806
16.202	Offender Reentry Program.....	273,877
16.523	Juvenile Accountability Incentive Block Grants.....	9,188,139
16.523	* Juvenile Accountability Incentive Block Grants.....	23,115
16.540	Juvenile Justice and Delinquency Prevention -- Allocation to States.....	2,171,554
16.548	Title V -- Delinquency Prevention Program.....	1,471,283
16.549	Part E -- State Challenge Activities.....	253,167
16.550	State Justice Statistics Program for Statistical Analysis Centers.....	47,615
16.554	National Criminal History Improvement Program (NCHIP).....	2,203,965
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants.....	184,056
16.560	* National Institute of Justice Research, Evaluation, and Development Project Grants.....	14,103
16.564	Crime Laboratory Improvement -- Combined Offender DNA Index System Backlog Reduction.....	846,843
16.575	Crime Victim Assistance.....	15,124,185
16.576	Crime Victim Compensation.....	2,951,000

**STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE

U.S. Department of Justice (Continued)

16.579	Byrne Formula Grant Program.....	14,844,223
16.579	* Byrne Formula Grant Program.....	2,458,488
16.585	Drug Court Discretionary Grant Program.....	18,005
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants.....	1,411,721
16.588	Violence Against Women Formula Grants.....	3,776,531
16.592	Local Law Enforcement Block Grants Program.....	1,059,740
16.593	Residential Substance Abuse Treatment for State Prisoners.....	2,040,931
16.606	State Criminal Alien Assistance Program.....	378,613
16.607	Bulletproof Vest Partnership.....	14,784
16.609	Community Prosecution and Project Safe Neighborhoods.....	1,346
16.710	Public Safety Partnership and Community Policing Grant.....	1,716,400
16.727	Enforcing Underage Drinking Laws Program.....	352,841
16.733	National Incident Based Reporting System (NIBRS).....	321,178
	Total U.S. Department of Justice.....	\$68,568,509

U.S. Department of Labor

Employment Services Cluster:

17.207	Employment Service.....	\$29,038,930
17.801	Disabled Veterans' Outreach Program (DVOP).....	3,983,973
17.804	Local Veterans' Employment Representative Program.....	3,996,305
	Total Employment Services Cluster.....	37,019,208

WIA Cluster:

17.258	WIA Adult Program.....	50,974,012
17.259	WIA Youth Activities.....	46,727,147
17.260	WIA Dislocated Workers.....	48,399,115
	Total WIA Cluster.....	146,100,274

17.002	Labor Force Statistics.....	2,839,493
17.005	Compensation and Working Conditions.....	32,049
17.203	Labor Certification for Alien Workers.....	369,468
17.225	Unemployment Insurance.....	1,890,787,817
17.235	Senior Community Service Employment Program.....	3,945,430
17.245	Trade Adjustment Assistance -- Workers.....	4,322,941
17.249	Employment Services and Job Training Pilots--Demonstration and Research....	493,187
17.253	Welfare-to-Work Grants to States and Localities.....	95,398
17.257	One-Stop Career Center Initiatives.....	229,695
17.261	Employment and Training Administration Pilots, Demonstrations, and Research Projects.....	5,072,050
17.263	Youth Opportunity Grants.....	724,326
17.504	Consultation Agreements.....	1,401,950
17.600	Mine Health and Safety Grants.....	222,390
17.720	Employment Programs for People with Disabilities.....	32,884
17.802	Veterns' Employment Program.....	2,249
	Total U.S. Department of Labor.....	\$2,093,690,809

U.S. Department of Transportation

Federal Transit Cluster:

20.500	Federal Transit -- Capital Investment Grants.....	\$6,354,071
20.507	Federal Transit -- Formula Grants.....	3,986,725
	Total Federal Transit Cluster.....	10,340,796

**STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE

U.S. Department of Transportation (Continued)

*Highway Planning and Construction Cluster: ***

20.205	Highway Planning and Construction.....	883,673,292
20.205	* Highway Planning and Construction.....	3,356,817
23.003	Appalachian Development Highway System.....	22,660,466
	Total Highway Planning and Construction Cluster.....	909,690,575
20.005	Boating Safety Financial Assistance.....	2,513,552
20.106	Airport Improvement Program.....	11,200
20.218	National Motor Carrier Safety	5,865,703
20.219	Recreational Trails Program.....	540,376
20.505	Federal Transit -- Metropolitan Planning Grants.....	11,183,454
20.509	Formula Grants for Other Than Urbanized Areas.....	11,523,707
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	3,194,715
20.600	State and Community Highway Safety.....	12,994,707
20.600	* State and Community Highway Safety.....	230,123
20.700	Pipeline Safety.....	403,462
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	406,799
	Total U.S. Department of Transportation.....	\$968,899,169

U.S. Department of Treasury

21.000	Counter Drug Asset Forfeiture Program.....	\$8,474
21.000	Jobs and Growth Tax Relief Reconciliation Act of 2003 Section 401(B).....	193,032,967
	Total U.S. Department of Treasury.....	\$193,041,441

U.S. Appalachian Regional Commission

23.002	Appalachian Area Development (Supplemental and Direct Grants).....	\$390,596
23.008	Appalachian Local Access Road.....	300,279
23.011	Appalachian State Research, Technical Assistance, and Demonstration Projects.....	188,557
	Total U.S. Appalachian Regional Commission.....	\$879,432

U.S. Equal Employment Opportunity Commission

30.002	Employment Discrimination -- State and Local Fair Employment Practices Agency Contracts.....	\$3,126,134
	Total U.S. Equal Employment Opportunity Commission.....	\$3,126,134

General Services Administration

39.003	Donation of Federal Surplus Personal Property.....	\$14,720
	Total General Services Administration.....	\$14,720

National Foundation on the Arts and the Humanities

45.025	Promotion of the Arts -- Partnership Agreements.....	\$730,300
45.026	Promotion of the Arts -- Leadership Initiatives.....	15,000
45.310	State Library Program.....	5,379,634
	Total National Foundation on the Arts and the Humanities.....	\$6,124,934

U.S. Small Business Administration

59.037	Small Business Development Center.....	\$3,355,364
	Total U.S. Small Business Administration.....	\$3,355,364

**STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE

U.S. Department of Veterans Affairs

64.005	Grants to States for Construction of State Home Facilities.....	\$6,634,966
64.014	Veterans State Domiciliary Care.....	2,124,633
64.015	Veterans State Nursing Home Care.....	9,716,539
64.124	All-Volunteer Force Educational Assistance.....	558,716
	Total U.S. Department of Veterans Affairs.....	\$19,034,854

U.S. Environmental Protection Agency

66.001	Air Pollution Control Program Support.....	\$3,679,310
66.032	State Indoor Radon Grants.....	372,987
66.034	Surveys Studies, Investigations Demonstrations and Special Purpose Activities relating to the Clean Air Act.....	37,029
66.419	Water Pollution Control: State and Interstate Program Support.....	4,649,251
66.432	State Public Water System Supervision.....	2,767,180
66.433	State Underground Water Source Protection.....	118,310
66.454	Water Quality Management Planning.....	656,283
66.458	Capitalization Grants for Clean Water State Revolving Funds.....	327,110,557
66.460	Nonpoint Source Implementation Grants.....	5,071,581
66.460	*Nonpoint Source Implementation Grants.....	10,780
66.461	Wetlands Program Development Grants.....	410,596
66.463	Water Quality Cooperative Agreement.....	383,501
66.468	Capitalization Grants for Drinking Water State Revolving Fund.....	62,874,271
66.469	Great Lakes Program.....	49,039
66.470	Hardship Grants Program for Rural Communities.....	648,474
66.472	Beach Monitoring and Notification Program Implementation Grants.....	59,958
66.474	Water Protection Grants to States.....	26,136
66.500	Environmental Protection -- Consolidated Research.....	59,792
66.605	Performance Partnership Grants.....	517,293
66.606	Surveys, Studies, Investigations and Special Purpose Grants.....	2,194,390
66.608	State Information Grants.....	410,314
66.700	Consolidated Pesticide Enforcement Cooperative Agreements.....	240,545
66.707	TSCA Title IV State Lead Grants -- Certification of Lead-Based Paint Professionals.....	436,371
66.709	Capacity Building Grants and Cooperative Agreements for States and Tribes.....	48,598
66.801	Hazardous Waste Management State Program Support.....	4,163,967
66.802	Superfund State, Political Subdivision, and Indian Tribe Site -- Specific Cooperative Agreements.....	2,083,998
66.804	State and Tribal Underground Storage Tanks Program.....	186,800
66.805	Leaking Underground Storage Tank Trust Fund Program.....	1,315,727
66.811	Brownfield Pilots Cooperative Agreements.....	4,882
	Total U.S. Environmental Protection Agency.....	\$420,587,920

U.S. Nuclear Regulatory Commission

77.30-83-646	Nuclear Regulatory Commission.....	\$1,979
	Total U.S. Nuclear Regulatory Commission.....	\$1,979

U.S. Department of Energy

81	Cost Recovery Grants: Environmental Research.....	\$2,245,402
81	Petroleum Violation Escrow Funds.....	2,209,187
81	Agreement in Principle/COS.....	173,776
81.041	State Energy Program.....	1,777,792
81.042	Weatherization Assistance for Low-Income Persons.....	16,303,551
81.079	*Regional Biomass Energy Program	24,515

**STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE

U.S. Department of Energy (Continued)

81.086	* Conservation Research and Development.....	343,633
81.086	Conservation Research and Development.....	256,944
81.104	Office of Technology Development and Deployment for Environmental Management.....	257,383
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance.....	15,000
81.119	State Energy Program Special Projects.....	332,342
	Total U.S. Department of Energy.....	\$23,939,525

Federal Emergency Management Agency

83.105	Community Assistance Program - State Support Services Element.....	\$152,091
83.516	Disaster Assistance.....	22,270
83.536	Flood Mitigation Assistance.....	51,981
83.539	Crisis Counseling.....	49,932
83.541	Disaster Unemployment Assistance.....	48,510
83.543	Individual and Family Grants.....	15,170
83.544	Public Assistance Grants.....	13,911,055
83.547	First Responder Counter-Terrorism Training.....	56,530
83.548	Hazard Mitigation Grant.....	1,059,189
83.550	National Dam Safety Program.....	89,589
83.551	Project Impact - Building Disaster Resistant Communities.....	102,271
83.552	Emergency Management Performance Grant.....	4,390,542
83.557	Pre- Disaster Mitigation.....	170,428
83.562	State and Local All Hazard Emergency Operations Planning.....	573,076
83.563	Emergency Operations Centers.....	7,113
83.564	Citizen Corps.....	49,328
	Total Federal Emergency Management Agency.....	\$20,749,075

U.S. Department of Education

Special Education Cluster:

84.027	Special Education -- Grants to States.....	\$226,217,138
84.173	Special Education -- Preschool Grants.....	12,173,359
	Total Special Education Cluster.....	238,390,497
84.002	Adult Education -- State Grant Program.....	20,574,315
84.010	Title I Grants to Local Educational Agencies.....	320,384,073
84.011	Migrant Education -- State Grant Program.....	1,639,348
84.013	Title I Program for Neglected and Delinquent Children.....	2,044,629
84.026	Media and Captioning Services for Individuals with Disabilities.....	2,971
84.048	Vocational Education -- Basic Grants to States.....	48,113,581
84.069	Leveraging Educational Assistance Partnership.....	2,196,681
84.126	Rehabilitation Services -- Vocational Rehabilitation Grants to States.....	108,008,550
84.161	Rehabilitation Services -- Client Assistance Program.....	407,062
84.162	Immigrant Education.....	2,554
84.169	Independent Living -- State Grants.....	781,742
84.177	Rehabilitation Services -- Independent Living Services for Older Individuals Who Are Blind.....	1,299,910
84.181	Special Education -- Grants for Infants and Families with Disabilities.....	15,603,834
84.184	Safe and Drug-Free Schools and Communities -- National Programs.....	305,458
84.185	Byrd Honors Scholarships.....	1,568,132
84.186	Safe and Drug-Free Schools and Communities -- State Grants.....	16,483,760
84.187	Supported Employment Services for Individuals with Severe Disabilities.....	1,453,548
84.194	Bilingual Education Support Services.....	27,056

**STATE OF OHIO
 SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 BY FEDERAL AGENCY AND FEDERAL PROGRAM
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE

U.S. Department of Education (Continued)

84.196	Education for Homeless Children and Youth.....	1,149,114
84.206	Javits Gifted and Talented Students Education Grant Program.....	138,990
84.213	Even Start -- State Educational Agencies.....	7,771,811
84.215	Fund for the Improvement of Education.....	29,838
84.216	Capital Expenses.....	88,500
84.240	Program of Protection and Advocacy of Individual Rights.....	733,755
84.243	Tech-Prep Education.....	4,411,158
84.265	Rehabilitation Training -- State Vocational Rehabilitation Unit.....	120,616
84.276	Goals 2000 -- State and Local Education Systemic Improvement Grants.....	1,183,021
84.281	Eisenhower Professional Development State Grants.....	4,267,968
84.282	Charter Schools.....	13,604,525
84.287	Twenty-First Century Community Learning Center.....	7,217,553
84.298	Innovative Education Program Strategies.....	13,937,745
84.314	Even Start -- Statewide Family Literacy Program.....	71,447
84.318	Education Technology State Grants.....	6,508,047
84.323	Special Education -- State Program Improvement Grants for Children with Disabilities.....	1,438,443
84.330	Advanced Placement Program.....	494,895
84.331	Grants to States for Incarcerated Youth Offenders.....	438,513
84.332	Comprehensive School Reform Demonstration Program.....	8,123,783
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs.....	1,356,380
84.334	* Gaining Early Awareness and Readiness for Undergraduate Programs.....	45,000
84.336	Teacher Quality Enhancement Grants.....	349,076
84.338	Reading Excellence.....	2,266,674
84.340	Class Size Reduction.....	11,069,249
84.342	Preparing Tomorrow's Teachers to Use Technology.....	94,984
84.343	Assistive Technology - State Grants for Protection and Advocacy.....	47,324
84.346	Occupational and Employment Information State Grants.....	167,965
84.348	Title I Accountability Grants.....	4,177,630
84.352	School Renovation Grants.....	12,206,674
84.357	Reading First State Grants.....	165,177
84.358	Rural Education.....	1,129,979
84.365	English Language Acquisition Grants.....	2,431,788
84.367	Improving Teacher Quality State Grants.....	71,296,095
84.369	Grants for State Assessments and Related Activities.....	10,698,229
	Total U.S. Department of Education.....	\$968,519,647

U.S. Consumer Product Safety Commission

87.CPSC-M-01-0014	Consumer Product Safety Commission.....	\$475
	Total U.S. Consumer Product Safety Commission	\$475

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.....	\$14,446,772
93.045	Special Programs for the Aging -- Title III, Part C -- Nutrition Services.....	21,829,450
	Total Aging Cluster.....	36,276,222

Child Care Cluster:

93.575	Child Care and Development Block Grant.....	269,568,836
93.596	Child Care Mandatory and Matching Funds of the Child Care & Development Fund.....	63,711,001
	Total Child Care Cluster.....	333,279,837

**STATE OF OHIO
 SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 BY FEDERAL AGENCY AND FEDERAL PROGRAM
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE

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

Medicaid Cluster:

93.775	State Medicaid Fraud Control Units.....	2,250,942
93.777	State Survey and Certification of Health Care Providers and Suppliers.....	22,099,521
93.778	Medical Assistance Program (Medicaid).....	6,255,724,050
93.778	*Medical Assistance Program (Medicaid).....	553,519
	Total Medicaid Cluster.....	<u>6,280,628,032</u>
93	Food Sanitation Inspection Contract.....	340,356
93	Evaluation of Suicide Prevention Programs Grant.....	1,650
93	Tissue Residue Contract.....	8,027
93	*State Assessment Study.....	118,056
93	Medicated Feed Inspection.....	50,898
93.003	Public Health and Social Services Emergency Fund.....	786,663
93.006	State and Territorial and Technical assistance Capacity Development Minority HIV/Aids Demonstration Program.....	238,975
93.041	Special Programs for the Aging -- Title VII, Chapter 3 -- Programs for Prevention of Elder Abuse, Neglect, and Exploitation.....	199,054
93.042	Special Programs for the Aging -- Title VII, Chapter 2 -- Long Term Care Ombudsman Services for Older Individuals.....	561,933
93.043	Special Programs for the Aging -- Title III, Part D -- Disease Prevention and Health Promotion Services.....	807,943
93.048	Special Programs for the Aging -- Title IV and Title II-- Discretionary Projects.....	140,597
93.05-0205-OH-5002	Clinical Laboratory Improvement Amendment.....	109,844
93.05-0305-OH-5002	Clinical Laboratory Improvement Amendment.....	343,991
93.052	National Family Caregiver Support Program.....	7,179,868
93.053	Nutrition Services Incentive Program.....	1,349,064
93.110	Maternal and Child Health Federal Consolidated Programs.....	358,500
93.118	Acquired Immunodeficiency Syndrome (AIDS) Activity.....	1,072,886
93.119	Grants for Technical Assistance Activities Related to Block Grants for Community Mental Health Services - Technical Assistance Centers for Evaluation.....	14,164
93.127	Emergency Medical Services for Children.....	49,002
93.130	Primary Care Services -- Resource Coordination and Development.....	225,939
93.136	Injury Prevention & Control Research and State & Community Based Programs.....	99,853
93.138	Protection and Advocacy for Individuals with Mental Illness.....	1,049,154
93.150	Projects for Assistance in Transition from Homelessness (PATH).....	1,548,990
93.161	Health Program for Toxic Substances and Disease Registry.....	33,455
93.197	Childhood Lead Poisoning Prevention Projects -- State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children.....	1,312,666
93.2000-07236	Health Statistics.....	507,242
93.200-98-7265	National Death Index.....	135,961
93.217	Family Planning -- Services.....	5,185,040
93.223-00-4434	Mammography Quality Standard Act Inspections.....	237,427
93.223-03-4434	Mammography Quality Standard Act Inspections.....	83,137
93.230	Consolidated Knowledge Development Application (KD&A) Program.....	569,554
93.234	Traumatic Brain Injury -- State Demonstration Grant Program.....	129,932
93.235	Abstinence Education.....	1,927,924
93.240	State Capacity Building.....	241,137
93.241	State Rural Hospital Flexibility Program.....	900,338

**STATE OF OHIO
 SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 BY FEDERAL AGENCY AND FEDERAL PROGRAM
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE

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

93.243	Substance Abuse and Mental Health Services -- Projects of Regional and National Significance.....	130,840
93.251	Universal Newborn Hearing Screening.....	126,634
93.252	Community Access Program.....	776,717
93.259	Rural Access to Emergency Devices Grant.....	266,800
93.262	Occupational Safety and Health Research Grants.....	25,867
93.268	Immunization Grants.....	4,704,378
93.283	Centers for Disease Control and Prevention -- Investigations and Technical Assistance.....	22,950,825
93.283-02-9026	Data Collection.....	126,895
93.301	Small Rural Hospital Improvement Grants.....	174,305
93.556	Promoting Safe and Stable Families.....	10,233,781
93.558	Temporary Assistance for Needy Families.....	580,497,020
93.563	Child Support Enforcement.....	199,361,857
93.566	Refugee and Entrant Assistance -- State Administered Programs.....	2,542,930
93.568	Low-Income Home Energy Assistance.....	102,376,349
93.569	Community Services Block Grant.....	25,035,924
93.571	Community Services Block Grant Discretionary Award -- Community Food and Nutrition.....	139,039
93.576	Refugee and Entrant Assistance -- Discretionary Grants.....	901,338
93.584	Refugee and Entrant Assistance -- Targeted Assistance.....	566,060
93.585	Empowerment Zones Program.....	116,383
93.586	State Court Improvement Program.....	61,279
93.590	Community-Based Family Resource and Support Grants.....	891,774
93.595	*Welfare Reform Research, Evaluations, and National Studies.....	364,087
93.597	Grants to States for Access and Visitation Programs.....	160,800
93.600	Head Start.....	90,983
93.603	Adoption Incentive Payments.....	479,454
93.630	Developmental Disabilities Basic Support and Advocacy Grants.....	4,596,994
93.631	Developmental Disabilities Projects of National Significance.....	48,019
93.643	Children's Justice Grants to States.....	431,682
93.645	Child Welfare Services -- State Grants.....	10,414,311
93.658	Foster Care -- Title IV-E.....	228,776,909
93.659	Adoption Assistance.....	143,662,451
93.667	Social Services Block Grant.....	91,049,297
93.669	Child Abuse and Neglect State Grants.....	647,881
93.671	Family Violence Prevention and Services/Grants for Battered-- Women's Shelters Grants to States and Indian Tribes.....	2,599,278
93.674	Chafee Foster Care Independent Living.....	7,111,960
93.767	State Children's Insurance Program.....	145,232,486
93.773	Medicare - Hospital Insurance.....	27,000
93.779	Centers for Medicare and Medicaid Services Research, for Demonstrations and Evaluations.....	530,887
93.913	Grants to States for Operation of Offices of Rural Health.....	92,518
93.917	HIV Care Formula Grants.....	16,743,871
93.919	Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs.....	1,122,536
93.926	Healthy Start Initiative.....	9,645
93.940	HIV Prevention Activities -- Health Department Based.....	4,856,697
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance.....	635,373
93.945	Assistance Programs for Chronic Disease Prevention and Control.....	735,442

**STATE OF OHIO
 SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 BY FEDERAL AGENCY AND FEDERAL PROGRAM
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE

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

93.958	Block Grants for Community Mental Health Services.....	15,194,359
93.959	Block Grants for Prevention and Treatment of Substance Abuse.....	72,617,934
93.965	Coal Miners Respiratory Impairment Treatment Clinics and Services.....	624,212
93.977	Preventive Health Services -- Sexually Transmitted Diseases Control Grants..	3,396,233
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems.....	693,027
93.991	Preventative Health and Health Services Block Grant.....	7,719,736
93.994	Maternal and Child Health Services Block Grant to the States.....	26,536,358
	Total U.S. Department of Health and Human Services.....	\$8,417,312,726

Corporation for National and Community Service

94.002	Retired & Senior Volunteer Program.....	\$100,397
94.004	Learn and Serve America -- School and Community Based Programs.....	1,177,307
94.006	AmeriCorps.....	6,122,019
94.007	Planning and Program Development Grants.....	502,291
94.009	Training and Technical Assistance.....	170,863
94.011	Foster Grandparent Program.....	556,161
	Total Corporation for National and Community Service.....	\$8,629,038

Social Security Administration

96	Program Income for Rehabilitating Recipients of Social Security Income & Supplemental Security Income -- Vocational Rehabilitation Program (CFDA# 84.126)	\$13,881,447
96.001	Social Security -- Disability Insurance.....	68,197,911
96.007	Social Security -- Research and Demonstration.....	473,127
96.008	Social Security -- Benefits Planning, Assistance, and Outreach Program.....	202,599
96.0600-01-60051	Vital Statistics -- Social Security Contract.....	57,857
96.0600-98-32688	Vital Statistics -- Social Security Contract.....	168
96.0600-98-32782	Vital Statistics -- Social Security Enumeration Contract.....	151,317
	Total Social Security Administration.....	\$82,964,426

TOTAL EXPENDITURES..... **\$14,966,901,713**

* These programs are a part of the Research and Development Cluster, as defined by OMB Circular A-133. See Note 7 to the Supplementary Schedule of Expenditures of Federal Awards.

** This cluster encompasses two different federal agency programs, the U.S. Department of Transportation's federal program CFDA# 20.205 and the U.S. Appalachian Regional Commission's federal program CFDA# 23.003. In accordance with OMB Circular A-133, CFDA# 23.003 has been included as part of the U.S. Department of Transportation's programs and excluded from the U.S. Appalachian Regional Commission's programs.



**STATE OF OHIO
NOTES TO THE SUPPLEMENTARY SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, revised June 30, 1997, requires a Supplementary Schedule of Expenditures of Federal Awards (Supplementary Schedule). The State of Ohio reports this information using the following presentations:

- Supplementary Schedule of Expenditures of Federal Awards Summarized by Federal Agency
- Supplementary Schedule of Expenditures of Federal Awards by Federal Agency and Federal Program

The schedules must report total disbursements for each federal financial assistance program, as listed in the *Catalog of Federal Domestic Assistance* (CFDA). The State of Ohio reports each federal financial assistance program not officially assigned CFDA numbers with a two-digit number that identifies the federal grantor agency or with a two-digit federal grantor agency number followed by a federal contract number, when applicable.

A. Reporting Entity

The Supplementary Schedules include all federal programs the State of Ohio has administered for the fiscal year ended June 30, 2003. The State's financial reporting entity includes the primary government and its component units.

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

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

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

The State has excluded federal financial assistance reported in the Discretely Presented Component Units—College and University Funds from the Supplementary Schedules. The respective schedules of expenditures of federal awards for the following organizations, which constitute component units of the State since they impose or potentially impose financial burdens on the primary government, are subject to separate audits under OMB Circular A-133.

Colleges and Universities:

State Universities:

Bowling Green State University
Central State University
Cleveland State University
Kent State University
Miami University
Ohio State University
Ohio University
Shawnee State University
University of Akron
University of Cincinnati
University of Toledo
Wright State University
Youngstown State University

State Community Colleges:

Cincinnati State Community College
Clark State Community College
Columbus State Community College



**STATE OF OHIO
NOTES TO THE SUPPLEMENTARY SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

State Community Colleges (Continued):

Edison State Community College
Northwest State Community College
Owens State Community College
Southern State Community College
Terra State Community College
Washington State Community College

Medical College:

Medical College of Ohio at Toledo

B. Basis of Accounting

The State prepares the Supplementary Schedules on the cash basis of accounting; therefore, the State recognizes expenditures when paid rather than when it incurs obligations.

C. Transfers of Federal Funds Among State Agencies

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

- A state agency that receives federal funds from another state agency to assist in meeting the requirements of an assistance award reports the federal assistance in its accounts. In such cases, the State excludes the interagency disbursements of federal moneys from the accounts of the state agency that originally receives the funds from the federal government.
- When a state agency uses federal assistance moneys to purchase goods or services from another state agency, the State includes the interagency disbursements of federal moneys in the accounts of the state agency making the purchase. The state agency from which goods and services are purchased does not report the receipt of federal moneys as federal assistance.

D. Indirect Costs

Indirect costs benefit more than one federal program and are not directly allocable to the programs receiving the benefits. The State recovers these costs from the federal government by applying federally approved indirect cost rates or by

allocating the indirect costs among benefiting programs in accordance with federally approved plans. The State recognizes indirect costs as disbursements in the Supplementary Schedules.

E. Valuation of Non-Cash Federal Assistance

The State reports the following non-cash federal assistance programs on the Supplementary Schedules.

- *Food Donation (CFDA# 10.550)*
Federal assistance for this program represents the value of food the State distributes to subrecipients during the fiscal year. The U.S. Department of Agriculture assigns the prices at which the State values donated food commodities.
- *Food Stamps (CFDA# 10.551)*
Federal assistance for this program represents the value of food stamp benefits the State and its agents distribute to eligible recipients during the fiscal year. Distribution occurs when beneficiaries receive food stamp coupons or, in the case of electronic benefits transfer (EBT), when the State credits the value of program benefits to beneficiaries' smart cards. The State values food stamp coupons at their face amount.
- *Federal Surplus Personal Property (CFDA# 39.003)*
Federal assistance for this program represents the fair market value of federal surplus personal property the State distributes to subrecipients during the fiscal year. The State calculates fair value at 23.3 percent of the property's original acquisition cost, in conformity with guidelines the U.S. General Services Administration establishes.
- *Donation of Federal Surplus Property (CFDA# 12.005)*
Federal assistance for this program represents the fair market value of donated federal surplus property the State distributes to



**STATE OF OHIO
 NOTES TO THE SUPPLEMENTARY SCHEDULE
 OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

subrecipients during the fiscal year. The State calculates fair value at 23.7 percent of the property's

original costs, in conformity with guidelines the U.S. Department of Defense establishes.

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 2003, 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, 2003, outstanding loans for the Capitalization Grants for Revolving Loan Funds programs totaled approximately \$844 million.

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

Capitalization Grant Loan Balance, as of 6/30/02	\$788,959,510
Loans without Compliance Requirements	<u>(456,252,825)</u>
Net Loan Balance (Loans with Compliance Requirements).....	<u>332,706,685</u>
 New Loans Disbursed in FY 2003	 69,236,421
Net Principal Repayments Received in FY 2003	 <u>(16,375,748)</u>
Capitalized Interest Earned in FY 2003.....	 <u>1,686,776</u>
Current Loan Activity	 <u>54,547,449</u>

Ending Loan Balance (Loans with Compliance Requirements)	387,254,134
Administrative Costs in FY 2003.....	946,070
Administrative Trustee Fee	895
Loan Account Trustee Fee.....	1,240
Source Water Account Costs.....	739,021
Source Water Account Trustee Fee	411
Small System Technical Assistant	206,792
Small System Technical Assistant Trustee Fee.....	 2
Wellhead Costs	912,034
Wellhead Trustee Fee.....	1,228
Administrative Interest Earned.....	(1,905)
Loan Account Interest Earned	(71,786)
Source Water Account Interest Earned ..	(914)
Small System Technical Assistant Interest Earned.....	 (3)
Wellhead Interest Earned	<u>(2,391)</u>
 Total Federal Assistance for FY 2003	 <u><u>\$389,984,828</u></u>

The total federal assistance for fiscal year 2003, as reported by the Ohio Environmental Protection Agency, for the Clean Water Revolving Fund and the Drinking Water Revolving Fund were \$327,110,557 and \$62,874,271 respectively.



**STATE OF OHIO
 NOTES TO THE SUPPLEMENTARY SCHEDULE
 OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 3 INVENTORY BALANCES FOR NON-CASH FEDERAL ASSISTANCE PROGRAMS

As of June 30, 2003, the outstanding inventory balances for the non-cash federal assistance programs are as follows:

CFDA#	Non-Cash Program	Outstanding Balance, as of 6/30/03
10.550	Food Donation	\$4,187,129
10.551	Food Stamps.....	3,151,987
12.005	Donation of Federal Surplus Property	-
39.003	Federal Surplus Personal Property.....	<u>14,720</u>
	Total	<u>\$7,353,836</u>

NOTE 4 HOME INVESTMENT PARTNERSHIPS PROGRAM (CFDA# 14.239)

During fiscal year 2003, the State’s Supplementary Schedule shows the State spent approximately \$26 million on the Home Investment Partnerships Program.

Other Ohio governmental entities outside the State’s reporting entity also benefited under this program during fiscal year 2003 by drawing an additional

\$10 thousand directly from the U.S. Department of Housing and Urban Development. Because the State does not participate directly in this facet of the program, it does not account for this financial activity on its accounting system. Consequently, the Ohio local governments’ participation in this program has not been included in the State’s Supplementary Schedules.

NOTE 5 FEDERAL MORTGAGE INSURANCE AND GUARANTEES

Certain mortgage loans of the State are insured by the Federal Housing Administration (FHA) or guaranteed by the Veterans’ Administration (VA).

As of June 30, 2003, outstanding FHA-insured loans approximated \$1.8 million and mortgage loans guaranteed by the VA approximated \$ 177 thousand.

NOTE 6 FEDERAL TAX CREDIT PROGRAMS

The State administers the following federal tax credit programs.

A. Federal Low-Income Housing Tax Credits Program

The Federal Low-Income Housing Tax Credit Program allocates federal tax credits to the owners of qualified low-income rental housing units to be used over a 10-year period. For the allocation year ending December 31, 2003, OHFA allocated approximately \$20.6 million of federal tax credits under this program.

B. Federal Mortgage Credit Certificate Program
 The Federal Mortgage Credit Certificate Program allocates tax credits to qualifying homebuyers purchasing qualifying homes to be applied against their federal income tax liability in the year of purchase (if any) and/or carried forward for use in the subsequent three years. In the year ended June 30, 2003, OHFA issued/committed approximately \$989 thousand in federal tax credits under this program.



**STATE OF OHIO
 NOTES TO THE SUPPLEMENTARY SCHEDULE
 OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 7 RESEARCH AND DEVELOPMENT CLUSTER

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

CFDA#	Program	Amount
11.420	Coastal Zone Management Estuarine Research Reserves	\$ 19,000
15.615	Cooperative Endangered Species Conservative Fund	6,400
15.808	U.S. Geological Survey -- Research and Data Acquisition	21,345
16.523	Juvenile Accountability Incentive Block Grants	23,115
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	14,103
16.579	Byrne Formula Grant Program	2,458,488
20.205	Highway Planning and Construction	3,356,817
20.600	State and Community Highway Safety	230,123
66.460	Nonpoint Source Implementation Grants	10,780
81.079	Regional Biomass Energy Program	24,515
81.086	Conservation Research and Development	343,633
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	45,000
93	State Assessment Study	118,056
93.595	Welfare Reform Research, Evaluations and National Studies	364,087
93.778	Medicaid Assistance Program	553,519
	Total Research and Development Cluster	\$ 7,588,981

NOTE 8 TRANSFERS BETWEEN FEDERAL PROGRAMS

During fiscal year 2003, the State made allowable transfers of approximately \$187 million from the Temporary Assistance for Needy Families (93.558) program to the Social Services Block Grant (93.667) and the Child Care and Development Block Grant (93.575) programs. The Supplementary Schedule shows the State spent approximately \$580 million on the Temporary Assistance for Needy Families program. The amount reported for the Temporary Assistance for Needy Families program on the Supplementary Schedule excludes the amount transferred to the Social Services Block Grant program and the Child Care and Development Block Grant program. The amounts transferred to the Social Services Block Grant program and the Child

Care and Development Block Grant program are included in the federal program expenditures for these programs. The following table shows the gross amount drawn for the Temporary Assistance for Needy Families program during fiscal year 2003 and the amounts transferred to the Social Services Block Grant and the Child Care and Development Block Grant programs.

Temporary Assistance for Needy Families...	\$ 767,628,290
Social Services Block Grant	(35,695,953)
Child Care and Development Block Grant....	(151,435,317)
Total Temporary Assistance for Needy Families.....	\$ 580,497,020



**STATE OF OHIO
NOTES TO THE SUPPLEMENTARY SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE 9 FEDERAL TAX RELIEF PROGRAM

Over the next two years, the State of Ohio will receive approximately \$386 million from the federal government under the Jobs and Growth Tax Relief Reconciliation Act of 2003 Section 401 (B). The Act allows the State to spend the money to provide essential government services or to cover the costs to the State of complying with any Federal intergovernmental mandates to the extent that the mandate applies to the State, and the Federal government has not provided funds to cover the costs. In addition, the state may only use the funds for types of expenditures permitted under the

most recently approved budget.

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

**AUDITORS' REPORTS
ON COMPLIANCE AND
INTERNAL CONTROLS**



Auditor of State Betty Montgomery

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

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Ohio (the State) as of and for the year ended June 30, 2003, which collectively comprise the State's basic financial statements and have issued our report thereon dated December 12, 2003, whereas the State changed its method of accounting for certain workers' compensation self-insurance liabilities. We did not audit the financial statements of the following organizations:

Primary Government: Capitol Square Review and Advisory Board (Underground Parking Garage); Office of the Auditor of State; Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio; State Treasury Asset Reserve of Ohio; Treasurer of State Lease Revenue Bonds; Tobacco Use Prevention and Control Foundation; Office of Business Development; and Variable College Savings Plan.

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

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

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

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Revenues / Additions
Governmental Activities	3%	0%
Business-Type Activities	88%	41%
Aggregate Discretely Presented Component Units	75%	90%
Aggregate Remaining Fund Information	96%	18%
Workers' Compensation	100 %	100 %
Ohio Building Authority	100 %	100 %
Underground Parking Garage	100 %	100 %
Office of Auditor of State	100 %	100 %

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

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Other auditors performed tests of noncompliance related to the organizations listed above and the results of those tests are reported separately in the audit reports of those entities. There was no noncompliance related to these organizations which were considered reportable for the State of Ohio.

We noted certain immaterial instances of noncompliance that we have reported to the management of the State of Ohio in separate management letters issued at various times during the year.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Ohio's internal control over financial reporting, except for those entities identified above which were performed by other auditors, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Ohio's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. These eight reportable conditions are identified in the schedule of findings and questioned costs on pages 143 through 144.

Other auditors performed procedures to obtain an understanding of the internal controls of the organizations listed above. There were no comments related to these organizations which were considered reportable for the State of Ohio.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal controls that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we considered two items identified in the schedule of findings and questioned costs on page 143 to be material weaknesses.

We noted other matters involving the internal control over financial reporting that we have reported to the management of the State of Ohio in separate management letters issued at various times during the year.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

BETTY MONTGOMERY
Auditor of State

December 12, 2003

THIS PAGE INTENTIONALLY LEFT BLANK



Auditor of State Betty Montgomery

REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the State of Ohio with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The State of Ohio's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the State of Ohio's management. Our responsibility is to express an opinion on the State of Ohio's compliance based on our audit.

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the State of Ohio's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on State of Ohio's compliance with those requirements.

As described in finding numbers 2003-JFS20-031, 2003-JFS21-032, and 2003-JFS23-034 in the accompanying schedule of findings and questioned costs on pages 198 through 205, the State of Ohio's Department of Job & Family Services was not in compliance with the following Codes of Federal Regulations related to eligibility:

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

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

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

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

As described in finding numbers 2003-EDU01-003 and 2003-JFS30-041 in the accompanying schedule of findings and questioned costs on pages 157 and 216, the State of Ohio's Department of Education and Department of Job & Family Services did not have sufficient procedures in place to monitor the activities of their subrecipients. As a result, we were unable to gain assurance the Departments complied with the subrecipient monitoring requirements of 31 USC 7502 (f)(2)(B) and OMB Circular A-133 §___400 (d). In our opinion, the State of Ohio's compliance with these requirements is necessary for the State of Ohio to comply with the requirements applicable to the following programs:

84.282 – Charter Schools	93.767 – State Children's Insurance Program
93.775/93.777/93.778 – Medicaid Cluster	

In our opinion, except for the noncompliance described in the three preceding paragraphs, the State of Ohio complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are identified in the summary of findings and questioned costs on pages 150 through 152 and described in the accompanying schedule of findings and questioned costs.

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

Internal Control Over Compliance

The management of the State of Ohio is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the State of Ohio's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Ohio's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are identified in the summary of findings and questioned costs on pages 150 through 152 and described in the accompanying schedule of findings and questioned costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider certain items identified in the summary of findings and questioned costs on pages 150 through 152 and described in the accompanying schedule of findings and questioned costs to be material weaknesses.

We also noted other matters involving the internal controls over federal compliance that do not require inclusion in this report that we have reported to the management of the State of Ohio in separate management letters issued at various times during the year.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

BETTY MONTGOMERY
Auditor of State

March 12, 2003

THIS PAGE INTENTIONALLY LEFT BLANK

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

**STATE OF OHIO
JUNE 30, 2003**

1. SUMMARY OF AUDITORS' RESULTS		
(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any other reportable findings under §. 510?	Yes
(d)(1)(vii)	Major Programs (list):	See pages 146 through 149
(d)(1)(viii)	Dollar threshold for Type A and B Programs?	A: >\$30,000,000 B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

<i>Finding Number</i>	2003-JFS37-048
-----------------------	----------------

INTERNAL CONTROL - MATERIAL WEAKNESS

See federal finding # 2003-JFS37-048 on page 226; this finding is also required to be reported in accordance with GAGAS.

<i>Finding Number</i>	2003-JFS40-051
-----------------------	----------------

INTERNAL CONTROL - MATERIAL WEAKNESS

See federal finding # 2003-JFS40-051 on page 229; this finding is also required to be reported in accordance with GAGAS.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

<i>Finding Number</i>	2003-JFS23-034
-----------------------	----------------

INTERNAL CONTROL - REPORTABLE CONDITION

See federal finding # 2003-JFS23-034 on page 204; this finding is also required to be reported in accordance with GAGAS.

<i>Finding Number</i>	2003-JFS26-037
-----------------------	----------------

INTERNAL CONTROL - REPORTABLE CONDITION

See federal finding # 2003-JFS26-037 on page 211; this finding is also required to be reported in accordance with GAGAS.

<i>Finding Number</i>	2003-JFS30-041
-----------------------	----------------

INTERNAL CONTROL - REPORTABLE CONDITION

See federal finding # 2003-JFS30-041 on page 216; this finding is also required to be reported in accordance with GAGAS.

<i>Finding Number</i>	2003-JFS35-046
-----------------------	----------------

INTERNAL CONTROL - REPORTABLE CONDITION

See federal finding # 2003-JFS35-046 on page 222; this finding is also required to be reported in accordance with GAGAS.

<i>Finding Number</i>	2003-JFS36-047
-----------------------	----------------

INTERNAL CONTROL - REPORTABLE CONDITION

See federal finding # 2003-JFS36-047 on page 225; this finding is also required to be reported in accordance with GAGAS.

<i>Finding Number</i>	2003-JFS38-049
-----------------------	----------------

INTERNAL CONTROL - REPORTABLE CONDITION

See federal finding # 2003-JFS38-049 on page 227; this finding is also required to be reported in accordance with GAGAS.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

The findings and questioned costs are summarized by state agency and type on pages 150 through 152.

The questioned costs are summarized by federal agency, program, and amount on page 153.

The findings and questioned costs are detailed by state agency on pages 154 through 272.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
<u>U.S. Department of Agriculture</u>			
10.550	Food Donation		
	Ohio Department of Education	\$34,344,740	
	Total CFDA # 10.550	\$34,344,740	0.23%
<u>Food Stamp Cluster</u>			
10.551/10.561			
	Ohio Department of Job & Family Services	\$960,359,362	
	Other Agencies (Not Tested as a Major Program)	117,392	
	Total Food Stamp Cluster	\$960,476,764	6.42%
<u>Child Nutrition Cluster</u>			
10.553/10.555/10.556/10.559			
	Ohio Department of Education	\$218,729,569	
	Other Agencies (Not Tested as a Major Program)	3,238,051	
	Total Nutrition Cluster	\$221,967,620	1.48%
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children		
	Ohio Department of Health	\$191,106,959	
	Total CFDA # 10.557	\$191,106,959	1.28%
10.558	Child and Adult Care Food Program		
	Ohio Department of Education	\$57,754,005	
	Total CFDA # 10.558	\$57,754,005	0.39%
<u>U.S. Department of Housing and Urban Development</u>			
14.182	Lower Income Housing Assistance Program - Section 8		
	Ohio Department of Development	\$50,827,785	
	Total CFDA # 14.182	\$50,827,785	0.34%
14.228	Community Development Block Grant/State's Program		
	Ohio Department of Development	\$54,554,369	
	Total CFDA # 14.228	\$54,554,369	0.36%
<u>U.S. Department of Justice</u>			
16.579	Byrne Formula Grant Program		
	Ohio Office of the Attorney General	\$956,320	
	Ohio Office of Criminal Justice Services	15,296,735	
	Other Agencies (Not Tested as a Major Program)	1,049,656	
	Total CFDA # 16.579	\$17,302,711	0.11%
<u>U.S. Department of Labor</u>			
<u>Employment Services Cluster</u>			
17.207/17.801/17.804			
	Ohio Department of Job & Family Services	\$37,019,208	
	Total Employment Services Cluster	\$37,019,208	0.25%

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
17.225	Unemployment Insurance Ohio Department of Job & Family Services	\$1,890,787,817	
	Total CFDA # 17.225	<u>\$1,890,787,817</u>	<u>12.63%</u>
<u>Workforce Investment Act (WIA) Cluster</u>			
17.258/17.258/17.260	Ohio Department of Job & Family Services	\$142,474,789	
	Other Agencies (Not Tested as a Major Program)	<u>3,625,485</u>	
	Total WIA Cluster	<u>\$146,100,274</u>	<u>0.98%</u>
<u>U.S. Department of Transportation</u>			
<u>Highway Planning and Construction Cluster</u>			
20.205/23.003	Ohio Department of Transportation	\$909,690,575	
	Total Highway Planning and Construction Cluster	<u>\$909,690,575</u>	<u>6.08%</u>
<u>U.S. Department of Treasury</u>			
21.000	Jobs and Growth Tax Relief Reconciliation Act of 2003 Section 401 (B) Office of Budget and Management	\$193,032,967	
		<u>\$193,032,967</u>	<u>1.29%</u>
<u>U.S. Environmental Protection Agency</u>			
66.458	Capitalization Grants for Clean Water - State Revolving Fund Ohio Environmental Protection Agency	\$327,110,557	
	Total CFDA # 66.458	<u>\$327,110,557</u>	<u>2.19%</u>
66.468	Capitalization Grants for Drinking Water - State Revolving Fund Ohio Environmental Protection Agency	\$62,874,271	
	Total CFDA # 66.468	<u>\$62,874,271</u>	<u>0.42%</u>
<u>U.S. Department of Education</u>			
84.010	Title I Grants to Local Education Agencies Ohio Department of Education	\$320,384,073	
	Total CFDA # 84.010	<u>\$320,384,073</u>	<u>2.14%</u>
<u>Special Education Cluster</u>			
84.027/84.173	Ohio Department of Education	\$235,843,242	
	Other Agencies (Not Tested as a Major Program)	<u>2,547,255</u>	
	Total Special Education Cluster	<u>\$238,390,497</u>	<u>1.59%</u>
84.048	Vocational Education - Basic Grants to States Ohio Department of Education	\$47,684,745	
	Other Agencies (Not Tested as a Major Program)	<u>428,836</u>	
	Total CFDA # 84.048	<u>\$48,113,581</u>	<u>0.32%</u>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
84.282	Charter Schools Ohio Department of Education	\$13,604,525	
	Total CFDA # 84.282	\$13,604,525	0.09%
84.367	Improving Teacher Quality State Grants Ohio Department of Education	\$70,741,478	
	Other Agencies (Not Tested as a Major Program)	554,617	
	Total CFDA # 84.367	\$71,296,095	0.48%
<u>U.S. Department of Health and Human Services</u>			
93.558	Temporary Assistance for Needy Families Ohio Department of Job & Family Services	\$487,353,478	
	Ohio Department of Education	88,128,461	
	Other Agencies (Not Tested as a Major Program)	5,015,081	
	Total CFDA # 93.558	\$580,497,020	3.88%
93.563	Child Support Enforcement Ohio Department of Job & Family Services	\$199,361,857	
	Total CFDA # 93.563	\$199,361,857	1.33%
93.568	Low-Income Home Energy Assistance Ohio Department of Development	\$102,069,128	
	Other Agencies (Not Tested as a Major Program)	307,221	
	Total CFDA # 93.568	\$102,376,349	0.68%
<u>Child Care Cluster</u>			
93.575/93.596	Ohio Department of Job & Family Services	\$333,199,248	
	Other Agencies (Not Tested as a Major Program)	80,589	
	Total Child Care Cluster	\$333,279,837	2.23%
93.658	Foster Care - Title IV-E Ohio Department of Job & Family Services	\$224,321,935	
	Other Agencies (Not Tested as a Major Program)	4,454,974	
	Total CFDA # 93.658	\$228,776,909	1.53%
93.659	Adoption Assistance Ohio Department of Job & Family Services	\$143,662,451	
	Total CFDA # 93.659	\$143,662,451	0.96%
93.667	Social Services Block Grant Ohio Department of Job & Family Services	\$73,180,623	
	Ohio Department of Mental Retardation and Developmental Disabilities	8,640,273	
	Other Agencies (Not Tested as a Major Program)	9,228,401	
	Total CFDA # 93.667	\$91,049,297	0.61%

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
93.767	State Children's Insurance Program		
	Ohio Department of Job & Family Services	\$121,556,283	
	Ohio Department of Mental Health	14,514,131	
	Ohio Department of Mental Retardation and Developmental Disabilities	4,476,833	
	Other Agencies (Not Tested as a Major Program)	4,685,239	
	Total CFDA # 93.767	\$145,232,486	0.97%
Medicaid Cluster			
93.775/93.777/93.778			
	Ohio Department of Aging	\$150,866,891	
	Ohio Department of Job & Family Services	5,313,526,279	
	Ohio Department of Mental Health	210,520,605	
	Ohio Department of Mental Retardation and Developmental Disabilities	556,481,578	
	Other Agencies (Not Tested as a Major Program)	49,232,679	
	Total Medicaid Cluster	\$6,280,628,032	41.96%
93.917	HIV Care Formula Grants		
	Ohio Department of Health	\$16,743,871	
	Total CFDA # 93.917	\$16,743,871	0.11%
93.959	Block Grants for the Prevention and Treatment of Substance Abuse		
	Ohio Department of Alcohol and Drug Addiction Services	\$71,790,590	
	Other Agencies (Not Tested as a Major Program)	827,344	
	Total CFDA # 93.959	\$72,617,934	0.48%
Total Major Federal Programs		\$14,040,965,436	93.81%
Other Federal Programs		925,936,277	6.19%
Total Federal Awards Expenditures		\$14,966,901,713	100.00%

**STATE OF OHIO
SUMMARY OF FINDINGS AND QUESTIONED COSTS
JULY 1, 2002 THROUGH JUNE 30, 2003**

The findings listed below represent items which are being reported in the Report of Independent Accountants on Compliance with Requirements Applicable to Major Federal Programs and Internal Control Over Compliance In Accordance with OMB Circular A-133.

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE REFERENCE
Office of Criminal Justice Services (CJS)			
1. Expenditures Made After the Period of Availability	2003-CJS01-001	Questioned Costs	154
2. Subrecipient Monitoring	2003-CJS02-002	Noncompliance	154
Ohio Department of Education (EDU)			
1. Charter Schools - Monitoring of Subrecipients	2003-EDU01-003	Questioned Costs	157
2. TANF - Monitoring of Head Start Expenditures	2003-EDU02-004	Noncompliance	158
3. Special Education Cluster - On-Site Reviews	2003-EDU03-005	Noncompliance	161
4. Special Education Cluster - Capacity Building Minimum	2003-EDU04-006	Reportable Condition	162
5. Grant Administration Payment System	2003-EDU05-007	Reportable Condition	163
6. DP - Application Development & Maintenance	2003-EDU06-008	Reportable Condition	164
Ohio Department of Health (DOH)			
1. Subrecipient Monitoring	2003-DOH01-009	Noncompliance	166
2. DP - Business Resumption Plan	2003-DOH02-010	Reportable Condition	168
3. DP - Program Change Controls	2003-DOH03-011	Reportable Condition	169
Ohio Department of Job & Family Services (JFS)			
1. TANF - Subrecipient Monitoring - Cuyahoga County	2003-JFS01-012	Questioned Costs	170
2. DP - FACSIS No Hist. Pmt. Data/Foster Care Duplicates	2003-JFS02-013	Questioned Costs	171
3. TANF/Child Care/SSBG - Subrecipient Mon-Defiance Co.	2003-JFS03-014	Questioned Costs	174
4. Employment Services/SSBG - Period of Availability	2003-JFS04-015	Questioned Costs	176
5. Child Care – Subrecipient Monitoring - Fulton County	2003-JFS05-016	Questioned Costs	177
6. TANF - Subrecipient Monitoring - Hancock County	2003-JFS06-017	Questioned Costs	179
7. TANF - Subrecipient Monitoring - Lucas County	2003-JFS07-018	Questioned Costs	181
8. Child Care - Missing Documentation-Cuyahoga County	2003-JFS08-019	Questioned Costs	183
9. TANF - Refusal to Work Sanction -Lucas County	2003-JFS09-020	Questioned Costs	184
10. TANF - Missing Self Sufficiency Contract-Lucas County	2003-JFS10-021	Questioned Costs	185
11. TANF - Unallowable Payments-Cuyahoga County	2003-JFS11-022	Questioned Costs	186
12. Medicaid/SCHIP - Drug Rebate Payments	2003-JFS12-023	Questioned Costs	188
13. SCHIP - Ineligible Recipients	2003-JFS13-024	Questioned Costs	190
14. TANF/Child Support Non-cooperation -Lucas County	2003-JFS14-025	Questioned Costs	191
15. Medicaid - Ineligible Recipients	2003-JFS15-026	Questioned Costs	192
16. TANF - Unallowable Costs-Hamilton County	2003-JFS16-027	Questioned Costs	193
17. TANF/Child Support Non-cooperation -Cuyahoga County	2003-JFS17-028	Questioned Costs	194
18. CSEA - Unallowed Activities-Defiance County	2003-JFS18-029	Questioned Costs	195
19. SSBG - Transportation Services to Individuals - Fulton Co.	2003-JFS19-030	Questioned Costs	197
20. IEVS - Due Dates	2003-JFS20-031	Noncompliance	198
21. IEVS - Inadequate Documentation	2003-JFS21-032	Noncompliance	201
22. IEVS - Return Information Access	2003-JFS22-033	Noncompliance	202
23. IEVS - Monitoring by the Department	2003-JFS23-034	Noncompliance	204
24. Federal Schedule	2003-JFS24-035	Noncompliance	206
25. Unapproved Indirect Cost Allocation Amendment	2003-JFS25-036	Noncompliance	209

**STATE OF OHIO
SUMMARY OF FINDINGS AND QUESTIONED COSTS
JULY 1, 2002 THROUGH JUNE 30, 2003**

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE REFERENCE
Ohio Department of Job & Family Services (JFS)			
26. Lack of Corrective Action	2003-JFS26-037	Noncompliance	211
27. Excessive Food Stamp Coupon Inventory	2003-JFS27-038	Noncompliance	212
28. Food Stamp Report Late Submission & Lack of Mgmt Rev	2003-JFS28-039	Noncompliance	213
29. TANF – Sanctions	2003-JFS29-040	Noncompliance	215
30. Medicaid/SCHIP - Subrecipient Monitoring	2003-JFS30-041	Noncompliance	216
31. Child Support - Statewide Monitoring of CSENet	2003-JFS31-042	Noncompliance	218
32. Social Services Block Grant – Reporting	2003-JFS32-043	Noncompliance	219
33. WIA – Reporting	2003-JFS33-044	Noncompliance	220
34. WIA - One-Stop Delivery Systems	2003-JFS34-045	Noncompliance	221
35. IEVS - Monitoring by Counties	2003-JFS35-046	Material Weakness	222
36. DP - Accuracy of CRIS-E Input	2003-JFS36-047	Material Weakness	225
37. DP - Manual Overrides of CRIS-E (Fiats)	2003-JFS37-048	Material Weakness	226
38. DP - CORe Processing	2003-JFS38-049	Material Weakness	227
39. DP - SETS Program Change for Federal Regulations	2003-JFS39-050	Material Weakness	228
40. TANF - County Monitoring	2003-JFS40-051	Material Weakness	229
41. Child Support Processing & Reconciliations	2003-JFS41-052	Material Weakness	230
42. SSBG - Incomplete Monitoring	2003-JFS42-053	Material Weakness	231
43. Unemployment - Warrant Controls/Security	2003-JFS43-054	Material Weakness	231
44. Voucher Summary Weakness/Coding Errors	2003-JFS44-055	Reportable Condition	233
45. Contracts/Relationships with Co. Agencies	2003-JFS45-056	Reportable Condition	235
46. Various Programs - Coding Errors	2003-JFS46-057	Reportable Condition	236
47. TANF - Data Report	2003-JFS47-058	Reportable Condition	238
48. Medicaid/SCHIP - Third-party Liabilities	2003-JFS48-059	Reportable Condition	239
49. Medicaid/SCHIP - Duplicate Physicians & Osteopaths Pmts	2003-JFS49-060	Reportable Condition	241
50. Adoption Assistance-Voucher Summary Support Detail	2003-JFS50-061	Reportable Condition	242
51. WIA - Structure of the Program	2003-JFS51-062	Reportable Condition	243
52. Missing Documentation - Various Counties	2003-JFS52-063	Reportable Condition	244
53. Late County Reports - Various Counties	2003-JFS53-064	Reportable Condition	250
54. Report Processing, Reviews, Inaccuracies-Variou Counties	2003-JFS54-065	Reportable Condition	252
55. DP - MMIS & CRIS-E Application Documentation	2003-JFS55-066	Reportable Condition	258
56. DP - CORe Advance Calculation	2003-JFS56-067	Reportable Condition	259
57. DP - CORe Program Change Standards	2003-JFS57-068	Reportable Condition	260
58. DP - CORe Backups	2003-JFS58-069	Reportable Condition	261
59. DP - Centralized Computer Security	2003-JFS59-070	Reportable Condition	262
60. DP - Physical Access to the Computer Room	2003-JFS60-071	Reportable Condition	263
61. DP - SETS System Documentation	2003-JFS61-072	Reportable Condition	264
62. DP - MMIS & CRIS-E Program Change Documentation	2003-JFS62-073	Reportable Condition	265
Ohio Department of Mental Health (DMH)			
1. Subrecipient Monitoring	2003-DMH01-074	Noncompliance	267
Ohio Department of Mental Retardation/DD (DMR)			
1. Medicaid - Subrecipient Monitoring	2003-DMR01-075	Noncompliance	269
2. Medicaid - Allowable Costs	2003-DMR02-076	Reportable Condition	270
3. Medicaid - Provider Certifications	2003-DMR03-077	Reportable Condition	271
4. DP - Transfer Into the Live Environment	2003-DMR04-078	Reportable Condition	272

**STATE OF OHIO
SUMMARY OF FINDINGS AND QUESTIONED COSTS
JULY 1, 2002 THROUGH JUNE 30, 2003**

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

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE REFERENCE
Ohio Department of Job & Family Services (JFS)			
23. IEVS - Monitoring by the Department	2003-JFS23-034	Reportable Condition	204
26. Lack of Corrective Action	2003-JFS26-037	Reportable Condition	211
30. Medicaid/SCHIP - Subrecipient Monitoring	2003-JFS30-041	Reportable Condition	216
35. IEVS - Monitoring by Counties	2003-JFS35-046	Reportable Condition	222
36. DP - Accuracy of CRIS-E Input	2003-JFS36-047	Reportable Condition	225
37. DP - Manual Overrides of CRIS-E (Fiats)	2003-JFS37-048	Material Weakness	226
38. DP - CORe Processing	2003-JFS38-049	Reportable Condition	227
40. TANF - County Monitoring	2003-JFS40-051	Material Weakness	229

**STATE OF OHIO
SUMMARY OF QUESTIONED COSTS BY FEDERAL AGENCY AND PROGRAM
JULY 1, 2002 THROUGH JUNE 30, 2003**

<u>FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE</u>	<u>PAGE NUMBER(S)</u>	<u>QUESTIONED COSTS</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>		
16.579 – Byrne Formula Grant Program	154	\$219,619
Total U.S. Department of Justice		\$219,619
<u>U.S. DEPARTMENT OF LABOR</u>		
17.207/17.801/17.804 – Employment Services Cluster	176	\$1,799
Total U.S. Department of Labor		\$1,799
<u>U.S. DEPARTMENT OF EDUCATION</u>		
84.282 – Charter Schools	157	\$13,023,858
Total U.S. Department of Education		\$13,023,858
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>		
93.558 – Temporary Assistance for Needy Families	170,174,179, 181,184,185,186, 191,193,194	\$3,636,224
93.563 – Child Support	195	600
93.575/93.596 – Child Care Cluster	174,177,183	1,084,012
93.658 – Foster Care	171	2,219,754
93.667 – Social Services Block Grant	174,176,197	370,087
93.767 – State Children’s Insurance Program	190	1,917
93.775/93.777/93.778 – Medicaid Cluster	188,192	3,518
Total U.S. Department of Health and Human Services		\$7,316,112
TOTAL QUESTIONED COSTS - STATE OF OHIO		\$20,561,388

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OFFICE OF CRIMINAL JUSTICE SERVICES

1. EXPENDITURES MADE AFTER PERIOD OF AVAILABILITY

<i>Finding Number</i>	2003-CJS01-001
<i>CFDA Number and Title</i>	16.579 – Byrne Formula Grant Program
<i>Federal Agency</i>	Department of Justice

QUESTIONED COSTS

\$219,620

28 CFR 66.23 (b) states, in part:

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

The Office of Criminal Justice Services (OCJS) made one disbursement totaling \$3,375 to a 1998 Byrne Formula Grant subrecipient and four disbursements totaling \$216,244 to 1999 Byrne Formula Grant subrecipients after the period of availability for these grants had elapsed. For the 1998 Byrne Formula Grant, the period of availability was from October 1, 1997 to September 30, 2000, with a one year extension from October 1, 2000 to September 30, 2001, so liquidation of all obligations was required by December 31, 2001. For the 1999 Byrne Formula Grant, the period of availability was from October 1, 1998 to September 30, 2001, with a one year extension from October 1, 2000 to September 30, 2002, so liquidation of all obligations was required by December 31, 2002.

Failure by the Office to liquidate its obligations within the time limits established by Federal regulations could result in OCJS being required to repay those funds to the Federal government unless an extension is obtained. According to agency management, the 1998 Byrne grant disbursement was delayed because OCJS was awaiting the completion of an audit of the subrecipient in question, while the four 1999 Byrne grant disbursements were delayed because OCJS was waiting on necessary corrections by the subrecipients to their Quarterly Financial Reports.

We recommend OCJS implement control procedures to help ensure that funds are spent within the period of availability. For instance, OCJS could review fund balances in Federal grant accounts prior to the expiration of the period of availability, and if OCJS anticipates that payment to a subrecipient will be delayed the Office could request an additional extension. Additionally, we recommend the Office ensure its subrecipients are aware of the time frames that Federal funds are available for obligation and liquidation.

2. SUBRECIPIENT MONITORING

<i>Finding Number</i>	2003-CJS02-002
<i>CFDA Number and Title</i>	16.579 – Byrne Formula Grant
<i>Federal Agency</i>	Department of Justice

NONCOMPLIANCE

OMB Circular A-133, Subpart D, §___400(d), states, in part, that a pass-through entity shall perform the following for the Federal awards it makes:

...

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OFFICE OF CRIMINAL JUSTICE SERVICES

2. SUBRECIPIENT MONITORING (continued)

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.
- (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.
- (7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

The Office of Criminal Justice Services passes through at least 65% of the Byrne Formula Grant money to counties, cities, villages, and non-profit organizations around the State of Ohio. For State Fiscal Year 2003 the Office disbursed approximately \$14,535,000. The Office reviews subrecipients' independent audit reports to identify instances of noncompliance with applicable federal requirements, and the receipt and review of audit reports are tracked on a list that includes subrecipients of all federal money passed through by the Office. During the audit period, the Schedules of Expenditures of Federal Awards for 16 of 100 reports shown on the list did not show Byrne Formula grant money passed through from the Office, with no error noted on the Office's A-133 monitoring review form for the subrecipients in question. In addition, only six of the 100 audit reports received show Byrne Formula grant money tested as a major program, covering approximately 30% of the total amount disbursed to subrecipients.

This would not necessarily be a problem if the Office had adequate on-site monitoring procedures. However, while OCJS' subgrant administration guidelines state the Office will provide on site fiscal and programmatic monitoring of each project at least once annually, our testing found that only 48 desk or on-site monitoring reviews were performed out of approximately 105 subgrants awarded in calendar year 2002, and there was no desk or on site monitoring performed for subgrants awarded in calendar year 2003. And finally, while the Office does have a monitoring system in place, there does not appear to be adequate coordination between the Grants Management section and the Internal Audit section to ensure that adequate monitoring activities are being accomplished.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OFFICE OF CRIMINAL JUSTICE SERVICES

2. SUBRECIPIENT MONITORING (Continued)

The lack of adequate subrecipient monitoring procedures results in non-compliance with the subrecipient monitoring requirements of OMB Circular A-133 for the fiscal year 2003. Furthermore, OCJS may not be reasonably assured the subrecipients have met the requirements of the Byrne Formula grant program. Federal noncompliance could result in the identification of questioned costs and may impact the amount of federal funding received in subsequent years. According to OCJS, they felt their procedures were adequate as far as ensuring subrecipients were receiving A-133 audits, although they did acknowledge that they need additional monitoring of those subrecipients where the Byrne Formula Grant was not tested as a major program. As for the lack of on-site monitoring visits, OCJS indicated they were not performed due to significant employee turnover in the Grants Management division.

We recommend the Office develop a more comprehensive and coordinated subrecipient monitoring process which includes, but is not limited to, the following:

- a review the requirements for subrecipient monitoring established by OMB Circular No. A-133 and evaluate the sufficiency of the Office's current monitoring policies and procedures. In accordance with OMB Circular No. A-133, the Office should consider various risk factors in developing subrecipient monitoring procedures, such as the relative size and complexity of the federal awards administered by subrecipients, prior experience with each subrecipient, and the cost-effectiveness of various monitoring procedures.
- a formal procedural manual to document the Office's monitoring approach. This procedural manual should document the Office's methodology for performing subrecipient reviews and the nature, timing, and extent of the reviews to be performed. It should also include the methodology for resolving findings of subrecipient noncompliance or weaknesses as well as the impact of the subrecipient activities on the Office's ability to comply with applicable Federal regulations. The written plan should identify personnel assigned to oversee and coordinate subrecipient monitoring activities.
- monitoring of the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that 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.
- a review and analysis of the federal schedule and other portions of the A-133 reports received to verify the funds awarded to the subrecipient are properly identified on the schedule, and to determine the amount of coverage obtained from the A-133 audits. This will require the Office to track the amount of federal funds, by program, provided to each subrecipient on a calendar year basis (or other fiscal period used by the subrecipients) to determine the amount expected to be reported on the federal schedules. This information should also be provided to the subrecipient to aid in their federal schedule preparation and help identify any problems or concerns.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF EDUCATION

1. CHARTER SCHOOLS – MONITORING OF SUBRECIPIENTS

<i>Finding Number</i>	2003-EDU01-003
<i>CFDA Number and Title</i>	84.282 Charter Schools
<i>Federal Agency</i>	Department of Education

QUESTIONED COSTS

\$13,023,858

OMB Circular A-133, Subpart D, §____.400(d), states, in part, that a pass-through entity shall perform the following for the Federal awards it makes:

...

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

31 USC 7502 Section (f)(2)(B) states in part:

...

Each pass-through entity shall -

- Monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means;

The Ohio Department of Education (ODE) competed for and received a three-year federal Public Charter Schools grant. During state fiscal year 2003, ODE disbursed just over \$13 million to qualified community schools in the form of startup and implementation sub grants. ODE's Office of Community Schools (OCS) is responsible for monitoring these community schools' use of the federal Charter Schools funds. However, we found that OCS did not have an effective system in place to determine whether subrecipients were using these federal funds in accordance with applicable laws and regulations.

OCS does have a number of potential monitoring tools in place, such as periodic on-site visits, reviews of Annual Performance Reviews (APRs), Final Expenditure Reports (FERs) and other subrecipient-prepared reports from the community schools, and the monitoring of A-133 audit performed on the schools. However, none of these procedures provided for adequate subrecipient monitoring during state fiscal year 2003. Neither the on-site visits nor most of the subrecipient-prepared reports specifically addressed the federal Charter School funds. The APRs and FERs do address the federal funds, but do not provide a level of detail which would allow the Department to determine whether subrecipients are complying with applicable federal regulations. Furthermore, the APRs were not reviewed by OCS during SFY 2003, and the FERs were inconsistently reviewed. There were several instances where a community school received its 2003 grant award despite the fact that its 2002 FER had not been approved, or could not be because it contained errors. Finally, while the community schools may be subject to Circular A-133 audits, the majority of these schools did not receive \$300,000 of federal money and did not qualify for an A-133 audit. Of the 131 community schools, only 11 received an A-133 audit for state fiscal year 2002. Based on the lack of an adequate subrecipient monitoring system in place for the federal Charter Schools program, we will question the \$13,023,858 in payments made to 131 Charter Schools grant subrecipients of the Department.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF EDUCATION

1. CHARTER SCHOOLS – MONITORING OF SUBRECIPIENTS (Continued)

Without proper monitoring procedures in place during the period of the grant award to specifically ensure that community schools are in compliance with applicable federal rules and regulations, the Office of Community Schools may not be able to adequately ensure that the funds are being used as they are intended or determine that the community school is using the funds as they reported in the budgets and the FERs. In addition, the community school may receive the funds from the next grant and continue to use them incorrectly. Based on discussions with various OCS personnel, it appears they relied on the various monitoring procedures discussed above, despite the fact that they did not provide adequate coverage or monitoring of federal Charter Schools program funds.

We recommend that the Office of Community Schools implement on-site monitoring procedures for the community schools receiving funding through the federal Charter Schools program which specifically address the compliance requirements of the program. These procedures should include at a minimum verifying that the subrecipient did not request more cash than was needed to pay the expenses, verifying that the funds were used to pay for allowable expenses, and verifying that they used the expenses as the subrecipient indicated that they would on the budget. Also, these procedures should include ensuring that the amounts reported on the final expenditure report agree to the subrecipient's financial records.

We also recommend that the Office of Community Schools ensure all community schools receiving funding through the federal Charter Schools program have filed and had approved an Annual Performance Report and Final Expenditure Report prior to approving the next application from the community school. OCS should set up a spreadsheet to track the status of the receipt and approvals of the APRs and FERs, and should follow-up on any overdue reports.

2. TANF – MONITORING OF HEAD START EXPENDITURES

<i>Finding Number</i>	2003-EDU02-004
<i>CFDA Number and Title</i>	93.558 – Temporary Assistance for Needy Families
<i>Federal Agency</i>	Department of Health and Human Services

NONCOMPLIANCE

OMB Circular A-133, Subpart D, §___400(d), states in part that a pass-through entity shall perform the following for the Federal awards it makes:

...

(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.

...

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

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF EDUCATION

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

Section 63.09 of H.B. 94 of the 124th General Assembly, as amended by H.B. 299 of the 124th General Assembly states in part:

There is hereby established the Title IV-A Education Program to be administered by the Department of Education in accordance with an interagency agreement entered into with the Department of Job and Family Services under division (A)(2) of section 5101.801 of the Revised Code. The program shall provide benefits and services to TANF eligible individuals with incomes at or below 200 per cent of the federal poverty guidelines under a Title IV-A program pursuant to the requirements of section 5101.801 of the Revised Code. Upon approval by the Department of Job and Family Services, the Department of Education shall adopt policies and procedures establishing program requirements for eligibility, services, fiscal accountability, and other criteria necessary to comply with the provisions of Title IV-A of the "Social Security Act."

Interagency agreement A-02-06-0557, Article IV (B), between the Ohio Department of Job and Family Services and the Ohio Department of Education, states ODE's responsibilities are, in part to:

Assure eligibility for services provided under this Agreement are in conformance with state and federal TANF eligibility requirements. For the purposes of this agreement, TANF eligibility for Head Start services is a family that is in receipt of OWF cash assistance or employed with income at or below 200% of the federal poverty guideline per Sub. H.B. 299, Section 63.09.

During the audit period, the Ohio Department of Education's Office of Early Childhood Education operated a Head Start program through 52 subrecipient Head Start providers. Funding for this program was provided from the federal TANF program (CFDA #93.558) if the provider determined the children met the additional TANF eligibility requirements, otherwise the providers were instructed to obtain Federal Head Start funding (CFDA #93.600) directly from the federal government or to use any remaining state funds that had been allocated to them at the beginning of state fiscal year 2002. ODE received monthly requests for reimbursement from the providers for expenditures related to services provided to Head Start children who were determined to be TANF eligible by the providers. However, while the request forms were modified during our audit period to include more information than they had in the past, the providers' requests still did not provide enough information for the Department to determine how the costs claimed for reimbursement were allocated or related to the number of TANF eligible children identified.

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

During fiscal year 2003, ODE conducted on-site data verification reviews of all 52 of these Head Start providers, and fiscal focus reviews of selected providers. Performance of these reviews was typically documented on standardized on-site monitoring instruments. While the fiscal focus reviewers marked a box within the monitoring instrument stating that all costs were allowable, there were no specifics listed to demonstrate how the reviewer determined what costs were included in provider reimbursements and how allowability was substantiated. During the performance of these reviews, a sample of case files was selected and reviewed to determine if documentation existed to demonstrate the child's TANF eligibility. However, the

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF EDUCATION

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

TANF eligibility reviews performed did not correspond with the providers' monthly reimbursement requests to ensure that only costs related to TANF eligible children were reimbursed by the Department. There is no direct link between the children's files selected for review and the reimbursements made to the Head Start providers to determine whether only eligible children were included on the reimbursement requests and that only allowable costs incurred to provide services to these eligible children were paid. In addition, 11 of the 52 on-site review files had eligibility determination worksheets that identified TANF ineligible children; however, no corrective action existed in the files to demonstrate whether Federal funds were recovered or deducted from future reimbursement requests. The Head Start providers typically adjusted the number of reported TANF eligible children at their center based on these on-site reviews; however, no financial impact could be shown in the Department's records.

Finally, the Department was not fully in compliance with the provisions of OMB Circular A-133 with regards to obtaining and reviewing audit reports for their Head Start providers, although it should be noted that the Department made significant improvements in this area. The Department disbursed Federal TANF funds to all 52 Head Start providers during the fiscal year, and 41 of them were required to submit A-133 audit reports to ODE. The Department did not receive three of the required 41 audit reports (7.3%). Of the 38 audit reports that were obtained by the Department, three (7.9%) had Schedules of Expenditures of Federal Awards that did not report Federal TANF funds passed-through from the Department. The Department received 30 reports where the TANF program was treated as a Major program at the subrecipient level. This represented 90.1% of the TANF dollars for the program year.

Without performing and documenting adequate monitoring procedures to determine whether TANF funds were used for services provided to or on behalf of TANF eligible children, management cannot be reasonably assured their subrecipients were reimbursed for allowable activities. Without requiring Head Start providers to submit reimbursement requests that clearly document the categories of costs allocated to TANF and how the costs claimed for reimbursement were allocated or related to the number of TANF eligible children identified, the Department cannot be assured they are reimbursing their Head Start providers only for allowable TANF costs, and cannot adequately recover unallowable costs when they are identified. According to ODE management, since there was no direct ratio between the number of TANF eligible children and the allowable costs claimed by a Head Start provider, the Department was unsure of how to adjust the providers' funding based on the identification of ineligible children. The Department also believes that the determination of whether costs were allocated to TANF only on behalf of eligible children should be covered through the performance of independent A-133 audits.

We recommend the Department submit additional documentation to support their on-site monitoring procedures in order to provide added assurance that Head Start providers properly determined eligibility and that charges allocated to TANF were for allowable costs incurred for providing services to TANF-eligible children. Reviewers should also determine their eligibility testing corresponds to the providers' reimbursement requests to ensure only costs associated with TANF eligible children were claimed. We also recommend the Department develop a reimbursement request form which allows ODE and Head Start providers to determine a direct relationship between the number of TANF-eligible children and the costs claimed by the provider so that, upon the discovery of a TANF-ineligible child for which TANF reimbursement was received, the Department can determine the amount to be recovered from the provider and initiate procedures to return the funds to ODJFS. Finally, we recommend that ODE continue their efforts to ensure that A-133 audit reports are obtained and evaluated for all providers exceeding the \$300,000 Federal expenditure threshold and that TANF funds are properly reported on the providers' Schedule of Expenditures of Federal Awards.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF EDUCATION

3. SPECIAL EDUCATION CLUSTER – SUBRECIPIENT MONITORING

<i>Finding Number</i>	2003-EDU03-005
<i>CFDA Number and Title</i>	84.027 / 84.173 – Special Education Cluster
<i>Federal Agency</i>	Department of Education

NONCOMPLIANCE

OMB Circular A-133, Subpart D, §____.400(d), states, in part, that a pass-through entity shall perform the following for the Federal awards it makes: “(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.”

34 CFR 80.40(a), states:

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

The Ohio Department of Education has developed a system for management reviews of its Special Education Cluster subrecipients. The following were noted during the audit period for the Special Education – Individuals with Disabilities Education Act (IDEA) Part B grant:

- The Office for Exceptional Children (OEC) has not established procedures for attempting to ensure that all subrecipients are reviewed within a specific time frame. The OEC completed 64 Management Assistance Reviews (MARs) out of 808 (8%) total IDEA Part B grant subrecipients during the audit period.
- The Department does not keep a master tracking schedule of all of their subrecipients to determine which have been reviewed and those that need to be reviewed. Instead, each consultant develops their own format for their tracking schedule, which makes office-wide coordination difficult.
- There is no documentation of the Assistant Director’s review of the MAR.
- Three of the 25 (12%) scheduled reviews selected for testing were not performed because the school district did not submit the necessary information for the desk review.
- The Department did not prepare or submit the MAR Report/letter to four of the 25 (12%) tested districts until well over five months after the review had been completed.
- In two of the 16 (12.5%) reviews that required corrective action plans, the acceptance memo of the corrective action plan was not signed by the consultant.
- In two of the 16 (12.5%) reviews that required corrective action plans, the corrective action plans had been received from the LEAs by ODE. However, there was no documentation of the acceptance / rejection memo of the corrective action plan that should have been submitted to the LEA.
- In six of the 16 (37.5%) reviews that required corrective action plans, there was no evidence of the acceptance/rejection of the corrective action plan or even if the plan had been submitted by the LEA.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF EDUCATION

3. SPECIAL EDUCATION CLUSTER – SUBRECIPIENT MONITORING (Continued)

Without developing a specific time frame or cycle for completing management reviews of all subrecipients, noncompliance issues at the subrecipient level may go undetected for a lengthy period of time. In addition, the OEC risks not evaluating all subrecipients for compliance with grant regulations in a consistently applied manner if the documentation of management reviews performed varies between reviewers. Furthermore, by failing to obtain and document management's approval of the subrecipient's corrective action plan, agreement with the plan or status of the corrective action cannot be determined. According to the Assistant Director of the Office for Exceptional Children, they continue to work towards improving the process for subrecipient monitoring, but due to job vacancies, they did not have the time to complete as many on-site monitoring visits as planned nor were they able to follow-up on overdue items.

We recommend the Office of Exceptional Children develop a specific time frame or cycle within which they will attempt to complete reviews of all IDEA Part B subrecipients. We also recommend the OEC create a complete subrecipient monitoring log with all of their IDEA Part B subrecipients and allocate their resources in a manner that allows them to ensure that all of their reviews are completed timely. Contained within the tracking log should be a field for reviews requiring corrective action, as well as the date due and date received, so that the Department can determine corrective action plans are submitted and approved in a timely manner. The Department should automatically perform an on-site review if the LEA does not submit the documentation requested as part of a desk audit. Finally, all review reports and corrective actions should be reviewed by management to determine if Department policies are being followed, and such reviews should be evidenced.

4. SPECIAL EDUCATION CLUSTER – CAPACITY BUILDING MINIMUM

<i>Finding Number</i>	2003-EDU04-006
<i>CFDA Number and Title</i>	84.027 / 84.173 – The Special Education Cluster
<i>Federal Agency</i>	Department of Education

INTERNAL CONTROL – REPORTABLE CONDITION

20 USC 1411(f)(4)(A) requires states receiving Special Education grant funds to allocate a specified amount of their grant award to make subgrants to local educational agencies to assist them in providing direct services and in making systemic change to improve results for children with disabilities through a variety of allowable capacity building projects. As part of the award notification process the U.S. Department of Education (USDoE) specifies the minimum amount each state is required to allocate for capacity building purposes.

The Ohio Department of Education's Office of Exceptional Children (OEC) prepares grant control sheets for each of its Special Education grant awards which list the amounts being allocated to each category (such as capacity building). Upon reviewing the Department's grant control sheets for those grant awards which were active during SFY 2003, we noted OEC did not appear to have allocated enough for capacity building for its 2001 grant award. However, upon discussing this apparent discrepancy with ODE we were informed that the grant control sheets did not necessarily reflect the Department's actual allocations.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF EDUCATION

4. SPECIAL EDUCATION CLUSTER – CAPACITY BUILDING MINIMUM (Continued)

OEC assigns program codes within its accounting system to the various project types allowed under the Special Education program. These codes (and the dollar amounts allocated to them) are then grouped together on the grant control sheet under the category they are being allocated to. However, the projects associated with the program codes are often applicable to more than one category, so OEC has some discretion as to which category they assign the program codes to. For example, several additional codes were assigned to the capacity building category for the Department's 2002 grant award. Had these assignments been used on the grant control sheet for the 2001 grant award, the Department would have had enough allocated to meet the capacity building minimum. We did note though that OEC has not established a formal procedure for allocating program codes to a particular category, and that there was no consistency between the grant years we reviewed as to which codes were designated as capacity building projects.

Without a formal process in place to consistently designate which program codes will be designated as meeting the capacity building required minimum allocation, the Department increases their risk of noncompliance with the aforementioned federal regulations. Such noncompliance could result in sanctions imposed by the U.S. Dept. of Education. According to the Assistant Director of the Office for Exceptional Children, he intends to assign the same program codes to capacity building for all future grant awards, and could not explain why this had not been done for previous grant awards.

We recommend the Department develop a formal process for determining which program codes can and will be designated as allowable capacity building projects in order to meet the required minimum capacity building allocation. This process should involve documenting the rationale for designating a particular program code as a capacity building project, and should include provisions which will allow for the consistent application of these program codes as capacity building projects for all future grant awards.

5. GRANT ADMINISTRATION PAYMENT SYSTEM

<i>Finding Number</i>	2003-EDU05-007
<i>CFDA Number and Title</i>	84.010 – Title I 84.027 / 84.173 – Special Education Cluster 84.048 – Vocational Education 84.242 – Charter Schools 84.367 – Improving Teacher Quality
<i>Federal Agency</i>	Department of Education

INTERNAL CONTROL - REPORTABLE CONDITION

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF EDUCATION

5. GRANT ADMINISTRATION PAYMENT SYSTEM (Continued)

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

Without sufficient monitoring activities which include reconciling transactions to CAS, the Department cannot reasonably ensure the accuracy of cash draws made through GAPS for federal grants or the amount available for those grants. Potentially, federal funds could be misappropriated resulting in lost opportunities to fund local educational projects throughout the State of Ohio. Should federal funds from a program be coded to another program's CAS fund, then subsequent expenditures from that fund could result in federal questioned costs. During the audit period we noted variances between CAS and GAPS for the Title I and Charter Schools programs. However, the variances were deemed immaterial, and ODE took corrective action, so the amounts were not questioned. According to ODE management, these errors occurred as a result of coding errors.

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

6. DATA PROCESSING - APPLICATION DEVELOPMENT AND MAINTENANCE

<i>Finding Number</i>	2003-EDU06-008
<i>CFDA Number and Title</i>	All Programs Administered by the Department
<i>Federal Agency</i>	Department of Agriculture Department of Education

INTERNAL CONTROL - REPORTABLE CONDITION

The use of formal, well documented procedures for computer application maintenance is vital for communicating management's operational goals and intentions to programming personnel as well as training new staff. Such written procedures help ensure that computer applications modified by the Department's programming staff are accurate, efficient, and meet management's requirements and deadlines. The procedures should cover such areas as programming standards, naming conventions, schedules and budgets, design standards, testing standards, approval procedures for users, approval procedures for data processing management, implementation standards and documentation standards.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF EDUCATION

6. DATA PROCESSING - APPLICATION DEVELOPMENT AND MAINTENANCE (Continued)

Without formal program change control procedures in operation, critical data processing applications could be improperly modified, resulting in erroneous transaction processing. This could affect demographic, employment, course and financial data related to students and staff compiled in the Education Management Information System application. Federal funding for school meal reimbursements, as processed and reported by Claims Reimbursement Reporting System could be affected. Finally, the integrity of school spending and payments processed by School Foundation and Career Technical and Adult Education systems could be affected. Management of the Information Technology Office indicated time and cost constraints have prevented the Department from developing and implementing formal standards for the various stages of the application program change process. Instead, the procedures are maintained informally.

We recommend the Department continue their efforts to develop and formalize standards and controls for the entire life cycle of the program change request process. Each phase of the program change process should be planned, controlled, and monitored. The changed programs should be remediated, tested, migrated, documented, and appropriately approved according to departmental standards and guidelines at appropriate intervals during the life cycle.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

1. SUBRECIPIENT MONITORING

<i>Finding Number</i>	2003-DOH01-009
<i>CFDA Number and Title</i>	10.557 – Special Supplemental Food Program for Women, Infants and Children 93.917 – HIV Care Formula Grants
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services

NONCOMPLIANCE

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

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

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

...

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

...

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

...

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

(4) Ensure that subrecipients expending \$300,000 (*\$500,000 for fiscal years ending after December 31, 2003*) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

(6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

§___.405 Management Decision.

...

(d) **Time requirements.** The entity responsible for making the management decision shall do so within six months of receipt of the audit report. Corrective action should be initiated within six months after receipt of the audit report and proceed as rapidly as possible.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

1. SUBRECIPIENT MONITORING (Continued)

The Department has established the audit requirement for all local agencies (subrecipients) that receive Federal assistance, including WIC and HIV grants, from it regardless of whether they are required to have a Single Audit or a financial statement audit. We selected 60 of 376 local agencies that received a WIC or HIV award for grant year 2002 and noted the following conditions:

- We examined the Department's audit report desk review files to determine if the Department complied with Federal subrecipient monitoring requirements. Of the 60 subrecipients selected for testing, two were biennial audits and were not due until 09/27/03 and could not be tested, and another did not submit a report and could not be tested. When asked about the latter subrecipient, the client was not sure if this was a biennial audit and was unable to contact the subrecipient. Of the remaining 57 subrecipients, only five submitted their audit report to the Department within the required time.
- The Department did not issue a management decision on the subrecipient's audit findings, have the subrecipients implement corrective action on any deficiencies, or determine the effects of those deficiencies on the Department for any of the 57 subrecipients that we could test.
- The Department did not follow its established control procedures on any of the 57 subrecipients that we could test. The controls included the following items:
 - Perform a desk review, which is signed and dated by the reviewer and the Audit Unit Chief to indicate completion of the review.
 - Prepare an Executive Decision Summary, which is signed and dated by the Assistant Director.
 - Complete the Audit Report Review Checklist, which is signed and dated by the reviewer to indicate completion of the desk review.

If the Department does not receive subrecipients' audit reports and conduct managerial reviews in a timely fashion, there is a risk that instances of subrecipient noncompliance will not be identified in a timely manner by the Department, and corrective action may not be initiated within a reasonable period of time. Furthermore, if subrecipients do not respond to the Department's findings and/or initiate appropriate corrective action in timely manner, the Department is at risk for not complying with Federal subrecipient monitoring requirements. If the Department is not in compliance, federal funding could be reduced or taken away, or sanctions imposed by the federal grantor agency. Noncompliance could also result in the Department having to repay part or all of the grant awards to the federal government, although we questioned no related costs during this period.

The Internal Audit Unit Chief and the Chief of the Grants Administration Unit stated subrecipients continue to submit their audit reports late, which often delays the Department's review of audit findings and subsequent corrective actions. Often, when management decisions are sent to subrecipients, requiring them to take corrective action, the subrecipients are late in responding and carrying out corrective actions. Many subrecipient personnel are not familiar with the administrative and audit requirements associated with federal programs, in spite of training and education provided by the Department.

Another contributing factor to the conditions noted is the Department was developing a new system, the revised automated desk review process, which will enable subrecipients and the Department to conduct business completely on-line, using the Grants Management Information System (GMIS). Using GMIS, subrecipients will be able to perform all administrative functions on-line, including submission of audit reports and responding to Department findings. This will enable the Department to maintain records, documentation, and subrecipient statistics in a central electronic repository. The Department expects this system to facilitate timely reviews and communication. The new system was not fully implemented and operational during the audit period.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

1. SUBRECIPIENT MONITORING (Continued)

We recommend the Department continue to review, develop, and improve its subrecipient monitoring policies and procedures to help ensure: 1) all audit reports are received from subrecipients by the required deadline; 2) all management decisions are performed in a timely manner; 3) subrecipients submit their corrective action responses to the Department within six months after the date of the audit report; and 4) the Department considers the effects of subrecipient noncompliance on the Department and documents such in its records. We also recommend the Department should consider withholding future awards to subrecipients who are not in compliance with the federal audit provisions.

2. DATA PROCESSING - BUSINESS RESUMPTION PLAN

<i>Finding Number</i>	2003-DOH02-010
<i>CFDA Number and Title</i>	10.557 – Special Supplemental Food Program for Women, Infants and Children 93.917 – HIV Care Formula Grants
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services

INTERNAL CONTROL - REPORTABLE CONDITION

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

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

Without a plan listing the key recovery sites, hardware and software configurations, off-site backup tape listings, prioritized recovery lists, roles and responsibilities of data processing and end-user personnel for both the mainframe and FoxPro programs and data, restoration of the WIC and other program processing could be significantly delayed. Without formal, written recovery policies and procedures, there is an increased risk that key agency operations could be interrupted for an extended period of time, resulting in a temporary halt to the valuable health support services provided to the general public. The Network Services Manager said significant efforts have been made in developing a Disaster Recovery Plan within the audit period. Timing has kept them from finishing it by the end of the audit period. They plan to have it completed in fiscal year 2004.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

2. DATA PROCESSING - BUSINESS RESUMPTION PLAN (Continued)

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

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

3. DATA PROCESSING - PROGRAM CHANGE CONTROLS

<i>Finding Number</i>	2003-DOH03-011
<i>CFDA Number and Title</i>	10.557 – Special Supplemental Food Program for Women, Infants and Children 93.917 – HIV Care Formula Grants
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services

INTERNAL CONTROL - REPORTABLE CONDITION

The use of formal, well documented procedures for computer application maintenance is vital for communicating management's operational goals and intentions to programming personnel as well as training new staff. Such written procedures can help ensure that computer applications modified by the Department's programming management perform accurately, efficiently, and meet management's requirements. The procedures typically cover such areas as programming standards, naming conventions, schedules and budgets, design standards, approval procedures for users, approval procedures for data processing management, and testing standards.

The Department did not have formal written procedures to track, monitor, remediate, test, implement, and document all mainframe or server-based program changes. In addition, the Data Service Request (DSR) form used for documenting mainframe program change requests was not used for the WIC program change process.

Without formal program change control procedures in operation, critical data processing applications could be improperly modified, resulting in erroneous and unauthorized transaction processing. The Information Technology Supervisor said staffing and monetary restraints prevented the implementation of program change procedures. In addition, the procedures for documenting WIC mainframe program changes were not followed as required. The Department purchased a versioning control software package and some of the projects, including the WIC application, should be under the control of the versioning control software in fiscal year 2004.

We recommend the Department develop, formalize, and approve standards for the entire life cycle of the program change request process, which would be used for all programs. Each phase of the life cycle should be planned and monitored, comply with the developed standards, be adequately documented, be staffed by competent personnel, and have appropriate project checkpoints and approvals.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

1. TANF – MONITORING SUBRECIPIENTS – CUYAHOGA COUNTY

<i>Finding Number</i>	2003-JFS01-012
<i>CFDA Number and Title</i>	93.558 – Temporary Assistance for Needy Families
<i>Federal Agency</i>	Department of Health and Human Services

QUESTIONED COSTS \$ 3,096,736

The Office of Management and Budget’s Circular A-133 states in part:

§_____.400 Responsibilities.

...

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

- (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.
- (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
- (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- (4) Ensure that subrecipients expending \$300,000 (\$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 the fiscal year.
- (5) Issue a management decision on audit findings within six months after receipt of the subrecipient’s audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- (6) Consider whether subrecipient audits necessitate adjustments of the pass-through entity’s own records.
- (7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

§_____.405 Management Decision.

...

(c) **Pass-through entity.** As provided in §____.400(d)(5), the pass-through entity shall be made responsible for making the management decision for audit findings that relate to Federal awards it makes to subrecipients.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

1. TANF – MONITORING SUBRECIPIENTS – CUYAHOGA COUNTY (Continued)

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

The CCDJFS serves as the pass-through entity to the Cuyahoga County of Mental Retardation and Developmental Disabilities (MR/DD) and to the First Council of Families and Children (FCFC). The CCDJFS performed no monitoring of these subrecipients during the fiscal year. Therefore, we are questioning the costs related to payments made by CCDJFS to these subrecipients during the fiscal year, totaling \$3,096,736.

Without performing the required monitoring procedures, CCDJFS cannot determine if federal funds, for which CCDJFS is responsible, were used for authorized purposes or disbursed to eligible recipients for the appropriate amounts. In addition, management cannot be reasonably assured that subrecipient controls are sound or that appropriate actions are taken to correct weaknesses.

Management stated the agreement was initiated by another department and was not established with a monitoring function.

We recommend management review OMB Circular A-133 and implement procedures necessary to fulfill its responsibilities regarding subrecipient monitoring. This may include implementing procedures designed to monitor the effectiveness of subrecipients’ processes that ensure federal awards are used only for authorized purposes; procedures designed to ensure subrecipients are in compliance with applicable laws and regulations and the provisions of contracts or agreements; and procedures designed to ensure performance goals and subrecipient corrective actions are being achieved. A system designed to track the performance of monitoring procedures and the status of corrective actions should be implemented.

2. DATA PROCESSING – FACSIS NO HISTORICAL PAYMENT DATA/FOSTER CARE DUPLICATES

<i>Finding Number</i>	2003-JFS02-013
<i>CFDA Number and Title</i>	93.658 – Foster Care 93.659 – Adoption Assistance
<i>Federal Agency</i>	Department of Health and Human Services

QUESTIONED COSTS \$2,219,754

42 USC § 675 (4)(A) states:

The term “foster care maintenance payments” means payments to cover the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, a child’s personal incidentals, liability insurance with respect to a child, and reasonable travel to the child’s home for visitation. In the case of institutional care, such term shall include the reasonable cost of administration and operation of such institution as are necessarily required to provide the items described in the preceding sentence.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

2. DATA PROCESSING – FACSIS NO HISTORICAL PAYMENT DATA/FOSTER CARE DUPLICATES (Continued)

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

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:
 - (a) Be necessary and reasonable for proper and efficient performance and administration of Federal awards.

Sound accounting practices require management to devise and implement adequate internal controls capable of providing reasonable assurance the objectives are being achieved. For the Department's federal programs, this must include internal controls to reasonably ensure amounts claimed for federal reimbursement are processed accurately, completely, and in compliance with federal laws and regulations; and are adequately documented to provide management with some assurance controls are performed timely and consistently.

Throughout each month, the Department receives requests for Title IV-E reimbursement from county Public Children Services Agencies (PCSAs) related to costs for Foster Care (via the ODHS 1925 and 1659) and Adoption Assistance (via the ODHS 1659). These costs, which represent charges for foster care maintenance, partial-month benefit payments, and other allowable expenses (such as clothing, graduation, legal expenses etc.) for both foster care and adoption assistance, are processed through the Family and Children Services Information System (FACSIS) that verifies expenditure allowability and calculates the reimbursement amount. However, FACSIS retains no historical cost information that could be used to prevent claims from being reimbursed more than once, or from exceeding the allowable limits (related to clothing, legal expenses, etc.) set forth in the Ohio Administrative Code. In addition, the Department did not have adequate procedures in place to track or monitor the receipt of monthly ODHS 1925 reports from each county to avoid duplicate submissions. As part of our testing, the auditor performed an electronic data match on state fiscal year 2003 Foster Care expenditures, as reported in the IV-E Disbursement Journals, to determine if any duplicate payments were made. In addition, the auditor also obtained the IV-E Disbursement Journals for July, August, and September of 2003 to reasonably identify adjustments to duplicate payments subsequent to fiscal year end. This analysis identified several matches in payments for the same child and dates of service, as detailed below.

CATEGORY	NUMBER OF MATCHES	AMOUNT REIMBURSED
Same child/service period-multiple providers & amounts	1,439	\$1,325,526
Same child/service period/provider/amount	558	\$387,076
Same child/service period	429	\$507,152
TOTAL	2,426	\$2,219,754

Of the duplicated Child/Service Dates and corresponding reimbursements identified, 939 (approximately 39%) of the Child/Service Dates representing \$1,421,759 (approximately 64%) of reimbursements were private providers (i.e. ODHS 1925), and 1,487 (61%) of the Child/Service Dates representing \$797,995 (approximately 36%) of reimbursements were public providers (i.e. ODHS 1659).

To verify the accuracy of this computer match, we reviewed the disbursement detail as documented in the Title IV-E Disbursement Journals for 55 items tested that appeared to contain duplicate reimbursements. Several of the items identified included multiple reimbursements for the same child and time period of service, with one child's charges for one month being reimbursed 12 times from the same request. Because the data in our total match file included the original allowed amount (\$2,581,416), we deducted the amount of one claim if all the match criteria were duplicated. We were unable to efficiently determine the actual overpayment if all match criteria, including the reimbursement amount, were not duplicated.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

2. DATA PROCESSING – FACSIS NO HISTORICAL PAYMENT DATA/FOSTER CARE DUPLICATES (Continued)

Therefore, we have questioned the total amount of the files identifying potential duplicate payments (\$2,219,754) for the Foster Care Program.

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

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

The Office of Children and Families' management stated that the delay in FACSIS systems modification was due to the fact that ODJFS has plans to develop a new Statewide Automated Child Welfare Information System (SACWIS) for Ohio. SACWIS will replace the current legacy system (FACSIS) that supports Federal and State reporting and benefits issuance, and will meet all federally mandated requirements for a certified SACWIS. The new system will also allow automated tracking of paid claims to eliminate duplicate payments. Therefore, because SACWIS was to be implemented within the near future (making FACSIS obsolete), the decision was to apply the limited information technology resources to the new SACWIS project.

In 2001 the Department was operating under a timeline that called for the SACWIS Request for Information to be released in February 2002, the SACWIS Request for Proposal to be released in July 2002, and the vendor to be on board and under contract by January 31, 2003. However, due to unforeseen circumstances, the SACWIS timeline was delayed. Although ODJFS is now on track for having a vendor on board and under contract in January 2004, given the timeline delay, a decision was made to re-direct information technology resources to modify the FACSIS system to prevent the duplicate payments. The FACSIS software modification was implemented on 6-01-03.

To date, management indicated that all duplicate payments that have been identified for state fiscal year 2000 and state fiscal year 2001 have been recovered. They are now in the process of completing the recovery of state fiscal year 2002 duplicate payments and will begin to recover the state fiscal year 2003 duplicate payments that occurred between 7-01-02 and 5-31-03 upon completion of the Auditor of State report for state fiscal year 2003.

We recommend ODJFS take the necessary steps to recover amounts overpaid to counties, and devise and implement internal control procedures that provide reasonable assurance that future federal Title IV-E reimbursements are made only for allowable program costs, paid only once, and are within the limits established for each type of cost. This could be achieved by maintaining historical payment information within FACSIS, by beneficiary, that could be compared to current reimbursement requests. We also recommend ODJFS implement the use of a tracking log or other tool to provide reasonable assurance that each county's ODHS 1925 has been received only once. Finally, we recommend the Department develop and implement policies and procedures to reasonably ensure data maintained in the Title IV-E Disbursement Journal is accurate.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

3. TANF/CHILD CARE/SSBG – SUBRECIPIENT MONITORING – DEFIANCE COUNTY

<i>Finding Number</i>	2003-JFS03-014
<i>CFDA Number and Title</i>	93.558 – Temporary Assistance for Needy Families 93.575/93.596 – Child Care Cluster 93.667 – Social Services Block Grant
<i>Federal Agency</i>	Department of Health and Human Services

QUESTIONED COSTS

\$863,716

The Office of Management and Budget’s Circular A-133 states in part:

§_____.400 Responsibilities.

...

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

- (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.
- (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
- (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- (4) Ensure that subrecipients expending \$300,000 (\$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 the fiscal year.
- (5) Issue a management decision on audit findings within six months after receipt of the subrecipient’s audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- (6) Consider whether subrecipient audits necessitate adjustments of the pass-through entity’s own records.
- (7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

§_____.405 Management Decision.

...

(c) **Pass-through entity.** As provided in §____.400(d)(5), the pass-through entity shall be made responsible for making the management decision for audit findings that relate to Federal awards it makes to subrecipients.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

3. TANF/CHILD CARE/SSBG – SUBRECIPIENT MONITORING – DEFIANCE COUNTY (Continued)

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

During testing of the TANF, Child Care, and SSBG programs, we noted the following, which resulted in total questioned costs of \$863,716:

TANF

The DCDJFS has contracted with the Family and Children First Council for the Help Me Grow Grant. No policies or procedures were in place during fiscal year 2003 to monitor this subrecipient. Therefore, we are questioning all expenditures incurred by the Family and Children First Council during the fiscal year (\$144,607).

CHILD CARE

During fiscal year 2003, DCDJFS contracted with the Northwestern Ohio Community Action Commission (NOCAC) to serve as a resource and referral agent and to perform specified administrative functions necessary to meet requirements for providing public funded child care services to eligible recipients residing in Defiance County. During review of the monitoring process, we noted the following:

- The DCDJFS has no written procedures in place to monitor and determine the adequacy of the procedures performed by NOCAC in assessing the certification and eligibility status of the recipients and ensuring benefits are provided only to eligible recipients. As a result, we are questioning costs of \$716,497, which represents total direct program expenditures incurred through NOCAC during the audit period.
- The contract did not specify that a single audit (under OMB Circular A-133) is required when the subrecipient (NOCAC) expends \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in federal awards during its fiscal year.

SSBG

During fiscal year 2002, DCDJFS had contracts with two providers, Women and Family Services (WFS) and First Call for Help (FCFH), Inc., to provide Title XX Social Services Block Grant services to eligible residents living in Defiance County (the contracts with WFS and FCFH were not renewed in fiscal year 2003). During our review, we noted the following:

- The DCDJFS has no written policies and procedures to monitor subrecipient contracts, including WFS and FCFH. As a result, we are questioning \$2,612 (projected to be more than \$10,000) expended during the audit period.
- The WFS and FCFH contracts did not specify that when a subrecipient has expended \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in federal awards during the subrecipient's fiscal year to have an audit in accordance with OMB Circular A-133.

Without performing the required monitoring procedures, DCDJFS cannot determine if these federal funds were used for authorized purposes or disbursed to eligible recipients for the appropriate amounts. In addition, management cannot be reasonably assured that controls associated with these subrecipients are sound or that appropriate actions are taken to correct weaknesses.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

3. TANF/CHILD CARE/SSBG – SUBRECIPIENT MONITORING – DEFIANCE COUNTY (Continued)

The Director and Fiscal Supervisor stated there were no procedures in place to review or monitor subrecipient contracts.

We recommend management review OMB Circular A-133 and implement the procedures necessary to fulfill its responsibilities regarding subrecipient monitoring. This may include implementing procedures designed to monitor the effectiveness of subrecipients’ processes that ensure federal awards are used only for authorized purposes; procedures designed to ensure subrecipients are in compliance with applicable laws and regulations and the provisions of contracts or agreements; procedures designed to ensure performance goals and subrecipient corrective actions are being achieved. A system designed to track the performance of monitoring procedures and the status of corrective actions should be implemented. Additionally, we recommend management revise the current contract with NOCAC to include the subrecipient’s responsibility for obtaining an audit, as required by OMB Circular A-133.

4. EMPLOYMENT SERVICES/SSBG - PERIOD OF AVAILABILITY

<i>Finding Number</i>	2003-JFS04-015
<i>CFDA Number and Title</i>	17.207/17.801/17.804 – Employment Services Cluster 93.667 – Social Services Block Grant
<i>Federal Agency</i>	Department of Labor Department of Health and Human Services

QUESTIONED COSTS \$369,130

Employment Services (ES):

29 CFR 97.23(b) states in part:

A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269) ...

Social Services Block Grant (SSBG):

45 CFR 96.14(b) states, in part:

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

42 USC 1397a(c) states, in part:

Payments to a State from its allotment for any fiscal year must be expended by the State in such fiscal year or in the succeeding fiscal year.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

4. EMPLOYMENT SERVICES/SSBG - PERIOD OF AVAILABILITY (Continued)

During state fiscal year 2003, the following payments were made outside each program's respective period of availability, resulting in questioned costs.

Program Year/ Grant Number	CFDA/ Program	Period End Date	Liquidation Date	Amount	
2000 (H665)	17.207 – ES	9/30/02	10/15/02	\$ 463	
2001 (J024)	17.804 – ES	3/31/02	4/09/03	<u>1,336</u>	
Subtotal ES					\$ 1,799
2000 (H692)	93.667 – SSBG	12/31/01	7/09/02	\$ 14,494	
2001 (J088)	93.667 – SSBG	12/31/02	3/24/03	<u>352,837</u>	
Subtotal SSBG					<u>\$367,361</u>
Total					<u>\$369,130</u>

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

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

5. CHILD CARE – SUBRECIPIENT MONITORING – FULTON COUNTY

<i>Finding Number</i>	2003-JFS05-016
<i>CFDA Number and Title</i>	93.575/93.596 – Child Care Cluster
<i>Federal Agency</i>	Department of Health and Human Services

QUESTIONED COSTS

\$341,333

The Office of Management and Budget's Circular A-133 states in part:

§_____.400 Responsibilities.

...

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

- (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of 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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

5. CHILD CARE – SUBRECIPIENT MONITORING – FULTON COUNTY (Continued)

- (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 the fiscal year.
- (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- (6) Consider whether subrecipient audits necessitate adjustments of the pass-through entity's own records.
- (7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

§ _____.405 Management Decision.

...

- (c) **Pass-through entity.** As provided in § _____.400(d)(5), the pass-through entity shall be made responsible for making the management decision for audit findings that relate to Federal awards it makes to subrecipients.

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

During fiscal year 2003, FCDJFS had one contract with one provider for the Child Care Cluster requiring the provider, Northwestern Ohio Community Action Commission (NOCAC), to serve as a resource and referral agent and to perform specified administrative functions necessary to meet requirements for providing public funded child and services to eligible recipients residing in Fulton County. During our review, we noted FCDJFS had no formal, written monitoring procedures in place and no evidence of monitoring procedures performed to determine if the provider was properly assessing the certification and eligibility status of the recipients and ensuring benefits are provided only to eligible recipients. Therefore, we are questioning the amounts disbursed to this provider during the fiscal year, \$341,333.

Without performing formal, scheduled, and required monitoring procedures and documenting such reviews, FCDJFS cannot determine if these federal funds were used for authorized purposes or disbursed to eligible recipients for the appropriate amounts. In addition, management cannot be reasonably assured that internal controls associated with subrecipients are sound or that appropriate actions are being taken to correct weaknesses. This could lead to unauthorized expenditures being made without timely detection of any errors by the subrecipient or FCDJFS.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

5. CHILD CARE – SUBRECIPIENT MONITORING – FULTON COUNTY (Continued)

The Child Care Services Supervisor indicated there are no formal written procedures in place to review or monitor subrecipient contracts and case files.

We recommend FCDJFS review OMB Circular A-133 and implement the necessary procedures to fulfill their responsibilities regarding subrecipient monitoring. These procedures should, at a minimum, include the following:

- Include scheduled on-site monitoring and other procedures designated to provide reasonable assurance subrecipients are in compliance with program laws, regulations, and requirements. These on-site reviews should be documented and include evaluations of subrecipients' processes and procedures over critical single audit compliance requirements (allowable costs, eligibility, etc...), as well as program activities. Case files selected for testing and reviewed should be documented. Testing documentation should be kept on file.
- Be performed on a regular and ongoing basis. Scheduled case file reviews and on-site visits should be formally determined.
- Stipulate which organization is responsible for ensuring a single audit is performed.
- Provide assurance that appropriate corrective actions are taken to address errors or weaknesses identified.

6. TANF – SUBRECIPIENT MONITORING – HANCOCK COUNTY

<i>Finding Number</i>	2003-JFS06-017
<i>CFDA Number and Title</i>	93.558 – Temporary Assistance for Needy Families
<i>Federal Agency</i>	Department of Health and Human Services

QUESTIONED COSTS

\$255,849

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.

...

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

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

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

During state fiscal year 2002, HCDJFS had one contract with one provider for Ohio Works First (OWF) and Prevention, Retention, and Contingency (PRC) services requiring the provider to determine eligibility of the recipients of benefits. During our review, we noted HCDJFS had no monitoring procedures in place to determine if the provider was properly assessing the eligibility status of the recipients and only providing benefits to eligible recipients. As part of the fiscal year 2003 follow-up of prior year Single Audit comments, we contacted the HCDJFS Director and reviewed supporting documentation to determine if adequate monitoring procedures were in place during fiscal year 2003. Based on discussions with the Director and review of the contracts, HCDJFS has 2 contracts with one provider to provide TANF services (Help Me Grow, and the Wellness Initiative Program). Although there was some monitoring of the invoices submitted by the provider and a limited review of selected cases, these procedures were performed only once and covered the period October 2002 through December 2002. Furthermore, there was no sufficient evidence or support of appropriate monitoring procedures in place to determine if the provider was properly assessing the eligibility status of the recipients and only providing benefits to eligible recipients. Therefore, amounts disbursed to the provider during fiscal year 2003 resulted in questioned costs totaling \$255,849.

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

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

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

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

7. TANF – SUBRECIPIENT MONITORING – LUCAS COUNTY

<i>Finding Number</i>	2003-JFS07-018
<i>CFDA Number and Title</i>	93.558 – Temporary Assistance for Needy Families
<i>Federal Agency</i>	Department of Health and Human Services

QUESTIONED COSTS

\$113,949

The Office of Management and Budget’s Circular A-133 states, in part:

§_____.400 Responsibilities.

...

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

- (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.
- (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
- (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- (4) Ensure that subrecipients expending \$300,000 (\$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 the fiscal year.
- (5) Issue a management decision on audit findings within six months after receipt of the subrecipient’s audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- (6) Consider whether subrecipient audits necessitate adjustments of the pass-through entity’s own records.
- (7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

§_____.405 Management Decision.

...

(a) **Pass-through entity.** As provided in §_____.400(d)(5), the pass-through entity shall be made responsible for making the management decision for audit findings that relate to Federal awards it makes to subrecipients.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

7. TANF – SUBRECIPIENT MONITORING – LUCAS COUNTY (Continued)

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

We selected all subrecipient contracts (nine in total) with LCDJFS for the TANF program and performed a test to determine if LCDJFS complied with subrecipient monitoring requirements throughout the fiscal year. Our test revealed the following conditions:

- None of the nine contracts included language pertaining to the subrecipient's responsibility to obtain a single audit if the subrecipient expends \$300,000 (\$500,000 for fiscal years ending after 12/31/03) or more in federal awards during a fiscal year.
- None of the nine contracts included language regarding eligibility determination criteria.
- We noted one of nine contracts (YMCA Adult Literacy/Child Reading) was not monitored by LCDJFS for proper eligibility determinations made by the subrecipient. Therefore, we are questioning costs for the amount of expenditures to YMCA Adult Literacy/Child Reading during the fiscal year, totaling \$113,949.

Without performing the required monitoring procedures, management cannot determine if these federal funds were used for authorized purposes in compliance with the requirements of OMB Circular A-133. In addition, management cannot be reasonably assured that internal controls associated with these subrecipients are sound or that appropriate actions are taken to correct weaknesses. If monitoring procedures are not properly implemented and performed, management may not be able to reasonably ensure that only eligible recipients are receiving benefits.

Management indicated the subrecipients should be aware of the OMB Circular A-133 requirements and that subrecipients are provided eligibility determination training. Furthermore, management indicated that improvements have been noted over the last several years regarding subrecipient monitoring by LCDJFS.

We recommend management review OMB Circular A-133 and implement procedures necessary to fulfill its responsibilities regarding subrecipient monitoring. The LCDJFS should include language in its contracts and Memorandums of Understanding requiring subrecipients expending \$300,000 (\$500,000 for fiscal years ending after 12/31/03) or more in federal awards during the subrecipient's fiscal year to have audits made in accordance with OMB Circular A-133. Also, these contracts should include language regarding eligibility determination criteria by the subrecipient. In addition, we recommend management implement a system to track the status of any follow up regarding monitoring reviews to indicate the need for corrective action by the subrecipient.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

8. CHILD CARE – MISSING DOCUMENTATION – CUYAHOGA COUNTY

<i>Finding Number</i>	2003-JFS08-019
<i>CFDA Number and Title</i>	93.575/93.596 – Child Care Cluster
<i>Federal Agency</i>	Department of Health and Human Services

QUESTIONED COSTS \$26,182

45 CFR 98.20 (a) states, in part:

- (a) In order to be eligible for services under Sec. 98.50, a child shall:
 - (1) (i) Be under 13 years of age; or,
 - (ii) At the opinion of the Lead Agency, be under age 19 and physically or mentally incapable of caring for himself or herself, or under court supervision;
 - (2) Reside with a family whose income does not exceed 85 percent of the State’s median income for a family of the same size; and
 - (3) (i) Reside with a parent or parents (as defined in Sec. 98.2) who are working or attending a job training or educational program; or
 - (ii) Received, or need to receive, protective services and reside with a parent or parents (as defined in Sec. 98.2) other than the parent(s) described in paragraph (a)(3)(i) of this section.

...

We selected 20 of 24,887 Day Care Placement and Payment case files for compliance testing. The 20 cases selected represent \$10,451 of \$139,819,692 total program expenditures for fiscal year 2003. Five of 20 cases selected, including supporting documentation, could not be located. We were unable to determine if the respective payments related to the missing files were made to eligible recipients. Total payments made to the recipients in question were \$26,182.

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

Management stated the missing files were due to the installation of the record imaging system not being fully completed. Additionally, the record storage facility was moved to a different building during our audit period.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

9. TANF – REFUSAL TO WORK SANCTIONS – LUCAS COUNTY

<i>Finding Number</i>	2003-JFS09-020
<i>CFDA Number and Title</i>	93.558 – Temporary Assistance for Needy Families
<i>Federal Agency</i>	Department of Health and Human Services

QUESTIONED COSTS

\$10,886

45 CFR 261.14(a) states:

If an individual refuses to engage in work required under section 407 of the Act, the State must reduce or terminate the amount of assistance payable to the family, subject to any good cause of other exceptions the State may establish. Such a reduction is governed by the provisions of section 261.16.

Ohio Revised Code Section 5107.16 (A) states, in part:

If a member of an assistance group fails or refuses, without good cause, to comply in full with a provision of a self-sufficiency contract entered into under section 5107.14 of the Revised Code, a county department of job and family services shall sanction the assistance group...

...

We selected 20, of approximately 6,426, Ohio Works First (OWF) assistance groups (AG's) and performed a compliance test of the sanctions for refusal to work. As a result, four of the twenty OWF AG's selected were not in compliance with work activities and did not have good cause. LCDJFS failed to properly assign or follow up on client participation in work activities. As a result, these clients were not sanctioned and we are questioning the costs from the date of noncompliance to the end of the fiscal year, totaling \$10,886.

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

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

We recommend management review current policies and procedures and/or implement new control procedures which ensure only eligible individuals receive assistance. We recommend management communicate its policies and procedures to staff to ensure they are carried out as intended.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

10. TANF – MISSING SELF SUFFICIENCY CONTRACT AND PLAN – LUCAS COUNTY

<i>Finding Number</i>	2003-JFS10-021
<i>CFDA Number and Title</i>	93.558 – Temporary Assistance for Needy Families
<i>Federal Agency</i>	Department of Health and Human Services

QUESTIONED COSTS

\$7,632

Ohio Revised Code Section 5107.14 states, in part:

An assistance group is ineligible to participate in Ohio works first unless the minor head of household or each adult member of the assistance group, not later than thirty days after applying for or undergoing a redetermination of eligibility for the program, enters into a written self-sufficiency contract with the county department of job and family services. The contract shall set forth the rights and responsibilities of the assistance group as applicants for and participants of the program, including work responsibilities established under [sections 5107.40](#) to [5107.69](#) of the Revised Code and other requirements designed to assist the assistance group in achieving self-sufficiency and personal responsibility.

When administering federal grant awards for ODJFS, it is the responsibility of LCDJFS to provide reasonable assurance that only eligible individuals receive assistance and the information reported to ODJFS is accurate and complete. In order for county management to ensure and verify this, it is imperative that appropriate supporting documentation be maintained for all amounts reported and case files contain all pertinent information relating to the case and be readily accessible for review and/or reference. The ODJFS Administrative Procedure Manual Chapter 9212 states, in part:

Financial, programmatic, statistical, and recipient records and supporting documents must be retained for a minimum of three years. The minimum retention period for public assistance records depends upon whether the assistance group is active or inactive. ODJFS requires inactive assistance group records to be held for a minimum of three years after the group has become inactive. For active assistance groups, or assistance groups that have been inactive for less than three years, ODJFS requires a minimum retention period of seven years for documentation, including old application/reapplication forms and monthly reporting forms which were obtained for the assistance group record.

We selected 20, of approximately 6,426, OWF cases from the GWP518RA, Participation Detail Report, and performed a compliance test. As a result, we noted four of 20 cases selected did not have a Self-Sufficiency Contract (SSC) or a Self-Sufficiency Plan (Plan) applicable to the time frame selected for testing. Therefore, we are questioning costs of \$7,632 (projected to be more than \$10,000), the amount of benefits paid to these four recipients during the time period tested.

Without appropriate supporting documentation on file, the risk of incomplete and/or inaccurate case files increases. Missing documentation may result in the inability to support compliance with federal and/or state regulations and/or the identification of questioned costs/undocumented costs. If required SSC's and Plans are not maintained, management may not be able to fully support or ensure payments were made only to or on behalf of eligible recipients. The lack of supporting documentation increases the risk that payments could be made to ineligible clients or for unallowable activities and could result in future question costs.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

10. TANF – MISSING SELF SUFFICIENCY CONTRACT AND PLAN – LUCAS COUNTY (Continued)

We recommend management review its current policies and procedures with staff and implement or enforce control procedures which will reasonably ensure case files have adequate documentation to support subsidy payments made to recipients. One method to ensure the required information is maintained in the case files would be to develop and use a checklist. The check list would serve as a lead sheet for each case file to show the status of the case and help ensure the proper supporting documentation is included within the file. Management may consider performing a periodic review of a sample of case files to ensure established internal control and record retention procedures are followed by personnel.

11. TANF – UNALLOWABLE PAYMENTS – CUYAHOGA COUNTY

<i>Finding Number</i>	2003-JFS11-022
<i>CFDA Number and Title</i>	93.558 – Temporary Assistance for Needy Families
<i>Federal Agency</i>	Department of Health and Human Services

QUESTIONED COSTS

\$2,976

45 CFR 201.2 states:

The State plan is a comprehensive statement submitted by the State agency describing the nature and scope of its program and giving assurance that it will be administered in conformity with the specific requirements stipulated in the pertinent title of the Act, the regulations in subtitle A and this chapter of this title, and other applicable official issuances of the department. The State plan contains all information necessary for the Administration to determine whether the plan can be approved, as a basis for Federal financial participation in the State program.

Cuyahoga County's PRC Program Manual, which outlines the county's model, states, in part:

PRC applicants who meet all eligibility criteria may be eligible for up to \$1,500 in the calendar year for direct good and/or services. The calendar year begins each January 1 and ends on December 31. PRC funds are available to cover direct services that assist in diverting the applicant from cash assistance...

...

Ohio Revised Code Section 5108.04 states, in part:

Each county department of job and family services shall adopt a written statement of policies governing the prevention, retention, and contingency program for the county. The statement of policies shall be adopted not later than October 1, 2003, and shall be updated at least every two years thereafter. A county department may amend its statement of policies to modify, terminate, and establish new policies. The county director of job and family services shall sign and date the statement of policies and any amendment to it. Neither the statement of policies nor any amendment to it may have an effective date that is earlier than the date of the county director's signature.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

11. TANF – UNALLOWABLE PAYMENTS – CUYAHOGA COUNTY (Continued)

Each county department of job and family services shall provide the department of job and family services a written copy of the statement of policies and any amendments it adopts to the statement not later than ten calendar days after the statement or amendment's effective date.

...

(Note: former ORC 5108.06 was renumbered to 5108.04 by Section 1, HB 95, Acts 2003, effective 09/26/2003)

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

...

Federal and State law (42 USC 608 sections 431 of PRWORA and the ORC) prohibit the issuance of PRC:

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

...

It is management's responsibility to implement policies and procedures which reasonably ensure CCDJFS complies with the above requirements.

We selected twenty PRC (Prevention, Retention, and Contingency) cases to perform testing. As a result, we noted the following conditions:

- For one recipient of twenty tested, the recipient was deemed ineligible to receive PRC assistance due to a missing case file and lack of eligibility information within the CRIS-E system. We will question costs related to this case for the entire audit period, totaling \$1,661. Included in this amount is a payment made to the recipient during the audit period of \$161 in excess of the 12 month PRC threshold of \$1,500.
- For one recipient of twenty tested, the assistance group identified per the case number did not contain at least one minor child or a pregnant woman, as required by ORC 5108.07. Therefore, the recipient was deemed ineligible to receive PRC assistance. We will question costs for this recipient for the entire fiscal year, totaling \$500.
- For one recipient of twenty tested, payments were made to the recipient during the fiscal year for \$1,290 in excess of the 12 month PRC threshold of \$1,500. Of the \$1,290 overpaid, a stop payment was placed on one payment for \$475, thereby reducing the total overpayment to \$815. We will question cost for the overpayment amount of \$815.

The total amount questioned is the total of the individual amounts questioned from above, or \$2,976 (projected to be more than \$10,000).

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

11. TANF – UNALLOWABLE PAYMENTS – CUYAHOGA COUNTY (Continued)

If PRC benefits are paid to ineligible recipients or for amounts that exceed established thresholds, there is a greater risk that program objectives will not be met. Furthermore, program funding may be adversely affected, if CCDJFS fails to comply with federal regulations and state and county plans. Without required documentation, CCDJFS cannot substantiate that federal funds were used for authorized purposes in compliance with laws and regulations or that program objectives were met.

The Compliance Manager stated the missing documentation was caused by staff buyout, move of records storage to new location, implementation of imaging system not yet complete, and realignment of staff.

We recommend management review current policies and procedures with staff and implement and/or enforce control procedures which reasonably ensure recipients do not receive benefits when assistance group requirements are not met or for amounts in excess of the approved threshold. Furthermore, management should periodically monitor the effectiveness of its procedures designed to ensure PRC benefits are not paid to ineligible recipients or for amounts that exceed established thresholds.

We also recommend management review current policies and procedures and implement and/or enforce control procedures which reasonably ensure case files for TANF PRC program recipients have adequate documentation to support the subsidy payments made to recipients. The use of a checklist is one method to provide reasonable assurance that all required information is maintained in the case file. The check list would serve as a lead sheet for each case file to show the status of the case and ensure the proper supporting documentation is included in the file. We recommend CCDJFS continue its efforts to image all paper records and utilize a checklist to image case files to ensure all records are imaged before disposal.

12. MEDICAID/SCHIP – DRUG REBATE PAYMENTS

<i>Finding Number</i>	2003-JFS12-023
<i>CFDA Number and Title</i>	93.767 – State Children’s Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Health and Human Services

QUESTIONED COSTS

\$2,088

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

C (1) Factors affecting allowability of costs. To be allowable under Federal awards, cost must meet the following general criteria:

...

(i) Be the net of all applicable credits.

...

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

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

C (4) Applicable credits.

- (a) Applicable credits refer to those receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs. Examples of such transactions are: purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credit accruing to or received by the governmental unit relate to allowable costs, they shall be credited to the Federal award either as a cost reduction or cash refund, as appropriate.”

...

The Pharmacy Services Unit follows the Center for Medicaid and Medicare Services (CMS) guidance on all Medicaid drug rebate issues. The Medicaid Drug Rebate Program Release No. 26 requires manufacturers to calculate and pay interest “for all rebates not paid in a timely manner.” The release also places the responsibility to collect interest due and report those amounts to CMS with the State. As such, it is management’s responsibility to design and implement control procedures to reasonably ensure all rebate payments have been properly calculated, are submitted timely, and include any interest owed.

Of the 40 drug rebate receipts selected for testing from the 1,416 processed during the audit period, twelve were not paid within the 38 days of mailing, as required. For eleven of these late payments, no interest or only partial interest was calculated and/or paid by the manufacturer, resulting in total questioned costs of \$2,088 (projected to be greater than \$10,000). Based on the documentation provided, we were unable to determine the amounts related to each of these programs, therefore, the entire amount has been questioned for the Medicaid Cluster. In addition, internal controls over drug rebates totaling approximately \$318 million were not consistently applied to ensure timely billing and collection, as indicated below:

- For all four quarters tested, the rebate invoices were not mailed within 60 days after the end of the quarter. Days in excess ranged from nine to twenty days late. A total of forty invoices were tested, ten from each quarter. Each quarter all invoices are mailed out on the same day.
- Outstanding drug rebate invoices are initially followed up on by the Department’s Office of Fiscal Services. A letter is sent to the drug manufacturers requesting payment and the interest owed to the State. However, there are no additional follow-up procedures to ensure the drug rebate interest payments owed to the State are actually received from the manufacturer.

By failing to collect the late drug rebate interest from the manufacturers, the Department forfeits revenue to which it is entitled, directly reducing the amount of funding available to finance operations and/or program activities. In addition, any penalties that may be imposed by CMS for noncompliance with program procedures could further reduce available funding. The Pharmacy Program Administrator indicated the Department is aware of the late drug rebate mailings; this was attributed to CMS experiencing difficulties with releasing the drug rebate tape within the required time frames to the Department. Furthermore, the Ohio Health Plan management stated the responsibility of collecting interest of late drug rebate payments does not lie with the State but with the drug manufacturers.

We recommend the Department implement and/or strengthen control policies and procedures related to the receipt of payment for drug rebate invoices and the collection of interest on late drug rebate payments to reasonably ensure all payments, including interest, is properly calculated and submitted by the manufacturers in accordance with the Medicaid Drug Rebate Program Release No. 26. This would include ensuring all related information is received timely, invoices are mailed within 60 days after the end of the quarter (or within 22 days of the CMS release date), and reviewing all labeler reconciliations. We also recommend the Department take appropriate steps to reasonably ensure an appropriate level of checks and balances exist and appropriate supervisory reviews are completed on a consistent basis.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

13. SCHIP – INELIGIBLE RECIPIENTS

<i>Finding Number</i>	2003-JFS13-024
<i>CFDA Number and Title</i>	93.767 – State Children’s Insurance Program
<i>Federal Agency</i>	Department of Health and Human Services

QUESTIONED COSTS

\$ 1,917

45 CFR 206.10(a)(5)(i) states, in part:

Financial assistance and medical care and services included in the plan shall be furnished promptly to eligible individuals without any delay attributable to the agency’s administrative process, and shall be contributed regularly to all eligible individuals until they are found ineligible.

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

As SCHIP claims from subrecipient state agencies are received, they are interfaced with the automated Medicaid Management Information System (MMIS) to verify provider and recipient eligibility. The Ohio Department of Job and Family Services utilizes the CRIS-E system to determine eligibility and MMIS to determine whether payments for medical services are allowable. The eligibility data entered by the county case workers into CRIS-E is transmitted to MMIS daily via an interface. When partial eligibility exists for one claim, MMIS is programmed with an edit to reasonably ensure the line item service dates which fall within a period of eligibility are paid, and those that fall outside an eligible period are denied. However, we noted the following errors when verifying recipients’ eligibility in CRIS-E:

- For 3 of 60 SCHIP recipient claims tested totaling \$1,071, the recipients were not eligible to receive SCHIP benefits at the time the services were performed. The eligibility timeframes in MMIS and CRIS-E did not span the dates the services were performed which resulted in questioned costs of \$1,071 (projected to be greater than \$10,000).
- For 1 of 60 SCHIP recipient claims tested, the recipient was eligible for SCHIP when the sample was selected; however, the recipient’s eligibility code for the date of service was subsequently changed to Medicaid. The recipient’s eligibility in CRIS-E was not consistent with the eligibility status per MMIS. This recipient was reimbursed \$817, resulting in questioned costs (projected to be greater than \$10,000).
- For 1 of 60 SCHIP recipient claims tested for \$29, the recipient was not eligible for SCHIP benefits per the CRIS-E system. This resulted in questioned costs of \$29 (projected to be greater than \$10,000).
- For 1 of 60 SCHIP recipients tested, the case notes in CRIS-E did not properly reflect a correction to the eligibility status. According to the case notes in CRIS-E, a 7102 request to backdate the recipient’s eligibility was submitted in November 2002; however, the adjustment was never made in CRIS-E. As such, the recipient was eligible for SCHIP and the cost will not be questioned.

The lack of sufficient edit and validation checks increases the risk of errors during the processing of SCHIP claims resulting in inaccurate payments to providers. Overpayments to providers may subject the Department to penalties or sanctions which may jeopardize future federal funding and limit their ability to fulfill program requirements to provide benefits to those in need. The Assistant Bureau Chief could not provide an explanation as to why the recipients were paid for claims outside of their eligibility spans. In addition, the interfaces between MMIS and CRIS-E contained underlying coding where the recipient’s eligibility category may be “MAP” (SCHIP) in MMIS, but have a case type indicator for Medicaid (“H” or “I”) which infers that the recipient is Medicaid eligible. No documentation could be provided to support this explanation.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

13. SCHIP – INELIGIBLE RECIPIENTS (Continued)

We recommend ODJFS periodically perform testing to help ensure the automated controls are functioning properly and the system is appropriately determining the eligibility of recipients and the allowability of claims. The evaluation should include a sample selection of provider payments to verify that reimbursements to providers are properly computed within MMIS and are reimbursed according to federal regulations. Any problems noted should be promptly corrected to reduce the risk that payments will be made on behalf of ineligible individuals. We further recommend ODJFS develop or enhance the CRIS-E and MMIS manuals to document the different sequences of eligibility categories and case types for both Medicaid and SCHIP within the two systems.

14. TANF/CHILD SUPPORT NON-COOPERATION – LUCAS COUNTY

<i>Finding Number</i>	2003-JFS14-025
<i>CFDA Number and Title</i>	93.558 – Temporary Assistance for Needy Families
<i>Federal Agency</i>	Department of Health and Human Services

QUESTIONED COSTS

\$1,850

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

If the agency responsible for administering the State plan approved under part D of section 651 of this title determines that an individual is not cooperating with the State in establishing paternity or in establishing, modifying, or enforcing a support order with respect to a child of the individual, and the individual does not qualify for any good cause or other exception established by the State pursuant to section 654(29) of this title, then the State –

- (A) shall deduct from the assistance that would otherwise be provided to the family of the individual under the State program funded under this part an amount equal to not less than 25% of the amount of such assistance; and
- (B) may deny the family any assistance under the State program.

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

We selected 20, out of approximately 438, Child Support Enforcement Agency (CSEA) referrals to be sanctioned for child support non-cooperation. As a result, we noted two of 20 cases selected were released prior to cooperation with CSEA and/or work activities. One of the two sanctions was released without evidence of compliance with CSEA. The second sanction was released without compliance with CSEA. Therefore, we are questioning costs of \$1,030 for all cash assistance payments made during the period from January to April of 2003 for one recipient, and \$815 related to medical benefits received by the second recipient (sanctioned with a medical penalty for non-cooperation with CSEA) during the period January through June, 2003. Additionally, in one of the 20 cases selected, the AG was under sanction for medical benefits under one case number. However, medical benefits were authorized under a new case number. This resulted in medical benefits being inappropriately authorized from September 2002 through March 2003; therefore, we question costs in the amount of \$5. The total amount questioned is the total of the individual amounts questioned, or \$1,850 (projected to be more than \$10,000).

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

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

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

LCDJFS management stated these were oversights made by department personnel. The sanctions were released early and the recipients were not in compliance and should not have received benefits.

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

15. MEDICAID – INELIGIBLE RECIPIENTS

<i>Finding Number</i>	2003-JFS15-026
<i>CFDA Number and Title</i>	93.775/93.777/ 93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Health and Human Services

QUESTIONED COSTS

\$1,430

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.

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. Coding used within automated systems should be consistent with documented policies and should be unique to the specific activity or program area to avoid an overlap between similar activities.

As Medicaid claims from subrecipient state agencies are received, they are interfaced with the automated Medicaid Management Information System (MMIS) to verify provider and recipient eligibility. The Ohio Department of Job and Family Services utilizes the CRIS-E system to determine eligibility and MMIS to determine whether payments for medical services are allowable. The eligibility data entered by the county case workers into CRIS-E is transmitted to MMIS daily via an interface. ODJFS uses unique coding categories within CRIS-E and MMIS to identify the program eligibility of recipients. However, for 11 of 120 Medicaid recipient claims tested, the recipients did not appear to be eligible in CRIS-E as they only contained coding (MAP) used to identify SCHIP eligibility. In MMIS, the recipients were labeled as case types “H” or “I” which are not SCHIP indicators according to ODJFS policies. Inquiry with the client indicated that these recipients were eligible for Medicaid because, although these claims contained the unique coding for SCHIP (MAP), the case types “H” and “I” indicate Medicaid eligibility. No documentation was provided to support the explanation and, as such, we were unable to verify which program the recipients were eligible for and which program funds should have been used to reimburse the recipients health care costs, totaling \$1,430. Therefore, this resulted in questioned costs of \$1,430 (projected to be greater than \$10,000).

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

15. MEDICAID – INELIGIBLE RECIPIENTS (Continued)

Insufficient documentation of the coding sequences used may cause confusion among those entering the data into the system. As a result, inconsistent coding sequences used to identify program eligibility within the automated systems could lead to overpayments to providers for medical services provided to ineligible recipients. Overpayments to providers may subject the Department to penalties or sanctions which may jeopardize future federal funding and limit their ability to fulfill program requirements to provide benefits to those in need.

The Assistant Bureau Chief in the Bureau of Consumer & Program Support indicated the interfaces between MMIS and CRIS-E contained underlying coding where the recipient's eligibility category may be "MAP" (SCHIP) in MMIS, but have a case type indicator for Medicaid ("H" or "I") which infers that the recipient is Medicaid eligible. The different case types were used to identify the different age levels being incorporated from the old Medicaid-Healthy Start program to SCHIP. No documentation could be provided to explain why these instances contradicted the coding specified in the Department's procedural manuals.

We recommend ODJFS periodically perform testing to help ensure that automated controls are functioning properly and the system is appropriately determining the eligibility of recipients and the allowability of claims. The evaluation should include a sample selection of provider payments to verify that reimbursements to providers are properly computed within MMIS and are reimbursed according to federal regulations. Any problems noted should be promptly corrected to reduce the risk that payments will be made on behalf of ineligible individuals. Edit checks should be implemented to identify inaccurate coding sequences between the two systems and errors should be corrected immediately upon identification. We further recommend ODJFS develop or enhance the existing CRIS-E and MMIS manuals to document the different sequences of eligibility categories and case types for both Medicaid and SCHIP within the two systems.

16. TANF – UNALLOWABLE COSTS – HAMILTON COUNTY

<i>Finding Number</i>	2003-JFS16-027
<i>CFDA Number and Title</i>	93.558 – Temporary Assistance for Needy Families
<i>Federal Agency</i>	Department of Health and Human Services

QUESTIONED COSTS

\$1,116

45 CFR 260.20 states:

The TANF program has the following four purposes:

- (a) Provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;
- (b) End the dependence of needy parents on government benefits by promoting job preparation, work, and marriage;
- (c) Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and
- (d) Encourage the formation and maintenance of two-parent families.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

16. TANF – UNALLOWABLE COSTS – HAMILTON COUNTY (Continued)

ORC Section 5108.06 states:

In adopting a statement of policies under section 5108.04 of the Revised Code for the county’s prevention, retention, and contingency program, a county department of job and family services may specify both of the following:

- (A) Benefits and services to be provided under the program that prevent and reduce the incidence of out-of-wedlock pregnancies or encourage the formation and maintenance of two-parent families as permitted by 45 CFR 260.20(c) and (d);
- (B) How the county department will certify individuals' eligibility for such benefits and services.

The HCDJFS uses the Case Information Sheet as the application for PRC benefits. The application serves as the basis for determining eligibility of an individual. It is management’s responsibility to establish policies and procedures which reasonably assure compliance with the above requirements and to ensure that payments are made only to eligible persons.

We selected ten recipients that received TANF-PRC benefits during the fiscal year and performed a compliance test. As a result, we noted one recipient received PRC benefit payments, totaling \$1,116, although the recipient’s application deemed the person to be ineligible for PRC benefits. Therefore, we are questioning costs of \$1,116 (projected to be more than \$10,000).

If application and eligibility determination procedures fail to limit payment of TANF-PRC benefits to those individuals who are deemed eligible, there is a great risk that program objectives will not be achieved. Future questioned costs may arise, and future program funding may be adversely affected.

The assistant to Fiscal Director stated the expenditures noted above were miscoded at the time benefits were charged (the recipient was eligible for another program; however, the expenditures were miscoded to the TANF program).

We recommend management review its policies and procedures and/or establish new policies and procedures which reasonably ensure that payments are being made only to eligible persons and expenditures are properly coded to the correct programs. Such procedures may include monitoring functions, whereby a sample of recipient case files are reviewed to determine the eligibility status of recipients and/or coding of a sample of expenditure transactions can be reviewed.

17. TANF/CHILD SUPPORT NON-COOPERATION – CUYAHOGA COUNTY

<i>Finding Number</i>	2003-JFS17-028
<i>CFDA Number and Title</i>	93.558 – Temporary Assistance for Needy Families
<i>Federal Agency</i>	Department of Health and Human Services

QUESTIONED COSTS

\$ 623

42 USC, Section 608(a)(2) states, in part:

...

If the agency responsible for administering the State plan approved under part D of section 651 of this title determines that an individual is not cooperating with the State in establishing paternity or in establishing, modifying, or enforcing a support order with respect to a child of the individual, and the individual does not qualify for any good cause or other exception established by the State pursuant to section 654(29) of this title, then the State –

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

17. TANF/CHILD SUPPORT NON-COOPERATION – CUYAHOGA COUNTY (Continued)

(A) shall deduct from the assistance that would otherwise be provided to the family of the individual under the State program funded under this part an amount equal to not less than 25 percent of the amount of such assistance; and

(B) may deny the family any assistance under the State program.

It is management’s responsibility to establish policies and procedures which reasonably ensure compliance with this federal requirement.

We selected 19 cases of child support failures. For each case, we performed a test to determine if warrants were issued to the respective recipient during the sanction period. For two of the 19 cases selected, TANF benefits were not reduced or denied as required. One recipient received a benefits check for \$108 during the sanction period. The second recipient received two benefits checks for \$54 and \$461 during the sanction period. Therefore, we are questioning costs of \$623 (projected to be more than \$10,000) for benefits paid to TANF recipients during sanction periods.

If CCDJFS does not ensure benefits are reduced or denied, as required by federal law, individuals who fail to cooperate with child support requirements may receive benefits to which they would not otherwise be entitled. Furthermore, future program funding may be adversely affected.

The Work and Training Compliance Manager indicated the unallowable payments were caused by the county policy that allows a participant a hearing before entering the sanction code into CRIS-E system. Consequently, the county permits payments to occur during the period before the hearing. However, during review of the CRIS-E system, there was no evidence that a hearing was requested or took place.

We recommend management review its policies and procedures designed to ensure recipients do not receive benefits in excess of the approved threshold or during the period after a sanction period is declared and before the hearing. Furthermore, management should periodically monitor the effectiveness of its procedures designed to ensure benefits are properly reduced or denied during sanction periods.

18. CSEA – UNALLOWED ACTIVITIES – DEFIANCE COUNTY

<i>Finding Number</i>	2003-JFS18-029
<i>CFDA Number and Title</i>	93.563 – Child Support Enforcement
<i>Federal Agency</i>	Department of Health and Human Services

QUESTIONED COSTS

\$600

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

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:
 - a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
 - ...
 - c. Be authorized or not prohibited under State or local laws or regulations.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

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

- d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

45 CFR, Section 304.20, states, in part:

- (b) Federal financial participation at the applicable matching rate is available for:
 - (1) Necessary expenditures under the State title IV-D plan for the support enforcement services and activities specified in this section and Sec. 304.21 provided to individuals from whom an assignment of support rights as defined in Sec. 301.1 of this chapter has been obtained;
 - (2) Parent locator services for individuals eligible pursuant to Sec. 302.33 of this title;
 - (3) Paternity and support services under the State plan for individuals eligible pursuant to Sec. 302.33 of this chapter.
- (c) Services and activities for which Federal financial participation will be available shall be those made pursuant to the approved title IV-D State plan which are determined by the Secretary to be necessary expenditures properly attributable to the Child Support Enforcement program, except any expenditure incurred in providing location services to individuals listed in Sec. 302.35 (c) (4) of this title, ...

We selected ten direct program expenditures to test compliance with the above requirements. One of ten expenditures selected was for the quarterly rental of a water cooler (\$150). Total program funds expended on the water cooler during the fiscal year were \$600 (\$150 x 4 quarters). This expenditure does not meet the allowable criteria, as defined by OMB Circular A-87 and 45 CFR, Section 304.20; therefore, we are questioning costs of \$600 (projected to be more than \$10,000 for all counties).

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

The Assistant Director and Director stated the water cooler was purchased because Defiance City has a high level of nitrates in its water system, and it is not recommended for extended drinking. It is also not recommended for pregnant women who are employed by CSEA. The Assistant Director indicated that ODJFS internal auditors questioned and looked into the expense in a past audit; however, it was not addressed in their audit report.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

19. SSBG - TRANSPORTATION SERVICES TO INDIVIDUALS – FULTON COUNTY

<i>Finding Number</i>	2003-JFS19-030
<i>CFDA Number and Title</i>	93.667 – Social Services Block Grant
<i>Federal Agency</i>	Department of Health and Human Services

QUESTIONED COSTS

\$114

42 USC, Section 1397a, states, in part:

(a) Amount; covered services

(1) Each State shall be entitled to payment under this title for each fiscal year in an amount equal to its allotment for such fiscal year, to be used by such State for services directed at the goals set forth in section 1397 of this title, subject to the requirements of this title.

(2) For purposes of paragraph (1) –

(A) Services which are directed at the goals set forth in this title include, but are not limited to, child care services, protective services for children and adults, services for children and adults in foster care, services related to the management and maintenance of the home, day care services for adults, transportation services, family planning services, training and related services, employment services, information, referral, and counseling services, the preparation and delivery of meals, health support services and appropriate combinations of services designed to meet the special needs of children, the aged, the mentally retarded, the blind, the emotionally disturbed, the physically handicapped, and alcoholics and drug addicts; and

...

Under Title XX, each eligible jurisdiction determines the services that will be provided and the individuals that will be eligible to receive services. Each county can choose how they would like to use these funds. The FCDJFS provides Title XX Transportation Services to individuals that are deemed eligible. If a person is in an open protective children service case they are deemed eligible for Title XX Transportation Services. It is management's responsibility to implement internal control policies and procedures which provide reasonable assurance that only eligible persons receive Title XX Transportation Services.

We selected ten SSBG cases, out of approximately 41, individuals that received Title XX Transportation Services during the fiscal year and performed a compliance test. The ten cases selected represent \$305 out of \$5,717 total Title XX Transportation Services paid during the fiscal year. As a result of our test, we noted one of ten individuals selected was identified as an open protective children service case and received Transportation Services benefits from FCDJFS during the fiscal year, although the individual's case was closed in March of 2002 (the prior fiscal year). Total payments made to the individual during the fiscal year were \$114 (projected to be more than \$10,000 for all counties), the amount we are questioning.

If FCDJFS fails to terminate benefits to individuals whose cases have been closed, FCDJFS will pay benefits to ineligible individuals. Title XX funds will be used in a manner contrary to program objectives, and future questioned costs may arise. The caseworker stated she thought the individual was still in an open protective children service case at that time.

We recommend management review its policies and procedures and/or implement policies and procedures which ensure transportation benefits are paid only to those individuals deemed eligible. We recommend management ensure the policies and procedures are communicated to staff to ensure control procedures over eligibility are implemented as intended.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

20. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – DUE DATES

<i>Finding Number</i>	2003-JFS20-031
<i>CFDA Number and Title</i>	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – State Children’s Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services

NONCOMPLIANCE

Federal regulations require states to maintain an IEVS system, as indicated below:

7 CFR 272.8(a)(1) states, in part:

State agencies may maintain and use an income and eligibility verification system (IEVS), as specified in this section. . . .

. . .

45 CFR 205.51(a) states, in part:

A State plan . . . must provide that there be an Income and Eligibility Verification System in the State.

. . .

45 CFR 205.56(a)(1) states, in part:

. . . States wishing to exclude categories of information items from follow-up must submit for the Secretary’s approval a follow-up plan describing the categories of information items which it proposes to exclude. . . .

. . .

In accordance with these sections, the Department implemented IEVS and established their own targeting system for processing IEVS matches. The system procedures and due dates were outlined in the Client Registry Information System - Enhanced (CRIS-E) “Flash #61” when IEVS was integrated within the CRIS-E computer system. ODJFS CRIS-E “Flash #61” states:

ODHS [ODJFS subsequent to June 30, 2000] intends to monitor CDHS [County Departments of Job and Family Services subsequent to June 30, 2000] for both high and medium data exchange alerts to ensure compliance with state and federal regulations for timeliness and quality.

CRIS-E “Flash #61” specifies the due dates for completing IEVS alerts, depending on the program and priority ranking assigned by the Department of Job & Family Services (e.g., high, medium, or low). Low alerts are considered informational only and are not required to be processed although they are issued with a completion due date. The chart below details the “Flash #61” due dates and compares them with the due dates required by federal regulations and guidelines for those states not using their own targeting system.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

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

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

We selected six large counties; Cuyahoga, Franklin, Hamilton, Lucas, Montgomery, and Summit, representing approximately 52% of the nearly 2.5 million annual IEVS alerts in state fiscal year 2003 for testing related to the timely completion of IEVS alerts in accordance with the ODJFS standards set forth in “Flash #61”.

Initially 25 of 180 (14%) alerts were tested in which the alert was not resolved by the mandated timeframe. Of the 25 errors noted, 16 alerts had documentation indicating third party verification was pending. Therefore, only 9 of 25 (36%) alerts tested, were not resolved by the mandated timeframe since there was no documentation within the CRIS-E System Screens CLRC or a “Y” on DESL to indicate a third party verification was pending. The results are summarized below:

Type of Alert	No. Tested	No. Delinquent	Delinquency Rate
High Priority	134	8	5.79%
Medium Priority	46	1	2.17%
Total	180	9	5.00%

The eight High Priority alerts were resolved three to 164 days beyond the 45 day requirement and the one Medium Priority alert was resolved 110 days beyond the 120 requirement.

We also reviewed the match dates (date the alert was generated) and compliance due dates (date calculated by the system to indicate the deadline required to complete an alert) maintained in the CRIS-E System to the IEVS download received for the six large counties. For 25 of the 180 alerts selected from the period of April 1, 2002 through March 31, 2003, either one or both dates did not agree between the CRIS-E System and the IEVS Download. For the remaining 155 alerts tested, the match date and the compliance due dates agreed; however, there were several instances noted where the compliance due date listed in the CRIS-E System and the IEVS Download were in excess of the timeframes established by “Flash #61,” as detailed below:

- Eight of 48 (17%) of high priority Food Stamp matches contained compliance due dates which were 30 to 93 days (average of 136 days) greater than the 90 day time limit.
- Eleven of 51 (21.57%) of high priority Medicaid, SHIP, and TANF matches contained compliance due dates which were 60 to 135 days (average of 143 days) greater than the 45 day time limit.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

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

- Six of 56 (11%) of medium priority Food Stamp, Medicaid, SCHIP, and TANF matches contained compliance due dates which were 2 days greater than the 120 day time limit.

Additionally, of the 25 alerts where one or both of the dates did not agree between the CRIS-E System and the IEVS Download, the compliance due dates maintained in CRIS-E were in excess of the timeframes established by “Flash #61,” as detailed below:

- Two of 12 (17%) of high priority Food Stamp matches contained compliance due dates which were from 30 to 90 days (average of 60 days) greater than the 90 day time limit.
- Two of 9 (22%) of high priority Medicaid, SCHIP, and TANF matches contained compliance due dates which were 1 day greater than the 45 day time limit.

Based on these results, it does not appear IEVS alerts were being completed according to the time lines established in the ODJFS state plan and documented in “Flash #61”. This increases the risk of benefits (totaling approximately \$683.5 million for Food Stamps, \$1.2 billion for TANF, \$159.5 million for SCHIP, and \$9.2 billion for Medicaid in fiscal year 2003) given to ineligible recipients for inappropriate amounts may not be properly or timely identified. Failure to comply with the requirements related to IEVS could result in federal sanctions or penalties. Management indicated there were instances in the past when the download date did not match the CRIS-E date because the alerts were not delivered on the same date. This issue has been corrected and no longer occurs. In addition, ODJFS has identified that the appending process is causing previously received low or medium priority unprocessed matches to become reclassified as a high match when new matches from the same data source are generated. Management stated they are eliminating the appending process as they reprogram each data stream.

We recommend the Department work with the counties to implement control policies and procedures which reasonably ensure matches are completed by the due dates specified in “Flash #61”. These procedures must include reviews by the County IEVS Coordinator or other supervisory personnel (possibly through the DEDT screen in CRIS-E) to monitor the status of IEVS alerts. We also recommend the Department monitor the activities of the counties to determine if they are following the established controls and are complying with the due date requirements. In addition, we recommend the Department continue to review and revise the processes utilized to derive the compliance due date generated within CRIS-E to reasonably ensure this date is in accordance with Flash #61” requirements so delinquencies can be correctly identified.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

21. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – INADEQUATE DOCUMENTATION

<i>Finding Number</i>	2003-JFS21-032
<i>CFDA Number and Title</i>	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – State Children’s Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services

NONCOMPLIANCE

7 CFR 272.8(e) states:

Documentation. The State agency must document, as required by § 273.2(f)(6), information obtained through the IEVS both when an adverse action is and is not initiated.

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 documentation.

45 CFR 205.56(a)(iv) states, in part:

For individuals who are recipients when the information is received or for whom a decision could not be made prior to authorization of benefits, the State agency shall . . . initiate a notice of case action or entry in the case record that no case action is necessary . . .

Ohio Admin Code Section 5101:1-1-36(E)(3) states:

Once the CDJFS completes the IEVS match process, the results will be recorded in CRIS-E history.

The Income and Eligibility Verification System (IEVS) compares income, as reported by the recipients, to information maintained by outside sources. Information which does not appear to agree is communicated in the form of a CRIS-E alert, which is forwarded to the appropriate county for investigation. The following errors were noted in the IEVS documentation testing at six selected counties; Cuyahoga, Franklin, Hamilton, Lucas, Montgomery, and Summit:

- For 94 of 180 (52%) alerts tested, there was no evidence of adequate documentation within the case file to verify the IEVS alert was accurately resolved. Errors were noted at each of the six counties selected for testing.
- For 90 of 180 (50%) alerts tested, there was no evidence of adequate documentation within the CRIS-E System’s CLRC screen to verify the IEVS alert was accurately resolved. Errors were noted at each of the six counties selected for testing.
- For 47 of 107 (44%) applicable alerts tested, which involved multiple programs, there was no evidence documented within the CRIS-E System’s CLRC screen to indicate information obtained from the completed IEVS alert was properly considered when determining benefits for the other federal programs the recipient was eligible to receive. Errors were noted at each of the six counties selected for testing.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

**21. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – INADEQUATE DOCUMENTATION
(Continued)**

Without adequate documentation, a reviewer cannot determine if an IEVS alert has been resolved accurately, which may lead to benefits being issued to ineligible recipients or benefits being paid in inappropriate amounts. This noncompliance appears to be caused by the large volume of alerts and inadequate supervision at the county level to assure that detailed documentation for each alert resolution is in the case file and/or CRIS-E. ODJFS management indicated the DEEV screen within the CRIS-E System had been revised to improve documentation of alert dispositions. Management also stated the revisions to the DEEV screen will automatically direct the worker to the CRLC for case record comments, except when the match results in “no effect.” The “no effect” codes are self explanatory. Revisions to DEEV will also collect additional information of the match disposition.

We recommend the Department work with the counties to develop and implement:

- A more thorough and consistent supervisory review process on the documentation of IEVS alert resolutions. The performance of this supervisory review should be documented to provide assurance to county and ODJFS management the control is being performed.
- Formal policies and procedures which detail specific requirements of what each caseworker should document to ensure the IEVS alert was resolved correctly.
- A periodic review of a sample of alerts by county IEVS coordinators to help ensure supporting documentation is sufficient to evidence the alert has been processed correctly and is in compliance with the established policies and procedures.

22. INCOME ELIGIBILITY VERIFICATION SYSTEM – RETURN INFORMATION ACCESS

<i>Finding Number</i>	2003-JFS22-033
<i>CFDA Number and Title</i>	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – State Children’s Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services

NONCOMPLIANCE

26 USC §6103(b)(2) states:

The term "return information" means –

- (A) a taxpayer's identity, the nature, source, or amount of his income, payments, receipts, deductions, exemptions, credits, assets, liabilities, net worth, tax liability, tax withheld, deficiencies, over-assessments, or tax payments, whether the taxpayer's return was, is being, or will be examined or subject to other investigation or processing, or any other data, received by, recorded by, prepared by, furnished to, or collected by the Secretary with respect to a return or with respect to the determination of the existence, or possible existence, of liability (or the amount thereof) of any person under this title for any tax, penalty, interest, fine, forfeiture, or other imposition, or offense,

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

22. INCOME ELIGIBILITY VERIFICATION SYSTEM – RETURN INFORMATION ACCESS (Continued)

- (B) any part of any written determination or any background file document relating to such written determination (as such terms are defined in section 6110(b)) which is not open to public inspection under section 6110,

...

26 USC §6103(a) states, in part:

Returns and return information shall be confidential, and except as authorized by this title -

...

- (2) no officer or employee of any State, any local child support enforcement agency, or any local agency administering a program listed in subsection (l)(7)(D) who has or had access to returns or return information under this section, shall disclose any return or return information obtained by him in any manner in connection with his service as such an officer or an employee or otherwise or under the provisions of this section. For purposes of this subsection, the term 'officer or employee' includes a former officer or employee. [NOTE: no exemption was permitted for audit purposes, based on an IRS ruling.]

Ohio Admin Code Section 5101:1-1-36(G), states in part:

(G) IEVS safeguarding requirements and disclosure of match information.

- (1) Match information which contains federal tax data must be protected from disclosure to unauthorized persons. Federal tax information (FTI) remains tax information even after it has been verified. . . .

...

- (8) The IEVS match information may be disclosed only under the following circumstances:

...

- (e) IEVS match information may be given to another state or local agency or official who needs the information for the purpose of determining eligibility or investigating alleged or suspected fraud or abuse for the programs as delineated in rule 5101:1-1-03 of the Administrative Code. This includes court officials, prosecutors, and investigators.

ODJFS utilizes the CRIS-E System to document all information related to IEVS alerts/matches, including the results of Bendix, IRS/Unearned, and UC/SDX Benefit matches covered by 26 USC §6103. During fiscal year 2003, Auditor of State personnel as well as ODJFS and county personnel who were not involved in determining eligibility and/or benefit amounts for the Food Stamp Cluster, TANF, SCHIP, and the Medicaid Cluster, had access to the return information maintained in the CRIS-E system. The Bureau of Program Integrity is aware of this issue and is in the process of taking the necessary steps to restrict CRIS-E access for Federal Return Information. In addition, we selected six counties to determine whether or not IRS Return Information was properly safeguarded. Of the 180 alerts selected for testing, 95 were data matches for IRS information. The following was noted for the matches:

- Seven of 95 (7%) IRS alerts tested (Cuyahoga, Hamilton, and Lucas), the Federal Tax Information defined by 26 USC §6103 was maintained within the case file.
- Two of 95 (2%) IRS alerts tested (Hamilton and Montgomery), the Federal Tax Information as defined by 26 USC §6103 was documented within the CRIS-E System's CLRC screen.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

22. INCOME ELIGIBILITY VERIFICATION SYSTEM – RETURN INFORMATION ACCESS (Continued)

Violations of these statutes could result in personal fines and or penalties imposed by the Internal Revenue Service. In addition, such violations may result in fines and/or penalties imposed by the grantor agencies, or reductions in federal funding to the state. According to ODJFS management, access to Federal Tax information (FTI) has been limited to comply with 26 USC §6103. Employees who should not have had access to the return information screens as of October 2003 were identified and were removed. The report prior to access removal contained 25,059 employees while the report produced after access removal contained 8,709, a very significant decrease. However, while the Federal Tax Information may not be directly accessed, some CRIS-E profiles may gain access through the CRIS-E System's DESL screen. A customer service request has been submitted to MIS to remove access through DESL.

We recommend the Department:

- Continue to make the necessary revisions to the CRIS-E System to ensure access, either directly or indirectly, to the federal return information can be restricted for employees not involved in determining eligibility for, or correcting amounts of, benefits under a program listed in 26 USC §6103(l)(7)(D). These procedures must be formally documented, communicated to the employees, and include monitoring by management to ensure the return information is accessible only to the persons determining recipient eligibility and/or program benefit amounts.
- Revise and/or implement formal county policies and procedures which detail what is required for caseworkers to adequately document IEVS alert resolutions and recipient eligibility. These county-level procedures should specifically address what level of detail is permitted to be retained and documented as a result of 26 USC §6103 and where this information should be maintained.
- Work with the counties to develop and implement a support screen that would retain past history information on the resolution of all alerts relating to IRS/Unearned Income benefits normally reflected on the related Data Exchange CRIS-E screens.

23. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – MONITORING BY THE DEPARTMENT

<i>Finding Number</i>	2003-JFS23-034
<i>CFDA Number and Title</i>	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – State Children’s Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services

NONCOMPLIANCE

7 CFR 272.8(c)(4) states:

State agencies must use appropriate procedures to monitor the timeliness requirements in paragraph (c)(2) of this section.

42 CFR 435.952(f) states:

The agency must use appropriate procedures to monitor the timeliness requirements of this section.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

23. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – MONITORING BY THE DEPARTMENT (Continued)

45 CFR 205.56(a)(1)(v) states:

The State agency shall use appropriate procedures to monitor the timeliness requirements specified in this subparagraph;

We noted the following weaknesses with regard to monitoring by ODJFS of the nearly 2.5 million Income and Eligibility Verification System (IEVS) alerts forwarded to the counties during the fiscal year 2003:

- ODJFS has provided few standardized procedures for processing IEVS alerts at the county level. Each county may follow different procedures which doesn't allow for monitoring control procedures against a defined benchmark.
- ODJFS has provided limited information specifically designed to enhance and standardize the efforts of the county IEVS coordinators and assist them in monitoring local level activities.

Without standardized procedures for IEVS, the Department cannot be reasonably assured IEVS is being utilized as intended at the county level, due to the differing operating procedures at each of the counties. Federal fiscal sanctions in the form of fines and penalties against the Department for high eligibility error rates could be a resulting factor. Based on discussions with Departmental management, IEVS information is available for the 88 counties; however, not every county takes advantage of the services offered by the Bureau of Program Integrity nor does the Bureau have the authority to ensure the counties operate the IEVS process consistently. ODJFS management also stated the counties are not expected to follow the same procedures and in fact, the counties benefit from developing their own procedures based on their operational structure.

We recommend the Department document and distribute to the 88 counties specific IEVS procedures pertaining to the monitoring, processing, and compliance of IEVS alerts. The Department should incorporate and enforce the IEVS procedures and continue to review the counties' safeguarding procedures during their internal reviews of IEVS processing performed by the Bureau or Program Integrity's Fraud Control Unit. We recommend the Department continue working with all the county IEVS coordinators to establish standards for work processing and review at the county level and assist all 88 counties in developing standard performance measures regarding error rates, time required to complete an alert, etc. We recommend the Department continue providing updated processing procedures to be used by all 88 counties in the administration of IEVS through mass emails instead of relying on the CRIS-E Flash Bulletins since some IEVS coordinators may over look these publications.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

24. FEDERAL SCHEDULE

<i>Finding Number</i>	2003-JFS24-035
<i>CFDA Number and Title</i>	All Programs Administered by the Department
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services Department of Labor

NONCOMPLIANCE

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

...

(b) Schedule of Expenditures of Federal Awards. The auditee shall also prepare a schedule of expenditure of Federal awards . . . At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- ...
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.

...

It is management's responsibility to implement control policies and procedures to reasonably ensure the Department's portion of the Schedule of Expenditures of Federal Awards submitted to the Office of Budget and Management is in compliance with the above requirements. Sound internal controls would require a review of the Federal Schedule be performed and documented in some manner, prior to submission, to verify the information the Department reported is accurate and complete.

The original Schedule of Expenditures of Federal Awards submitted to the Office of Budget and Management (OBM) for ODJFS' fiscal year 2003 federal programs contained the following errors/omissions which were identified by the Auditors. Appropriate adjustments were made to correct these items and a revised schedule was submitted. These issues suggest the ODJFS personnel responsible for the schedule were not fully aware of the applicable federal requirements, and/or the supervisory review of the federal schedule was not thorough or complete.

- The Unemployment Insurance Program (CFDA #17.225) was understated by \$83,634,242. The variance was due to the following items:
 - \$90,201,706 in Non-CAS benefits paid on behalf of recipients to the IRS were not identified. ODJFS reported the UI Disbursements from the Benefits Custodial Account; however, they did not identify the UI Disbursements regarding: 1) IRS back taxes garnished from UI Benefit Payments, and 2) IRS Withholdings withheld from the UI Benefit Payments (e.g., Ohio Regular, UCX, UCFE, and TEUC).

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

24. FEDERAL SCHEDULE (Continued)

- \$3,488,007 in Federal UI direct program expenditures for Fund 4A9, Fund 5A5, and Fund GRF were not identified on the original DOL Federal Schedule Attachment A worksheet.
- (\$10,055,471) related to the inaccurate calculation of indirect costs, refunds/recoveries, and other unsupported adjustments.
- The Workforce Investment Act Cluster (CFDA #s 17.258/259/260) was understated by \$15,109,858 as a result of the following:
 - \$15,309,203 in federal disbursements to the County Departments of Job and Family Services that were not reported, incorrect calculations for indirect costs amounts, and an overstatement of pass-through funds to subrecipients.
 - (\$199,345) related to unexplained reconciliation variances.
- TANF (CFDA # 93.558) was under reported by \$23,064,616. This error was primarily related to an incorrect reduction of \$28,710,040 to expenditures resulting from an internal accounting adjustment between TANF and the Social Services Block Grant for a prior period.
- \$518,667 in adjustments to various programs was presented on the original DOL Federal Schedule Attachment A, Column E – Other CAS which could not be supported by appropriate documentation.

In addition to the above items, the following errors were identified on the revised federal schedule; however, these items did not result in a material misstatement of the amounts reported; therefore, revisions were not required.

- \$14,769,454 in Federal Electronic Benefits Transfer Activity for the Food Stamp Program (CFDA # 10.551) was reported twice. This amount represents the total benefits issued by warrant to the SSI Cash-out population for Cuyahoga County. The \$14,769,454 was included within the total of \$833,960,219 – Other Adjustments to CAS (Column D) of the Federal Schedule Attachment A for CAS Fund 384. It appears as though the amount drawn (revenue basis) and the amount paid (expenditure basis) were both reported on the Federal Schedule.
- \$5,646,424 in Federal funds passed through from the Temporary Assistance for Needy Families Program (TANF - CFDA #93.558) to the Ohio Department of Education for reimbursement of Head Start expenses was not identified. This payment was incorrectly coded to Object Code 953 instead of Object Code 960. As a result of the coding error, ODJFS did not identify this amount as a pass through and incorrectly reported it as an expenditure on their schedule.
- Pass-through amounts to subrecipients reported on the original worksheets could not be traced to the supporting documentation provided by the Department. This affected the following federal programs: TANF (CFDA #93.558), State Children's Insurance Program (CFDA #93.767), the Medicaid Cluster (CFDA #s 93.777/778/779), and the WIA Cluster (CFDA #s 17.258/259/260).

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

24. FEDERAL SCHEDULE (Continued)

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

The Preparer indicated the variances noted on the original DOL Attachment A worksheet were created as a result of using Federal Financial Report amounts instead of using the Central Accounting System (CAS) amounts. In addition, the Preparer stated the Department's Quarterly Cost Allocation of Expenditure Reports was not utilized to determine the amount for indirect costs because the process would have been too extensive and complicated. In addition, the variances between CAS and the amounts reported on the Department's Attachment A worksheets were the result of using internal ledgers maintained by the preparer's unit.

We recommend the Department:

- review and update their policies and procedures, chart of accounts, and other pertinent financial records to verify all federal funds are properly identified by CFDA, accurately identify each individual pass-through relationship, and include all potential funding sources;
- develop and implement procedures which reasonably ensure the activity reported on the Department's Schedule of Expenditures of Federal Awards is for the proper fiscal period (same fiscal year as the State's financial statement information) and is on a cash basis;
- develop policies and procedures to properly identify and calculate refunds and/or federal recoveries, indirect costs, pass-through amounts to subrecipients, and other adjustments. These policies and procedures should also require appropriate documentation be retained to support all adjustments.
- management more closely review and monitor the compilation of the Federal Schedule to minimize the risk of errors and omissions, and reasonably ensure all federal activity is accurately and completely reported. This review should include a comparison of the schedule to the Department's accounting records (CAS), outside accounts, and other appropriate supporting documentation related to the program awards and sub-awards.
- require program area personnel to communicate any adjustments made to program amounts which might impact the Federal Schedule to the schedule preparer in a timely manner.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

25. UNAPPROVED INDIRECT COST ALLOCATION AMENDMENTS

<i>Finding Number</i>	2003-JFS25-036
<i>CFDA Number and Title</i>	Various Programs Administered by the Department
<i>Federal Agency</i>	Department of Agriculture Department of Labor Department of Health and Human Services

NONCOMPLIANCE

Indirect costs are those costs that benefit common activities and, therefore, cannot be readily assigned to a specific direct cost objective or project. In order to recover indirect costs, organizations must prepare cost allocation plans (CAPs) or indirect cost rate proposals (IDCRPs) in accordance with the guidelines provided in the OMB Circular A-87 and submit them to the Federal cognizant cost negotiation agency for approval. These plans are required by the terms of 45 CFR part 95, which incorporates OMB Circular A-87 by reference, and must be revised and resubmitted to the federal government whenever an organizational or programmatic change invalidates the currently-approved allocation method. Specifically, 45 CFR 95.509 states:

- (a) The State shall promptly amend the cost allocation plan and submit the amended plan to the Director, DCA [Division of Cost Allocation] if any of the following events occur:

...

- (3) The State plan for public assistance programs is amended so as to affect the allocation of costs.

...

The Department's approved cost allocation plan for fiscal year 2003 identified various cost pools which captured expenditure data using selected reporting categories and spending responsibility centers (from the state's Central Accounting System) to allocate approximately \$66.8 million in indirect costs to various federal programs for the third quarter tested. However, five of the six cost pools tested for indirect charges included several instances where the spending responsibility centers actually charged did not agree with those identified in the CAP for that particular pool, as detailed below. Although these costs may have been allowable for allocation, there was no evidence to indicate these changes had been approved by the federal government.

Cost Pool	Major Program CFDA #	Spending Responsibilities Charged (SRC) Not Included in the CAP
5	Various	LC00, LC10, WD00
6	Various	FI00, IA00, MS60
30	Various	MS00
36	Various	CI00, CP10, FI10, MS00, MS22, MS40, MS60, RA00
44	Various	IA00

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

25. UNAPPROVED INDIRECT COST ALLOCATION AMENDMENTS (Continued)

Cost Pool	Major Program CFDA #	SRC	Cost Pool That Should Have Been Charged According to the CAP
5	Various	LC00	59
5	Various	LC10	Not listed in CAP
5	Various	WD00	61
6	Various	FI00	36
6	Various	IA00	36
6	Various	MS60	30
30	Various	MS00	37
36	Various	CI00	6
36	Various	CP10	Not listed in CAP
36	Various	FI10	Not listed in CAP
36	Various	MS00	37
36	Various	MS22	Not listed in CAP
36	Various	MS40	37
36	Various	MS60	30
36	Various	RA00	60
44	Various	IA00	36

As a result, the risk is greatly increased that indirect costs could be allocated to incorrect federal programs or for improper amounts, which could subject the Department to fines and/or penalties from the grantor agencies. The Fiscal Specialist stated that it appears those responsible for coding expenses to cost pools are not using the correct codes consistently. They are aware there has been some miscoding and are working to resolve the issue.

We recommend ODJFS amend its current practice of including expenditures in cost pools related to spending responsibility centers not specifically listed in the CAP for that pool. The Department should either identify in their initial CAP the list of spending responsibility centers which relate solely to the identified cost pools and those which may apply to varying cost pools; or submit a revised CAP for approval by the federal government which would include all possible spending responsibility centers chargeable to each pool. We also recommend the Department establish and/or strengthen policies and procedures to reasonably ensure the reporting categories and spending responsibility centers used in allocating indirect charges coincide directly with those listed in the approved CAP for each cost pool. These procedures should include monitoring at an appropriate supervisory level.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

26. LACK OF CORRECTIVE ACTION

<i>Finding Number</i>	2003- JFS26-037
<i>CFDA Number and Title</i>	10.551/10.561 - Food Stamp Cluster 93.558 - Temporary Assistance for Needy Families 93.658 - Foster Care 93.775/93.777/93.778 - Medicaid Cluster
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services

NONCOMPLIANCE

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

...

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

...

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

Of the 62 comments included in the fiscal year 2003 State of Ohio Single Audit Report for ODJFS, 45 relate to comments which were included in the prior year's report; many of these comments have been repeated for several years. This indicates that appropriate corrective actions were not taken to correct these items. The table below lists the most significant of these recurring issues:

COMMENT AREA	PROGRAM INVOLVED	COMMENT TYPE
Foster Care Duplicates/Historical Data	Foster Care	Questioned Costs
IEVS - Due Dates	Food Stamps, TANF, Medicaid	Noncompliance
IEVS - Inadequate Documentation	Food Stamps, TANF, Medicaid	Noncompliance
IEVS - Monitoring by ODJFS	Food Stamps, TANF, Medicaid	Noncompliance
Sanctions	TANF	Noncompliance
IEVS - Monitoring by Counties	Food Stamps, TANF, Medicaid	Material Weakness
Accuracy of CRIS-E Input	Food Stamps, TANF, Medicaid	Material Weakness
Manual Overrides of CRIS-E	Food Stamps, TANF, Medicaid	Material Weakness
Inadequate Monitoring	TANF	Material Weakness

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

26. LACK OF CORRECTIVE ACTION (Continued)

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

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

27. EXCESSIVE FOOD STAMP COUPON INVENTORY

<i>Finding Number</i>	2003-JFS27-038
<i>CFDA Number and Title</i>	10.551/10.561 – Food Stamp Cluster
<i>Federal Agency</i>	Department of Agriculture

NONCOMPLIANCE

7 CFR 274.7 (a)(1) states, in part:

...

State agencies shall monitor the coupon inventories of coupon issuers and bulk storage points to ensure that inventories are neither excessive nor insufficient to meet the issuance needs and requirements. In determining reasonable inventory needs, State agencies shall consider, among other things, the ease and feasibility of resupplying such inventories from bulk storage points within the State. The inventory levels at coupon issuers and bulk storage points should not exceed a six-month supply, taking into account coupons on hand and on order.

...

Currently, the Department accounts for Food Coupon Inventory Levels on the FNS-250 Food Coupon Accountability Report, submitted by the county departments of job and family services on a monthly basis. During the state fiscal year, the state-wide average monthly food coupon inventory level totaled \$7.6 million dollars and the average issuance of food coupons totaled \$4,988. The state-wide food stamp coupon inventory balance at June 30, 2003 was \$3,146,888. This equates to approximately 631 months of coupons on hand when divided into the year-end balance, 625 months more than allowed per 7 CFR 274.7. Inventory levels in excess of the maximum six-month supply, increases the risk that coupons could be lost, stolen, or misappropriated without detection. Failing to follow the program's compliance requirements may result in fines, penalties, or reduction in the amount of food stamp benefits reimbursed by the Federal Government.

The EBT Project Manager stated the Department recently shipped \$7 million dollars in paper food coupons to the State of California to help Ohio reduce their inventory levels and assist California. In addition, the Department continues to work with the county departments of job and family services to reduce the inventory of paper coupons on a daily basis; however, there are some county departments that are reluctant to reduce their inventory levels.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

27. EXCESSIVE FOOD STAMP COUPON INVENTORY (Continued)

We recommend the Ohio Department of Job and Family Services contact the federal grantor agency to obtain written guidance and direction in determining what constitutes a reasonable “six-month” supply of coupons to keep on hand given the implementation of the EBT delivery system. Standards should be communicated in writing to all county departments of job and family services stating the number and/or value of coupons that should be maintained in their inventory. We recommend the Department implement and/or strengthen its procedures to monitor the amount of food stamp coupons on hand at county locations to help ensure they are maintaining appropriate inventory levels. Such controls may include the review of the FNS 250 – Food Coupon Accountability Report ending inventory balances submitted by the counties each month, with appropriate follow-up for any county departments who are not complying with the established standards.

28. FOOD STAMP REPORTS – LATE SUBMISSION AND LACK OF MANAGEMENT REVIEW

<i>Finding Number</i>	2003-JFS28-039
<i>CFDA Number and Title</i>	10.551/10.561 – Food Stamp Cluster
<i>Federal Agency</i>	Department of Agriculture

NONCOMPLIANCE

7 CFR 274.4(b) states, in part:

...

(b) Required reports. The State agency shall review and submit the following reports to FNS on a monthly basis:

(1) Form FNS-250, Food Coupon Accountability Report.

...

(v) The Form FNS-250 shall be reviewed by the State agency for accuracy, completeness and reasonableness. The State agency shall attest to the accuracy of these reports and shall submit the reports so they will be received by FNS by the 45th day after the report month. Any revisions to the Form FNS-250 for a given month shall be submitted to FNS within 105 days after the end of the report month.

...

(2) Form FNS-46, Issuance Reconciliation Report, shall be submitted by each State agency operating an issuance system.

...

(ii) The Report shall be received by FNS no later than 90 days following the end of the report month.

...

It is management’s responsibility to implement control policies and procedures to reasonably ensure Federal reports are reviewed for accuracy and completeness and submitted to grantor agencies within the required time frames.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

28. FOOD STAMP REPORTS – LATE SUBMISSION AND LACK OF MANAGEMENT REVIEW (Continued)

Under the current operating structure, county agencies are responsible for accounting for and issuing food stamp coupons and EBT cards to recipients, and reporting the issuance activity and inventory balances to ODJFS on the monthly FNS-250 and FNS-46 reports. In addition, ODJFS is responsible for reviewing the FNS reports, preparing a consolidated FNS-46 report, and submitting all reports to the federal grantor agency. However, the following errors and weakness were noted:

- For thirty of forty (75%) FNS-250 reports tested, the FNS 250 report was not submitted to FNS by the 45th day after the report month. The FNS-250 reports were filed between 20 and 27 calendar days beyond the required timeframe.
- For two of six (33%) FNS-46 reports tested, the FNS-46 report was not submitted to FNS within 90 days following the end of the report month. The FNS-46 reports were filed 20 and 27 calendar days beyond the required timeframe.
- For seven of sixty (12%) FNS-250 reports tested, there was no documented evidence to indicate the reports were reviewed and approved by an authorized manager at the State Level.
- Consolidated FNS-250 reports were not prepared to reflect total Food Stamp activity for the State of Ohio, as a whole. Instead, approximately 88 separate FNS-250 reports were submitted to the federal government each month.

Without retaining adequate documentation to identify the date each federal report was submitted to the federal grantor agency, the Department cannot be reasonably assured the required submission deadlines are being met. By not meeting the required submission dates, there is an increased risk that amounts reported to the federal grantor agencies and/or on the State's financial statements are not indicative of actual program activities, not allowing the FNS to effectively utilize the information at the Federal-level. According to the EBT Project Manager, the FNS-250 and 46 reports were submitted beyond the required timeframes due to staffing issues and in conjunction with other responsibilities of higher priority. The EBT Project Manager also indicated in his rush to submit the FNS-250 reports, in order to avoid a county billing situation, the completion of the FNS-250 checklist was an oversight.

We recommend ODJFS reinforce policies and procedures which require the documentation and retention of the date each federal report is submitted to the grantor agency. A tracking system could be developed to allow Departmental personnel the ability to monitor the progress of the county agencies in meeting the reporting deadlines. In addition, we recommend management ensure each departmental unit and county agency understand their filing deadlines and the importance of submitting accurate, complete, and timely information. The Department should enforce the provisions of the Ohio Administrative Code which allows them to withhold county funding, if these state-level reports continue to be late due to untimely submission by the county agencies. If ODJFS believes the state-level reports will not be submitted to the grantor agency within the required time frames, management should request filing extensions and obtain written approval from the appropriate federal agency.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

29. TANF – SANCTIONS

<i>Finding Number</i>	2003-JFS29-040
<i>CFDA Number and Title</i>	93.558 –Temporary Assistance for Needy Families
<i>Federal Agency</i>	Department of Health and Human Services

NONCOMPLIANCE

42 USC section 607(e) states, in part:

- (1) In general – Except as provided in paragraph (2), if an individual in a family receiving assistance under the State program funded under this part refuses to engage in work required in accordance with this section, the State shall –
 - (A) reduce the amount of assistance . . . or
 - (B) terminate such assistance, subject to good cause and other exceptions as the State may establish.
- (2) Exception – Notwithstanding paragraph (1), a State may not reduce or terminate assistance under the State program funded under this part based on the refusal of an individual to engage in work required in accordance with this section if the individual is a single custodial parent caring for a child who has not attained 6 years of age, and the individual proves that the individual has demonstrated inability (as determined by the State) to obtain needed child care for one or more of the following reasons:
 - (A) Unavailability of appropriate child care within a reasonable distance from the individual's home or work site.
 - (B) Unavailability or unsuitability of informal child care by a relative or under other arrangements.
 - (C) Unavailability of appropriate and affordable formal child care arrangements.

42 USC section 608(a)(2) states, in part:

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

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

During fiscal year 2003, ODJFS performed sanction reviews at each of the County Departments of Job & Family Services (CDJFS). Sanctioned cases were randomly selected for review from the sanction detail report generated by the Client Registry Information System - Enhanced (CRIS-E). The report included all individuals who had been sanctioned for six months or less or who had been sanctioned for more than six months and had an open case. Each type of sanction had a specific code used to identify it; however, the report did not have a unique code to identify individuals who were being sanctioned for refusal to work because they had a child under-six and there was not affordable and appropriate childcare within a reasonable distance. As a result, ODJFS did not have the ability to select cases for review that had been sanctioned for the child under-six provision. Cases would only be reviewed for compliance with this rule if ODJFS selected a case that was identified on the sanction report as having been sanctioned for another

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

29. TANF – SANCTIONS (Continued)

reason and, in addition, child under-six sanction documentation happened to be within the selected case file. Therefore, the procedures in place were not adequate to ensure compliance with the child care under-six work participation exception for TANF. In addition, county-level management and case workers did not have access to data to allow them to monitor compliance with this provision of TANF.

In addition, the CDJFS for seven of the nine counties selected for testing did not have a system in place to ensure compliance with this requirement. The CRIS-E system has no coding or parameters to determine the population of adult single custodial parents, assigned to work activities, caring for a child who is under six years of age, who have been sanctioned, and whose benefits may have been reduced or terminated; therefore, we were unable to test for compliance with this requirement at these counties.

Without an effective reporting system, ODJFS does not have the ability to monitor compliance with the provisions of the TANF child under-six exception. This increases the risk of benefits being paid to individuals who are not eligible to receive them, or for improper amounts, which could result in Federal fiscal sanctions in the form of fines and penalties. The Bureau Chief of the Office of TANF Program Policy indicated that a report was being developed in order to identify cases being sanctioned for refusal to work and that have a child under six in order to facilitate compliance monitoring in future reviews.

We recommend ODJFS:

- develop a unique code on the sanctions listing report to identify the child under-six provision;
- ensure all appropriate personnel, including staff at the county level, are aware of and have access to the sanction listing reports;
- ensure procedures are in place to reasonably ensure compliance with the TANF sanctions requirements, including the child under-six provision. These procedures must include monitoring at both the state and county levels to verify sanctions are imposed when warranted and/or benefits are not mistakenly reduced or terminated when not warranted. These procedures should also include a review and comparison of the sanctions reports by ODJFS management on a regular basis to monitor the number and type of sanctions occurring in each county to identify potential weaknesses or problem areas.

30. MEDICAID/SCHIP – SUBRECIPIENT MONITORING

<i>Finding Number</i>	2003-JFS30-041
<i>CFDA Number and Title</i>	93.767 – State Children’s Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Health and Human Services

NONCOMPLIANCE

The Office of Management and Budget’s Circular A-133 states in part:

§ ____. 400 Responsibilities

...

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

- (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of the Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

30. MEDICAID/SCHIP – SUBRECIPIENT MONITORING (Continued)

- (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 exceeding \$300,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements for that fiscal year.
- (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- (6) Consider whether subrecipient audits necessitate adjustments of the pass-through entity's own records.
- (7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

...

During state fiscal year 2003, approximately \$965 million in federal funding for the Medicaid Cluster and \$28 million for the State Children's Insurance Program (SCHIP) was processed through Intra-State Transfer Vouchers (ISTVs) to primarily to five state agencies. The Department has determined these sister agencies to be subrecipients; however:

- The Department had not implemented adequate procedures to monitor the activities of Medicaid subrecipients beyond the programmatic on-site reviews conducted at the Ohio Department of Aging (AGE), Department of Mental Health (DMH) and Department of Mental Retardation/Developmental Disabilities (DMR). These programmatic reviews did not address financial compliance requirements for Activities Allowed or Unallowed and/or Eligibility. Although cost report audits were performed for AGE and DMR, these audits did not entail a review of the sister agency's fiscal activities, but instead focused on the sister agency's subrecipients. Additionally, the Department had no subrecipient monitoring activities for the Department of Health (DOH) or the Department of Alcohol Drug and Addition Services(ADA).
- The interagency agreement between the Department and AGE and DOH did not identify the CFDA title and number for the Medicaid Cluster as required by OMB Circular A-133.
- The Department had not implemented any policies and procedures to monitor SCHIP at the any of the three subrecipient agencies who received SCHIP funds (e.g., DMR, DMH, or ADA).
- The Department's interagency agreements with DMR, DMH, and ADA did not identify the CFDA Title Number and award information nor the requirements imposed by laws, regulations, and the provisions of contract or grant agreements pertaining to SCHIP. Furthermore, the subrecipient agencies were not made aware by the Department of the requirements to report funds spent on SCHIP recipients separate from those funds spent on Medicaid recipients.
- The Department did not document a management decision regarding the fiscal year 2002 single audit findings and corrective action plans of DMR and DMH within six months after the findings were released.

The Department was not in compliance with the subrecipient monitoring requirements of OMB circular A-133 for the fiscal year 2003, and may not be reasonably assured these agencies have met the requirements of the Medicaid and SCHIP programs. The Assistant Deputy Director of the Office of Ohio Health Plans indicated the Office of Research Assessment and Accountability implemented procedures in fiscal year 2004 which will encompass all critical audit compliance requirements for subrecipient activities.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

30. MEDICAID/SCHIP – SUBRECIPIENT MONITORING (Continued)

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

- include on-site monitoring and other procedures designed to provide reasonable assurance the subrecipients are in compliance with program laws, regulations and requirements. These on-site reviews should include evaluations of the subrecipients' processes and procedures over critical single audit compliance requirements (allowable costs, eligibility, etc.), as well as program activities.
- be performed on a regular and ongoing basis.
- include a timely review of and management decision regarding audit findings of their subrecipients to provide assurance appropriate corrective actions are taken to address errors or weakness identified.

We also recommend Department revise the agreements with their subrecipients to clearly identify the CFDA title and number, award name and number, award year, if the award is R&D, and the name of the Federal agency for each federal program covered by the agreements. These agreements should also define the laws, rules and regulations related to these awards, including any special considerations (such as the need to separately track and report SCHIP funds). Training and/or other appropriate correspondence should be provided to the subrecipients as necessary to reasonably ensure they are aware of the requirements and their responsibilities related to these awards.

31. CHILD SUPPORT - STATEWIDE MONITORING OF CSNET

<i>Finding Number</i>	2003-JFS31-042
<i>CFDA Number and Title</i>	93.563 - Child Support Enforcement
<i>Federal Agency</i>	Department of Health and Human Services

NONCOMPLIANCE

45 CFR 303.7(a) requires the State's Interstate Central Registry (ICR) to be responsible for receiving, distributing and responding to all incoming IV-D cases. Furthermore, federal regulations require management to devise and implement an adequate internal control structure capable of providing them with reasonable assurance these objectives are being achieved. It is the Department's responsibility to monitor the activities of the 88 county Child Support Enforcement Agencies (CSEA) for overall compliance with federal requirements and program objectives. Controls must be included which reasonably ensure interstate cases are processed accurately, completely, and in compliance with federal laws and regulations.

Under Ohio's structure, the processes and procedures required to implement the Child Support Enforcement Program, including interstate case activities, are segregated between the State and the 88 county CSEAs. Each of the CSEAs has established varying relationships with the county courts and implemented a wide variety of processes, based on the demographics of their county population, to address the specific regulations related to interstate cases. The State's ICR does not, however, monitor the policies and procedures established by the CSEAs, or monitor overall CSEA compliance with federal child support enforcement rules and regulations.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

31. CHILD SUPPORT - STATEWIDE MONITORING OF CSNET (Continued)

As such, the Department is not in compliance with federal regulations. Furthermore, the lack of statewide monitoring greatly increases the risk that CSEAs will receive and distribute incorrect information based on data obtained from the ICR. This could result in misinforming clients and other interested parties. ICR personnel indicated ODJFS' County Review Team will review, monitor and record CSEA activity on a monthly basis. Department management stated they devised a monthly monitoring process, provided training on the new process in June 2003, and intend to have the process fully operational in FY 2004.

We recommend that the Department follow through with the plans of implementing the new monitoring process. As part of this process, we recommend ICR management review the various roles and responsibilities of the county Child Support Enforcement Agencies with regard to interstate cases and develop appropriate policies, procedures, and tools to monitor CSEA operations and compliance with federal rules and regulations. In developing these monitoring tools, management should consider existing information within SETS or from other sources so that resource gaps can be identified and addressed. The monitoring policies, procedures, and tools implemented should, at a minimum:

- provide information, by CSEA, to allow ICR personnel to identify potential weaknesses as statewide, regional, or local issues and address them appropriately by providing ongoing or one-time training, guidance, or other assistance.
- evaluate compliance with all federal regulations identified above, along with any other state and/or federal requirements deemed significant.
- be performed on a regular basis.
- be adequately documented to provide management with some assurance they are being performed timely and consistently.
- require appropriate corrective actions be taken by the CSEA and/or State to remedy the issues identified.

The overall interstate monitoring effort should be periodically evaluated against pre-established goals to gauge the process' effectiveness. Bases on the results of such analysis, and any changes in federal or State regulations, the monitoring/oversight procedures and tools should be modified to provide management with a thorough and complete understanding of the interstate process at the CSEA level.

32. SOCIAL SERVICES BLOCK GRANT - REPORTING

<i>Finding Number</i>	2003-JFS32-043
<i>CFDA Number and Title</i>	93.667- Social Services Block Grant
<i>Federal Agency</i>	Department of Health and Human Services

NONCOMPLIANCE

Federal regulations require that management establish and enforce internal control procedures over Federal programs to provide assurance of the reliability and timeliness of financial reporting. The Ohio Department of Job and Family Services currently operates the Social Services Block Grant (SSBG) Program. Therefore, the Department is responsible for ensuring that the SSBG annual report submitted to the public is reliable, accurate, and timely.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

32. SOCIAL SERVICES BLOCK GRANT – REPORTING (Continued)

45 CFR 96.17 states, in part:

Annual reporting requirements. (a) . . . a state must make public and submit to the Department each annual report required by statute: (1) Within six months of the end of the period covered by the report; . . .2(b) These reports are required annually for. . . the social services block grant (42 USC 1397e(a)). . .

During our testing, we noted the SSBG Annual Expenditure Report was due to the U.S. Department of Health and Human Services (HHS) by December 31, 2002; however, the report was not filed until May 28, 2003.

Without appropriate internal controls, management cannot reasonably assure the accuracy or timing of financial information. The Department indicated that CORE reports were submitted late by County Finance Section, thus causing the annual report to not be prepared by the due date.

We recommend that upper level management ensure that CORE has the ability to generate timely monthly reports. Management also needs to confirm that these CORE reports can be promptly forwarded to individuals who utilize these reports to provide important information to public sources.

33. WIA - REPORTING

<i>Finding Number</i>	2003-JFS33-044
<i>CFDA Number and Title</i>	17.258/17.259/17.260 – Workforce Investment Act Cluster
<i>Federal Agency</i>	Department of Labor

NONCOMPLIANCE

The WIA act Section 185(e)(1) states:

. . .

(e) QUARTERLY FINANCIAL REPORTS-

(1) In general. --Each local board in the State shall submit quarterly financial reports to the Governor with respect to programs and activities carried out under this title. Such reports shall include information identifying all program and activity costs by cost category in accordance with generally accepted accounting principles and by year of the appropriation involved.

. . .

During fiscal year 2003, Local Workforce Investment Area (LWIA) #7 program expenditures were reported by each of the 76 counties within the Area, rather than by the board itself. Counties used the Quarterly Information Consolidation (QuIC) system to transmit and upload their financial data into the Department's Central Reporting (CORE) system. However, the CORE system maintains this information by individual county and is not designed to summarize and report financial data for LWIA #7 as a whole. In addition, the CORE system lacks the capacity to track the local area expenditures by year of appropriation and cost category.

Noncompliance with the cited regulation may result in termination or suspension of WIA funding, sanctions, or repayment of any misspent funds (WIA Act Title I sec. 184). ODJFS management indicated the Department was aware of the need for and has initiated changes in reporting LWIA #7 expenditures.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

33. WIA – REPORTING (Continued)

In December 2003, the Department finalized the governance structure for LWIA #7 which, upon full implementation, will include a change in fiscal agent for the Area. Montgomery County will become the fiscal agent for LWIA #7 and will report expenditures for the Area. However, full transition is not scheduled to be completed until June 30, 2004.

We recommend that the Department implement the necessary procedures to ensure compliance with the cited regulations. This would include continued changes in the design of LWIA #7 which would allow for the LWIA #7 to submit the required quarterly financial reports to the governor as required by the WIA Act. See comment 2003-JFS51-062 on the WIA structure.

34. WIA – ONE STOP DELIVERY SYSTEMS

<i>Finding Number</i>	2003-JFS34-045
<i>CFDA Number and Title</i>	17.258/17.259/17.260 – WIA Cluster
<i>Federal Agency</i>	Department of Labor

NONCOMPLIANCE

The Workforce Investment Act (WIA) of 1998 is the legal authority for the WIA program; describes the intended operation and administration of the program; and sets forth the roles, powers and responsibilities of the entities that participate in the program. Section 134 (c)(2)(A) of the Act requires that a One-Stop Delivery System make available all of the listed programs, services and activities "... at not less than one physical center in each local area of the State..." The Act specifies there be required partners to carry out certain programs and/or activities described in the Act, and allows for additional partners to carry out certain other human resource programs (WIA Act Sec. 121 (b)). Correspondence from the Department of Labor indicates there are 19 required partners and five optional partners for the delivery system in Ohio. In addition, Section 121 (c) of the Act states "The local board, with the agreement of the chief elected official, shall develop and enter into a memorandum of understanding...concerning the operation of the one-stop delivery system in the local area".

The Department had eight Local Workforce Investment Areas (LWIA) in place during fiscal year 2003. Of these eight areas, LWIAs #1 through #6 and #8 were considered conventional areas covering a small number of counties, while LWIA #7 was comprised of 76 counties and 55 sub-areas. Although a One-Stop Center had been established within each of the eight LWIAs, as of June 30, 2003, none of the One-Stop Centers met the requirements of the Act. In addition, no memorandums of understanding had been executed for the eight local WIA areas in the State as of June 30, 2003.

Noncompliance with the requirements of the Workforce Investment Act could result in federal funding being reduced or eliminated, sanctions imposed by the federal grantor agency, or the Department having to repay part or all of the grant awards to the federal government. The Department management indicated they are aware of the need for additional One-Stop Centers. On December 10, 2003, the Governor's Workforce Policy Board issued a resolution calling for a minimum of 30 full-service comprehensive One-Stop Centers located throughout Ohio to address this issue.

We recommend the Department continue to work toward compliance with the Act. This should include fulfilling the resolution plan calling for a minimum of 30 One-Stop Centers in Ohio. In addition, we recommend the Department ensure all memorandums of understanding are signed and executed, as required. The Department should also continue to communicate with the U.S. Department of Labor regarding the structure of WIA to help ensure their plan meets federal expectations and requirements. See comment 2003-JFS51-062 on the WIA structure.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

35. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – MONITORING BY COUNTIES

<i>Finding Number</i>	2003-JFS35-046
<i>CFDA Number and Title</i>	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – State Children’s Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services

INTERNAL CONTROL – MATERIAL WEAKNESS

Sound internal control procedures require management at the County Departments of Job and Family Services to monitor and oversee operations of the Income and Eligibility Verification System (IEVS) at the county level to provide assurance that IEVS is functioning as intended, to promptly identify improper eligibility determinations made, and/or improper benefits paid as the result of erroneous recipient income data.

As a part of our testing, we examined the internal control systems surrounding IEVS at six County Departments of Job & Family Services (CDJFS) which included: Cuyahoga, Franklin, Hamilton, Lucas, Montgomery, and Summit. Based on interviews with the CDJFS workers and observations at the counties, it appears as though the processing of IEVS alerts at the county level is not performed consistently between the counties. As a result, we identified the following internal control weaknesses:

- In two of six (33%) counties tested, monitoring controls were not in place to reasonably ensure all IEVS alerts assigned to the CDJFS were processed.
 - Cuyahoga: The IEVS Coordinator regularly distributes IEVS alert information to the Team Coordinators via the GDE007RA report; however, there is no follow-up to ensure all IEVS alerts were received and processed.
 - Lucas: The IEVS alerts are regularly received by the Supervisors and their staff via the CRIS-E System; however, the county IEVS Coordinator did not utilize the GDE007RA – IEVS alert listing to reasonably ensure all IEVS alerts were received and processed.

- In three of six (50%) counties tested, monitoring controls were not in place to reasonably ensure IEVS alerts were processed timely.
 - Cuyahoga: The IEVS Coordinator regularly distributes the IEVS alert delinquency information to the Team Coordinators via the GDE089RA report; however, there is no follow-up to ensure all IEVS alerts were processed timely. The Team Coordinators do not return the GDE089RA Report to the IEVS Coordinator for review or monitoring purposes once the alerts are resolved.
 - Franklin – Northeast Opportunity Center: The IEVS Coordinator regularly distributes the IEVS alert delinquency information to the Center Directors via the GDE089RA report; however, there is no follow-up to ensure all IEVS alerts were processed timely. The Supervisors do not return the GDE089RA Report to the Center Director for review and monitoring purposes once the alerts are resolved.
 - Lucas: The IEVS Coordinator receives and reviews information which enables him to monitor delinquent IEVS alerts either on a monthly or quarterly basis; however, the delinquency information is not consistently communicated to the Supervisors and their staff. In addition, there is no documentation to ensure the delinquent IEVS alerts are being followed up on timely.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

35. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – MONITORING BY COUNTIES

(Continued)

- In two of six (33%) counties tested, monitoring procedures were not in place to reasonably ensure IEVS delinquencies are prevented and detected.
 - Cuyahoga and Lucas: The CDJFS management responsible for processing IEVS alerts did not have sufficient evidence of the monitoring controls in place to reasonably ensure delinquent IEVS alerts are prevented and detected.
- In two of six (33%) counties tested, adequate procedures were not in place to reasonably ensure IEVS alerts processed were accurately resolved and adequately documented.
 - Cuyahoga: The C.U.R.E. unit reviews Food Stamp cases on a regular basis; however, these reviews are not specific to the IEVS alert process and do not encompass programs other than Food Stamps unless they are included in the selected case. Team Coordinators and Team Leaders are responsible for reviewing cases within their units; however, a review of CLRC and the case files is not included within the CCDJFS Policies and Procedures that ensures IEVS' alert information is accurately completed and adequately documented.
 - Lucas: Current LCDJFS Policies and Procedures require a review of transferred and/or closing case files to ensure there are no outstanding IEVS alerts. Supervisors may or may not periodically perform reviews of CLRC and the corresponding case files for IEVS information. LCDJFS does not incorporate a review of CLRC and the case file within its Policies and Procedures that ensures the IEVS' alert information is accurately completed and adequately documented.
- In five of six (83%) counties tested, the county did not maintain adequate policies and procedures and/or did not consistently update policies and procedures.
 - Cuyahoga, Franklin, Hamilton, and Lucas: CDJFS management responsible for the processing of IEVS alerts had IEVS specific policies and procedures. However, the policies and procedures in place during the audit period did not adequately identify monitoring functions to promote consistent monitoring of IEVS alerts/matches for timeliness, accuracy, or completeness by the IEVS Coordinators and Supervisors (i.e., Team Coordinators, Team Leaders, Center Directors, and Unit Supervisors).
 - Hamilton: County procedures did not agree with the county's policy. As IEVS alerts were received by the county, the alerts were evaluated for accuracy to ensure they were actual alerts. Alerts verified as accurate and requiring third-party income/resource verification were marked as resolved in CRIS-E prior to actual resolution (i.e., initiation and/or receipt of third-party verification) and forwarded to an Overpayment Specialist. If the alert has the possibility of producing an overpayment, the Overpayment Specialist marks the alert complete in the CRIS-E system prior to actually resolving the alert and prepares a 3450 Overpayment/Fraud Referral Form which initiates the third-party verification process. Alerts with no possibility of producing an overpayment and with no relevant income information in CRIS-E are marked complete without pursuing recipient or third-party verification. This prohibits ODJFS, county management, or other interested parties from determining whether required timeframes for actual resolutions were met. As a result, it appears as though alerts marked as complete in CRIS-E are not necessarily resolved in accordance with 45 CFR 205.56(a)(ii & iv), 7 CFR 272.8(c), 42 CFR 435.952(c & d) and OAC 5101:1-1-36(l).
 - Summit: The IEVS Coordinator for Summit County provided the auditors with documentation outlining her role in the IEVS process, including monitoring functions, as part of her job description; however, this documentation was not included within SCDJFS policies and procedures, nor was there documentation identifying the Unit Supervisors' role in monitoring the IEVS alert/match process.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

35. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – MONITORING BY COUNTIES

(Continued)

- In one of six (17%) counties tested, the county could not provide evidence of and/or did not offer ongoing IEVS specific training during the audit period.
 - *Hamilton:* HCDJFS management responsible for the processing of IEVS alerts did not provide ongoing IEVS specific training. In addition, no HCDJFS employees attended the IEVS Processing in CRIS-E training session offered by the ODJFS during state fiscal year 2003. However, new and changing IEVS information is communicated to ongoing employees through regular staff meetings within the Benefit Recovery Unit.

As a result of the overall lack of monitoring and management oversight, IEVS is not being utilized as intended. Specifically, IEVS alerts are not being followed up on and resolved accurately, completely, or timely (see comment 2003-JFS20-031- due dates, and 2003-JFS21-032 - inadequate documentation). As a result, eligibility error rates may increase, resulting in federal fines and penalties against the Department. Through discussions with county management, IEVS coordinators, and case workers, the county departments re-organize their divisions to become more efficient in handling cases, resulting in tasks being lost or forgotten. Supervisors consider the number of alerts to be too voluminous to effectively monitor each alert. Most county IEVS coordinators were not aware of specific duties or procedures involving the IEVS process due to lack of communication between the counties and the state level.

We recommend the Department:

- Develop and utilize written policies and procedures with the collaboration of county management, which incorporate the procedures established at the state level, to assist case workers and supervisors in the IEVS process and to document the organizational structure of the county. In addition, the policies and procedures should identify key controls the county utilizes to reasonably ensure IEVS alerts received are complete, processed timely and accurately, and delinquencies are prevented and/or detected.
- A mandatory supervisory review of IEVS alerts be implemented at the county level. The performance of the reviews should be documented by the supervisor to provide assurance they are completed. Counties could develop a review “checklist” on which the required review steps would be documented. Appropriate corrective actions should be taken when IEVS errors are noted.
- Implement a tracking system (or expand their current tracking system) utilized by the counties to effectively identify the status of all alerts assigned to each case worker.
- Consistently develop and utilize performance standards at the counties, which incorporate the standards developed by ODJFS, to assist case workers and supervisors in the IEVS process.
- Implement ongoing IEVS-specific training for employees (new and current) at the counties to help assure all updates to IEVS are known by employees and any issues that arise are quickly resolved.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

36. DATA PROCESSING - ACCURACY OF CRIS-E INPUT

<i>Finding Number</i>	2003-JFS36-047
<i>CFDA Number and Title</i>	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – State Children’s Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services

INTERNAL CONTROL – MATERIAL WEAKNESS

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

The Client Registry Information System-Enhanced (CRIS-E) is used to determine eligibility and benefit amounts for public assistance programs totaling approximately \$984 million for Food Stamps, \$920 million for Temporary Assistance for Needy Families (TANF), \$185 million for State Children’s Insurance Program (SCHIP), and \$10.3 billion for Medicaid in fiscal year 2003. CRIS-E has numerous screens a caseworker must complete to determine if an applicant is eligible for public assistance benefits. Several screens could be enhanced with edit controls to prevent caseworker keystroke errors from unintentionally impacting the extent of benefit or eligibility determinations by the system. The following are three examples of edit controls not in place:

- In the event that there is more than one client living at a residence, the Detail Shelter Cost screen (AEFSC) reflects a field to show the client to which the shelter expense is assigned. If the client assigned to the shelter expense leaves the home or is deleted from the case, the related shelter expense is deleted, as well. If this happens, shelter expense for the client who is not assigned to the expense will not be properly accounted for by the caseworker. No alerts or reminders are given to the caseworker to have the shelter costs recalculated.
- The Detail Utility Cost screen (AEFUC) does not have an edit check to verify that the “Standard Utility Allowance” field does not exceed 100 percent. If there is more than one assistance group sharing heating/cooling expenses, the system could erroneously allow 100% for each group. Also, if the client pays less than 100% of the heating/cooling expense, the system does not require the remaining percentage be accounted for by the caseworker.
- If a client applying for assistance has liquid asset resources, the screen (AERLA) allows the caseworker to enter a beginning date of resources later than the ending date of resources. A beginning date later than an end date can only mean that the caseworker has made a typing error or the client has given false information.

Due to the lack of sufficient edit and validation checks, the risk of errors by the caseworker while completing the application process is increased. This could result in inappropriate benefit or eligibility determinations being made, as well as federal sanctions levied against the Department.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

36. DATA PROCESSING - ACCURACY OF CRIS-E INPUT (Continued)

CRIS-E management indicated that one reason for the lack of sufficient edit and validation checks is that legislative mandates, staffing, and management priorities have resulted in a two year backlog in addressing expansion and modification of the CRIS-E system. The Bureau of Systems Development (BSD) indicated they have initiated efforts to upgrade the edit controls for the CRIS-E input process. The Bureau Chief of Production Systems indicated that MIS needs to assess additional screens needed to correct this issue; however, work has not yet begun to correct this issue.

We recommend the BSD and county caseworkers coordinate to help determine which CRIS-E program screens need additional edits, and then BSD modify these programs to implement the additional edit and validation checks in a timely manner.

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

<i>Finding Number</i>	2003-JFS37-048
<i>CFDA Number and Title</i>	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – State Children’s Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services

INTERNAL CONTROL – MATERIAL WEAKNESS

When utilizing and relying upon a complex data processing system with many users, it is vital to address the users’ needs and minimize the manual and human input necessary to complete a transaction.

ODJFS uses the Client Registry Information System-Enhanced (CRIS-E) to determine eligibility and benefit amounts for public assistance programs totaling approximately \$984 million for Food Stamps, \$920 million for Temporary Assistance for Needy Families (TANF), \$185 million for State Children’s Insurance Program (SCHIP), and \$10.3 billion for Medicaid in fiscal year 2003. To facilitate changes to the programmed criteria in CRIS-E, the Department has implemented a process where the users (caseworkers) notify the appropriate Department personnel of the need for a program modification through Customer Service Requests (CSRs). Until these changes are made, the caseworkers must, in most cases, manually override the CRIS-E flags through FIATs. The FIAT Coordinator indicated there were 170 open CSRs as of August 17, 2001, requesting program modification to alleviate FIAT situations encountered by county staff; 12% of these CSRs were initiated before 1995. However, there was no effective way to document if this information was correct. Due to staffing adjustments, these statistics have been unavailable since the Fiscal Year 2002 audit.

By not completing CRIS-E program modifications in a timely manner, the need for frequent manual overrides is increased. This involves a great deal of judgment on the part of caseworkers and their supervisors. Under these circumstances, the risk of errors occurring in benefit eligibility determinations is greatly increased, and caseworker efficiency is decreased because of the cumbersome process involved. Eligibility errors have, in the past, resulted in federal fiscal sanctions against the Department.

The Bureau Chief of Production Systems stated the Medicaid Group that is charged to resolve FIAT issues is still working on eliminating the need for FIATs. To date, no FIAT policy changes have occurred.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

38. DATA PROCESSING - CORE PROCESSING

<i>Finding Number</i>	2003-JFS38-049
<i>CFDA Number and Title</i>	All Programs Administered by the Counties
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services

INTERNAL CONTROL – MATERIAL WEAKNESS

When administering federal programs, management is responsible for designing and implementing internal control policies and procedures to reasonably ensure compliance with federal laws and regulations. These procedures must include controls to ensure all transactions and budgetary information are accurately recorded and documented to provide management with assurance the controls are being performed timely and consistently.

The County Finance Department maintains the Central Office Reporting System (CORE) to capture (via monthly uploads from the counties' QuIC systems) and process (quarterly) county expenditure and other activity pertaining to various federal programs, calculate amounts to be advanced to counties (more than \$1.4 billion in State Fiscal Year 2003), and prepare reconciliations related to these transactions. However, the Shared Portion of Workforce Investment Act (WIA) Administration and Indirect Services were mapped to funding sources on the Year to Date Over/Under reports that did not correspond to the funds that the mapping codes indicated. The counties use the mapping codes to prepare their expenditure uploads in the QuIC system before submission to County Finance to be processed in CORE. This resulted in questionable amounts used on the over/under report for year-end county balances.

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

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

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

39. DATA PROCESSING - SETS PROGRAM CHANGE FOR FEDERAL REGULATIONS

<i>Finding Number</i>	2003-JFS39-050
<i>CFDA Number and Title</i>	93.563 – Child Support Enforcement
<i>Federal Agency</i>	Department of Health and Human Services

INTERNAL CONTROL – MATERIAL WEAKNESS

Effective project management and system development standards allow monitoring and tracking of the key development or program change milestones, progress, resources, and related documentation. The documentation should provide evidence of compliance that all the system requirements have been implemented as designed in a timely manner, with a prescribed number of resources, and in compliance with internal and external standards.

A formal process is not in place to ensure all federal child support program statutes and regulations issued by the federal Office of Child Support are accounted for in the remediation, testing, approval, and implementation phases of the SETS maintenance. The Family Support Act of 1988 (FSA) and the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PWORA) regulations and statutes are not consistently cross referenced in any of the requirements, design, test, or program documentation during this implementation life cycle.

Ineffective monitoring of all code of federal regulations throughout the design and implementation phases could lead to the absence of required regulations and statutes, jeopardizing the timely completion of the project. Without the proper documentation of the implemented program regulations and statutes, the potential of missing certain federal functional requirements is increased. This could result in untimely or erroneous child support payments to custodial parents and unnecessary financial penalties to the agency.

The Office of Child Support management agreed with the recommendation to have the processes to track federal and state policy regulations through the system development life cycle. They indicated they are progressing to resolution of this recommendation by the following:

- MIS is in the midst of implementing changes in the documentation tool, Symphony. These changes will allow Child Support Policy Section to interpret regulations for system policy requirements. The policy requirements will then be used to drive System Business requirements that are delivered to MIS.
- MIS is working with the Bureau of Configuration management toward the implementation of the document management tool, Dimensions. Dimensions will require and track the creation, approval and storage of policy and business requirements to be used to drive system modifications.
- MIS is modifying the Detail System Design (DSD) document and the Technical Design Document (TDD) to include a Traceability Matrix. The matrix will document and illustrate policy requirements through the entire system development life cycle.

We recommend ODJFS complete, formalize, and implement their new process to track all individual federal child support program regulations and statutes to be implemented into SETS throughout key development and implementation approval stages.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

40. TANF – COUNTY MONITORING

<i>Finding Number</i>	2003-JFS40-051
<i>CFDA Number and Title</i>	93.558 –Temporary Assistance for Needy Families
<i>Federal Agency</i>	Department of Health and Human Services

INTERNAL CONTROL – MATERIAL WEAKNESS

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

The determination of an applicant's eligibility to receive cash assistance from the Temporary Assistance for Needy Families (TANF) program is initiated at each county agency (approximately \$698 million for Ohio Works First (OWF) and \$61 million for Prevention, Retention, and Contingency (PRC)). Applicant information is compiled by case workers and input into CRIS-E, an ODJFS computer system designed to evaluate information, determine if an applicant is eligible to receive cash assistance, and calculate the benefit amount. In addition, ODJFS has entered into a partnership agreement with each county to provide incentives to the counties to reduce the number of assistance groups on the welfare rolls. However, as of June 30, 2003, ODJFS had not instituted monitoring procedures to determine whether information input into CRIS-E corresponded to source documentation, or if CRIS-E was accurately evaluating the information provided by county agency case workers. Although ODJFS improved their review of TANF sanctions (see comment 2003-JFS29-040), and the Office of Audits completed reviews of county activities which were limited primarily to the PRC portion of the TANF program (did not include the specific testing of compliance requirements for the OWF portion of the program), these procedures do not appear to be sufficient to monitor the overall TANF program.

Without an adequate monitoring process, ODJFS has limited assurance program funding was disbursed to eligible recipients for the appropriate amounts. If uncorrected, this condition could lead to questioned costs, thereby increasing the Department's liability and/or impacting the amount of federal funding to be received in future years. According to the Bureau Chief of Program Integrity, they have not conducted a review of TANF due to a lack of staff and resources. However, beginning October 1, 2004, a statistically valid statewide review of OWF cases will be implemented to determine correctness of OWF eligibility. The Bureau of Audit (BOA) has incorporated audit tests previously applied to the PRC program into the regular audits of county agencies. As a result, both PRC and OWF expenditures are tested for compliance with the requirements of 45 CFR 92 and 45 CFR 74, as applicable. In addition, BOA has been reviewing areas for expansion of audit testing in the TANF program which is expected to be possible in state fiscal year 2004 due to an increase in resources for audits of county agencies. Meetings are currently being held to discuss the most effective use of such resources to increase coverage in TANF and other program areas.

We recommend ODJFS continue to implement monitoring policies and procedures which sufficiently provide reasonable assurance the TANF program requirements and objectives are being fulfilled at both the state and county levels. These monitoring procedures should cover all compliance requirements of the program, with particular attention paid to the activities allowed, eligibility, and special tests and provisions requirements included in the OMB Circular A-133 Compliance Supplement for both the OWF and PRC portions of the TANF program; and include a review and evaluation of the counties' compliance with their partnership agreement. All monitoring procedures should be documented in some manner to indicate who performed the review, the results, and any recommendations or planned corrective action. In addition, we recommend a strong communication link be established between the Department's Bureau of Audit and the Bureau of TANF Program Policy to ensure all major issues identified through the county audits are brought to the attention of Program Policy where issues can be evaluated to determine if any policy changes need to be made to the program.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

41. CHILD SUPPORT PROCESSING AND RECONCILIATION

<i>Finding Number</i>	2003-JFS41-052
<i>CFDA Number and Title</i>	93.563 - Child Support Enforcement
<i>Federal Agency</i>	Department of Health and Human Services

INTERNAL CONTROL - MATERIAL WEAKNESS

In order to reasonably ensure the accuracy of accounting records, an adequate system of internal controls requires an entity to perform periodic reconciliations of their accounts and records. To be effective, these reconciliation procedures must be performed regularly and include a thorough investigation and follow-up of all significant reconciling items and be reviewed and approved by a supervisory level employee.

ODJFS has contracted with a third-party bank to receive child support payments, input the collection data for daily upload into SETS, investigate unpostable items, and transmit information regarding the various Child Support Payment Central (CSPC) accounts to ODJFS for reconciliation purposes. These accounts include the master account and 89 sub-accounts (one for each of the 88 counties and one for unpostable items). Current procedures require ODJFS personnel to reconcile the master account to bank activity on a daily basis. However, we noted the following in our review of master account reconciliations:

- The county ledgers completed each day were not compared to the master account for accuracy. In addition, there were 600 to 700 manual entries made on the master account reconciliation spreadsheet daily. Many of these same manual entries are made to the county reconciliations also; however, this data from the manual entries was not forwarded from the master account to the county sub-accounts. With the amount of manual entry performed, the possibility for errors and inconsistencies is greatly increased.
- There was no tracking of outstanding items in SETS for state fiscal year 2003. Instead, reliance was placed upon bank reports and a formula to determine outstanding items. Previously there was a report which tracked outstanding items within SETS; however, the Department informed us this report was not in use during the audit period.
- Voids, Stops, and Pulls were entered from a bank report. This report was not compared to information maintained within SETS for the first six months of state fiscal year 2003. Instead, complete reliance is placed on the bank reports. The Department began using the SETS QFR018 report at the beginning of calendar year 2003, or half-way through the audit period.

Without performing a thorough and complete reconciliation between the various bank accounts and internal records, ODJFS cannot reasonably ensure the accuracy and completeness of accounting records. In addition, without procedures in place to track undeposited items, payments may be lost, stolen, or misappropriated without detection. ODJFS management indicated these issues should be resolved with the implementation of OSCAR, a database which will enable daily reconciliation between county ledgers and the master account.

We recommend ODJFS management develop a cash journal within SETS and/or other specific SETS reports to accumulate the total cash balance of undistributed child support payments by each balance component, including outstanding checks, amounts on hold, and other critical information. The Department should also comply with current policies and procedures to reasonably ensure reconciliations are performed timely and accurately. These procedures must include a true "book to bank" reconciliation of the overall CSPC master account, SETS, and bank activity and balances.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

42. SOCIAL SERVICES BLOCK GRANT - INCOMPLETE MONITORING

<i>Finding Number</i>	2003-JFS42-053
<i>CFDA Number and Title</i>	93.667 – Social Services Block Grant
<i>Federal Agency</i>	Department of Health and Human Services

INTERNAL CONTROL - MATERIAL WEAKNESS

Federal regulations require that management devise and implement an adequate internal control structure capable of providing them with reasonable assurance their objectives are being achieved. The Ohio Department of Job and Family Services currently operates the Social Service Block Grant (SSBG) Program using a state-supervised, county-administered approach. It is the Department's responsibility to monitor the activities of the 88 county agencies for overall compliance with federal requirements and program objectives.

During fiscal year 2003, ODJFS paid counties approximately \$74.4 million in SSBG funds. However, as of the date of our testing, the Department had not designed appropriate monitoring procedures to help provide assurance the Department and county agencies were in compliance with federal requirements related to the SSBG program. There were no periodic on-site reviews conducted at county agencies to reasonably ensure they were properly determining eligibility, performing required monitoring of subrecipients, meeting county SSBG Plan goals, or accurately and completely preparing the ODJFS 4282 and other required reports.

Without performing adequate monitoring procedures and/or maintaining the necessary supporting documents, management may not be reasonably assured the Department is in compliance with federal program requirements. This increases the risk that necessary corrective actions may not be properly or timely implemented resulting in noncompliance, and/or fines or penalties which could adversely affect program funding.

We recommend ODJFS implement policies and procedures to reasonably ensure thorough monitoring of county activities is performed on a regular basis, and proper supporting documentation is maintained at all levels. These procedures may include, but are not limited to, periodic on-site reviews of county operations and compliance by Department SSBG program staff member or an internal auditor. These reviews should be documented in the form of a report that includes the reviewer's signature or initials and date, along with follow-up on any required corrective action.

43. UNEMPLOYMENT – WARRANT CONTROLS/SECURITY

<i>Finding Number</i>	2003-JFS43-054
<i>CFDA Number and Title</i>	17.225 – Unemployment Insurance
<i>Federal Agency</i>	Department of Labor

INTERNAL CONTROL – MATERIAL WEAKNESS

An entity's system of internal controls consists of the policies and procedures established to help ensure that specific operational objectives will be achieved. When processing warrants, it is critical these policies and procedures include controls to reasonably ensure the security of warrant documents, and the accuracy and completeness of payments processed and mailed. It is management's responsibility to design and implement the policies and procedures, and to periodically monitor the system to determine if the controls are operating as intended.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

43. UNEMPLOYMENT – WARRANT CONTROLS/SECURITY (Continued)

The ODJFS UNISYS Computer Operations Unit prints approximately 30,000 to 50,000 Unemployment Compensation warrants each day; 3.9 million warrants in total during state fiscal year 2003. As part of the warrant printing process, operators record the beginning and ending warrant document numbers processed, including warrants voided or mutilated in printer jams, into a Warrant Logging Sheet. In addition, the printing system produces a Batch Report denoting the number of sheets/warrants processed. Once the warrants are printed, they are loaded onto a cart and placed in a locked room overnight. The following morning, the warrants are retrieved by personnel from the mail room who signs a log indicating they obtained the warrants. The warrants are then processed through mail machines where they are sorted, placed in envelopes, stamped for postage, and run through two counters. The count noted by the counters is compared to the number of warrants per the Batch Report prepared during printing to help ensure sorting and stuffing errors did not occur. In addition, if any warrants were rejected after processing but before mailing, a report is attached to the batch or an Inter-Office Communication is received in the mail room informing them not to send the specific warrant and what action to take. Any warrants that are held are placed on a shelf in the Mail Room until the authorized Unemployment Compensation personnel retrieves them. Finally, the remaining warrants are sorted, bundled, and placed on pallets to await daily pick-up by ODJFS warehouse personnel for delivery to the post office. However:

- There were no key entry locks or other security measures for the area where the warrants were kept until they were picked up for delivery to the post office.
- Batch Reports used to compare the number of processed warrants to the number of sorted and stuffed envelopes are maintained for only six months, and then destroyed. Therefore, we were not able to determine if this control was in place throughout the entire audit period.
- For two of the 30 warrant processing days selected for control testing (6.66%), the operator did not initial the Warrant Logging Sheet indicating all warrants were accounted for.
- For the warrant date 04-01-2003, the Warrant Logging Sheet indicated warrant document numbers 17385000 through 17385500 “do not exist.” No explanation was provided regarding the disposition of the 500 blank warrants.
- For seven of 15 warrant processing days selected for substantive testing (46.66%), the warrants were not processed in sequence.

Without ensuring controls over warrant processing are consistently applied and ensuring warrants are adequately safeguarded throughout the warrant printing and mailing processes, the risk is increased that warrants may be lost, stolen, or not processed accurately and completely. As a result, unemployment benefits intended for qualifying individuals may be misdirected. This, in turn, could lead to undue public scrutiny toward the Department and ultimately a reduction in federal funding through sanctions and/or extensive audit costs.

The Mail Service and Shipping Chief indicated the lack of security in the mail room has not been made a priority. In addition, Batch Reports are maintained for six months in accordance with their policies and procedures. The UNISYS Computer Operations Manager stated the lack of consistent controls were due to management oversight. In addition, warrants are not always able to be processed in sequence due to the use of two printers. As an example, a printer jam on one printer could possibly require warrants to be printed out of sequence due to miss-fed sheets resulting in voided warrants. Finally, the manager did not know the disposition or the reasoning for the missing batch of 500 blank warrants.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

43. UNEMPLOYMENT – WARRANT CONTROLS/SECURITY (Continued)

We recommend management develop, document, and implement controls to reasonably ensure all warrants are processed accurately and consistently, and are safeguarded throughout the warrant printing and mailing processes. These controls should include, but not be limited to:

- The implementation of adequate physical safeguards to keep the warrants secure at all times, include the period of time prior to pick-up by the delivery service; and to limit access only to those personnel with the adequate level of authority.

- A review and evaluation of the current policies and records retention schedule regarding the Batch Reports and other critical documents to verify these items are retained for an appropriate period of time. Adjustments should be made to the policies and procedures and/or the records retention schedule to require all key documentation be retained, in paper, electronic, or other appropriate format, in accordance with the State and federal requirements; typically no less than three years from the release of the audit report covering those records.

- Periodic reviews by management to reasonably ensure warrants are being processed in the manner intended and controls are operating as intended.

44. VOUCHER SUMMARY CONTROL WEAKNESSES/CODING ERRORS

<i>Finding Number</i>	2003-JFS44-055
<i>CFDA Number and Title</i>	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.563 – Child Support Enforcement 93.658 – Foster Care 93.659 – Adoption Assistance 93.767 – State Children’s Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services

INTERNAL CONTROL - REPORTABLE CONDITION

Federal regulations require recipients to maintain internal controls over federal programs that provide reasonable assurance they are in compliance with laws, regulations, and the provisions of contracts or grant agreements; and the activity is accurately and completely recorded in the financial statements and the federal schedule. To be effective, the performance of an internal control procedure should be evidenced in some manner to provide assurance to other parties involved in the process that established procedures have been followed. It is management’s responsibility to monitor these control procedures to verify they are operating effectively.

Currently, ODJFS utilizes voucher summaries to process benefit payments for the Food Stamps Cluster, TANF, Child Support Enforcement, Foster Care, Adoption Assistance, SCHIP, and Medicaid Cluster programs. During the audit period, internal controls over the disbursement of federal program monies were not consistently applied, as indicated below:

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

44. VOUCHER SUMMARY CONTROL WEAKNESSES/CODING ERRORS (Continued)

- The current procedures in place at ODJFS require the Accounts Payable Account Examiner 3 to complete and attach a voucher summary checklist documenting the completion of various control procedures identified; however, four of 60 (6.67%) items tested did not include any evidence to show completion of the voucher summary checklist. For all four of the exceptions noted, the checklist was not attached to the voucher summary.
- The Accounts Payable Unit Supervisor is required to initial a certification stamp on the voucher summary report to ensure a comparison was made of the Quattro Pro Spreadsheet, Voucher Summary Report, and Voucher Summary Checklist; however, three of 60 (5%) items tested did not include the Unit Supervisor's initials or other evidence of review.
- The Accounts Payable Unit Supervisor is required to initial the voucher summary to evidence his review and approval of each voucher summary and support documentation including the Last Receipt Date; however, one of 60 (1.67%) items tested did not include the Unit Supervisor's initials or other evidence of review.

ODJFS has established a chart of accounts which includes: Fund, Spending Authority Code (SAC), Responsibility Centers, Grant Numbers, and Reporting Categories to identify expenditures by program area. One of ten (10%) voucher summaries totaling just over \$1.5 billion selected for testing from over \$8.5 billion in Medicaid and SCHIP voucher summary benefit payments during fiscal year 2003, contained an incorrect reporting category used within CAS Fund GRF totaling \$597 which related to Medicaid. Although this error did not result in expenditures being coded to the wrong federal program, it may indicate the established control procedures over the review of voucher summary documents for accuracy and completeness are not operating consistently.

If control procedures are not performed and documented thoroughly and consistently, ODJFS management may not be reasonably assured payments are accurate and complete. In addition, management may not be able to readily identify their thought processes and/or actions taken should questions arise regarding particular aspects of the reviews or modifications, particularly if there is turnover in supervisory positions performing the controls. Inaccurate expenditure coding may result in inaccurate data regarding Medicaid, SCHIP, and other federal programs which could adversely impact management's decisions about the cost effectiveness and the overall effectiveness of the programs. The Accounts Payable Unit Supervisor indicated even though the voucher summary checklist was not completed or attached to the documents; there was evidence that other review procedures were performed. As for the other control deficiencies and coding errors noted, the Accounts Payable Unit Supervisor stated these errors were oversights on the Department's behalf.

We recommend ODJFS consistently follow established control procedures to obtain reasonable assurance transactions are processed accurately and in accordance with the appropriate laws and regulations. Management should periodically monitor transaction evidence to ensure the Department personnel are adhering to internal control procedures. In addition, to comply with the federal requirements pertaining to the proper coding of Medicaid, SCHIP, and other federal expenditures, management should evaluate and strengthen control procedures to ensure they are effective in detecting improper coding and include a thorough review of documentation prior to payment.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

45. CONTRACTS/RELATIONSHIPS WITH COUNTY AGENCIES

<i>Finding Number</i>	2003-JFS45-056
<i>CFDA Number and Title</i>	All Programs Administered by the Counties
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services

INTERNAL CONTROL - REPORTABLE CONDITION

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

...

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

- (1) Determines who is eligible to receive what Federal financial assistance;
- (2) Has its performance measured against whether the objectives of the Federal program are met;
- (3) Has responsibility for programmatic decision making;
- (4) Has responsibility for adherence to applicable Federal program compliance requirements; and
- (5) Uses the Federal funds to carry out a program of the organization as compared to providing goods or services for a program of the pass-through entity.

...

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

ODJFS currently uses a state supervised, county administered approach for the operation of its major programs, except those received from the Department of Labor. Under this structure, the 88 counties in Ohio do not report these funds on their federal schedule even though they may meet all five criteria of a subrecipient, in varying degrees for each program, as defined in OMB Circular A-133. In addition, the counties must contribute local dollars as a condition of receiving this federal funding for most, if not all, of these programs. However, there are no written contracts with the counties which identify the nature of their relationships with ODJFS, nor has a formal evaluation of these relationships been completed.

If subrecipient relationships exist between ODJFS and the county agencies and are not properly identified, the county agencies would not be subject to a separate single audit, as required by the single audit act and OMB Circular A-133. This greatly increases the risk that federal funds could be used improperly or that other program compliance requirements would not be met. In addition, under the current structure, the roles and responsibilities of the State and county agencies are not always clear, which increases the risk of noncompliance and reduces overall program effectiveness.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

45. CONTRACTS/RELATIONSHIPS WITH COUNTY AGENCIES (Continued)

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

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

46. VARIOUS PROGRAMS – CODING ERRORS

<i>Finding Number</i>	2003-JFS46-057
<i>CFDA Number and Title</i>	All Programs Administered by the Department
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services Department of Labor

INTERNAL CONTROL – REPORTABLE CONDITION

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

We identified the following errors/inconsistencies in the chart of accounts and expenditure or revenue coding for state fiscal year 2003:

- Approximately \$4.2 million in disbursements were recorded in the Central Accounting System (CAS) using Reporting Categories which were not listed on the Department's chart of accounts and required further investigation to determine the description of the disbursements;
- Two reporting categories, 8656 and 8657, had incorrect Catalog of Federal Domestic Assistance (CFDA) Numbers recorded on the Department's Chart of Accounts. Both reporting categories had an Adoption Assistance CFDA #93.659 and a Foster Care description. According to the Bureau of Budget Management and Analysis, the correct CFDA number should have been #93.674. There will be no questioned costs as a result of this error, since no disbursements were made in state fiscal year 2003 using these reporting categories;

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

46. VARIOUS PROGRAMS – CODING ERRORS (Continued)

- For the Child Support Enforcement program (CFDA #93.563), \$297,996 of state fiscal year 2003 expenditures occurring subsequent to September 30, 2002 were recorded as disbursements from the federal fiscal year 2000 grant J616 in CAS. However, revenue draws supporting these expenditures originated from the federal fiscal year 2002 award, grant number H693;
- For the Temporary Assistance for Needy Families program (CFDA #93.558), \$2,875,129 of state fiscal year 2003 expenditures occurring subsequent to September 30, 2001 were recorded as disbursements from the federal fiscal year 2001 grant J075 in CAS. However, revenue draws supporting these expenditures originated from the federal fiscal year 2002 award, grant number J592;
- For the Social Services Block Grant (CFDA #93.667), \$352,837 of state fiscal year 2003 expenditures occurring subsequent to September 30, 2002 were recorded as disbursements from the federal fiscal year 2001 grant J088 in CAS. However, revenue draws supporting these expenditures originated from the federal fiscal year 2002 award, grant number J708;
- Two grant numbers, J380 and H668, were not listed in the Department's chart of accounts, even though there was activity recorded within CAS for these grant numbers in state fiscal year 2003. The grant numbers were determined to be valid based upon review of documentation submitted to State Accounting;
- During the reconciliation between the recorded CAS revenues and the federal awarding agency confirmations, it was noted that payments in the amount of \$263,197 were improperly coded as federal revenue for Fund 398. The funds were refunds to the Department for non-custodial child support payments which are used to offset past expenditures and reduce future federal draws. Since the refunds are reported on the Department's expenditure reports as reductions to expenditures, recording the refunds as federal revenue was inappropriate.
- For the Child Support program, \$503,434.80 of state fiscal year 2003 expenditures occurring subsequent to September 30, 2002 were recorded as disbursements from the federal fiscal year 2001 grant J074 in CAS. However, revenue draws supporting these expenditures originated from the federal fiscal year 2002 award, grant number K140.

As a result of these errors, a significant amount of time was required by Department personnel and audit staff to investigate and/or identify the correct program(s) and/or classifications related to these activities. An inaccurate or incomplete chart of accounts increases the risk of misstatements in amounts included on any internal or external reports, which could subject the Department to fines and/or sanctions or a reduction in future federal funding. Management indicated the reporting categories in question were accidentally excluded from the Department's chart of accounts; however, the reporting categories were included within the Department's edit tables since the transactions were processed correctly. With regards to the two grant numbers that were not listed in the chart of accounts, management stated the numbers were probably lost when converting the chart of accounts from a Quattro Pro to a Microsoft Access format. Management indicated that most coding inconsistencies were due to human error.

We recommend the Department review and revise the current chart of accounts to verify its accuracy and completeness. The chart of accounts should represent all program activities and ongoing changes should be documented, as needed, to reasonably ensure a comprehensive chart of accounts with a sufficient level of detail is maintained and available for use/reference. We also recommend management develop and implement policies and procedures requiring a periodic comparison of financial activity recorded in CAS to the Department's chart of accounts and physical vouchers. This could be accomplished by utilizing the Crystal Reports software currently maintained by the Department. Any discrepancies or unusual activity should be documented, investigated, and any necessary corrective actions implemented. Furthermore, a risk based approach (i.e., identifying vouchers with a higher risk of miscoding such as hand written as opposed to electronically produced vouchers) could be utilized to compare a representative selection of physical vouchers to coding maintained in CAS for accuracy.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

47. TANF – DATA REPORT

<i>Finding Number</i>	2003-JFS47-058
<i>CFDA Number and Title</i>	93.558 – Temporary Assistance for Needy Families
<i>Federal Agency</i>	Department of Health and Human Services

INTERNAL CONTROL - REPORTABLE CONDITION

45 CFR ' 265.3 states, in part:

- (a) Quarterly Reports. (1) Each State must collect on a monthly basis, and file on a quarterly basis, the Data specified in the TANF Data Report. . . .
- (b) TANF Data Report. The TANF Data Report consists of three sections. Two sections contain disaggregated data elements and one section contains aggregated data elements.
- . . .

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

Under the current reporting structure, information is extracted monthly from CRIS-E and compiled into a TANF Data Universe file. A sample of the TANF Universe file is then extracted and submitted electronically to the U. S. Department of Health and Human Services on a quarterly basis. Each report consists of three types of data: Assistance Group Level Data, Adult Level Data, and Child Level Data. However, there are no procedures in place to review and evaluate the reports prior to submission. In addition, we noted the following in our testing of critical line items (as identified in the OMB Circular A-133 Compliance Supplement):

Child Level Data:

- For 16 of 60 items selected, the date of birth on the TANF Data Report did not agree to the date of birth recorded in CRIS-E;
- For 25 of 60 items selected, the child’s relationship to the head-of-household on the TANF Data Report did not agree to the relationship documented in CRIS-E;
- For 20 of 60 items selected, the TANF Data Report indicated there was only one child for the assistance group; however, an additional child or children were noted in CRIS-E;
- For the 18,326 Child Level Data records within the two quarterly TANF Data Reports selected for testing, 880 contained at least one social security number comprised with all zeros even though dates of birth and relationships to head-of-household were documented. It appeared these children were newborns and may not have been assigned a social security number. All Child Level Data dates of birth and relationships to the head-of-household were examined utilizing audit software to identify records where the date of birth preceded the reporting month date by more than one year since TANF eligibility redeterminations are to occur at least once annually. For 45 of the 880 (5%) with no social security number, the date of birth preceded the report date by more than 365 days. The days in excess ranged from 397 to 4,962 with an average of 1,959 days.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

47. TANF – DATA REPORT (Continued)

Individual Level Data:

- For one of 60 items selected, a social security number was not listed for the individual on the TANF Data Report. Therefore, we were unable to verify whether the information on the 14 critical line items was in agreement with CRIS-E.
- For six of 60 items selected, the relationship to the head-of-household documented on the TANF Data Report did not agree to the information in CRIS-E.

Assistance Group Level Data:

- For participants receiving subsidized child care, two of 60 items selected did not agree to the data documented in CRIS-E. The TANF Data Report indicated subsidized child care was received, yet CRIS-E indicated that no subsidized child care was received.

As a result, we were unable to determine whether the quarterly TANF Data Reports were accurate, complete, and in compliance with federal rules and regulations. In the absence of internal controls to reasonably ensure the accuracy and completeness of reports, the risk is greatly increased that information being reported is not representative of TANF activity and/or is not in accordance with the federal requirement. Reporting inaccurate or incomplete information could subject the Department to federal sanctions, limiting the amount of funding for program activities. The IT Manager 1 and Programmer/Analyst 2 of the Information Delivery System, Office of Management Information Systems, were unsure why the information on the TANF Data Report did not agree to CRIS-E since the TANF Universal File is extracted from CRIS-E. They also stated that some of the information pulled from the TANF Data Report might no longer be available in CRIS-E or it may be possible that some groups have been archived.

We recommend ODJFS verify control procedures are in place to provide reasonable assurance that federal TANF Data Reports are accurate, complete, and in compliance with federal requirements. This could be achieved by reviewing and agreeing critical line items contained within the reports to the historical information maintained within CRIS-E and maintaining a log of submission dates. Evidence of such reviews should be maintained to provide management with assurance the controls are operating consistently and effectively.

48. MEDICAID/SCHIP – THIRD PARTY LIABILITY

<i>Finding Number</i>	2003-JFS48-059
<i>CFDA Number and Title</i>	93.767 – State Children’s Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

42 CFR 433.138 requires the state to take reasonable measures to determine the legal liability of third parties for payment of services furnished under the State plan. At a minimum, the Department must obtain health insurance information from providers, follow up on such information, and maintain sufficient documentation to reasonably ensure legal third-party liabilities are identified and claim recoveries are made in a timely manner, as required.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

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

The Department employs a Cost Avoidance Unit with the objective of detecting third party liabilities. The Cost Avoidance Unit primarily utilizes three methods for obtaining insurance carrier information from providers. First, the unit obtains recipient insurance information through the initial Medicaid/SCHIP eligibility and redetermination process in which the recipient completes an ODJFS 6612. Second, the Medicaid Management Information System (MMIS) flags and reports claims from providers that are coded with a "Third- Party Payer". From this information, MMIS automatically identifies any claims paid over \$2,000 and generates a Cost Avoidance Worksheet which is then forwarded to the provider to obtain the third-party information needed to update the Third-Party Liability (TPL) database and MMIS. Third, providers may also notify the unit if they discover a recipient is covered by third-party insurance. The ODJFS 6614, "Health Insurance Fact Form," is completed by the provider noting the third-party insurance information. All third-party liability information obtained by the unit is verified with the appropriate insurance carrier. A third-party liability file is then created within the TPL database and within MMIS to prevent payments for claims that would otherwise be the responsibility of a third-party. However, the following weaknesses were noted:

- The Cost Avoidance Unit receives numerous third party liability information forms through the mail. However, there is no control procedure in place to reasonably ensure all of the ODJFS 6612, ODJFS 6614, and Cost Avoidance Worksheets received by the unit are entered into the TPL database.
- For two of sixty document control numbers selected from the TPL database, the corresponding supporting documentation was not available for review. Upon further investigation it was determined these document control numbers no longer existed and were to have been removed from the database. As a result, no assurance could be obtained that the population of records within the database was complete and accurate.
- For 10 of 16 quality review checklists tested, there was no evidence to indicate a quality control check of data entered into the Third-Party Liability Database was performed.
- For three of 40 third party liability forms tested, the insurance coverage dates in MMIS did not agree with the dates listed on the forms.

If ODJFS is not able to completely and accurately identify liable third parties and recoup overpayments related to third-party obligations, the amount of program funds available for eligible Medicaid/SCHIP recipients would be reduced, limiting management's ability to achieve program objectives. Furthermore, inaccurate or incomplete information could lead to claims being unjustly rejected or erroneously paid. The Cost Avoidance Unit Supervisor indicated the gaps in the third party liability control numbers were due to errors created by the system which were detected by the unit; however, several of these control numbers were not deleted from the system. She also stated due to staffing levels, the quality review checklists were not completed.

We recommend the Department develop and implement policies and procedures to reasonably ensure all third-party liability documents received by the Cost Avoidance Unit agrees to the number of claims entered into the Third-Party Liability Database on a monthly basis. The Department should maintain adequate documentation of the reconciliation and any variances which required further investigation. We recommend the Department reinforce their established policies and procedures and emphasize the importance of documenting their completion of a quality control review by completing the checklists.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

49. MEDICAID/SCHIP – DUPLICATE PHYSICIAN AND OSTEOPATH PAYMENTS

<i>Finding Number</i>	2003-JFS49-060
<i>CFDA Number and Title</i>	93.767 – State Children’s Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

Governmental units assume responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award. According to Office of Management and Budget Circular A-87, “Cost principles for State, Local, and Indian Tribal Governments”, Attachment A, subsection C, for costs to be allowable under Federal awards, they must be necessary and reasonable for proper and efficient performance and administration of Federal awards.

In addition, according to 42 CFR 447.45(f), it is the agencies’ responsibility to “conduct payment review consisting of verification that the claim does not duplicate or conflict with one reviewed previously or currently being reviewed”. It is management’s responsibility to reasonably ensure costs are allowable, in compliance with the program requirements, and are not duplicated.

Under the current operating structure, ODJFS relies on the automated Medicaid Management Information System (MMIS) to determine whether payments for medical services are allowable and to verify the claim does not duplicate a service previously paid. In the 2001 audit, a number of potential duplicate payments for physician and osteopath services were identified during an electronic data match of Medicaid and SCHIP expenditures. ODJFS had not implemented appropriate procedures to monitor the payments beyond the computer reviews performed by MMIS to ensure duplicate payments were rejected. As a result of a meeting held with a representative from Centers for Medicaid and Medicare Services (CMS), the Auditor of State (AOS), and ODJFS to follow-up on the audit finding, ODJFS proposed to CMS the following three tiered approach to address the issue:

- ODJFS will select and examine the top ten potential duplicate providers from an internally derived population of potential duplicates. The Department will request information from the provider to thoroughly examine the claim at the physical claim level;
- If any of the selected claims are determined to be actual duplicate payments, ODJFS will expand the examination of their population to include a statistical sample of potential duplicated payments;
- Based on the results of the findings from the examination, ODJFS will determine the feasibility of implementing additional edit checks within MMIS (i.e., in conjunction with the implementation of Title II of the Health Insurance Portability and Accountability Act of 1996 (HIPAA) required data structures for claims), to eliminate the duplicates prior to payment or, at the very least, identify the duplicates for post claim payment follow-up.

The CMS representative agreed this solution would suffice as a corrective action for the prior year finding and not require ODJFS to repay the 2001 questioned costs related to this area. However, ODJFS did not provide us with any evidence to demonstrate these procedures were performed during fiscal year 2003.

Without adequate monitoring controls in place over the payment of claims, ODJFS may not be reasonably assured Medicaid and SCHIP claims are not duplicated. The lack of sufficient monitoring and edit/validation checks increases the risk of errors during processing of Medicaid and SCHIP claims resulting in inappropriate benefit payments to providers. Overpayments to providers may subject the Department to penalties or sanctions which may jeopardize future federal funding and limit their ability to fulfill program requirement to provide Medicaid benefits to those in need.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

49. MEDICAID/SCHIP – DUPLICATE PHYSICIAN AND OSTEOPATH PAYMENTS (Continued)

We recommend ODJFS implement internal controls which provide reasonable assurance reimbursements are made only for allowable program costs. This would include implementing the corrective action plan approved by CMS. In addition, we recommend the Department continue to perform periodic testing to help ensure the automated controls are functioning properly and the system is appropriately determining the allowability and payment amount for medical services.

50. ADOPTION ASSISTANCE – VOUCHER SUMMARY SUPPORT DETAIL

<i>Finding Number</i>	2003-JFS50-061
<i>CFDA Number and Title</i>	93.659 – Adoption Assistance
<i>Federal Agency</i>	Department of Health and Human Services

INTERNAL CONTROL - REPORTABLE CONDITION

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

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

As part of our testing, we selected a sample of 30 benefit payments from approximately \$159 million in Adoption Assistance expenditures made by ODJFS and attempted to trace individual recipients/clients to FACSIS to verify they had been determined eligible. However, in all 30 instances, the Adoption Assistance IV-E identification numbers shown on the Control-D GBI017RA Reports did not correlate directly to recipient numbers required to locate the recipients/clients in the FACSIS system, nor was there a readily identifiable link between these two types of numbers. Based on documentation provided by the Department, the FACSIS IV-E numbers can take on one of two forms, both 12-digits long:

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

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

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

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

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

51. WIA – STRUCTURE OF THE PROGRAM

<i>Finding Number</i>	2003-JFS51-062
<i>CFDA Number and Title</i>	17.258/17.259/17.260 – WIA Cluster
<i>Federal Agency</i>	Department of Labor

INTERNAL CONTROL – REPORTABLE CONDITION

The Workforce Investment Act (WIA) of 1998 is the legal authority for the WIA program. Section 116 (a)(1)(B) identifies the criteria to be used for the designation of Local Workforce Investment Areas (LWIA).

...

- (B) Considerations.-- In Making the designation of local areas, the Governor shall take into consideration the following:
 - (i) Geographic areas served by local educational agencies and intermediate educational agencies.
 - (ii) Geographic areas served by postsecondary educational institutions and area vocational education schools.
 - (iii) The extent to which such local areas are consistent with labor market areas.
 - (iv) The distance that individuals will need to travel to receive services provided in such local areas.
 - (v) The resources of such local areas that are available to effectively administer the activities carried out under this subtitle.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

51. WIA – STRUCTURE OF THE PROGRAM (Continued)

The structure of the WIA program during fiscal year 2003, as administered by ODJFS, included eight LWIAs designated throughout the State. Seven of the LWIAs were created as local areas through the automatic designation provision of the Act (WIA Act sec. 116 (a)(2)). The remainder of the State was designated as one LWIA. This LWIA, referred to as Ohio Option Area #7, includes the majority of the geographic area of the State comprising 76 counties and 55 sub-areas. A LWIA the size of Area #7 is contrary to the intention of the Act and the required considerations to be used in designating local areas. During the audit period, the Local Workforce Investment Board (LWIB) for Area #7 did “set policy for the portion of the statewide workforce investment system within the local area” (WIA Act sec 117 (a)). However, ODJFS served as the administrative and fiscal agent for Area #7 and was responsible for enforcing and carrying out set policy.

Non compliance with the requirements of WIA could result in federal funding being reduced or eliminated, sanctions imposed by the federal grantor agency, or the Department having to repay part or all of the grant awards to the Federal Government. Management stated they were aware of the deficiencies, and has begun the corrective action plan. By October of 2003, all current sub-areas of Local Area #7 had to decide if they would stay within Local Area #7, or go to a conventional LWIA. In December 2003, the Department finalized the governance criteria for the structure of LWIA #7 which includes a change in fiscal agent for the area to Montgomery County; however this transition is not expected to be completed until June 30, 2004.

We recommend the Department continue to work toward compliance with the Act. This should include fulfilling the resolution plan to restructure LWIA #7 to require administrative and fiscal agent activities be independent of the Department operations, and require the LWIB to independently enforce policy within the local area. However, because it is not clear whether this new structure will satisfy the requirements of WIA, we also recommend the Department continue to communicate with the U.S. Department of Labor regarding their corrective action plan.

52. MISSING DOCUMENTATION – VARIOUS COUNTIES

<i>Finding Number</i>	2003-JFS52-063
<i>CFDA Number and Title</i>	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.575/93.569 – Child Care Cluster 93.658 – Foster Care 93.667 – Social Services Block Grant 93.775/93.777/93.778 – Medicaid Cluster 93.767 – State Children’s Insurance Program
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

When administering federal grant awards for ODJFS, it is the counties’ responsibility to provide reasonable assurance that only eligible individuals receive assistance and the information reported to ODJFS is accurate and complete. In order for county management to ensure and verify this, it is imperative that appropriate supporting documentation be maintained for all amounts reported, and case files contain all pertinent information relating to the case and be readily accessible for review and/or reference. The ODJFS Administrative Procedure Manual Chapter 9212 states, in part:

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

52. MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

Financial, programmatic, statistical, and recipient records and supporting documents must be retained for a minimum of three years. The minimum retention period for public assistance records depends upon whether the assistance group is active or inactive. ODJFS requires inactive assistance group records to be held for a minimum of three years after the group has become inactive. For active assistance groups, or assistance groups that have been inactive for less than three years, ODJFS requires a minimum retention period of seven years for documentation, including old application/reapplication forms and monthly reporting forms which were obtained for the assistance group record.

ODJFS is responsible for establishing guidelines and regulations for implementation at the county level and for monitoring county activities to reasonably ensure the Department’s compliance with federal program requirements.

Seven of the nine counties tested during the audit period were missing required case file or other documentation, as detailed below:

COUNTY	CFDA #	MISSING DOCUMENTATION
Cuyahoga	10.551/10.561 93.558	<p>We noted two claim files could not be located during Food Stamp reporting control testing of 20 claim files.</p> <p>We noted the following missing documentation during TANF child support non-cooperation compliance testing of 19 case files:</p> <ul style="list-style-type: none"> • Eleven Self-Sufficiency Contracts were not in the case file (four of the 11 cases could not be found). • Twelve Self-Sufficiency Plans were not in case file (four of the 12 cases could not be found). • Written documentation of self-sufficiency monitoring was not in 13 case files. Furthermore, there were no CLCR CRIS-E notes to support self-sufficiency monitoring for these thirteen cases (four of the 13 cases could not be found). <p>We noted the following missing documentation during TANF refusal to work compliance testing of 20 case files:</p> <ul style="list-style-type: none"> • Nine Self-Sufficiency Contracts were not in the case file (four of the 20 cases could not be found). • Eleven Self-Sufficiency Plans were not in the case file (four of the 20 cases could not be found). • Six case files were missing supporting documentation regarding Self-Sufficiency Contract provision progress (four of the 20 cases could not be found). <p>We noted the following missing documentation during TANF eligibility compliance testing of 20 case files:</p> <ul style="list-style-type: none"> • Six PRC applications were not the case file. • One application for Cash, Medical, and Food Assistance was not in the case file. • The TANF authorization date was not indicated on the AEWAA screen on CRIS-E for one case file.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

52. MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

COUNTY	CFDA #	MISSING DOCUMENTATION
Cuyahoga (Continued)	93.558 (Continued)	<p>We noted the following missing documentation during TANF allowability control testing of 20 case files:</p> <ul style="list-style-type: none"> • Two case files were missing. The PRC applications could not be located. These applications require the following signatures: <ul style="list-style-type: none"> ○ Applicant: To attest to the accuracy of the information on the application. ○ Caseworker: As evidence the caseworker reviewed the application for completeness. ○ Supervisor: As evidence the application was reviewed. • Three PRC applications were not in the case files. These forms require the signatures listed above: applicant, caseworker, and supervisor. <p>We noted the following missing documentation during TANF/PRC eligibility control testing of 20 case files:</p> <ul style="list-style-type: none"> • Nine PRC applications were missing from their case files. These applications require the following signatures: <ul style="list-style-type: none"> ○ Applicant: To attest to the accuracy of the information on the application. ○ Caseworker: As evidence the caseworker reviewed the application for completeness. ○ Supervisor: As evidence the application was reviewed. • Thirteen PRC notices were not in the case file. <p>We noted the following missing documentation during TANF/OWF eligibility control testing of ten case files:</p> <ul style="list-style-type: none"> • Three eligibility verification checklists were not in the case file. • One case file was missing the CRIS-E printout, which indicates the caseworker verified the recipient’s income through CRIS-E. <p>We noted the following missing documentation during TANF Special Tests/Child Support Non-Cooperation control testing of 20 child support failures:</p> <ul style="list-style-type: none"> • Ten Self-Sufficiency Contracts could not be located (three could not be found due to missing case files). • Twelve Self-Sufficiency Plans could not be located (three could not be found due to missing case files). • Twelve sanction intervention letters could not be located. • Eleven sanction notification letters could not be located. <p>We noted the following missing documentation during TANF Special Tests/Refusal to Work control testing of 20 refusal to work penalties:</p> <ul style="list-style-type: none"> • Seven case files could not be located. • Eleven case files did not contain written documentation that the participant refused to work.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

52. MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

COUNTY	CFDA #	MISSING DOCUMENTATION
Cuyahoga (Continued)	93.558 (Continued)	<p>We noted the following missing documentation during our control testing over 20 TANF Special Tests/Adult Custodial Parent under 6 When Child Care Not Unavailable cases:</p> <ul style="list-style-type: none"> • Seven Self-Sufficiency Contracts were missing (five missing Contracts were due to missing files). • Fifteen Sanction Intervention Letters were missing (five missing Letters were due to missing files). • Eleven Sanction Notification Letters were missing (five missing Letters were due to missing files). • Two case files lacked written documentation in the case file or on CRIS-E that indicate procedures were performed which prevent sanctioning for recipients meeting the criteria.
	93.575/ 93.569	<p>We noted the following missing documentation during eligibility control testing of 20 Day Care Placement and Payment cases:</p> <ul style="list-style-type: none"> • Ten Application/Redetermination forms were missing (five missing forms were due to missing case files). • Fifteen Notice of Approvals or Applications for Assistance were missing (five missing documents were due to missing case files). • Thirteen Rights and Responsibilities forms were missing (five missing forms were due to missing case files). • Nine Notices of Day Care Placement and Payment were missing (five missing Notices were due to missing case files).
	93.767	<p>We noted the following missing documentation during SCHIP eligibility control testing of 20 case files:</p> <ul style="list-style-type: none"> • Nineteen ODJFS 7220 forms were missing (six missing forms were due to missing case files). • Twenty Redemption Letters were missing (six missing Letters were due to missing case files).
	93.775/ 93.777/ 93.778	<p>We noted the following missing documentation during Medicaid eligibility control testing of ten case files:</p> <ul style="list-style-type: none"> • Four eligibility determination checklists were missing (one missing checklist was due to a missing case file). • Three CRIS-E printouts, which indicate the recipient’s income was verified, were missing (one missing printout was due to a missing case file).
Defiance	93.659	<p>We noted four of ten adoption assistance cases did not include updated ODHS 1451 “Title IV-E Adoption Assistance Application/Determination of Continuing Eligibility” forms that address whether adoption without subsidy was attempted.</p>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

52. MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

To address the specific weaknesses noted at the counties tested, we recommend:

CUYAHOGA, FRANKLIN, FULTON, HAMILTON & LUCAS

We recommend CCDJFS, Franklin CDJFS, Fulton CDJFS, HCDJFS, and LCDJFS management review the current policies and procedures with all staff and implement or enforce control procedures which will reasonably ensure case files have adequate documentation to support the subsidy payments made to recipients. One method to ensure the required information is maintained in the case file would be to develop and use a checklist. The checklist would serve as a lead sheet for each case file to show the status of the case and to help ensure the proper supporting documentation is included within the file. Management may consider performing a periodic review of case files to ensure established control and record retention procedures are followed by personnel.

DEFIANCE

We recommend management review its policies and procedures designed to ensure compliance with 42 USC 673 (c)(2)(B) and OAC 5101:2-47-10 (B)(1). Management should ensure all documents pertaining to attempted placement of adoptive children in homes without subsidy are properly maintained and readily accessible for review and/or reference. When there are changes to compliance requirements and/or ODJFS forms, the DCDJFS should inquire and obtain written confirmation from ODJFS on whether old case files should be updated with the new compliance requirements and/or new forms.

WASHINGTON

To support data reported on the ODHS 4282 Reports and to provide management with a means to monitor the accuracy and completeness of the reports, we recommend management implement internal control procedures which ensure all supporting documentation used to compile the ODHS 4282 Reports is retained and filed with a copy of the report.

53. LATE COUNTY REPORTS – VARIOUS COUNTIES

<i>Finding Number</i>	2003-JFS53-064
<i>CFDA Number and Title</i>	93.658 – Foster Care 93.667 – Social Services Block Grant
<i>Federal Agency</i>	Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

County agencies are advanced or reimbursed federal monies to administer various programs on behalf of the ODJFS. The county agencies are required to submit monthly financial and other reports to identify program outlays/activities and provide information to ODJFS which is then used to prepare cumulative federal reports and various schedules used by the Office of Budget and Management to compile the State's financial statements. To facilitate the completion and submission of these reports, ODJFS has established policy and procedure manuals to identify applicable reporting requirements, as indicated below:

The ODHS 1925 Monthly Financial Statement (foster care program) must be submitted to ODJFS no later than the 10th working day of the month following the expenditure month. [ODHS Administrative Procedure Manual Appendix]

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

53. LATE COUNTY REPORTS – VARIOUS COUNTIES (Continued)

The ODHS 4282 Title XX Social Services Block Grant Report is completed monthly by the CDJFS and must be submitted no later than 45 days after the end of the month. This report must be submitted monthly even if SSBG direct services were not provided and/or purchased services expenditures were not made during the month. [The Administrative Procedure Manual Section 5501]

Of the nine counties tested during the audit period, four submitted one or more reports beyond the required due dates, as detailed below:

Report: ODHS 1925 Program Affected: Foster Care		
COUNTY	# LATE / # TESTED	DAYS LATE
Defiance	1/4	22
Lucas	4/4	3 - 10
Putnam	1/4	3
Washington	1/4	3

Report: ODHS 4282 Program Affected: Social Services Block Grant		
COUNTY	# LATE / # TESTED	DAYS LATE
Defiance	4/4	Unable to determine

Without accurate and timely reporting by the various county agencies, the risk that amounts reported to the federal grantor agencies and/or on the State's financial statements are not indicative of actual program activities is greatly increased. Delays in receiving county financial information could significantly delay the preparation of certain GAAP Package Schedules used to provide information for the preparation of the State's financial statements. County personnel identified a variety of reasons for not preparing the reports and/or not submitting them timely, including inadequate experience of the preparer, human error, and insufficient procedures.

We recommend the various county agencies implement control policies and procedures which would reasonably ensure the required reports are prepared accurately and timely. These procedures could include the use of a tickler file to alert county personnel of the approaching deadlines. If, for some reason, the reports cannot be filed within the timeframe established, management should seek a written extension or waiver from ODJFS for this requirement. In addition, any extensions granted to counties should be clearly documented, in writing, so that each party is sure of the expectations. Also, ODJFS should enhance their monitoring procedures related to county reporting to identify those counties who are habitually late and enforce punitive measures for those counties, as provided for in the procedure manuals and Ohio Administrative Code.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

54. REPORTING PROCEDURES, REVIEWS, AND INACCURACIES – VARIOUS COUNTIES

<i>Finding Number</i>	2003-JFS54-065
<i>CFDA Number and Title</i>	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.575/93.569 – Child Care Cluster 93.658 – Foster Care 93.659 – Adoption Assistance 93.667 – Social Services Block Grant 93.775/93.777/93.778 – Medicaid Cluster 93.767 – State Children’s Insurance Program
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

County agencies are advanced or reimbursed federal monies to administer various programs on behalf of the ODJFS. The county agencies are required to submit monthly financial and other reports to identify program outlays/activities and provide information to ODJFS which is then used to prepare cumulative federal reports and various schedules used by the Office of Budget and Management to compile the State’s financial statements. It is the responsibility of county management to implement control policies and procedures to reasonably ensure these reports are complete, accurate, and timely.

Seven of nine counties tested during the audit period had weaknesses in their report preparation and/or review process which, in some instances, resulted in inaccurate information, as detailed below:

COUNTY	CFDA #	REPORT/WEAKNESSES NOTED
Cuyahoga	93.558	<p>During TANF allowability control testing of 20 TANF-PRC cases, we noted one PRC application was not reviewed by the team leader/supervisor.</p> <p>During TANF eligibility control testing of 20 TANF-PRC cases, we noted:</p> <ul style="list-style-type: none"> • One PRC Application was not signed by the caseworker indicating that a review of the form/determination of eligibility was performed. • Three PRC Applications were not signed by an immediate supervisor, manager, or coordinator to indicate supervisory review. <p>During TANF special test and provisions Adult Custodial Parent With A Child Under Six testing of 20 case files, we noted three self-sufficiency plans were not signed by the participants or the self-sufficiency coaches.</p>
	93.767	<p>During SCHIP eligibility control testing of 20 cases, we noted the client’s eligibility was not recorded on the CRIS-E IQEL or IQCM screens.</p>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

54. REPORTING PROCEDURES, REVIEWS, AND INACCURACIES – VARIOUS COUNTIES
(Continued)

COUNTY	CFDA #	REPORT/WEAKNESSES NOTED
Defiance	93.563 93.658 93.659 93.667	<p>During control testing over 20 CSEA payroll transactions, we noted the following:</p> <ul style="list-style-type: none"> • Eleven of 20 time slips did not indicate supervisory approval. • Six of 20 leave forms did not indicate supervisory approval. <p>Two of two quarterly 4281 reports selected for testing contained no evidence that indicate the reports had been reviewed and approved by the appropriate level of management before submission to ODJFS.</p> <p>Twelve of twelve monthly 4282 reports selected for testing contained no evidence to determine if the reports had been reviewed and approved by the appropriate level of management before submission to ODJFS. Furthermore, there was no documentation to support the amounts reported on the 4282 reports.</p>
Franklin	10.551/ 10.561	<p>During our test of controls over daily reconciliations of Food Stamps EBT Cards, we noted seven of seven ODC #3 reports lacked evidence of the performance of reconciliations by the vault custodian and the customer support supervisor.</p>
Fulton	10.551/ 10.561 93.558	<p>During our control testing of 20 Affidavits for Lost, Destroyed or Stolen Ohio Direction Cards, we noted the following:</p> <ul style="list-style-type: none"> • Nine Affidavits were not signed/authorized by FCDJFS personnel. • Two Affidavits were not signed/authorized by the recipient. • Nine Ohio Direction ACO/FCO Authorization forms were not signed/authorized. <p>During our compliance testing of 10 Ohio Direction Cards, we noted two <i>Affidavits for Lost, Destroyed or Stolen Ohio Direction Cards</i> included Card numbers that could not be identified on the <i>Direction Card Returned Card/Damaged Disposition</i> form. There is no evidence the two Cards were returned to Customer Service.</p> <p>During TANF special tests and provisions Refusal to Work of 20 case files we noted:</p> <ul style="list-style-type: none"> • Two case files had self-sufficiency contracts that were not signed by the OWF participant. • One case file had a self-sufficiency contract that was not signed by an FCDJFS representative. • Two case files had self-sufficiency plans that were not signed by the OWF participant. • Three case files had self-sufficiency plans that were not signed by an FCDJFS representative.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

**54. REPORTING PROCEDURES, REVIEWS, AND INACCURACIES – VARIOUS COUNTIES
(Continued)**

COUNTY	CFDA #	REPORT/WEAKNESSES NOTED
Lucas (Continued)	93.667	<p>During control testing of monthly 4282 reports, we noted:</p> <ul style="list-style-type: none"> • Twelve of 12 ODHS Purchased Services Only Reports were not prepared by the Statistician Supervisor. • One of four ODHS Direct Services Reports did not include evidence of review/approval by the Social Services Director.
Washington	10.551/ 10.561 93.558 93.575/ 93.569 93.667 93.775/ 93.777/ 93.778 93.767 93.563 93.659	<p>During control testing of 18 IMRMS Observation forms, we noted five IMRMS Observation forms did not include evidence of supervisory approval.</p> <p>During control testing of 20 direct program expenditures, we noted 16 invoices were lacking evidence of review by the Director or Fiscal Officer.</p> <p>During control testing of 20 adoption assistance files, we noted 20 Adoptive Assistance Agreements were not signed by the caseworker to indicate approval of the Agreement.</p>

Under these conditions, reports submitted to the federal awarding agency may not include all activity of the reporting period, may not be supported by underlying accounting or performance records, and/or may not be presented in accordance with program requirements. Various reasons were given by county personnel regarding these issues including staffing changes, move of records, insufficient procedures, new procedures, inexperienced staff, and employee oversight.

We recommend:

CUYAHOGA

In an effort to ensure management’s control objectives are achieved, we recommend management review CRIS-E eligibility status procedures with staff and revise procedures if necessary. Furthermore, management may consider performing periodic monitoring procedures to ensure CRIS-E eligibility control procedures are consistently implemented. For example, management may periodically examine CRIS-E to ensure assistance recipients are indicated as being eligible to receive SCHIP benefits.

We recommend management review its policies and procedures regarding the review of PRC applications. Management should ensure its policies are adequately communicated to staff responsible for performing PRC application reviews. Furthermore, management may consider performing periodic reviews of case files to determine if PRC applications are being reviewed as intended.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

54. REPORTING PROCEDURES, REVIEWS, AND INACCURACIES – VARIOUS COUNTIES (Continued)

DEFIANCE

We recommend management develop and implement internal control policies and procedures to provide reasonable assurance that ODHS 4281 and ODHS 4282 Reports are being reviewed by the appropriate level of management and that all information presented on the reports is adequately supported with appropriate documentation. In addition, management should follow up on any discrepancies or unusual items noted. Evidence of the performance of managerial reviews, approvals, and follow up actions should be documented in the form of signatures, dates, and explanatory notes on the reports and/or supporting documentation.

We recommend management review its procedures for reviewing and approving employee time sheets and leave forms. The performance of the review and approval procedures should be indicated with signatures and dates on the time sheets and leave forms. Management should periodically monitor these activities to ensure consistent application amongst supervisors.

FRANKLIN

In an effort to ensure management's control objectives are achieved, we recommend management communicate to staff established control procedures regarding the reconciliation of EBT cards. Furthermore, management may consider performing monitoring procedures to ensure this control procedure is consistently implemented. For example, management may periodically examine reconciliation sheets to ensure the required signatures are present.

FULTON

We recommend management review and/or improve established control/security procedures over Ohio Direction Cards to ensure Cards identified as damaged/destroyed, per the *Affidavit for Lost, Destroyed or Stolen Ohio Direction Cards* (Affidavit), be documented on the *Direction Card Returned Card/Damaged Disposition* form and returned to the Direction Card Customer Service. If, for some reason, a Card number identified as damaged is not the same number identified on the *Direction Card Returned Card/Damaged Disposition* form, an explanation should be documented on the Affidavit. Furthermore, management should ensure procedures regarding the signing of Affidavits and the authorization of ACO/FCO forms are communicated to individuals responsible for the performance of such procedures.

We recommend management review its current policies and procedures and implement or enforce control procedures which reasonably ensure case files have adequate documentation to support subsidy payments, including complete Self-Sufficiency Contracts and Plans. Management may consider performing a periodic review of a sample of case files to ensure established internal control procedures are followed by personnel.

HAMILTON

We recommend management review its established payroll control procedures with those persons who are responsible for their performance (Unit Timekeepers/Team Leaders or Supervisors/Department Heads) and emphasize the importance of the consistent application of those procedures. To ensure control procedures are in place as intended, management may periodically monitor the application of such procedures by examining payroll records and supporting documentation, such as time sheets and leave forms.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

54. REPORTING PROCEDURES, REVIEWS, AND INACCURACIES – VARIOUS COUNTIES (Continued)

In an effort to ensure ODHS 4282 Reports are complete, accurate, and are being reviewed by the appropriate level of management prior to their submission to ODJFS, we recommend management review its current internal control policies and procedures and ensure they are adequately communicated to individuals with review responsibilities. Evidence of the performance of managerial reviews, approvals, and follow up actions should be documented in the form of signatures, dates, and explanatory notes on the reports and/or supporting documentation.

In an effort to ensure management's control objectives are achieved, we recommend management ensure procedures over Intake/Referral Forms are adequately communicated to staff. Furthermore, management may consider performing monitoring procedures to ensure Intake/Referral Forms are properly reviewed.

LUCAS

We recommend management review its policies and control procedures related to determination and documentation of eligibility of recipients. Management should ensure policies and procedures are communicated to persons responsible for performing the procedures. Furthermore, in an effort to ensure its objectives are carried out as intended, we recommend management periodically measure the degree to which established control procedures are being performed. This may include periodically selecting random recipient cases to determine if the respective case files indicate the proper performance of procedures, including income verification and the use of checklists.

In an effort to ensure management's control objectives over eligibility are achieved, we recommend management communicate to staff established control procedures regarding the documentation of income eligibility determination. Furthermore, management may consider performing monitoring procedures to ensure this control procedure is consistently implemented. For example, management may periodically examine PRC packets to ensure the method of income eligibility determination is written on the application.

We recommend management review the requirements for preparing the ODHS 4282 report completely, accurately and timely with the staff. We also recommend supervisory personnel review and approve these reports prior to submitting them, noting their review and approval with signatures/initials and the applicable date of review/approval.

We recommend management review its current policies and procedures which ensure required SSC's and Plans are complete and signed by recipients and LCDJFS representatives. These procedures should be communicated to staff to ensure they are carried out as intended. Furthermore, management may perform periodic reviews of case files in an effort to determine the degree to which established procedures are being followed.

We recommend management review its policies and procedures regarding the proper removal of child support non-cooperation sanctions for recipients who successfully comply with sanction requirements. In addition, we recommend management review its policies and procedures that ensure sanction referrals for child support non-cooperation are processed in a timely manner. Management should ensure its policies and procedures are adequately communicated to staff.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

**54. REPORTING PROCEDURES, REVIEWS, AND INACCURACIES – VARIOUS COUNTIES
(Continued)**

WASHINGTON

We recommend management review its policies and procedures regarding the review and approval of invoices. Management should ensure that individuals responsible for performing the related control activities (i.e., reviewing, approving, and signing) are aware of their responsibilities. Furthermore, in an effort to ensure established control procedures are being performed consistently, management may periodically measure the degree to which established control procedures are being performed. For example, management may periodically scan paid invoices for evidence of proper approval.

We recommend management ensure caseworkers are fully aware of their responsibility to sign Adoption Assistance Agreements to indicate WCCSB's agreement with the terms therein. Furthermore, in an effort to ensure its objectives are carried out as intended, we recommend management periodically measure the degree to which established control procedures are being performed. This may include randomly reviewing approved Adoption Assistance Agreements to ensure caseworkers' reviews and approvals are properly indicated, in accordance with WCCSB procedures.

We recommend management ensure supervisors are fully aware of their responsibility to perform established control procedures, including signing the IMRMS Observation forms to indicate their review and approval of the forms. Furthermore, in an effort to ensure its objectives are carried out as intended, we recommend management periodically measure the degree to which established control procedures are being performed. This may include randomly reviewing approved IMRMS Observation forms to ensure supervisors' reviews and approvals are properly indicated, in accordance with WCDJFS procedures.

55. DATA PROCESSING - MMIS AND CRIS-E APPLICATION DOCUMENTATION

<i>Finding Number</i>	2003-JFS55-066
<i>CFDA Number and Title</i>	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

Sound internal control procedures require implemented systems and their operational features be documented to facilitate systems maintenance, systems modifications, or systems recoveries. Documentation of the procedures and decision rules for each computer application should be clear and meaningful to a knowledgeable user of the system.

Systems documentation for the Medicaid Management Information System (MMIS) and the Client Registry Information System-Enhanced (CRIS-E) did not accurately reflect the actual systems processing currently in operation. In addition, no procedures were in place to reasonably ensure systems documentation was reviewed and updated either on a regular basis or as changes were made. ODJFS has placed reliance on the memories of a few key personnel to maintain the documentation for the application processes performed by these critical systems. The CRIS-E and MMIS applications provide ODJFS with the ability to determine eligibility and benefit amounts of approximately \$984 million for Food Stamps, \$920 million for TANF, \$185 million for SCHIP, and \$10.3 billion for Medicaid in fiscal year 2003.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

55. DATA PROCESSING - MMIS AND CRIS-E APPLICATION DOCUMENTATION (Continued)

As a result, an information systems professional who is unfamiliar with these systems could not use the current information to obtain an understanding of these critical application processes without extreme difficulty, if at all. This increases the risk of substantial time and financial burdens to the State in the event of turnover in key Management Information Systems (MIS) positions or systems failures. In addition, management may not be able to identify and monitor key control functions of these systems, increasing the risk of unauthorized and/or unallowed transactions being processed.

ODJFS management indicated CRIS-E began work on the documentation for the Benefit Issuance sub-system during FY03. Work was halted due to loss of priority, lack of resources, and budget constraints.

ODJFS management also indicated for FY04, both CRIS-E and MMIS staff will be documenting critical applications in both the CRIS-E and MMIS sections. Much critical application knowledge rests with contractors and the goal to be without contractors by 1/1/04 jeopardizes the applications without critical change/recovery documentation in place.

We recommend ODJFS update all current systems documentation to reflect the current processes and procedures of their MMIS and CRIS-E computer applications. In addition, a comprehensive evaluation and revision of the current documentation procedures should be conducted. Primary emphasis should be placed on reviewing the type of documentation provided to users and the procedures for preparing such documentation. Standards for documentation should be approved by appropriate management and should be adequate to provide information necessary to efficiently and effectively utilize systems resources. Elements of documentation that should be included are:

- Application flowcharts
- Record and report layouts
- Program source listings
- Operator and user instructions
- Program narratives (may include program change documentation)
- Business application rules
- Listing/location of all key automated (input, processing, and output) controls
- Test data/results
- User documentation

56. DATA PROCESSING - CORE ADVANCE CALCULATION

<i>Finding Number</i>	2003-JFS56-067
<i>CFDA Number and Title</i>	All Programs Administered by the Counties
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

When administering federal programs, management is responsible for designing and implementing internal control policies and procedures to reasonably ensure compliance with federal laws and regulations. These procedures must include controls to ensure all transactions and budgetary information is accurately recorded. Controls should be adequately documented to provide management with assurance the controls are performed timely and consistently.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

56. DATA PROCESSING - CORE ADVANCE CALCULATION (Continued)

The Department maintains the Central Office Reporting System (CORE) to capture (via monthly uploads) and process (quarterly) county expenditure and other activity pertaining to various federal programs, calculate amounts to be advanced to counties (more than \$1.4 billion in State Fiscal Year 2003), and prepare reconciliations related to these transactions.

During State Fiscal Year (SFY) 2003, the counties were allowed to make advance draws for their expenditures on a weekly basis instead of a monthly basis. When the CORE application was updated to perform the advance calculation on a weekly basis, the year to date totals that reconciled monies advanced to the counties against monies actually expended by the counties for the closed quarters did not report accurate amounts. This caused the draws sent to the counties in the second quarter of SFY 2003 to be higher than requested. To resolve the issue, the County Finance section of ODJFS re-opened closed quarters in the CORE application and ran the advance calculation with all open quarters so that only budgetary numbers were used and no year to date totals were considered. This caused all the weekly advances that were sent to the counties in SFY 2003 to be based on all budgetary requests and no actual expenditures were taken into account.

The monies that are advanced to the counties on a weekly basis could be significantly higher than the actual expenditures the county incurs for the period. Although a year-to-date reconciliation will be made at the end of the SFY, the interest earned on the monies advanced to the counties in error will not be recognized at the state level. In addition, the risk of errors made by CORE while calculating and reporting county expenditures and advances is greatly increased.

County Finance management indicated that a request has been made for the application vendor, Maximus, Inc., to fix the error in the advance calculation.

We recommend the Department immediately fix the advance calculation to take into account a year to date total of actual expenditures versus reimbursements for each county before money is advanced to the counties.

57. DATA PROCESSING - CORE PROGRAM CHANGE STANDARDS

<i>Finding Number</i>	2003-JFS57-068
<i>CFDA Number and Title</i>	All Programs Administered by the Counties
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

Proper program change controls help prevent unauthorized changes to production programs. Effective control procedures would include an audit trail with key authorizations and related documentation of significant control processes along the program change life cycle.

ODJFS maintains the Central Office Reporting System (CORE) to capture (via monthly uploads) and process (quarterly) county expenditure and other activity pertaining to various federal programs, calculate amounts to be advanced to counties (more than \$1.4 billion in State Fiscal Year 2003), and prepare reconciliations related to these transactions. The County Finance Department currently makes all program changes regarding CORE mapping codes, which are used to identify activity for each federal program and category of expenditure. These changes are being submitted on a change form; however, the changes are not being signed-off on when completed, nor are they verified or reviewed.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

57. DATA PROCESSING - CORE PROGRAM CHANGE STANDARDS (Continued)

ODJFS contracted with Maximus, Inc. to perform all other necessary program changes and updates to the CORE system. Formal program change procedures are in place for Maximus, Inc. to implement these necessary program changes; however, the program change forms, designed to contain key ODJFS approval signatures and change documentation, were not properly completed.

Without standardized, documented, and enforced procedures, unauthorized or erroneous software upgrades and application changes or updates may be implemented. This increases the risk that transactions may be processed improperly, or the application will not function as the users had intended. Lack of sufficient monitoring of program changes could lead to incomplete, inefficient, or unauthorized program modifications.

According to County Finance management, system change requests are completed when submitted to Maximus, Inc. but are not always completed by Maximus, Inc. with actual change support data. In addition, although the program changes are reviewed by County Finance once the change has been implemented, no documentation of user acceptance exists.

We recommend that each CORE program change be properly documented, reviewed, and approved by ODJFS to provide a tangible audit trail. We also recommend the Department implement formal user acceptance and review of all modifications to CORE mapping codes and program changes and monitor whether the procedures are consistently performed.

58. DATA PROCESSING - CORE BACKUPS

<i>Finding Number</i>	2003-JFS58-069
<i>CFDA Number and Title</i>	All Programs Administered by the Counties
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

Sound backup control procedures require that backup computer files be readily available and properly secured to ensure their usefulness. This requires that computer files are backed up regularly to a secure readily accessible storage location.

ODJFS maintains the Central Office Reporting System (CORE) to capture (via monthly uploads) and process (quarterly) county expenditure and other activity pertaining to various federal programs, calculate amounts to be advanced to counties (more than \$1.4 billion in State Fiscal Year 2003), and prepare reconciliations related to these transactions. Data backups for the CORE application failed three of the five days audited in FY2003. Data backups were not available for processing during 60 percent of the week examined. Without the backup of all critical data processing application programs, operating system files, and data files, recovery after a disaster would be impossible. Such a data loss would cause untimely delays and significant amounts of down time in the reconstruction of data prior to bringing the system back online.

The CORE Network Analyst indicated that he is responsible for verifying that the backups run successfully; however, he does not have management authority over the operators who are responsible for inserting the tapes. In addition, the Network Analyst works at the Air Center, which is several miles from the server room, and cannot be present to enforce the completion of the backup runs.

We recommend that ODJFS immediately begin to monitor the backups on a daily basis. If the backup run fails for any reason, the Department should follow up on the error for resolution.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

59. DATA PROCESSING - CENTRALIZED COMPUTER SECURITY

<i>Finding Number</i>	2003-JFS59-070
<i>CFDA Number and Title</i>	All Programs Administered by the Department
<i>Federal Agency</i>	Department of Agriculture Department of Labor Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

Sound business practices dictate the organization ensure the security administration of significant applications be assigned to trained and authorized security employees.

Administration of computer security is not compliant with the Department’s Information Technology (IT) Plan for fiscal year (FY) 2004-2005. The Plan states under the Organizational Assessment section, that the IT administration will centralize Management Information Systems (MIS) functions of the mainframe and network security administrative duties performed by the Bureau of Information Systems Support (BISS) for state and county users. For most of FY 2003, the Bureau of Network Support (BNS) performed moves, deletes and modifications of the Novell network accounts and still has the ability to create new accounts. (In mid-March of 2003, BISS took over the delete function.)

The significant software applications (including CRIS-E, SETS, MMIS, FACSIS, and CORE) provide the Department with the ability to determine eligibility for welfare benefits, provide reimbursements to Medicaid providers, track child welfare information, and collect county financial information for federal reporting responsibilities.

The risk of unauthorized profile changes increases when multiple and untrained internal units are involved in the security administration of a material application. Inconsistent access administration may net the user unwarranted computer resources.

According to the Data Security Supervisor, the BNS Production Administrative staff performs only MOVE and name change functions to ODJFS (Novell) network accounts upon approval from the BISS. The BISS Information Security staff perform all other (adds, deletes, etc.) ODJFS (Novell) network user account administrative functions. A process is now in place whereas only the BISS Information Security Administrative staff performs ODJFS (Novell) network user account DELETIONS. It has been previously agreed that BNS Production Administration staff will not create or delete any user accounts regardless of capability.

We recommend the Department comply with their IT Technology Plan for FY 2004-2005 and perform all computer security administration within BISS. Compliance with the Plan allows BNS to focus on duties and functions relevant for the effective administration of the Department’s network system and operational customer support for its users.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

60. DATA PROCESSING – PHYSICAL ACCESS TO THE COMPUTER ROOM

<i>Finding Number</i>	2003-JFS60-071
<i>CFDA Number and Title</i>	All Programs Administered by the Department
<i>Federal Agency</i>	Department of Agriculture Department of Labor Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

To help reduce the likelihood of unauthorized use, organizations must restrict access to their computer systems, programs, and data. The level of access must be commensurate to a specific user's job responsibilities and needs. Typically, physical access to the computer room should be restricted to only authorized personnel such as computer operators, operations management, and key security and network personnel.

The computer room at 145 South Front Street contains servers, operational equipment, printers, and warrants for the ODJFS unemployment applications. There are three entrances into the computer room, which are all equipped with a swipe-card lock. A Security Report was generated of all users with access through any of the three doors. The Security Report included 295 active users, of which only 35 users were authorized according to the Computer Operations Manager. Eight cards were issued to terminated ODJFS personnel, five users had duplicate badges for the same access, and 251 cards were issued to users whose need for access could not be determined.

Unauthorized personnel in the computer room could do malicious damage to the equipment in the facility, misuse confidential documentation obtained from reports not yet picked up, and/or misappropriate blank warrant stock for fraudulent purposes.

According to the Security Officer, due to the merger of OBES and ODJFS along with a number of changes in the Security management team the security function has become disorganized. The Security Officers inherited the security system from management and there has not been consistent enforcement of security policies and procedures. An access listing has been sent to the appropriate managers to review, but no documentation has been maintained.

We recommend that ODJFS take steps to ensure that access is reviewed and restricted to authorized personnel who require access for job responsibilities.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

61. DATA PROCESSING - SETS SYSTEM DOCUMENTATION

<i>Finding Number</i>	2003-JFS61-072
<i>CFDA Number and Title</i>	93.563 – Child Support Enforcement
<i>Federal Agency</i>	Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

Sound business practices dictate that an organization should ensure that there is appropriate system documentation created and maintained. Program logic, functionality, and relationships should be documented to provide an understanding of how the application programs work and interact. This is especially prudent when term contractors have been hired to help complete the application's development or maintenance. Most importantly, the program documentation should be comprehensive and accurate enough to allow state employees or future contractors to effectively and efficiently resume the current contractor's roles and IT functions in the event the current contractors leave ODJFS.

There was no program documentation that shows the interrelationship of program changes and data dependencies between programs. However, there were the original Technical Design Documents (TDD) or Detail Design Documents (DSD) that could be used in conjunction with the Task Tracking System (TTS) and all the Test Incident Reports (TIRs) that have occurred since the original documentation, but the task would not be efficient, and the effectiveness questionable. System documentation of programs older than two years is not as up-to-date as the most recent programs' system documentation.

There is the potential that when the new RFP for only one main contractor per application is released, the current contractors may no longer be working on SETS after the duration of their contract. Less than 1/4 of the 84 Systems Development group members are state employees. Less than 1/3 of the 61 System Test group members are state employees. All six members of the Release Management group and all nine members of Production Support are contractors. Without the contractor involvement, the remaining state personnel would not be able to provide sufficient SETS program development and maintenance under current case load and program change conditions.

In the SETS programming environment, there is a significant risk that the programming staff could not effectively and efficiently fix some program abends, or complete some program changes without going through the arduous task of researching the program from its inception from the original design documents and program tracking tools. The absence of documentation may result in program development or maintenance that erroneously affects other programs in SETS. The integrity of the child support payment process could be seriously jeopardized.

The SETS Section Chief disagrees with effectiveness of this recommendation and therefore has not attempted resolution. However, he indicated the following processes address the audit recommendation and have been implemented:

- Process flows have been developed for all production jobs. These flows depict the inputs, outputs and functional process for each batch program.
- MIS has executed a shifted focus as to the dependency on the utilization of contract staff performing system development modifications. As stated in this audit finding, contract staff were 75% of the SETS development staff. Currently, contract staff comprises only 19% of the development staff indicating that the majority of the system modifications are made by state staff. Concentrate on the majority of system modification to be completed by state staff.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

61. DATA PROCESSING - SETS SYSTEM DOCUMENTATION (Continued)

- SETS has published documentation standards that require program resident documentation that explains complex processing. Additionally, SETS procedures have been established that require the adherence to project procedures by staff members that are independent of the system modifications.
- The independent JCL Group has the responsibility and the empowerment to develop the batch processing flows. This group's isolation from system modifications allows the independent enforcement of processing documentation.

These procedures have been developed and implemented in the SETS lifecycle process.

We recommend state-level programming personnel review the SETS program documentation created by the contractors and verify the adequacy of what has been completed. We recommend all SETS program documentation, along with all key input, processing, and output information, include all program interrelationships and data dependencies between programs.

62. DATA PROCESSING - MMIS AND CRIS-E PROGRAM CHANGE DOCUMENTATION

<i>Finding Number</i>	2003-JFS62-073
<i>CFDA Number and Title</i>	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Agriculture Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

Effective control procedures require reviews and testing of program changes to provide management with assurance that users' requirements are achieved prior to a program being transferred into the production environment. Standard testing procedures are an essential component of the overall program change process, and they should be designed to gain adequate assurance over the application programming logic. Furthermore, documentation should exist of all testing of program changes along with evidence of user acceptance of the results.

ODJFS currently has a policy in place addressing the issue of program changes for their significant applications, including CRIS-E and MMIS. These systems provide ODJFS with the ability to determine eligibility for welfare benefits and provide reimbursements to Medicaid providers. The policies are designed to provide enough detail to adequately control the program change processes, which is initiated by a Customer Service Request (CSR/SRF) form. However, the following exception was noted during FY03 testing:

- Although all 20 of the CSRs reviewed had a software submittal form signed and approved by the System Test Group indicating that the change was tested and ready for migration to the production environment, no testing documentation was available for review.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

62. DATA PROCESSING - MMIS AND CRIS-E PROGRAM CHANGE DOCUMENTATION (Continued)

Without following standardized procedures for maintaining testing documentation, the Department increases the risk that requested changes are not fully validated and/or do not meet users' expectations. Also, without maintaining adequate testing documentation, it may be impossible to duplicate or evaluate testing scenarios in the event that problems arise later that require subsequent review of the program change.

CRIS-E management claimed that they followed established standards to ensure users' satisfaction. In addition, testing documentation was not kept after packets were promoted to production due to storage/capacity issues.

CRIS-E management also indicated that they are in the process of developing an enhanced user closure and acceptance form as resource and budget constraints allow. Beginning in FY04, the CRIS-E and MMIS staff should be documenting critical applications in both the CRIS-E and MMIS sections. Much critical application knowledge rests with contractors and the goal to be without contractors within fiscal year 2004 jeopardizes the applications without critical change/recovery documentation in place.

We recommend ODJFS follow the established program change standards and/or enhance these standards to reasonably ensure all documentation of the testing performed for all program changes is maintained. In addition, user acceptance should be obtained for all changes to help ensure the applications are operating as intended.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF MENTAL HEALTH

1. MEDICAID/SCHIP - SUBRECIPIENT MONITORING

<i>Finding Number</i>	2003-DMH01-074
<i>CFDA Number and Title</i>	93.767 – State Children’s Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Health and Human Services

NONCOMPLIANCE

The Office of Management and Budget’s Circular A-133 states, in part:

§___. 400 Responsibilities

...

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

- (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.
- (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
- (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts of grant agreements and that performance goals are achieved.
- (4) Ensure that subrecipients exceeding \$300,000 or more in Federal awards during the subrecipient’s fiscal year have met the audit requirements of this part for that fiscal year.
- (5) Issue a management decision on audit findings within six months after receipt of the subrecipient’s audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- (6) Consider whether subrecipient audits necessitate adjustments of the pass-through entity’s own records.
- (7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF MENTAL HEALTH

1. MEDICAID/SCHIP - SUBRECIPIENT MONITORING (Continued)

The Ohio Department of Mental Health disbursed approximately \$192,852,524 in federal Medicaid funds and \$14,514,131 in federal State Children's Insurance Program (SCHIP) funds to County Boards of Mental Health for Community Medicaid Services in state fiscal year 2003. These Boards are considered to be subrecipients by the Department. During this period, the Department received and reviewed OMB Circular A-133 audit reports from all subrecipients within six months after receipt of the subrecipient's audit report to determine if any comments were reported for their programs. However, this review did not include verifying the programs awarded were reported on the County Board's federal schedule, nor did it determine if the programs awarded were tested as major programs. Based on our review of the 50 subrecipient reports received during fiscal year 2003, none included SCHIP on their federal schedules, and six did not include Medicaid as a major program for testing. Although the SCHIP program was not separately identified, the requirements and responsibilities of the County Boards are relatively the same as the Medicaid program and management stated they believe the Boards included the activity for both programs under Medicaid on their federal schedules. Therefore, we will not question these costs for SCHIP. In addition, the Department did not implement any additional during-the-award monitoring to provide reasonable assurance these subrecipients used federal awards for authorized purposes and they complied with laws, regulations, and the provisions agreements, as required.

As a result, the Department was not in complete compliance with the subrecipient monitoring requirements of OMB circular A-133 for the fiscal year 2003, and may not be reasonably assured these subrecipient agencies have met the requirements of the Medicaid and SCHIP programs. Management indicated they have considered the need for additional monitoring, but have not yet implemented any additional procedures.

We recommend the Department review OMB Circular A-133 and other guidance related to subrecipient monitoring, and implement the necessary procedures to fulfill their responsibilities. These procedures should, at a minimum:

- include on-site monitoring and other procedures designed to provide reasonable assurance the subrecipients are in compliance with program laws, regulations and requirements. These on-site reviews should include evaluations of the subrecipients' processes and procedures over critical single audit compliance requirements (allowable costs, eligibility etc.), as well as program activities.
- include a review and analysis of the federal schedule and other portions of the A-133 reports received to verify the funds awarded to the subrecipient are properly identified on the schedule, and to determine the amount of coverage obtained from the A-133 audits. This will require the Department to track the amount of federal funds, by program, provided to each subrecipient on a calendar year basis (or other fiscal period used by the subrecipients) to determine the amount expected to be reported on the federal schedules. This information should also be provided to the subrecipient to aid in their federal schedule preparation and help identify any problems or concerns.
- provide assurance appropriate corrective actions are taken to address errors or weaknesses identified.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES

1. MEDICAID/SCHIP – SUBRECIPIENT MONITORING

<i>Finding Number</i>	2003-DMR01-075
<i>CFDA Number and Title</i>	93.767 – State Children’s Insurance Program 93.775/ 93.777/93.778 – Medicaid Cluster
<i>Federal Agency</i>	Department of Health and Human Services

NONCOMPLIANCE

OMB Circular A-133, Subpart D, §___.400 (d) states, in part, that a pass-through entity shall perform the following for the Federal awards it makes:

...

- (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.

...

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

...

Additionally, the Interagency Agreement between the Ohio Department of Mental Retardation and Developmental Disabilities (DMR) and the Ohio Department of Job and Family Services (ODJFS) states that DMR shall assure that a mechanism is created that establishes review and monitoring systems for an ongoing selected sample of providers.

DMR disbursed approximately \$212,487,250 during fiscal year 2003 for services associated with the Medicaid/Community Alternative Funding System (CAFS) program and the State Children’s Insurance Program (SCHIP). The DMR monitors subrecipients for compliance with the CAFS program and SCHIP requirements by reviewing the entity’s Single Audit report. There are approximately 400 subrecipients for the CAFS and SCHIP programs. These include 259 school districts, 88 County Boards of MRDD, and the remainder are private providers. The Medicaid program is generally only audited as a major federal program at the larger metropolitan areas. We reviewed 51 Single Audits reports for the school districts which included all districts receiving over \$200,000 in Medicaid funding and nine reports for the county boards to determine if the program had been tested. We noted the Medicaid program was tested at 13 of the school districts and six of the county boards, 25% and 67% respectively. It should be noted, however, the 13 school districts where the program was audited represented 68% of the dollar amount in our sample. Additionally, there are no monitoring procedures in place for private providers receiving CAFS funding. We also reviewed the Single Audit reports and determined that none of them had audit procedures performed on the SCHIP and SCHIP was not included on the Schedule of Federal Awards.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES

1. MEDICAID/SCHIP – SUBRECIPIENT MONITORING (Continued)

Based on the above conditions, the Department was not in compliance with OMB circular A-133 for the audit period. The Single Audit process requires the auditor to test subrecipient's compliance with program requirements for certain major programs. Therefore, there is the potential for many programs to go unaudited. Relying solely on the Single Audit reports of subrecipients, the Department may not be reasonably assured their subrecipients are in compliance with program requirements. In addition, subrecipient audit reports usually are not available until nine months after the end of the subrecipient's fiscal year. If there were problems, the pass-through entity may not be able to correct them before they are repeated. According to the Deputy Director of the Division of Audits, the Department believes that adequate monitoring controls are in place. Additionally, he stated that it would not be cost beneficial to implement monitoring procedures at this time because the CAFS program will eventually be discontinued, however, the time frame is unknown.

We recommend the Department review OMB Circular A-133 requirements and implement the necessary monitoring procedures over subrecipients. These procedures should at a minimum include regular and on-going site visits and/or other procedures designed to provide reasonable assurance the subrecipients are in compliance with program laws, regulations and requirements. These procedures should provide assurance that appropriate corrective actions are taken to address errors or weaknesses identified. Additionally, the Department should identify federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year and name of Federal agency.

2. MEDICAID/SCHIP – ALLOWABLE COSTS

<i>Finding Number</i>	2003-DMR02-076
<i>CFDA Number and Title</i>	93.767 - State Children's Insurance Program 93.775/ 93.777/ 93.778 - Medicaid Cluster
<i>Federal Agency</i>	Department of Health and Human Services

INTERNAL CONTROL - REPORTABLE CONDITION

Federal regulations require funding recipients to establish and maintain adequate internal controls over federal programs to provide reasonable assurance they are in compliance with laws, regulations, and the provisions of agreements. It is management's responsibility to monitor these control procedures to verify they are operating effectively and that specific operational objectives are being achieved. The Department is responsible to reasonably ensure amounts claimed for federal reimbursement are allowable under approved guidelines.

The Ohio Department of Mental Retardation and Developmental Disabilities (DMR) processes claims from service providers under the Medicaid/ Community Alternative Funding System (CAFS) program and State Children's Health Insurance Program (SCHIP). Providers submit electronic claims that are entered into the Medicaid Billing System (MBS) which verifies the provider has an active certified provider number before the claims are paid from DMR funds. The Department then submits a request for federal reimbursement to the Ohio Department of Job & Family Services who processes the claims through their Medicaid Management Information System (MMIS). MMIS will verify that both provider and recipient are currently eligible to receive Medicaid/SCHIP funds. No questioned costs were identified during our testing. However, there are no controls within MMIS or in MBS to verify the type/level of services for which the recipient may be eligible prior to making payments for the related claims. In addition, the Department does not reasonably ensure the billing provider is certified to perform the services claimed.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES

2. MEDICAID/SCHIP – ALLOWABLE COSTS (Continued)

Without proper control procedures in place over the payment of claims for these two programs, DMR may not be reasonably assured program costs were for allowable/eligible services, thereby increasing the risk of questioned costs. Specifically, management may not be reasonably assured that providers were authorized to provide the particular service billed. Additionally, there is no assurance they are in compliance with applicable laws and regulations which could result in penalties and sanctions. The Assistant Deputy Director for the Division of Fiscal Administration stated they are aware of the problems with the current system. The Deputy Director of the Division of Audits noted that his Department will implement a system of examining processed CAFS claims to determine allowability.

We recommend the Department devise and implement internal controls which provide reasonable assurance that reimbursements are made only for allowable program costs. This would include the determination that the recipient is eligible to receive the service provided and the provider is certified to provide the billed services.

3. MEDICAID – PROVIDER CERTIFICATION

<i>Finding Number</i>	2003-DMR03-077
<i>CFDA Number and Title</i>	93.775/ 93.777/ 93.778 - Medicaid Cluster
<i>Federal Agency</i>	Department of Health and Human Services

INTERNAL CONTROL - REPORTABLE CONDITION

The Interagency Agreement between the Ohio Department of Mental Retardation and Developmental Disabilities (DMR) and the Ohio Department of Job and Family Services (ODJFS) states the DMR, as a subrecipient of federal Medicaid funds for the administration and management of CAFS and Home and Community Based Services (HCBS) waivers shall determine provider eligibility to receive Medicaid payments. The agreement also states the DMR shall establish standards and procedures that identify the requirements for qualification of providers by service and program. Sound internal control dictates management implement control procedures which provide assurance that Medicaid providers remain eligible to perform services for which they have been certified.

During the review of the provider certification process, it was noted that once a provider has been certified there is no renewal process. The DMR performs an initial review of the provider application, criminal record check and other required supporting documentation. However, unless information is received from an outside source, the provider's qualifications are never again verified.

Without a certification renewal process, the Department cannot be reasonably assured that providers remain eligible to render service under the Medicaid program. Required licenses may become invalid, insurance requirements may be unfulfilled, education requirements unmet and/or a criminal record may be undetected. Allowing unqualified individuals to remain Medicaid providers may result in recipients not receiving the appropriate level of care or even endangering their well-being. Additionally, the DMR may be subject to fines or sanctions as a result. The Assistant Deputy Director in the Office of Provider Certification stated the Department is aware of the problem and is currently working on updating policies to alleviate this issue in the future.

We recommend the DMR devise and implement procedures requiring periodic renewal of certifications for Medicaid providers. These renewal procedures should take into consideration the risk of the various services provided and the renewal period for required licenses.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES

4. DP – TRANSFER INTO THE LIVE ENVIRONMENT

<i>Finding Number</i>	2003-DMR04-078
<i>CFDA Number and Title</i>	93.767 - State Children’s Insurance Program 93.775/ 93.777/ 93.778 - Medicaid Cluster
<i>Federal Agency</i>	Department of Health and Human Services

INTERNAL CONTROL - REPORTABLE CONDITION

Effective internal controls dictate a segregation of duties between certain IT functions within an application change process, such as modifying computer code, testing the changes, and placing them into production, be appropriately approved by management and be appropriately delegated and segregated among programming personnel.

The Medicaid Billing Systems (MBS) and the Payment Authorization for Waiver Services (PAWS) application programmers had the access authorities to modify the application code, complete the testing of the change, and migrate their changed program(s) into the production environment. Also, Division Information Services (DIS) did not maintain documentation of management’s approval to migrate MBS and PAWS program changes into the production environment.

Without proper management approval and segregation of duties or controls that restrict access to key programs or data, either could be changed without the knowledge and/or consent of management or the user community. The Department stated that due to the nature of the system, separating the migration of production code from test would be cumbersome. The large number of tasks and limited resources has also been a factor. DMR has taken steps to control versions of code and to isolate the test and production environments to the extent possible within the current architecture. While there is no formal review of the code, DMR does have a level of review of stored procedures associated with all client server and WEB-based applications including the PAWS system.

We recommend segregation of duties be strengthened by upgrading the logical access controls of all DMR personnel who have access to the MBS and PAWS programs and data. Application programmers should only have access to the programs they are assigned for authorized project maintenance. The migration of the programs into the production environment should be performed by someone independent of program modification capabilities.

In the event that application programmers must migrate modified and tested programs into production, DIS management should review a log of that production activity for appropriateness.

We also recommend management approval to migrate application changes into the production environment be documented for the MBS and PAWS applications.

**SUPPLEMENTAL
INFORMATION**

**STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
JULY 1, 2002 THROUGH JUNE 30, 2003**

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Office of the Attorney General	2002-AGO01-002 Expenditures Made After the Period of Availability	Yes	
Ohio Office of Criminal Justice Services	2000-CJS02-004 2001-CJS01-004 2002-CJS01-003 Expenditures Made After the Period of Availability	No	The finding has been re- peated in the FY 2003 Single Audit. See 2003- CJS01-001.
Ohio Department of Development	2002-DEV01-004 Federal Schedule	Yes	
	2002-DEV02-005 HEAP – Suspension and Debarment	Yes	
Ohio Department of Education	2002-EDU01-006 TANF Monitoring of Head Start Expenditures	No	The finding is no longer considered a questioned cost under the provisions of OMB Circular A-133; however, the finding has been repeated as a noncompliance finding under the provisions of OMB Circular A-133. See 2003-EDU02-004.
	1999-EDU04-008 2000-EDU02-008 2001-EDU03-009 2002-EDU02-007 Expenditure Made After the Period of Availability	Yes	
	2002-EDU03-008 Earmarking – Vocational Ed State Admin Allocation Exceeded	Yes	

**STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
JULY 1, 2002 THROUGH JUNE 30, 2003**

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Education (Continued)	2002-EDU04-009 Earmarking – Special Ed State Admin Allocation Exceeded	Yes	
	1998-EDU04-006 1999-EDU06-010 2000-EDU05-011 2001-EDU05-011 2000-EDU10-016 2001-EDU10-016 2002-EDU05-010 On-site Reviews	No	The finding is no longer considered noncompliance under the provisions of OMB Circular A-133; however, a related recommendation for improvement was included in the Management Letter for the Ohio Department of Education.
	1999-EDU07-011 2000-EDU06-012 2001-EDU06-012 2002-EDU06-011 Subrecipient Monitoring	Yes	
	2000-EDU08-014 2001-EDU08-014 2002-EDU07-012 Reporting	Yes	
	2002-EDU08-013 On-Site Reviews – Special Education Cluster	No	The finding has been repeated in the FY 2003 Single Audit. See 2003-EDU03-005.
	2002-EDU09-014 Special Education Capacity Building Minimums Not Met	No	The finding is no longer considered noncompliance under the provisions of OMB Circular A-133; however the finding has been repeated as an internal control finding under the provisions of OMB Circular A-133. See 2003-EDU04-006.

**STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
JULY 1, 2002 THROUGH JUNE 30, 2003**

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Education (Continued)	2002-EDU10-015 Schedule of Expenditures of Federal Awards	No	The finding is no longer considered noncompliance under the provisions of OMB Circular A-133; however, a related recommendation for improvement was included in the Management Letter for the Ohio Department of Education.
	2001-EDU12-018 2002-EDU11-016 Disbursement Process	No	The finding is no longer considered a reportable condition under the provisions of OMB Circular A-133; however, a related recommendation for improvement was included in the Management Letter for the Ohio Department of Education.
	1999-EDU03-007 2000-EDU01-007 2001-EDU02-008 2002-EDU12-017 Grant Administration Payment System Reports	No	The finding has been repeated in the FY 2003 Single Audit. See 2003-EDU05-007.
	2000-EDU09-015 2001-EDU09-015 2002-EDU13-018 Reimbursement Process	No	The finding is no longer considered a reportable condition under the provisions of OMB Circular A-133; however, a related recommendation for improvement was included in the Management Letter for the Ohio Department of Education.

**STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
JULY 1, 2002 THROUGH JUNE 30, 2003**

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Education (Continued)	1997-EDU03-005	No	The finding has been re- peated in the FY 2003 Single Audit. See 2003- EDU06-008.
	1998-EDU08-010		
	1999-EDU09-013		
	2000-EDU11-017		
	2001-EDU14-020		
	2002-EDU14-019		
	DP — Application Development and Maintenance		
Ohio Department of Health	1997-DOH01-012	No	The finding has been re- peated in the FY 2003 Single Audit. See 2003- DOH01-009.
	1998-DOH01-017		
	1999-DOH01-019		
	2000-DOH01-021		
	2001-DOH01-022		
	2002-DOH01-020		
	Subrecipient Monitoring		
	2001-DO02-023	No	The finding has been re- peated in the FY 2003 Single Audit. See 2003- DOH02-010.
	2002-DOH02-21		
	DP — Business Resumption Plan		
Ohio Department of Job and Family Services*	2002-JFS01-022	Yes	
	Cash Management Average Clearance		
	2001-JFS01-026	Yes	
	2002-JFS02-023		
	Medicaid/SCHIP ISTV Coding Errors		
	2000-HUM01-022	No	The finding has been re- peated in the FY 2003 Single Audit. See 2003- JFS02-013.
	2001-JFS03-028		
	2002-JFS03-024		
	Foster Care — Duplicates		
	2002-JFS04-025	No	The finding has been repeated in the FY 2003 Single Audit. See 2003- JFS06-017.
	TANF- Subrecipient Monitoring — Hancock County		
	2002-JFS05-026	No	The finding has been repeated in the FY 2003 Single Audit. See 2003- JFS04-015.
	Social Services Block — Period of Availability		

**STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
JULY 1, 2002 THROUGH JUNE 30, 2003**

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION	
Ohio Department of Job and Family Services* (Continued)	2002-JFS06-027 TANF –Refusal to Work Sanction – Lucas County	No	The finding has been repeated in the FY 2003 Single Audit. See 2003-JFS09-020.	
	1998-HUM16-033 1999-HUM35-054 2000-HUM47-068 2001-JFS52-077 2002-JFS07-028 Medicaid/SCHIP – Incorrect Grant Numbers Charged	No	The finding is no longer considered a questioned cost under the provisions of OMB Circular A-133; however the finding has been repeated as an internal control finding under the provisions of OMB Circular A-133. See 2003-JFS46-057.	
	2002-JFS08-029 Child Care – Missing Documentation – Cuyahoga County	Yes		
	2000-HUM09-030 2001-JFS09-034 2002-JFS09-030 Child Care – Undocumented Eligibility – Cuyahoga	No	The finding has been repeated in the FY 2003 Single Audit. See 2003-JFS08-019.	
	2002-JFS10-031 TANF – Missing Documentation – Lucas County	Yes		
	2002-JFS11-032 TANF – Child Support Non- cooperation – Lucas County	No	The finding has been repeated in the FY 2003 Single Audit. See 2003-JFS014-025.	
	1997-HUM20-033 1998-HUM21-038 1999-HUM03-022 2000-HUM04-025 2001-JFS07-032 2002-JFS12-033 Medicaid/SCHIP – Drug Rebate Payments	No	The finding has been repeated in the FY 2003 Single Audit. See 2003-JFS12-023.	

**STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
JULY 1, 2002 THROUGH JUNE 30, 2003**

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2002-JFS13-034 Child Support – Entertainment Cost Reimbursement – Lucas County	Yes	
	2000-HUM10-031 2001-JFS10-035 2002-JFS14-035 TANF – Missing Documentation - Cuyahoga	No	The finding has been re- peated in the FY 2003 Single Audit. See 2003- JFS52-063.
	2002-JFS15-036 TANF – Benefits Overpayments – Lucas County	Yes	
	2001-JFS14-039 2002-JFS16-037 SCHIP – Ineligible Recipient	No	The finding is no longer considered a questioned cost under the provisions of OMB Circular A-133; however the finding has been repeated as a reportable condition under the provisions of OMB Circular A-133. See 2003-JFS13-024.
	2001-JFS08-033 2002-JFS17-038 TANF – Unallowable Payment - Cuyahoga	No	The finding has been re- peated in the FY 2003 Single Audit. See 2003- JFS11-022.
	2002-JFS18-039 Various Programs – Payroll Overpayment – Cuyahoga County	Yes	
	1997HUM06-019 1998-HUM04-021 1999-HUM12-031 2000-HUM18-039 2001-JFS15-040 2002-JFS19-040 IEVS — Due Dates	No	The finding has been re- peated in the FY 2003 Single Audit. See 2003- JFS20-031.

**STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
JULY 1, 2002 THROUGH JUNE 30, 2003**

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	1997-HUM07-020 1998-HUM05-022 1999-HUM13-032 2000-HUM19-040 2001-JFS16-041 2002-JFS20-041 IEVS — Inadequate Documentation	No	The finding has been re- peated in the FY 2003 Single Audit. See 2003- JFS21-032.
	2001-JFS17-042 2002-JFS21-042 IEVS Return Information Access	No	The finding has been re- peated in the FY 2003 Single Audit. See 2003- JFS22-033.
	1997-HUM11-024 1998-HUM06-023 1999-HUM14-033 2000-HUM20-041 2001-JFS18-043 2002-JFS22-043 IVES — Monitoring by the Department	No	The finding has been re- peated in the FY 2003 Single Audit. See 2003- JFS23-034.
	2001-JFS19-044 2002-JFS23-044 Federal Schedule	No	The finding has been re- peated in the FY 2003 Single Audit. See 2003- JFS24-035.
	1999-HUM17-036 2000-HUM21-042 2001-JFS20-045 2002-JFS24-045 Unapproved Indirect Cost Allocation Amendment	No	The finding has been re- peated in the FY 2003 Single Audit. See 2003- JFS25-036.
	1999HUM16-035 2000-HUM22-043 2001-JFS21-046 2002-JFS25-046 Lack of Corrective Action	No	The finding has been re- peated in the FY 2003 Single Audit. See 2003- JFS26-036.
	1998-HUM07-024 1999-HUM15-034 2000-HUM026-047 2001-JFS23-048 2002-JFS26-047 TANF — Sanctions	No	The finding has been re- peated in the FY 2003 Single Audit. See 2003- JFS029-040.

**STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
JULY 1, 2002 THROUGH JUNE 30, 2003**

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	1998-HUM18-035 1999-HUM18-037 2000-HUM28-049 2001-JFS25-050 2002-JFS27-048 Medicaid/SCHIP – Subrecipient Monitoring	No	The finding has been re- peated in the FY 2003 Single Audit. See 2003- JFS30-041.
	2001-JFS27-052 2002-JFS28-049 Child Support – Statewide Monitoring of CSENet	No	The finding has been re- peated in the FY 2003 Single Audit. See 2003- JFS31-042.
	2002-JFS29-050 Child Support – Intrastate Central Registry	Yes	
	2001-JFS54-079 2002-JFS30-051 Social Services Block Grant – Reporting	No	The finding has been re- peated in the FY 2003 Single Audit. See 2003- JFS32-043.
	2002-JFS31-052 WIA – Cash Management	Yes	
	2002-JFS32-053 WIA – Subrecipient Monitoring	No	The finding is no longer considered noncompliance under the provisions of OMB Circular A-133; however, a related recommendation for improvement was included in the Management Letter for the Ohio Department of Job and Family Services.
	2002-JFS33-054 WIA – One-Stop Delivery Systems	No	The finding has been repeated in the FY 2003 Single Audit. See 2003- JFS34-045.

**STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
JULY 1, 2002 THROUGH JUNE 30, 2003**

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2002-JFS34-055 WIA - Reporting	No	The finding has been repeated in the FY 2003 Single Audit. See 2003-JFS33-044.
	1997-HUM12-025 1998-HUM10-027 1999-HUM22-041 2000-HUM32-053 2001-JFS30-055 2002-JFS35-056 IVES — Monitoring by Counties	No	The finding has been repeated in the FY 2003 Single Audit. See 2003-JFS35-046.
	1999-HUM45-064 2000-HUM33-054 2001-JFS31-056 2002-JFS36-057 DP - Internal Testing of Automated Controls	No	The finding is no longer a material weakness under the provisions of OMB Circular A-133; however, a related recommendation for improvement was included in the Management Letter for the Ohio Department of Job and Family Services.
	1997-HUM09-022 1998-HUM12-029 1999-HUM24-043 2000-HUM34-055 2001-JFS32-057 2002-JFS37-058 DP – Accuracy of CRIS-E Input	No	The finding has been repeated in the FY 2003 Single Audit. See 2003-JFS36-047.
	1997-HUM10-023 1998-HUM13-030 1999-HUM25-044 2000-HUM35-056 2001-JFS33-058 2002-JFS38-059 DP – Manual Overrides of CRIS- E (Fiats)	No	The finding has been repeated in the FY 2003 Single Audit. See 2003-JFS37-048.
2000-HUM36-057 2001-JFS34-059 2002-JFS39-060 DP – CORe Processing	No	The finding has been repeated in the FY 2003 Single Audit. See 2003-JFS38-049.	

**STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
JULY 1, 2002 THROUGH JUNE 30, 2003**

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2001-JFS35-060 2002-JFS40-061 DP – SETS Program Change for Federal Regulations	No	The finding has been re- peated in the FY 2003 Single Audit. See 2003- JFS39-050.
	1999-HUM28-047 2000-HUM37-058 2001-JFS36-061 2002-JFS41-062 Food Stamp Cluster – Review of EBT Vendor Reports	Yes	
	1998-HUM14-031 1999-HUM26-045 2000-HUM038-059 2001-JFS37-062 2002-JFS42-063 TANF – Monitoring	No	The finding has been re- peated in the FY 2003 Single Audit. See 2003- JFS40-051.
	1999-HUM29-048 2000-HUM40-061 2001-JFS38-063 2002-JFS43-064 Foster Care - Contracts	Yes	
	2000-HUM49-070 2001-JFS39-064 2002-JFS44-065 Child Support Processing & Reconciliations	No	The finding has been re- peated in the FY 2003 Single Audit. See 2003- JFS41-052.
	2000-HUM43-064 2001-JFS40-065 2002-JFS45-066 SSBG – Incomplete Monitoring	No	This finding has been repeated in the FY 2003 Single Audit. See 2003- JFS42-053.
	2002-JFS46-067 Federal Revenue Control Weaknesses	Yes	

**STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
JULY 1, 2002 THROUGH JUNE 30, 2003**

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2002-JFS47-068 Voucher Summary Weakness/Coding Errors	No	The finding has been repeated in the FY 2003 Single Audit. See 2003-JFS44-055.
	1999-HUM36-055 2000-HUM45-066 2001-JFS41-066 2002-JFS48-069 Contracts/ Relationships with County Agencies	No	The finding has been repeated in the FY 2003 Single Audit. See 2003-JFS45-056.
	2001-JFS42-067 2002-JFS49-070 Various Programs – Coding Errors	No	The finding has been repeated in the FY 2003 Single Audit. See 2003-JFS46-057.
	2002-JFS50-071 IEVS – Evidence of Data Exchange Controls	Yes	
	2002-JFS51-072 TANF – ISTV Coding Errors	Yes	
	2000-HUM27-048 2001-JFS24-049 2002-JFS52-073 TANF – Data Report	No	The finding has been repeated in the FY 2003 Single Audit. See 2003-JFS047-058.
	1997-HUM18-031 1998-HUM20-037 1999-HUM38-057 2000-HUM46-067 2001-JFS51-076 2002-JFS53-074 Medicaid/SCHIP – Third-Party Liabilities	No	The finding has been repeated in the FY 2003 Single Audit. See 2003-JFS48-059.
	2002-JFS54-075 Medicaid/SCHIP – Duplicate Physician/ Osteopath Payments	No	The finding has been repeated in the FY 2003 Single Audit. See 2003-JFS49-060.

**STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
JULY 1, 2002 THROUGH JUNE 30, 2003**

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2002-JFS55-076 Medicaid/Child Support – 272 Reports	Yes	
	1997-HUM14-027 1998-HUM15-032 1999-HUM34-053 2000-HUM44-065 2001-JFS53-078 2002-JFS56-077 Adoption Assistance - Voucher Summary Support Detail	No	The finding has been repeated in the FY 2003 Single Audit. See 2003-JFS50-061.
	2002-JFS57-078 UI – Documentation of Non-profit Organizations Status	No	The finding is no longer considered a reportable condition under the provisions of OMB Circular A-133; however, a related recommendation for improvement was included in the Management Letter for the Ohio Department of Job and Family Services.
	2002-JFS58-079 WIA – 269 Reports	Yes	
	2002-JFS59-080 Structure of the WIA Program	No	The finding has been repeated in the FY 2003 Single Audit. See 2003-JFS51-062.
	2002-JFS60-081 WIA Charging of Certain Costs	Yes	
	1997-HUM24-037 1997-HUM25-038 1997-HUM28-041 1998-HUM31-048 1999-HUM47-066 2000-HUM53-074 2001-JFS59-084 2002-JFS61-082 Missing Documentation – Various Counties	No	The finding has been repeated in the FY 2003 Single Audit. See 2003-JFS52-063.

**STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
JULY 1, 2002 THROUGH JUNE 30, 2003**

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2000-HUM51-072 2001-JFS60-085 2002-JFS62-083 Late County Reports – Various Counties	No	This finding has been repeated in the FY 2003 Single Audit. See 2003-JFS53-064.
	2000-HUM52-073 2001-JFS58-083 2001-JFS61-086 2002-JFS63-084 Report Processing, Review, Inaccuracies – Various Counties	No	The finding has been repeated in the FY 2003 Single Audit. See 2003-JFS54-065.
	1997-HUM31-044 1998-HUM38-055 1999-HUM52-071 2000-HUM57-078 2001-JFS62-087 2002-JFS64-085 DP – MMIS & CRIS-E Application Documentation	No	The finding has been repeated in the FY 2003 Single Audit. See 2003-JFS55-066.
	1999-HUM33-052 2000-HUM58-079 2001-JFS63-088 2002-JFS65-086 DP – Systems Development Life Cycle	Yes	
	2000-HUM59-080 2001-JFS64-089 2002-JFS66-087 DP– COrE Program Change Standards	No	The finding has been repeated in the FY 2003 Single Audit. See 2003-JFS57-068.
	2001-JFS65-090 2002-JFS67-088 DP – Centralized Computer Security	No	The finding has been repeated in the FY 2003 Single Audit. See 2003-JFS59-070.
	2001-JFS66-091 2002-JFS68-089 DP – SETS System Documentation	No	The finding has been repeated in the FY 2003 Single Audit. See 2003-JFS61-072.

**STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
JULY 1, 2002 THROUGH JUNE 30, 2003**

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services* (Continued)	2000-HUM60-081 2001-JFS68-093 2002-JFS69-090 DP - MMIS/CRIS-E Program Change Documentation	No	The finding has been re- peated in the FY 2003 Single Audit. See 2003- JFS62-073.
	1998-HUM40-002 1999-HUM53-001 2000-HUM61-001 2001-JFS69-001 2002-JFS70-001 GAAP Package Schedules	Yes	
Ohio Department of Mental Health	2001-DMH01-094 2002-DMH01-091 Subrecipient Monitoring	No	The finding has been re- peated in the FY 2003 Single Audit. See 2003- DMH01-074.
	2002-DMH02-092 Subrecipient Monitoring Control Weakness	Yes	
Ohio Department of Mental Retardation and Developmental Disabilities	2001-DMR01-095 2002-DMR01-093 Medicaid – Subrecipient Monitoring	No	The finding has been re- peated in the FY 2003 Single Audit. See 2003- DMR01-075.
	2001-DMR02-096 2002-DMR02-094 Medicaid – Allowable Costs	No	The finding has been re- peated in the FY 2003 Single Audit. See 2003- DMR02-076.
	2001-DMR03-097 2002-DMR03-095 Medicaid – Provider Certifications	No	The finding has been re- peated in the FY 2003 Single Audit. See 2003- DMR03-077.

* On July 1, 2000, the Ohio Department of Human Services merged with the Ohio Bureau of Employment Services. The merger of these two agencies created the Ohio Department of Job and Family Services (JFS). This new agency is responsible for corrective action of the prior year findings reported above for the Ohio Department of Human Services (HUM) and the Ohio Bureau of Employment Services (BES).

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO OFFICE OF CRIMINAL JUSTICE SERVICES

2003-CJS01-001 Expenditures Made After the Period of Availability

Corrective Action Plan

OCJS has adopted a two prong strategy to eliminate expenditures made after the period of availability. Internally, our office has made it more difficult for grant staff to process payments after the period of availability expires. Our Grants Management System, which is used to process grant payments, will not allow grant staff to process a payment after the period of availability. Instead, if staff attempts to process such a payment, the system will not allow the payment to be processed and will prompt grant staff to notify either the grant chief or assistant chief in order to proceed. Our legal department met with our grant management team to stress the importance of not processing payments after the period of availability. Our office has also adopted strategies to ensure that subrecipients are keenly aware of the expiration of the period of availability. Subrecipients will now receive a letter approximately thirty days prior to the period's expiration. The letter will inform subrecipients that the period of availability is about to expire and that payments received after the expiration of the period will not be processed.

Anticipated Completion Date for Corrective Action

Effective immediately

Contact Person Responsible for Corrective Action

Karhlton Moore, Chief Legal Counsel, Ohio Office of Criminal Justice Services, 140 East Town Street, Columbus, Ohio 43215, Phone: (614) 466-0308, e-mail: moore@ocjs.ohio.gov

2003-CJS02-002 Subrecipient Monitoring

Corrective Action Plan

Our office has made substantive changes this year, prior to receiving the auditor's report, in order to address the issue of subrecipient monitoring. Although we discontinued on-site monitoring by grant's coordinators, OCJS will designate a grant coordinator to conduct on-site monitoring of subrecipients. Additionally, our Planning & Evaluation section in concert with our Audit staff will perform programmatic monitoring of subrecipients to ensure they are using grant funds for proper purposes. Further, our Audit staff will assist with subrecipient risk assessments and posting our assessments to the new subrecipient risk assessment schedule which is being developed by our information technology section. Audit staff will place special emphasis on conducting on-site visits of higher risk subrecipients. Finally, our Grant's Section is developing a grant monitoring policy.

While our office is eager to implement many of the suggestions contained in the auditor's report, it is difficult to understand why we received a recommendation to begin reviewing and analyzing subrecipients federal schedules and other portions of A-133 reports. I have been unable to identify any federal requirement in circular A-133 that would require such an action. In fact the circular makes it clear that this duty is designated to another entity.

Anticipated Completion Date for Corrective Action

April 1, 2004

Contact Person Responsible for Corrective Action

Karhlton Moore, Chief Legal Counsel, Ohio Office of Criminal Justice Services, 140 East Town Street, Columbus, Ohio 43215, Phone: (614) 466-0308, e-mail: moore@ocjs.ohio.gov

OHIO DEPARTMENT OF EDUCATION

2003-EDU01-003 Charter Schools – Monitoring of Subrecipients

Corrective Action Plan

In response to the audit finding, the Office of Community Schools (OCS) will enhance its monitoring procedures to ensure the federal sub grant recipients are spending these funds in accordance with applicable laws and

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF EDUCATION (Continued)

2003-EDU01-003 Charter Schools – Monitoring of Subrecipients (Continued)

Corrective Action Plan (Continued)

regulations. According to the Auditor of State, the monitoring procedures should include at a minimum the following:

- Verifying that the subrecipient did not request more cash than was needed to pay the expenses;
- Verifying that the funds were used to pay for allowable expenses;
- Verifying that the subrecipient used the funds as they indicated they would on the budget; and
- Ensuring that the amounts reported on the Final Expenditure Report agree with the subrecipient's financial records.

Monitoring compliance begins when the subrecipient submits its application to the OCS for consideration. The OCS ensures the following: 1) the school is eligible to receive the funds; 2) the school is within the allowable sub grant period (no more than 36 months); 3) the proposed grant goals/objectives support the purpose of the federal grant program; 4) the requested funds will be used to pay for allowable activities; and 5) all the necessary information and documents (i.e., signed assurances) are included in the application. The applicant is required to submit a detailed budget narrative to ensure the requested funds will be used for allowable activities. If an applicant is requesting to use the funds for an unallowable activity or if the goals/objectives of the application do not support the purpose of the federal grant program, a letter is sent to the applicant describing any deficiencies, and the application is not funded.

Review of Project Cash Requests

At least once a quarter, the OCS will review financial reports reflecting amounts disbursed to sub grant recipients. Sub grant recipients requesting large cash amounts (more than 25 percent of the total grant award) will be identified and a portion of those sub grantees will be selected for review. Project Cash Requests will be reviewed to determine the time period of expenditure as well as the justification of need for the amount requested. The selected sub grant recipients will be required to submit documentation illustrating the following: 1) the school did not request more cash than what was needed to pay for approved expenses; 2) the funds were spent in accordance with the approved budget; and 3) the funds were used to pay for allowable expenses.

On-Site Visits

The OCS currently conducts semi-annual on-site visits for all the schools it sponsors. An On-Site Monitoring Form specific to the grant program will be developed and completed as part of the on-site visit. The program specific form will help the OCS get an assurance that the sub grant recipient is meeting its obligations under the sub award agreement.

Desk Reviews

The OCS will conduct desk reviews for a portion of sub grant recipients each year. The sub grant recipient will be required to submit a detailed accounting report identifying the function, object, and amount of each transaction. This information will be used to compare the sub grant recipient's actual expenditures to those budgeted and will enable the OCS to determine if the amounts reported on the Final Expenditure Report agree with the sub grant recipient's financial records.

Final Expenditure Reports (FERs)

Each sub grant recipient is required to submit an FER within 60 days of expending all the sub grant funds or no later than 60 days after the end of the award period; whichever occurs first. The FER details how the grant funds were spent by function and object. The Office of Grants Management reviews the FER and compares it to the approved project budget. If there are no discrepancies, the FER is approved and a copy of the approved FER is sent to the sub grant recipient and the OCS. If the FER is not approvable, a consultant in the Office of Grants Management contacts the sub grant recipient. Subsequent sub grant awards will not be processed until the FER for the current award is submitted to and approved by the Office of Grants Management.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF EDUCATION (Continued)

2003-EDU01-003 Charter Schools – Monitoring of Subrecipients (Continued)

Corrective Action Plan (Continued)

Annual Performance Reports (APRs)

Each sub grant recipient is required to submit an Annual Performance Report within 60 days of expending all the sub grant funds or no later than 60 days after the end of the award period; *whichever occurs first*. The APR explains the sub grant recipient's progress toward achieving sub award goals and objectives. The sub grant recipient is required to include the following information in the APR: 1) the school's progress regarding the completion of each goal and objective identified in the grant application; 2) reasons why goal(s) or objective(s) were not met and how the school plans to achieve that goal or objective; 3) the school's plan to provide for the continued operation of the community school once the grant expires; and 4) any other pertinent information the school thinks is necessary to further demonstrate the effect the sub grant had on the school. The APR is reviewed and approved by the OCS. A letter and copy of the approved APR will be sent to the school for its records.

Approval of Phase II and Phase III Sub Grant Awards

In February 2004, the OCS began tracking when sub grant recipients turned in their FERs and APRs and when each of the documents was approved. The FERs are submitted, reviewed and approved by the Office of Grants Management. A copy of the approved FER is sent to the OCS and kept in the grant file. If a school submits a Phase II or III application prior to the approved copy of the FER being received by the OCS, the OCS grants administrator emails the appropriate consultant in the Office of Grants Management to determine 1) if the FER has been submitted, 2) has it be approved and when, and 3) if it has not been approved, is the FER approvable.

The implementation of this tracking system will prevent schools from receiving additional funds prior to closing out their previous funding phase. The monitoring tool will also allow OCS staff to identify schools which have not submitted required reports in a timely fashion. The OCS will contact and follow-up with these schools regarding any overdue reports.

Technical Assistance Workshops

At least once a year the OCS will provide a technical assistance workshop regarding the grant program and compliance requirements. Technical assistance is available to all sub grant recipients when requested.

Anticipated Completion Date for Corrective Action

All components of the monitoring systems will be in place by December 31, 2004.

Contact Person Responsible for Corrective Action

Jeff Jordan, Associate Director, Office of Grants Management, Ohio Department of Education, 25 South Front Street, Mail Stop G03, Columbus, Ohio 43215, Phone: (614) 752-1465, e-mail: jeff.jordan@ode.state.oh.us

2003-EDU02-004 TANF – Monitoring of Head Start Expenditures

Corrective Action Plan

The planned corrective action is as follows:

1. The auditor did not specify the type and extent of information to be obtained in the provider's monthly reimbursement form in order to satisfy their concerns that costs claimed for reimbursement may not be allocated or related to the number of TANF eligible children identified. However, it has been our intention that the monthly reimbursement request be used primarily as a means to reimburse those monthly costs claimed and certified as accurate by the providers. The comparison of costs claimed and reimbursed to those allocated or related to a specified number of TANF eligible children can only be accurately performed at the end of the program year during our monitoring reviews when total costs are reported by the provider, and not

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF EDUCATION (Continued)

2003-EDU02-004 TANF – Monitoring of Head Start Expenditures (Continued)

Corrective Action Plan (Continued)

on a monthly basis. We will work with the auditors to obtain information on specific concerns and solutions to meeting those concerns.

2. The budget submitted by the Head Start providers as part of their application provides 60 separate categories of direct expense. Included in the categories are 23 line items for personnel and fringe benefits and eight for contractual services. Costs are further identified as relating to GRF or TANF costs. Indirect costs are specified as a single category and may only be charged if the provider maintains a current indirect cost agreement. We will continue to assess the adequacy of the direct and allocated indirect TANF costs obtained from providers and will work with the auditors to arrive at the proper level of cost information without overburdening the providers.
3. Question number 41 in the fiscal focus review states “TANF Reimbursements claimed each month are actual, reasonable and allowable.” It continues “The reviewer will test/sample expenditures costs claimed for reasonableness and allowability as indicated in the State TANF funded Head Start guidance.” An affirmative answer will be supported by an examination of documents. Further, in one sample fiscal focus review selected, the reviewer also noted in the “Notes” that “TANF (and GRF) revenues and expenditures for state fiscal year 2002 and state fiscal year 2003 to date were examined and compared with financial statements.” We will work with the auditors in determining the extent of documentation required for compliance.
4. The TANF eligibility reviews are performed to strictly determine the provider’s compliance with child eligibility requirements and to assure that all children claimed as TANF-eligible were indeed eligible. Reimbursement is based on total actual allowable cost, and it is not feasible to equate specific amounts of cost to a specific child. We will work with the auditor in arriving at an agreeable methodology for equating cost to eligibility.
5. When a child is determined to be ineligible, the provider has the option to replace that child with another TANF-eligible child that is not already being provided program services. However, when an ineligible child is discovered during monitoring and if eligibility documents cannot be secured to ensure eligibility, programs will be required to repay funds as part of their corrective action plan. Payment will apply to every month the ineligible child was reported on monthly reimbursement reports. Payment will consist of the unit cost per child for the overall grant divided by twelve and multiplied by the number of months the child was ineligible.
6. The Department’s Office of Grants Management sent a letter to the providers of the three audit reports in question on November 3, 2003 requesting that a copy of the report be submitted. One of the three requested reports was submitted on January 15, 2004. The Department will continue to strive for 100% compliance by their subrecipients and will send out an additional letter to the two providers (4.8%) who have yet to comply.

Anticipated Completion Date for Corrective Action

Corrective action plan procedures will be put into effect for the SFY 05 program period beginning July 1, 2004. Corrective action will be completed by the end of the program period June 30, 2005.

Contact Person Responsible for Corrective Action

Sandra M. Miller, Director, Office of Early Childhood Education, Ohio Department of Education, 25 South Front Street, Mail Stop 305, Columbus, Ohio 43215, Phone: (614) 466-0224, e-mail: sandy.miller@ode.state.oh.us

2003-EDU03-005 Special Education Cluster – On-Site Reviews

Corrective Action Plan

The Office for Exceptional Children’s Management Assistance Review manual has been updated to insure that 70 subrecipients are reviewed on an annual basis. The office has also created a data base to insure that a tracking

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF EDUCATION (Continued)

2003-EDU03-005 Special Education Cluster – On-Site Reviews (Continued)

Corrective Action Plan (Continued)

system is in place to determine which subrecipients are scheduled to be reviewed, the status of the review and all applicable reporting requirements are met.

The office has also revised the report form to assure that the Assistant Director approves and signs the Management Assistance Review Report.

The three desk reviews that were not completed during this time frame will be completed this year under the Management Review process.

Anticipated Completion Date for Corrective Action

This corrective action plan should be implemented by May 1, 2004.

Contact Person Responsible for Corrective Action

Thomas D. Lather, Assistant Director, Office for Exceptional Children, Ohio Department of Education, 25 South Front Street, Columbus, Ohio 43215, Phone: (614) 644-5926, e-mail: thomas.lather@ode.state.oh.us

2003-EDU04-006 Special Education Cluster – Capacity Building Minimum

Corrective Action Plan

Effective during state fiscal year 2003 (for federal award year 2002), the Office for Exceptional Children developed and consistently used a coding structure that specifies which activity will be considered capacity building.

The Office for Exceptional Children uses a form to assure that the correct amount of capacity funds are allocated each year. In addition, the Associate Director and the Assistant Director meet weekly to review the allocations and expenditures to ensure that these requirements are being met according to IDEA Part B requirements.

Anticipated Completion Date for Corrective Action

The Office for Exceptional Children has this process in place at the present time and therefore has completed this corrective action plan.

Contact Person Responsible for Corrective Action

Thomas D. Lather, Assistant Director, Office for Exceptional Children, Ohio Department of Education, 25 South Front Street, Columbus, Ohio 43215, Phone: (614) 644-5926, e-mail: thomas.lather@ode.state.oh.us

2003-EDU05-007 Grant Administration Payment System

Corrective Action Plan

Copies of three documents used in the year end reconciliation of the amounts in GAPS to the CAS system were provided to the state auditor: (1) an internal spreadsheet which lists all GAPS draws; (2) the Central Accounting System (CAS) year end report; (3) a summary of the GAPS screen. The reconciliation between GAPS and CAS was completed at the end of fiscal year 2003. The accounting office is now completing the reconciliation on a monthly basis.

Anticipated Completion Date for Corrective Action

Department Accounts had this process in place as of June 2003 and therefore has completed this corrective action plan.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF EDUCATION (Continued)

2003-EDU05-007 Grant Administration Payment System (Continued)

Contact Person Responsible for Corrective Action

Kathleen Vaughan, Comptroller, 25 South Front Street, Columbus, Ohio 43215, Phone: (614) 728-2097, e-mail: kathi.vaughan@ode.state.oh.us

2003-EDU06-008 DP – Application Development and Maintenance

Corrective Action Plan

Changes underway within the Department of Education recognized the importance of well-documented procedures. With the Department's adoption of the Rational Unified Process (RUP) Engineering methods, the ODE will be well positioned to provide for development documentation using the following RUP templates: Business Vision, Stakeholder Request, Software Requirement Specifications, Software Architecture Documentation, Test Plan, Business Case, Iteration Assessment, Status Assessment, Software Development Plan, Configuration Management Plan, Deployment Plan, and the Integration build Plan. Once finalized, these documents will build the foundation for communicating ODE management's operational goals and intentions to existing programming personnel as well as to help train new staff.

Programming standards, naming conventions, design and testing are addressed in the Software Architecture Document; project schedules and budgets are addressed in the Business Vision document; approval procedures for users, data processing management implementation and standards for documentation are contained in the Configuration Management Plan.

The Configuration Management Planning Documentation will leverage IT Process implemented for the purposes of supporting a Change Control Board (CCB). The CCB will establish formal lines of communication enabling software moves between various development environments including but not limited to: Desktop (also known as Development), System test, Quality Assurance and finally Production. ODE is currently underway in locking down 100 percent of its production software utilizing the Microsoft SourceSafe tool. The judicious use of this configuration management tool will help ensure the ongoing integrity of the Education Management Information System, school reimbursement payments, and school finance payments. The Rational Unified Process when used as the native ODE development engineering tool, will at first add procedural overhead and require additional staff training. In the long run, RUP will not add significantly to the cost of ODE development of required application software and will reduce training costs. These reductions will more than compensate for the cost of purchasing the Rational Unified Process and Microsoft SourceSafe tools.

Anticipated Completion Date for Corrective Action

ODE expects the completion date for this corrective action to be June 30, 2005.

Contact Person Responsible for Corrective Action

Greg Davidson, Director, ITO, 25 South Front Street, Columbus, Ohio 43215, Phone: (614) 387-0339, e-mail: gregory.davidson@ode.state.oh.us

OHIO DEPARTMENT OF HEALTH

2003-DOH01-009 Subrecipient Monitoring

Corrective Action Plan

The Department of Health (DOH) has implemented an Audit Desk Review module in the local portion of the Grants Management Information System (GMIS) that accepts information from the review of received subgrantee independent audits. The GMIS module, which has been functional since 7/1/03, provides basic agency information and accepts data entry of information from each audit's review. Included are specific calculations

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF HEALTH (Continued)

2003-DOH01-009 Subrecipient Monitoring (Continued)

Corrective Action Plan (Continued)

against timeliness of GAPP policy required completion and submission, specific individual DOH grants for the audit period covered, agency data and contacts and a detailed description of any findings. It also registers the required associated items such as Single Audit Data Collection form and/or Management Letter. The module accepts later received information to document resolution of findings based upon the audited agency's response.

The related GMIS reports module was developed with a series of form letters containing subgrantee agency information that reference independent audits. These include a standard reminder letter that an audit has not been received from the subgrantee, a letter detailing any findings revealed by the audit, one for when there are no findings and a follow up letter for when findings are resolved. Also included is an automated Executive Summary Report which lists by batched review date all reviewed audits with or without findings for DOH Assistant Director decision, date and signature.

The data input and reporting functions of the Audit Desk Review module are functioning, as stated above. The posting back of entered information via the Internet to subgrantee grant accounts, as well as the receipt of audits electronically are still under development. DOH does currently utilize the Auditor of State website for retrieving audits performed by that office.

The Department has included the audit submission requirements in its template for the preparation of all Requests for Proposals (RFP) that solicit grant applications. All DOH trainings and orientations related to grants and/or the GMIS system include a strong emphasis on the requirement for timely submission of subgrantee independent audits. Electronic signoff for review completion and satisfaction of any findings are included in the GMIS Audit Desk Review Module. In addition, GAPP Flexibility policy which grants subgrantees more degree of control over budget revision submission requirements uses timely receipt of audit as one of the criteria for granting that flexibility.

The Department intends to continue the measures that are listed above (emphasis and inclusion of audit submission requirements in all grant related trainings and orientations, distribution of GMIS letters reminding subgrantees of requirement for independent audit submission, etc.) with all related documentation made a permanent part of the GMIS system electronic record. In addition, the Department will continue to create (on a daily batch basis) the Audit Executive Summary Report for DOH Assistant Director decision and signoff. DOH has implemented policy to place a Special Condition on any subsequent grant issued to a subgrantee that has failed to timely submit a previous year's audit report. The special condition has the power to suspend future grant payments on a given grant until it is satisfied.

Additional measures that the Department is taking and/or exploring include the issuance of Bulletins via the GMIS system (narrative messages on subgrantee grant Welcome Screens) that would remind those agencies well in advance that an audit must be performed and submitted on a timely basis, and future additional withholding of funds and/or funding for those delinquent in audit submission or findings resolution.

Anticipated Completion Date for Corrective Action

Completion dates (finalized and anticipated) for the various items of corrective action to the finding are as follows:

GAPP Flexibility Policy (audit criteria)	1/1/01
Audit requirements in RFP template	1/1/03
Special Condition for previous audit	7/1/03
Audit Desk Review Module functionality:	7/1/03
Reports Module letter issuance	8/11/03
GMIS Executive Audit Summary Report	1/16/04
GMIS Bulletins – Welcome Screens	7/1/04
Annual GAPP Trainings (audit req.)	10/15/04
Posting entered info to the Internet	1/1/05

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF HEALTH (Continued)

2003-DOH01-009 Subrecipient Monitoring (Continued)

Anticipated Completion Date for Corrective Action (Continued)

Electronic receipt of audits 1/1/06

Contact Person Responsible for Corrective Action

R. Lee Matson, Chief, Grants Administration Unit, Ohio Department of Health, 246 North High Street, 4th Floor, Columbus, Ohio 43215, Phone: (614) 644-7546, e-mail: imatson@gw.odh.state.oh.us

2003-DOH02-010 Data Processing – Business Resumption Plan

Corrective Action Plan

At this time, the Department of Health has moved further along in the development of our Business Resumption Plan, which will also serve as our Disaster Recovery Plan. This plan, when completed, will address all pertinent phases and operations related to disaster recovery, including Recovery Terms and Definitions, Recovery (Hot/Cold/Reciprocal) Site Information and Procedures, Technical (Hardware/Software) Recovery Procedures and Configurations, End User Recovery Procedures, Prioritized Application and Transaction Recovery List, Recovery Testing Plan and Maintenance Procedures, and Personnel Training.

DOH has completed the majority of development of the Business Resumption Plan. Several tasks are dependent on the selection, approval and deployment of hardware and software components that will perform the mirroring of systems and data at the Recovery Site. When all of these hardware and software components have been put into place and the Recovery Site has been activated, then a series of tests will be performed to ensure compliance with stated standards. Once these tests have been completed, the documentation of the Business Resumption Plan will be fully updated to reflect all of the hardware and software components. Any changes implemented due to issues arising from the testing process will be fully disclosed in the Business Resumption Plan.

Anticipated Completion Date for Corrective Action

In fiscal year 2005, DOH anticipates completion of the Business Resumption Plan, with periodic reviews, testing and updates to the Plan.

Contact Person Responsible for Corrective Action

Henry Smith, Network Manager, Ohio Department of Health, 246 North High Street, 8th Floor, Columbus, Ohio 43215, Phone: (614) 644-8541, e-mail: hsmith@gw.odh.state.oh.us

2003-DOH03-011 Data Processing – Program Change Controls

Corrective Action Plan

In November 2003, the Ohio Department of Health (DOH) began implementing a formal change control process. The first phase addresses changes to all production applications housed at DOH. These applications constitute a very high percentage of all DOH application software. The change control process sets criteria for migration readiness, addresses who may migrate code to production, establishes some requirements for testing and provides a formal record of all changes to production servers housed at DOH. The Change Control Committee meets weekly to review completed changes and review/approve requests for changes.

The second phase of change control implementation will address software applications that reside external to DOH. WIC software resides on the Department of Administrative Services mainframe computer. Changes to WIC software and other applications that reside on computers external to DOH will be processed through Change Control beginning in April, 2004.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF HEALTH (Continued)

2003-DOH03-011 Data Processing – Program Change Controls (Continued)

Corrective Action Plan (Continued)

The Department's utilization of a mainframe is declining and for the last 3-4 years the WIC program has had only a single mainframe developer. The WIC application is stable and has required very few changes in the application or data structures over the last three years. Approximately 90% of all changes made during that period fall into a routine maintenance category more than development or modification of existing routines or modules, i.e., Date parameters updated for extract, reports, addition of new food items, clinic locations, etc.

Under these circumstances it is proposed that all changes to WIC application functionality be reviewed by the supervisor and signed off after testing in the development/test region prior to migration to the applications production area. These test results and date of move will be documented and retained along with the change request / specifications as part of Change Control documentation.

Source code for production applications running on DOH servers was moved to Merant's PVCS (version manager) package in 2003 where it is managed and changes are tracked. We will investigate the feasibility of including WIC software in PVCS by July 2004.

A project is underway to gather our existing informal standards and procedures, standardize the formats, review and update them and create a central repository for standards and procedures. The initial phase of this work is expected to be completed by July 2004. Development of standards and procedures is an ongoing process. Additional standards and procedures will be added as need is determined.

Anticipated Completion Date for Corrective Action

July 2004

Contact Person Responsible for Corrective Action

Dorothy Myers, Data Management Manager, Ohio Department of Health, 246 North High Street, 8th Floor, Columbus, Ohio 43215, Phone: (614) 728-2702, e-mail: dmyers@gw.state.oh.us

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES

2003-JFS01-012 TANF Subrecipient monitoring – Cuyahoga County

Corrective Action Plan

Though not done during the audit period, CDJFS has reviewed a random sample of families served during the audit period for eligibility, with no problems indicated. Our current monitoring of subrecipients includes the following:

- Cuyahoga County Family & Children First Council (FCFC) through Help Me Grow of Cuyahoga County determines eligibility, refers families to providers and updates KIDS System (Web based data collection and billing application)
- Providers report data on families to FCFC (Help me Grow). KIDS system updated to reflect same.
- FCFC (Help Me Grow) validates data reported by providers through regular quality assurance record reviews.
- MR/DD generates invoices from the KIDS System and submits summary data to CDJFS for payment.
- CDJFS reconciles, including random sampling of families for eligibility, MR/DD invoices and processes payment.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS01-012 TANF Subrecipient monitoring – Cuyahoga County (Continued)

Corrective Action Plan (Continued)

Detailed monthly reconciliations verifying the existence of monitoring procedures were provided to Dick Starks, Office of the Chief Inspector (ODJFS) for the audit period.

Anticipated Completion Date for Corrective Action

Immediately

Contact Person Responsible for Corrective Action

Walter Parfejewiec, Manager of Administrative Operations, Ohio Department of Job and Family Services, 1641 Payne Avenue, Cleveland, Ohio 44114, Phone: (216) 987-6666, e-mail: parfew@odjfs.state.oh.us

2003-JFS02-013 DP – FACSIS No History Payment Data/Foster Care – Duplicates

Corrective Action Plan

ISSUE 1: The FACSIS system was upgraded to prevent claims from being reimbursed more than once. The systems modification was effective for service coverage dates of June 1, 2003 and thereafter. As a result, for State Fiscal Year 2004, FACSIS system is able to determine or track receipt of the monthly ODHS 1925 reports from each county to ensure that claims are not reimbursed more than once.

For State Fiscal Year 2003, ODJFS will take the necessary steps to recover amounts overpaid to counties. Those steps are (1) ODJFS will issue notices to each county identifying the questioned cost associated with their county (2) counties will be asked to review their records and certify to ODJFS those questioned costs that are indeed duplicates and (3) counties will be required to refund the overpayments. In addition, ODJFS will ask counties to develop internal accounting control procedures to provide reasonable assurance that future Title IV-E reimbursement are made only for allowable program costs, paid only once, and are within the limits established for each type of costs.

ISSUE 2: Now that the FACSIS modification is in place, the FACSIS system will be able to track receipt of the monthly ODHS 1925 reports from each county to ensure that claims are not reimbursed more than once. We will continue to monitor the FACSIS system to ensure that the controls are operating as intended.

Anticipated Completion Date for Corrective Action

The FACSIS system upgrade is currently in place for service coverage dates June 1, 2003 and thereafter. Notices to each county regarding the question costs associated with their county will be issued by June 30, 2004. The determination of overpayments will be completed by December 31, 2004, and the recovery of any overpayment will be completed by March 31, 2005

Contact Persons Responsible for Corrective Action

Jessie M. Tower, Chief, Bureau of Accountability and Regulation, Ohio Department of Job and Family Services, 255 East Main Street, 3rd Floor, Columbus, Ohio 43215, Phone: (614) 466-1213, e-mail: towerj@odjfs.state.oh.us

Nancy DeRoberts-Moore, Chief, Bureau of Automated Systems, Ohio Department of Job and Family Services, 4200 East Fifth Avenue, Columbus, Ohio 43219, Phone: (614) 466-7233, e-mail: derobn@odjfs.state.oh.us

2003-JFS03-014 TANF, Child Care, SSBG-Subrecipient Monitoring –Defiance County

Corrective Action Plan

Office for Children and Families: OCF will notify Defiance County of the questioned cost associated with their county. We will also advise the county to establish written policies and procedures to monitor its subrecipients. We will also ask the county to review the expenditures associated with each contract to determine whether the

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS03-014 TANF, Child Care, SSBG-Subrecipient Monitoring –Defiance County (Continued)

Corrective Action Plan (Continued)

expenditures were allowable and reimbursable under the contract, and whether there is documentation (e.g., invoices) to support those expenditures.

Defiance County: Previously the Assistant Director was responsible for contracts and monitoring. The Director is now responsible for all contracting and assignment of monitoring. All contracts will have the appropriate language under OMB circular A-133 incorporated into them.

TANF – Help Me Grow: Monitoring of eligibility was put in place effective the July-September quarter of 2003. An Elig/Referral specialist reviews 10% of all children receiving TANF-HMG services for eligibility and provides a report of findings to the director for corrective action. Services provided during July 1, 2002 through June 30, 2003, will be reviewed to determine if HMG services were provided to eligible children. We will review 10% each quarter during time frame. Billings and costs also will be reviewed for accuracy. This review will be completed by May 31, 2004.

Child Care Contracted Services: We have recently incorporated monitoring of social service and child care contracts into the job functions of a social service worker 1. This update was submitted to DAS and we are awaiting their response. We are anticipating eligibility review monitoring to begin 4/1/04, for the current child care contract. Monitoring will require a review of 10% of the children who received child care services during the quarter. For SFY 2003, we will have the review completed no later than -6/30/04. Billings and program costs will also be reviewed for accuracy. Additionally NOCAC does have a single audit completed per OMB A-133.

SSBG Contracts with Women and Family Services and First Call for Help: The social worker 1 will complete a 10% review of the cases receiving services during SFY 2003. These contracts were terminated during 2003. These services will be reviewed for Defiance County residency, due to limited eligibility requirements. Billings and costs will also be reviewed for accuracy. This review will be completed by June 30, 2004.

**Anticipated Completion Date for Corrective Action
Office for Children and Families: August 31, 2004.**

Defiance County: TANF – HMG: May 31, 2004
Child Care: June 30, 2004
SSBG: June 30, 2004

Contact Persons Responsible for Corrective Action

Jessie M. Tower, Chief, Bureau of Accountability and Regulation, Ohio Department of Job and Family Services, 255 East Main Street, 3rd Floor, Columbus, Ohio 43215, Phone: (614) 466-1213, e-mail: towerj@odjfs.state.oh.us

Dennis M. McKay, Director, Defiance County, Ohio Department of Job and Family Services, 6879 Evansport Road, Suite A, P.O. Box 639, Defiance, Ohio 43512, Phone: (419) 782-3881, e-mail: mckayd01@odjfs.state.oh.us

2003-JFS04-015 Period of Availability

Corrective Action Plan

We agree with the finding. Current procedures will be modified to assure grants are expended within the time frames specified by federal codes of regulations and grants.

**Anticipated Completion Date for Corrective Action
July 1, 2004**

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS04-015 Period of Availability (Continued)

Contact Person Responsible for Corrective Action

Lou Ann Shy, Acting Chief, Bureau of Cost Allocation and Financial Reporting, Office of Fiscal Services, Ohio Department of Job and Family Services, 30 East Broad Street, 38th Floor, Columbus, Ohio 43215, Phone: (614) 387-0315, e-mail: shylo@odjfs.state.oh.us

2003-JFS05-016 Child Care – Subrecipient Monitoring – Fulton County

Corrective Action Plan

Office for Children and Families: OCF will notify Fulton County of the questioned cost associated with their county. We will also advise the county to establish written policies and procedures to monitor its subrecipients. We will also asked the county to review the expenditures associated with the NOCAC contract to determine whether the expenditures were allowable and reimbursable under the contract, and made on behalf of eligible recipients residing in Fulton County.

Fulton County: In order to be in compliance with the above, Fulton County will schedule on-site monitoring visits at NW OH Community Action Commission at least twice per year to review F. C. child care recipient case files to determine if the child care applications have been timely and accurately processed per child care rules and the family meets all eligibility requirements for child care services. Any files that are found to be out of compliance will be brought to the attention of NOCAC child care staff verbally during the review. A written letter will be submitted to the Director of the Child Care Unit at NOCAC with a deadline given as to the date the file must be brought into compliance. If during the review a family is determined not to have been eligible for child care services and child care services for this family were reimbursed to NOCAC, NOCAC will be responsible for reimbursing FCJFS the amount of overpayment. A payment schedule will be determined between FCJFS and NOCAC for reimbursement of the overpayment. A child care eligibility review sheet will be used for each family's case file. The original will be maintained by FCJFS as verification of the review and a copy will be given to NOCAC.

FCJFS will also, at least twice per year, review the Type B child care provider files to determine if all certification & inspection requirements have been met per child care certification rules and all required forms are maintained in the provider's files. Any files that are found to be out of compliance will be brought to the attention of NOCAC child care staff verbally at the end of the review. A written letter will be submitted to the Director of the Child Care Unit at NOCAC with a deadline given as to the date the file must be brought into compliance. If it is found that any providers were not in compliance with certification rules and should not have been certified, any funds paid to them for child care services by NOCAC and reimbursed to NOCAC by FCJFS will be considered an overpayment and NOCAC will be responsible for paying the funds back to FCJFS. A provider review sheet will be used to review each provider's file. The original will be maintained at FCJFS as verification of the review with a copy given to NOCAC.

Anticipated Completion Date for Corrective Action

Office for Children and Families: August 31, 2004

Fulton County: 4th quarter SFY 2004

Contact Persons Responsible for Corrective Action

Jessie M. Tower, Chief, Bureau of Accountability and Regulation, Ohio Department of Job and Family Services, 255 East Main Street, 3rd Floor, Columbus, Ohio 43215, Phone: (614) 466-1213, e-mail: towerj@odjfs.state.oh.us

Ann Witte, Administrative Assistant Supervisor, Fulton County, Ohio Department of Job and Family Services, 604 South Shoop Avenue, Suite 200, Wauseon, Ohio 43567, Phone: (419) 337-0010, e-mail: wittea@odjfs.state.oh.us

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS06-017 TANF – Subrecipient Monitoring – Hancock County

Corrective Action Plan

For SFY 2004, contracts and future contracts, of the agency will have a scheduled semi-annual review of eligibility determinations and verification of service provisions. Agency staff will have been assigned to complete these reviews within appropriate time frames (at the mid point and one month prior to the end of the contract period).

The semi-annual review schedule will be expanded should any concerns arise pertaining to provider performance. The review completed in 2003 indicated that a semi-annual review would be sufficient, as no significant problems were found.

Anticipated Completion Date for Corrective Action

This is an ongoing CAP.

Contact Person Responsible for Corrective Action

Steven E. Thomas, Director, Hancock County, Ohio Department of Job and Family Services, P. O. Box 270, Findlay, Ohio 45839, Phone: (419) 424-0198, e-mail: thomas01@odjfs.state.oh.us

2003-JFS07-018 TANF – Subrecipient Monitoring – Lucas County

Corrective Action Plan

Lucas County:

- a. Single audit responsibility is currently included in contract monitoring form and procedures. It will be included in contract language for SFY'05 contracts.
- b. Eligibility determination requirements are specified in Exhibit of current contracts. This language will be included in the body of contracts for SFY'05.
- c. Both the monitoring procedures and forms provide for monitoring of proper eligibility determination. This omission in the contract cited was due to worker error. Corrective oversight was put in place. Also, performance management system to be implemented in SFY'05 will include correct completion of monitoring process.

Anticipated Completion Date for Corrective Action

Lucas County: (a) & (b): July 2004; (c): Corrective Oversight March, 2004. Performance management January 2005.

Contact Person Responsible for Corrective Action

Carol Rehm, Deputy Director, Lucas County, Ohio Department of Job and Family Services, P. O. Box 1007, Toledo, Ohio 43699, Phone: (419) 213-8300, e-mail: rehme@odjfs.state.oh.us

2003-JFS08-019 Child Care – Missing Documentation – Cuyahoga County

Corrective Action Plan

Office for Children and Families: OCF will notify Cuyahoga County Department of Job and Family Services (CCDJFS) of the questioned cost associated with their county. We will advise the county to review grant eligibility requirements and the related internal controls CCDJFS has established to ensure files are complete and accessible, and that additional procedures should be added, as necessary, to reasonably ensure proper eligibility determinations are made and appropriately documented in CCDJFS' records.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS08-019 Child Care – Missing Documentation – Cuyahoga County (Continued)

Corrective Action Plan (Continued)

Cuyahoga County: The agency has implemented a new software application called the “Child Care Calculator”. Required forms are printed from the system. Additionally, the “Imaging” system is being upgraded to allow direct filing of case record data by the worker responsible for collection and maintenance of case record data.

Anticipated Completion Date for Corrective Action

Office for Children and Families: August 31, 2004

Cuyahoga County: The “Child Care Calculator” was implemented in December 2003. The upgrade of the “Imaging” system will be complete in the third quarter of the 2004 calendar year. It is anticipated that workers will begin using the improved “Imaging” system in the fourth quarter of the 2004 calendar year.

Contact Persons Responsible for Corrective Action

Jessie M. Tower, Chief, Bureau of Accountability and Regulation, Ohio Department of Job and Family Services, 255 East Main Street, 3rd Floor, Columbus, Ohio 43215, Phone: (614) 466-1213, e-mail: towerj@odjfs.state.oh.us

Michelle Latimore, Participant Services Manager, Cuyahoga County, Ohio Department of Job and Family Services, 1641 Payne Avenue, Cleveland, Ohio 44114, Phone: (216) 987-8460 , e-mail: latimm@odjfs.state.oh.us

Jacquelon Ward, Participant Services Manager, Cuyahoga County, Ohio Department of Job and Family Services, 1641 Payne Avenue, Cleveland, Ohio 44114, Phone: (216) 987-6387 , e-mail: wardj01@odjfs.state.oh.us

2003-JFS09-020 TANF – Refusal to Work Sanction – Lucas County

Corrective Action Plan

As noted in audit narrative, extensive re-organization and changes in staff patterns resulted in case work errors. Casework Units will stabilize in May 2004. Once that occurs all case managers will receive comprehensive training on management of OWF cases, including assessing, assigning and follow through. In additions, QA review of OWF work activities cases will commence in SFY’05.

Anticipated Completion Date for Corrective Action

Training will occur in June 2004, and QA process will be developed by December 2004, and implemented in January 2005.

Contact Person Responsible for Corrective Action

Carol Rehm, Deputy Director, Lucas County, Ohio Department of Job and Family Services, P. O. Box 1007, Toledo, Ohio 43699, Phone: (419) 213-8300, e-mail: rehmc@odjfs.state.oh.us

2003-JFS10-021 TANF – Missing Self Sufficiency Contract – Lucas County

Corrective Action Plan

Training sessions on completion of the Self-Sufficiency Contract/Plan was provided to all case managers in July, 2004. Comprehensive and mandatory training on management of OWF cases, including completion of the Self-Contract, will be conducted in June, 2004. In addition, the new work activity QA process will include a review of all required case documents and each case manager will have 50 work activity cases reviewed annually. Accurate case management will be included in the case manager’s performance evaluation.

Anticipated Completion Date for Corrective Action

Training – June 2004; QA Review – implemented January 2005.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS10-021 TANF – Missing Self Sufficiency Contract – Lucas County (Continued)

Contact Person Responsible for Corrective Action

Carol Rehm, Deputy Director, Lucas County, Ohio Department of Job and Family Services, P. O. Box 1007, Toledo, Ohio 43699, Phone: (419) 213-8300, e-mail: rehmc@odjfs.state.oh.us

2003-JFS11-022 TANF – Unallowable Payments – Cuyahoga County

Corrective Action Plan

The “Imaging” system (used for filing of case record data) is being upgraded to allow direct filing of case record data by the worker responsible for collection and maintenance of case record data. This will result in reduced misfiled or lost case records and case record data.

A checklist will be developed and monitored by Team Leaders prior to the approval of any PRC benefits.

Anticipated Completion Date for Corrective Action

The upgrade of the “Imaging” system will be complete in the third quarter of the 2004 calendar year. It is anticipated that workers will begin using the improved “Imaging” system in the fourth quarter of the 2004 calendar year.

The PRC checklist will be developed and implemented with the next revision to the PRC program rules. Anticipated revision date is April/May 2004.

Contact Persons Responsible for Corrective Action

Michelle Latimore, Participant Services Manager, Cuyahoga County, Ohio Department of Job and Family Services, 1641 Payne Avenue, Cleveland, Ohio 44114, Phone: (216) 987-8460 , e-mail: latimm@odjfs.state.oh.us

Jacquelon Ward, Participant Services Manager, Cuyahoga County, Ohio Department of Job and Family Services, 1641 Payne Avenue, Cleveland, Ohio 44114, Phone: (216) 987-6387 , e-mail: wardj01@odjfs.state.oh.us

2003-JFS12-023 Medicaid/SCHIP – Drug Rebate Payments

Corrective Action Plan

(A) Interest due on late rebate payments.

CMS continues to place the responsibility for interest calculation and payment on the manufacturers, not the states. Even while maintaining this position, the state did implement a late payment notice process whereby we remind manufacturers of their interest obligations. CMS release No. 26 clearly says that “whether or not a state invoices for interest has no bearing on the manufacturers’ responsibilities to calculate and pay the amount(s) of interest due.” From this statement it is clear that CMS has no expectation that states invoice manufacturers for interest. We do agree that if manufacturers send the interest payment, it is up to states to accept it as part of the rebate payments and furthermore, report it to CMS.

Additionally, CMS release No.65 addresses the issue of interest. However, again in No. 65 CMS explicitly refrains from saying it is the state’s responsibility to invoice for the interest. “The obligation for calculating interest due to the States on late rebate payments rests with the manufacturer. It is the State’s responsibility to track the collection of interest due, and report those amounts to HCFA. However, whether or not a State invoices for interest has no bearing on the manufacturers’ responsibilities to calculate and pay the amount(s) of interest due.” Ohio has tracked and reported all interest submitted from manufacturers and therefore believes we are in compliance. Because of Ohio’s extremely high record of rebate collection, we believe that the administrative costs of pursuing interest beyond what we currently do, is not cost effective. We also believe that because the

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS12-023 Medicaid/SCHIP – Drug Rebate Payments (Continued)

Corrective Action Plan (Continued)

agreements are between CMS and the manufacturers, that it is the responsibility of CMS to audit/monitor contract compliance.

(B) Timely mailing of rebate invoices.

The department agrees that it is important to get the rebate invoices out as quickly as possible. With HIPAA related systems issues and loss of contract staff involved in the invoice generation process, we have experienced some delays. Additionally, CMS has been late in getting the needed information to states. All delays are recorded and monitored. We will continue to make it a priority to get the invoices out in a timely manner. However, we believe the delays have never compromised the integrity of the program.

In response to the general recommendation on management checks and balances, ODJFS continues to involve more staff in the rebate management process and thus feels that we are in concert with the auditor's desire to have cross checks on the administration of the program.

Anticipated Completion Date for Corrective Action

(A) Invoicing interest – we do not agree with this finding and therefore do not propose a corrective action.

(B) Timely invoicing - ongoing

Contact Person Responsible for Corrective Action

Robert Reid, Pharmacy Administrator, Ohio Department of Job and Family Services, 30 East Broad Street, 27th Floor, Columbus, Ohio 43215, Phone: (614) 466-6420, e-mail: reid01@odjfs.state.oh.us

2003-JFS13-024 SCHIP – Ineligible Recipients

Corrective Action Plan

A CSR will be submitted to CRISE and MMIS to request development of CRISE and MMIS manuals, or some other official form of documentation, to document the different sequences of eligibility categories and case types for both Medicaid SCHIP within the two systems. Additionally, we will request periodic testing to verify automated controls are functioning properly. As requested by the auditor, the evaluation will include a sample selection of provider payments.

Anticipated Completion Date for Corrective Action

It is anticipated that the completion date for this corrective action will be October 31, 2004.

Contact Person Responsible for Corrective Action

Kathy Hoeffler, MHSA3, Ohio Department of Job and Family Services, 30 East Broad Street, 33rd Floor, Columbus, Ohio 43215, Phone: (614) 728-8479, e-mail: hoeffk@odjfs.state.oh.us

2003-JFS14-025 TANF/Child Support Non-cooperation – Lucas County

Corrective Action Plan

LCJFS procedures and policies are in place and communicated to staff regarding release of sanctions. Errors were due to employee oversight. Performance management system will address monitoring of proper handling of sanctions. LCJFS will re-issue sanction policy to affected staff and review this issue with management staff.

Anticipated Completion Date for Corrective Action

Re-issue policy and review with staff - April 2004; Performance monitoring – implement January 2005.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS14-025 TANF/Child Support Non-cooperation – Lucas County (Continued)

Contact Person Responsible for Corrective Action

Carol Rehm, Deputy Director, Lucas County, Ohio Department of Job and Family Services, P. O. Box 1007, Toledo, Ohio 43699, Phone: (419) 213-8300, e-mail: rehmc@odjfs.state.oh.us

2003-JFS15-026 Medicaid – Ineligible Recipients

Corrective Action Plan

A CSR will be submitted to CRISE and MMIS to request development of CRISE and MMIS manuals, or some other official form of documentation, to document the different sequences of eligibility categories and case types for both Medicaid SCHIP within the two systems. Additionally, we will request periodic testing to verify automated controls are functioning properly. As requested by the auditor, the evaluation will include a sample selection of provider payments.

Anticipated Completion Date for Corrective Action

It is anticipated that the completion date for this corrective action will be October 31, 2004.

Contact Person Responsible for Corrective Action

Kathy Hoeffler, MHSA3, Ohio Department of Job and Family Services, 30 East Broad Street, 33rd Floor, Columbus, Ohio 43215, Phone: (614) 728-8479, e-mail: hoeffk@odjfs.state.oh.us

2003-JFS16-027 TANF – Unallowable Costs – Hamilton County

Corrective Action Plan

The agency is no longer charging these services to PRC funds and the use of the Case Information Sheet for determining eligibility for PRC benefits has been discontinued.

Anticipated Completion Date for Corrective Action

In place.

Contact Person Responsible for Corrective Action

Mark Eling, Supervisor, Hamilton County Children's Services, Ohio Department of Job and Family Services, 222 East Central Parkway, 5th Floor, Cincinnati, Ohio 45202, Phone: (513) 946-1303, e-mail: elingm@jfs.hamilton-co.org

2003-JFS17-08 TANF/Child Support Non-cooperation – Cuyahoga County

Corrective Action Plan

The audit report referenced the continuation of benefits while a state hearing is pending as a county policy. In fact, this is a state requirement [5101:1-3-15(C) (5)]. No corrective action will be implemented as the county was adhering to state rules.

The benefit issued to the second questioned case of \$108.00 is the work allowance for two people. Work Allowances may be issued during the sanction period to allow the clients the opportunity to comply. No corrective action plan is required as, again, the county was following state rules.

The third case contained a benefit issuance of \$461.00 due to worker error. A sanction checklist has already been developed and is currently in use.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS17-08 TANF/Child Support Non-cooperation – Cuyahoga County (Continued)

Anticipated Completion Date for Corrective Action

Completed

Contact Persons Responsible for Corrective Action

Michelle Latimore, Participant Services Manager, Cuyahoga County, Ohio Department of Job and Family Services, 1641 Payne Avenue, Cleveland, Ohio 44114, Phone: (216) 987-8460 , e-mail: latimm@odjfs.state.oh.us

Jacquelon Ward, Participant Services Manager, Cuyahoga County, Ohio Department of Job and Family Services, 1641 Payne Avenue, Cleveland, Ohio 44114, Phone: (216) 987-6387 , e-mail: wardj01@odjfs.state.oh.us

2003-JFS18-029 CSEA – Unallowed Activities – Defiance County

Corrective Action Plan

The Defiance County Commissioners recently passed a resolution that the payment of the water cooler expense is necessary and appropriate expenditure of public funds.

Anticipated Completion Date for Corrective Action

Action has been completed.

Contact Person Responsible for Corrective Action

Sandra D. Schappert, Assistant Director, Defiance County, Ohio Department of Job and Family Services, 500 Court Street, P. O. Box 246, Defiance, Ohio 43512, Phone: (419) 784-2123, extension 107, e-mail: schaps@odjfs.state.oh.us

2003-JFS19-030 SSBG – Transportation Services to Individuals

Corrective Action Plan

Office for Children and Families: OCF will notify Fulton County Department of Job and Family Services (FCDJFS) of the questioned cost associated with their county. We will advise the county to review its policies and procedures and/or implement policies and procedures which ensure transportation benefits are paid only to those individuals deemed eligible.

Fulton County: In response to the above audit finding, Fulton County has reviewed our policies regarding transportation services and is in the process of writing up a new transportation program guidelines document that will be given out to all employees regarding the transportation services our agency has available to assist our customers and how and when customers are eligible for the services. This document will be reviewed at least on a yearly basis or when state rules change regarding the services and will be revised to comply with the state program rules. Employees will be notified immediately of any changes in the transportation services and will be given a new transportation program guidelines document at least once each year or as services change. This document will be available on the shared drive to allow our employees to view it on their computers as needed.

Anticipated Completion Date for Corrective Action

Office for Children and Families: August 31, 2004

Fulton County: April 1, 2004

Contact Persons Responsible for Corrective Action

Jessie M. Tower, Chief, Bureau of Accountability and Regulation, Ohio Department of Job and Family Services, 255 East Main Street, 3rd Floor, Columbus, Ohio 43215, Phone: (614) 466-1213, e-mail: towerj@odjfs.state.oh.us

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS19-030 SSBG – Transportation Services to Individuals (Continued)

Contact Persons Responsible for Corrective Action (Continued)

Ann Witte, Administrative Assistant Supervisor, Ohio Department of Job and Family Services, 604 South Shoop Avenue, Wauseon, Ohio 43567, Phone: (419) 337-0010, e-mail: wittea@odjfs.state.oh.us

2003-JFS20-031 IEVS – Due Dates

Corrective Action Plan

The following corrective actions are planned or have already been taken:

(1) Revisions to the IEVS process within CRIS-E have taken place and impact this finding. First, a filtering process has been implemented that compares SWICA matches to New Hire matches. When a New Hire match is previously received on the same employer as the SWICA match, the SWICA match will be displayed in CRIS-E but no alert will be issued. We have decreased our overall alert numbers in this data stream by 30 to 40 percent, and by doing so, lowered the delinquency rate as a result of fewer matches. Secondly, the append process within the IEVS sub-system of CRIS-E is being eliminated as data sources are redesigned. Appending occurs when an older alert is appended to a new alert, thus changing the match date, due date, and in some instances, the match priority of the older alert. This change will resolve the issue of incorrect due dates being calculated and posted on CRIS-E screens.

(2) The IEVS review process was transferred to the Fraud Control Section effective October 1, 2002. Staff now review matches from all programs, unlike our previous review that looked only at food stamp matches. During this review, staff will recommend to county staff and assist with the establishment of county control procedures to ensure timely completion of matches. However, it must be noted that controls already exist to assist with the timely completion of matches. Alerts are generated to supervisors 30 days after the match as a means of identifying incomplete matches. (Please note that we have revised this to provide the alert 15 days prior to the due date to make this consistent for all match priorities. This reprogramming has begun with the State Wage Match data stream and will continue with all data sources during reprogramming.) Two monthly reports (GED089RA and GDE090RA) are provided to counties via mailed hard copy and Control D that contain delinquent matches and each county's delinquency rate. Also, ODJFS is conducting a one day IEVS training session, for all the eight largest Ohio counties, covering policies and procedures for alert compliance and completion.

Staff have been and will continue to be informed of the above changes as they occur via CRIS-E View Flash bulletins. Upon completion of all IEVS changes, Flash 61 will be replaced by a procedural manual.

Anticipated Completion Date for Corrective Action

Initial changes to the CRIS-E IEVS process were initiated August 2003. Programming changes have continued since the initial rollout and will continue through 2004. It is anticipated that all data streams will be reprogrammed during this time frame and the procedural manual will be written upon their completion.

Contact Person Responsible for Corrective Action

Kevin Giangola, Assistant Deputy Director, Ohio Department of Job and Family Services, 4300 Kimberly Parkway, Columbus, Ohio 43232, Phone: (614) 644-5739, e-mail: giangk@odjfs.state.oh.us

2003-JFS21-032 IEVS – Inadequate Documentation

Corrective Action Plan

Revisions to CRIS-E have enhanced the documentation of IEVS results. Changes to screen DEEV have expanded the results codes to better explain a match resolution. For all reason codes except 'no effect' codes, workers will be systematically driven to CLRC (case notes) to further document the findings.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS21-032 IEVS – Inadequate Documentation (Continued)

Corrective Action Plan (Continued)

During Fraud Control Section IEVS reviews, staff will recommend to county staff that a supervisory review of IEVS be conducted. Technical assistance will be provided when needed.

Staff have been and will continue to be informed of the above changes as they occur via CRIS-E View Flash bulletins. Upon completion of all IEVS changes, Flash 61 will be replaced with a procedural manual.

Anticipated Completion Date for Corrective Action

Initial changes to the CRIS-E IEVS process were initiated August 2003. Programming changes have continued since the initial rollout and will continue through 2004. Fraud Control Section staff began recommending supervisory reviews of IEVS beginning March 3, 2003.

Contact Person Responsible for Corrective Action

Kevin Giangola, Assistant Deputy Director, Ohio Department of Job and Family Services, 4300 Kimberly Parkway, Columbus, Ohio 43232, Phone: (614) 644-5739, e-mail: giangk@odjfs.state.oh.us

2003-JFS22-033 IEVS – Return Information Access

Corrective Action Plan

The department issued notice to all county directors that access to screens that contain FTI data would be removed effective October 17, 2003. The number of staff with access to FTI within CRIS-E was decreased from over 25,000 to 8700. It should be noted that we previously removed FTI access from all staff with inquiry profiles. However, it was discovered that the AUDIT 90 profile could obtain access to FTI data from CRIS-E screen DESL. A customer service request (CSR) was submitted to MIS on January 13, 2004 to correct this problem.

Two IEVS training sessions conducted by Fraud Control staff are being held in March 2004 to explain and reinforce FTI safeguarding and the IEVS match process. Also, safeguarding of FTI information is always reinforced during our IEVS and safeguarding reviews conducted by Fraud Control staff.

Once the rewrite of the programming for all data streams into the IEVS system is completed, Flash 61 will be replaced by a procedures manual.

The department disagrees that a new screen needs to be developed in the CRIS-E system. DESL, DEEV, and CLRC-running record comments provide adequate alert resolution information. Also, the 'no effect' code has been removed from use on DEEV and new codes are available that provide detail information on why the alert had 'no effect'. For any other code on DEEV, the worker is driven to CLRC to enter case notes.

Anticipated Completion Date for Corrective Action

We anticipate the CSR to remove access to FTI by the AUDIT 90 profile to be completed no later than September 30, 2004. Initial changes to the CRIS-E IEVS process were initiated August 2003. Programming changes have continued since the initial rollout and will continue through 2004. It is anticipated that all data streams will be reprogrammed during this timeframe and the procedural manual will be written upon their completion.

Contact Person Responsible for Corrective Action

Kevin Giangola, Assistant Deputy Director, Ohio Department of Job and Family Services, 4300 Kimberly Parkway, Columbus, Ohio 43232, Phone: (614) 644-5739, e-mail: giangk@odjfs.state.oh.us

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS23-034 IEVS – Monitoring by Department

Corrective Action Plan

We disagree with the audit finding that little information has been provided to enhance county monitoring activities. Training has been provided at Fraud Control Quarterly meetings that provided monitoring information and IEVS-specific training will be provided to the eight metro counties in March 2004. Training is also provided by the department's CRIS-E training section. The county is provided two monthly reports that provide both summary and detail information on alert completion. In addition, alerts are provided to supervisory staff 30 days after the issuance of an alert expressly for monitoring purposes. Supervisory staff can access DEDT which provides access to all uncompleted alerts assigned to a particular worker. Fraud Control staff provide guidance and technical assistance to the IEVS coordinators on the use of the daily and monthly monitoring reports, plus how to access the same data via CRIS-E screen DEDT. Depending on the size of the county, Fraud Control staff conduct periodic IEVS match reviews; annually, bi-annually, or every three years. The department has provided adequate tools for county staff to monitor IEVS completion, if they wish to do so.

Once the rewrite of the programming for all data streams into the IEVS system is completed, Flash 61 will be replaced with a procedural manual outlining the recent changes.

The department also disagrees that the CRIS-E Flash Bulletins are overlooked by IEVS coordinators, or by administrative staff. CRIS-E is used by all 88 county IEVS coordinators, eligibility workers, and supervisory staff. The on-line view flash system provides the county with one source for data regarding CRIS-E, data exchange, and other information. The CRIS-E View Flash is readily accessible by any person who has access to CRIS-E. Workers are alerted when new view flash bulletins are posted. Historical view flashes remain on CLVB, and the CRIS-E help desk website has an on-line searchable document of view flashes.

Anticipated Completion Date for Corrective Action

Initial changes to the CRIS-E IEVS process were initiated August 2003. Programming changes have continued since the initial rollout and will continue through 2004. It is anticipated that all data streams will be reprogrammed during this timeframe and the procedural manual will be written upon their completion.

Contact Person Responsible for Corrective Action

Kevin Giangola, Assistant Deputy Director, Ohio Department of Job and Family Services, 4300 Kimberly Parkway, Columbus, Ohio 43232, Phone: (614) 644-5739, e-mail: gjangk@odjfs.state.oh.us

2003-JFS24-035 Federal Schedule

Corrective Action Plan

CFDA #17.225 – Unemployment Insurance understated - BCAFR will develop a procedure to assure all disbursements outside of the Central Accounting System through Benefit Custodial Accounts are monitored and documented appropriately

CFDA #17.238/25/260 – Workforce Investment Act Cluster understated.

\$15,309,203 – Amounts disbursed for county draws. County expenditures are reported in the current and/or subsequent quarters. All funds are accounted for in the annual county closeout that happens at the end of each fiscal year.

\$23,064,616 – Funds were moved to support the TANF/TITLE XX share of the consolidated allocation. These funds are now being accounted for by a new fund 3W3. There are no revenue documents in SFY 03 to modify as

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS24-035 Federal Schedule (Continued)

Corrective Action Plan (Continued)

this was done through an internal accounting adjustment. Current year adjustments will be done through CAS based on language placed in HB95 that gives ODJFS/OBM authority to make adjustments.

We are in agreement with errors identified on revised schedule and will review document more closely.

Anticipated Completion Date for Corrective Action

July 1, 2004

Ohio Office of Budget and Management Response:

March 29, 2004

Contact Person Responsible for Corrective Action

Lou Ann Shy, Acting Chief, Bureau of Cost Allocations and Financial Reporting, Office of Fiscal Services, Ohio Department of Job and Family Services, 30 East Broad Street, 38th Floor, Columbus, Ohio 43215, Phone: (614) 387-0315, e-mail: shyl@odjfs.state.oh.us

2003-JFS25-036 Unapproved Indirect Cost Allocation Amendment

Corrective Action Plan

We agree with this finding. ODJFS submitted a revised SFY 2000 plan to the HHS, Division of Cost Allocation, in May 2003. Upon approval of this cap, two remaining years will be revised to reflect all changes. A new CAP effective July 1, 2003, was submitted in June 2003 that contained format and cost allocation methodologies as noted in previous CAP deficiencies. Awaiting from DCA for all outstanding plans.

The agency has completed the CAS Edit table (CSED) as an internal control mechanism designed to ensure the proper coding of documents. The CSED table contains all allowable coding variations for a particular SPRC in accordance with the Cost Allocation Plan. Coding combinations are created and established parallel to the CAP by the Bureau of Budget. Weekly, Budget Analysis, Bureau of Cost Allocation and Financial Reporting meet to review the new SPRC RCAT relationship for the week. This ensures the CAP and CAS Edit Table reflect identical coding.

Anticipated Completion Date for Corrective Action

July 1, 2003

Contact Person Responsible for Corrective Action

Lou Ann Shy, Acting Chief, Bureau of Cost Allocations and Financial Reporting, Office of Fiscal Services, Ohio Department of Job and Family Services, 30 East Broad Street, 38th Floor, Columbus, Ohio 43215, Phone: (614) 387-0315, e-mail: shyl@odjfs.state.oh.us

2003-JFS26-037 Lack of Corrective Action

Corrective Action Plan

We agree with the finding. All Offices within the Agency are concentrating on the correction of past audit findings as a result of encouragement from the Audit Committee. We have already had some impressive results with the reduction of the number of audit findings this year; the correction of past repeat findings; e.g., the problem of Foster Care Duplicates was corrected just after this audit period, June 1, 2003; and, our MIS area has been working with our program areas to resolve findings with our other computer systems.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS26-037 Lack of Corrective Action (Continued)

Corrective Action Plan (Continued)

To further stress the need for corrective action, the number of audit findings has been made a performance measure for each of our Offices (Deputy Directors). Twice a year, March and August, each Office will report to the senior management group their progress with their assigned findings. The initial reports will be made at the March 31, 2004 executive meeting at the Performance Center.

Anticipated Completion Date for Corrective Action

This will be an ongoing activity beginning March 31, 2004.

Contact Person Responsible for Corrective Action

Dick Starks, Management Analyst Supervisor, Ohio Department of Job and Family Services, 30 East Broad Street, 32nd Floor, Columbus, Ohio 43215, Phone: (614) 728-8491, e-mail: starkd@odjfs.state.oh.us

2003-JFS27-038 Excessive Food Stamp Coupon Inventory

Corrective Action Plan

One must remember that the rule regarding the "six-month" supply of paper food coupons is a rule that applied to the 100% paper issuance process. This rule has been in effect since mid 1970. FNS has not changed their position on this particular item and even though most states are 100% EBT, this old rule is still in existence. The Department continues to work with the county agencies in reducing their inventory of paper coupons. As the audit will note, the majority of the county agencies maintain a very small inventory. There are other local agencies that will not reduce their inventory levels to the suggested \$2,500 to \$5,000 level. The audit also noted the recent shipment of over \$7,000,000.00 in paper coupons to California to reduce the Ohio inventory.

The FNS has **suggested** an inventory level that they feel will be acceptable. However, as Ohio continues the operation of an off-line smart card EBT system, an inventory of paper coupons is necessary to ensure customers moving from Ohio to other states will have a process with which to convert the balance of benefits remaining on their card to paper coupons. This allows the customer to purchase eligible food items in their new state. The Department will reduce the inventory to zero once the EBT system converts to the on-line magnetic stripe technology. This transition will occur in SFY 2006.

Anticipated Completion Date for Corrective Action

The corrective action will be completed before SFY 2007.

Contact Person Responsible for Corrective Action

Stan Sells, Assistant Deputy Director, Office of Family Stability, Ohio Department of Job and Family Services, 145 South Front Street, Columbus, Ohio 43215, Phone: (614) 752-6213, e-mail: sells@odjfs.state.oh.us

2003-JFS28-039 Food Stamp Report Late Submission and Lack of Management Review

Corrective Action Plan

Until June 2003, the report submission was the responsibility of the EBT Project Manager. In conjunction with other responsibilities, the report submission "slipped" as items of higher priority were satisfied before submission. As of June 2003, this task is now the responsibility of the Administrative Assistant in the EBT Project Office. Reports are now submitted timely to FNS and if a problem occurs that will delay the submission, it is discussed with the EBT Project Manager for a resolution. However, with the new future EBT on-line system, the inventory of paper coupons will be completely eliminated and the required submission of the FNS-250 reported will not longer exist.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS28-039 Food Stamp Report Late Submission and Lack of Management Review (Continued)

Corrective Action Plan (Continued)

The EBT Office, as recommended by the Auditor in past recommendations, has instituted a tracking process to ensure the reports are submitted in a timely manner to the federal agency. The certified receipt designates the date the package was mailed and the certified number is recorded on the master control sheet. This allows the identification of the exact date the reports were mailed. The November 02 and January 03 FNS-46 reports submitted after the FNS imposed deadline was not met as again, items of a higher priority were satisfied. It is the intent of the EBT Project Office that all reports will be submitted by the deadline. As a rule, if the reports are delayed, a call is made to the FNS Regional Office explaining the reason for the delay and the expected date the reports will be submitted.

The Department takes exception to the statement of "Lack of Management Review". Each and every report is reviewed for accuracy and completeness. If a report is missing required documentation or beginning figures do not agree with the prior report, a call is made to the local agency, discussing the erroneous figures and requesting a revised report. The Department also works closely with the federal agency to resolve all problems discovered in the federal review.

Anticipated Completion Date for Corrective Action

The corrective action will be completed before SFY 2007.

Contact Person Responsible for Corrective Action

Stan Sells, Assistant Deputy Director, Office of Family Stability, Ohio Department of Job and Family Services, 145 South Front Street, Columbus, Ohio 43215, Phone: (614) 752-6213, e-mail: sells@odjfs.state.oh.us

2003-JFS29-040 TANF – Sanctions

Corrective Action Plan

- (A) The audit finding stated that "the (sanction) report did not have a unique code to identify individuals who were being sanctioned for refusal to work because they had a child under six and there was not affordable and appropriate childcare within a reasonable distance".

Ohio does not have a code to indicate whether a person was sanctioned *because* they did not have affordable and appropriate child care because this is not a sanctionable offense and it does not make sense. There may be situations where county staff might sanction an individual for not following through with obtaining appropriate supportive services necessary to participate in a work activity, although ODJFS discourages counties from imposing this type of sanction. However, individuals who are sanctioned for not obtaining necessary supportive services are identified on the sanction reports. What is more likely to happen is that county staff may sanction an individual for not participating in a *work activity* and the person was unable to participate in the work activity because they did not have child care. Therefore, a code has been added to the GWP523RA, GWP523RB, and GWP524RC sanction reports to indicate whether the sanctioned individual had a child under the age of six at the time the sanction was imposed. This new code was added to the sanction reports effective December 2003.

- (B) ODJFS issued a view flash bulletin on the statewide CRIS-E system on March 10, 2004, to remind counties of the availability of the sanction reports and informing counties of the new child under six code on the reports. The Work Activity Policy Section Chief will inform appropriate state personnel.

When work activity policy staff conduct the sanction review at the county, staff will remind county administrative staff of the availability of the sanction reports and will ensure that the administrative staff know how to access the reports.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS29-040 TANF – Sanctions (Continued)

Corrective Action Plan (Continued)

(C) As outlined in the response to the 2002 audit finding number 2002-JFS26-047, ODJFS currently has in place a procedure to review a random sample of sanctioned cases in each county and to review the sanction reports in each county. Beginning July 1, 2004, a random sample of cases identified on the sanction reports as having a child under the age of six at the time of sanction will be added to the county sanction review. The questions and procedures for that part of the review are in the process of being developed.

As part of the sanction review, ODJFS staff review the county's procedures for ensuring that sanctions are appropriate.

Anticipated Completion Date for Corrective Action

System modification is completed.

County monitoring is ongoing.

Contact Person Responsible for Corrective Action

Stan Sells, Assistant Deputy Director, Office of Family Stability, Ohio Department of Job and Family Services, 145 South Front Street, Columbus, Ohio 43215, Phone: (614) 752-6213, e-mail: sells@odjfs.state.oh.us

2003-JFS30-041 Medicaid/SCHIP – Subrecipient Monitoring

Corrective Action Plan

In state fiscal year 2004 the ODJFS Bureau of Audit has scheduled and is in the process of performing audits of the Ohio Departments of Aging, Mental Health, Mental Retardation and Developmental Disabilities, and Alcohol and Drug Addiction Services. This audit activity is designed to include a review of compliance by the subrecipient state agencies with applicable single audit compliance requirements for Medicaid and SCHIP, as appropriate.

The Bureau of Audit will be reviewing ODFJS pass-through activity planned for state fiscal year 2005 and, if appropriate, perform the necessary audit work in the Ohio Department of Health to assure compliance with the OMB A-133 requirement.

The Bureau of Audit has been working with the ODJFS Bureau of Contract Administration to identify the necessary information to be included in interagency agreements which are the basis for the pass-through of federal funding to other state agencies. Guidelines for preparation of this information will be provided to program offices for use in the development of the interagency agreements.

Procedures for the documentation of the audit resolution process are in development.

ODJFS also plans to continue to conduct routine Medicaid program reviews of the aforementioned sub-recipient state agencies to not only assure compliance with federal Medicaid rules and regulations, but to ensure adherence to quality assurance standards.

Anticipated Completion Date for Corrective Action

As of March 18, 2004, the ODJFS Bureau of Audit has completed audit fieldwork in the Ohio Department of Aging and has ongoing audit fieldwork in the Ohio Department of Alcohol and Drug Addiction Services. Entrance conferences have been tentatively scheduled in the Ohio Department of Mental Health and the Ohio Department of Mental Retardation and Developmental Disabilities and audit fieldwork is expected to commence in each agency no later than mid-April. The duration of the audit fieldwork is contingent upon conditions in the audited agencies.

Appropriate guidelines for the inclusion of appropriate information in the interagency agreements will be implemented with the agreements for the next state fiscal year.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS30-041 Medicaid/SCHIP – Subrecipient Monitoring (Continued)

Anticipated Completion Date for Corrective Action (Continued)

Procedures for the documentation of audit resolution will be implemented for resolution of audit findings in the A-133 audit reports of subrecipient state agencies for state fiscal year 2003.

Contact Person Responsible for Corrective Action

Kevin Giangola, Assistant Deputy Director, Ohio Department of Job and Family Services, 4300 Kimberly Parkway, Columbus, Ohio 43232, Phone: (614) 644-5739, e-mail: giangk@odjfs.state.oh.us

2003-JFS31-042 Child Support – Statewide Monitoring of CSENet

Corrective Action Plan

The Interstate Central Registry (ICR) has developed the first of a series of Tool Kits designed to assist the counties with accurate data entry and an understanding of state and federal time frames related to interstate case actions. The Tool Kit includes a data map, which clarifies the definition and purpose of all fields on each interstate screen in SETS. An explanation of the content of the Tool Kit was presented and distributed to all 88 counties in June 2003, by staff from the Interstate Unit along with the County Review Team. The County Review Team has been reviewing, monitoring and recording interstate case activity on a monthly basis related to accurate and timely case processing, including the transfer of cases to the local CSEA level. In areas where improvement is needed, training sessions will be coordinated with the OCS Training Coordinator to improve county performance. Currently, an ICR employee is printing a daily list of cases that has been transferred to the local CSEAs and monitors the SETS screens to verify that the CSEA has processed the case within the federally mandated timeframe. If the case has not been processed timely, the ICR will contact the IV-D case worker to discuss the completion process. SETS Release Management / MIS has developed the requirements for a comprehensive interstate data base which will greatly enhance our ability to monitor interstate activity and process interstate cases timely and accurately in accordance with 45 CFR 303.7(a). The Access database will include the development of additional reports, monitoring tools and enhancements to interstate functionality. We expect the Access data base to be completed by May / June 2004. The reports produced by the Access database will ensure that all petitions are forwarded to the local CSEA within the federally mandated 10 business day timeframes. In addition it will allow the ICR to monitor the CSEAs performance to ensure all interstate petitions are processed within the 20 calendar day timeframe set forth by the CSEM section 1100. (D). The state of Ohio ICR Unit is preparing for the National Reconciliation Project with the Federal government to begin in May 2004. The Federal National Reconciliation Project will accomplish the following: Perform a national reconciliation of all interstate child support cases to establish correct other state case numbers, facilitating greater use of EFT and CSENet, establishes true interstate caseload and provide an opportunity to close unnecessary and duplicate interstate cases.

The ICR is beginning the development of a monitoring tool to review interstate child support program activities. Interstate case samples will be pulled, tracked and monitored to determine where the CSEAs have barriers that ICR staff should provide assistance and coordinate training efforts as needed. The monitoring tool will be used to monitor the CSEAs on a continual monthly basis. The monitoring process for interstate child support program activity will be implemented in July 2004

Anticipated Completion Date for Corrective Action

The National Reconciliation Project of interstate cases is targeted for Ohio and participating states in May 2004. Also the completion of the Access database is scheduled for late May/early June 2004.

Contact Person Responsible for Corrective Action

Marcus Lee, Section Chief, Ohio Department of Job and Family Services, 30 East Broad Street, Columbus, Ohio 43215, Phone: (614) 466-4105, e-mail: leem@odjfs.state.oh.us

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS32-043 Social Services Block Grant – Reporting

Corrective Action Plan

The initial report for SFY 2002 was submitted on February 14, 2003. We had an approved extension for submitting the report to January 31, 2003. The report was subsequently revised and submitted on May 28, 2003.

We received an extension on the reporting requirements for the SFY 2003 report until January 31, 2004. The SFY 2003 report was submitted on January 30, 2004. It is anticipated that future reports will be submitted on time.

While late submission of CORE reports may have caused problems previously, it was not the reason the reports were late for SFY 2002.

Anticipated Completion Date for Corrective Action

Completed.

Contact Person Responsible for Corrective Action

Robert W. Monks, Section Chief, Bureau of Federal Financial Reporting, Office of Fiscal Services, Ohio Department of Job and Family Services, 30 East Broad Street, 37th Floor, Columbus, Ohio 43215, Phone: (614) 752-8702, e-mail: monksr@odjfs.state.oh.us

2003-JFS033-044 WIA – Reporting

Corrective Action Plan

Beginning July 1, 2004, ODJFS will implement the necessary procedures to ensure WIA compliance. ODJFS will require that expenditure information be reported by each area board (including LWIA #7) rather than the individual counties. The counties within LWIA #7 will report to their fiscal agent, and the area fiscal agent will report the aggregate expenditure information to the State. The CORE system will maintain this information by area and will be able to track, summarize, and report collective financial information for LWIA #7.

Anticipated Completion Date for Corrective Action

It is anticipated that the corrective action for this finding will be completed by June 30, 2004, with the ability to report information by July 30, 2004.

Contact Person Responsible for Corrective Action

Steve Clayborn, Grants and Audits Section Chief, Ohio Department of Job and Family Services, 145 South Front Street, 6th Floor, Columbus, Ohio 43215, Phone: (614) 644-8826, e-mail: claybs@odjfs.state.oh.us

2003-JFS34-045 WIA – One-Stop Delivery Systems

Corrective Action Plan

ODJFS is taking steps to ensure that Ohio has 20 fully compliant One-Stop Systems identified within Areas #1 through #20 as of July 1, 2004 (NOTE: there are 12 regional sub-systems within Area # 7). To date, six (6) Memorandums of Understanding (MOU) have been signed, and the remaining are in progress. It is the State's plan to have compliant, operational One-Stops and the remaining MOUs signed by June 30, 2004.

Anticipated Completion Date for Corrective Action

It is anticipated that the corrective action for this finding will be completed by June 30, 2004.

Contact Person Responsible for Corrective Action

Steve Clayborn, Grants and Audits Section Chief, Ohio Department of Job and Family Services, 145 South Front Street, 6th Floor, Columbus, Ohio 43215, Phone: (614) 644-8826, e-mail: claybs@odjfs.state.oh.us

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS35-046 IEVS – Monitoring by Counties

Corrective Action Plan

The current, ongoing redesign of the IEVS subsystem is filtering out redundant and unproductive alerts. This will reduce the volume of unnecessary alerts allowing counties to increase efficiency. We will continue to work with counties to establish training and monitoring functions during IEVS reviews conducted by Fraud Control staff. In March 2004, eight metro counties were attended a one day comprehensive training session on the policies and procedures of IEVS alert completion and management. It should be noted that many aides are already available to assist county supervisors with monitoring and tracking of IEVS alerts. For example, training has been offered at Fraud Control Quarterly meetings that provided monitoring information for counties. Furthermore, ODJFS CRIS-E Training offered one day training sessions at the five regional training centers in October 2002 and August 2003. Also, two monthly reports (GDE089RA and GDE090RA) were started several years ago to specifically assist counties in monitoring IEVS alert completions. In addition, CRIS-E system alerts are issued to supervisory staff on uncompleted alerts expressly for monitoring purposes. Finally, supervisory staff can, at any time, access DEDT which provides access to any and all unprocessed alerts assigned to a particular worker or caseload.

Anticipated Completion Date for Corrective Action

Ongoing

Contact Person Responsible for Corrective Action

Kevin Giangola, Assistant Deputy Director, Ohio Department of Job and Family Services, 4300 Kimberly Parkway, Columbus, Ohio 43232, Phone: (614) 644-5739, e-mail: giangk@odjfs.state.oh.us

2003-JFS36-047 DP- Accuracy of CRIS-E Input

Corrective Action Plan

The following lists planned data accuracy improvements by fiscal year and quarter.

Fiscal Year/Quarter	Hours	Month of Completion	Comments
SFY03 Q2			
MD17 SOW PM25-001 Data Accuracy Improvements	60		No CSRs available at the time of SOW development
D01 Complete impact assessment of screen edits proposed by audit	40	October	assessment identified two CSRs: 00046-03 and 00045-13

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS36-047 DP- Accuracy of CRIS-E Input (Continued)

Corrective Action Plan (Continued)

Fiscal Year/Quarter	Hours	Month of Completion	Comments
D03 Baseline analysis of current use of screen edits and other data accuracy issues	20	November	Analysis identified the following CSRs for further research: 01165-17 00303-04, 98097-09, 01240-10, 95065-05, 02162-11, 99323-01, 02135-06, 99110-14, 01240-19, 01165-04, 98281-05, 99006-02, 97294-10, 97294-08, 01045-02, 01288-07, 01247-05, 00027-03, 99056-15, 01205-08, 01115-04, 01275-01, 97079-01, 02008-20, 97351-04 00116-07, 96303-17, 96303-18, 96303-19, 96303-22, 96303-27, 96303-28, 96303-31, 96303-33, 96303-34, 96303-35, 96303-37, 96303-39, 96303-41, 02008-22, 00296-09, 00296-08
SFY03 Q3			
MD05 Mul SOW PM25-002 Data Accuracy Improvement Initiative (DAII)	97		
D01 Baseline prioritization analysis of improvement actions	62	February	analysis of above CSRs
D02 Baseline work plan for implementing improvements through December 2003	35	March	
SFY03 Q4			
MD05 Mul SOW PM25-003 Data Accuracy Improvement Initiative (DAII)	1032		
D01 Complete DSDs for identified CSRs	20	April	CSRs 00045-13 and 00046-03;
D02 Coding and unit testing CSR modifications	400	May	CSRs 00045-13 and 00046-03;
D03 Complete consolidated DSDs for CSRs	32	April	97079-01, 02008-20, 97351-04, 00116-07, 96303-17, 96303-18, 96303-19, 96303-22, 96303-27, 96303-28, 96303-31, 96303-33, 96303-34, 96303-35, 96303-37, 96303-39, 96303-41, 02008-22
D04 Coding and unit testing CSR group II	360	June	
D05 Complete DSDs for edit changes	140	May	00027-03, 01045-02, 01115-04, 01165-04, 01205-08, 01247-05, 01275-01, 01288-07, 97294-08, 97294-10, 98281-05, 99006-02, 99056-15

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS36-047 DP- Accuracy of CRIS-E Input (Continued)

Corrective Action Plan (Continued)

Fiscal Year/Quarter	Hours	Month of Completion	Comments
D06 Complete DSDs new screen edits	80	June	01165-17, 00303-04, 02162-11, 99323-01, 02135-06, 99110-14, 99063-04, 99063-02
SFY04 Q1			
MD04 Mul SOW PM25-04Q1 Data Accuracy Improvement Initiative (DAII)	818		01045-02, 01288-07, 01247-05, 97294-08, 97294-10
D01 Complete prod readiness evaluation	40	September	
D02 Complete development, unit test, and support system test for existing screen edits	318	September	See above for CSRs (Change ordered from 400 to 318 hours in Q1 due to higher priority initiatives)
D03 Complete development, unit test, and support system test for new screen edits	280	September	See above for CSRs
DPM Deliverable Tracking and Performance Management	180	September	
SFY04 Q2			
MD04 Mul SOW PM25-04Q2 Data Accuracy Improvement Initiative (DAII)	100		CSRs 01165-04, 98281-05, 00027-03, 99056-15, 01205-08, 01115-04, 01275-01, 01165-17, 00303-04, 02162-11, 99323-01, 02135-06, 01240-10, 99110-14, 99063-02, 99063-04
D04 Support system test for new and existing screen edits	80	December	
DPM Deliverable Tracking and Performance Management	20	December	

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS36-047 DP- Accuracy of CRIS-E Input (Continued)

Corrective Action Plan (Continued)

Fiscal Year/Quarter	Hours	Month of Completion	Comments
SFY04 Q3 Planned			
MD04 Mul SOW PM25-04Q2 Data Accuracy Improvement Initiative (DAII)	273		CSRs 01165-04, 98281-05, 00027-03, 99056-15, 01205-08, 01115-04, 01275-01, 01165-17, 00303-04, 02162-11, 99323-01, 02135-06, 01240-10, 99110-14, 99063-02, 99063-04
D01 DAII Complete development	160		PA3 currently determining which CSRs need to be addressed
D02 support system test	80		these hours were removed from the SOW level and added to S2 to allow for sufficient support to be provided to sys test initiatives through the quarter
DPM Management	33		in progress

In June, 2003, the below GSD was create to address FIATS and data accuracy.

3.0 PROJECT OVERVIEW

Audit Findings identified a high volume of FIATs occurring specifically on Medicaid AG types. Based on this finding, initial analysis was conducted to identify high priority CSRs to make "quick fixes" to the top three FIATed AGs and accomplish a decline in FIAT volumes.

Based on this initial list, analysis has been conducted to determine which of these CSRs are still relevant AND are not being addressed by the current Delinking and Failure Logic effort (see CCRB10A and 10C) as well as MA-C Budget fixes (CCRB10B). Based on this analysis and meetings held with Ohio Health Plans policy staff to confirm the findings, the status of the initial CSRs identified is as follows:

CSR/Help Desk Number	Description	Status
01088-11	DELINK CSR	CCRB 10A will delink OWF from MA-C. Will not be addressed in this design.
02148-05	EXPLORE MAC WHEN MAM EXISTS MAC AGS ARE BEING AUTOMATICALLY FAILED BY SFU IF THERE IS AN MAM IN THE CASE. THIS IS NOT ALWAYS CORRECT AND MAC SHOULD BE EXPLORED.	EDBC needs to be adjusted to ensure proper budgeting methodology. CCRB10A will ensure that MAC is explored.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS36-047 DP- Accuracy of CRIS-E Input (Continued)

Corrective Action Plan (Continued)

CSR/Help Desk Number	Description	Status
02100-03	AG IS OVER INCOME, BUT THE SYSTEM IS PASSING IT INCORRECTLY. AEBAB SHOWS THE AG FAILS AND IS OVER INCOME, BUT THE AG STILL PASSES. (HOUSEHOLD CONTAINS GRANTEE RELATIVE GRANDMOTHER AND GRANDSON. GRANDMOTHER WANTS CASH FOR GRANDCHILD AND WANTS TO EXPLORE MEDICAL FOR BOTH). WE HAVE BEEN TOLD THAT MA C HAS LOGIC TO DO A FINAL CHECK IF THERE IS A PASSING CASH AG, THEN PASS THE MEDICAL AND FEEL THIS MAY BE WHERE THE PROBLEM EXISTS. IF THIS IS WHAT IS CAUSING THE PROBLEM.	Per policy, appears that Delinking/Failure Logic should correct this issue. Will not be addressed in this design.
02199-01	DELINK CSR	CCRB 10A will delink OWF from MA-C. Will not be addressed in this design.
02206-07	ALLOW DEPENDENT CARE DEDUCTION A MOTHER WITH AN SSI CHILD WANTS MAC ELIG AND SHOULD BE ALLOWED THE DEPENDENT CARE DEDUCTION IN MOM'S MAC. Per Policy: THE DEDUCTION IS ALLOWED IN BOTH AGS (MA-P and MA-C)	EDBC needs to be corrected to address this.
HD 81269	System is not counting sanctioned parent in MA-C need	Will be handled in CCRB10B. Will not be addressed in this design.
76813	IPV individual is failing for MA-C for 522 (IPV)	Will be handled in CCRB10B. Will not be addressed in this design.
01152-03	APPEARS THE MAP AG MIGHT BE CONTINUING WITH 200% BUDGETING WHEN THEY ARE NOW UNDER THE 100%.	Need to ensure that MA-P budgeting is working properly.
01262-06	A NEW 12 MONTH SPAN OF ELIGIBILITY IS BEING CRETED IN ERROR. THE ORIGINAL 12 MONTH SPAN WAS THROUGH 8/31/01. HOWEVER, WHEN THEY REAPPLIED 06/01 - A BRAND NEW 12 MONTH SPAN IS CREATED.	No longer an issue since 12 month span of eligibility is no longer relevant. Will not be addressed in this design.
02007-05	CHILDREN WHO ARE ADOPTED AND RECEIVE STATE ADOPTION SUBSIDY SHOULD NOT HAVE THE INCOME OF THE PARENTS DEEMED TOWARD MEDICAID ELIGIBILITY FOR THE CHILD.	EDBC changes need to be made to ensure that children who are adopted and receive special needs state adoption subsidy should not have income of parents deemed to them.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS36-047 DP- Accuracy of CRIS-E Input (Continued)

Corrective Action Plan (Continued)

CSR/Help Desk Number	Description	Status
98356-08	EMPLOYED CHILDREN (WHO HAVE NO CHILDREN OF THEIR OWN) WHO ARE NOT YET 19 AND ATTENDING SCHOOL FULL TIME SHOULD NOT HAVE THEIR INCOME COUNTED IN THE INITIAL ELIGIBILITY DETERMINATION. THE SYSTEM IS CORRECTLY EXCLUDING THE INCOME IN THE RECURRING BENEFIT DETERMINATION.	Need to ensure that MA-P budgeting is properly using children (under 19) income
01058-08	A HOUSEHOD GROUP, WITH DECREASED EARNINGS, SHOULD CONTINUE TO GET MAY BECAUSE THERE IS NO ELIG FOR HEALTHY FAMILIES.	Medicaid Policy believes this is a training issue. Will not be addressed in this design.
01152-05	AN MAY AG IS FAILING FOR 560 (PERIODIC REPORT FORM NOT RETURNED). THE ONLY INCIDENT OF A FORM NOT RETURNED). THE ONLY INCIDENT OF A FORM NOT BEING RETURNED WAS BACK IN 1997. THIS AG HAS BEEN OPEN SINCE THEN AND HAS RETURNED ALL FORMS. SHOULD NOT BE FAILING FOR HISTORICAL INFO.	Ensure that 560 error only occurs in conditions that are stated by policy cite: 5101:1-40-05
02086-07	THE MAY AG IS FAILING FOR CODE 560 (PERIODIC REPORT FORM NOT RETURNED); HOWEVER, THE FORM IS NOT DUE YET.	Ensure that 560 error only occurs in conditions that are stated by policy cite: 5101:1-40-05

Anticipated Completion Date for Corrective Action

Ongoing

Contact Person Responsible for Corrective Action

Michelle Burk, Project Manager and Acting CRIS-E Section Chief, Ohio Department of Job and Family Services, 4200 East Fifth Avenue, Columbus, Ohio 43219, Phone: (614) 466-2303, e-mail: burkm@odjfs.state.oh.us

2003-JFS037-048 DP- Manual Overrides of CRIS-E (Fiats)

Corrective Action Plan

The program area has focused emphasis on functionality prioritization of requests rather than fiats, particularly those that don't have fiats.

Program approach has been that fiats are frustrating to use and counter-productive to the system, but missing or erroneous processing with larger impact (no benefits, wrong benefits, threat of legal action, large numbers affected, etc) are higher in the prioritization.

In June, 2003, the below GSD was created to begin addressing FIATS and data accuracy as well as the Help Desk's FIAT report.

3.0 PROJECT OVERVIEW

Audit Findings identified a high volume of FIATs occurring specifically on Medicaid AG types. Based on this finding, initial analysis was conducted to identify high priority CSRs to make "quick fixes" to the top three FIATed AGs and accomplish a decline in FIAT volumes.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS037-048 DP- Manual Overrides of CRIS-E (Fiats) (Continued)

Corrective Action Plan (Continued)

Based on this initial list, analysis has been conducted to determine which of these CSRs are still relevant AND are not being addressed by the current Delinking and Failure Logic effort (see CCRB10A and 10C) as well as MA-C Budget fixes (CCRB10B). Based on this analysis and meetings held with Ohio Health Plans policy staff to confirm the findings, the status of the initial CSRs identified are as follows:

CSR/Help Desk Number	Description	Status
01088-11	DELINK CSR	CCRB 10A will delink OWF from MA-C. Will not be addressed in this design.
02148-05	<u>EXPLORE MAC WHEN MAM EXISTS</u> MAC AGS ARE BEING AUTOMATICALLY FAILED BY SFU IF THERE IS AN MAM IN THE CASE. THIS IS NOT ALWAYS CORRECT AND MAC SHOULD BE EXPLORED.	EDBC needs to be adjusted to ensure proper budgeting methodology. CCRB10A will ensure that MAC is explored.
02100-03	AG IS OVER INCOME, BUT THE SYSTEM IS PASSING IT INCORRECTLY. AEBAB SHOWS THE AG FAILS AND IS OVER INCOME, BUT THE AG STILL PASSES. (HOUSEHOLD CONTAINS GRANTEE RELATIVE GRANDMOTHER AND GRANDSON. GRANDMOTHER WANTS CASH FOR GRANDCHILD AND WANTS TO EXPLORE MEDICAL FOR BOTH). WE HAVE BEEN TOLD THAT MA C HAS LOGIC TO DO A FINAL CHECK IF THERE IS A PASSING CASH AG, THEN PASS THE MEDICAL AND FEEL THIS MAY BE WHERE THE PROBLEM EXISTS. IF THIS IS WHAT IS CAUSING THE PROBLEM.	Per policy, appears that Delinking/Failure Logic should correct this issue. Will not be addressed in this design.
02199-01	DELINK CSR	CCRB 10A will delink OWF from MA-C. Will not be addressed in this design.
02206-07	<u>ALLOW DEPENDENT CARE DEDUCTION</u> A MOTHER WITH AN SSI CHILD WANTS MAC ELIG AND SHOULD BE ALLOWED THE DEPENDENT CARE DEDUCTION IN MOM'S MAC. Per Policy: THE DEDUCTION IS ALLOWED IN BOTH AGS (MA-P and MA-C)	EDBC needs to be corrected to address this.
HD 81269	System is not counting sanctioned parent in MA-C need	Will be handled in CCRB10B. Will not be addressed in this design.
76813	IPV individual is failing for MA-C for 522 (IPV)	Will be handled in CCRB10B. Will not be addressed in this design.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS037-048 DP- Manual Overrides of CRIS-E (Fiats) (Continued)

Corrective Action Plan (Continued)

01152-03	APPEARS THE MAP AG MIGHT BE CONTINUING WITH 200% BUDGETING WHEN THEY ARE NOW UNDER THE 100%.	Need to ensure that MA-P budgeting is working properly.
01262-06	A NEW 12 MONTH SPAN OF ELIGIBILITY IS BEING CREATED IN ERROR. THE ORIGINAL 12 MONTH SPAN WAS THROUGH 8/31/01. HOWEVER, WHEN THEY REAPPLIED 06/01 - A BRAND NEW 12 MONTH SPAN IS CREATED.	No longer an issue since 12 month span of eligibility is no longer relevant. Will not be addressed in this design.
02007-05	CHILDREN WHO ARE ADOPTED AND RECEIVE STATE ADOPTION SUBSIDY SHOULD NOT HAVE THE INCOME OF THE PARENTS DEEMED TOWARD MEDICAID ELIGIBILITY FOR THE CHILD.	EDBC changes need to be made to ensure that children who are adopted and receive special needs state adoption subsidy should not have income of parents deemed to them.
98356-08	EMPLOYED CHILDREN (WHO HAVE NO CHILDREN OF THEIR OWN) WHO ARE NOT YET 19 AND ATTENDING SCHOOL FULL TIME SHOULD NOT HAVE THEIR INCOME COUNTED IN THE INITIAL ELIGIBILITY DETERMINATION. THE SYSTEM IS CORRECTLY EXCLUDING THE INCOME IN THE RECURRING BENEFIT DETERMINATION.	Need to ensure that MA-P budgeting is properly using children (under 19) income
01058-08	A HOUSEHOD GROUP, WITH DECREASED EARNINGS, SHOULD CONTINUE TO GET MAY BECAUSE THERE IS NO ELIG FOR HEALTHY FAMILIES.	Medicaid Policy believes this is a training issue. Will not be addressed in this design.
01152-05	AN MAY AG IS FAILING FOR 560 (PERIODIC REPORT FORM NOT RETURNED). THE ONLY INCIDENT OF A FORM NOT RETURNED). THE ONLY INCIDENT OF A FORM NOT BEING RETURNED WAS BACK IN 1997. THIS AG HAS BEEN OPEN SINCE THEN AND HAS RETURNED ALL FORMS. SHOULD NOT BE FAILING FOR HISTORICAL INFO.	Ensure that 560 error only occurs in conditions that are stated by policy cite: 5101:1-40-05
02086-07	THE MAY AG IS FAILING FOR CODE 560 (PERIODIC REPORT FORM NOT RETURNED); HOWEVER, THE FORM IS NOT DUE YET.	Ensure that 560 error only occurs in conditions that are stated by policy cite: 5101:1-40-05

Anticipated Completion Date for Corrective Action

Ongoing

Contact Person Responsible for Corrective Action

Michelle Burk, Project Manager and Acting CRIS-E Section Chief, Ohio Department of Job and Family Services, 4200 East Fifth Avenue, Columbus, Ohio 43219, Phone: (614) 466-2303, e-mail: burkm@odjfs.state.oh.us

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS38-049 DP – CORe Processing

Corrective Action Plan

ODJFS has a contract with Maximus to develop a new WIA sub-system which will be in place July 1, 2004. Additionally, a new WIA unit is being established in March 2004, which will assure all accountability requirements are met.

Anticipated Completion Date for Corrective Action

The new WIA-subset plus the new organization of the county agencies into areas and how they will report to BCTFA will eliminate the shared split. This will be effective for July 1, 2004.

Contact Person Responsible for Corrective Action

Rick Tully, Assistant Deputy Director, Office of Fiscal Services, Ohio Department of Job and Family Services, 30 East Broad Street, 37th Floor, Columbus, Ohio 43215, Phone: (614) 752-9839, e-mail: tullyr@odjfs.state.oh.us

2003-JFS39-050 DP – SETS Program Change for Federal Regulations

Corrective Action Plan

To address the lack of ability of a processes to track federal and state policy regulations through the system development life cycle. As stated in the 2002 audit update, MIS has implemented the following process changes:

- MIS has completed modifications to its documentation tool, Symphony. These changes allow Child Support Policy Section to interpret regulations for system policy requirements and create a PAD, Policy Analysis Document. The PAD is used to drive the creation of system business document, BFR (Business Function Requirements), that are delivered to MIS.
- MIS has completed the implementation of the Bureau of Configuration Management tool, Dimensions. Dimensions provides tracking of requested system changes and enforces the adherence to the steps of the System Development Life Cycle process. Additionally, SETS has modified its Dimensions procedures to track each of the functional requirements specified in the Business Functional Requirements documents and all related system changes to that requirement.
- MIS SETS has modified the Detail System Design (DSD) document and the Technical Design Document (TDD) to include a Traceability Matrix. The matrix maps the business requirements to system design, into system construction and through the systems testing cycle.

Anticipated Completion Date for Corrective Action

The items described above have been implemented.

Modifications to Symphony -- November 2003

Modifications to DSD and TDD -- November 2003

Implementation of Dimensions -- January 2004

Contact Person Responsible for Corrective Action

Sylvan Wilson, Section Chief, SETS Project, Ohio Department of Job and Family Services, 4200 East Fifth Avenue, Columbus, Ohio 43219, Phone: (614) 387-8468, e-mail: wilsos@odjfs.state.oh.us

2003-JFS40-051 TANF – County Monitoring

Corrective Action Plan

Effective October 2004, the Bureau of Program Integrity, Quality Assessment Section will begin a statistically valid statewide quality control review of TANF cash (Ohio Works First [OWF]) cases to determine the accuracy of OWF eligibility. With the results of this review, Office of Family Stability (OFS) staff will determine the areas most

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS40-051 TANF – County Monitoring (Continued)

Corrective Action Plan (Continued)

vulnerable to error and will provide county training and/or technical assistance. In addition, the Bureau of Audit will complete its review of compliance requirements applicable to TANF and will implement appropriate audit procedures in its audits of county departments of job and family services.

Anticipated Completion Date for Corrective Action

The quality control review process will begin October 1, 2004, although a pilot of the process will begin in June 2004. The training/technical assistance provided by OFS staff will commence in SFY 2005 based on the data reported by quality control. The review of compliance requirements by the Bureau of Audit will be completed by June 30, 2004, and appropriate audit procedures will be implemented as to audit fieldwork performed after that date.

Contact Person Responsible for Corrective Action

Kevin Giangola, Assistant Deputy Director, Ohio Department of Job and Family Services, 4300 Kimberly Parkway, Columbus, Ohio 43232, Phone: (614) 644-5739, e-mail: giangk@odjfs.state.oh.us

2003-JFS41-052 Child Support Processing and Reconciliations

Corrective Action Plan

- A. This is still an issue, but will be resolved with the implementation of OSCAR. OSCAR is the database system being designed jointly by OCS' PAAR Bureau and IBM/ Once implemented, we will load all data from the vendor and from SETS and will verify the info with the manual ledgers already completed. Once that is done, the "roll up " from county through master account will be done daily and will be verifiable.
- B. The QRC022 (outstanding check) report is back in production. It was put in monthly production July 2003.
- C. The VSP's are compared to the SETS report QFR018 for accuracy and any discrepancy is researched. This process began in January 2003, with the implementation of the Excel Ledgers at the time of conversion from Bank One to ACS as the CSPC vendor.

Anticipated Completion Date for Corrective Action

- A. 12/31/2004.
- B. Completed 7/2003.
- C. Completed 1/2003.

Contact Person Responsible for Corrective Action

Jerry McKee, Bureau Chief, PAAR, Ohio Department of Job and Family Service, 88 North Plains Road, The Plains, Ohio 45780, Phone: (740) 797-7913, e-mail: mckeej02@odjfs.state.oh.us

2003-JFS42-053 SSBG – Incomplete Monitoring

Corrective Action Plan

The ODJFS Bureau of Audit, as the internal audit unit of the department, performs audits of county agencies on a cyclical basis. These audits include tests of federal compliance requirements for the Social Service Block Grant program. The Bureau of Audit periodically reviews the scope of its audit activity in county agencies and will consider whether revision of the audit programs is necessary to address this matter. The Office for Children and Families will consult with Bureau of Audit regarding the audit scope to determine whether additional audit procedures are warranted.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS42-053 SSBG – Incomplete Monitoring (Continued)

Anticipated Completion Date for Corrective Action

OCF will consult with the Bureau of Audit regarding the audit scope by August 31, 2004.

Contact Person Responsible for Corrective Action

Jessie M. Tower, Chief, Bureau of Accountability and Regulation, OCF, Ohio Department of Job and Family Services, 255 East Main Street, 3rd Floor, Columbus, Ohio 43215, Phone: (614) 466-1213, e-mail: towerj@odjfs.state.oh.us

2003-JFS43-054 UI – Warrant Controls/Security

Corrective Action Plan

Comment: There were no key entry locks or other security measures for the area where the warrants were kept until they were picked up for delivery to the post office.

Response: The warrant stock is kept in the computer room within a separate room requiring a key to gain entry. Only the shift supervisors and manager have keys to this room. Once the warrants are printed they remain in the computer room, which requires a key card entry, until they are retrieved by the mailroom personnel for insertion. Once the mailroom personnel sign for and remove the warrants from the computer room, MIS Operations has passed the responsibility of securing them to the mailroom personnel. The warrants while in the mailroom are not in a locked environment, but the warrants are never left unattended. A state employee is always present to watch over the warrants until they leave the premises.

Comment: Batch Reports used to compare the number of processed warrants to the number of sorted and stuffed envelopes are maintained for only six months, and then destroyed. Therefore, we were unable to determine if this control was in place throughout the entire audit period.

Response: The Batch Reports referred to in the finding are reports MIS Operations provides to the mailroom in order for them to validate the number of warrants printed and received to the number of warrants stuffed. The original copies of the reports are maintained by the Control Room in Operations and are available for audit review. The policy in the past being followed for retention of these same reports has been to keep them on file for two fiscal years.

Corrective Action: The Mailroom and MIS Operations will now follow the recommendation of the auditors to keep these records on file for three years. The Mailroom will emphasize its procedures with its personnel to insure compliance.

Comment: The warrant control log was not being filled out by the operator's consistently. At times the explanation for exceptions to the warrant processing was not detailed enough for audit review.

Response and Corrective Action: The warrant control log has been reviewed and redesigned to provide more detailed information for tracking purposes. The shift supervisors are tasked with reviewing and signing off on the log on a daily basis. An additional step of having day shift supervision reviewing the log is being added to the warrant log procedures.

Comment: For warrant date 4/1/03, the Warrant Logging Sheet indicated document numbers 173850000 through 173850000 "do not exist". No explanation was provided regarding the disposition of the 500 blank warrants.

Response: Warrants are ordered in large quantities and from different vendors. The indicated warrants were the first of a new batch of warrants. Each time the computer operation receives a new order of warrants, the operator

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS43-054 UI – Warrant Controls/Security (Continued)

Corrective Action Plan (Continued)

runs a test of 500 warrants that are processed thru the mail room and quality checked by the Auditor. These 500 warrants were verified by the forms facilitator in BPS that they were in fact used for that test.

Corrective Action: In regards to warrant numbers used for sample testing, for all future tests, MIS Operations will make a copy of the associated checklist, and place it in the front of the binder, where the warrant logging sheets are kept. This will make it easily accessible for the operator printing warrants to check in the event that they come across a gap in the numbering sequence. The checklist includes the dates of the test as well as the warrant stock numbers used. In addition to this, operations will start a blank logging sheet with the sample test warrant numbers being the first numbers logged in. This sheet would continue to be passed forward until they actually reached those numbers in the sequencing several months later. This sheet will be of a different color so it stands out and doesn't get easily lost within the rest of the logging sheets.

Comment: For seven of 15 warrant processing days selected, the warrants were not processed in sequence.

Response: The reason the warrants were not always processed in sequence is because MIS Operations maximized the ability of multiple printers to complete the warrant printing on a timely basis. The warrants are divided and sent to two separate printers. An estimate is done as to how much warrant stock is needed to split the workload. We always over estimate to account for waste and jams. The sequencing on the numbers in the log book always appeared out of order, however, all stock is used and accounted for appropriately.

Corrective Action: Timely printing and processing of warrants is a leading concern of all parties and the use of two printers is mandatory during these periods of high workload. To provide adequate safeguards when we use multiple printers, we will log the warrant stock and their use to ensure that no warrants are missing. This will provide reasonable assurance when using multiple printers that result in daily out of sequence situations, which we are accounting for all warrant stock so that nothing slips through the process. We are open to discuss other necessary safeguards for using multiple printers.

Anticipated Completion Date for Corrective Action

March 31, 2004

Contact Person Responsible for Corrective Action

Joe Duda, Assistant Deputy Director, UC Benefits, Ohio Department of Job and Family Services, 145 South Front Street, 5th Floor, Columbus, Ohio 43215, Phone: (614) 752-4699, e-mail: dudaj@odjfs.state.oh.us

2003-JFS44-055 Voucher Summary Weakness/Coding Errors

Corrective Action Plan

Due to the findings from FY02 & FY03, we have revisited our internal controls and have come up with changes in our process. We feel that these changes will ensure that these findings will not occur in FY04.

- a) The Summary Checklist has now been included on the last page of the voucher summary worksheet. This change will ensure that the checklist does not become detached from the voucher.
- b) Initialing of the Voucher - in the finding, one voucher was not signed. When the voucher goes to the file room, there will be an additional check by the Account Clerk. If the voucher has not been initialed, it will be returned to the supervisor to correct the problem. This will ensure that all vouchers have been properly initialed.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS44-055 Voucher Summary Weakness/Coding Errors (Continued)

Corrective Action Plan (Continued)

- c) Certification Stamp - this stamp was found to contain the same language as that of the OBM State of Ohio Voucher which was considered redundant. Instead of using this stamp, the supervisor's initial on the OBM statement will certify that the contents of the voucher is correct, legal and in accordance with appropriations made by law.

Anticipated Completion Date for Corrective Action

Corrective Action will be completed as of March 22, 2004.

Contact Person Responsible for Corrective Action

Yvonne Gore, Section Chief, Bureau of Accounting, Office of Fiscal Services, Ohio Department of Job and Family Services, 30 East Broad Street, 38th Floor, Columbus, Ohio 43215, Phone: (614) 466-1646, e-mail: gorey@odjfs.state.oh.us

2003-JFS45-056 Contracts/Relationships with County Agencies

Corrective Action Plan

ODJFS has entered into 2004-2005 Fiscal Agreements with all eighty-eight counties. These Agreements require compliance with all applicable state laws and rules, federal laws and regulations, and require that the county monitor all entities to which it sub grants federal funds received from ODJFS.

ODJFS continues to evaluate its relationships with county agencies to in order to determine any additional actions which may be necessary relative to this audit finding.

Anticipated Completion Date for Corrective Action

The Fiscal Agreements are in place. The evaluation of any additional actions necessary is ongoing.

Contact Person Responsible for Corrective Action

Rick Tully, Assistant Deputy Director, Office of Fiscal Services, Ohio Department of Job and Family Services, 30 East Broad Street, 37th Floor, Columbus, Ohio 43215, Phone: (614) 752-9839, e-mail: tullyr@odjfs.state.oh.us

2003-JFS46-057 Various Programs – Coding Errors

Corrective Action Plan

We agree with the noted coding inconsistencies. We do not believe, however, that these exceptions resulted in inaccurate federal reporting or funding.

During SFY 03, the agency made extensive changes to the how the chart of accounts is managed. A new database, consistent with the CAS coding edit table and the chart of accounts, was activated. In addition, a new authorization process was instituted whenever coding updates were requested.

The Office of Fiscal Services has also organized a group of senior managers into a Coding workgroup. This group has been meeting routinely during the latter part of SFY03. One goal is to reduce the inconsistency in the application and use of coding.

We believe these initiatives will reduce coding errors and application inconsistency in the future.

Anticipated Completion Date for Corrective Action

April 1, 2004

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS46-057 Various Programs – Coding Errors (Continued)

Contact Persons Responsible for Corrective Action

Steve Budinot, Chief, Bureau of Accounting, Ohio Department of Job and Family Services, 30 East Broad Street, 38th Floor, Columbus, Ohio 43215, Phone: (614) 466-4303, e-mail: boudis@odjfs.state.oh.us

Lou Ann Shy, Acting Chief, Bureau of Cost Allocation and Financial Reporting, Office of Fiscal Services, Ohio Department of Job and Family Services, 30 East Broad Street, 38th Floor, Columbus, Ohio 43215, Phone: (614) 387-0315, e-mail: shylo@odjfs.state.oh.us

2003-JFS47-058 TANF Data Report

Corrective Action Plan

Based on data provided by the audit team, MIS staff reviewed the cases to confirm the audit team's results. The results are as follows:

Child Level Data

Date of birth was confirmed viewing the CRIS-E screen IQCM

Child Relationship to Head of Household was confirmed by first viewing IQCP, if AG was closed, the relationship information did not appear on AEIHH because the data is archived. At this point, reviewing the CRIS-E 02 database is necessary to confirm the relationship. MIS was able to confirm the relationship.

Number of Children in AG requires additional information from the audit team to determine whether they were viewing the AG level or the Case level.

Social Security number verification requires additional analysis.

Individual Level Data

Social Security number verification requires additional analysis

Adult Relationship to Head of Household was confirmed by first viewing IQCP, if AG was closed, the relationship information did not appear on AEIHH because the data is archived. At this point, reviewing the CRIS-E 02 database is necessary to confirm the relationship. MIS was able to confirm the relationship.

Assistance Group Level Data

Subsidized child care requires additional information from the audit team.

Anticipated Completion Date for Corrective Action

Once additional information is received from the audit team, additional research and analysis will begin.

Contact Person Responsible for Corrective Action

Galen Bock, Deputy Director, Management and Information Services, Ohio Department of Job and Family Services, 4200 East Fifth Avenue, Columbus, Ohio 43219, Phone: (614) 466-2303, e-mail: bockg@odjfs.state.oh.us

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS48-059 Medicaid/SCHIP – Third Party Liabilities

Corrective Action Plan

(A) The section is involved in a project with MMIS to automate the 6612 processing function. Control of entering the documents will become the responsibility of the document originators. The automated function should eliminate 75-90% of the incoming mail. The remaining mail can be handled within 1-3 days of arrival.

(B) The section corrected this error and changes in computer programming were run in an extended test mode and put into production. The Cost Avoidance supervisor will not document computer errors in the production log.

(C) This error occurred because staff were on extended leave. When staff are absent for extended sick leave or disability, the supervisor will assign another staff member to perform a quality check of documents processed.

(D) The Cost Avoidance Unit will continue to reference previous document control numbers for records that have been updated or changed. During this audit period, ODJFS did not get the correct documents from storage. In the future, the Cost Avoidance Unit will retrieve the documentation from storage.

Anticipated Completion Date for Corrective Action

- (A) The end of 2004.
- (B) Completed.
- (C) Immediate.
- (D) Immediate.

Contact Person Responsible for Corrective Action

Patricia A. Dunn, Third Party Liability Contract and CAU Manager, Ohio Department of Job and Family Services, 255 East Main Street, Columbus, Ohio 43215, Phone: (614) 752-5768, e-mail: dunnp@odjfs.state.oh.us

2003-JFS49-060 Medicaid/SCHIP – Duplicate Physicians and Osteopaths Payments

Corrective Action Plan

The Department respectfully disagrees with the findings of the Auditor of State that this is a material weakness. The Single State Audit conducted by the Auditor of State (AOS) for activities undertaken by the Department in State Fiscal Year 2001 identified, as an audit finding, duplicate payments in the amount of **\$705,075 for physicians and \$26,054 for osteopaths** in the Medicaid cluster. In a meeting held on January 15, 2003, with representatives of ODJFS, AOS and auditors for the Centers for Medicare & Medicaid Services (CMS), questions were raised regarding these findings. It was (and is) the contention of ODJFS that the overwhelming majority of the identified payments are for legitimate, separate services delivered on the same date of service. After much discussion, it was agreed that SURS would undertake an exploratory self-review of the ten largest Medicaid providers with alleged duplicate payments to determine the extent to which the payments in question were actual duplicates or where simply separate services with the same service date. All parties agreed to this approach as a compromise to settle the audit finding.

Initial contact letters and claims information were sent to the following ten providers on April 11, 2003, with a request to return their self-audit information within 45 days of receipt of the letter:

Child Research Cleveland	(#0813178)
Childrens Hospital/Hematology	(#0612000)
Childrens Research	(#0557375)
Christ Hospital Education & Clinical Research Fund	(#0924889)
Cleveland Clinic Foundation	(#1563428)
CMC Pediatric Specialists	(#0324474)
Healthridge Medical Center	(#0221218)

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS49-060 Medicaid/SCHIP – Duplicate Physicians and Osteopaths Payments (Continued)

Corrective Action Plan (Continued)

Justin Lavin, Jr. MD	(#0183064)
Pediatric Academic Associates	(#0476131)
University Physicians	(#0583337)

These ten providers represent paid claims of **\$142,205.57** or **19.45%** of the questioned costs. The following are the results to date:

- Responses from four of the ten providers were received during the initial contact period. Providers #0924889 and #0476131 identified duplicate payments in the amounts of \$1,394.36 and \$1,108.70 respectively, for a total of **\$2,503.06** in unadjusted duplicate payments. Repayment was made to ODJFS on 7/11/03 and 7/16/03 respectively.
- Providers #0221218 and #0183064 provided documentation showing that all alleged duplicate payments identified during the study period had been previously adjusted, thus there was no dollar finding.
- Provider #0583337 provided documentation on 10/17/03 showing that no duplicate payments were made during the period in question.
- Provider #0557375 determined that it was not economically feasible to research these payments to determine whether or not duplicate payments had been made and thus simply returned payments for Year 2000 (\$869.33) and Year 1999 (\$9,253.81) on 12/04/03.

SURS is still working with the remaining four providers, #0813178, #0612000, #1563428 and #0324474 for full resolution of this review. To date, a total of **\$12,626.20** has been self-identified by these providers as duplicate payments and returned to the Department. This represents a duplicate payment rate in the study sample of **8.88%**. However, it is the Department's contention that the payments received by provider #0557375 should be removed from consideration since they failed to prove or disapprove they were duplicate payments. This would change the identified duplicate payment total and rates in the study sample to **\$2,503.06, and 1.76%** respectively, which the Department contends is satisfactory to show that the duplicate payment edits currently in place are of sufficient veracity to prevent these kinds of overpayments.

Anticipated Completion Date for Corrective Action

It is the contention of the Department that no further corrective action is needed other than to periodically check and evaluate the veracity of existing duplicate payment edits in the MMIS.

Contact Person Responsible for Corrective Action

Jeffrey Corzine, Chief, Surveillance and Utilization Review Section, Ohio Department of Job and Family Services, 255 East Main Street, 1st Floor, Columbus, Ohio 43215, Phone: (614) 466-7936, e-mail: corzij@odjfs.state.oh.us

2003-JFS50-061 Adoption Assistance – Voucher Summary Support Detail

Corrective Action Plan

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

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS50-061 Adoption Assistance – Voucher Summary Support Detail (Continued)

Corrective Action Plan (Continued)

Management and Information Services:

(A) At this point in time, there is no corrective action required. Since there is at least an “indirect link” between the numbers, we are able to trace transactions between the two systems. The “trial and error” approach indicated in the audit finding will indeed produce a unique match.

In regards to the scope of this issue, the population that this “old style” number affects diminishes each year as children “age-out” of the system. For the month of February 2003, there are approximately 79 out of a total population of 12,126 children that used the old-style number (down from 101 last year, a decrease of 22%). This gives us a low exposure of this risk (being only 0.0065% of the population) and represents \$31,378.55 in payments. This sub-population will decrease by almost half within the next two years.

As for the validity of this test, if the sample of 30 is indeed a statistically valid sample, and “no inappropriate payments were identified”, then it should be able to be inferred that all payments were appropriate throughout the program. This should be true especially since this test has been done numerous consecutive years without finding a single inappropriate payment.

Finally, with an “indirect link”, such a small scope, and a valid sample indicating that there aren’t any inappropriate payments, the amount of work to make the necessary changes to both CRIS BI and FACSIS would be greater than the risk exposure that we have.

(B) From reviewing the finding regarding the FACSIS voucher summary support detail, the only suggestion that could impact the CRIS BI system would be the one that suggests some sort of a cross-reference between some of the CASE numbers that are truncated when passed from FACSIS to CRIS. Since this number would only be useful to FACSIS, we would expect any cross reference to this type to be maintained on the FACSIS system and not on the CRIS benefit issuance system.

Anticipated Completion Date for Corrective Action

Office for Children and Families: OCF will conduct its review by August 31, 2004.

Management and Information Services:

(A) There will be no corrective action taken.

(B) None provided.

Contact Persons Responsible for Corrective Action

Jessie M. Tower, Chief, Bureau of Accountability and Regulation, Ohio Department of Job and Family Services, 255 East Main Street, 3rd Floor, Columbus, Ohio 43215, Phone: (614) 466-1213, e-mail: towerj@odjfs.state.oh.us

Galen Bock, Deputy Director, Management and Information Services, Ohio Department of Job and Family Services, 4200 East Fifth Avenue, Columbus, Ohio 43219, Phone: (614) 466-2303, e-mail: bockg@odjfs.state.oh.us

Michelle Burk, Project Manager and Acting CRIS-E Section Chief, Ohio Department of Job and Family Services, 4200 East Fifth Avenue, Columbus, Ohio 43219, Phone: (614) 466-2303, e-mail: burkm@odjfs.state.oh.us

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS51-062 WIA – Structure of the Program

Corrective Action Plan

The State is currently being restructured to comply with the intent of the Act. The new configuration will consist of 20 LWIAs, with Area #7 comprising 47 counties. ODJFS has taken steps to remove itself as fiscal agent for Area #7. As of July 1, 2004, it is planned that Montgomery County will serve as fiscal agent for Area #7 activities, and the Area #7 LWIB will be responsible and accountable to set and enforce policies within Area #7.

Anticipated Completion Date for Corrective Action

It is anticipated that the corrective action for this finding will be completed by July 1, 2004.

Contact Person Responsible for Corrective Action

Steve Clayborn, Grants and Audits Section Chief, Ohio Department of Job and Family Services ,145 South Front Street, 6th Floor, Columbus, Ohio 43215, Phone: (614) 644-8826, e-mail: claybs@odjfs.state.oh.us

2003-JFS52-063 Missing Documentation – Various Counties

Corrective Action Plan

Cuyahoga County:

- (A) The “Imaging” system (used for filing of case record data) is being upgraded to allow direct filing of case record data by the worker responsible for collection and maintenance of case record data. This will result in reduced misfiled or lost case records and case record data.
- (B) Same as for (A) above.
- (C) Same as for (A) and (B) above.

Defiance County:

Our organizations policy is to always attempt an adoption prior to offering subsidy. We will ensure that all future records have documentation and will have all current adoption records meet the documentation requirement.

Franklin County:

We currently use a scanner to track cases into and out of each Center. Sometimes the scanner does not work properly and cases are transferred without being scanned. We are evaluating whether or not additional scanners will resolve the problem, and if so, a proposal will be put forth to request additional scanners.

Our agency mailroom also utilizes a tracking log to monitor and document cases moved.

We are working on an IT-related solution with case record imaging. It was put into our 2004 budget request to the commissioners, and we are moving forward later in the year with initiating a plan.

Fulton County:

- (A) New procedures have been put into place regarding PRC applications and determinations. One worker is primarily responsible for these which will allow for more consistent determination and record keeping practices. These cases will also be included for supervisor monitoring.
- (B) New procedures are in place regarding cases transferred to other counties, we are now keeping the case files except for the most current application and verifications. This will allow our county to keep previous documents which may be needed for audit purposes. Our team has also moved along with our files which are now centrally located instead of being kept in several areas in the building. This allows better monitoring of our files. Cases are randomly pulled by the supervisor for monitoring.

Hamilton County:

- (A) HCJFS issued an Operational Issue on March 12, 2004 to all HCJFS staff involved in sanction processing. The memo references the recent audit finding and reiterates the importance of retaining documents (HCJFS 0410-A and 0410-B) in the chain of evidence to support the appropriateness of sanction actions.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS52-063 Missing Documentation – Various Counties (Continued)

Corrective Action Plan (Continued)

HCJFS reissued (in draft) Administrative letter WAAL # 4 reflecting recent process responsibility changes and the automation of the sanction review. New automation allows for the electronic transmission and retention of the HCJFS 0410-B and directs the use of HCJFS 0410-B as the means by which all sanction actions will be communicated to eligibility workers.

- (B) The agency continues to follow current policies and procedures relative to maintaining accurate and complete records of SCHIP applications submitted and either approved or denied by the agency. We are maintaining and improving upon the current filing system in order to assure accurate record retention. In addition, our internal quality assurance unit regularly pulls files for review which tests our system.

Lucas County:

- (A) As noted in other citations in this audit, the recent re-organization within Casework Services has resulted in some weaknesses in case management. The issue of signature of the SSC/P will be addressed within the context of comprehensive training on work activities case management procedures. As stated in other responses in this audit, the expanded QA review process will assist with improvements in work activities case management.

- (B) As noted in audit narrative, extensive re-organization and changes in staff patterns resulted in case work errors. LCJFS recognizes the critical nature of correct case file maintenance. Casework Units will stabilize in May 2004. Once that occurs all case managers will receive comprehensive training on management of OWF cases, including assessing, assigning and follow through procedures as well as proper documentation of those procedures in case file.

In additions, QA review of OWF work activities cases will commence in SFY'05 with each case manager having 50 cases reviewed annually. Required case file documents for Work Activities cases will be included in the QA review.

- (C) LCJFS is in the process of analyzing the Investigations and Collections staffing and processes. An extensive flow chart of unit functions and activities has been completed and an action plan is in development. The Unit has new leadership and the Unit Supervisor is actively engaged in the re-design of unit procedures and work flow. Current procedures result in an excessive amount of moving the case from one worker to another within the unit. This could contribute to lost/misplaced case documents. Re-design of unit procedures will reduce the "bounce" of cases from worker to work and will address the integrity of case file maintenance.

Washington County:

We have indicated to our confidential secretary and she has agreed to keep the individual tally sheets that were submitted to her by the workers and which she adds and puts onto the ODHS 4282.

Anticipated Completion Date for Corrective Action

Cuyahoga County:

- (A) Implementation of the new version of the "Imaging" system is anticipated to be completed in the third quarter of the 2004 calendar year. It is further anticipated that workers will begin using the new system in the fourth quarter of the 2004 calendar year.
- (B) Same as (A) above.
- (C) Same as (A) and (B) above.

Defiance County:

Adoption Assistance review of case records to be completed by April 30, 2004.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS52-063 Missing Documentation – Various Counties (Continued)

Anticipated Completion Date for Corrective Action

Franklin County:

The completion date for corrective action is dependent upon the results of the evaluation of the current scanners. Any scanner upgrades or additional scanners needed will be purchased, but not until we have completed our review of the feasibility of implementing a full case imaging solution. This will occur late in 2004. We have funds reserved in our 2004 budget to purchase the necessary equipment. If our feasibility analysis shows we need to delay conversion to case-imaging, we will purchase the necessary scanning equipment needed to just rack the movement of cases.

Fulton County:

(A) Corrective action has been implemented

(B) April 1, 2004

Hamilton County:

(A) Final issuance of WAAL #4 should be not later than March 31, 2004.

(B) This is ongoing corrective action plan, which is in place as of March 1, 2004.

Lucas County:

(A) Training – June 2004; QA Review – Implemented January 2005.

(B) Same as (A) above.

(C) Re-design of unit procedures – April through June 2004; Implementation of new procedures – July 2004.

Washington County:

We did it immediately while audit team was here.

Contact Persons Responsible for Corrective Action

Michelle Latimore, Participant Services Manager, Cuyahoga County, Ohio Department of Job and Family Services, 1641 Payne Avenue, Cleveland, Ohio 44114, Phone: (216) 987-8460 , e-mail: latimm@odjfs.state.oh.us

Jacquelon Ward, Participant Services Manager, Cuyahoga County, Ohio Department of Job and Family Services, 1641 Payne Avenue, Cleveland, Ohio 44114, Phone: (216) 987-6387 , e-mail: wardj01@odjfs.state.oh.us

Dennis M. McKay, Director, Defiance County, Ohio Department of Job and Family Services, 6879 Evansport Road, Suite A, P.O. Box 639, Defiance, Ohio 43512, Phone: (419) 782-3881, e-mail: mckayd01@odjfs.state.oh.us

Thomas Scheid, Assistant Director, Franklin County, Ohio Department of Job and Family Services, 80 East Fulton Street, Columbus, Ohio 43215, Phone: (614) 462-5813, e-mail: toms@fcdhs.co.franklin.oh.us

Linda Arthur, Eligibility Referral Supervisor, Fulton County, Ohio Department of Job and Family Services, 604 South Shoop Avenue, Wauseon, Ohio 43567, Phone: (419) 337-0010, e-mail: arthul@odjfs.state.oh.us

Amy Story, Program Quality Assurance, Hamilton County, Ohio Department of Job and Family Services, 222 East Central Parkway, Cincinnati, Ohio 45202, Phone: (513) 946-1474, e-mail: storya01@jfs.hamilton-co.org

Charles H. Woode, Section Chief, Health Services, Hamilton County, Ohio Department of Job and Family Services, 184 East McMillan, Cincinnati, Ohio 45219, Phone: (513) 946-7611, e-mail: woodec@jfs.hamilton-co.org

Carol Rehm, Deputy Director, Lucas County, Ohio Department of Job and Family Services, P. O. Box 1007, Toledo, Ohio 43699, Phone: (419) 213-8300, e-mail: rehme@odjfs.state.oh.us

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS52-063 Missing Documentation – Various Counties (Continued)

Contact Persons Responsible for Corrective Action (Continued)

Michael Paxton, Director, Washington County, Ohio Department of Job and Family Services, 1115 Gilman Avenue, Marietta, Ohio 45750, Phone: (740) 373-5513, e-mail: paxtonm@odjfs.state.oh.us

2003-JFS53-064 Late County Reports – Various Counties

Corrective Action Plan

Defiance County:

We will ensure that the 1925 is completed, reviewed by fiscal supervisor and submitted timely to ODJFS. The 4282 Report was previously completed by the Assistant Director; those job duties will be reassigned to the Social Worker 1, who will also be responsible for the monitoring of social service contracts. The 4282 will be reviewed by their supervisor and will have supporting documentation.

Lucas County:

LCCS management fully understands that delays in submitting the ODJFS 1925 after the cut-off date may result in a delay in reimbursement. The ODJFS 1925 is used to claim Title IV-E Foster Care Maintenance reimbursement for care provided by Purchased Family Foster Care providers and Residential Child Care providers. The majority of the Title IV-E Foster Care Maintenance reimbursement received by LCCS is not claimed via the ODJFS 1925 process. As a result, a majority of the Title IV-E Foster Care Maintenance received by LCCS is received on a timely basis. We continue to question the materiality of a finding that does not result in the loss of revenue but may result in a delay in the receipt of revenue.

Although LCCS recognizes the cut-off date and works to submit the ODJFS 1925 on a timely basis, it is more important, in our opinion, to submit information that is both accurate and complete. We feel that the cut-off date of the 10th working day of the month following the month for which payment was requested is unrealistic as far as ensuring that accurate and complete information is submitted on the ODJFS 1925. Information included on the ODJFS 1925 is derived from payments made by LCCS to Purchased Family Foster Care providers and Residential Child Care providers. The information submitted on the ODJFS 1925 also includes Lucas County Juvenile Court Title IV-E cases. To help ensure that accurate information is being received from providers, invoices are not received by LCCS from providers until the 5th of the month following the month for which payment is being requested. The information is reviewed by LCCS accounting personnel for accuracy and completeness before payments to the providers can be processed.

That payment information along with information from the Lucas County Juvenile Court is entered into the ODJFS 1925 by the LCCS Entitlements Supervisor via an Excel application. Use of the Excel application has helped LCCS come closer to meeting the deadline. LCCS Information Services continues to work on a process to generate a preliminary ODJFS 1925 from the provider payment information which would eliminate the need to enter information into the Excel application. Upon receipt of the preliminary ODJFS 1925, the LCCS Entitlements Supervisor would review and make any necessary adjustments. Although this would not guarantee that the cut-off be met, it would eliminate much of the data entry that is now necessary to ensure a complete and accurate ODJFS 1925.

Putnam County:

The worker responsible for the submission of the ODHS 1925 believed that it was not due until the 20th of the month. The report calendar has been corrected to reflect the correct due date. Also, the 1925 Cut-off calendar issued by the State is attached to the report folder.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS53-064 Late County Reports – Various Counties (Continued)

Corrective Action Plan (Continued)

Washington County:

The ODJFS 1925 Reports will be submitted every month by the cutoff dates as listed on the published letter/table established by the Office for Children and Families (OCF). Monthly review of the fiscal report files will be conducted to assure compliance with the federal rule 5101:2-47-11(K). This rule provides the following guidance:

Each Title IV-E agency which registers Title IV-E cases on the family and children services information system (FACSIS), receives a computer-generated ODHS 1925 JFS 01925, "Monthly FCM Facility Invoice" that lists active Title IV-E cases, registered on the Family and Children Services Information System (FACSIS). The ODHS 1925 JFS 01925 will be mailed to each Title IV-E agency approximately five working days prior to the end of the month proceeding the month when the FCM cost was incurred to the Title IV-E agency which entered the information into FACSIS. The Title IV-E agency must provide placement and payment information on each child listed, add or delete cases as appropriate, and return the invoice to ODHS/ODJFS no later than ten working days after the eligibility month. If an ODHS 1925 a JFS 09125 is received after the cut-off date for a particular month, it will be processed during the next payment cycle.

Our contact at OCF is Ryan Meanor, and he may be reached at (614)727-7015 for any further assistance

Anticipated Completion Date for Corrective Action

Defiance County:

Timely submission of 1925 reports will be immediately corrected.

Lucas County:

June 30, 2004

Putnam County:

The report calendars were updated August 1, 2003

Washington County:

This Corrective Action Plan has already been implemented, effective January 1, 2004.

Contact Persons Responsible for Corrective Action

Dennis M. McKay, Director, Defiance County, Ohio Department of Job and Family Services, 6879 Evansport Road, Suite A, P.O. Box 639, Defiance, Ohio 43512, Phone: (419) 782-3881, e-mail: mckayd01@odjfs.state.oh.us

David Sigler, Associate Director, Administrative Services, Lucas County, Ohio Department of Job and Family Services, 705 Adams Street, Toledo, Ohio 43624, Phone: (419) 213-3252, e-mail: dsigler@co.lucas.oh.us

Holly Huber, Assistance JFS Administrator, Putnam County, Ohio Department of Job and Family Services 1225 East Third Street, Ottawa, Ohio 45875, Phone: (419) 523-4580, e-mail: huberh@odjfs.state.oh.us

Heather Barnett, Fiscal officer, Washington County, Ohio Department of Job and Family Services, 204 Davis Avenue, Marietta, Ohio 45750, Phone: (740) 373-3485, e-mail: barneh04@odjfs.state.oh.us

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS54-065 Report Processing, Reviews, Inaccuracies – Various Counties

Corrective Action Plan

Cuyahoga County:

- (A) The "Imaging" system (used for filing of case record data) is being upgraded to allow direct filing of case record data by the worker responsible for collection and maintenance of case record data. This will result in reduced misfiled or lost case records and case record data.
- (B) Team Leaders have already begun reviewing a random sample of their staff's cases as applications are received and recorded in the HealthCare Resources Department. Reviews are conducted as case dispositions are determined.

Defiance County:

- (A) The time sheets have been redesigned to include an approval line for the supervisor. In addition, the request for leave form had already been changed to include a supervisor approval line.
- (B) The 4281 information is gathered monthly and reviewed by the fiscal supervisor and 4282 will be reviewed by the fiscal supervisor. Documentation to support information on the 4282 will be put in place.

Franklin County:

Reconciliation is completed daily and is performed at each Opportunity Center by the customer support supervisor and the vault custodian, who is generally the Executive Assistant. The Center Directors will communicate to the staff responsible for these duties the necessity of having two signatures on the reconciliation sheet. Currently, the Center Directors periodically examine reconciliation sheets to ensure the required signatures are present to ensure this control procedure is consistently implemented. In some instances, Center Directors provide their signature as the second signature on the report; this serves as a monitoring tool as well.

Fulton County:

- (A) Since the previous audit, the Affidavit for Replacement Ohio Direction Cards and the ACO/FCO Authorization Form have been combined to eliminate duplication of information and paperwork. The client signs and receives a copy of the Affidavit.

The client identification and FCJFS identification is now part of the process when filling out the affidavit. If a client does not have proper identification with them, they are asked several identifying informational questions that they gave during their initial interview. This would include; date of birth, Mother's maiden name, oldest child's name and their personal eye color. If these questions are answered correctly, we can be sure we have the correct client for the case mentioned.

- (B) In many cases the old card number that is being replaced is unknown. The CMS system has been converted to a Windows based system. This new system does not require a call to tech support for authorization or input of the lost card number. If a direction card is issued as a replacement card, then the client's previous card is automatically deactivated by the system.

Training will be held with all food stamp issuance personnel to communicate all changes made and that everyone is completing all corresponding paperwork and proper client identification as required.

- (C) New procedure has been put into place to include the work activity folders to be reviewed quarterly along with case monitoring. Jobs worker has been advised of the importance of making sure the SSC is signed by both the customer and herself.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS54-065 Report Processing, Reviews, Inaccuracies – Various Counties (Continued)

Corrective Action Plan (Continued)

Hamilton County:

- (A) Communicate/reiterate orally and in writing to all staff the requirement that an authorized person sign or initial the daily timesheets, and that each work unit must retain a signed/approved request for leave time on file to document each employee absence. Daily timesheets without the required signature/initials will be set aside for processing until this information has been noted on the timesheets. Timekeepers/Team Leaders will be required to verify that an approved request is on file prior to recording the absence on the timesheet or follow up with the employee to obtain the required document. Notify Section Chiefs and/or Assistant Directors about recurring oversights and/or "repeat offenders" in their Sections for the purpose of follow up and closer monitoring as indicated.
- (B) As of February 2003, all reports were signed by Lora Jollis, Assistant Director, Children's Services. As of July 2003, these reports were required to be filed electronically, and no signature was possible. We are requesting clarification as to whether ODJFS will accept an electronic signature.
- (C) A memo will be issued to remind supervisors to review the intake/referral form both at the assignment level and when the case is closed that form is signed off on by Intake or Social Worker. Policy has been adopted prior to this that records are reviewed for completeness and that includes SSBG paperwork. This error was generated from a designated contract agency and that contract expired at the end of 2003.

Lucas County:

- (A) LCJFS staff has been provided with both written and face to face training on processing of PRC applications. This error was due to employee oversight rather than a systemic problem with the PRC process. LCJFS Help Desk will issue a reminder regarding procedure for processing PRC applications. Additionally, PRC applications will be included in the expanded SFY'05 QA process.
- (B) QA review will be conducted for all LCJFS cases, including OWF/TANF and Medicaid. Each worker will have 50 cases reviewed annually and all required case documents and verifications will be integral to the review. Correct maintenance of case files will be included in employee performance evaluation.

LCJFS will also implement a case file imaging project in SFY'05. The imaging process requires a comprehensive listing of all documents to be included in case files. That listing will be distributed to staff as a reminder of case file requirements.

- (C) A memo was issued to Data Services staff on September 17, 2003, that addressed documentation of sanctions. Staff were directed to document receipt of sanctions from CSEA on CLRC and to do so within a 5 day window or receipt. A similar communication was issued to Eligibility Specialists regarding the premature release of sanctions. The LCJFS Help Desk will send a reminder to all Casework Services Eligibility Workers regarding the proper procedures for handling and documentation of CSEA sanctions. LCJFS will review internal procedures as well as interface with CSEA and make improvements in system as required.
- (D) Management will review the requirements for preparing the ODHS 4282 report completely, accurately and timely with the staff. Management will also review and approve these reports prior to submitting them, noting their review and approval with signatures/initials and the applicable date of the review/approval.

Washington County:

- (A) In reviewing the above, it was determined that all 5 were a result of one supervisor. Thus, we have asked, and the supervisor will comply with the requirement.
- (B) Director or Fiscal Officer will properly approve invoices for payment prior to payment. This will be accomplished by the invoices being initialed by the Director or Fiscal Officer prior to payment, which will indicate all goods and services have been received.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS54-065 Report Processing, Reviews, Inaccuracies – Various Counties (Continued)

Corrective Action Plan (Continued)

(C) Adoption Assistance Agreements are completed with the adoptive family at the adoptive placement meeting. A review of the requirements will be reviewed with the adoption staff. Random review of files will be conducted quarterly to assure compliance.

It should be noted that the two Adoptive Assistance Agreements found not to be signed were each a part of a sibling group who were placed on the same day with the same families. The siblings Adoptive Assistance Agreements were signed.

Anticipated Completion Date for Corrective Action

Cuyahoga County:

- (A) Implementation of the new version of the “Imaging” system is anticipated to be completed in the third quarter of the 2004 calendar year. It is further anticipated that workers will begin using the new system in the fourth quarter of the 2004 calendar year.
- (B) Case reviews were started in January 2003. There is no expected completion date as the reviews will be ongoing.

Defiance County:

- (A) Action has been complete.
- (B) The submission of the 4282 will be reassigned in April 2004 supporting documentation and timely submission will be reviewed by supervisor.

Franklin County:

The Center Directors will be meeting with the staff responsible for these duties within the next week to reiterate our established control procedures regarding the reconciliation of EBT cards.

Fulton County:

- (A) Corrective action has been implemented
- (B) April 1, 2004
- (C) April 1, 2004

Hamilton County:

- (A) April 1, 2004.
- (B) Completed
- (C) Memo will be issued March 17, 2004.

Lucas County:

- (A) Re-issue of PRC procedure – April 2004; QA Review – implemented January 2005.
- (B) Case document listing distributed to staff – July 2004; QA Review – implemented January 2005.
- (C) Data Services Memo issued – September 2003; Internal procedural review and meeting with CSEA – April 2004; Help Desk Memo to CWS staff – April 2004.
- (D) March 16, 2004

Washington County:

- (A) We did it immediately while audit team was here.
- (B) March 1, 2004. This procedure has been implemented and is now in effect.
- (C) April 1, 2004.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS54-065 Report Processing, Reviews, Inaccuracies – Various Counties (Continued)

Contact Persons Responsible for Corrective Action

Michelle Latimore, Participant Services Manager, Cuyahoga County, Ohio Department of Job and Family Services, 1641 Payne Avenue, Cleveland, Ohio 44114, Phone: (216) 987-8460 , e-mail: latimm@odjfs.state.oh.us

Jacquelon Ward, Participant Services Manager, Cuyahoga County, Ohio Department of Job and Family Services, 1641 Payne Avenue, Cleveland, Ohio 44114, Phone: (216) 987-6387 , e-mail: wardj01@odjfs.state.oh.us

Sandra D. Schappert, Assistant Director, Defiance County CSEA, Department of Job and Family Services, 500 Court Street, P. O. Box 246, Defiance, Ohio 43512, Phone: (419) 784-2123, extension 107, e-mail: schaps@odjfs.state.oh.us

Dennis M. McKay, Director, Defiance County, Ohio Department of Job and Family Services, 6879 Evansport Road, Suite A, P.O. Box 639, Defiance, Ohio 43512, Phone: (419) 782-3881, e-mail: mckayd01@odjfs.state.oh.us

Esther Adkins, Assistant Director, Franklin County, Ohio Department of Job and Family Services, 80 East Fulton Street, Columbus, Ohio 43215, Phone: (614) 462-6066, e-mail: eadkins@fcdhs.co.franklin.oh.us

Ann Witte, Administrative Assistant Supervisor, Fulton County, Ohio Department of Job and Family Services, 604 South Shoop Avenue, Suite 200, Wauseon, Ohio 43567, Phone: (419) 337-0010, e-mail: wittea@odjfs.state.oh.us

Linda Arthur, Eligibility Referral Supervisor, Fulton County, Ohio Department of Job and Family Services, 604 South Shoop Avenue, Wauseon, Ohio 43567, Phone: (419) 337-0010, e-mail: arthul@odjfs.state.oh.us

Barbara Turner, Payroll Manager, Hamilton County, Ohio Department of Job and Family Services, 222 East Central Parkway, Cincinnati, Ohio 45202, Phone: (513) 946-1492, e-mail: turneb03@jfs.hamilton-co.org

Lora Jollis, Assistant Director, Hamilton County, Department of Job and Family Services, 222 East Central Parkway, Cincinnati, Ohio 45202, Phone: (513) 891-7383, e-mail: jollil@jfs.hamilton-co.org

Tom Welch, Supervisor, Hamilton County, Department of Job and Family Services, 222 East Central Parkway, Cincinnati, Ohio 45202, Phone: (513) 946-1834, e-mail: welcht@jfs.hamilton-co.org

Carol Rehm, Deputy Director, Lucas County, Ohio Department of Job and Family Services, P. O. Box 1007, Toledo, Ohio 43699, Phone: (419) 213-8300, e-mail: rehme@odjfs.state.oh.us

Sheray Hall, Fiscal Reports Coordinator, Lucas County, Ohio Department of Job and Family Services, 3210 Monroe Street, Toledo, Ohio, 43606, Phone: (419) 213-8627, e-mail: halls@odjfs.state.oh.us

Michael Paxton, Director, Washington County, Ohio Department of Job and Family Services, 1115 Gilman Avenue, Marietta, Ohio 45750, Phone: (740) 373-5513, e-mail: paxtom@odjfs.state.oh.us

Margie A. Bruce, Director, Washington County CSEA, Ohio Department of Job and Family Services, 205 Putnam Street, 4th Floor, Marietta, Ohio 45750, Phone: (740) 373-9324, extension 241, e-mail: brucem@odjfs.state.oh.us

Teri Wright, Foster Care/Adoption Supervisor, Washington County CSEA, Ohio Department of Job and Family Services, 204 Davis Avenue, Marietta, Ohio 45750, Phone: (740) 373-3485, e-mail: wright02@odjfs.state.oh.us

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS55-066 DP – MMIS and CRIS-E Application Documentation

Corrective Action Plan

CRIS-E has an ongoing initiative for technical knowledge transfer which, among other things, addresses issues related to Systems Documentation.

This current project is intended to review and assess current documentation of Subject Matter Expert (SME) technical knowledge, process definition, and task descriptions. Where documentation is not available or is not current, project guidelines have been established to create these products.

PRODUCT DESCRIPTION

When assessing new technical documentation needs, consideration should be given to: core CRIS-E System, core CRIS-E System Operational Environment and CRIS-E System Support Environments.

Core CRIS-E System includes, but is not limited to: User Interface, System Architecture, System Interfaces, and System Databases/File Structures.

Core CRIS-E System Operational Environment includes, but is not limited to: Organization & Customer Sites, Networks (LANs & WANs), Interfacing Systems, System Workload & Performance, Internal & External Users, User/Customer Usage Profiles, Interoperability Considerations, Security Measures, Operations & Logistics.

CRIS-E Support Environments include, but are not limited to: Development & Maintenance Environment, Development Tools, Maintenance Tools, Operations & Logistics Tools, Product Migration Tools, and System Test & Integration Environment.

The following are examples of some anticipated types of technical documents to be delivered: Process Flow Diagram, Event Transaction Flow, Program/Module Flowchart, System Configuration, Test Plan, Test Cases, Production Support Procedures, and Job Recovery.

A. Product Delivery Approach

The AMS Technical Knowledge Transfer Project will have distinct phases for each CRIS-E system area of greatest technical risk, with defined products from each phase.

1. Document Identification and Organization Phase: SME to provide guidance by identifying all existing technical documentation specific to assigned CRIS-E system area. SSME to develop a summary document for CRIS-E system area which identifies document location, document type (e.g. Process Flow Diagram), and document file name.
2. Document Analysis and Development Phase: As documentation needs are assessed, new technical documentation will be created specific to the assigned CRIS-E system area.

B. Product Relationship to Business Need

The products delivered by this project shall:

1. Provide a technical documentation standard from which future technical documentation may be developed.
2. Provide technical documents that may be easily maintained consistent with changing technical/system requirements.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS55-066 DP – MMIS and CRIS-E Application Documentation (Continued)

Anticipated Completion Date for Corrective Action

Ongoing

Contact Person Responsible for Corrective Action

Michelle Burk, Project Manager and Acting CRIS-E Section Chief, Ohio Department of Job and Family Services, 4200 East Fifth Avenue, Columbus, Ohio 43219, Phone: (614) 466-2303, e-mail: burkm@odjfs.state.oh.us

2003-JFS56-0067 DP – CORE Advance Calculation

Corrective Action Plan

The contract with Maximus for FY 2004 includes a scope of work to correct this problem no later than July 1, 2004.

Anticipated Completion Date for Corrective Action

The new Maximus contract will have this problem corrected. This will be effective for the SFY 2005 draws which begin in July 2004.

Contact Person Responsible for Corrective Action

Rick Tully, Assistant Deputy Director, Office of Fiscal Services, Ohio Department of Job and Family Services, 30 East Broad Street, 37th Floor, Columbus, Ohio 43215, Phone: (614) 752-9839, e-mail: tullyr@odjfs.state.oh.us

2003-JFS57-068 DP – CORE Program Change Standards

Corrective Action Plan

The FY 2004 Maximus contract is being amended to include a highly specified procedure for work orders and acceptance of deliverables. This will correct the problem which led to the finding.

Anticipated Completion Date for Corrective Action

BCTFA will be implementing the new program change forms with the updates we receive for correction of the draws and the new WIA subset. These changes will be submitted to the agency during the April –June 2004 quarter. These forms will be used on an ongoing basis for any future changes.

Contact Person Responsible for Corrective Action

Rick Tully, Assistant Deputy Director, Office of Fiscal Services, Ohio Department of Job and Family Services, 30 East Broad Street, 37th Floor, Columbus, Ohio 43215, Phone: (614) 752-9839, e-mail: tullyr@odjfs.state.oh.us

2003-JFS58-069 DP CORE Backups

Corrective Action Plan

The overall problem was operator error, tape not properly mounted.

To remedy the situation the Campus Administrators will handle the mounting of the tapes in the Campus Servers. I have added this procedure to the Campus Employee Guide.

Anticipated Completion Date for Corrective Action

Effective Monday, 2/23/04, the Campus Administrators will handle the backup tape replacements in all Campus servers daily.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS58-069 DP CORE Backups (Continued)

Contact Person Responsible for Corrective Action

Anna Kraner, Supervisor, Campus System Support, Ohio Department of Job and Family Services, Air Center, 4200 East Fifth Avenue, Columbus, Ohio 43219, Phone: (614) 387-8254, e-mail: kranea@odjfs.state.oh.us

2003-JFS59-070 DP – Centralized Computer Security

Corrective Action Plan

This finding is no longer relevant. InfoSec/BISS currently manages all user security functions. We recently started performing user deletes, which was the last piece of the security process that was maintained by BNS. All security functions have transitioned to InfoSec/BISS. This brings us into compliance with our IT plan (centralized security administration) and thus negates this finding.

Anticipated Completion Date for Corrective Action

None necessary

Contact Person Responsible for Corrective Action

Galen Bock, Deputy Director, MIS, Ohio Department of Job and Family Services, 3200 East Fifth Avenue, Columbus, Ohio 43221, Phone: (614) 466-2303, e-mail: bockg@odjfs.state.oh.us

2003-JFS60-071 DP- Physical Access to the Computer Room

Corrective Action Plan

The Bureau of Security has reduced the number of swipe-card readers that screen access to the computer room from 3 to 2. They have removed the access for terminated staff from the system.

They have prepared a listing of the remaining staff with authorized access and presented it to MIS management for review. Staff who should no longer have access will be removed from the system.

Anticipated Completion Date for Corrective Action

May 1, 2004.

Contact Person Responsible for Corrective Action

Jason Hoak, Bureau Chief, Bureau of Safety/Security, Ohio Department of Job and Family Services, 4200 East Fifth Avenue, Columbus, Ohio 43219, Phone: (614) 387-8303, e-mail: hoakj@odjfs.state.oh.us

2003-JFS61-072 DP- SETS System Documentation

Corrective Action Plan

Trying to obtain a base of understanding for a program by applying the impact of all program changes made through TTS to the original TDD or DSD documentation, is not an acceptable practice on SETS. Whenever, system changes are requested, the systems developer must perform analysis to ascertain the technical operating process of the program. This analysis allows the correct program changes to be made.

Currently, 95% of all system development modifications are made and validated by competent, experienced state staff members. The impact of consultant development staff has been minimized.

In addition to the current batch processing flows, SETS is investigating the use of the Revolve tool. The stated claim of Revolve is that it has the ability to perform analysis of programs and automatically produce documentation of data and processing dependencies.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS61-072 DP- SETS System Documentation (Continued)

Anticipated Completion Date for Corrective Action

The analysis of the Revolve product has a planned start date of June 2004.

Contact Person Responsible for Corrective Action

Sylvan Wilson, Section Chief, SETS Project, Ohio Department of Job and Family Services, 4200 East Fifth Avenue, Columbus, Ohio 43219, Phone: (614) 387-8468, e-mail: wilsos@odjfs.state.oh.us

2003-JFS62-073 DP-MMIS and CRIS-E Program Change Documentation

Corrective Action Plan

As part of a CRIS-E initiative to review, revise and update current test procedures and documentation we have drafted a revised test summary document entitled "Requirements Traceability Matrix". A portion of a current Matrix is below.

Requirements Traceability Matrix – MA C Release

Updated: 1/29/04

High-Level Req	# & Tester Assigned	Detail Req	Status	Test Condition	Scenario
Correctly develop MA-T AGs in SFU CSR 00110-08	1 Randi	The MA T (Less than 21 Medicaid) assistance group will no longer be produced for minors that are not 19 or 20 years of age. This is a fix and by-product of our research. It causes the counties a lot of work to have to close down AG's that are unnecessarily created.	Done	Verify MA T is produced for 19 year-old	
				Verify MA T is produced for 20 year-old	
				Verify that MA T is NOT produced for minor participant <19 years old	Scenario 3 Scenario 4 Scenario 30 Scenario 22 Scenario 23 Scenario 28 Scenario 29 Scenario 56

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS62-073 DP-MMIS and CRIS-E Program Change Documentation (Continued)

Corrective Action Plan (Continued)

High-Level Req	# & Tester Assigned	Detail Req	Status	Test Condition	Scenario
Pregnant Minors should be coded as EC until the fetus is born. CSR 00110-08	2 Randi	Pregnant minors in their last trimester will no longer have a participation status of "EA." They will be an "EC" until the baby is born. This participation status was carried forward from the copy of the ADC AG.	Done	Verify that pregnant minors in their third trimester are not EA participation status in MA C category	Scenario 4
				Verify that when a pregnant minor's child is born, the participation status flips from EC to EA for MA C category when ED/BC is re-run	
				Verify that emancipated pregnant minors in third trimester have an EA status	Scenario 29

This document will be updated as each test case is performed. It will accompany the full test packet which is assembled when changes are sent for production promotion. As has been a CRIS-E practice for some time now, this package will include all requirements, requirements detail, test conditions, test scenarios, test case information and results for each test performed.

Additionally, the initiative will also further refine and document the framework for a Standardized Test Plan to be used with all CRIS-E testing activities.

Also, the document which details the this issue was in reference to both MMIS and CRIS-E. We do not know if any of the 20 CSR's reviewed belonged to CRIS-E, as they were not specific in their observations.

Additionally, the author indicated "...no testing documentation was available for review." There may well have been testing documentation available but it might not have been with the documents (copies?) they were looking at.

It would be interesting to know which organization (MMI S or CRIS-E) the 20 CSR's belonged to, and if the reviewer ever asked anyone if the missing documentation was available elsewhere. We find it hard to believe there was NO testing documentation at all for any of the 20 CSR's.

Testing Documentation - As packets are tested by the System Test group and completed and moved to Production the Packets are then filed. Each packet contains a MIS Software Submittal Form that indicates the date of promotion.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF JOB AND FAMILY SERVICES (Continued)

2003-JFS62-073 DP-MMIS and CRIS-E Program Change Documentation (Continued)

Corrective Action Plan (Continued)

Within the packet are affected CSR number(s) Requirements documentation (GSD and/or DSD), screen prints if applicable, and testing scenarios. On larger initiatives a testing matrix is used that describes the high level requirement, detail requirement, test conditions and the scenarios.

There are occasions such as an IMSXPRT database fix where there is not testing completed because it is a database production fix (with an accompanying CSR), and it is not something that is testable. In this scenario there is not the extent of documentation that is used for testing.

Anticipated Completion Date for Corrective Action

Ongoing

Contact Person Responsible for Corrective Action

Michelle Burk, Project Manager and Acting CRIS-E Section Chief, Ohio Department of Job and Family Services, 4200 East Fifth Avenue, Columbus, Ohio 43219, Phone: (614) 466-2303, e-mail: burkm@odjfs.state.oh.us

OHIO DEPARTMENT OF MENTAL HEALTH

2003-DMH01-074 Medicaid/SCHIP Subrecipient Monitoring

Corrective Action Plan

The Department will provide additional information and training to ADAMHS/CMH Boards, as subrecipients, prior to the beginning of state fiscal year 2005 describing Federal Awards and the need to identify each of the federal programs, Medicaid and SCHIP, separately when reporting on their federal schedules and will provide technical assistance when needed.

The Department will also review OMB Circular A-133 and other guidance related to subrecipient monitoring and will identify Department staff to monitor the ADAMHS/CMH Boards through random on-site monitoring. Random on-site monitoring will include evaluations of the ADAMHS/CMH Boards processes and procedures over critical single audit compliance requirements as well as program activities, which will begin in state fiscal year 2005. The Department will send information to the ADAMHS/CMH Boards to inform them to ensure that their auditors include Medicaid and SCHIP in the A-133 audit reports. The Department will monitor the amounts reported by the ADAMHS/CMH Boards and compare them to the amounts that the Department has tracked for the same time period.

Anticipated Completion Date for Corrective Action

The Department will give guidance and technical assistance to the ADAMHS/CMH Boards prior to the beginning of state fiscal year 2005. The Department will implement the additional monitoring beginning in state fiscal year 2005.

Contact Person Responsible for Corrective Action

William Edwards, Manager, Fiscal Operations and Community Funding Services, Ohio Department of Mental Health, Office of Fiscal Administration, 30 East Broad Street, 11th Floor, Columbus, Ohio 43215, Phone: (614) 466-9659, e-mail: edwardsw@mh.state.oh.us

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES

2003-DMR01-075 Medicaid - Subrecipient Monitoring

Corrective Action Plan

The Department has developed and implemented an interim protocol that will provide a monitoring process for CAFS and SCHIP sub-recipients as of January 2004. The Department's has established a monitoring cycle where individuals' records for approximately 75-80 sub-recipients are reviewed each year over a five-year period until all 400 sub-recipients are reviewed. This protocol will match the individual's to the payments made to the provider of services thereby determining if the payment was authorized and allowable. This protocol will also review and establish whether the provider is certified to provide the services for which they were paid.

In the longer term, the Department will develop a system of prior authorization for CAFS services. This will require the agency developing the service plan for the individual to identify to the Department the CAFS services identified on the individual's plan, the service provider authorized to provide the service, and the authorized number of billable units. All claims will be compared to the prior authorization, and no claims will be paid unless the service and service provider have been authorized. In addition, the total number of units paid will not exceed the total authorized amount.

Anticipated Completion Date for Corrective Action

The Community Alternative Funding System (CAFS) program was restructured to a "fee for service" reimbursement system as of January 1, 2004. The Department is also working on compiling/developing an annual summary report to be sent out after the close of each fiscal year. The summary report will identify/describe the federal award. The plan is to distribute the final version of the report in August of this year. The Department is also working with ODJFS on a mass audit settlement for the CAFS audits that would include the settlement of all CAFS providers that are the responsibility of the Department that have not yet been performed.

The Department plans to implement the prior authorization for CAFS services system in 12 to 18 months.

Contact Person Responsible for Corrective Action

Gregory A. Mason, Deputy Director, Division of Audits, Ohio Department of Mental Retardation and Developmental Disabilities, 30 East Broad Street, 12th Floor, Columbus, Ohio 43215, Phone: (614) 728-0129, e-mail: greg.mason@dmr.state.oh

2003-DMR02-076 Medicaid – Allowable Costs

Corrective Action Plan

A. Ohio Administrative Code Section 5123:2-15, requires Community Alternative Funding System (CAFS) providers to be certified as a habilitation center in order to provide habilitation services and subsequently requires habilitation centers to be Medicaid certified in order to receive Medicaid reimbursement. The Department performs the certification of the habilitation center and the Department of Jobs and Family Services (ODJFS) performs the certification of the habilitation center as a Medicaid provider.

The MBS systems has edits in place to ensure that the habilitation center is a certified Medicaid provider and that the habilitation center is certified to deliver and bill for a specific CAFS service, i.e., speech, physical therapy, nursing, etc., that are distinctly authorized for each provider. All certified habilitation centers use a Department assigned seven-digit contract number to bill for services. MBS will reject any claims submitted without a valid contract number. Additionally, MBS will not process claims submitted by a provider for services for which they have not been certified. Such claims appear on a weekly report, and a determination is made to either delete the claims (if the provider is not certified, and is not in the process of being certified to provide the specific service), or held for future processing (if the error has resulted from a mistake in paperwork processing or data entry). In no case are claims processed if a provider has not been certified for the service being billed.

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES

2003-DMR02-076 Medicaid – Allowable Costs (Continued)

Corrective Action Plan (Continued)

Based on the above information, the Department believes that both it has reasonable controls in place, at the certification level and at the claims submission level, to ensure that the billing provider is certified to perform the services claimed.

B. Ohio Revised Code Statute Sections for county boards of MR/DD and public schools govern the entities authority to provide services and the eligibility of individuals to receive services, regardless of Medicaid services or Medicaid eligibility.

Ohio Administrative Code Section 5123:2-15, requires individuals to be eligible for county board of MR/DD services or eligible for services under the Individuals with Disabilities Education Act (IDEA) and have services identified on a service plan (Individual Habilitation plan [IHP], Individual Education Plan [IEP] or Individual Family Service Plan [IFSP]), in order to receive habilitation services. The individual must be eligible for Medicaid for the services to be billed through the CAFS program.

Once an individual is eligible, there are no regulatory limitations on the type or level of services the individual can receive, as long as the services are recommended by an interdisciplinary team and the services are identified on the individual's service plan. This service authorization process is no different from similar ancillary professional services covered by Medicaid (i.e., a physician, speech therapist, physical therapist, etc.), which is to determine medical necessity for a service, deliver the service, then bill for the service.

The Department has developed and implemented an interim protocol that will determine if the CAFS services billed is for an authorized/approved service per the IP/IEP. Additionally, we shall determine if the Provider(s) of Services is certified by the Department to perform the services specified in the IP/IEP. From the provider population, a sample selection of CAFS individuals will be made each year using the following sample selection methodology:

95%	Confidence Level
3%	Precision
5%	Expected Error Rate

Based on the above information, approximately 303 CAFS individuals will be selected for review during FY'04 from all 88 counties.

In the longer term, the Department will develop a system of prior authorization for CAFS services. This will require the agency developing the service plan for the individual to identify to the Department the CAFS services identified on the individual's plan, the service provider authorized to provide the service, and the authorized number of billable units. All claims will be compared to the prior authorization, and no claims will be paid unless the service and service provider have been authorized. In addition, the total number of units paid will not exceed the total authorized amount.

Anticipated Completion Date for Corrective Action

The Department implemented its paid claim monitoring interim protocol in January 2004. The Department plans to implement the prior authorization for CAFS services system in 6 to 12 months.

Contact Persons Responsible for Corrective Action

Greg Schneller, Deputy Director, Division of Fiscal Administration, Ohio Department of Mental Retardation and Developmental Disabilities, 30 East Broad Street, 12th Floor, Columbus, Ohio 43215, Phone: (614) 466-1962, e-mail: greg.schneller@dmr.state.oh.us

**STATE OF OHIO
CORRECTIVE ACTION PLAN
JULY 1, 2002 THROUGH JUNE 30, 2003**

OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES

2003-DMR02-076 Medicaid – Allowable Costs (Continued)

Contact Persons Responsible for Corrective Action (Continued)

Gregory A. Mason, Deputy Director, Division of Audits, Ohio Department of Mental Retardation and Developmental Disabilities, 30 East Broad Street, 12th Floor, Columbus, Ohio 43215, Phone: (614) 728-0129, e-mail: greg.mason@dmr.state.oh

2003-DMR03-077 Medicaid – Provider Certification

Corrective Action Plan

An administrative rule was promulgated for the monitoring and compliance of waiver certified providers. A protocol to implement these standards is being developed by a workgroup of providers, county boards and ODMR/DD staff. Anticipated completion date – July 1, 2004.

Notwithstanding the development of these rules, it was determined that the Department does not have the statutory authority to require renewal of a provider's certification.

Language has been drafted to give authority to ODMR/DD for time limited licenses. The language must now be sponsored by a legislator, and introduced and passed by the legislature. Anticipated completion date – October 30, 2004

Anticipated Completion Date for Corrective Action

October 30, 2004

Contact Person Responsible for Corrective Action

Ernie Fischer, Assistant Deputy Director, Office of Licensure, Supported Living QA and Provider Certification, Ohio Department of Mental Retardation and Developmental Disabilities, 35 East Chestnut Street, 5th Floor, Columbus, Ohio 43215, Phone: (614) 644-5965, e-mail: ernie.fischer@dmr.state.oh.us

2003-DMR04-078 Transfer into the Live Environment

Corrective Action Plan

DIS will develop and implement procedures to address the following areas:

- Identification and implementation of segregated Development, Test, and Production environments
- Definition of access controls for all personnel accessing production applications, specifically PAWS and MBS
- Identification of roles and responsibilities for movement of objects among these environments
- Creation of forms to request and document/log these object movements

Anticipated Completion Date for Corrective Action

The Development, Test and Production environments will be implemented in the spring of 2004. All other areas will be addressed by December 31, 2004.

Contact Person Responsible for Corrective Action

Art Walker, IT Manager, Ohio Department of Mental Retardation and Developmental Disabilities, 30 East Broad Street, 12th Floor, Columbus, Ohio 43215, Phone: (614) 752-3005, e-mail: art.walker@dmr.state.oh.us

Brian Brothers, Network Manager, Ohio Department of Mental Retardation and Developmental Disabilities, 30 East Broad Street, 12th Floor, Columbus, Ohio 43215, Phone: (614) 466-2816, e-mail: brian.brothers@dmr.state.oh.us



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

STATE OF OHIO SINGLE AUDIT

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 31, 2004**