STATE OF OHIO

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

Mary Taylor, CPA
Auditor of State

STATE OF OHIO

SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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NOTE:

The State of Ohio *Comprehensive Annual Financial Report* for fiscal year ended June 30, 2006, 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/

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EXECUTIVE SUMMARY
2006 STATE OF OHIO SINGLE AUDIT

AUDIT OF BASIC FINANCIAL STATEMENTS

There are 12 separate opinion units included in the basic financial statements of the State of Ohio for the fiscal year ended June 30, 2006. Four of the 12 opinion units are audited entirely or primarily by independent accounting firms under contract with the Auditor of State. The remaining eight opinion unit audits are performed by audit staff of the Auditor of State. This division of responsibility is described in our Independent Accountants' Report on page 1.

We audited the basic financial statements of the State of Ohio as of and for the period ended June 30, 2006, following auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the Single Audit Act Amendments of 1996, and the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The objective of our audit was to express our opinion concerning whether the financial statements present fairly, in all material respects, the financial position of the State of Ohio, and the results of its operations, and cash flows of the proprietary and similar trust funds, in conformity with accounting principles generally accepted in the United States of America. We issued an unqualified opinion on the 12 opinion units.

In addition to our opinions on the basic financial statements, we issued an Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by Government Auditing Standards. This letter is commonly referred to as the yellow book letter. The letter for the fiscal year ended June 30, 2006 included two reportable conditions. These two internal control weaknesses are described on the third page of this Executive Summary.

AUDIT RESPONSIBILITIES AND REPORTING UNDER CIRCULAR A-133

The Single Audit Act requires an annual audit of the State's federal financial assistance programs. The specific audit and reporting requirements are set forth in U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The Schedule of Expenditures of Federal Awards (the Schedule) reports federal expenditures for each federal financial assistance program by federal agency, as identified by the Catalog of Federal Domestic Assistance (CFDA) number. As detailed on pages 133 through 143, the State administered 342 federal programs with total federal expenditures of $17.05 billion in fiscal year 2006 which was received from 22 Federal agencies.

The Schedule is used for identifying Type A and Type B programs. For fiscal year 2006, Type A federal programs for the State of Ohio were those programs with annual federal expenditures exceeding $30 million. There were 37 programs at or above this amount. The remaining 305 programs were classified as Type B programs. The identification of Type A and B programs is used to determine which federal programs will be tested in detail for compliance with federal laws and regulations. Under Circular A-133, the auditor uses a risk-based approach to testing. Once programs are classified as Type A or B, they are then assessed as either high or low risk programs. All high-risk Type A programs are considered major programs and are tested in detail for compliance with federal regulations. One high-risk Type B program is then selected for testing to replace each low-risk Type A program. The State of Ohio had 33 high-risk Type A programs and four high-risk Type B programs selected for testing as major programs in fiscal year 2006.

With the approval of our federal cognizant agent, the Auditor of State includes the Ohio Department of Job and Family Services' programs administered at the county level as part of State Single Audit even though county financial information is not otherwise incorporated into the State's financial statements. We selected six of the 88 counties in fiscal year 2006 and performed testing related to the Ohio Department of Job and Family Services' major programs. The results of our county level audit procedures are included in the Schedule of Findings and Questioned Costs. Additionally, our federal cognizant agent approved the exclusion of the State's college and universities federal financial assistance from the State's Schedule although the financial activities are included in State's financial statements (Discretely Presented Component Units). The State's colleges and universities are subject to separate audits under OMB Circular A-133.

In accordance with A-133, we issued an Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133. Our report on compliance includes our opinion on compliance with the 37 major federal financial assistance programs and describes instances of noncompliance with Federal requirements we detected that require reporting per Circular A-133. This report also describes any reportable conditions we identified related to controls used to administer Federal financial assistance programs, and any reportable conditions we determined to be material weaknesses.

As described on pages 155 and 156, we identified three federal programs where compliance objectives were not met. The compliance requirement for subrecipient monitoring was not achieved for the Ohio Department of Education's Charter Schools program. Additionally, the cash management requirement for the Ohio Secretary of State's Election Reform Payments and Help America Vote Act programs were not met.

SUMMARY OF FINDINGS AND QUESTIONED COSTS

The fiscal year 2006 Schedule of Findings and Questioned Costs, beginning on page 159, contains 49 findings related to seven state agencies. Of these findings, 12 resulted in questioned costs, 11 were noncompliance, two were identified as material weaknesses, and 24 were reportable conditions. The findings with questioned costs over $1 million are summarized as follows:

- The Ohio Department of Education had questioned costs of $20,754,790 related to the Charter Schools program. The Department lacked effective subrecipient monitoring. Although there are a number of potential monitoring tools (such as site visit reports, community school sponsors, annual performance reviews, and monitoring of A-133 audits), the Department did not effectively utilize these monitoring controls. The finding and related client corrective action plan are included on page 173.

- The Ohio Department of Job and Family Services had questioned costs of $13,047,638 related to the Medicaid Cluster and State Children's Insurance Program (SCHIP). The Ohio Administrative Code (OAC) identifies the maximum amounts allowable for certain medical supplies which are subject to reimbursement by Medicaid and SCHIP providers. The Department placed edits within its electronic payment system to prevent providers from being reimbursed above the maximum limits set in the OAC. We found the edits for 409 medical supply codes were not functioning properly, which allowed providers to be reimbursed for any amount for these supplies. This is a significant finding since the Department has the opportunity to recoup the overpayments from providers. Medicaid and SCHIP disbursements are approximately 60% federal and 40% state funds. Additionally, our finding relates to only fiscal year 2006 while the majority of these edits were put in place by the Department over 20 years ago. It should be noted that our questioned costs includes both the original payment amount plus the amount of payments in excess of the limit for each procedure code. The finding and related client corrective action plan are included on page 195.

In addition, the Cuyahoga County Prosecutors Office recently issued 112 indictments of potential fraud related to Temporary Assistance for Needy Families (TANF) funds at the Cuyahoga County Department of Job & Family Services. The total potential fraud is approximately $800,000 and relates to one former employee activities for the past 12 years. This case has not gone to trial and is not included within this report.

The two material weaknesses in internal control identified in the Schedule of Findings and Questioned Costs were also noted as reportable conditions in the Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*. The comments are summarized below:

- The Ohio Department of Job and Family Services has not remedied a long-standing weakness in internal controls related to manual overrides of the Client Registry Information System-Enhanced (CRIS-E) system. The Department utilizes CRIS-E at the county level to determine eligibility for various public assistance programs such as Food Stamps, TANF, and Medicaid. County level caseworkers notify the Department of necessary program changes to the system. At the end of fiscal year 2006, there were 1,289 open program change requests. In these situations, county level caseworkers are required to make manual overrides to CRIS-E in order to complete transactions. This increases the risk of inconsistent application, a great deal of judgment by supervisors, and potential benefit errors to recipients. The finding and related client corrective action plan are included on page 234.

- The Ohio Department of Job and Family Services places immeasurable reliance on a number of complex information systems (CRIS-E, MMIS, FACSIS, SETS, SCOTI, OJI, and UC) to record and process eligibility and financial information for all their 13 major federal programs. However, the Department did not have any internal, independent individuals assigned to evaluate the controls over these systems. Without this internal audit function, the Department relies upon external auditors and federal agency reviews to provide feedback on their information systems. The finding and related client corrective action plan are included on page 232.

The schedule below identifies the number of reportable conditions included in the State of Ohio Single Audit from fiscal year 2002 through this report. The schedule is divided by state agency and does include findings which were repeated over a number of years.

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

In addition to the reportable conditions included in this report, each state agency receives a management letter which includes internal control comments and legal citations that do not rise to the level of a reportable condition. These state agency management letters are not part of this report.

FINANCIAL SECTION

INDEPENDENT ACCOUNTANTS' REPORT

The Honorable Ted Strickland, Governor
State of Ohio
Columbus, Ohio

We have audited the accompanying financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Ohio (the State) as of and for the year ended June 30, 2006, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following organizations:

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

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

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

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

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Revenues / Additions
Governmental Activities	2%	0%
Business-Type Activities	92%	44%
Aggregate Discretely Presented Component Units	96%	90%
Aggregate Remaining Fund Information	84%	25%
Workers' Compensation	100%	100%

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

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

In our opinion, based upon our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Ohio as of June 30, 2006, and respective changes in financial position and cash flows, where applicable, and respective budgetary comparisons for the general and major special revenue funds thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, during fiscal year 2006, the State of Ohio adopted GASB Statements:

- No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

- No. 46, *Net Assets Restricted by Enabling Legislation — an amendment of GASB Statement No. 34,* which clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government can compel a government to honor.

- No. 47, *Accounting for Termination Benefits,* which provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees that are involuntarily terminated.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2007, on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the State's basic financial statements. The accompanying Supplementary Schedule of Expenditures of Federal Awards Summarized by Federal Agency and Supplementary Schedule of Expenditures of Federal Awards by Federal Agency and Federal Program (schedules) are presented for additional information and are not a required part of the basic financial statements. We subjected the schedules to the auditing procedures applied in the audit of the basic financial statements. In our opinion, based on our audit, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. We did not subject the schedules to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 23, 2007

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State of Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

(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, 2006. 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 $19.47 billion, as of June 30, 2006, increased $1.71 billion since the previous year. Net assets of the State's component units reported in the amount of $12.76 billion, as of June 30, 2006, increased $1.3 billion since the end of last fiscal year.

Fund Financial Statements
Governmental funds reported combined ending fund balances of $6.07 billion that was comprised of $310.7 million reserved for specific purposes, such as for debt service, state and local highway construction, and federal programs; $6.68 billion reserved for nonappropriable items, such as encumbrances, noncurrent loans receivable, loan commitments, and inventories; $1.01 billion in designations for budget stabilization and other purposes; and a $1.93 billion deficit.

As of June 30, 2006, the General Fund's fund balance was approximately $1.91 billion, including $50.4 million reserved for "other" specific purposes, as detailed in NOTE 17; $567.3 million reserved for nonappropriable items; and $1.01 billion in designations for budget stabilization and other purposes. The General Fund's fund balance increased by $627.2 million (exclusive of a $5.6 million increase in inventories) or 49.1 percent during fiscal year 2006. Due to greater-than-expected personal income tax revenue for fiscal year 2006 and executive-ordered and other spending reductions, the General Fund ended the year with an overall positive fund balance. Various transfers-in from other funds provided additional resources to cover anticipated spending in the General Fund during fiscal year 2006.

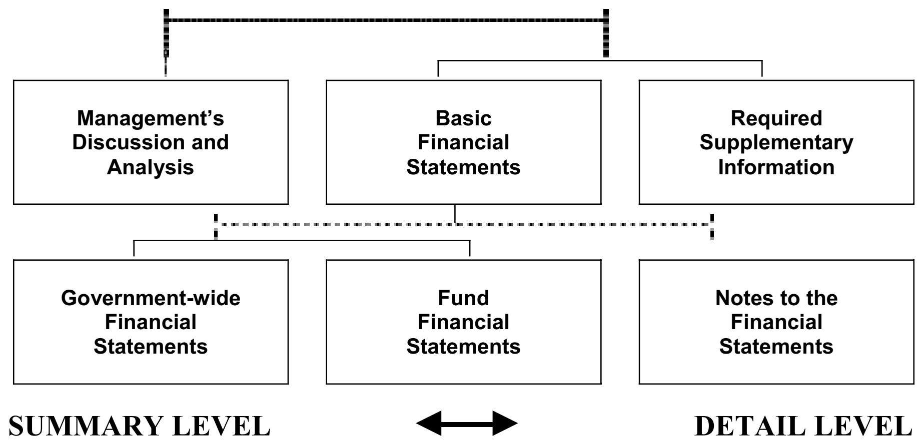
Proprietary funds reported net assets of $523.5 million, as of June 30, 2006, an increase of $873.5 million since June 30, 2005. Most of the net increase was due to the $863.2 million net gains reported for the Workers' Compensation Enterprise Fund. Increases in net assets of $11.7 million for the Unemployment Compensation Enterprise Fund and $11.8 million for the Tuition Trust Authority Enterprise Fund offset a decrease in net assets of $22.4 million in the Lottery Commission Enterprise Fund. The loss for the Lottery Commission Enterprise Fund is largely attributable to decreases in investment income. For the Workers' Compensation Enterprise Fund, the increase is mainly due to a decline in benefit payments and premium credits to employers of $1.22 billion. The Tuition Trust Authority's increase in net assets resulted from investment income exceeding tuition benefit payments by $12.8 million. The Unemployment Compensation Enterprise Fund's increase in net assets resulted from increases in premium and assessment income of $121.7 million in fiscal year 2006, and decreases in benefits and claims expenses of $23.9 million.

Long-Term Debt — Bonds and Notes Payable and Certificates of Participation Obligations
Overall, the carrying amount of total long-term debt for the State's primary government increased $582.9 million or 5.5 percent during fiscal year 2006 to end the fiscal year with a reported balance of $11.16 billion in long-term debt. During the year, the State issued at par $1.37 billion in general obligation bonds, of which $121.4 million were refunding bonds, $199.3 million in revenue bonds, and $109.8 million in special obligation bonds, of which $34.8 million were refunding bonds. Changes in the primary government's long-term debt for fiscal year 2006 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, nonmajor proprietary funds, fiduciary funds, and nonmajor discretely presented component unit funds. The basic financial statements are comprised of the government-wide financial statements and fund financial statements.

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

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



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

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

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

The basic financial statements section includes notes that more fully explain the information in the government-wide and fund financial statements; the notes provide more detailed data that are essential to a full understanding of the data presented in the financial statements. The notes to the financial statements can be found on pages 52 through 124 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 125 through 128 of this report.

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

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

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

Government-wide Financial Statements

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

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

The State's government-wide financial statements, which can be found on pages 20 through 23 of this report, are divided into three categories as follows.

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

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

Component Units — The State presents the financial activities of the School Facilities Commission, Cultural Facilities Commission, eTech Ohio Commission, Ohio Water Development Authority, Ohio Air Quality Development Authority, and 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 15 special revenue funds, 21 debt service funds, and 11 capital projects funds. Under separate columns, information is presented in the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund 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 43 governmental funds, which are classified as nonmajor funds, are combined into an aggregated presentation under a single column on the basic governmental fund financial statements. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

The basic governmental fund financial statements can be found on pages 24 through 35 of this report while the combining fund statements and schedules can be found on pages 132 through 189.

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

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

The enterprise funds are the same as the State's business-type activities reported in the government-wide financial statements, but the proprietary fund financial statements provide more detail and additional information, such as information on cash flows. The basic proprietary fund financial statements can be found on pages 36 through 43 of this report while the combining fund statements can be found on pages 192 through 199.

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 44 through 47 of this report.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Assets. During fiscal year 2006, as shown in the table below, the combined net assets of the State's primary government increased $1.61 billion or 9 percent. Net assets reported for governmental activities increased $738.7 million or 4.1 percent and business-type activities increased $873.3 million. 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, 2006
With Comparatives as of June 30, 2005
(dollars in thousands)

	As of June 30, 2006			As of June 30, 2005 (as restated)*		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Assets:						
Current and Other Noncurrent Assets	$16,168,793	$21,449,240	$37,618,033	$14,886,874	$24,904,062	$39,790,936
Capital Assets	23,828,773	137,283	23,966,056	23,302,596	155,175	23,457,771
Total Assets	39,997,566	21,586,523	61,584,089	38,189,470	25,059,237	63,248,707
Liabilities:						
Current and Other Liabilities	9,343,834	(416,894)	8,926,940	8,951,203	3,418,792	12,369,995
Noncurrent Liabilities	11,710,147	21,479,919	33,190,066	11,033,381	21,990,295	33,023,676
Total Liabilities	21,053,981	21,063,025	42,117,006	19,984,584	25,409,087	45,393,671
Net Assets:						
Invested in Capital Assets, Net of Related Debt	20,889,063	10,363	20,899,426	20,285,186	(1,839)	20,283,347
Restricted	2,121,564	760,376	2,881,940	1,908,583	793,531	2,702,114
Unrestricted (Deficits)	(4,067,042)	(247,241)	(4,314,283)	(3,988,883)	(1,141,542)	(5,130,425)
Total Net Assets	$18,943,585	$523,498	$19,467,083	$18,204,886	$ (349,850)	$17,855,036

*Note that the restatements for June 30, 2005 do not include the effects of changes in reporting entity (see NOTE 2A).

As of June 30, 2006, 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 $20.9 billion. Restricted net assets were approximately $2.88 billion, resulting in a $4.31 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 $4.07 billion deficit for unrestricted governmental activities. The State of Ohio, like many other state governments, issues general and special obligation debt, the proceeds of which benefit local governments and component units. The proceeds are used to build facilities for public-assisted colleges and universities and local school districts and finance infrastructure improvements for local governments. The policy of selling general obligation and special obligation bonds for these purposes has been the practice for many years. Of the $10.21 billion of outstanding general obligation and special obligation debt at June 30, 2006, $7.03 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, 2006, the State's governmental activities have significant unfunded liabilities for compensated absences in the amount of $420.7 million (see NOTE 14A.) and a $957.7 million interfund payable due to the workers' compensation component of business-type activities for the State's workers' compensation liability (see NOTE 7A.). These unfunded liabilities also contribute to the reported deficit for governmental activities.

Condensed financial information derived from the Statement of Activities, which reports how the net assets of the State's primary government changed during fiscal years 2006 and 2005, follows.

Primary Government
Statement of Activities
For the Fiscal Year Ended June 30, 2006
With Comparatives for the Fiscal Year Ended June 30, 2005
(dollars in thousands)

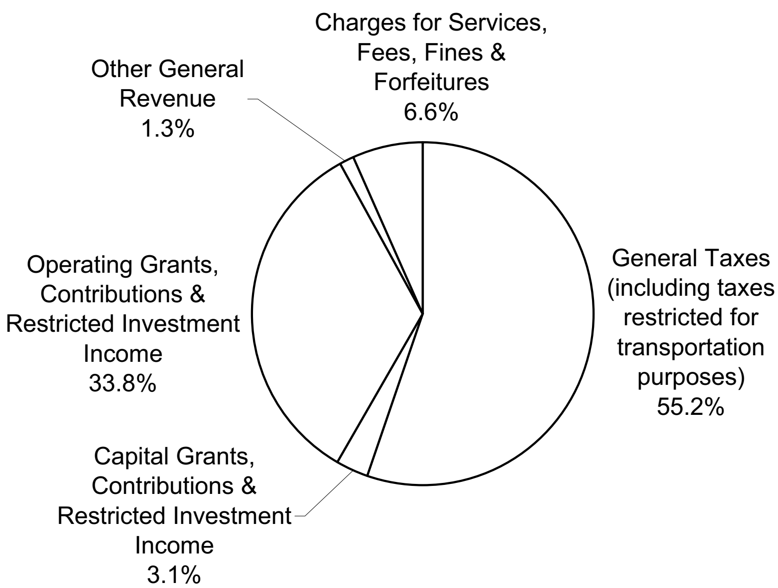
	Fiscal Year 2006			Fiscal Year 2005 (as restated)*		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Program Revenues:						
Charges for Services, Fees, Fines and Forfeitures	$2,810,257	6,197,814	$9,008,071	$ 2,554,433	$6,056,105	$8,610,538
Operating Grants, Contributions and Restricted Investment Income/(Loss)	14,336,540	883,003	15,219,543	13,774,602	1,183,511	14,958,113
Capital Grants, Contributions and Restricted Investment Income/(Loss)	1,288,100	—	1,288,100	1,088,146	—	1,088,146
Total Program Revenues	18,434,897	7,080,817	25,515,714	17,417,181	7,239,616	24,656,797
General Revenues:						
General Taxes	21,567,653	—	21,567,653	20,653,898	—	20,653,898
Taxes Restricted for Transportation	1,850,939	—	1,850,939	1,753,390	—	1,753,390
Tobacco Settlement	336,044	—	336,044	321,335	—	321,335
Escheat Property	93,782	—	93,782	91,867	—	91,867
Unrestricted Investment Income	128,772	—	128,772	46,797	2,040	48,837
Other	295	932	1,227	287	5,837	6,124
Total General Revenues	23,977,485	932	23,978,417	22,867,574	7,877	22,875,451
Total Revenues	42,412,382	7,081,749	49,494,131	40,284,755	7,247,493	47,532,248
Expenses:						
Primary, Secondary and Other Education	11,157,283	—	11,157,283	10,500,807	—	10,500,807
Higher Education Support	2,608,007	—	2,608,007	2,475,281	—	2,475,281
Public Assistance and Medicaid	14,909,149	—	14,909,149	14,247,598	—	14,247,598
Health and Human Services	3,526,763	—	3,526,763	3,333,997	—	3,333,997
Justice and Public Protection	3,111,577	—	3,111,577	2,972,666	—	2,972,666
Environmental Protection and Natural Resources	406,632	—	406,632	397,852	—	397,852
Transportation	1,925,841	—	1,925,841	2,080,958	—	2,080,958
General Government	952,248	—	952,248	670,146	—	670,146
Community and Economic Development	3,618,550	—	3,618,550	3,432,302	—	3,432,302
Interest on Long-Term Debt (excludes interest charged as program expense)	175,732	—	175,732	175,700	—	175,700
Workers' Compensation	—	2,011,480	2,011,480	—	3,232,669	3,232,669
Lottery Commission	—	1,625,309	1,625,309	—	1,581,100	1,581,100
Unemployment Compensation	—	1,161,776	1,161,776	—	1,194,040	1,194,040
Ohio Building Authority	—	25,797	25,797	—	27,327	27,327
Tuition Trust Authority	—	67,162	67,162	—	30,214	30,214
Liquor Control	—	423,373	423,373	—	401,187	401,187
Underground Parking Garage	—	2,993	2,993	—	2,692	2,692
Office of Auditor of State	—	71,729	71,729	—	73,501	73,501
Total Expenses	42,391,782	5,389,619	47,781,401	40,287,307	6,542,730	46,830,037
Surplus/(Deficiency) Before Transfers	20,600	1,692,130	1,712,730	(2,552)	704,763	702,211
Transfers-Internal Activities	818,636	(818,636)	—	807,653	(807,653)	—
Change in Net Assets	839,236	873,494	1,712,730	805,101	(102,890)	702,211
Net Assets, July 1 (as restated)	18,104,349	(349,996)	17,754,353	17,399,785	(246,960)	17,152,825
Net Assets, June 30	$18,943,585	$523,498	$19,467,083	$18,204,886	$(349,850)	$17,855,036

*Note that the restatements for June 30, 2005 do not include the effects of changes in reporting entity (see NOTE 2A).

Governmental Activities
Revenues slightly outpaced expenses during fiscal year 2006, and when combined with transfers from the State's business-type activities, net assets for governmental activities increased from $18.1 billion, at July 1, 2005, as restated, to $18.94 billion, at June 30, 2006, or $839.2 million. Revenues for fiscal year 2006 in the amount of $42.41 billion were 5.3 percent higher than those reported for fiscal year 2005. This increase in revenues can, in part, be attributed to strong personal income tax, corporation franchise tax, and cigarette tax collections, which offset decreases in sales tax collections. Expenses followed the trend as the reported $42.39 billion in spending represented a 5.2 percent increase over fiscal year 2005. Net transfers for fiscal year 2006 also increased to $818.6 million, or by 1.4 percent, when compared to fiscal year 2005.

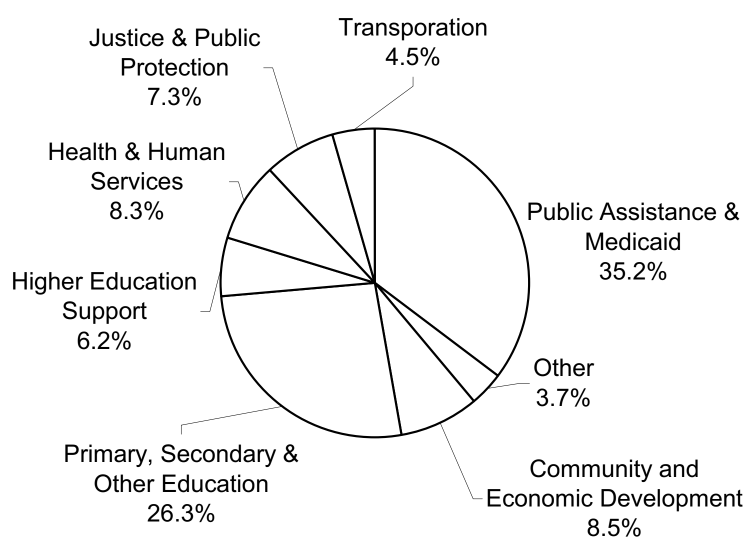
The following charts illustrate revenue by sources and expenses by program of governmental activities as percentages of total revenues and program expenses, respectively, reported for the fiscal year ended June 30, 2006.

Governmental Activities — Sources of Revenue
Fiscal Year 2006



Total FY 06 Revenue for Governmental Activities = $42.41 Billion

Governmental Activities — Expenses by Program
Fiscal Year 2006



Total FY 06 Program Expenses for Governmental Activities = $42.39 Billion

The following tables present the total expenses and net cost of each of the State's governmental programs for the fiscal years ended June 30, 2006 and 2005. The net cost (total program expenses less revenues generated by the program) represents the financial burden that was placed on the State's taxpayers by each of these programs; costs not covered by program revenues are essentially funded with the State's general revenues, which are primarily comprised of taxes, tobacco settlement revenue, escheat property, and unrestricted investment income.

Program Expenses and Net Costs of Governmental Activities by Program
For the Fiscal Year Ended June 30, 2006
With Comparatives for the Fiscal Year Ended June 30, 2005
(dollars in thousands)

	For the Fiscal Year Ended June 30, 2006			
Program	**Program Expenses**	**Net Cost of Program**	**Net Cost as Percentage of Total Expenses for Program**	**Net Cost as Percentage of Total Expenses — All Programs**
Primary, Secondary and Other Education	$11,157,283	$ 9,503,034	85.2%	22.4%
Higher Education Support	2,608,007	2,570,775	98.6	6.1
Public Assistance and Medicaid	14,909,149	4,751,780	31.9	11.2
Health and Human Services	3,526,763	1,289,924	36.6	3.0
Justice and Public Protection	3,111,577	1,881,421	60.5	4.5
Environmental Protection and Natural Resources	406,632	126,932	31.2	.3
Transportation	1,925,841	553,793	28.8	1.3
General Government	952,248	160,992	16.9	.4
Community and Economic Development	3,618,550	2,942,502	81.3	6.9
Interest on Long-Term Debt	175,732	175,732	100.0	.4
Total Governmental Activities	$42,391,782	$23,956,885	56.5	56.5%

	For the Fiscal Year Ended June 30, 2005 (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	$10,500,807	$8,867,939	84.5%	22.0%
Higher Education Support	2,475,281	2,458,391	99.3	6.1
Public Assistance and Medicaid	14,247,598	4,373,022	30.7	10.9
Health and Human Services	3,333,997	1,221,040	36.6	3.0
Justice and Public Protection	2,972,666	1,811,792	61.0	4.5
Environmental Protection and Natural Resources	397,852	138,895	34.9	.4
Transportation	2,080,958	919,793	44.2	2.3
General Government	670,146	147,334	22.0	.4
Community and Economic Development	3,432,302	2,756,220	80.3	6.8
Interest on Long-Term Debt	175,700	175,700	100.0	.4
Total Governmental Activities	$40,287,307	$22,870,126	56.8	56.8%

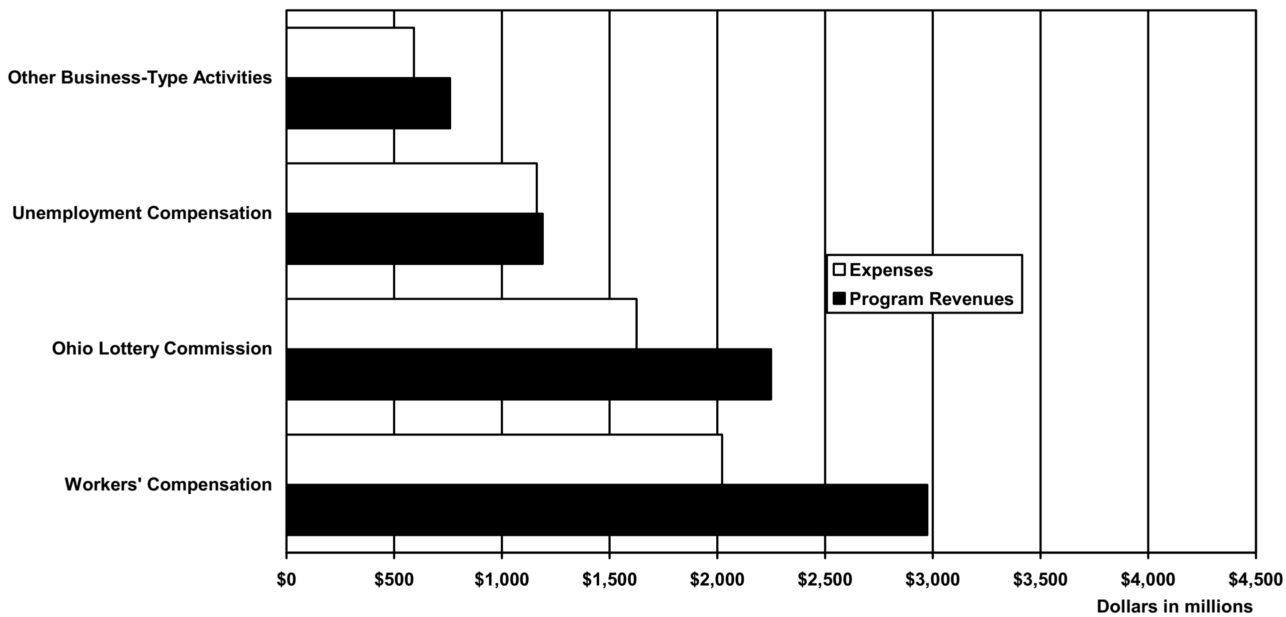
*Note that the restatements for June 30, 2005 do not include the effects of changes in reporting entity (see NOTE 2A).

Business-Type Activities

The State's enterprise funds reported net assets of $523.5 million, as of June 30, 2006, as compared to $(350) million in net assets, as of June 30, 2005. The primary reason for the increase in business-type activities was the Workers' Compensation Fund, which reported net assets of $(126.6) million, as of June 30, 2006, as compared to $(989.8) million, an 863.2 million increase since June 30, 2005. The Unemployment Compensation Fund posted an $11.7 million or 1.8 percent increase in net assets during fiscal year 2006 when the fund reported net assets of

$675.7 million, as of June 30, 2006. The Tuition Trust Authority Fund reported net assets of $(228.8) million, as of June 30, 2006, as compared to $(240.6) million in net assets, as of June 30, 2005, a 4.9 percent increase, while the Lottery Commission Fund reported $129.6 million in net assets as of June 30, 2006, compared to $152.1 million in net assets as of June 30, 2005, a 14.7 percent decrease. The chart below compares program expenses and program revenues for business-type activities.

Business-Type Activities — Expenses and Program Revenues
Fiscal Year 2006



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, 2006 and June 30, 2005 (dollars in thousands).

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

	As of and for the Fiscal Year Ended June 30, 2005 (as restated)*			
	General Fund	Other Major Funds	Nonmajor Governmental Funds	Total Governmental Funds
Unreserved/Undesignated Fund Balance (Deficit)	$ —	$ (3,182,789)	$ 846,736	$ (2,336,053)
Designated Fund Balance	649,420	—	—	649,420
Total Fund Balance	1,276,815	645,800	3,212,671	5,135,286
Total Revenues	25,452,628	10,986,081	3,802,370	40,241,079
Total Expenditures	24,444,884	11,124,976	5,890,767	41,460,627

*Note that the restatements for June 30, 2005 do not include the effects of changes in reporting entity (see NOTE 2A).

General Fund
Fund balance for the General Fund, the main operating fund of the State, increased by $627.2 million (exclusive of a $5.6 million increase in inventories) or 49.1 percent during the current fiscal year. Key factors for most of the increase were strong personal income tax revenue resulting from an expansion in the economy, increased corporate and public utility tax collections due to the imposition of the new commercial activity tax (CAT), a portion of which was deposited into the General Fund, and increased cigarette tax collections due to an increase in the cigarette tax. These increases in tax revenues, when coupled with investment proceeds that more than doubled compared to fiscal year 2005, outpaced mandated spending increases in the Public Assistance and Medicaid function and in the Primary, Secondary and Other Education function.

General Fund Budgetary Highlights
The State ended the first year of its biennial budget period on June 30, 2006 with a General Fund budgetary fund balance (i.e., cash less encumbrances) of $2.07 billion. Total budgetary sources for the General Fund (including $425.6 million in transfers from other funds) in the amount of $27.72 billion were above final estimates by $219.5 million or .8 percent during fiscal year 2006, while total tax receipts were above final estimates by $241.9 million or 1.2 percent. During fiscal year 2006, it was not necessary to use any of the $568.4 million that had been designated for budget stabilization purposes at June 30, 2005.

Total budgetary uses for the General Fund (including $273.4 million in transfers to other funds) in the amount of $27.52 billion were below final estimates by $676.6 million or 2.4 percent for fiscal year 2006.

Consistent with state law, the Governor's Executive Budget for the 2006-07 biennium was released in February 2005 and introduced in the General Assembly. After extended hearings and review, the appropriations act (Act) for the 2006-07 biennium for the General Revenue Fund (GRF), the largest, non-GAAP, budgetary-basis operating fund included in the State's General Fund, was passed by the General Assembly and signed (with selective vetoes) by the Governor on June 30, 2005.

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

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

- A 21-percent reduction in Ohio's personal income tax rates phased in at 4.2 percent a year over the 2005 through 2009 tax years.

- Phased elimination of the corporate franchise tax at a rate of approximately 20 percent a year over the 2006 through 2010 tax years (except for its continuing application to financial institutions and certain affiliates of insurance companies and financial institutions).

- Implementation of a new commercial activity tax (CAT) on gross receipts from doing business in Ohio that will be phased in over the 2006 through 2010 fiscal years. When fully phased in, the CAT will be levied at a rate of 0.26 percent on gross receipts in excess of $1 million. (The inclusion of wholesale and retail food sales for off-premise consumption, projected to produce approximately $140 million annually once the CAT is fully-phased in, is subject to a legal challenge.) In the next four fiscal years, as the CAT phases-in, the General fund is not expected to receive any revenues from this tax unless collections exceed estimates. Instead, all the tax receipts will be used to compensate school districts and local governments for tax revenues lost due to the phase-out of the tangible personal property tax. In addition, supplemental transfers from the General fund will probably be needed to fully replace the tangible personal property tax losses.

- A 5.5-percent state sales and use tax (reduced from the six-percent rate in effect during the 2004-05 biennium).

- An increase in the cigarette tax rate from 55 cents a pack (of 20 cigarettes) to $1.25 a pack.

The State ended fiscal year 2006 with a GRF cash balance of $1.53 billion and a GRF budgetary fund balance of $1.03 billion. Of the ending GRF budgetary fund balance, the State carried forward $631.9 million to cover the variance of GRF appropriations over estimated revenue for fiscal year 2007, to offset the one-time cost of accelerating the phase-in of reductions in Ohio's personal income tax withholding rates, and to maintain 0.5 percent of GRF revenue for fiscal year 2007 as an ending fund balance. Additionally, the State made a fiscal year-end designation that resulted in a cash transfer-out from the GRF in early fiscal year 2007 in the amount of $394 million, which includes $40.5 million in receipts collected from a broad tax-amnesty initiative and deposited in the state treasury in June 2006, for budget stabilization purposes.

Other Major Governmental Funds

Fund balance for the *Job, Family and Other Human Services Fund*, as of June 30, 2006, was $177.7 million, an increase of $294.1 million as compared to the deficit of $116.4 million at June 30, 2005. Revenues exceeded expenditures by $250.8 million, while net transfers-in totaled $43.3 million.

Fund balance for the *Education Fund*, as of June 30, 2006, totaled $64.8 million, a decrease of $1.8 million since June 30, 2005. Fiscal year 2006 net transfers-in for the fund in the amount of $626.7 million were not quite enough to cover the excess of expenditures over revenues reported for the fund in the amount of $628.5 million.

Fund balance for the *Highway Operating Fund*, as of June 30, 2006, totaled $752.8 million, an increase of $171.8 million (including a $7 million increase in inventories) since June 30, 2005. The increase was due to an increase in the fund's revenues to $2.11 billion in fiscal year 2006 from $1.81 billion in fiscal year 2005. The revenue increase for this fund was due in part to a two-cent increase in the motor vehicle fuel tax rate from 26 cents a gallon to 28 cents a gallon, effective July 1, 2005. Expenditures in the amount of $2.16 billion also increased significantly during fiscal year 2006 when compared to the $2.05 billion in expenditures reported for fiscal year 2005.

Fund balance for the *Revenue Distribution Fund*, as of June 30, 2006, totaled $27.9 million, a decrease of $86.7 million since June 30, 2005. Fiscal year 2006 net transfers-out to other governmental funds of $700.3 million were greater than the $613.7 million excess of revenues over expenditures, thus contributing to the decrease in fund balance.

Major Proprietary Funds

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

For the *Workers' Compensation Fund*, the $863.2 million increase in net assets was primarily due to a decrease in benefit payments of approximately $983 million, and the elimination of any payments of premium credits to employers in fiscal year 2006. These changes resulted in a decrease in operating expenses of $1.22 billion, to $2.01 billion in fiscal year 2006 from $3.23 billion in fiscal year 2005. The Bureau of Workers' Compensation reported net investment income of $763.8 million compared to net investment income of $988.4 million reported in the previous fiscal year. The decrease in net investment income was primarily attributable to a change in the investment strategy and asset allocations. Prior to the third quarter of fiscal year 2006, investments were primarily in fixed maturities, domestic equity securities, and international securities with 77 external managers. These contracts were terminated, and substantially all assets were transitioned to a passively managed bond index fund that replicates the medium duration Lehman Aggregate Bond index. As a result of these changes, the fair value of the investment portfolio in fiscal year 2006 increased by $104.9 million compared to the $488.1 million increase in fair value during fiscal year 2005. These decreases in investment income were partially offset by a $230.4 million increase in earnings on fixed maturity investments during fiscal year 2006 as compared to fiscal year 2005.

Workers' compensation benefits and claims expenses were $169.5 million less than premium and assessment income in fiscal year 2006, whereas in fiscal year 2005 benefits and claims expenses exceeded premium and assessment income by $715.7 million.

Workers' compensation benefits and claims expenses were $1.93 billion in fiscal year 2006 as compared to $2.92 billion in fiscal year 2005. The decrease in workers' compensation benefits is due largely to reductions in the cost of pharmacy benefits, lower hospital costs, and decreases in the number of newly awarded permanent total disability claims, all of which had a favorable impact on the calculation of medical reserves.

For fiscal year 2006, the *Lottery Commission Fund* reported $624.3 million in net income before transfers of $646.3 million and $472 thousand to the Education and General funds, respectively, posting a $22.4 million decrease in the fund's net assets. For fiscal year 2005, the *Lottery Commission Fund* reported $674.3 million in income before transfers of $645.1 million and $536 thousand to the Education and General funds, respectively, posting a $28.6 million increase in the fund's net assets. The fiscal year 2006 decrease in the Lottery Commission fund's net assets is primarily due to investment income of $22.3 million in fiscal year 2006, as compared to

$90.5 million in fiscal year 2005. The decrease in investment income was primarily due to the net effect of recognizing an unrealized loss on the investments dedicated to the payment of annuity prizes.

Unemployment benefits and claims expenses of $1.16 billion were $23.8 million less than in fiscal year 2005, while premium and assessment income of $1.12 billion exceeded that of fiscal year 2005 by $121.7 million for the *Unemployment Compensation Fund,* which contributed to the increase in the fund's net assets of $11.8 million for fiscal year 2006. For calendar years 2005 and 2006, Ohio's annualized average unemployment rate was 6.1 percent and 5.9 percent, respectively, according to the U.S. Department of Labor.

Nonmajor Proprietary Funds
For fiscal year 2006, the *Tuition Trust Authority* Fund reduced its deficit by $11.8 million or 4.9 percent. The Authority's primary source of operating income is investment income (due to the suspension of the sale of tuition credits), while the primary operating expense is for tuition benefit payments. The deficit reduction, therefore, was primarily due to investment income of $69.6 million exceeding benefits and claims expenses of $56.8 million, by $12.8 million. Tuition benefits expense increased by $35.2 million, or 162.8 percent, over fiscal year 2005.

The *Liquor Control* Fund reported an increase to net assets of $6.7 million, or 35 percent, after transferring $138 million to the General Fund and $38.9 million to other governmental funds. Sales increased in the amount of $50.6 million, which, less the related increase in cost of goods sold of $19.8 million, provided the resources necessary to increase transfers to governmental funds by $22.3 million over fiscal year 2005.

The net assets of the *Office of Auditor of State* Fund increased by $2.5 million, or 23.7 percent, to $12.8 million, during fiscal year 2006. This increase was primarily due to a decrease in operating expenses of $2.1 million, which is primarily attributable to a decrease in the Office's liability for workers' compensation.

In fiscal year 2006, transfers from proprietary funds to governmental funds totaled $881 million, up $13.5 million or 1.6 percent when compared to the $867.5 million in transfers-out reported in fiscal year 2005.

Capital Asset and Debt Administration

Capital Assets
As of June 30, 2006 and June 30, 2005, the State had invested $23.97 billion and $23.46 billion, net of accumulated depreciation of $2.31 billion and $2.14 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, 2006
With Comparatives as of June 30, 2005
(dollars in thousands)

	As of June 30, 2006			As of June 30, 2005 *(as restated)*		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Land	$ 1,736,463	$ 11,994	$ 1,748,457	$ 1,632,382	$ 11,994	$ 1,644,376
Buildings	1,995,971	106,607	2,102,578	1,996,106	113,831	2,109,937
Land Improvements	186,105	15	186,120	170,386	16	170,402
Machinery and Equipment	191,668	15,809	207,477	171,528	27,332	198,860
Vehicles	132,658	2,080	134,738	130,050	1,931	131,981
Infrastructure:						
Highway Network:						
General Subsystem	8,337,768	—	8,337,768	8,315,025	—	8,315,025
Priority Subsystem	7,196,979	—	7,196,979	6,823,023	—	6,823,023
Bridge Network	2,430,629	—	2,430,629	2,332,077	—	2,332,077
Parks, Recreation, and Natural Resources System	39,034	—	39,034	31,329	—	31,329
	22,247,275	136,505	22,383,780	21,601,906	155,104	21,757,010
Construction-in-Progress	1,581,498	778	1,582,276	1,700,690	71	1,700,761
Total Capital Assets, Net	$23,828,773	$137,283	$23,966,056	$23,302,596	$155,175	$23,457,771

During fiscal year 2006, the State recognized $236.6 million in annual depreciation expense relative to its general governmental capital assets as compared with $212.7 million in depreciation expense recognized in fiscal year 2005.

Additionally, the State completed construction on a variety of projects at various state facilities during fiscal year 2006 totaling approximately $612.4 million, as compared with $388.4 million in the previous fiscal year. The total increase in the State's capital assets, net of accumulated depreciation, for the current fiscal year was 2.17 percent (about a 2.26 percent increase for governmental activities and an 11.53 percent decrease for business-type activities). As is further detailed in NOTE 19E. of the notes to the financial statements, the State had $114.4 million in major construction commitments (unrelated to infrastructure), as of June 30, 2006, as compared with the $159.2 million balance reported for June 30, 2005.

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 42,668 in lane miles of highway (12,500 in lane miles for the priority highway subsystem and 30,168 in lane miles for the general highway subsystem) and approximately 83.4 million square feet of deck area that comprises 12,531 bridges for which the State has the responsibility for ongoing maintenance.

Ohio accounts for its pavement network in two subsystems: *Priority*, which comprises interstate highways, freeways, and multi-lane portions of the National Highway System, and *General*, which comprises two-lane routes outside of cities. It is the State's goal to allow no more than 25 percent of the total lane-miles reported for each of the priority and general subsystems, respectively, to be classified with a "poor" condition rating. The most recent condition assessment, completed by the Ohio Department of Transportation for calendar year 2005, indicates that only 3.6 percent and 1.9 percent of the priority and general subsystems, respectively, were assigned a "poor" condition rating. For calendar year 2004, only 4.5 percent and 2.2 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 2005, indicates that only 2.7 percent and .01 percent of the number of square feet of bridge deck area were considered to be in "fair" and "poor" conditions, respectively. For calendar year 2004, only 2.8 percent and .02 percent of the number of square feet of bridge deck area were considered to be in "fair" and "poor" conditions, respectively.

For fiscal year 2006, total actual maintenance and preservation costs for the priority and general subsystems were $410 million and $312.1 million, respectively, compared to estimated costs of $376.6 million for the priority system and $214.8 million for the general system, while total actual maintenance and preservation costs for the bridge network was $262 million compared to estimated costs of $246.1 million. For the previous fiscal year, total actual maintenance and preservation costs for the priority and general subsystems were $350.4 million and $292.3 million respectively, compared to estimated costs of $337.2 million for the priority system and $197.7 million for the general system, while total actual maintenance and preservation costs for the bridge network was $231.9 million compared to estimated costs of $241.7 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

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 2006, the State issued at par $1.37 billion in general obligation bonds, $199.3 million in revenue bonds, and $109.8 million in special obligation bonds. Of the general obligation bonds and special obligation bonds issued at par, $121.4 million and $34.8 million, respectively, were refunding bonds. The total increase in the State's debt obligations for the current fiscal year, as based on carrying amount, was 5.5 percent (a 5.8 percent increase for governmental activities and a 10.5 percent decrease for business-type activities).

As of June 30, 2006 and June 30, 2005, the State had total debt of approximately $11.16 billion and $10.57 billion, respectively, as shown in the table below.

Bonds and Notes Payable and Certificates of Participation
As of June 30, 2006
With Comparatives as of June 30, 2005
(dollars in thousands)

	As of June 30, 2006			As of June 30, 2005		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Bonds and Notes Payable:						
General Obligation Bonds	$ 6,893,521	$ —	$ 6,893,521	$ 6,039,203	$ —	$ 6,039,203
Revenue Bonds and Notes	720,675	135,215	855,890	591,888	151,063	742,951
Special Obligation Bonds	3,317,325	—	3,317,325	3,699,936	—	3,699,936
Certificates of Participation	90,389	—	90,389	92,142	—	92,142
Total Debt	$11,021,910	$135,215	$11,157,125	$10,423,169	$151,063	$10,574,232

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

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

The State's revenue bonds are rated as follows:

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

On February 16, 2007, Moody's changed their "credit outlook" on the State from "stable" to "negative." The change in credit outlook is not a precursor to a rating change, but is an indication over the intermediate to longer term of a potential change.

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

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

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

Conditions Expected to Affect Future Operations

Economic Factors
Nationally, economic indicators turned negative as February 2007 came to a close. Real gross domestic product (GDP) expanded 2.2 percent in the fourth quarter, down from the original estimate of 3.5 percent. This marks the third consecutive quarter with less than three percent real growth in the GDP, and the first such trend since the three quarters ending in the first quarter of calendar year 2003. Real GDP grew at a rate of 3.3 percent for the year, as compared to 3.2 percent for 2005. Consumer spending, exports, and government purchases contributed to the growth in the GDP, but increased inventories held down the rate of growth. Consumer spending remains strong, as does investment in nonresidential structures and exports, but housing is extremely weak. Most forecasters predict that economic activity will rebound to estimates later in the year.

Consumer spending in the Midwest continues to follow national trends, while Midwest retail sales were flat in January 2007 as compared to December 2006, and on a year-over-year basis, retail sales increased only 1.8 percent. By comparison, retail sales nationally were also unchanged from December 2006 to January 2007, and increased 2.3 percent for the year.

Ohio employment decreased during December 2006—the seventh straight monthly decline. Job losses were concentrated in Manufacturing and Government. Job gains occurred primarily in Trade, Transportation and Utilities, Educational and Health Services, and Leisure and Hospitality. Total employment was up by 8,900 jobs from December 2005—well below the trend of the past two years.

General Revenue Fund
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.

Through February, 2007, GRF revenues and disbursements remain under estimates. Fiscal year-to-date GRF revenues were $250 million, or 1.5 percent, below expectations, but GRF tax sources were $80.5 million, or 0.7 percent, above the estimate. In comparison with the same point in time in fiscal year 2006, year-to-date GRF revenue decreased by $335.7 million, or 2.1 percent.

Fiscal year-to-date sale and use tax receipts were below estimate by $104.3 million, or 2.1 percent, due to the implementation of various tax reforms mentioned previously, as well as weakness in the sales tax. As a result, total tax receipts have fallen $182.5 million, or 1.5 percent, below fiscal year 2006 year-to-date levels. Other tax receipts, in total, were above estimates for fiscal year-to-date, most notably the personal income tax ($56.9 million, or 1.1 percent), and the corporate franchise tax ($137 million, or 40.9 percent). Federal grants were below estimate by $360.5 million, or 8.9 percent, due to lower than expected spending on healthcare, which has caused both federal grant receipts and healthcare disbursements to fall below estimate.

Year-to-date GRF disbursements were below estimate by $702 million, or 3.9 percent, primarily due to healthcare disbursements which were below estimate by $459.9 million, or 6.7 percent. In comparison with the same point in time in fiscal year 2006, year-to-date GRF disbursements decreased $259.2 million, or 1.5 percent.

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

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BASIC FINANCIAL STATEMENTS

STATE OF OHIO
STATEMENT OF NET ASSETS
JUNE 30, 2006
(dollars in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS:				
Cash Equity with Treasurer	$ 6,789,609	$ 89,382	$ 6,878,991	$ 582,299
Cash and Cash Equivalents	104,753	207,112	311,865	699,997
Investments	891,754	16,105,147	16,996,901	5,815,309
Collateral on Lent Securities	3,857,013	44,698	3,901,711	323,246
Deposit with Federal Government	—	625,375	625,375	—
Taxes Receivable	1,527,630	—	1,527,630	—
Intergovernmental Receivable	1,351,168	12,317	1,363,485	43,385
Premiums and Assessments Receivable	—	2,148,529	2,148,529	—
Loans Receivable, Net	934,775	—	934,775	259,003
Receivable from Primary Government	—	—	—	47,582
Other Receivables	566,216	216,319	782,535	905,606
Inventories	54,887	36,414	91,301	52,056
Other Assets	90,988	18,554	109,542	522,948
Restricted Assets:				
Cash Equity with Treasurer	—	800	800	13,847
Cash and Cash Equivalents	—	1,540	1,540	479,264
Investments	—	1,577,356	1,577,356	2,052,554
Collateral on Lent Securities	—	351,854	351,854	7,832
Intergovernmental Receivable	—	—	—	288
Loans Receivable, Net	—	—	—	3,231,764
Other Receivables	—	13,843	13,843	—
Capital Assets Being Depreciated, Net	2,484,446	124,511	2,608,957	6,996,991
Capital Assets Not Being Depreciated	21,344,327	12,772	21,357,099	1,426,406
TOTAL ASSETS	**39,997,566**	**21,586,523**	**61,584,089**	**23,460,377**
LIABILITIES:				
Accounts Payable	625,602	47,917	673,519	427,863
Accrued Liabilities	326,283	4,761	331,044	512,700
Medicaid Claims Payable	996,080	—	996,080	—
Obligations Under Securities Lending	3,857,013	396,552	4,253,565	331,078
Intergovernmental Payable	1,474,164	1,362	1,475,526	402
Internal Balances	964,090	(964,090)	—	—
Payable to Component Units	47,617	—	47,617	—
Unearned Revenue	185,385	954	186,339	190,089
Benefits Payable	—	16,067	16,067	—
Refund and Other Liabilities	867,600	79,583	947,183	82,781
Noncurrent Liabilities:				
Bonds and Notes Payable:				
Due in One Year	1,019,930	18,803	1,038,733	812,632
Due in More Than One Year	9,911,591	116,412	10,028,003	5,296,245
Certificates of Participation:				
Due in One Year	800	—	800	725
Due in More Than One Year	89,589	—	89,589	27,140
Other Noncurrent Liabilities:				
Due in One Year	128,834	2,588,709	2,717,543	1,254,655
Due in More Than One Year	559,403	18,755,995	19,315,398	1,760,668
TOTAL LIABILITIES	**21,053,981**	**21,063,025**	**42,117,006**	**10,696,978**

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

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
NET ASSETS:				
Invested in Capital Assets,				
Net of Related Debt	20,889,063	10,363	20,899,426	5,095,188
Restricted for:				
Primary, Secondary and Other Education	9,607	—	9,607	—
Transportation and Highway Safety	921,993	—	921,993	—
State and Local				
Highway Construction	127,121	—	127,121	—
Federal Programs	75,776	—	75,776	19
Coal Research				
and Development Program	—	—	—	7,352
Clean Ohio Program	93,682	—	93,682	—
Community and Economic Development				
and Capital Purposes	883,385	—	883,385	13,847
Debt Service	—	—	—	2,274,289
Enterprise Bond Program	10,000	—	10,000	—
Workers' Compensation	—	—	—	—
Deferred Lottery Prizes	—	56,669	56,669	—
Unemployment Compensation	—	675,666	675,666	—
Ohio Building Authority	—	28,041	28,041	—
Nonexpendable for				
Colleges and Universities	—	—	—	3,070,470
Expendable for				
Colleges and Universities	—	—	—	1,742,318
Unrestricted (Deficits)	(4,067,042)	(247,241)	(4,314,283)	559,916
TOTAL NET ASSETS	**$ 18,943,585**	**$ 523,498**	**$ 19,467,083**	**$ 12,763,399**

STATE OF OHIO

STATEMENT OF A TI ITIES
FO   THE FIS A   EA   EN E   JUNE 30, 2006

(dollars in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES, FEES, FINES AND FORFEITURES	PROGRAM REVENUES: OPERATING GRANTS, CONTRIBUTIONS AND RESTRICTED INVESTMENT INCOME/(LOSS)	PROGRAM REVENUES: CAPITAL GRANTS, CONTRIBUTIONS AND RESTRICTED INVESTMENT INCOME/(LOSS)	NET (EXPENSE) REVENUE
PRIMARY GOVERNMENT:					
GOVERNMENTAL ACTIVITIES:					
Primary, Secondary and Other Education	$ 11,157,283	$ 35,497	$ 1,618,752	$ —	$ (9,503,034)
Higher Education Support	2,608,007	5,186	32,046	—	(2,570,775)
Public Assistance and Medicaid	14,909,149	639,821	9,517,548	—	(4,751,780)
Health and Human Services	3,526,763	236,049	1,998,901	1,889	(1,289,924)
Justice and Public Protection	3,111,577	912,421	315,031	2,704	(1,881,421)
Environmental Protection and Natural Resources	406,632	192,237	86,016	1,447	(126,932)
Transportation	1,925,841	25,581	84,148	1,262,319	(553,793)
General Government	952,248	474,975	296,540	19,741	(160,992)
Community and Economic Development	3,618,550	288,490	387,558	—	(2,942,502)
Interest on Long-Term Debt (excludes interest charged as program expense)	175,732	—	—	—	(175,732)
TOTAL GOVERNMENTAL ACTIVITIES	**42,391,782**	**2,810,257**	**14,336,540**	**1,288,100**	**(23,956,885)**
BUSINESS-TYPE ACTIVITIES:					
Workers' Compensation	2,011,480	2,118,571	763,812	—	870,903
Lottery Commission	1,625,309	2,227,386	22,258	—	624,335
Unemployment Compensation	1,161,776	1,163,397	25,414	—	27,035
Ohio Building Authority	25,797	26,239	1,741	—	2,183
Tuition Trust Authority	67,162	9,289	69,629	—	11,756
Liquor Control	423,373	606,905	—	—	183,532
Underground Parking Garage	2,993	2,590	42	—	(361)
Office of Auditor of State	71,729	43,437	107	—	(28,185)
TOTAL BUSINESS-TYPE ACTIVITIES	**5,389,619**	**6,197,814**	**883,003**	**—**	**1,691,198**
TOTAL PRIMARY GOVERNMENT	**$ 47,781,401**	**$ 9,008,071**	**$ 15,219,543**	**$ 1,288,100**	**$ (22,265,687)**
COMPONENT UNITS:					
School Facilities Commission	$ 555,648	$ 2,765	$ 19,850	$ —	$ (533,033)
Ohio Water Development Authority	122,637	133,014	136,944	—	147,321
Ohio State University	3,361,245	2,266,045	595,846	18,548	(480,806)
University of Cincinnati	985,018	366,466	403,975	7,587	(206,990)
Other Component Units	4,176,506	2,549,765	500,757	48,047	(1,077,937)
TOTAL COMPONENT UNITS	**$ 9,201,054**	**$ 5,318,055**	**$ 1,657,372**	**$ 74,182**	**$ (2,151,445)**

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

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
CHANGES IN NET ASSETS:				
Net (Expense) Revenue............................	*$ (23,956,885)*	*$ 1,691,198*	*$ (22,265,687)*	*$ (2,151,445)*
General Revenues:				
Taxes:				
Income..	*9,854,803*	*—*	*9,854,803*	*—*
Sales...	*7,623,513*	*—*	*7,623,513*	*—*
Corporate and Public Utility	*2,359,338*	*—*	*2,359,338*	*—*
Cigarette..	*1,084,143*	*—*	*1,084,143*	*—*
Other...	*645,856*	*—*	*645,856*	*—*
Restricted for Transportation Purposes:				
Motor Vehicle Fuel Taxes....................	*1,850,939*	*—*	*1,850,939*	*—*
Total Taxes....................................	*23,418,592*	*—*	*23,418,592*	*—*
Tobacco Settlement.................................	*336,044*	*—*	*336,044*	*—*
Escheat Property.....................................	*93,782*	*—*	*93,782*	*—*
Unrestricted Investment Income...............	*128,772*	*—*	*128,772*	*376,464*
State Assistance	*—*	*—*	*—*	*2,945,098*
Other...	*295*	*932*	*1,227*	*44,561*
Additions to Endowments				
and Permanent Fund Principal............	*—*	*—*	*—*	*83,114*
Transfers-Internal Activities......................	*818,636*	*(818,636)*	*—*	*—*
TOTAL GENERAL REVENUES, CONTRIBUTIONS, AND TRANSFERS...	***24,796,121***	***(817,704)***	***23,978,417***	***3,449,237***
CHANGE IN NET ASSETS..................	***839,236***	***873,494***	***1,712,730***	***1,297,792***
NET ASSETS, JULY 1 (as restated)..	*18,104,349*	*(349,996)*	*17,754,353*	*11,465,607*
NET ASSETS, JUNE 30.......................	***$ 18,943,585***	***$ 523,498***	***$ 19,467,083***	***$ 12,763,399***

STATE OF OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006
(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	JOB, FAMILY AND OTHER HUMAN SERVICES	EDUCATION
ASSETS:			
Cash Equity with Treasurer	$ 2,821,124	$ 216,807	$ 86,812
Cash and Cash Equivalents	12,294	1,940	60
Investments	459,646	9,327	2,885
Collateral on Lent Securities	1,611,799	122,620	49,099
Taxes Receivable	1,088,389	—	—
Intergovernmental Receivable	346,082	417,688	143,882
Loans Receivable, Net	244,202	—	44
Interfund Receivable	2,925	—	—
Other Receivables	267,998	71,813	308
Inventories	24,254	—	—
Other Assets	15,403	1,929	5,141
TOTAL ASSETS	**$ 6,894,116**	**$ 842,124**	**$ 288,231**
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts Payable	$ 176,138	$ 53,253	$ 13,587
Accrued Liabilities	119,791	15,630	1,728
Medicaid Claims Payable	880,091	—	—
Obligations Under Securities Lending	1,611,799	122,620	49,099
Intergovernmental Payable	377,211	230,590	59,946
Interfund Payable	701,130	21,011	2,466
Payable to Component Units	14,967	372	2,735
Deferred Revenue	314,209	162,275	10,389
Unearned Revenue	—	42,761	83,463
Refund and Other Liabilities	778,848	15,905	—
Liability for Escheat Property	10,249	—	—
TOTAL LIABILITIES	4,984,433	664,417	223,413
FUND BALANCES:			
Reserved for:			
Debt Service	—	—	—
Encumbrances	302,720	2,164,476	21,376
Noncurrent Portion of Loans Receivable	240,365	—	42
Loan Commitments	—	—	—
Inventories	24,254	—	—
State and Local Highway Construction	—	—	—
Federal Programs	—	5,479	6,060
Other	50,394	5,614	533
Unreserved/Designated	1,010,689	—	—
Unreserved/Undesignated (Deficits):			
General Fund	281,261	—	—
Special Revenue Funds	—	(1,997,862)	36,807
Capital Projects Funds	—	—	—
TOTAL FUND BALANCES	1,909,683	177,707	64,818
TOTAL LIABILITIES AND FUND BALANCES	**$ 6,894,116**	**$ 842,124**	**$ 288,231**

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

HIGHWAY OPERATING	REVENUE DISTRIBUTION	NONMAJOR GOVERNMENTAL FUNDS	TOTAL
$ 770,500	$ 360,051	$ 2,534,315	$ 6,789,609
754	7,900	81,805	104,753
—	—	419,896	891,754
436,126	203,636	1,433,733	3,857,013
65,238	369,171	4,832	1,527,630
118,770	—	324,746	1,351,168
82,263	—	608,266	934,775
—	—	3,798	6,723
2,655	—	223,442	566,216
30,633	—	—	54,887
2,965	—	13,699	39,137
$ 1,509,904	**$ 940,758**	**$ 5,648,532**	**$ 16,123,665**
$ 172,491	$ —	$ 210,133	$ 625,602
23,095	—	43,255	203,499
—	—	115,989	996,080
436,126	203,636	1,433,733	3,857,013
316	595,371	210,730	1,474,164
114,656	395	131,155	970,813
252	—	29,291	47,617
5,255	35,155	291,226	818,509
4,889	7,943	46,329	185,385
—	70,389	2,458	867,600
—	—	—	10,249
757,080	912,889	2,514,299	10,056,531
—	—	34,109	34,109
1,607,196	—	1,512,820	5,608,588
76,905	—	595,971	913,283
—	—	101,443	101,443
30,633	—	—	54,887
—	127,121	—	127,121
3,271	—	37,998	52,808
8,088	—	32,057	96,686
—	—	—	1,010,689
—	—	—	281,261
(973,269)	(99,252)	985,426	(2,048,150)
—	—	(165,591)	(165,591)
752,824	27,869	3,134,233	6,067,134
$ 1,509,904	**$ 940,758**	**$ 5,648,532**	**$ 16,123,665**

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STATE OF OHIO
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006
(dollars in thousands)

Total Fund Balances for Governmental Funds	***$ 6,067,134***
Total net assets reported for governmental activities in the Statement of Net Assets is different because:	
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds. Those assets consist of:	
Land	*1,736,463*
Buildings and Improvements, net of $1,388,541 accumulated depreciation	*1,995,971*
Land Improvements, net of $153,331 accumulated depreciation	*186,105*
Machinery and Equipment, net of $401,398 accumulated depreciation	*191,668*
Vehicles, net of $118,893 accumulated depreciation	*132,658*
Infrastructure, net of $3,278 accumulated depreciation	*18,004,410*
Construction-in-Progress	*1,581,498*
	23,828,773
Some of the State's revenues are collected after year-end but are not available soon enough to pay for the current period's (within 60 days of year-end) expenditures, and therefore, are deferred in the funds.	
Taxes Receivable	*334,805*
Intergovernmental Receivable	*250,009*
Other Receivables	*220,556*
Other Assets	*13,139*
	818,509
Unamortized bond issue costs are not financial resources, and therefore, are not reported in the funds.	*51,851*
The following liabilities are not due and payable in the current period, and therefore, are not reported in the funds.	
Accrued Liabilities:	
Interest Payable	*(122,784)*
Bonds and Notes Payable:	
General Obligation Bonds	*(6,893,521)*
Revenue Bonds	*(720,675)*
Special Obligation Bonds	*(3,317,325)*
Certificates of Participation	*(90,389)*
Other Noncurrent Liabilities:	
Compensated Absences	*(420,673)*
Capital Leases Payable	*(3,366)*
Estimated Claims Payable	*(8,398)*
Liability for Escheat Property	*(245,551)*
	(11,822,682)
Total Net Assets of Governmental Activities	***$ 18,943,585***

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, 2006

(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	JOB, FAMILY AND OTHER HUMAN SERVICES	EDUCATION
REVENUES:			
Income Taxes	$ 8,889,463	$ —	$ —
Sales Taxes	7,302,441	—	—
Corporate and Public Utility Taxes	1,774,113	—	—
Motor Vehicle Fuel Taxes	—	—	—
Cigarette Taxes	1,084,142	—	—
Other Taxes	584,689	3,720	—
Licenses, Permits and Fees	209,054	516,615	1,236
Sales, Services and Charges	46,067	—	347
Federal Government	5,526,049	4,803,642	1,615,052
Tobacco Settlement	—	—	—
Escheat Property	145,695	—	—
Investment Income	305,425	18,475	4,076
Other	177,066	110,713	23,078
TOTAL REVENUES	**26,044,204**	**5,453,165**	**1,643,789**
EXPENDITURES:			
CURRENT OPERATING:			
Primary, Secondary and Other Education	8,235,782	5,876	2,217,629
Higher Education Support	2,183,324	3,161	31,630
Public Assistance and Medicaid	10,360,892	4,543,579	—
Health and Human Services	1,200,155	545,277	1,871
Justice and Public Protection	1,969,847	40,287	21,162
Environmental Protection and Natural Resources	96,969	—	—
Transportation	24,727	—	—
General Government	520,217	2,050	—
Community and Economic Development	623,300	60,199	—
CAPITAL OUTLAY	204	1,888	—
DEBT SERVICE	536	—	—
TOTAL EXPENDITURES	**25,215,953**	**5,202,317**	**2,272,292**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	**828,251**	**250,848**	**(628,503)**
OTHER FINANCING SOURCES (USES):			
Bonds and Certificates of Participation Issued	629,392	—	—
Refunding Bonds Issued	—	—	—
Payment to Refunded Bond Escrow Agents	—	—	—
Premiums	921	—	—
Capital Leases	4,959	—	—
Transfers-in	365,326	95,827	658,548
Transfers-out	(1,201,618)	(52,547)	(31,817)
TOTAL OTHER FINANCING SOURCES (USES)	**(201,020)**	**43,280**	**626,731**
NET CHANGE IN FUND BALANCES	**627,231**	**294,128**	**(1,772)**
FUND BALANCES (DEFICITS), JULY 1 (as restated)	1,276,815	(116,421)	66,590
Increase for Changes in Inventories	5,637	—	—
FUND BALANCES, JUNE 30	**$ 1,909,683**	**$ 177,707**	**$ 64,818**

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

HIGHWAY OPERATING	REVENUE DISTRIBUTION	NONMAJOR GOVERNMENTAL FUNDS	TOTAL
$ —	$ 829,300	$ 7,505	$ 9,726,268
—	301,264	19,808	7,623,513
—	581,705	3,519	2,359,337
672,563	1,154,244	24,133	1,850,940
—	—	1	1,084,143
—	16,599	40,849	645,857
70,665	365,461	974,518	2,137,549
2,224	—	28,433	77,071
1,322,053	—	2,154,299	15,421,095
—	—	294,725	294,725
—	—	—	145,695
20,317	1,929	90,401	440,623
18,204	79	298,172	627,312
2,106,026	**3,250,581**	**3,936,363**	**42,434,128**
—	338,017	228,781	11,026,085
—	—	280,959	2,499,074
—	—	3,040	14,907,511
—	1,925	1,712,343	3,461,571
—	327,107	696,721	3,055,124
—	—	298,047	395,016
2,160,630	—	571	2,185,928
—	—	270,378	792,645
—	1,969,882	895,684	3,549,065
—	—	483,812	485,904
—	—	1,458,729	1,459,265
2,160,630	**2,636,931**	**6,329,065**	**43,817,188**
(54,604)	**613,650**	**(2,392,702)**	**(1,383,060)**
—	—	894,877	1,524,269
—	—	156,240	156,240
—	—	(172,770)	(172,770)
—	—	70,554	71,475
—	—	—	4,959
513,766	144,532	1,541,822	3,319,821
(294,405)	(844,876)	(75,922)	(2,501,185)
219,361	**(700,344)**	**2,414,801**	**2,402,809**
164,757	**(86,694)**	**22,099**	**1,019,749**
581,068	114,563	3,112,134	5,034,749
6,999	—	—	12,636
$ 752,824	**$ 27,869**	**$ 3,134,233**	**$ 6,067,134**

STATE OF OHIO

E ON I IATION OF THE STATEMENT OF E ENUES, E EN ITU ES AN HAN ES IN FUN A AN ES OF O E NMENTA FUN S TO THE STATEMENT OF A TI ITIES FO THE FIS A EA EN E JUNE 30, 2006

(dollars in thousands)

Net Change in Fund Balances -- Total Governmental Funds............................		***$ 1,019,749***
Change in Inventories...		*12,636*
		1,032,385
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..	*762,809*	
Depreciation Expense..	*(236,632)*	
Excess of Capital Outlay Over Depreciation Expense..................................		*526,177*
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. In the current period, proceeds were received from:		
General Obligation Bonds..	*(1,250,000)*	
Revenue Bonds...	*(199,270)*	
Special Obligation Bonds...	*(74,999)*	
Refunding Bonds, including Bond Premium/Discount, Net...............................	*(173,664)*	
Premiums and Discounts, Net:		
General Obligation Bonds..	*(45,876)*	
Revenue Bonds..	*(5,702)*	
Special Obligation Bonds...	*(2,473)*	
Deferred Refunding Loss...	*8,413*	
Capital Leases..	*(4,959)*	
Total Debt Proceeds...		*(1,748,530)*
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. In the current year, these amounts consist of:		
Debt Principal Retirement and Defeasements:		
General Obligation Bonds..	*565,105*	
Revenue Bonds..	*71,790*	
Special Obligation Bonds...	*488,743*	
Certificates of Participation...	*1,005*	
Capital Lease Payments..	*4,064*	
Total Long-Term Debt Repayment...		*1,130,707*
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the governmental funds. Deferred revenues decreased by this amount this year.		*(40,509)*

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

Some expenses reported in the Statement of Activities are not reported as expenditures in the governmental funds. Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the changes in the following balances:

Increase in Bond Issue Costs Included in Other Assets....................................	*4,078*	
Increase in Accrued Interest and Other Accrued Liabilities..............................	*(9,655)*	
Amortization of Bond Premiums/Accretion of Bond Discount, Net....................	*43,674*	
Amortization of Deferred Refunding Loss...	*(25,487)*	
Increase in Compensated Absences...	*(23,056)*	
Decrease in Refund and Other Liabilities...	*3,140*	
Increase in Estimated Claims Payable..	*(1,775)*	
Increase in Liability for Escheat Property..	*(51,913)*	
Total additional expenditures..		*(60,994)*
Change in Net Assets of Governmental Activities..		***$ 839,236***

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, 2006

(dollars in thousands)

	GENERAL			
	BUDGET			VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL	ACTUAL	POSITIVE/ (NEGATIVE)
REVENUES:				
Income Taxes	$ 8,673,900	$ 8,673,900	$ 8,786,388	$ 112,488
Sales Taxes	7,480,900	7,480,900	7,368,244	(112,656)
Corporate and Public Utility Taxes	1,558,400	1,558,400	1,741,463	183,063
Motor Vehicle Fuel Taxes	—	—	—	—
Cigarette Taxes	1,013,200	1,013,200	1,084,142	70,942
Other Taxes	597,382	597,382	585,482	(11,900)
Licenses, Permits and Fees	179,173	179,173	183,877	4,704
Sales, Services and Charges	51,136	51,136	51,934	798
Federal Government	5,799,284	5,799,284	5,670,074	(129,210)
Investment Income	68,558	68,558	110,839	42,281
Other	1,706,115	1,706,115	1,709,145	3,030
TOTAL REVENUES	**27,128,048**	**27,128,048**	**27,291,588**	**163,540**
BUDGETARY EXPENDITURES:				
CURRENT OPERATING:				
Primary, Secondary and Other Education	7,714,620	7,748,542	7,672,196	76,346
Higher Education Support	2,157,722	2,187,321	2,183,525	3,796
Public Assistance and Medicaid	11,697,135	11,704,083	11,316,661	387,422
Health and Human Services	1,391,429	1,393,058	1,372,595	20,463
Justice and Public Protection	2,119,499	2,142,246	2,103,956	38,290
Environmental Protection and Natural Resources	132,011	135,067	129,912	5,155
Transportation	40,613	40,672	40,406	266
General Government	729,848	763,195	662,717	100,478
Community and Economic Development	690,020	716,841	702,088	14,753
CAPITAL OUTLAY	353	353	318	35
DEBT SERVICE	1,139,408	1,119,213	1,062,943	56,270
TOTAL BUDGETARY EXPENDITURES	**27,812,658**	**27,950,591**	**27,247,317**	**703,274**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES	**(684,610)**	**(822,543)**	**44,271**	**866,814**
OTHER FINANCING SOURCES (USES):				
Transfers-in	369,734	369,734	425,645	55,911
Transfers-out	(246,745)	(246,745)	(273,411)	(26,666)
TOTAL OTHER FINANCING SOURCES (USES)	**122,989**	**122,989**	**152,234**	**29,245**
NET CHANGE IN FUND BALANCES	**$ (561,621)**	**$ (699,554)**	**196,505**	**$ 896,059**
BUDGETARY FUND BALANCES (DEFICITS), JULY 1			1,229,692	
Outstanding Encumbrances at Beginning of Fiscal Year			643,476	
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30			**$ 2,069,673**	

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

JOB, FAMILY AND OTHER HUMAN SERVICES				EDUCATION			
BUDGET			VARIANCE WITH FINAL BUDGET	BUDGET			VARIANCE WITH FINAL BUDGET
ORIGINAL	FINAL	ACTUAL	POSITIVE/ (NEGATIVE)	ORIGINAL	FINAL	ACTUAL	POSITIVE/ (NEGATIVE)
		$ —				$ —	
		—				—	
		—				—	
		—				—	
		—				—	
		3,720				—	
		491,135				1,236	
		—				347	
		3,466,430				1,655,491	
		18,146				3,384	
		174,892				31,588	
		4,154,323				**1,692,046**	
$ 178,850	$ 84,470	13,432	$ 71,038	$ 2,435,562	$ 2,444,980	2,312,029	$ 132,951
8,784	8,784	4,840	3,944	22,019	41,266	29,299	11,967
6,380,367	6,622,139	5,960,052	662,087	—	—	—	—
654,967	660,216	601,563	58,653	1,942	3,442	2,217	1,225
58,098	64,605	37,050	27,555	29,255	31,158	25,161	5,997
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
1,258	2,484	1,521	963	—	—	—	—
—	75,000	60,199	14,801	—	—	—	—
22,866	25,564	3,441	22,123	—	—	—	—
—	—	—	—	—	—	—	—
$ 7,305,190	**$ 7,543,262**	**6,682,098**	**$ 861,164**	**$ 2,488,778**	**$ 2,520,846**	**2,368,706**	**$ 152,140**
		(2,527,775)				**(676,660)**	
		62,300				655,496	
		(44,134)				(8,583)	
		18,166				**646,913**	
		(2,509,609)				**(29,747)**	
		(2,173,412)				51,146	
		2,384,746				30,090	
		$ (2,298,275)				**$ 51,489**	

(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, 2006

(dollars in thousands)

(continued)

	HIGHWAY OPERATING			
	BUDGET			VARIANCE WITH FINAL BUDGET POSITIVE/
	ORIGINAL	FINAL	ACTUAL	(NEGATIVE)
REVENUES:				
Income Taxes			$ —	
Sales Taxes			—	
Corporate and Public Utility Taxes			—	
Motor Vehicle Fuel Taxes			667,566	
Cigarette Taxes			—	
Other Taxes			—	
Licenses, Permits and Fees			70,675	
Sales, Services and Charges			2,224	
Federal Government			1,310,915	
Investment Income			19,973	
Other			77,591	
TOTAL REVENUES			**2,148,944**	
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	4,041,007	4,945,802	3,991,653	954,149
General Government	—	—	—	—
Community and Economic Development	—	—	—	—
CAPITAL OUTLAY	—	—	—	—
DEBT SERVICE	96,757	89,947	86,337	3,610
TOTAL BUDGETARY EXPENDITURES	**$ 4,137,764**	**$ 5,035,749**	**4,077,990**	**$ 957,759**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES			**(1,929,046)**	
OTHER FINANCING SOURCES (USES):				
Transfers-in			596,931	
Transfers-out			(290,528)	
TOTAL OTHER FINANCING SOURCES (USES)			**306,403**	
NET CHANGE IN FUND BALANCES			**(1,622,643)**	
BUDGETARY FUND BALANCES (DEFICITS), JULY 1			(1,095,790)	
Outstanding Encumbrances at Beginning of Fiscal Year			1,696,712	
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30			**$ (1,021,721)**	

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

REVENUE DISTRIBUTION			
BUDGET			VARIANCE WITH FINAL BUDGET
ORIGINAL	FINAL	ACTUAL	POSITIVE/ (NEGATIVE)
		$ 829,300	
		301,264	
		447,721	
		1,155,853	
		—	
		16,599	
		532,304	
		—	
		—	
		1,929	
		80	
		3,285,050	
$ 165,998	$ 193,328	193,121	$ 207
—	—	—	—
—	—	—	—
1,865	1,865	1,545	320
530,000	530,305	516,775	13,530
—	—	—	—
—	—	—	—
—	—	—	—
1,899,359	2,048,415	1,896,135	152,280
—	—	—	—
—	—	—	—
$ 2,597,222	**$ 2,773,913**	**2,607,576**	**$ 166,337**
		677,474	
		144,532	
		(820,921)	
		(676,389)	
		1,085	
		350,840	
		—	
		$ 351,925	

STATE OF OHIO

STATEMENT OF NET ASSETS

O IETA FUN S ENTE ISE

JUNE 30, 2006

(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer	$ 11,113	$ 51,752	$ —
Cash and Cash Equivalents	182,493	11,641	1,338
Collateral on Lent Securities	6,285	29,270	—
Restricted Assets:			
Cash Equity with Treasurer	—	800	—
Investments	—	91,334	—
Collateral on Lent Securities	—	351,854	—
Other Receivables	—	13,843	—
Deposit with Federal Government	—	—	625,375
Intergovernmental Receivable	—	—	3,351
Premiums and Assessments Receivable	873,835	—	25,053
Interfund Receivable	77,015	—	—
Other Receivables	153,631	40,054	8,927
Inventories	—	—	—
Other Assets	3,163	6,809	7,320
TOTAL CURRENT ASSETS	**1,307,535**	**597,357**	**671,364**
NONCURRENT ASSETS:			
Restricted Assets:			
Cash and Cash Equivalents	1,540	—	—
Investments	—	674,223	—
Investments	16,029,479	—	—
Premiums and Assessments Receivable	1,215,678	—	33,963
Interfund Receivable	887,677	—	—
Other Receivables	—	—	—
Other Assets	—	—	—
Capital Assets Being Depreciated, Net	110,948	2,866	—
Capital Assets Not Being Depreciated	11,994	—	—
TOTAL NONCURRENT ASSETS	**18,257,316**	**677,089**	**33,963**
TOTAL ASSETS	**19,564,851**	**1,274,446**	**705,327**
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts Payable	8,808	11,890	—
Accrued Liabilities	—	—	—
Obligations Under Securities Lending	6,285	381,124	—
Intergovermental Payable	—	—	928
Deferred Prize Awards Payable	—	94,484	—
Interfund Payable	—	497	—
Unearned Revenue	39,396	943	—
Benefits Payable	1,886,938	—	16,067
Refund and Other Liabilities	529,478	20,164	12,666
Bonds and Notes Payable	14,150	—	—
TOTAL CURRENT LIABILITIES	**2,485,055**	**509,102**	**29,661**
NONCURRENT LIABILITIES:			
Deferred Prize Awards Payable	—	629,047	—
Interfund Payable	—	3,832	—
Unearned Revenue	360,598	—	—
Benefits Payable	15,363,740	—	—
Refund and Other Liabilities	1,368,177	2,826	—
Bonds and Notes Payable	113,902	—	—
TOTAL NONCURRENT LIABILITIES	**17,206,417**	**635,705**	**—**
TOTAL LIABILITIES	**19,691,472**	**1,144,807**	**29,661**
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	(3,965)	2,866	—
Restricted for Deferred Lottery Prizes	—	56,669	—
Unrestricted (Deficits)	(122,656)	70,104	675,666
TOTAL NET ASSETS (DEFICITS)	**$ (126,621)**	**$ 129,639**	**$ 675,666**

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 26,517	$ 89,382
11,640	207,112
9,143	44,698
—	800
109,540	200,874
—	351,854
—	13,843
—	625,375
8,966	12,317
—	898,888
1,911	78,926
10,463	213,075
36,414	36,414
1,255	18,547
215,849	**2,792,105**
—	1,540
702,259	1,376,482
75,668	16,105,147
—	1,249,641
7,374	895,051
3,244	3,244
7	7
10,697	124,511
778	12,772
800,027	**19,768,395**
1,015,876	**22,560,500**
27,219	47,917
4,761	4,761
9,143	396,552
434	1,362
—	94,484
3,110	3,607
11	40,350
81,200	1,984,205
3,966	566,274
4,653	18,803
134,497	**3,158,315**
—	629,047
2,448	6,280
—	360,598
1,014,700	16,378,440
16,907	1,387,910
2,510	116,412
1,036,565	**18,878,687**
1,171,062	**22,037,002**
11,462	10,363
—	56,669
(166,648)	456,466
$ (155,186)	**$ 523,498**

STATE OF OHIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
OPERATING REVENUES:			
Charges for Sales and Services	$ —	$ 2,220,927	$ 13,593
Premium and Assessment Income	2,103,289	—	1,116,290
Federal Government	—	—	21,327
Investment Income	—	—	25,060
Other	15,282	6,459	12,251
TOTAL OPERATING REVENUES	**2,118,571**	**2,227,386**	**1,188,521**
OPERATING EXPENSES:			
Costs of Sales and Services	—	—	—
Administration	44,586	94,601	—
Bonuses and Commissions	—	139,841	—
Prizes	—	1,311,142	—
Benefits and Claims	1,933,813	—	1,161,444
Depreciation	8,758	14,596	—
Other	24,323	30	332
TOTAL OPERATING EXPENSES	**2,011,480**	**1,560,210**	**1,161,776**
OPERATING INCOME (LOSS)	**107,091**	**667,176**	**26,745**
NONOPERATING REVENUES (EXPENSES):			
Investment Income	763,812	22,258	290
Interest Expense	—	(20,615)	—
Federal Grants	—	—	—
Other	—	(44,484)	932
TOTAL NONOPERATING REVENUES (EXPENSES)	**763,812**	**(42,841)**	**1,222**
INCOME (LOSS) BEFORE TRANSFERS	**870,903**	**624,335**	**27,967**
TRANSFERS:			
Transfers-in	44	—	9,144
Transfers-out	(7,724)	(646,748)	(25,366)
TOTAL TRANSFERS	**(7,680)**	**(646,748)**	**(16,222)**
NET INCOME (LOSS)	**863,223**	**(22,413)**	**11,745**
NET ASSETS (DEFICITS), JULY 1 (as restated)	(989,844)	152,052	663,921
NET ASSETS (DEFICITS), JUNE 30	**$ (126,621)**	**$ 129,639**	**$ 675,666**

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 683,943	$ 2,918,463
—	3,219,579
—	21,327
69,629	94,689
4,517	38,509
758,089	**6,292,567**
447,399	447,399
80,447	219,634
—	139,841
—	1,311,142
56,847	3,152,104
2,841	26,195
2,497	27,182
590,031	**5,323,497**
168,058	**969,070**
1,783	788,143
(673)	(21,288)
107	107
(350)	(43,902)
867	**723,060**
168,925	**1,692,130**
53,223	62,411
(201,209)	(881,047)
(147,986)	**(818,636)**
20,939	**873,494**
(176,125)	(349,996)
$ (155,186)	**$ 523,498**

STATE OF OHIO
STATEMENT OF ASH F O S
O IETA FUN S ENTE ISE
FO THE FIS A EA EN E JUNE 30, 2006
(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	$ —	$ 2,215,064	$ —
Cash Received from Premiums and Assessments	2,256,238	—	1,097,338
Cash Received from Multi-State Lottery for Grand Prize Winner	—	390,064	—
Cash Received from Interfund Services Provided	58,869	1,396	—
Other Operating Cash Receipts	27,230	5,063	13,182
Cash Payments to Suppliers for Goods and Services	(68,444)	(65,386)	(332)
Cash Payments to Employees for Services	(242,185)	(23,655)	—
Cash Payments for Benefits and Claims	(2,105,501)	—	(1,034,214)
Cash Payments for Lottery Prizes	—	(1,892,649)	—
Cash Payments for Bonuses and Commissions	—	(139,649)	—
Cash Payments for Premium Reductions and Refunds	(85,127)	—	—
Cash Payments for Interfund Services Used	(12,703)	(2,941)	—
Other Operating Cash Payments	—	(30)	(43,466)
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	**(171,623)**	**487,277**	**32,508**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers-in	44	—	9,144
Transfers-out	(7,724)	(646,748)	(25,365)
Federal Grants	—	—	—
NET CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	**(7,680)**	**(646,748)**	**(16,221)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal Payments on Bonds and Capital Leases	(13,190)	(15,596)	—
Interest Paid	(6,472)	(511)	—
Acquisition and Construction of Capital Assets	(3,739)	(1,318)	—
Principal Receipts on Capital Leases Receivable	—	—	—
Proceeds from Sales of Capital Assets	108	190	—
NET CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(23,293)**	**(17,235)**	**—**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of Investments	(64,014,458)	(2,565,065)	(1,084,751)
Proceeds from the Sales and Maturities of Investments	62,399,345	2,656,653	1,052,101
Investment Income Received	813,246	46,042	288
Borrower Rebates and Agent Fees	(84,707)	(20,211)	—
NET CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES	**(886,574)**	**117,419**	**(32,362)**
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	**(1,089,170)**	**(59,287)**	**(16,075)**
CASH AND CASH EQUIVALENTS, JULY 1 (as restated)	1,284,316	123,480	17,413
CASH AND CASH EQUIVALENTS, JUNE 30	**$ 195,146**	**$ 64,193**	**$ 1,338**

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 666,902	$ 2,881,966
—	3,353,576
—	390,064
11,437	71,702
11,444	56,919
(443,833)	(577,995)
(89,609)	(355,449)
—	(3,139,715)
—	(1,892,649)
—	(139,649)
—	(85,127)
(2,053)	(17,697)
(69,151)	(112,647)
85,137	**433,299**
55,785	64,973
(201,209)	(881,046)
104	104
(145,320)	**(815,969)**
(2,233)	(31,019)
(339)	(7,322)
(4,835)	(9,892)
2,047	2,047
107	405
(5,253)	**(45,781)**
(1,740,444)	(69,404,718)
1,779,682	67,887,781
31,897	891,473
—	(104,918)
71,135	**(730,382)**
5,699	**(1,158,833)**
32,458	1,457,667
$ 38,157	**$ 298,834**

(continued)

(dollars in thousands)
(continued)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss)	$ 107,091	$ 667,176	$ 26,745
Adjustments to Reconcile Operating Income (Loss) to			
Net Cash Provided (Used) by Operating Activities:			
Investment Income	—	—	(25,060)
Depreciation	8,758	14,596	—
Provision for Uncollectible Accounts	70,038	—	—
Amortization of Premiums and Discounts	(960)	—	—
Interest on Bonds, Notes and Capital Leases	6,472	—	—
Decrease (Increase) in Assets:			
Deposit with Federal Government	—	—	57,140
Intergovernmental Receivable	—	—	(36)
Premiums and Assessments Receivable	133,257	—	(36,185)
Interfund Receivable	(83,313)	—	—
Other Receivables	(49,327)	(5,097)	865
Inventories	—	—	—
Other Assets	(1,021)	(14,683)	(118)
Increase (Decrease) in Liabilities:			
Accounts Payable	(1,880)	3,505	—
Accrued Liabilities	—	—	—
Intergovernmental Payable	—	—	882
Deferred Prize Awards Payable	—	(164,264)	—
Interfund Payable	—	855	—
Unearned Revenue	10,662	(767)	—
Benefits Payable	(248,464)	—	4,165
Refund and Other Liabilities	(122,936)	(14,044)	4,110
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	**$ (171,623)**	**$ 487,277**	**$ 32,508**
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Change in Fair Value of Investments	$ 104,946	$ 31,784	$ —
Contributions of Capital Assets from Other Funds	—	—	—
Capital Assets Acquired under Capital Leases	—	—	—

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 168,058	$ 969,070
(69,629)	(94,689)
2,841	26,195
—	70,038
1,098	138
—	6,472
—	57,140
116	80
—	97,072
10	(83,303)
6	(53,553)
(1,343)	(1,343)
(338)	(16,160)
(3,585)	(1,960)
215	215
20	902
—	(164,264)
(31)	824
1	9,896
(10,900)	(255,199)
(1,402)	(134,272)
$ 85,137	**$ 433,299**
$ (3,251)	$ 133,479
86	86
12	12

STATE OF OHIO
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006
(dollars in thousands)

	PENSION TRUST	PRIVATE-PURPOSE TRUST	INVESTMENT TRUST
	STATE HIGHWAY PATROL RETIREMENT SYSTEM (as of 12/31/05)	VARIABLE COLLEGE SAVINGS PLAN	STAR OHIO
ASSETS:			
Cash Equity with Treasurer	$ —	$ —	$ —
Cash and Cash Equivalents	8,573	15,657	—
Investments (at fair value):			
U.S. Government and Agency Obligations	35,198	—	2,540,582
Common and Preferred Stock	304,132	—	—
Corporate Bonds and Notes	17,770	—	—
Foreign Stocks and Bonds	115,105	—	—
Commercial Paper	—	—	830,871
Repurchase Agreements	—	—	2,408
Mutual Funds	179,181	4,394,729	—
Real Estate	37,247	—	—
Venture Capital	—	—	—
Direct Mortgage Loans	13,628	—	—
Investment Contracts	—	—	—
State Treasury Asset Reserve of Ohio (STAR Ohio)	—	—	—
Collateral on Lent Securities	186,625	—	—
Employer Contributions Receivable	1,266	—	—
Employee Contributions Receivable	1,122	—	—
Other Receivables	1,165	7,982	880
Other Assets	—	—	—
Capital Assets, Net	31	—	—
TOTAL ASSETS	**901,043**	**4,418,368**	**3,374,741**
LIABILITIES:			
Accounts Payable	1,235	—	—
Accrued Liabilities	1,417	5,857	—
Obligations Under Securities Lending	186,625	—	—
Intergovernmental Payable	—	—	—
Refund and Other Liabilities	47	4,452	735
TOTAL LIABILITIES	**189,324**	**10,309**	**735**
NET ASSETS:			
Held in Trust for:			
Employees' Pension Benefits	612,497	—	—
Employees' Postemployment Healthcare Benefits	99,222	—	—
Individuals, Organizations and Other Governments	—	4,408,059	—
Pool Participants	—	—	3,374,006
TOTAL NET ASSETS	**$ 711,719**	**$ 4,408,059**	**$ 3,374,006**

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

AGENCY
$ 241,155
110,041
10,520,492
65,730,034
11,915,607
33,753,554
1,915,908
456,053
1,381,156
13,553,388
3,161,428
14,773,140
10,746
33,796
136,392
—
—
11,961
424,722
—
158,129,573
—
—
136,392
105,621
157,887,560
158,129,573
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STATE OF OHIO

STATEMENT OF HAN ES IN FI U IA NET ASSETS
FI U IA FUN S
FO THE FIS A EA EN E JUNE 30, 2006
(dollars in thousands)

	PENSION TRUST	PRIVATE-PURPOSE TRUST	INVESTMENT TRUST
	STATE HIGHWAY PATROL RETIREMENT SYSTEM (for the fiscal year ended 12/31/05)	VARIABLE COLLEGE SAVINGS PLAN	STAR OHIO
ADDITIONS:			
Contributions from:			
Employer	$ 21,474	$ —	$ —
Employees	8,582	—	—
Plan Participants	—	892,468	—
Other	1,181	—	—
Total Contributions	31,237	892,468	—
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	38,315	156,220	—
Interest, Dividends and Other	18,165	157,326	141,775
Total Investment Income	56,480	313,546	141,775
Less: Investment Expense	9,591	31,509	3,456
Net Investment Income	46,889	282,037	138,319
Capital Share and Individual Account Transactions:			
Shares Sold	—	—	12,569,018
Reinvested Distributions	—	—	138,319
Shares Redeemed	—	—	(12,479,365)
Net Capital Share and Individual Account Transactions	—	—	227,972
TOTAL ADDITIONS	**78,126**	**1,174,505**	**366,291**
DEDUCTIONS:			
Pension Benefits Paid to Participants or Beneficiaries	37,716	—	—
Healthcare Benefits Paid to Participants or Beneficiaries	8,932	—	—
Refunds of Employee Contributions	496	—	—
Administrative Expense	654	—	—
Transfers to Other Retirement Systems	404	—	—
Distributions to Shareholders and Plan Participants	—	490,978	138,319
TOTAL DEDUCTIONS	**48,202**	**490,978**	**138,319**
CHANGE IN NET ASSETS HELD FOR:			
Employees' Pension Benefits	26,944	—	—
Employees' Postemployment Healthcare Benefits	2,980	—	—
Individuals, Organizations and Other Governments	—	683,527	—
Pool Participants	—	—	227,972
TOTAL CHANGE IN NET ASSETS	29,924	683,527	227,972
NET ASSETS, JULY 1 (restated)	681,795	3,724,532	3,146,034
NET ASSETS, JUNE 30	**$ 711,719**	**$ 4,408,059**	**$ 3,374,006**

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, 2006

(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY (as of 12/31/05)	OHIO STATE UNIVERSITY
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer	$ 561,843	$ —	$ —
Cash and Cash Equivalents	—	25,365	192,174
Investments	—	75,895	581,544
Collateral on Lent Securities	317,763	—	—
Intergovernmental Receivable	757	396	2,726
Loans Receivable, Net	1,393	1,218	8,429
Receivable from Primary Government	—	—	11,412
Other Receivables	—	323	374,461
Inventories	—	—	21,842
Other Assets	30	—	34,550
TOTAL CURRENT ASSETS	**881,786**	**103,197**	**1,227,138**
NONCURRENT ASSETS:			
Restricted Assets:			
Cash Equity with Treasurer	—	—	—
Cash and Cash Equivalents	—	390,398	25,992
Investments	—	1,311,502	—
Collateral on Lent Securities	—	—	—
Intergovernmental Receivable	—	288	—
Loans Receivable, Net	—	3,231,764	—
Investments	—	11,713	2,010,771
Loans Receivable, Net	6,576	21,843	61,444
Other Receivables	—	4,691	14,218
Other Assets	—	42,331	—
Capital Assets Being Depreciated, Net	35	1,525	2,209,748
Capital Assets Not Being Depreciated	—	539	485,900
TOTAL NONCURRENT ASSETS	**6,611**	**5,016,594**	**4,808,073**
TOTAL ASSETS	**888,397**	**5,119,791**	**6,035,211**
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts Payable	10,753	64,182	129,408
Accrued Liabilities	259	10,235	265,724
Obligations Under Securities Lending	317,763	—	—
Intergovernmental Payable	990,280	24	—
Unearned Revenue	—	—	136,904
Refund and Other Liabilities	386	—	43,414
Bonds and Notes Payable	—	141,798	485,599
Certificates of Participation	—	—	360
TOTAL CURRENT LIABILITIES	**1,319,441**	**216,239**	**1,061,409**
NONCURRENT LIABILITIES:			
Intergovernmental Payable	1,155,733	—	—
Unearned Revenue	—	—	2,000
Refund and Other Liabilities	583	168	204,428
Bonds and Notes Payable	—	2,481,619	599,696
Certificates of Participation	—	—	5,465
TOTAL NONCURRENT LIABILITIES	**1,156,316**	**2,481,787**	**811,589**
TOTAL LIABILITIES	**2,475,757**	**2,698,026**	**1,872,998**
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	35	2,063	1,589,420
Restricted for:			
Federal Programs	—	—	—
Coal Research and Development Program	—	—	—
Community and Economic Development and Capital Purposes	—	—	—
Debt Service	—	2,274,289	—
Nonexpendable:			
Scholarships and Fellowships	—	—	—
Research	—	—	—
Endowments and Quasi-Endowments	—	—	1,189,475
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	—	—	8,695
Endowments and Quasi-Endowments	—	—	148,182
Current Operations	—	—	287,914
Loans, Grants and Other College and University Purposes	—	—	41,304
Unrestricted (Deficits)	(1,587,395)	145,413	897,223
TOTAL NET ASSETS (DEFICITS)	**$ (1,587,360)**	**$ 2,421,765**	**$ 4,162,213**

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
$ —	$ 20,456	$ 582,299
69,606	412,852	699,997
10,969	903,698	1,572,106
—	5,483	323,246
—	39,506	43,385
2,994	28,887	42,921
1,517	34,653	47,582
81,175	273,687	729,646
1,481	28,733	52,056
23,505	55,647	113,732
191,247	**1,803,602**	**4,206,970**
—	13,847	13,847
—	62,874	479,264
—	741,052	2,052,554
—	7,832	7,832
—	—	288
—	—	3,231,764
1,130,425	1,090,294	4,243,203
30,345	95,874	216,082
39,299	117,752	175,960
332,343	34,542	409,216
1,253,427	3,532,256	6,996,991
167,574	772,393	1,426,406
2,953,413	**6,468,716**	**19,253,407**
3,144,660	**8,272,318**	**23,460,377**
77,588	145,932	427,863
56,209	180,273	512,700
—	13,315	331,078
—	378	990,682
23,977	196,525	357,406
42,158	93,881	179,839
109,608	75,627	812,632
90	275	725
309,630	**706,206**	**3,612,925**
—	9,115	1,164,848
—	5,213	7,213
188,631	194,797	588,607
732,923	1,482,007	5,296,245
90	21,585	27,140
921,644	**1,712,717**	**7,084,053**
1,231,274	**2,418,923**	**10,696,978**
517,514	2,986,156	5,095,188
—	19	19
—	7,352	7,352
—	13,847	13,847
—	—	2,274,289
132,721	101,867	234,588
81,457	4,631	86,088
599,595	549,393	2,338,463
324,639	86,692	411,331
38,113	123,763	161,876
111,327	16,850	128,177
33,472	113,577	147,049
29,634	10,665	40,299
32,968	105,676	138,644
4	7,702	7,706
34,638	64,069	107,402
131,557	66,145	345,884
9,715	111,472	409,101
16,759	198,117	256,180
(180,727)	1,285,402	559,916
$ 1,913,386	**$ 5,853,395**	**$ 12,763,399**

STATE OF OHIO
COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY (for the year ended 12/31/05)	OHIO STATE UNIVERSITY
EXPENSES:			
Primary, Secondary and Other Education	$ 555,648	$ —	$ —
Community and Economic Development	—	—	—
Cost of Services	—	106,701	—
Administration	—	9,757	—
Education and General:			
Instruction and Departmental Research	—	—	647,940
Separately Budgeted Research	—	—	368,920
Public Service	—	—	117,250
Academic Support	—	—	120,969
Student Services	—	—	73,060
Institutional Support	—	—	125,620
Operation and Maintenance of Plant	—	—	94,774
Scholarships and Fellowships	—	—	60,577
Auxiliary Enterprises	—	—	189,283
Hospitals	—	—	1,322,879
Interest on Long-Term Debt	—	—	42,313
Depreciation	—	192	191,991
Other	—	5,987	5,669
TOTAL EXPENSES	**555,648**	**122,637**	**3,361,245**
PROGRAM REVENUES:			
Charges for Services, Fees, Fines and Forfeitures	2,765	133,014	2,266,045
Operating Grants, Contributions and Restricted Investment Income	19,850	136,944	595,846
Capital Grants, Contributions and Restricted Investment Income	—	—	18,548
TOTAL PROGRAM REVENUES	**22,615**	**269,958**	**2,880,439**
NET PROGRAM (EXPENSE) REVENUE	**(533,033)**	**147,321**	**(480,806)**
GENERAL REVENUES:			
Unrestricted Investment Income	—	3,276	220,313
State Assistance	911,425	—	593,694
Other	—	396	2,508
TOTAL GENERAL REVENUES	**911,425**	**3,672**	**816,515**
ADDITIONS (DEDUCTIONS) TO ENDOWMENTS AND PERMANENT FUND PRINCIPAL	**—**	**—**	**47,423**
CHANGE IN NET ASSETS	**378,392**	**150,993**	**383,132**
NET ASSETS, JULY 1 (as restated)	(1,965,752)	2,270,772	3,779,081
NET ASSETS (DEFICITS), JUNE 30	**$ (1,587,360)**	**$ 2,421,765**	**$ 4,162,213**

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
$ —	$ 34,874	$ 590,522
—	23,679	23,679
—	—	106,701
—	—	9,757
281,857	1,357,451	2,287,248
144,764	172,321	686,005
55,566	126,011	298,827
67,501	382,503	570,973
38,041	204,747	315,848
90,724	382,674	599,018
88,322	269,949	453,045
17,892	157,789	236,258
80,397	553,110	822,790
—	196,372	1,519,251
31,005	56,768	130,086
79,366	227,636	499,185
9,583	30,622	51,861
985,018	**4,176,506**	**9,201,054**
366,466	2,549,765	5,318,055
403,975	500,757	1,657,372
7,587	48,047	74,182
778,028	**3,098,569**	**7,049,609**
(206,990)	**(1,077,937)**	**(2,151,445)**
—	152,875	376,464
210,065	1,229,914	2,945,098
3,795	37,862	44,561
213,860	**1,420,651**	**3,366,123**
13,414	**22,277**	**83,114**
20,284	**364,991**	**1,297,792**
1,893,102	5,488,404	11,465,607
$ 1,913,386	**$ 5,853,395**	**12,763,399**

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Ohio, as of June 30, 2006, and for the year then ended, conform with generally accepted accounting principles (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are included in the GASB's *Codification of Governmental Accounting and Financial Reporting Standards*. The State's significant accounting policies are as follows.

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

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

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

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

2. Discretely Presented Component Units
The component units' columns in the basic financial statements include the financial data of another 28 organizations. The separate discrete column labeled, "Component Units," emphasizes these organizations' separateness from the State's primary government. Officials of the primary government appoint a voting majority of each organization's governing board.

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

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

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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, 2005.

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The State reports the following major component unit funds:

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

The *Ohio Water Development Authority*, *Ohio State University*, and *University of Cincinnati* funds are business-type activities that use proprietary fund reporting. The financial statements for the Ohio Water Development Authority, which provides financial assistance to local governments for the construction of wastewater and sewage facilities, are presented for the fiscal year ended December 31, 2005. The Ohio State University Fund accounts for the university's operations, including its health system, supercomputer center, agricultural research and development center, and other legally separate entities subject to the control of the university's board. The University of Cincinnati Fund accounts for the university's operations, including its related foundation.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

D. Budgetary Process

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

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

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

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

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

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

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

E. Cash Equity with Treasurer and Cash and Cash Equivalents

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

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

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

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

F. Investments

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

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

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

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

G. Taxes Receivable

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

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 the payment of deferred lottery prize awards, revenue bonds, and tuition benefits in the enterprise funds.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

K. Capital Assets

Primary Government

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

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

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

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

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

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

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

The State has established the following capitalization thresholds:

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Discretely Presented Component Unit Funds
The discretely presented component unit funds value all capital assets at cost and donated fixed assets at estimated fair value on the donation date. 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. Medicaid Claims Payable
The Medicaid claims liability, which has an average maturity of one year or less, includes an estimate for incurred, but not reported claims.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 2 RESTATEMENTS AND CHANGES IN ACCOUNTING PRINCIPLES AND STANDARDS

A. Restatements

Restatements of net assets/fund balances, as of June 30, 2005, for the primary government and component units that resulted from prior period adjustments for corrections of errors and from changes in the reporting entity are presented in the following tables (dollars in thousands).

Government-wide Financial Statements:

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units
Net Assets, as of June 30, 2005, As Previously Reported	$18,469,461	$1,360,149	$19,829,610	$11,465,788
Corrections that Increased/(Decreased) Net Assets:				
Cash Equity with Treasurer	(3,365)	—	(3,365)	—
Cash and Cash Equivalents	—	—	—	(849)
Investments	—	—	—	689
Premiums and Assessments Receivable	—	672,453	672,453	—
Other Receivables-Accounts	—	—	—	21
Other Receivables-Interest	—	(259)	(259)	—
Restricted Investments	—	1,806	1,806	—
Capital Assets Being Depreciated, Net	7,557	—	7,557	—
Capital Assets Not Being Depreciated	(176,818)	—	(176,818)	—
Accounts Payable	—	—	—	(21)
Internal Balances	(91,949)	91,949	—	—
Benefits Payable	—	(2,383,128)	(2,383,128)	—
Refund and Other Liabilities	—	(92,820)	(92,820)	—
Accrued Liabilities (Interest Payable)	—	—	—	(21)
Total Corrections, Net	(264,575)	(1,709,999)	(1,974,574)	(181)
Change in Reporting Entity:				
Reclassification of Assets from Business-Type Activities to Governmental Activities:				
Investments	105	(105)	—	—
Other Assets-Prepaid Expense	41	(41)	—	—
Total Reclassifications, Net	146	(146)	—	—
Net Assets-Ohio Housing Finance Agency	(100,683)	—	(100,683)	—
Net Assets, July 1, 2005, As Restated	$18,104,349	$(349,996)	$17,754,353	$11,465,607

Governmental Fund Financial Statements:

	General Fund	Job, Family and Other Human Services	Education	Highway Operating	Revenue Distribution	Nonmajor Governmental Funds	Total
Fund Balances (Deficits), as of June 30, 2005, As Previously Reported	$1,345,772	$(114,508)	$66,837	$592,160	$114,563	$3,225,776	$5,230,600
Corrections that Increased/ (Decreased) Fund Balance:							
Cash Equity with Treasurer	(3,365)	—	—	—	—	—	(3,365)
Interfund Payable	(65,592)	(1,913)	(247)	(11,092)	—	(13,105)	(91,949)
Total Corrections, Net	(68,957))	(1,913)	(247)	(11,092)	—	(13,105)	(95,314)
Change in Reporting Entity: Reclassification of Assets from Nonmajor Proprietary Funds to Nonmajor Governmental Funds:							
Investments	—	—	—	—	—	105	105
Other Assets-Prepaid Expense	—	—	—	—	—	41	41
Total Reclassifications, Net	—	—	—	—	—	146	146
Ohio Housing Finance Agency	—	—	—	—	—	(100,683)	(100,683)
Fund Balances (Deficits), July 1, 2005, As Restated	$1,276,815	$(116,421)	$66,590	$581,068	$114,563	$3,112,134	$5,034,749

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

Proprietary Fund Financial Statements:

	Workers' Compensation	Other Major Proprietary Funds	Nonmajor Proprietary Funds	Total
Net Assets (Deficits), as of June 30, 2005, As Previously Reported	$721,702	$815,973	$(177,526)	$1,360,149
Corrections that Increased/(Decreased) Net Assets:				
Premiums and Assessments Receivable	672,453	—	—	672,453
Interfund Receivable	91,949	—	—	91,949
Other Receivables-Interest	—	—	(259)	(259)
Restricted Investments	—	—	1,806	1,806
Benefits Payable	(2,383,128)	—	—	(2,383,128)
Refund and Other Liabilities	(92,820)	—	—	(92,820)
Total Corrections, Net	(1,711,546)	—	1,547	(1,709,999)
Change in Reporting Entity:				
Reclassification of Assets from				
Nonmajor Proprietary Funds to Nonmajor Governmental Funds:				
Investments	—	—	(105)	(105)
Other Assets-Prepaid Expense	—	—	(41)	(41)
Total Reclassifications, Net	—	—	(146)	(146)
Net Assets (Deficits), July 1, 2005, As Restated	$(989,844)	$815,973	$(176,125)	$(349,996)

Fiduciary Fund Financial Statements:

	Pension Trust	Investment Trust
Net Assets, as of June 30, 2005, As Previously Reported	$684,569	$3,087,817
Corrections that Increased/(Decreased) Net Assets:		
Cash and Cash Equivalents	(1,361)	—
Other Receivables-Interest	(1,413)	—
Total Corrections, Net	(2,774)	—
Change in Reporting Entity:		
Ohio Housing Finance Agency	—	58,217
Net Assets, 07/01/05, As Restated	$681,795	$3,146,034

Discretely Presented Component Units Fund Financial Statements:

	Major Component Units	Nonmajor Component Units	Total
Net Assets, as of 6/30/05, As Previously Reported	$5,977,203	$5,488,585	$11,465,788
Corrections that Increased/(Decreased) Net Assets:			
Cash and Cash Equivalents	—	(849)	(849)
Investments	—	689	689
Other Receivables-Accounts	—	21	21
Accounts Payable	—	(21)	(21)
Accrued Liabilities (Interest Payable)	—	(21)	(21)
Total Corrections, Net	—	(181)	(181)
Net Assets, 07/01/05, As Restated	$5,977,203	$5,488,404	11,465,607

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

Effective July 1, 2005, the Ohio Housing Finance Agency became legally separate from the primary government. As a result of its change in legal status, the Agency is considered to be a related organization of the primary government and is excluded from the Net Assets/Fund Balances at July 1, 2005. In addition, its investment previously accounted for as part of the internal portion of the STAR Ohio investment pool has been reclassified and is accounted for in the STAR Ohio Investment Trust Fund. The Investment Trust Fund accounts for the external portion of the STAR Ohio investment pool and includes accounts belonging to organizations outside of the primary government's reporting entity.

B. Implementation of Recently Issued Accounting Pronouncements

For the fiscal year ended June 30, 2006, the State implemented the provisions of

- Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,*
- GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation — an amendment of GASB Statement No. 34*, and
- GASB Statement No. 47, *Accounting for Termination Benefits* (only those provisions applicable to termination benefits unrelated to defined benefit postemployment benefits, excluding pensions, were implemented).

GASB 42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

GASB 46 clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government — such as citizens, public interest groups, or the judiciary — can compel a government to honor.

GASB 47 provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees that are involuntarily terminated. The Statement requires that similar forms of termination benefits be accounted for in the same manner. However, for termination benefits that affect defined benefit postemployment benefits other than pensions, governments should implement GASB 47 simultaneously with GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

C. Recently Issued GASB Pronouncements

In April 2004, the GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans and supersedes guidance included in GASB 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*.

The standards in this Statement apply for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties that administer them. The requirements of this Statement are effective *one year prior* to the effective date of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the employer (single-employer plan) or for the largest participating employer in the plan (multiple-employer plan). The effective dates by which governments are to implement the provisions of GASB 45 are discussed below.

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

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.* This Statement establishes the criteria for reporting transactions as revenue or as a

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

liability, whereby an interest in the government's expected cash flows from collecting specific receivables or specific revenues are exchanged for immediate cash payments, generally a single lump sum. This Statement also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenues, including residual interests and recourse provisions. The requirements of GASB 48 are effective for financial statements for periods beginning after December 15, 2006.

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

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

NOTE 3 GAAP versus NON-GAAP BUDGETARY BASIS

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

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

Original budget amounts in the accompanying budgetary statements have been taken from the first complete appropriated budget for fiscal year 2006. 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 2006, whenever signed into law or otherwise legally authorized.

For fiscal year 2006, 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, 2006
(dollars in thousands)

		Major Special Revenue Funds			
	General	Job, Family, and Other Human Services	Education	Highway Operating	Revenue Distribution
Total Fund Balances - GAAP Basis	$1,909,683	$ 177,707	$64,818	$ 752,824	$ 27,869
Less: Reserved Fund Balances	617,733	2,175,569	28,011	1,726,093	127,121
Less: Designated Fund Balances	1,010,689	—	—	—	—
Unreserved/Undesignated Fund Balances — GAAP Basis	281,261	(1,997,862)	36,807	(973,269)	(99,252)
BASIS DIFFERENCES					
Revenue Accruals/Adjustments:					
Cash Equity with Treasurer	(12,756)	(9,275)	—	(1,323)	(8,126)
Taxes Receivable	(1,088,389)	—	—	(65,238)	(369,171)
Intergovernmental Receivable	(346,082)	(417,688)	(143,882)	(118,770)	—
Loans Receivable, Net	(244,202)	—	(44)	(82,263)	—
Interfund Receivable	(2,925)	—	—	—	—
Other Receivables	(267,998)	(71,813)	(308)	(2,655)	—
Deferred Revenue	314,209	162,275	10,389	5,255	35,155
Unearned Revenue	—	42,761	83,463	4,889	7,943
Total Revenue Accruals/Adjustments	(1,648,143)	(293,740)	(50,382)	(260,105)	(334,199)
Expenditure Accruals/Adjustments:					
Cash Equity with Treasurer	(77,321)	(10,005)	(878)	(16,334)	—
Inventories	(24,254)	—	—	(30,633)	—
Other Assets	(15,403)	(1,929)	(5,141)	(2,965)	—
Accounts Payable	176,138	53,253	13,587	172,491	—
Accrued Liabilities	119,791	15,630	1,728	23,095	—
Medicaid Claims Payable	880,091	—	—	—	—
Intergovernmental Payable	377,211	230,590	59,946	316	595,371
Interfund Payable	701,130	21,011	2,466	114,656	395
Payable to Component Units	14,967	372	2,735	252	—
Refund and Other Liabilities	778,848	15,905	—	—	70,389
Liability for Escheat Property	10,249	—	—	—	—
Total Expenditure Accruals/Adjustments	2,941,447	324,827	74,443	260,878	666,155
Other Adjustments:					
Fund Balance Reclassifications:					
From Unreserved (Non-GAAP Budgetary Basis) to Reserved for:					
Noncurrent Portion of Loans Receivable	240,365	—	42	76,905	—
Inventories	24,254	—	—	30,633	—
State and Local Highway Construction	—	—	—	—	127,121
Federal Programs	—	5,479	6,060	3,271	—
Other	50,394	5,614	533	8,088	—
From Undesignated (Non-GAAP Budgetary Basis) to Designated	1,010,689	—	—	—	—
Cash and Investments Held Outside of State Treasury	(471,940)	(11,267)	(2,945)	(754)	(7,900)
Other	(1)	—	—	—	—
Total Other Adjustments	853,761	(174)	3,690	118,143	119,221
Total Basis Differences	2,147,065	30,913	27,751	118,916	451,177
TIMING DIFFERENCES					
Encumbrances	(358,653)	(331,326)	(13,069)	(167,368)	—
Budgetary Fund Balances (Deficits) — Non-GAAP Basis	$2,069,673	$(2,298,275)	$51,489	$(1,021,721)	$351,925

NOTE 4 DEPOSITS AND INVESTMENTS

A. Legal Requirements

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

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

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

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

- U.S. treasury bills, notes, bonds, or other obligations or securities issued by or guaranteed as to principal and interest by the United States;
- Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality;
- Bonds and other direct obligations of the State of Ohio issued by the Treasurer of State and of the Ohio Public Facilities Commission, the Ohio Building Authority, and the Ohio Housing Finance Agency;
- Commercial paper issued by any corporation that is incorporated under the laws of the United States or a state, and rated at the time of purchase in the two highest rating categories by two nationally recognized rating agencies;
- Written repurchase agreements with any eligible Ohio financial institution that is a member of the Federal Reserve System or Federal Home Loan Bank, or any recognized U.S. government securities dealer in the securities enumerated above;
- No-load money market mutual funds consisting exclusively of securities and repurchase agreements enumerated above;
- Securities lending agreements with any eligible financial institution that is a member of the Federal Reserve System or Federal Home Loan Bank, or any recognized U.S. government securities dealer;
- Bankers' acceptances maturing in 270 days or less;
- Certificates of deposit in the eligible institutions applying for interim moneys, including linked deposits, as authorized under Sections 135.61 to 135.67, Ohio Revised Code; agricultural linked deposits, as authorized under Sections 135.71 to 135.76, Ohio Revised Code; and housing linked deposits, as authorized under Sections 135.81 to 135.87, Ohio Revised Code;
- The Treasurer of State's investment pool, as authorized under Section 135.45, Ohio Revised Code;
- Debt interests, other than commercial paper as enumerated above, of corporations incorporated under the laws of the United States or a state, of foreign nations diplomatically recognized by the United States, or any instrument based on, derived from, or related to such interests that are rated at the time of purchase in the three highest categories by two nationally recognized rating agencies, and denominated and payable in U.S. funds; and
- Obligations of a board of education, as authorized under Sections 133.10 or 133.301, Ohio Revised Code.

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

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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

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

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

The table below reports the carrying amount of deposits, as of June 30, 2006, held by the primary government, including fiduciary activities, and its component units and the extent of exposure to custodial credit risk.

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

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

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

Primary Government (including Fiduciary Activities) and Component Units
Deposits—Custodial Credit Risk
As of June 30, 2006
(dollars in thousands)

			Uninsured Portion of Reported Bank Balance		
	Carrying Amount	Bank Balance	Uncollateralized*	Collateralized with Securities Held by the Pledging Institution's Trust Department or Agent but not in the Depositor-Government's Name	Collateralized with Securities Held by the Pledging Institution
Primary Government......................	$ 580,953	$ 672,666	$ —	$144,258	$ —
Component Units...........................	601,732	694,132	71,166	555,390	19,174
Total Deposits — Reporting Entity..	$1,182,685	$1,366,798	$71,166	$699,648	$19,174

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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The following tables report the fair value, as of June 30, 2006, of investments by type for the primary government, including fiduciary activities, and its component units, and the extent of exposure to custodial credit risk (dollars in thousands).

Primary Government (including Fiduciary Activities) and Component Units
Investments—Custodial Credit Risk
As of June 30, 2006
(dollars in thousands)

Investments for the Primary Government (including Fiduciary Activities), as of June 30, 2006	Total Fair Value	Uninsured, Unregistered, and Held by the Counterparty's Trust Department or Agent but not in the State's Name
Investments Subject to Custodial Credit Risk Exposure:		
U.S. Government Obligations	$16,704,394	$150,447
U.S. Government Obligations—Strips	343,327	—
U.S. Agency Obligations	14,241,264	—
U.S. Agency Obligations—Strips	303,131	—
Common and Preferred Stock	65,237,631	—
Corporate Bonds and Notes	12,928,705	—
Corporate Bonds and Notes—Strips	744	—
Commercial Paper	4,647,180	—
Repurchase Agreements	472,573	312
Mortgage and Asset-Backed Securities	9,075,544	—
Municipal Obligations	3,822	—
International Investments:		
Foreign Stocks	32,148,752	—
Foreign Bonds	1,473,937	—
High-Yield and Emerging Markets Fixed Income	1,051,293	—
Securities Lending Collateral:		
Commercial Paper	32,976	—
Repurchase Agreements	2,594,130	50,000
Mortgage and Asset-Backed Securities	48,211	—
Variable Rate Notes	1,683,656	—
Master Notes	555,132	—
		$200,759
Investments Not Subject to Custodial Credit Risk Exposure:		
Investments Held by Broker-Dealers under Securities Loans with Cash Collateral:		
U.S. Government Obligations	2,321,564	
U.S. Government Obligations—Strips	11,830	
U.S. Agency Obligations	3,863,700	
U.S. Agency Obligations—Strips	260,744	
Common and Preferred Stock	1,054,601	
Corporate Bonds and Notes	134,428	
Mortgage and Asset-Backed Securities	969	
International Investments:		
Foreign Stocks	881,543	
Foreign Bonds	1,032	
High-Yield and Emerging Markets Fixed Income	90,149	
International Investments-Commingled Equity Funds	711,130	
Equity Mutual Funds	5,169,763	
Bond Mutual Funds	2,042,002	
Real Estate	13,591,703	
Venture Capital	3,161,428	
Limited Partnerships	427,339	
Investment Contracts	944	
Deposit with Federal Government	625,375	
Component Units' Equity in State Treasurer's Cash and Investment Pool	(927,224)	
Component Units' Equity in the State Treasury Asset Reserve of Ohio	(381,158)	
Total Investments — Primary Government	$196,588,264	

(Continued)

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Investments for Component Units, as of June 30, 2006	Total Fair Value	Uninsured, Unregistered, and Held by the Counterparty's Trust Department or Agent but not in the Component Unit's Name	Uninsured, Unregistered, and Held by the Counterparty but not in the Component Unit's Name
Investments Subject to Custodial Credit Risk Exposure:			
U.S. Government Obligations	$ 240,244	$ 79,158	$ 76,633
U.S. Government Obligations—Strips	13,382	3,686	—
U.S. Agency Obligations	918,025	387,509	293,629
Common and Preferred Stock	1,726,206	343,593	654,394
Corporate Bonds and Notes	244,291	54,861	111,584
Commercial Paper	14,488	3,875	—
Repurchase Agreements	323,257	160,967	136,873
Mortgage and Asset-Backed Securities	8,568	—	—
Negotiable Certificates of Deposit	405	—	—
Municipal Obligations	817	293	60
Other Investments	5,225	3,935	—
		$1,037,877	$1,273,173
Investments Not Subject to Custodial Credit Risk Exposure:			
Equity Mutual Funds	1,980,764		
Bond Mutual Funds	934,787		
International Investments:			
Foreign Stocks	102,997		
Foreign Bonds	20,414		
Equity Mutual Funds	7,977		
Real Estate	157,746		
Direct Mortgages	105,011		
Life Insurance	17,057		
Investment Contracts	916,773		
Charitable Remainder Trusts	9,762		
Partnerships and Hedge Funds	316,038		
Investment in State Treasurer's Cash and Investment Pool	927,224		
Investment in the State Treasury Asset Reserve of Ohio (STAR Ohio)	381,158		
Total Investments — Component Units	9,372,616		
Total Investments — Reporting Entity	$205,960,880		

Reconciliation of Deposits and Investments Disclosures with Financial Statements
As of June 30, 2006
(dollars in thousands)

	Government-Wide Statement of Net Assets: Governmental Activities	Government-Wide Statement of Net Assets: Business-Type Activities	Government-Wide Statement of Net Assets: Component Units	Fiduciary Funds Statement of Net Assets	Total
Cash Equity with Treasurer	$ 6,789,609	$ 89,382	$ 582,299	$ 241,155	$ 7,702,445
Cash and Cash Equivalents	104,753	207,112	699,997	134,271	1,146,133
Investments	891,754	16,105,147	5,815,309	165,676,153	188,488,363
Collateral on Lent Securities	3,857,013	44,698	323,246	323,017	4,547,974
Deposit with Federal Government	—	625,375	—	—	625,375
Restricted Assets:					
Cash Equity with Treasurer	—	800	13,847	—	14,647
Cash and Cash Equivalents	—	1,540	479,264	—	480,804
Investments	—	1,577,356	2,052,554	—	3,629,910
Collateral on Lent Securities	—	351,854	7,832	—	359,686
Total Reporting Entity	$11,643,129	$19,003,264	$9,974,348	$166,374,596	$206,995,337

Total Carrying Amount of Deposits and Investments per Financial Statements	$206,995,337
Outstanding Warrants and Other Reconciling Items	193,850
Differences Resulting from Component Units with December 31 Year-Ends	(45,622)
Total Carrying Amount of Deposits and Investments Disclosed in Note 4	$207,143,565

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The total carrying amount of deposits and investments, as of June 30, 2006, reported for the primary government and its component units is (dollars in thousands) $206,995,337. The total of the carrying amounts of both deposits in the amount of $1,182,685 and investments in the amount of $205,960,880 that has been categorized and disclosed in this note is $207,143,565. A reconciliation of the difference is presented in the table on the previous page.

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

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

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

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

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

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

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

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

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

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

For the Ohio Police and Fire Pension Fund,

- Securities in the core fixed income portfolio shall be rated "BBB-" or better by two standard rating agencies at the time of purchase,
- Securities in the high yield fixed income portfolio are high yield bonds issued by US corporations with a minimum rating of "CCC" or equivalent,
- Investment managers may purchase securities that are "Not Rated" as long as they deem these securities to be at least equivalent to the minimum ratings,
- Commercial paper must be rated within the two highest classifications established by two standard rating agencies, and
- Investment managers may hold no more than 15 percent of their entire portfolio in convertible bonds with no minimum credit rating specified.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

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

Primary Government (including Fiduciary Activities)
Investment Credit Ratings
As of June 30, 2006
(dollars in thousands)

	Credit Rating					
Investment Type	AAA/Aaa	AA/Aa	A/A-1	BBB/Baa	BB/Ba	B
U.S. Agency Obligations*	$ 9,851,501	$2,981,384	$ 10,779	$ —	$ —	$ —
U.S. Agency Obligations—Strips	63,449	500,426	—	—	—	—
Corporate Bonds and Notes	1,074,868	2,331,903	4,516,149	3,025,293	528,172	799,209
Corporate Bonds and Notes—Strips	744	—	—	—	—	—
Commercial Paper	1,666,449	399,469	857,642	—	—	—
Repurchase Agreements	9,723	201,017	—	—	—	—
Mortgage and Asset-Backed Securities	7,792,316	172,555	66,169	129,836	—	528
Municipal Obligations	3,300	—	522	—	—	—
Foreign Bonds	132,495	137,969	233,173	419,662	363,459	69,896
High-Yield & Emerging Markets Fixed Income	—	—	—	122,187	314,772	482,223
Bond Mutual Funds	1,286,519	304,586	—	12,134	53,152	12,518
Investment Contracts	—	—	—	—	—	—
Securities Lending Collateral:						
Commercial Paper	—	—	32,976	—	—	—
Repurchase Agreements	42,357	—	947,330	1,568,413	25,000	1,955
Mortgage and Asset-Backed Securities	48,211	—	—	—	—	—
Variable Rate Notes	—	545,000	1,138,656	—	—	—
Master Notes	—	460,132	95,000	—	—	—
Total Primary Government	$21,971,932	$8,034,441	$7,898,396	$5,277,525	$ 1,284,555	$ 1,366,329

	Credit Rating					
Investment Type	CCC/Caa	CC/Ca	C	D	Unrated	Total
U.S. Agency Obligations*	$ —	$ —	$ —	$ —	$ 5,255,659	$18,099,323
U.S. Agency Obligations—Strips	—	—	—	—	—	563,875
Corporate Bonds and Notes	96,520	40,384	168	3,945	646,522	13,063,133
Corporate Bonds and Notes—Strips	—	—	—	—	—	744
Commercial Paper	—	—	—	—	1,723,620	4,647,180
Repurchase Agreements	—	—	—	—	261,833	472,573
Mortgage and Asset-Backed Securities	—	—	—	—	915,109	9,076,513
Municipal Obligations	—	—	—	—	—	3,822
Foreign Bonds	9,122	—	—	3,576	105,617	1,474,969
High-Yield & Emerging Markets Fixed Income	104,504	429	—	6,386	110,941	1,141,442
Bond Mutual Funds	—	—	—	—	373,093	2,042,002
Investment Contracts	—	—	—	—	944	944
Securities Lending Collateral:						
Commercial Paper	—	—	—	—	—	32,976
Repurchase Agreements	—	—	—	—	9,075	2,594,130
Mortgage and Asset-Backed Securities	—	—	—	—	—	48,211
Variable Rate Notes	—	—	—	—	—	1,683,656
Master Notes	—	—	—	—	—	555,132
Total Primary Government	$ 210,146	$ 40,813	$ 168	$ 13,907	$9,402,413	$55,500,625

** The portion of U.S. Agency Obligations that are explicitly guaranteed by the U.S. government have been excluded from this table since these investments are not exposed to credit risk.*

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Component Units
Investment Credit Ratings
As of June 30, 2006
(dollars in thousands)

Investment Type	Credit Rating: AAA/Aaa	AA/Aa	A/A-1	BBB/Baa	BB/Ba	B
U.S. Agency Obligations*	$ 867,686	$ —	$ —	$ —	$ —	$ —
Corporate Bonds and Notes	69,105	34,441	74,765	30,658	6,817	21,106
Commercial Paper	—	248	8,854	—	—	—
Repurchase Agreements	162,290	—	—	—	—	—
Mortgage and Asset-Backed Securities	8,568	—	—	—	—	—
Negotiable Certificates of Deposit	—	—	—	—	—	—
Municipal Obligations	475	32	10	—	—	—
Bond Mutual Funds	584,709	119,349	71,072	44,051	20,119	37,210
Foreign Bonds	283	16	1,726	2,694	11,295	3,208
Direct Mortgages	—	—	—	—	—	—
Investment Contracts	—	—	—	—	—	—
Other Investments	21	—	—	—	—	—
Total Component Units	$1,693,137	$ 154,086	$ 156,427	$ 77,403	$ 38,231	$ 61,524

Investment Type	Credit Rating: CCC/Caa	C	Unrated	Total
U.S. Agency Obligations*	$ —	$ —	$ 44,926	$ 912,612
Corporate Bonds and Notes	5,471	—	1,928	244,291
Commercial Paper	—	—	5,386	14,488
Repurchase Agreements	—	—	160,967	323,257
Mortgage and Asset-Backed Securities	—	—	—	8,568
Negotiable Certificates of Deposit	—	—	405	405
Municipal Obligations	—	—	300	817
Bond Mutual Funds	5,384	551	52,342	934,787
Foreign Bonds	207	—	985	20,414
Direct Mortgages	—	—	105,011	105,011
Investment Contracts	—	—	916,773	916,773
Other Investments	—	—	3,935	3,956
Total Component Units	$ 11,062	$ 551	$1,292,958	$3,485,379

** The portion of U.S. Agency Obligations that are explicitly guaranteed by the U.S. government have been excluded from this table since these investments are not exposed to credit risk.*

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

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

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

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

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

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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

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

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

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

As of June 30, 2006, all investments meet the requirements of the State's laws and policies, when applicable. However, investments in certain issuers are greater than five percent of investment balances, as follows (dollars in thousands):

Issuer	Amount	Percentage of Investment Balance
Governmental and Business-Type Activities:		
Federal National Mortgage Association	$4,577,437	13%
Federal Home Loan Bank	2,147,985	6%
Federal Home Loan Mortgage Corporation	3,970,246	11%
STAR Ohio Investment Trust Fund:		
Federal National Mortgage Association	1,288,228	31%
Federal Home Loan Bank	901,888	22%
Federal Home Loan Mortgage Corporation	936,262	23%
School Facilities Commission Component Unit Fund:		
Federal National Mortgage Association	67,556	8%
Federal Home Loan Bank	143,491	17%
Federal Home Loan Mortgage Corporation	112,350	13%
Ohio Water Development Authority Component Unit Fund (12/31/05):		
Federal Home Loan Bank	128,165	9%
AIGMFC	386,479	26%
Citigroup	323,173	22%
Goldman Sachs	81,140	5%
Nonmajor Component Units:		
Federal National Mortgage Association	149,244	5%
Federal Home Loan Mortgage Corporation	158,104	6%

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

4. Interest Rate Risk

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

Investment policies governing the treasury's cash and investment pool, which is reported as "Cash Equity with Treasurer" and is managed by the Treasurer of State's Office, limit maturities of short-term investments to no more than 12 months with a weighted average maturity not to exceed 90 days. For long-term investments, maturities are limited to five years or less, except for those that are matched to a specific obligation or debt of the State. A duration target of three years or less has been established for long-term investments.

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

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

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

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

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

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

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

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

As of June 30, 2006, several investments reported as "Cash Equity with Treasurer" have terms that make their fair values highly sensitive to interest rate changes. The U.S. agency obligations investment type includes $146.2 million of investments with call dates during fiscal year 2007. Investments of $4.9 million callable in fiscal year 2007 also have scheduled maturities during fiscal year 2007 and are reported in the table on the following page as maturing in less than one year. Investments of $141.3 million callable in fiscal year 2007 have maturities during fiscal years 2008 and 2009 and are reported in the table on the following page as maturing in one to five years.

Several investments reported as "Collateral on Lent Securities" have terms that make them highly sensitive to interest rate changes as of June 30, 2006. Master Notes of $200 million and variable rate notes of $310 million have daily reset dates. Mortgage and asset-backed securities of $48.4 million and variable rate notes of $350 million have monthly reset dates. Variable rate notes of $810.6 million have quarterly reset dates.

As of June 30, 2006, the Workers' Compensation Enterprise Fund held approximately $748 million in certain mortgage and asset-backed securities (primarily classified under the "Corporate Bonds and Notes" investment type). 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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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.

The Lottery Commission Enterprise Fund has investments with call dates and collateral on lent securities with reset dates. U.S. agency obligations of $3.5 million that are callable in fiscal year 2007 have a scheduled maturity during fiscal year 2012. An additional $3 million that are callable in fiscal year 2007 have a scheduled maturity during fiscal year 2022. These investments are reported as maturing in six to 10 years and in over 10 years, respectively, in the table below. Master notes and variable rate notes with reset dates are reported as collateral on lent securities. Master notes of $30 million have daily reset dates. Variable rate notes of $97.7 million, $50 million, and $65.6 million, respectively have daily, monthly, and quarterly reset dates.

The State Highway Patrol Retirement System Pension Trust Fund also has investments with terms that make the fair values highly sensitive to interest rate changes. Within the mortgage and asset-backed securities investment type are investments of $2.7 million that include floating interest rates and adjustable coupons. The corporate bonds and notes investment type also include $1 million of investments with coupon step-ups. The U.S agency obligations, mortgage and asset-backed securities, and corporate bonds and notes investment types contain call provisions of $5.7 million, $7.4 million, and $2 million, respectively. The investments with call provisions are listed in the table below based on these terms.

Also during fiscal year 2006, the Treasurer of State acted as the custodian of the Retirement Systems Agency Fund's investments. These investments contain terms that make their fair values highly sensitive to interest rate changes. Specific information on the nature of the investments and their terms can be found in each respective system's Comprehensive Annual Financial Report.

The following table lists the investment maturities of the State's investments. All investments at June 30, 2006, meet the requirements of the State's laws and policies, when applicable.

Primary Government (including Fiduciary Activities)
Investments Subject to Interest Rate Risk
As of June 30, 2006
(dollars in thousands)

	Investment Maturities (in years)				
Investment Type	Less than 1	1-5	6-10	More than 10	Total
U.S. Government Obligations	$ 951,509	$ 4,883,983	$3,419,832	$ 9,770,634	$19,025,958
U.S. Government Obligations—Strips	2,326	13,213	89,633	249,985	355,157
U.S. Agency Obligations	7,604,097	3,921,202	711,935	5,867,730	18,104,964
U.S. Agency Obligations—Strips	99,443	243,917	134,839	85,676	563,875
Corporate Bonds and Notes	1,727,296	5,232,044	3,730,951	2,372,842	13,063,133
Corporate Bonds and Notes—Strips	—	—	—	744	744
Commercial Paper	4,647,180	—	—	—	4,647,180
Repurchase Agreements	472,573	—	—	—	472,573
Mortgage and Asset-Backed Securities	—	399,533	176,113	8,500,867	9,076,513
Municipal Obligations	—	—	3,300	522	3,822
Foreign Bonds	12,813	450,935	417,364	593,857	1,474,969
High-Yield & Emerging Markets Fixed Income	41,264	185,653	599,341	315,184	1,141,442
Bond Mutual Funds	1,301,741	256,164	440,182	43,915	2,042,002
Investment Contracts	—	944	—	—	944
Securities Lending Collateral:					
Commercial Paper	32,976	—	—	—	32,976
Repurchase Agreements	2,594,130	—	—	—	2,594,130
Mortgage and Asset-Backed Securities	48,211	—	—	—	48,211
Variable Rate Notes	1,683,656	—	—	—	1,683,656
Master Notes	555,132	—	—	—	555,132
Total Primary Government	$21,774,347	$15,587,588	$9,723,490	$27,801,956	$74,887,381

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Component Units
Investments Subject to Interest Rate Risk
As of June 30, 2006
(dollars in thousands)

	Investment Maturities (in years)				
Investment Type	Less than 1	1-5	6-10	More than 10	Total
U.S. Government Obligations	$ 99,574	$ 87,492	$ 31,832	$ 21,346	$ 240,244
U.S. Government Obligations—Strips	2,590	6,222	3,461	1,109	13,382
U.S. Agency Obligations	441,215	334,199	56,006	86,605	918,025
Corporate Bonds and Notes	41,428	106,310	55,013	41,540	244,291
Commercial Paper	14,488	—	—	—	14,488
Repurchase Agreements	321,172	2,085	—	—	323,257
Mortgage and Asset-Backed Securities	—	801	6,624	1,143	8,568
Negotiable Certificates of Deposit	405	—	—	—	405
Municipal Obligations	90	152	164	411	817
Bond Mutual Funds	302,314	375,090	175,965	81,418	934,787
Foreign Bonds	375	1,064	8,111	10,864	20,414
Direct Mortgages	—	540	—	104,471	105,011
Investment Contracts	—	857,926	—	58,847	916,773
Other Investments	388	1,468	1,285	815	3,956
Total Component Units	$1,224,039	$1,773,349	$ 338,461	$408,569	$3,744,418

5. Foreign Currency Risk

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

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

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

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

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

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

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

As of June 30, 2006, investments denominated in the currency of foreign nations, as detailed in the tables appearing on the next two pages for the primary government and its discretely presented component units, meet the requirements of the State's laws and policies, when applicable.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Primary Government (including Fiduciary Activities)
International Investments—Foreign Currency Risk
As of June 30, 2006
(dollars in thousands)

	Fiduciary Activities			
Currency	Stocks	Bonds	High-Yield & Emerging Markets Fixed Income	Total
Argentinean Peso	$ 43,509	$ —	$ 421	$ 43,930
Australian Dollar	412,323	—	—	412,323
Bahamian Dollar	26	—	—	26
Belize Dollar	2	—	—	2
Bermudian Dollar	309	—	—	309
Brazilian Real	380,771	—	1,174	381,945
British Pound	2,158,055	—	—	2,158,055
Bulgarian Lev	41	—	—	41
Canadian Dollar	699,920	—	—	699,920
Caymanian Dollar	53	—	2,286	2,339
Chilean Peso	28,237	—	—	28,237
Chinese Yuan	54,200	—	—	54,200
Colombian Peso	6,656	—	4,561	11,217
Czech Koruna	21,823	—	—	21,823
Danish Krone	67,546	—	—	67,546
Egyptian Pound	39,947	—	1,764	41,711
Euro	3,824,840	165	7,485	3,832,490
Hong Kong Dollar	645,503	—	—	645,503
Hungarian Forint	57,351	—	—	57,351
Icelandic Krona	2	—	—	2
Indian Rupee	90,296	—	—	90,296
Indonesian Rupiah	104,623	—	453	105,076
Israeli Shekel	135,083	—	—	135,083
Japanese Yen	3,055,577	—	1	3,055,578
Jordanian Dollar	1	—	—	1
Lithuanian Litas	23	—	—	23
Malaysian Ringgit	158,529	—	—	158,529
Mexican Peso	168,715	23	1,127	169,865
Netherlands Antilles Guilder	2	—	—	2
New Zealand Dollar	11,318	—	—	11,318
Norwegian Kroner	157,067	—	—	157,067
Pakistani Rupee	8,474	—	—	8,474
Panamanian Balboa	4	—	—	4
Peruvian New Sol	30	—	—	30
Philippines Peso	38,460	—	—	38,460
Polish Zloty	31,938	—	—	31,938
Romanian Leu	1,177	—	—	1,177
Russian Ruble	15,718	—	655	16,373
Singapore Dollar	144,896	—	—	144,896
South African Rand	470,455	—	—	470,455
South Korean Won	905,937	—	—	905,937
Sri Lankan Rupee	17,267	—	—	17,267
Swedish Krona	175,930	—	—	175,930
Swiss Franc	766,894	—	—	766,894
Taiwan Dollar	620,480	—	—	620,480
Thailand Baht	139,932	—	—	139,932
Turkish Lira	166,690	—	2,957	169,647
Venezuelan Bolivar	6	—	—	6
Zimbabwean Dollar	3,926	—	—	3,926
Investments Held in Foreign Currency	$15,830,562	$188	$22,884	15,853,634
Foreign Investments Held in U.S. Dollars				20,504,202
Total Foreign Investments-Primary Government, including Fiduciary Activities				$36,357,836

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Component Units
International Investments—Foreign Currency Risk
As of June 30, 2006
(dollars in thousands)

Ohio State University:

Currency	Common & Preferred Stock (Included in the Balance Reported for)	Corporate Bonds (Included in the Balance Reported for)	Total
Argentinean Peso	$ —	$ 962	$ 962
Australian Dollar	2,061	—	2,061
Brazilian Real	894	1,583	2,477
British Pound	18,141	—	18,141
Canadian Dollar	4,300	—	4,300
Danish Krone	400	—	400
Euro	31,683	226	31,909
Hong Kong Dollar	2,963	—	2,963
Israeli Shekel	532	23	555
Japanese Yen	23,301	—	23,301
Malaysian Ringgit	409	—	409
Mexican Peso	542	610	1,152
New Zealand Dollar	159	—	159
Norwegian Krone	4,169	—	4,169
Singapore Dollar	676	—	676
South African Rand	3,228	—	3,228
South Korean Won	1,926	—	1,926
Swedish Krona	2,776	—	2,776
Swiss Franc	3,849	—	3,849
Thailand Baht	789	—	789
Investments Held in Foreign Currency	102,798	3,404	106,202
Foreign Investments Held in U.S. Dollars	—	16,206	16,206
Total Ohio State University	$102,798	$19,610	$122,408

Nonmajor Component Units:

Currency	Common & Preferred Stock (Included in the Balance Reported for)	Corporate Bonds (Included in the Balance Reported for)	Total
Bermudian Dollar	$ 69	$ —	$ 69
Canadian Dollar	33	30	63
Euro	97	333	430
Israeli Shekel	—	382	382
Sri Lankan Rupee	—	59	59
Total Nonmajor Component Units	$199	$804	$1,003

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

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

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

Consequently, as of June 30, 2006, the State had no credit exposure since the amount the State owed to borrowers at least equaled or exceeded the amount borrowers owed the State.

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

The State invests cash collateral in short-term obligations, which have a weighted average maturity of 13 days or less while the weighted average maturity of securities loans is two days or less.

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

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

During fiscal year 2006, the State had not experienced any losses due to credit or market risk on securities lending activities.

In fiscal year 2006, the Treasurer lent U.S. government and agency obligations in exchange for cash collateral while the SHPRS lent fixed maturities and equity securities in exchange for cash collateral.

NOTE 5 RECEIVABLES

A. Taxes Receivable — Primary Government
Current taxes receivable are expected to be collected in the next fiscal year while noncurrent taxes receivable are not expected to be collected until more than one year from the balance sheet date. As of June 30, 2006, approximately $334.8 million of the net taxes receivable balance is also reported as deferred revenue on the governmental funds' balance sheet, of which $299.7 million is reported in the General Fund and $35.1 million is reported in the Revenue Distribution Special Revenue Fund.

Refund liabilities for income and corporation franchise taxes, totaling approximately $849.2 million, are reported for governmental activities as "Refunds and Other Liabilities" on the Statement of Net Assets, of which, $778.8 million is reported in the General Fund and $70.4 million is reported in the Revenue Distribution Special Revenue Fund on the governmental funds' balance sheet.

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

	Governmental Activities				
	Major Governmental Funds				
	General	Highway Operating	Revenue Distribution	Nonmajor Govern-mental Funds	Total Primary Government
Current-Due Within One Year:					
Income Taxes	$ 585,809	$ —	$ 64,869	$ 165	$ 650,843
Sales Taxes	371,343	—	28,655	724	400,722
Motor Vehicle Fuel Taxes	—	65,238	103,793	2,269	171,300
Commercial Activity Taxes	—	—	136,335	—	136,335
Public Utility Taxes	73,040	—	28,692	—	101,732
Severance Taxes	—	—	—	1,674	1,674
	1,030,192	65,238	362,344	4,832	1,462,606
Noncurrent-Due in More Than One Year:					
Income Taxes	58,197	—	6,827	—	65,024
Taxes Receivable, Net	$1,088,389	$65,238	$369,171	$4,832	$1,527,630

B. Intergovernmental Receivable — Primary Government
The intergovernmental receivable balance reported for the primary government, all of which is expected to be collected within the next fiscal year, consists of the following, as of June 30, 2006 (dollars in thousands).

	From Nonexchange Programs		From Sales of Goods and Services		
	Federal Government	Local Government	Other State Governments	Local Government	Total Primary Government
Governmental Activities:					
Major Governmental Funds:					
General	$ 333,665	$ 7,756	$ —	$ 4,661	$ 346,082
Job, Family and Other Human Services	332,350	85,338	—	—	417,688
Education	46,243	97,639	—	—	143,882
Highway Operating	118,770	—	—	—	118,770
Nonmajor Governmental Funds	269,673	16,431	—	38,642	324,746
Total Governmental Activities	1,100,701	207,164	—	43,303	1,351,168
Business-Type Activities:					
Major Proprietary Funds:					
Unemployment Compensation	—	—	3,351	—	3,351
Nonmajor Proprietary Funds	33	—	—	8,933	8,966
Total Business-Type Activities	33	—	3,351	8,933	12,317
Intergovernmental Receivable	$1,100,734	$207,164	$3,351	$52,236	$1,363,485

NOTE 5 RECEIVABLES (Continued)

C. Loans Receivable

Loans receivable for the primary government and its discretely presented major component units, as of June 30, 2006, are detailed in the following tables (dollars in thousands).

Primary Government — Loans Receivable

	Governmental Activities				
	Major Governmental Funds				
Loan Program	General	Education	Highway Operating	Nonmajor Govern-mental Funds	Total Primary Government
Housing Finance	$225,001	$ —	$ —	$ —	$225,001
School District Solvency Assistance	7,641	—	—	—	7,641
Wayne Trace Local School District	4,327	—	—	—	4,327
State Workforce Development	3,678	—	—	—	3,678
Office of Minority Financial Incentives	1,283	—	—	—	1,283
Professional Development	958	—	—	—	958
Columbiana County Economic Stabilization	858	—	—	—	858
Small Government Fire Departments	507	—	—	—	507
Nurses Education Assistance	—	44	—	—	44
Highway, Transit, & Aviation Infrastructure Bank	—	—	82,263	—	82,263
Economic Development					
Office of Financial Incentives	—	—	—	311,336	311,336
Rail Development	—	—	—	4,107	4,107
Brownfield Revolving Loan	—	—	—	502	502
Local Infrastructure Improvements	—	—	—	292,319	292,319
Natural Resources	—	—	—	2	2
Loans Receivable, Gross	244,253	44	82,263	608,266	934,826
Estimated Uncollectible	(51)	—	—	—	(51)
Loans Receivable, Net	$244,202	$44	$ 82,263	$608,266	$934,775
Current-Due Within One Year	$ 12,801	$34	$ 11,056	$ 31,392	$ 55,283
Noncurrent-Due in More Than One Year	231,401	10	71,207	576,874	879,492
Loans Receivable, Net	$244,202	$44	$ 82,263	$608,266	$934,775

Major Component Units — Loans Receivable

Loan Program	Ohio Water Development Authority (12/31/05)	Ohio State University	University of Cincinnati
Water and Wastewater Treatment			
(including restricted portion)	$3,254,825	$ —	$ —
Student	—	83,673	37,398
Other	—	—	690
Loans Receivable, Gross	3,254,825	83,673	38,088
Estimated Uncollectible	—	(13,800)	(4,749)
Loans Receivable, Net	$3,254,825	$ 69,873	$ 33,339
Current-Due Within One Year	$ 1,218	$ 8,429	$ 2,994
Noncurrent-Due in More Than One Year	3,253,607	61,444	30,345
Loans Receivable, Net	$3,254,825	$ 69,873	$ 33,339

NOTE 5 RECEIVABLES (Continued)

D. Other Receivables

The other receivables balances reported for the primary government and its discretely presented major component units reporting significant balances, as of June 30, 2006, consist of the following (dollars in thousands).

Primary Government — Other Receivables

	Governmental Activities					
	Major Governmental Funds					
Type of Receivable	General	Job, Family & Other Human Services	Education	Highway Operating	Nonmajor Governmental Funds	Total
Manufacturers' Rebates	$213,929	$ 13,198	$ —	$ —	$ 12,548	$239,675
Tobacco Settlement	—	—	—	—	200,242	200,242
Health Facility Bed Assessments	—	54,455	—	—	—	54,455
Interest	19,709	—	—	2,035	2,572	24,316
Accounts	20,089	—	308	620	3,404	24,421
Environmental Legal Settlements	—	—	—	—	4,676	4,676
Miscellaneous	14,271	4,160	—	—	—	18,431
Other Receivables, Net-Due Within One Year	$267,998	$ 71,813	$ 308	$ 2,655	$223,442	$566,216

	Business-Type Activities				
	Major Proprietary Funds				
Type of Receivable	Workers' Compensation	Lottery Commission	Unemployment Compensation	Nonmajor Proprietary Funds	Total
Accounts	$962,709	$ —	$68,088	$ 870	$1,031,667
Interest and Dividends (including restricted portion)	2,421	2,350	—	4,940	9,711
Leases	—	—	—	7,897	7,897
Lottery Sales Agents	—	51,769	—	—	51,769
Other Receivables, Gross	965,130	54,119	68,088	13,707	1,101,044
Estimated Uncollectible	(811,499)	(222)	(59,161)	—	(870,882)
Other Receivables, Net	$153,631	$53,897	$ 8,927	$13,707	$ 230,162
Current-Due Within One Year	$153,631	$53,897	$ 8,927	$10,463	$ 226,918
Noncurrent-Due in More Than One Year	—	—	—	3,244	3,244
Other Receivables, Net	$153,631	$53,897	$ 8,927	$13,707	$ 230,162
Total Primary Government					$ 796,378

Major Component Units — Other Receivables

Type of Receivable	Ohio State University	University of Cincinnati
Accounts	$769,123	$ 27,940
Interest	15,127	14,733
Investment Trade Receivable (Stock Proceeds)	—	10,255
Pledges	39,156	44,222
Unbilled Charges	—	32,238
Other Receivables, Gross	823,406	129,388
Estimated Uncollectible	(434,727)	(8,914)
Other Receivables, Net	$388,679	$120,474
Current-Due Within One Year	$374,461	$ 81,175
Noncurrent-Due in More Than One Year	14,218	39,299
Other Receivables, Net	$388,679	$120,474

NOTE 5 RECEIVABLES (Continued)

The "Other Receivables" balance reported in the fiduciary funds as of June 30, 2006, is comprised of interest due of approximately $6 million, investment trade receivable of $3.1 million, and miscellaneous receivables of $12.9 million.

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

As of June 30, 2006, future lease payments included under "Other Receivables" in business-type activities, net of executory costs, (dollars in thousands) were as follows:

Year Ending June 30,	Business-Type Activities
2007	$4,803
2008	2,716
Total Minimum Lease Payments	7,519
Amount for interest	(180)
Present Value of Net Minimum Lease Payments	7,339
Unearned Income	558
Net Leases Receivable	$7,897

NOTE 6 PAYABLES

A. Accrued Liabilities

Details on accrued liabilities for the primary government and its discretely presented major component units reporting significant balances, as of June 30, 2006, follow (dollars in thousands).

Primary Government — Accrued Liabilities

	Wages and Employee Benefits	Accrued Interest	Other	Total Accrued Liabilities
Governmental Activities:				
Major Governmental Funds:				
General	$119,791	$ —	$ —	$119,791
Job, Family and Other Human Services	15,630	—	—	15,630
Education	1,728	—	—	1,728
Highway Operating	23,095	—	—	23,095
Nonmajor Governmental Funds	43,233	—	22	43,255
	203,477	—	22	203,499
Reconciliation of balances in fund financial statements to government-wide financial statements due to basis differences	—	122,784	—	122,784
Total Governmental Activities	203,477	122,784	22	326,283
Business-Type Activities:				
Nonmajor Proprietary Funds	4,594	59	108	4,761
Total Primary Government	$208,071	$122,843	$ 130	$331,044

	Wages and Employee Benefits	Health Benefit Claims	Management and Administrative Expenses	Total Accrued Liabilities
Fiduciary Activities:				
State Highway Patrol Retirement System Pension Trust (12/31/05)	$ 151	$ 1,266	$ —	$ 1,417
Variable College Savings Plan Private-Purpose Trust	—	—	5,857	5,857
Total Fiduciary Activities	$ 151	$ 1,266	$5,857	$ 7,274

NOTE 6 PAYABLES (Continued)

Major Component Units — Accrued Liabilities

	Wages and Employee Benefits	Self-Insurance	Accrued Interest	Other	Total Accrued Liabilities
Ohio State University	$123,299	$109,747	$4,864	$27,814	$265,724
University of Cincinnati	30,358	—	4,355	21,496	56,209

B. Intergovernmental Payable

The intergovernmental payable balances for the primary government, as of June 30, 2006, are comprised of the following (dollars in thousands).

Primary Government — Intergovernmental Payable

	Local Government				
	Shared Revenue and Local Permissive Taxes	Subsidies and Other	Federal Government	Other States	Total
Governmental Activities:					
Major Governmental Funds:					
General	$267,049	$ 88,603	$21,559	$ —	$ 377,211
Job, Family and Other Human Services	—	230,590	—	—	230,590
Education	—	59,936	10	—	59,946
Highway Operating	—	316	—	—	316
Revenue Distribution	592,439	—	—	2,932	595,371
Nonmajor Governmental Funds	—	210,730	—	—	210,730
Total Governmental Activities	859,488	590,175	21,569	2,932	1,474,164
Business-Type Activities:					
Major Proprietary Funds:					
Unemployment Compensation	—	287	641	—	928
Nonmajor Proprietary Funds	434	—	—	—	434
Total Business-Type Activities	434	287	641	—	1,362
Total Primary Government	$859,922	$590,462	$22,210	$2,932	$1,475,526
Fiduciary Activities:					
Holding and Distribution Agency Fund	$ —	$ —	$ 2,839	$3,167	$ 6,006
Payroll Withholding and Fringe Benefits Agency Fund	—	357	—	—	357
Other Agency Fund	96,483	2,775	—	—	99,258
Total Fiduciary Activities	$ 96,483	$ 3,132	$ 2,839	$3,167	$ 105,621

As of June 30, 2006, the School Facilities Commission Component Unit Fund reported an intergovernmental payable balance totaling approximately $2.15 billion for long-term funding contracts the Commission has with local school districts. In the government-wide Statement of Net Assets, the intergovernmental payable balance for the Commission is included with "Other Noncurrent Liabilities."

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

C. Refund and Other Liabilities

Refund and other liabilities for the primary government and its discretely presented major component units reporting significant balances, as of June 30, 2006, consist of the balances reported on the tables presented on the following page (dollars in thousands).

NOTE 6 PAYABLES (Continued)

Primary Government — Refund and Other Liabilities

	Estimated Tax Refund Claims: Personal Income Tax	Estimated Tax Refund Claims: Corporation Franchise Tax	Estimated Tax Refund Claims: Total Tax Refund Liabilities	Interest on Lawyers' Trust Accounts	Other	Total
Governmental Activities:						
Major Governmental Funds:						
General	$ 609,151	$169,688	$778,839	$ —	$ 9	$ 778,848
Job, Family and Other Human Services	—	—	—	14,569	1,336	15,905
Revenue Distribution	64,766	5,623	70,389	—	—	70,389
Nonmajor Governmental Funds	—	—	—	—	2,458	2,458
Total Governmental Activities	$ 673,917	$175,311	$849,228	$ 14,569	$ 3,803	$ 867,600

	Reserve for Compen-sation Adjustment	Refund and Security Deposits	Compensated Absences	Capital Leases	Other	Total
Business-Type Activities:						
Major Proprietary Funds:						
Workers' Compensation	$1,676,498	$ 87,693	$ 20,620	$ —	$112,844	$1,897,655
Lottery Commission	—	18,336	3,055	—	1,599	22,990
Unemployment Compensation	—	12,666	—	—	—	12,666
Nonmajor Proprietary Funds	—	2,432	10,901	12	7,528	20,873
	1,676,498	121,127	34,576	12	121,971	1,954,184
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the government-wide financial statements	(1,676,498)	(87,693)	(34,454)	(12)	(75,944)	(1,874,601)
Total Business-Type Activities	$ —	$ 33,434	$ 122	$ —	$ 46,027	$ 79,583
Total Primary Government						$ 947,183

	Child Support Collections	Refund and Security Deposits	Payroll Withholdings	Retirement Systems' Assets	Other	Total
Fiduciary Activities:						
State Highway Patrol Retirement System Pension Trust (12/31/05)	$ —	$ —	$ —	$ —	$ 47	$ 47
Variable College Savings Plan Private-Purpose Trust	—	—	—	—	4,452	4,452
STAR Ohio Investment Trust	—	—	—	—	735	735
Agency Funds:						
Holding and Distribution	—	10,026	—	—	—	10,026
Centralized Child Support Collections	70,670	—	—	—	—	70,670
Retirement Systems	—	—	—	157,171,453	—	157,171,453
Payroll Withholding and Fringe Benefits	—	—	138,429	—	—	138,429
Other	—	388,345	—	10,453	98,184	496,982
Total Fiduciary Activities	$ 70,670	$398,371	$138,429	$157,181,906	$103,418	$157,892,794

Major Component Units — Refund and Other Liabilities

	Refund and Security Deposits	Compensated Absences	Capital Leases	Obligations Under Annuity Life Agreements	Other	Total
Ohio State University	$ 58,209	$ 85,054	$ 15,107	$ 49,473	$ 39,999	$ 247,842
University of Cincinnati	35,927	66,292	122,140	—	6,430	230,789

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

A. Interfund Balances

Interfund balances, as of June 30, 2006, consist of the following (dollars in thousands):

	Due To		
	Governmental Activities		
Due from	General	Nonmajor Governmental Funds	Total
Major Governmental Funds:			
General	$ —	$3,054	$ 3,054
Job, Family and Other Human Services	—	—	—
Education	—	—	—
Highway Operating	—	—	—
Revenue Distribution	—	395	395
Nonmajor Governmental Funds	—	349	349
Total Governmental Activities	—	3,798	3,798
Major Proprietary Funds:			
Lottery Commission	—	—	—
Nonmajor Proprietary Funds	2,925	—	2,925
Total Business-Type Activities	2,925	—	2,925
Total Primary Government	$ 2,925	$3,798	$ 6,723

	Business-Type Activities			
	Major Proprietary Fund			
	Workers' Compensation	Nonmajor Proprietary Funds	Total	Total Primary Government
Major Governmental Funds:				
General	$688,792	$9,284	$698,076	$701,130
Job, Family and Other Human Services	21,011	—	21,011	21,011
Education	2,466	—	2,466	2,466
Highway Operating	114,656	—	114,656	114,656
Revenue Distribution	—	—	—	395
Nonmajor Governmental Funds	130,805	1	130,806	131,155
Total Governmental Activities	957,730	9,285	967,015	970,813
Major Proprietary Funds:				
Lottery Commission	4,329	—	4,329	4,329
Nonmajor Proprietary Funds	2,633	—	2,633	5,558
Total Business-Type Activities	6,962	—	6,962	9,887
Total Primary Government	$964,692	$9,285	$973,977	$980,700

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

The State's primary government is permitted to pay its workers' compensation liability on a terminal-funding (pay-as-you-go) basis. As a result, the Workers' Compensation Enterprise Fund recognized $964.7 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 $957.7 million in the internal balance reported for governmental activities.

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

B. Interfund Transfers

Interfund transfers, for the year ended of June 30, 2006, consist of the following (dollars in thousands):

	Transferred to						
	Governmental Activities						
	Major Governmental Funds						
Transferred from	General	Job, Family and Other Human Services	Education	Highway Operating	Revenue Distribution	Nonmajor Govern-mental Funds	Total
Major Governmental Funds:							
General	$ —	$68,319	$ 10,515	$ 85	$ 9,253	$1,060,223	$1,148,395
Job, Family and Other Human Services	41,854	—	1,500	—	—	5	43,359
Education	31,717	—	—	—	—	100	31,817
Highway Operating	703	—	—	—	135,279	158,423	294,405
Revenue Distribution	90,270	—	—	513,681	—	240,925	844,876
Nonmajor Governmental Funds	54,577	2,142	257	—	—	18,946	75,922
Total Governmental Activities	219,121	70,461	12,272	513,766	144,532	1,478,622	2,438,774
Major Proprietary Funds:							
Workers' Compensation	7,724	—	—	—	—	—	7,724
Lottery Commission	472	—	646,276	—	—	—	646,748
Unemployment Compensation	—	25,366	—	—	—	—	25,366
Nonmajor Proprietary Funds	138,009	—	—	—	—	63,200	201,209
Total Business-Type Activities	146,205	25,366	646,276	—	—	63,200	881,047
Total Primary Government	$365,326	$95,827	$658,548	$513,766	$ 144,532	$1,541,822	$3,319,821

	Business-Type Activities				
	Major Proprietary Funds				
	Workers' Compen-sation	Unemploy-ment Compen-sation	Nonmajor Proprietary Funds	Total	Total Primary Government
Major Governmental Funds:					
General	$ —	$ —	$ 53,223	$ 53,223	$1,201,618
Job, Family and Other Human Services	44	9,144	—	9,188	52,547
Education	—	—	—	—	31,817
Highway Operating	—	—	—	—	294,405
Revenue Distribution	—	—	—	—	844,876
Nonmajor Governmental Funds	—	—	—	—	75,922
Total Governmental Activities	44	9,144	53,223	62,411	2,501,185
Major Proprietary Funds:					
Workers' Compensation	—	—	—	—	7,724
Lottery Commission	—	—	—	—	646,748
Unemployment Compensation	—	—	—	—	25,366
Nonmajor Proprietary Funds	—	—	—	—	201,209
Total Business-Type Activities	—	—	—	—	881,047
Total Primary Government	$ 44	$ 9,144	$ 53,223	$ 62,411	$3,382,232

Transfers are used to 1.) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, 2.) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and 3.) utilize unrestricted revenues collected in one fund to finance various programs accounted for in other funds in accordance with budget authorizations.

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

C. Component Units

For fiscal year 2006, the component units reported $2.95 billion in state assistance revenue from the primary government in the Statement of Activities.

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

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

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

Primary Government
(dollars in thousands)

		Program Expenses for State Assistance to Component Units			
	Payable to the Component Units	Primary, Secondary and Other Education Function	Higher Education Support Function	Community And Economic Development Function	Total State Assistance to the Component Units
Major Governmental Funds:					
General	$14,967	$706,434	$1,745,614	$30,921	$2,482,969
Job, Family and Other Human Services	372	—	—	—	—
Education	2,735	10,598	—	—	10,598
Highway Operating	252	—	—	—	—
Nonmajor Governmental Funds	29,291	228,228	223,303	—	451,531
Total Primary Government	$47,617	$945,260	$1,968,917	$30,921	$2,945,098

Component Units
(dollars in thousands)

	Receivable from the Primary Government	Total State Assistance from the Primary Government
Major Component Units:		
School Facilities Commission	$ —	$ 911,425
Ohio State University	11,412	593,694
University of Cincinnati	1,517	210,065
Nonmajor Component Units	34,653	1,229,914
Variance Due to Year-End Differences (June 30 versus December 31)	35	—
Total Component Units	$47,617	$2,945,098

NOTE 8 CAPITAL ASSETS

A. Primary Government

Capital asset activity, for the year ended June 30, 2006, reported for the primary government was as follows (dollars in thousands):

	Primary Government			
	Balance July 1, 2005 *(as restated)*	Increases	Decreases	Balance June 30, 2006
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	$ 1,632,382	$ 106,365	$ (2,284)	$ 1,736,463
Buildings	59,135	925	—	60,060
Land Improvements	930	—	—	930
Construction-in-Progress	1,700,690	493,177	(612,369)	1,581,498
Infrastructure:				
Highway Network:				
General Subsystem	8,315,025	38,917	(16,174)	8,337,768
Priority Subsystem	6,823,023	394,349	(20,393)	7,196,979
Bridge Network	2,332,077	110,522	(11,970)	2,430,629
Total Capital Assets Not Being Depreciated	20,863,262	1,144,255	(663,190)	21,344,327
Other Capital Assets:				
Buildings	3,239,994	121,534	(37,076)	3,324,452
Land Improvements	306,536	34,892	(2,922)	338,506
Machinery and Equipment	523,953	101,643	(32,530)	593,066
Vehicles	243,663	30,229	(22,341)	251,551
Infrastructure:				
Parks, Recreation and Natural Resources Network	33,332	8,980	—	42,312
Total Other Capital Assets at historical cost	4,347,478	297,278	(94,869)	4,549,887
Less Accumulated Depreciation for:				
Buildings	1,303,023	110,940	(25,422)	1,388,541
Land Improvements	137,080	18,461	(2,210)	153,331
Machinery and Equipment	352,425	78,227	(29,254)	401,398
Vehicles	113,613	21,454	(16,174)	118,893
Infrastructure:				
Parks, Recreation and Natural Resources Network	2,003	1,281	(6)	3,278
Total Accumulated Depreciation	1,908,144	230,363	(73,066)	2,065,441
Other Capital Assets, Net	2,439,334	66,915	(21,803)	2,484,446
Governmental Activities-Capital Assets, Net	$23,302,596	$1,211,170	$(684,993)	$23,828,773

For fiscal year 2006, the State charged depreciation expense to the following governmental functions:

Governmental Activities:	***(in 000s)***
Primary, Secondary and Other Education	$ 1,313
Higher Education Support	6
Public Assistance and Medicaid	17,407
Health and Human Services	20,778
Justice and Public Protection	102,787
Environmental Protection and Natural Resources	16,358
Transportation	25,970
General Government	47,919
Community and Economic Development	4,094
Total Depreciation Expense for Governmental Activities	236,632
Gains (Losses) on Capital Asset Disposals Included in Depreciation	(6,269)
Fiscal Year 2006 Increases to Accumulated Depreciation	$230,363

NOTE 8 CAPITAL ASSETS (Continued)

As of June 30, 2006, the State considered the following governmental capital asset balances as being temporarily or permanently impaired and removed from service.

Governmental Activities:	***(in 000s)***
Temporarily Impaired Assets Removed from Service:	
Buildings	$13,198
Land Improvements	225
Total	$13,423
Permanently Impaired Assets Removed from Service:	
Buildings	$ 6,072
Land Improvements	429
Total	$ 6,501

	Primary Government *(Continued)*			
	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Business-Type Activities:				
Capital Assets Not Being Depreciated:				
Land	$ 11,994	$ —	$ —	$ 11,994
Construction-in-Progress	71	707	—	778
Total Capital Assets Not Being Depreciated	12,065	707	—	12,772
Other Capital Assets:				
Buildings	222,038	116	—	222,154
Land Improvements	66	—	—	66
Machinery and Equipment	145,176	6,910	(9,216)	142,870
Vehicles	4,287	1,218	(876)	4,629
Total Other Capital Assets at historical cost	371,567	8,244	(10,092)	369,719
Less Accumulated Depreciation for:				
Buildings	108,207	7,340	—	115,547
Land Improvements	50	1	—	51
Machinery and Equipment	117,844	18,037	(8,820)	127,061
Vehicles	2,356	949	(756)	2,549
Total Accumulated Depreciation	228,457	26,327	(9,576)	245,208
Other Capital Assets, Net	143,110	(18,083)	(516)	124,511
Business-Type Activities-Capital Assets, Net	$155,175	$(17,376)	$(516)	$137,283

For fiscal year 2006, the State charged depreciation expense to the following business-type functions:

Business-Type Activities:	***(in 000s)***
Workers' Compensation	$ 8,758
Lottery Commission	14,596
Tuition Trust Authority	10
Liquor Control	796
Underground Parking Garage	567
Office of Auditor of State	1,468
Total Depreciation Expense for Business-Type Activities	26,195
Gains (Losses) on Capital Asset Disposals Included in Depreciation	132
Fiscal Year 2006 Increases to Accumulated Depreciation	$26,327

NOTE 8 CAPITAL ASSETS (Continued)

B. Major Component Units

Capital asset activity, for the year ended June 30, 2006, reported for discretely presented major component unit funds with significant capital asset balances was as follows (dollars in thousands):

	Major Component Units			
Ohio State University:	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital Assets Not Being Depreciated:				
Land	$ 44,016	$ 8,962	$ (435)	$ 52,543
Construction-in-Progress	370,753	62,604	—	433,357
Total Capital Assets Not Being Depreciated	414,769	71,566	(435)	485,900
Other Capital Assets:				
Buildings	2,670,413	225,815	(18,554)	2,877,674
Land Improvements	217,841	23,421	(53)	241,209
Machinery, Equipment and Vehicles	748,383	98,029	(39,651)	806,761
Library Books and Publications	161,043	3,857	(1,976)	162,924
Total Other Capital Assets at historical cost	3,797,680	351,122	(60,234)	4,088,568
Less Accumulated Depreciation for:				
Buildings	998,354	98,892	(14,605)	1,082,641
Land Improvements	118,894	10,116	(54)	128,956
Machinery, Equipment and Vehicles	488,941	77,058	(40,209)	525,790
Library Books and Publications	137,484	5,925	(1,976)	141,433
Total Accumulated Depreciation	1,743,673	191,991	(56,844)	1,878,820
Other Capital Assets, Net	2,054,007	159,131	(3,390)	2,209,748
Total Capital Assets, Net	$2,468,776	$230,697	$(3,825)	$2,695,648
University of Cincinnati:				
Capital Assets Not Being Depreciated:				
Land	$ 21,305	$ 618	$ —	$ 21,923
Construction-in-Progress	295,625	158,037	(312,367)	141,295
Collections of Works of Art and Historical Treasures	4,469	30	(143)	4,356
Total Capital Assets Not Being Depreciated	321,399	158,685	(312,510)	167,574
Other Capital Assets:				
Buildings	1,314,398	217,888	—	1,532,286
Land Improvements	34,752	43,262	—	78,014
Machinery, Equipment and Vehicles	154,029	37,621	—	191,650
Library Books and Publications	133,718	9,087	(11,121)	131,684
Infrastructure	78,399	11,269	—	89,668
Total Other Capital Assets at historical cost	1,715,296	319,127	(11,121)	2,023,302
Less Accumulated Depreciation for:				
Buildings	469,603	51,963	(3,879)	517,687
Land Improvements	8,040	2,733	—	10,773
Machinery, Equipment and Vehicles	101,105	14,532	(5,212)	110,425
Library Books and Publications	85,656	6,842	(6,258)	86,240
Infrastructure	41,454	3,296	—	44,750
Total Accumulated Depreciation	705,858	79,366	(15,349)	769,875
Other Capital Assets, Net	1,009,438	239,761	4,228	1,253,427
Total Capital Assets, Net	$1,330,837	$398,446	$(308,282)	$1,421,001

For fiscal year 2006, Ohio State University and the University of Cincinnati reported approximately $192 million and $79.4 million in depreciation expense, respectively.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

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

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

A. Ohio Public Employees Retirement System (OPERS)

Pension Benefits

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

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

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

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

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

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

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

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

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Employer and employee required contributions to OPERS are established under the Ohio Revised Code and are based on percentages of covered employees' gross salaries, which are calculated annually by the retirement system's actuaries. Contribution rates for fiscal year 2006, which are the same for the defined benefit, defined contribution, and combined plans, were as follows:

	Contribution Rates	
	Employee Share	Employer Share
Regular Employees:		
July 1, 2005 through December 31, 2005	8.50%	13.31%
January 1, 2006 through June 30, 2006	9.00%	13.54%
Law Enforcement Employees:		
July 1, 2005 through December 31, 2005	10.10%	16.70%
January 1, 2006 through June 30, 2006	10.10%	16.93%

The employer rate for regular employees is scheduled to increase to 13.77 percent and 14 percent, respectively, beginning January 1, 2007, and January 1, 2008. The employer rate for law enforcement employees is scheduled to increase to 17.17 percent, beginning January 1, 2007, and thereafter annually, until reaching 18.1 percent on January 1, 2011. The employee rate for regular employees is scheduled to increase to 9.5 percent beginning January 1, 2007, and to ten percent beginning January 1, 2008.

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

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

	2006	2005	2004
Primary Government:			
Regular Employees	$253,259	$248,032	$235,634
Law Enforcement Employees..............	3,988	3,946	3,763
Total	$257,247	$251,978	$239,397
Major Component Units:			
School Facilities Commission	$ 297	$ 283	$ 346
Ohio Water Development Authority	82	83	83
Ohio State University	62,108	63,044	54,280
University of Cincinnati...	13,285	14,070	12,596

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

	2006	2005	2004
Primary Government:			
Employer Contributions	$2,598	$2,054	$1,593
Employee Contributions	5,828	4,375	3,322
Major Component Units:			
Ohio State University:			
Employer Contributions	1,185	1,002	720
Employee Contributions	2,494	2,032	1,437
University of Cincinnati:			
Employer Contributions	236	200	150
Employee Contributions	460	403	291

OPERS issues a stand-alone financial report, copies of which may be obtained by making a written request to: Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-6701 or 1-800-222-7377.

Other Postemployment Benefits

Members of the defined contribution plan may access a Retiree Medical Account upon retirement. During fiscal year 2006, employers paid 4.81 percent of their share into members' accounts for the period covering July 1, 2005 through December 31, 2005, and 4.5 percent for the period covering January 1, 2006 through June 30, 2006. An employee's interest in the medical account for qualifying healthcare expenses vests on the basis of length of service, with 100 percent vesting attained after 10 years of service credit. Employers make no further contributions to a member's medical account after retirement, nor do employers have any further obligation to provide postemployment healthcare benefits.

Employer contributions, for the fiscal year ended June 30, 2006, were as follows (dollars in thousands):

	2006
Primary Government....................................	$1,423
Major Component Units:	
Ohio State University	629
University of Cincinnati	125

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

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

attain a 100 percent vested interest after reaching 30 years of service credit. Members hired after January 1, 2003 can also choose various coverage options.

Healthcare coverage for disability recipients and primary survivor recipients is also available to members of the defined benefit and combined plans. Chapter 145, Ohio Revised Code, provides the statutory authority for employer contributions. For law enforcement and regular employees, the portion of the employer rate used to fund healthcare was four percent of covered payroll for the period, July 1, 2005 through December 31, 2006, and 4.5 percent for the period, January 1, 2006 through June 30, 2006. Employees do not fund any portion of healthcare costs.

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

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

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

For fiscal year 2006, the State's actuarially required and actual contributions for the defined benefit plan and the defined benefit portion of the combined plan were as follows (dollars in thousands):

	2006
Primary Government:	
Regular Employees	$117,294
Law Enforcement Employees	1,349
Total	$118,643
Major Component Units:	
School Facilities Commission	$ 137
Ohio Water Development Authority	38
Ohio State University	28,752
University of Cincinnati	6,151

The number of active contributing participants for the primary government was 58,073, as of June 30, 2006.

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

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

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

As of June 30, 2006, the State had no significant liability balances relative to existing ERI agreements with state employees covered by OPERS. During fiscal year 2006, the State incurred expenditures/expenses totaling $21.1 million for 613 employees who entered into ERI agreements with the State.

B. State Teachers Retirement System of Ohio (STRS)

Pension Benefits
STRS is a cost-sharing, multiple-employer public employee retirement system that administers three separate pension plans — a defined benefit plan, a

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

defined contribution plan, and a combined plan with features of both the defined benefit plan and the defined contribution plan.

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

Under the "formula benefit" calculation, the retirement allowance is based on years of credited service and the final average salary, which is the average of the member's three highest salary years. The annual allowance is determined by multiplying the final average salary by 2.5 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, and each year over 30 years is increased incrementally by .1 percent starting at 2.6 percent for the 32nd year of Ohio service.

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

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

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

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

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

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

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

Contribution rates for fiscal year 2006 were 14 percent for employers and ten percent for employees for the defined benefit, defined contribution, and combined plans. For the defined benefit and combined plans, 13 percent of the employer rate is used to fund pension obligations. The difference between the total employer rate and the share used to fund

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

pension obligations is the percentage used to fund the STRS healthcare program. For the defined contribution plan, 10.5 percent of the employer's share is deposited into individual employee accounts, while 3.5 percent is paid to the defined benefit plan.

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

	2006	2005	2004
Primary Government	$ 7,162	$ 6,893	$ 6,966
Major Component Units:			
Ohio State University	34,038	33,075	31,995
University of Cincinnati	14,188	13,551	13,043

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

	2006	2005	2004
Primary Government:			
Employer Contributions	$ 101	$ 129	$111
Employee Contributions	166	184	161
Major Component Units:			
Ohio State University:			
Employer Contributions	1,438	1,018	634
Employee Contributions	1,719	1,283	819
University of Cincinnati:			
Employer Contributions	789	651	480
Employee Contributions	970	770	547

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

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

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

The employer contribution is financed on a pay-as-you-go basis. As of June 30, 2005 (the most recent information available), net assets available for future healthcare benefits were $3.3 billion. Net healthcare costs paid by the primary government and its discretely presented major component units, for the year ended June 30, 2006, were as follows (dollars in thousands):

	2006
Primary Government	$ 551
Major Component Units:	
Ohio State University	2,618
University of Cincinnati	1,091

The number of eligible benefit recipients for STRS as a whole was 152,576, as of June 30, 2005; a breakout of the number of eligible recipients for the primary government and its component units, as of June 30, 2006, is unavailable.

C. State Highway Patrol Retirement System (SHPRS)

Pension Benefits
SHPRS, a component unit of the State, was established in 1941 by the General Assembly as a single-employer, defined benefit pension plan and is administered by the State.

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

SHPRS is authorized under Chapter 5505, Ohio Revised Code, to provide retirement and disability benefits to retired members and survivor benefits to qualified dependents of deceased members of the Ohio State Highway Patrol. 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.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

The employer and employee contribution rates, as of December 31, 2005, were 25.5 percent and ten percent, respectively. Effective July 1, 2005, the employer rate increased from 24.5 percent to 25 percent.

During calendar year 2005, all of the employees' contributions funded pension benefits while 21 percent of the employer's contributions funded pension benefits from January 1, 2005 through June 30, 2005 and 22 percent from July 1, 2005 through December 31, 2005. 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.

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

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

For the Year Ended December 31,	Primary Government	Percentage of Employer's Annual Pension Cost Contributed
2005	$18,048	100%
2004	17,870	100%
2003	16,307	100%

SHPRS used the entry-age, normal actuarial cost method for the Schedule of Funding Progress for the actuarial valuation, dated December 31, 2005. Assumptions used in preparing the Schedule of Funding Progress and in determining the annual required contribution include: an eight-percent rate of return on investments; projected salary increase of four percent attributable to inflation and additional projected salary increases ranging from .3 percent to ten percent a year attributable to seniority and merit; price inflation was assumed to be at least four percent a year; and postretirement increases each year equal to three percent after the retiree reaches age 53.

The unfunded actuarial accrued liability is being amortized using the level-percentage of projected payroll method over a closed period of 35 years.

The Schedule of Funding Progress for the last three years is presented in the table at the top of 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, 2005, was 1,573. The cost of retiree healthcare benefits is recognized as claims are incurred and premiums are paid. The calendar year 2005 expense was $9.9 million.

Healthcare benefits are established in Chapter 5505, Ohio Revised Code, and are advance funded by the employer on the same actuarially determined basis (using the same assumptions) as are the SHPRS pension benefits, as previously discussed. In addition, the assumption that projected healthcare costs would increase at a rate of four percent, compounded annually, due to inflation, was also used in the valuation. Net assets available for benefits allocated to healthcare costs at December 31, 2005 were $95.9 million, and included investments carried at fair value, as previously described.

As of December 31, 2005, 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 $185.2 million; the actuarial accrued liability for healthcare benefits at that date was $281.1 million.

Employer contributions are made in accordance with actuarially determined requirements. For calendar year 2005, the employer contribution requirement was approximately $2.9 million or 3.5 percent of active member payroll.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

(A) Valuation Year	(B) Actuarial Accrued Liability (AAL)	(C) Valuation Assets	(D) Unfunded Actuarial Accrued Liability (UAAL) (B) – (C)	(E) Ratio of Assets to AAL (C)/(B)	(F) Active Member Payroll	(G) UAAL as Percentage of Active Member Payroll (D)/(F)
2005 (b)	$773,856	$591,922	$181,934	76.5%	$83,408	218.1%
2005	766,741	591,922	174,819	77.2	83,408	209.6
2004 (a)	734,464	569,858	164,606	77.6	81,758	201.3
2004	737,867	569,858	168,009	77.2	81,758	205.5
2003	702,799	545,982	156,817	77.7	81,738	191.9

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

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 hired on or after August 1, 2005 are also eligible to participate in the ARP.

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

Ohio law requires that employee contributions be made to the ARP in an amount equal to those that would otherwise have been required by the retirement system that applies to the employee's position. Employees may also voluntarily make additional contributions to the ARP.

Ohio law also requires each public institution of higher education to contribute 3.5 percent of a participating employee's gross salary, for the year ended June 30, 2006, to STRS in cases when the employee would have otherwise been enrolled in STRS.

For the year ended June 30, 2006, employers were not required to contribute to the ARP on behalf of employees that would otherwise have been enrolled in OPERS.

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

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

For the State's discretely presented major component units, employer and employee contributions required and made for the year ended June 30, 2006, for the ARP follow (dollars in thousands):

	2006	
Major Component Units:	OPERS	STRS
Ohio State University:		
Employer Contributions	$17,899	$12,151
Employee Contributions	11,666	11,572
University of Cincinnati:		
Employer Contributions	6,062	5,249
Employee Contributions	4,420	4,999

NOTE 10 GENERAL OBLIGATION BONDS

At various times since 1921, Ohio voters, by 18 constitutional amendments (the last adopted in November 2005 for local government infrastructure improvements, high-tech business research and development support, and business site development enhancements), have authorized the incurrence of general obligation debt for the construction and improvement of common school and higher education facilities, highways, local infrastructure improvements, research and development of coal technology, natural resources, research and development support for high-tech business, and business site development. In practice, general obligation bonds are retired over periods of 10 to 25 years.

A 1999 constitutional amendment provided for the issuance of Common Schools Capital Facilities Bonds and Higher Education Capital Facilities Bonds. As of June 30, 2006, the General Assembly had authorized the issuance of $3.62 billion in Common Schools Capital Facilities Bonds, of which $2.79 billion had been issued. As of June 30, 2006, the General Assembly had also authorized the issuance of $2.38 billion in Higher Education Capital Facilities Bonds, of which $1.85 billion had been issued.

Through approval of the November 1995 amendment, voters authorized the issuance of Highway Capital Improvements Bonds in amounts up to $220 million in any fiscal year (plus any prior fiscal years' principal amounts not issued under the new authorization), with no more than $1.2 billion outstanding at any time. As of June 30, 2006, the General Assembly had authorized the issuance of approximately $2.13 billion in Highway Capital Improvements Bonds, of which $1.62 billion had been issued.

Constitutional amendments in 1995 and 2005 allowed for the issuance of $2.55 billion of general obligation bonds for infrastructure improvements (Infrastructure Bonds). Issuances are limited to $120 million in any fiscal year through fiscal year 2013, with an increase in the annual issuance amount to $150 million for fiscal years 2014 through 2018. As of June 30, 2006, the General Assembly had authorized $2.4 billion of these bonds to be sold (excluding any amounts for unaccreted discount on capital appreciation bonds at issuance), of which $2.16 billion had been issued (net of $214 million in unaccreted discounts at issuance).

Coal Research and Development Bonds and Parks, Recreation, and Natural Resources Bonds may be issued as long as the outstanding principal amounts do not exceed $100 and $200 million, respectively. As of June 30, 2006, the General Assembly had authorized the issuance of $165 million in Coal Research and Development Bonds, of which $150 million had been issued.

Legislative authorizations for the issuance of Natural Resources Capital Facilities Bonds totaled $306 million, as of June 30, 2006, of which $265 million had been issued.

The State may issue Conservation Projects Bonds up to $200 million. No more than $50 million may be issued during a fiscal year. As of June 30, 2006, the General Assembly had authorized the issuance of approximately $200 million in Conservation Projects Bonds of which $150 million had been issued.

Through approval of the November 2005 amendment, voters authorized the issuance of $500 million of Third Frontier Research and Development Bonds. Not more than $100 million may be issued in each of the first three years and not more than $50 million may be issued in any of the subsequent fiscal years. As of June 30, 2006, the General Assembly had authorized the issuance of $200 million in Third Frontier Research and Development Bonds. No bonds had been issued as of June 30, 2006.

The issuance of $150 million of Site Development Bonds was also authorized through the approval of the November 2005 amendment. Not more than $30 million may be issued in each of the first three years and not more than $15 million may be issued in any of the subsequent fiscal years. The General Assembly had authorized the issuance of $60 million in Site Development Bonds as of June 30, 2006, although no bonds had been issued as of that date.

General obligation bonds outstanding and future general obligation debt service requirements, as of June 30, 2006, are presented in the table on the following page.

For the year ended June 30, 2006, 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, 2006
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Common Schools Capital Facilities	2000-06	3.2%-5.4%	2026	$2,596,788	$ 825,000
Higher Education Capital Facilities	2000-06	3.6%-5.4%	2026	1,658,712	531,000
Highway Capital Improvements	1997-06	2.9%-5.0%	2015	859,762	515,000
Infrastructure Improvements	1990-06	3.3%-6.6%	2026	1,442,738	240,014
Coal Research and Development	2000-04	2.4%-5.0%	2013	36,085	15,000
Natural Resources Capital Facilities	1997-05	3.0%-5.2%	2020	161,221	41,000
Conservation Projects	2002-06	3.6%-4.3%	2020	138,215	50,000
Total General Obligation Bonds				$6,893,521	$2,217,014

Future Funding of Current Interest and Capital Appreciation Bonds:

Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2007	$ 464,970	$ 274,482	$ 293	$ 739,745
2008	460,375	253,009	222	713,606
2009	451,215	233,959	150	685,324
2010	441,760	214,382	76	656,218
2011	416,605	194,805	—	611,410
2012-2016	1,785,465	708,779	—	2,494,244
2017-2021	1,292,305	349,805	—	1,642,110
2022-2026	701,030	68,390	—	769,420
Total Current Interest and Capital Appreciation Bonds	$6,013,725	$2,297,611	$ 741	$8,312,077

Future Funding of Variable-Rate Bonds:

Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2007	$ 16,830	$ 28,450	$(1,148)	$ 44,132
2008	17,015	28,293	(1,587)	43,721
2009	17,235	28,124	(1,431)	43,928
2010	19,345	27,390	(871)	45,864
2011	21,125	26,620	(295)	47,450
2012-2016	187,705	117,704	(1,035)	304,374
2017-2021	283,155	65,733	(1,064)	347,824
2022-2026	179,855	17,192	(851)	196,196
Total Variable-Rate Bonds	$ 742,265	$ 339,506	$(8,282)	$1,073,489
Total General Obligation Bonds	6,755,990			
Unamortized Premium/ (Discount), Net	197,857			
Deferred Refunding Loss	(60,326)			
Total Carrying Amount	$6,893,521			

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, 2006. As rates vary, variable-rate bond interest payments and net swap payments vary.

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

Interest Rate Swaps
As of June 30, 2006, approximately $762.8 million of issued Infrastructure Improvement Bonds and Common Schools Bonds include associated interest-rate swaps. Terms of the swap agreements are provided below. Fair value has been determined using the zero-coupon method.

Primary Government-Governmental Activities
Interest Rate Swaps
As of June 30, 2006
(dollars in thousands)

Issue	Type of Swap	Original Notional Amount	Underlying Index	Counterparty's Swap Rate at 06/30/06	State's Swap Rate at 06/30/06	Effective Date	Termination (Maturity) Date	Fair Value
Infrastructure Improvements, Series 2001B	Floating to fixed knock-out	$63,900	BMA Index	3.97%	4.63%	11/29/01	08/01/21	$(2,308)
Credit Quality Ratings of Counterparties:	50% Aaa/AAA Bear Stearns Financial Products; 50% Aa3/A+ Morgan Stanley Capital Services							
Infrastructure Improvements, Refunding Series 2003B	Floating to fixed	$104,315	Actual Bond Rate	3.97%	2.96%	02/26/03	08/01/08	$1,717
Credit Quality Ratings of Counterparty:	Aa3/A+ Morgan Stanley Capital Services							
Infrastructure Improvements, Refunding Series 2003D	Floating to fixed	$58,085	Actual Bond Rate	3.97%	3.04%	03/20/03	02/01/10	$1,585
Credit Quality Ratings of Counterparty:	Aa3/A+ Morgan Stanley Capital Services							
Infrastructure Improvements, Series 2003F	Fixed to floating	$30,115	BMA Index	2.54%	3.97%	12/04/03	02/01/10	$(523)
Credit Quality Ratings of Counterparty:	Aa2/AA- JP Morgan Chase							
Infrastructure Improvements, Refunding Series 2004A	Floating to fixed Enhanced LIBOR	$58,725	LIBOR (see terms below)	3.53%	3.51%	03/03/04	02/01/23	$1,455
Credit Quality Ratings of Counterparty:	Aa3/A+ Morgan Stanley Capital Services							
Terms: 68% of LIBOR (1-month LIBOR > 5.0%) or 63% of LIBOR + 25 basis points (1-month LIBOR < 5.0%)								
Common Schools, Series 2003D	Fixed to floating	$67,000	BMA Index	2.67%	3.97%	12/15/03	09/01/07	$(866)
Credit Quality Ratings of Counterparties:	50% Aa2/AA- JP Morgan Chase; 50% Aa3/A+ Morgan Stanley Capital Services							
Common Schools, Series 2003D	Floating to fixed LIBOR	$67,000	LIBOR (see terms below)	N/A	N/A	09/14/07	03/15/24	$3,498
Credit Quality Ratings of Counterparties:	50% Aa2/AA- JP Morgan Chase; 50% Aa3/A+ Morgan Stanley Capital Services							
Terms: 65% of 1-month LIBOR + 25 basis points								
Common Schools, Series 2005A	Floating to fixed	$100,000	BMA Index	3.97%	4.08%	04/01/05	03/15/25	$974
Credit Quality Ratings of Counterparties:	50% Aaa/AAA Bear Stearns Financial Products; 50% Aa2/AA- JP Morgan Chase							
Common Schools, Series 2005B	Floating to fixed	$100,000	BMA Index	3.97%	4.08%	04/01/05	03/15/25	$974
Credit Quality Ratings of Counterparties:	50% Aaa/AAA Bear Stearns Financial Products; 50% Aa2/AA- JP Morgan Chase							
Common Schools, Series 2006B	Floating to fixed LIBOR	$100,000	LIBOR (see terms below)	3.73%	3.20%	06/15/06	06/15/26	$5,887
Credit Quality Ratings of Counterparties:	50% Aa2/AA+ UBS AG; 50% Aa2/AA- Royal Bank of Canada							
Terms: 65% of 1-month LIBOR + 25 basis points								
Common Schools, Series 2006C	Floating to fixed LIBOR	$100,000	LIBOR (see terms below)	3.73%	3.20%	06/15/06	06/15/26	$5,887
Credit Quality Ratings of Counterparties:	50% Aa2/AA+ UBS AG; 50% Aa2/AA- Royal Bank of Canada							
Terms: 65% of 1-month LIBOR + 25 basis points								

NOTE 10 GENERAL OBLIGATION BONDS (Contued)

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

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

Interest rate risk, rollover risk, basis risk, and credit risk vary for each interest rate swap. Discussion of these risks is included below, when applicable to the swap.

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

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2006. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

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

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

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

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

The State has credit risk exposure equal to the swap's fair value of $1,717 at June 30, 2006.

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

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

The State has credit risk exposure equal to the swap's fair value of $1,585 at June 30, 2006.

Infrastructure Improvements-Series 2003F
The State entered into an interest rate swap to convert a portion of the Series 2003F fixed-rate bonds

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

into a synthetic variable rate. The combination of fixed-rate bonds and a fixed-to-floating swap creates synthetic variable-rate debt that is exposed to changing interest rates. The borrowing cost is less than the traditional variable borrowing cost.

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2006. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

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

The State has credit risk exposure equal to the swap's fair value of $1,455 at June 30, 2006.

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

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

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

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2006. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

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

The State has credit risk exposure on the floating-to-fixed swap equal to the swap's fair value of $3,498 at June 30, 2006.

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

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

The State has credit risk exposure equal to the swap's fair value of $974 at June 30, 2006.

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

Common Schools-Series 2005B
The State entered into an interest rate swap to convert its Common Schools, Series 2005B variable-rate bonds into a synthetic fixed rate. The combina-

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

tion of the variable-rate bonds and a floating-to-fixed swap creates a low-cost, long-term synthetic fixed-rate debt that protects the State from rising interest rates.

The State has credit risk exposure equal to the swap's fair value of $974 at June 30, 2006.

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

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

The State has credit risk exposure equal to the swap's fair value of $5,887 at June 30, 2006.

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

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

The State has credit risk exposure equal to the swap's fair value of $5,887 at June 30, 2006.

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

Advance Refundings
During fiscal year 2006, there were two advance refundings of general obligation bonds as follows:

The State issued approximately $71.9 million in Common Schools refunding bonds (Series 2005D) with a true interest cost rate of 3.9 percent to defease approximately $79.4 million (in substance). Net refunding bond proceeds of $82.4 million were deposited with escrow agents to provide for all future principal and interest payments on the old bonds. As a result of the refunding, the State's debt service payments will be reduced by $7.8 million over the next 15 years. The net economic gain from the refunding was $3.2 million.

The State issued approximately $49.5 million in Higher Education refunding bonds (Series 2005C) with a true interest cost rate of 3.6 percent to defease approximately $49.8 million (in substance). Net refunding bond proceeds of $53.9 million were deposited with escrow agents to provide for all future principal and interest payments on the old bonds. As a result of the refunding, the State's debt service payments will be reduced by $4.3 million over the next 12 years. The net economic gain from the refunding was $2.8 million.

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

In addition to the general obligation bonds defeased during fiscal year 2006, the Treasurer of State has defeased other general obligation bonds in prior years and placed the proceeds in irrevocable trusts. As of June 30, 2006, the balances in these trusts for bonds defeased in prior years were $375.1 million for Infrastructure Improvement Bonds, $53.5 million for Natural Resources Bonds, $206.1 million for Common Schools Bonds, and $56.2 million for Higher Education Bonds.

NOTE 11 REVENUE BONDS AND NOTES

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

A. Primary Government

Economic Development bonds, issued by the Treasurer of State for the Office of Financial Incentive's Direct Loan Program, provide financing for loans and loan guarantees to businesses within the State for economic development projects that create or retain jobs in the State. The taxable bonds are backed with profits derived from the sale of spirituous liquor by the Division of Liquor Control and pledged moneys and related investment earnings held in reserve under a trust agreement with a financial institution. During fiscal year 2006, the Treasurer of State issued $50 million in Economic Development bonds.

Revitalization Project revenue bonds provide financing to enable the remediation or clean up of contaminated publicly or privately owned lands to allow for their environmentally safe and productive development. The Revitalization Project bonds are also backed with profits derived from the sale of spirituous liquor by the Division of Liquor Control. During fiscal year 2006, the Treasurer of State issued $50 million in Revitalization Project bonds.

Since fiscal year 1998, the Treasurer of State has issued a total of $538 million in State Infrastructure Bank Bonds for various highway construction projects sponsored by the Department of Transportation. The State has pledged federal highway receipts as the primary source of moneys for meeting the principal and interest requirements on the bonds.

Revenue bonds accounted for in business-type activities finance the costs of office buildings and related facilities constructed by the OBA for shared use by local governments and the William Green Building, which houses the main operations of the Ohio Bureau of Workers' Compensation in Columbus. The 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, 2006, are presented in the table below.

For the year ended June 30, 2006, NOTE 15 summarizes changes in revenue bonds.

Future bond service requirements for revenue bonds of the primary government, as of June 30, 2006, are presented in the table at the top of the following page.

Primary Government
Revenue Bonds
As of June 30, 2006
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
Governmental Activities:				
Treasurer of State:				
Economic Development	1997-06	3.8%-7.7%	2026	$320,430
Revitalization Project	2003-06	3.0%-5.0%	2021	97,054
State Infrastructure Bank	1998-06	2.0%-5.0%	2016	303,191
Total Governmental Activities				720,675
Business-Type Activities:				
Ohio Building Authority	1997-04	2.0%-4.0%	2008	7,163
Bureau of Workers' Compensation	2003	1.6%-4.0%	2014	128,052
Total Business-Type Activities				135,215
Total Revenue Bonds				$855,890

NOTE 11 REVENUE BONDS AND NOTES (Co ntinued)

Primary Government
Future Funding Requirements for Revenue Bonds
As of June 30, 2006
(dollars in thousands)

	Governmental Activities			Business-Type Activities			Total		
Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2007	$ 77,015	$ 35,449	$ 112,464	$ 18,803	$ 6,051	$ 24,854	$ 95,818	$ 41,500	$ 137,318
2008	78,900	33,392	112,292	17,741	5,337	23,078	96,641	38,729	135,370
2009	71,870	29,701	101,571	16,005	4,606	20,611	87,875	34,307	122,182
2010	58,075	26,255	84,330	15,930	3,867	19,797	74,005	30,122	104,127
2011	42,565	23,370	65,935	15,865	3,109	18,974	58,430	26,479	84,909
2012-2016	166,800	88,658	255,458	47,005	4,621	51,626	213,805	93,279	307,084
2017-2021	139,805	44,184	183,989	—	—	—	139,805	44,184	183,989
2022-2026	68,010	8,363	76,373	—	—	—	68,010	8,363	76,373
	703,040	289,372	992,412	131,349	27,591	158,940	834,389	316,963	1,151,352
Net Unamortized Premium/(Discount)	17,635	—	17,635	6,614	—	6,614	24,249	—	24,249
Deferred Refunding Loss	—	—	—	(2,748)	—	(2,748)	(2,748)	—	(2,748)
Total	$720,675	$289,372	$1,010,047	$135,215	$27,591	$162,806	$855,890	$316,963	$1,172,853

In December 1998, the Treasurer of State entered into a forward purchase refunding agreement to advance refund approximately $102 million in Series 1996 Taxable Development Assistance Bonds on October 1, 2006. Under the terms of the bond purchase agreement, the underwriter has agreed to purchase approximately $102 million in Series 1998 Taxable Development Assistance Refunding Bonds and deliver to the escrow agent on or before August 25, 2006 cash and/or direct U.S. government obligations sufficient to provide for the redemption of the refunded bonds on October 1, 2006. Because the State has not taken delivery of the proceeds from the issuance of the Series 1998 Taxable Development Assistance Refunding Bonds, as of June 30, 2006, no obligation for the refunding bonds has been included in the financial statements.

B. Component Units

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

A portion of OWDA's outstanding bonds has been issued for the Water Pollution Control Loan Program, which provides low-cost financing to LGAs for 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, 2005, approximately $1.54 billion in bonds were outstanding for this program.

Future bond service requirements for the Water Pollution Control Loan Program revenue bonds, as of December 31, 2005, were as follows (dollars in thousands):

Year Ending December 31,	Principal	Interest	Total
2006	$ 49,610	$ 71,940	$ 121,550
2007	52,965	69,552	122,517
2008	70,285	67,155	137,440
2009	80,420	63,927	144,347
2010	86,190	59,916	146,106
2011-2015	382,390	229,704	612,094
2016-2020	410,750	143,864	554,614
2021-2025	338,700	39,116	377,816
	1,471,310	745,174	2,216,484
Net Unamortized Premium/(Discount)	106,532	—	106,532
Deferred Refunding Loss	(37,114)	—	(37,114)
Total	$1,540,728	$745,174	$2,285,902

Of the outstanding revenue bonds and notes reported for the OWDA component unit fund, approximately $116.6 million in bonds had adjustable interest rates that are reset weekly at rates determined by the remarketing agency. As of December 31,

NOTE 11 REVENUE BONDS AND NOTES (Continued)

Major Component Units
Future Funding Requirements for Revenue Bonds
As of June 30, 2006
(dollars in thousands)

Year Ending December 31 or June 30,	Ohio Water Development Authority (12/31/05) Principal	Interest	Total	Ohio State University Principal	Interest	Total	University of Cincinnati Principal	Interest	Total
2006	$ 141,802	$ 117,650	$ 259,452						
2007	130,148	111,583	241,731	$ 485,599	$ 42,700	$ 528,299	$108,745	$ 38,408	$ 147,153
2008	107,210	106,170	213,380	33,010	27,470	60,480	34,460	33,575	68,035
2009	133,470	101,208	234,678	32,020	26,211	58,231	29,390	32,229	61,619
2010	139,465	94,868	234,333	33,168	24,930	58,098	29,725	31,001	60,726
2011	—	—	—	43,858	23,535	67,393	29,925	29,685	59,610
2011-2015	732,660	376,417	1,109,077	—	—	—	—	—	—
2012-2016	—	—	—	153,975	89,133	243,108	167,135	127,205	294,340
2016-2020	660,580	222,556	883,136	—	—	—	—	—	—
2017-2021	—	—	—	126,033	57,844	183,877	185,100	84,977	270,077
2021-2025	486,205	72,151	558,356	—	—	—	—	—	—
2022-2026	—	—	—	95,852	29,679	125,531	148,750	44,604	193,354
2026-2030	38,610	7,552	46,162	—	—	—	—	—	—
2027-2031	—	—	—	56,875	11,590	68,465	106,350	14,024	120,374
2031-2035	12,270	1,285	13,555	—	—	—	—	—	—
2032-2036	—	—	—	24,905	1,082	25,987	—	—	—
	2,582,420	1,211,440	3,793,860	1,085,295	334,174	1,419,469	839,580	435,708	1,275,288
Net Unamortized Premium/(Discount)	102,881	—	102,881	—	—	—	2,951	—	2,951
Deferred Refunding Loss	(61,884)	—	(61,884)	—	—	—	—	—	—
Total	$2,623,417	$1,211,440	$3,834,857	$1,085,295	$334,174	$1,419,469	$842,531	$435,708	$1,278,239

2005, the rate for the variable-rate bonds was approximately 3.5 percent.

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

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

Future bond service requirements for revenue bonds and notes reported for the discretely presented major component units, as of June 30, 2006, are presented in the above table.

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, parks and recreation, and cultural and sports facilities.

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.

NOTE 12 SPECIAL OBLIGATION BONDS (Continued)

Primary Government-Governmental Activities
Special Obligation Bonds
As of June 30, 2006
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Ohio Building Authority	1993-06	2.0%-6.1%	2025	$1,896,861	$231,600
Treasurer of State:					
Chapter 154 Bonds	1993-06	2.5%-5.4%	2020	1,368,904	118,225
Elementary and Secondary Education	1997-99	4.0%-5.6%	2008	51,560	—
Total Special Obligation Bonds				$3,317,325	$349,825

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, 2006, are presented in the above table.

Future special obligation debt service requirements, as of June 30, 2006, were as follows (dollars in thousands):

Year Ending June 30,	Principal	Interest	Total
2007	$ 456,117	$152,791	$ 608,908
2008	445,484	131,238	576,722
2009	337,570	111,372	448,942
2010	326,485	94,602	421,087
2011	297,745	78,715	376,460
2012-2016	919,190	225,990	1,145,180
2017-2021	380,065	68,939	449,004
2022-2026	98,630	10,209	108,839
	3,261,286	873,856	4,135,142
Net Unamortized Premium/ (Discount)	129,776	—	129,776
Deferred Refunding Loss	(73,737)	—	(73,737)
Total	$3,317,325	$873,856	$4,191,181

For the year ended June 30, 2006, NOTE 15 summarizes changes in special obligation bonds.

During fiscal year 2006, the OBA defeased two special obligation bond issues *in substance* when the net proceeds of refunding bonds (after payment of underwriting fees and bond issue costs) were deposited with escrow agents to provide for all future principal and interest payments on the old bonds. A resulting economic gain/(loss) from an advance refunding represents the difference between the present values of the debt service payments on the old and new debt.

OBA issued approximately $7.4 million in State Facilities Transportation Building refunding bonds (Series 2005A) with a true interest cost rate of 3.4 percent to defease approximately $7.1 million (in substance). Net refunding bond proceeds of $7.3 million were deposited with escrow agents to provide for all future principal and interest payments on the old bonds. As a result of the refunding, the State's debt service payments will be reduced by $260 thousand over the next 6 years. The net economic gain from the refunding was $239 thousand.

OBA also issued approximately $27.4 million in State Facilities Juvenile Correctional Building refunding bonds (Series 2005B) with a true interest cost rate of 4 percent to defease approximately $27.8 million (in substance). Net refunding bond proceeds of $29.1 million were deposited with escrow agents to provide for all future principal and interest payments on the old bonds. As a result of the refunding, the State's debt service payments will be reduced by $1.1 million over the next 14 years. The net economic gain from the refunding was $857 thousand.

In prior years, the OBA and the Treasurer of State defeased certain bond issues by placing the

NOTE 12 SPECIAL OBLIGATION BONDS (Continued)

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, 2006, $463.7 million and $428.2 million of OBA and Chapter 154 special obligation bonds, respectively, are considered defeased and no longer outstanding.

NOTE 13 CERTIFICATES OF PARTICIPATION

A. Primary Government

As of June 30, 2006, approximately $90.4 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. In fiscal year 2005, the Ohio Department of Administrative Services participated in the issuance of $79.2 million of COP obligations to finance the acquisition of the Ohio Administrative Knowledge System (OAKS), a statewide Enterprise Resource Planning (ERP) system.

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

Obligations outstanding for the primary government under COP financing arrangements, as of June 30, 2006, are presented in the table below.

As of June 30, 2006, the primary government's future commitments under the COP financing arrangements were as follows (dollars in thousands):

Year Ending June 30,	Principal	Interest	Total
2007	$ 800	$ 4,291	$ 5,091
2008	6,780	4,101	10,881
2009	7,125	3,758	10,883
2010	7,495	3,387	10,882
2011	7,890	2,994	10,884
2012-2016	43,765	8,366	52,131
2017	9,860	259	10,119
	83,715	27,156	110,871
Net Unamortized Premium	6,674	—	6,674
Total	$90,389	$27,156	$117,545

For the year ended June 30, 2006, NOTE 15 summarizes changes in COP obligations.

Primary Government — Governmental Activities
Certificate of Participation Obligations
As of June 30, 2006
(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	$ 4,220
Rickenbacker Port Authority Improvements	1996	6.1%	2007	310
Department of Administrative Services:				
Ohio Administrative Knowledge System (OAKS)	2005	3.8%	2017	85,859
Total Certificates of Participation				$90,389

NOTE 13 CERTIFICATES OF PARTICIPATION (Continued)

B. Component Units

For the State's component units, approximately $27.9 million in COP obligations are reported in the component unit funds. The obligations finance building construction costs at The Ohio State University, the University of Cincinnati, and the University of Akron.

As of June 30, 2006, future commitments under the COP financing arrangements for the State's component units are detailed in the table below.

Component Units
Future Funding Requirements for Certificate of Participation Obligations
As of June 30, 2006
(dollars in thousands)

	Ohio State University			University of Cincinnati		
Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total
2007	$ 360	$ 277	$ 637	$ 90	$10	$100
2008	390	260	650	90	5	95
2009	405	242	647	—	—	—
2010	425	222	647	—	—	—
2011	445	202	647	—	—	—
2012-2016	2,580	646	3,226	—	—	—
2017-2021	1,220	62	1,282	—	—	—
2022-2026	—	—	—	—	—	—
2027-2031	—	—	—	—	—	—
2032-2036	—	—	—	—	—	—
Total	$5,825	$1,911	$7,736	$180	$15	$195

	University of Akron			Total Component Units		
Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total
2007	$ 275	$ 1,450	$ 1,725	$ 725	$ 1,737	$ 2,462
2008	295	1,430	1,725	775	1,695	2,470
2009	315	1,410	1,725	720	1,652	2,372
2010	340	1,385	1,725	765	1,607	2,372
2011	365	1,360	1,725	810	1,562	2,372
2012-2016	2,245	6,380	8,625	4,825	7,026	11,851
2017-2021	3,175	5,450	8,625	4,395	5,512	9,907
2022-2026	4,340	4,285	8,625	4,340	4,285	8,625
2027-2031	5,940	2,685	8,625	5,940	2,685	8,625
2032-2036	4,570	605	5,175	4,570	605	5,175
Total	$21,860	$26,440	$48,300	$27,865	$28,366	$56,231

NOTE 14 OTHER NONCURRENT LIABILITIES

As of June 30, 2006, in addition to bonds and certificates of participation obligations discussed in NOTES 10 through 13, the State reports the following noncurrent liabilities in its financial statements (dollars in thousands):

Governmental Activities:	
Compensated Absences	$ 420,673
Capital Leases Payable	3,366
Estimated Claims Payable	8,398
Liability for Escheat Property	255,800
Total Governmental Activities	688,237
Business-Type Activities:	
Compensated Absences	34,454
Capital Leases Payable	12
Workers' Compensation:	
Unearned Revenue	399,994
Benefits Payable	17,250,678
Other	1,832,645
Deferred Prize Awards Payable	723,531
Tuition Benefits Payable	1,095,900
Workers Compensation Claims-Auditor of State's Office	7,490
Total Business-Type Activities	21,344,704
Total Primary Government	$22,032,941

For the year ended June 30, 2006, 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, 2006, was $455.1 million, of which $420.7 million is allocable to governmental activities and $34.4 million is allocable to business-type activities.

As of June 30, 2006, discretely presented major component units reported a total of $152.2 million in compensated absences liabilities, as detailed by major component unit in NOTE 15.

B. Lease Agreements

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

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

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

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

The primary government's total operating lease expenditures/expenses for fiscal year 2006 were approximately $89.3 million.

Future minimum lease commitments for operating leases and capital leases judged to be noncancelable, as of June 30, 2006, were as follows (dollars in thousands):

Primary Government

Year Ending June 30,	Operating Leases
2007	$4,326
2008	561
2009	176
2010	78
Total minimum lease payments	$5,141

	Capital Leases		
Year Ending June 30,	Governmental Activities	Business-Type Activities	Total
2007	$1,940	$ 5	$1,945
2008	1,576	3	1,579
2009	70	3	73
2010	13	2	15
2011	—	1	1
Total Minimum Lease Payments	3,599	14	3,613
Amount for interest	(233)	(2)	(235)
Present Value of Net Minimum Lease Payments	$3,366	$12	$3,378

NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

As of June 30, 2006, the primary government had the following capital assets under capital leases (dollars in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Equipment	$10,098	$12	$10,110

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

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

Future minimum lease commitments for capital leases judged to be noncancelable and capital assets under capital leases for the discretely presented major component unit funds, as of June 30, 2006, are presented in the table below.

Major Component Units

	Capital Leases	
Year Ending June 30,	Ohio State University	University of Cincinnati
2007	$ 5,887	$ 11,490
2008	3,287	11,695
2009	2,581	12,725
2010	1,949	12,551
2011	922	11,482
2012-2016	1,647	51,745
2017-2021	—	39,124
2022-2026	—	29,721
2027-2031	—	6,255
Total Minimum Lease Payments...	16,273	186,788
Amount for interest	(1,166)	(64,648)
Present Value of Net Minimum Lease Payments...	$15,107	$122,140
Equipment & Vehicles	$53,928	$ —
Buildings................	—	141,909
Total	$53,928	$141,909

C. Estimated Claims Payable
For governmental activities, the State recognized $4.9 million in estimated claims liabilities, as of June 30, 2006, for damaged state vehicles covered under the State's self-insured program, which was established in the General Fund for this purpose at the Department of Administrative Services.

Additionally, the State reported $3.5 million in estimated claims for defaulted loans under the Ohio Enterprise Bond Program at the Ohio Department of Development, as of June 30, 2006. The program is included in governmental activities and is accounted for in the Community and Economic Development Special Revenue Fund.

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, 2006, this liability totaled approximately $255.8 million.

E. Workers' Compensation

Unearned Revenue
Unearned revenue in the amount of $400 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, 2006, in the amount of approximately $17.25 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.

F. Deferred Prize Awards Payable
Future installment payments for the deferred prize awards payable are reported at present value based upon interest rates that the Treasurer of State provides to the Lottery Commission Enterprise Fund. The interest rates, ranging from four to 11.69 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

NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

fluctuate with changes in the expected long-term rate of return. The difference between the present value and gross amount of the obligations is amortized into income over the terms of the obligations using the interest method. As of June 30, 2006, this payable totals $723.5 million.

Future payments of prize awards, stated at present value, as of June 30, 2006, follow (dollars in thousands):

Year Ending June 30,	
2007	$138,601
2008	101,120
2009	85,661
2010	68,659
2011	65,937
2012-2016	328,117
2017-2021	215,800
2022-2026	64,322
2027-2031	13,239
2032-2035	2,300
	1,083,756
Unamortized Discount	(360,225)
Net Prize Liability	$723,531

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 was approximately $1.1 billion, as of June 30, 2006. The valuation method reflects the present value of estimated tuition benefits that will be paid in future years and is adjusted for the effects of projected tuition increases at state universities and state community colleges and termination of participant contracts under the plan.

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

Actuarial Deficit, as of June 30, 2005	$(250.0)
Adjustment to Beginning of Year's Assets	9.1
Interest on the Deficit at 7 Percent	(16.9)
Investment Gain	9.3
Lower-Than-Assumed Tuition Increase	9.7
Corrected Beneficiary Dates of Birth	7.0
Interest Gain on Late Tuition Payouts	.6
Other	(.6)
	(231.8)
Value of Future Contingent Payments for Variable Investment Options	55.2
Actuarial Deficit, as of June 30, 2006	$(176.6)

As of June 30, 2006, the market value of actuarial net assets available for payment of the tuition benefits payable was $864.1 million.

H. Other Liabilities

The Workers' Compensation Enterprise Fund reports approximately $1.83 billion in other noncurrent liabilities, as of June 30, 2006, of which 1.) $1.68 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.) $87.7 million represents premium payment security deposits collected in advance from private employers to reduce credit risk for premiums collected in subsequent periods, and 3.) $68.5 million consists of other miscellaneous liabilities.

Additionally, the Office of the Auditor of State Enterprise Fund reports $7.5 million in other liabilities for estimated workers' compensation claims payable. For the payment of the claims, the General Fund transfers resources to the Office of the Auditor of State Enterprise Fund. As claims expenses are incurred, transfers from the General Fund are accrued. Accordingly, the General Fund reported an interfund payable to the Bureau of Workers' Compensation Enterprise Fund in an amount equal to the workers' compensation claims payable reported in the Office of Auditor of State Enterprise Fund, as of June 30, 2006 (See NOTE 7A.).

NOTE 15 CHANGES IN NONCURRENT LIABILITIES

A. Primary Government
Changes in noncurrent liabilities, for the year ended June 30, 2006, are presented for the primary government in the following table.

Primary Government
Changes in Noncurrent Liabilities
For the Fiscal Year Ended June 30, 2006
(dollars in thousands)

Governmental Activities:	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amount Due Within One Year
Bonds and Notes Payable:					
General Obligation Bonds (NOTE 10)	$ 6,039,203	$1,453,237	$ 598,919	$ 6,893,521	$ 482,553
Revenue Bonds (NOTE 11)	591,888	204,972	76,185	720,675	77,730
Special Obligation Bonds (NOTE 12)	3,699,936	131,924	514,535	3,317,325	459,647
Total Bonds and Notes Payable	10,331,027	1,790,133	1,189,639	10,931,521	1,019,930
Certificates of Participation (NOTE 13)	92,142	—	1,753	90,389	800
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences	397,617	370,596	347,540	420,673	46,000
Capital Leases Payable	2,471	4,959	4,064	3,366	1,725
Estimated Claims Payable	6,623	3,118	1,343	8,398	1,500
Liability for Escheat Property	203,501	111,136	58,837	255,800	79,609
Total Other Noncurrent Liabilities	610,212	489,809	411,784	688,237	128,834
Total Noncurrent Liabilities	$11,033,381	$2,279,942	$1,603,176	$11,710,147	$1,149,564

Business-Type Activities:	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amount Due Within One Year
Bonds and Notes Payable:					
Revenue Bonds (NOTE 11)	$ 151,063	$ 1,255	$ 17,103	$ 135,215	$ 18,803
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences	35,683	30,908	32,137	34,454	3,180
Capital Leases Payable	205	12	205	12	5
Workers' Compensation:					
Unearned Revenue	389,332	47,334	36,672	399,994	39,396
Benefits Payable	17,499,142	1,289,653	1,538,117	17,250,678	1,886,938
Other:					
Adjustment Expenses Liability	1,800,540	643,841	767,883	1,676,498	420,856
Premium Payment Security Deposits	86,992	3,464	2,763	87,693	—
Miscellaneous	67,592	21,174	20,312	68,454	62,535
Deferred Prize Awards Payable	843,418	463,416	583,303	723,531	94,484
Tuition Benefits Payable	1,106,800	34,409	45,309	1,095,900	81,200
Workers' Compensation Claims-Auditor of State's Office	9,528	—	2,038	7,490	115
Total Other Noncurrent Liabilities	21,839,232	2,534,211	3,028,739	21,344,704	2,588,709
Total Noncurrent Liabilities	$21,990,295	$2,535,466	$3,045,842	$21,479,919	$2,607,512

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 2006, the State's primary government included interest expense on its debt issues in the following governmental functions rather than reporting it separately as interest expense. The related borrowings are essential to the creation or continuing existence of the programs they finance. The various state subsidy programs supported by the borrowings provide direct state assistance to local governments for their respective capital construction or research projects. None of the financing provided under these programs benefits the general operations of the primary government, and accordingly, such expense is not reported separately on the Statement of Activities under the expense category for interest on long-term debt.

	(in 000s)
Governmental Activities:	
Primary, Secondary and Other Education	$121,081
Higher Education Support	126,681
Environmental Protection and Natural Resources	739
Transportation	4
Community and Economic Development	118,201
Total Interest Expense Charged to Governmental Functions	$366,706

B. Component Units

Changes in noncurrent liabilities, for the year ended June 30, 2006 (December 31, 2005 for the Ohio Water Development Authority), are presented in the following table for the State's discretely presented major component units.

Major Component Units
Changes in Noncurrent Liabilities
For the Fiscal Year Ended June 30, 2006
(dollars in thousands)

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amount Due Within One Year
School Facilities Commission:					
Intergovernmental Payable	$2,341,427	$ 487,708	$ 683,122	$2,146,013	$990,280
Compensated Absences*	555	548	419	684	101
Total	$2,341,982	$ 488,256	$ 683,541	$2,146,697	$990,381
Ohio Water Development Authority:					
Revenue Bonds & Notes Payable (NOTE 11)	$2,243,949	$ 975,028	$ 595,560	$2,623,417	$141,798
Compensated Absences*	161	26	19	168	—
Total	$2,244,110	$ 975,054	$ 595,579	$2,623,585	$141,798
Ohio State University:					
Unearned Revenue	$ 100,670	$1,544,796	$1,506,562	$ 138,904	$136,904
Compensated Absences*	78,752	11,856	5,554	85,054	5,554
Capital Leases Payable*	15,458	6,974	7,325	15,107	5,509
Other Liabilities*	118,284	5,578	4,325	119,537	4,207
Revenue Bonds & Notes Payable (NOTE 11)	855,902	484,869	255,476	1,085,295	485,599
Certificates of Participation (NOTE 13)	6,180	—	355	5,825	360
Total	$1,175,246	$2,054,073	$1,779,597	$1,449,722	$638,133
University of Cincinnati:					
Compensated Absences*	$ 65,289	$ 1,695	$ 693	$ 66,291	$ 35,428
Capital Leases Payable*	126,800	—	4,660	122,140	5,325
Other Liabilities*	35,804	92,225	85,671	42,358	1,405
Revenue Bonds & Notes Payable (NOTE 11)	750,005	161,745	69,219	842,531	109,608
Certificates of Participation (NOTE 13)	270	—	90	180	90
Total	$ 978,168	$ 255,665	$ 160,333	$1,073,500	$151,856

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

NOTE 16 NO COMMITMENT DEBT

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

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

As of June 30, 2006 (December 31, 2005 for component units), revenue bonds and notes outstanding that represent "no commitment" debt for the State were as follows (dollars in thousands):

	Outstanding Amount
Primary Government:	
Ohio Department of Development:	
Ohio Enterprise Bond Program	$170,130
Hospital Facilities Bonds	11,070
Total Primary Government	$181,200
Component Units (12/31/05):	
Ohio Water Development Authority	$2,205,235
Ohio Air Quality Development Authority	1,200,000
Total Component Units	$3,405,235

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, 2006 (dollars in thousands):

Primary Government:	
Nonmajor Governmental Funds:	
Mental Health and Retardation Special Revenue Fund	$(36,257)
Primary Government (Continued):	
Major Proprietary Funds:	
Workers' Compensation Enterprise Fund	$ (126,621)
Nonmajor Proprietary Funds:	
Tuition Trust Authority Enterprise Fund	$ (228,838)
Component Units:	
School Facilities Commission Fund	$(1,587,360)

B. "Other" Fund Balance Reserves and Designations

Details on the "Reserved for Other" account reported for the governmental funds, as of June 30, 2006, are presented below.

Primary Government
Governmental Funds — Reserved for Other
As of June 30, 2006
(dollars in thousands)

	General Fund	Job, Family and Other Human Services	Education	Highway Operating	Nonmajor Governmental Funds	Total Governmental Funds
Compensated Absences	$27,750	$3,685	$357	$5,123	$ 9,748	$46,663
Prepaids (included in "Other Assets")	15,384	1,929	176	2,965	5,512	25,966
Advances to Local Governments	7,234	—	—	—	—	7,234
Ohio Enterprise Bond Program	—	—	—	—	10,000	10,000
Loan Guarantee Programs	26	—	—	—	6,794	6,820
Assets in Excess of Debt Service Requirements	—	—	—	—	3	3
Total Reserved for Other	$50,394	$5,614	$533	$8,088	$32,057	$96,686

The unreserved fund balance for the General Fund, as of June 30, 2006, had been designated for budget stabilization in the amount of $1.01 billion.

NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS

A. Joint Ventures

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

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

Annually, one-third of the GLPF's net earnings is allocated and paid to member states in proportion to their respective cash contributions to the GLPF. The allocation is based on the amount and period of time the states' contributions were invested. GLPF earnings distributions are to be used by the states to finance projects that are compatible with the GLPF's objectives. Ohio applies its distribution (approximately $281 thousand for the year ended December 31, 2005) to the operations of its own protection program, known as the Lake Erie Protection Program, which is modeled after the GLPF.

Required contributions and contributions received from the states, which border the Great Lakes, as of December 31, 2005 (the GLPF's year-end), were as follows (dollars in thousands):

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

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

Summary financial information for the GLPF, for the fiscal year ended December 31, 2005, was as follows (dollars in thousands):

Cash and Investments	$122,120
Other Assets	399
Total Assets	$122,519
Total Liabilities	$ 2,160
Total Net Assets	120,359
Total Liabilities and Net Assets	$122,519
Total Revenues and Other Additions	$ 7,065
Total Expenditures	(5,911)
Net Increase in Net Assets	$ 1,154

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

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

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

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

NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

Fiscal year 2006 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	$ 56,980	$ 7,157	$ 64,137
Jefferson	4,032	1,441	5,473
Lakeland	16,796	2,570	19,366
Lorain County	25,592	656	26,248
Rio Grande	4,959	—	4,959
Sinclair	47,899	4,699	52,598
Total Local Community Colleges	156,258	16,523	172,781
Technical Colleges:			
Belmont	5,503	67	5,570
Central Ohio	6,892	365	7,257
Hocking	15,608	268	15,876
James A. Rhodes	7,693	1	7,694
Marion	4,983	89	5,072
Zane	4,899	89	4,988
North Central	7,850	397	8,247
Stark	15,155	2,599	17,754
Total Technical Colleges	68,583	3,875	72,458
Total	$224,841	$20,398	$245,239

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

B. Related Organizations

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

During fiscal year 2006, the State had the following related-party transactions with its related organizations:

- The General Fund reports a $225 million loans receivable balance due from the Ohio Housing Finance Agency. The State made the loans to finance and support the agency's housing programs.

- The Ohio Department of Taxation paid the Ohio Turnpike Commission $2.9 million from the Revenue Distribution Fund for the Commission's share of the State's motor vehicle fuel excise tax allocation.

- Separate funds, established for the Ohio Housing Finance Agency, Petroleum Underground Storage Tank Release Compensation Board, and the Higher Education Facility Commission, were accounted for on the primary government's Central Accounting System. The primary purpose of the funds is to streamline payroll and other administrative disbursement processing for these organizations. The financial activities of the funds, which do not receive any funding support from the primary government, have been included in the agency funds.

- From the Job, Family and Other Human Services Fund, the Public Defender's Office paid the Ohio Legal Assistance Foundation approximately $3.1 million in compensation for administrative services performed under contract for the distribution of state funding to nonprofit legal aid societies and $2.5 million in state assistance.

NOTE 19 CONTINGENCIES AND COMMITMENTS

A. Litigation

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

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

B. Federal Awards

The State of Ohio receives significant awards from the federal government in the form of grants and entitlements, including certain non-cash programs. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the spending 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 2005 State of Ohio Single Audit (completed in July 2006), $96.4 million of federal expenditures were in question as not being appropriate under the terms of the respective grants. No provision for any liability or adjustments has been recognized for the questioned costs in the State's financial statements, for the fiscal year ended June 30, 2006.

C. Tax Refund Claims

As of June 30, 2006, personal income tax refund claims estimated in the amount of $3.7 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 prior years. A liability has been reported in the financial statements for this matter under the "Refunds and Other Liabilities" account.

D. Loan Commitments

As of June 30, 2006, commitments to finance program loans from the primary government's budgeted nonmajor special revenue funds are detailed below (dollars in thousands):

Community and Economic Development	
Ohio Department of Development:	
Low- & Moderate-Income	
Housing Loans	$ 19,627
Brownfield Revolving Loans	142
	19,769
Local Infrastructure and Transportation Improvements	
Ohio Public Works Commission:	
State Capital Improvements Loans	42,147
Revolving Loans	39,527
	81,674
Total Nonmajor Governmental Funds	$101,443

As of December 31, 2005, loan commitments for the Ohio Water Development Authority, a discretely presented major component unit, were as follows (dollars in thousands):

Water Pollution Control Loan	$677,414
Drinking Water Assistance	79,521
Fresh Water	79,024
Other Projects	10,639
Community Assistance	10,393
Rural Utility Services	7,201
Pure Water Refunding	653
Total	$864,845

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

E. Construction Commitments

As of June 30, 2006, the Ohio Department of Transportation had total contractual commitments of approximately $2.01 billion for highway construction projects. Funding for future projects is expected to be provided from federal, primary government, general obligation and revenue bonds, and local government sources in amounts of $1.19 billion, $388.3 million, $368.2 million, and $59.6 million, respectively.

As of June 30, 2006, other major non-highway construction commitments for the primary government's budgeted capital projects funds and major discretely presented component unit funds were as follows (dollars in thousands):

Primary Government	
Mental Health/Mental Retardation Facilities Improvements	$ 20,511
Parks and Recreation Improvements	8,324
Administrative Services Building Improvements	30,246
Youth Services Building Improvements	9,592
Adult Correctional Building Improvements	30,970
Highway Safety Building Improvements	1,368
Ohio Parks and Natural Resources	13,435
Total	$114,446

Major Component Units	
Ohio State University	$177,370
University of Cincinnati	129,955

NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

F. Tobacco Settlement

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

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

While Ohio's share of the total base payments to the states through 2025 will not change over time, estimating the amount of annual payments that actually will be received in any given year can be complex, since under the terms of the MSA, payments are subject to a number of adjustment factors, including an inflation adjustment, a volume adjustment, and a potential adjustment for market share losses of participating manufacturers. Some of these adjustments, such as the inflation adjustment, result in the State receiving higher payments. Other factors, such as the volume adjustment and the market share adjustment can work to reduce the amount of the State's annual payments.

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

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
2007............	$ 352,827	$ —	$ 352,827
2008............	359,829	23,950	383,779
2009............	359,829	23,950	383,779
2010............	359,829	23,950	383,779
2011............	359,829	23,950	383,779
2012-2016 ..	1,799,147	119,750	1,918,897
2017-2021 ..	1,972,638	23,950	1,996,588
2022-2025 ..	1,612,809	—	1,612,809
Total............	$7,176,737	$239,500	$7,416,237

During fiscal year 2006, Ohio received $294.7 million, which is approximately $58.1 million or 16.5 percent less than the pre-adjusted base payment for the year. For the last seven fiscal years, with fiscal year 2000 being the first year when base payments were made to the states under the settlement, the State has received a total of about $2.40 billion, which is approximately $290 million or 10.8 percent less than the total of the pre-adjusted base payments established for the past seven fiscal years.

As of June 30, 2006, the estimated tobacco settlement receivable in the amount of $200.2 million is included in "Other Receivables" reported for the governmental funds. The receivable includes $40.2 million for payments withheld from the State in fiscal year 2006 by the cigarette manufacturers when they exercised the market share loss provisions of the MSA. These moneys are on deposit in an escrow account until pending litigation between the State and the manufacturers is resolved. The State contends it has met its obligations under the MSA and is due the payments withheld.

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

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, 2006, in the amount of approximately $17.25 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 $1.68 billion, is an estimate of future expenses to be incurred in the settlement of claims. The estimate for this liability is based on projected claim-related expenses, estimated costs of the managed care Health Partnership Program, and the reserve for compensation.

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

Benefits payable and the compensation adjustment expenses liability have been discounted at 5.25 percent to reflect the present value of future benefit payments. The selected discount rate approximates an average yield on United States government securities with durations similar to the expected claims underlying the Fund's reserves. The undiscounted reserves for the benefits and compensation adjustment expenses totaled $37.7 billion, as of June 30, 2006, and $38.6 billion, as of June 30, 2005. For additional information, refer to the Fund's separate audited financial report, for the fiscal year ended June 30, 2006.

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

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

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

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

	Fiscal Year 2006	Fiscal Year 2005
Benefits Payable and Compensation Adjustment Expenses Liability, as of July 1	$19,299	$18,773
Incurred Compensation and Compensation Adjustment Benefits	1,934	2,916
Incurred Compensation and Compensation Adjustment Benefit Payments and Other Adjustments	(2,306)	(2,390)
Benefits Payable and Compensation Adjustment Expenses Liability, as of June 30	$18,927	$19,299

NOTE 20 RISK FINANCING (Continued)

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

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

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

Governmental and proprietary funds pay a share of the costs for claims settlement based on the number of employees opting for plan participation and the type of coverage selected by participants. The payments are reported in the Payroll Withholding and Fringe Benefits Agency Fund until such time that the primary government pays the accumulated resources to Medical Mutual of Ohio 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, 2006, approximately $144.9 million in total assets was available in the Payroll Withholding and Fringe Benefits Agency Fund to cover claims for the Ohio Med Health Plan. Changes in the balance of claims liabilities for the plan during the past two fiscal years were as follows (dollars in thousands):

Ohio Med Health Plan

	Fiscal Year 2006	Fiscal Year 2005
Claims Liabilities, as of July 1	$ 41,492	$ 40,917
Incurred Claims	212,466	232,337
Claims Payments	(218,296)	(231,762)
Claims Liabilities, as of June 30	$ 35,662	$ 41,492

As of June 30, 2006, the resources on deposit in the Agency Fund for the Ohio Med Health Plan exceeded the estimated claims liability by approximately $109.2 million, thereby resulting in a funding surplus. Ninety percent or $92.8 million of the surplus, representing the employer share, was reallocated back to the governmental and proprietary funds, with a resulting reduction in expenditures/expenses.

As of June 30, 2006, no assets were available in the Payroll Withholding and Fringe Benefits Agency Fund to cover claims incurred by June 30 for the United Healthcare Plan, thereby resulting in a funding deficit. Changes in the balance of claims liabilities for the plan during the past fiscal year were as follows (dollars in thousands):

United Healthcare Plan

	Fiscal Year 2006	Fiscal Year 2005
Claims Liabilities, as of July 1	$ 6,969	$ 7,544
Incurred Claims	155,894	101,231
Claims Payments	(155,178)	(101,806)
Claims Liabilities, as of June 30	$ 7,685	$ 6,969

As of June 30, 2006, approximately $22.1 million in total assets was available in the Payroll Withholding and Fringe Benefits Agency Fund to cover claims incurred by June 30 for the Aetna Plan, thereby resulting in a funding surplus. Changes in the balance of claims liabilities for the plan during the past fiscal year were as follows (dollars in thousands):

Aetna Plan

	Fiscal Year 2006
Claims Liabilities, as of July 1	$ —
Incurred Claims	49,806
Claims Payments	(41,612)
Claims Liabilities, as of June 30	$ 8,194

For the resulting funding deficit and funding surplus of the United Healthcare and Aetna plans, respectively, the financial statements do not reflect adjustments to the expenses/expenditures of the governmental and proprietary funds, since the adjustments were judged not to be significant.

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

NOTE 21 SUBSEQUENT EVENTS

A. Bond Issuances

Subsequent to June 30, 2006 (December 31, 2005 for the Ohio Water Development Authority), the State issued major debt as detailed in the table below.

Debt Issuances
Subsequent to June 30, 2006
(dollars in thousands)

	Date Issued	Net Interest Rate or True Interest Cost	Amount
Primary Government:			
Ohio Public Facilities Commission-General Obligation Bonds:			
Third Frontier Research and Development, Series 2006A	08/01/06	3.99%	$ 50,000
Common Schools Capital Facilities, Series 2006D	09/26/06	4.12%	250,000
Infrastructure Improvements, Series 2006A	10/25/06	4.33%	120,000
Site Development, Series 2006A	11/13/06	3.76%	30,000
Higher Education Facilities, Series 2006B	12/07/06	4.17%	150,000
Common Schools Capital Facilities, Series 2007A	3/08/07	4.16%	250,000
Total General Obligation Bonds			850,000
Treasurer of State-Revenue Bonds:			
State Infrastructure Bank, Series 2006-1	09/13/06	3.89%	180,000
Total Revenue Bonds			180,000
Treasurer of State-Special Obligation Bonds:			
Mental Health Capital Facilities, Series II-2006A	07/26/06	4.20%	30,000
Parks and Recreation Facilities, Refunding Series II-2006A	11/30/06	3.79%	15,410
Mental Health Capital Facilities, Series II-2006B	11/30/06	3.78%	26,775
Cultural Facilities, Series II-2006A	11/30/06	3.99%	25,000
Cultural Facilities, Refunding Series II-2006B	11/30/06	3.77%	28,295
Ohio Building Authority-Special Obligation Bonds:			
State Facilities (Administrative Building), Series 2006A	09/21/06	3.86%	40,000
State Facilities (Administrative Building), Refunding Series 2006B	09/21/06	3.96%	70,335
Total Special Obligation Bonds			235,815
Ohio Department of Administrative Services-Certificates of Participation:			
Ohio Administrative Knowledge System, Series 2006A	11/30/06	3.97%	31,860
Total Certificates of Participation			31,860
Total Primary Government			$1,297,675
Major Component Units:			
Ohio Water Development Authority Bonds:			
Rural Development Advance, Series 2006A	04/27/06	4.00-5.00%*	$ 31,000
Fresh Water, Refunding Series 2006A	10/03/06	4.00-5.25%*	51,975
Total Ohio Water Development Authority			$ 82,975
University of Cincinnati Bonds:			
Bond Anticipation Notes, Series 2006D	07/06/06	3.82%	$ 20,025
Bond Anticipation Notes, Series 2006E	08/01/06	3.75%	15,000
General Receipts, Series 2007A	01/23/07	4.42%	78,445
General Receipts, Series 2007B	01/24/07	3,71%	39,955
Bond Anticipation Notes, Series 2007C	01/25/07	3.62%	28,000
Total University of Cincinnati			$ 181,425

*Interest Coupon Rate

NOTE 21 SUBSEQUENT EVENTS (Continued)

B. Other Debt Transactions

Primary Government
In August 2006, the State entered into two forward-starting constant maturity swaps to replace the existing BMA-based floating-to-fixed swaps on the Common Schools, Series 2005A and Series 2005B, variable-rate bonds. The swaps have a notional amount of $183.2 million ($91.6 million each) and will be effective on March 15, 2007 with a final maturity of March 15, 2025. The State will pay a fixed rate of 3.75 percent. The counterparty will pay a variable rate based on 62 percent of the 10-year LIBOR taxable index.

In October 2006, the State took delivery of approximately $107.9 million in proceeds for the Taxable Development Assistance, Series 1998 refunding bonds based on a forward purchase refunding agreement entered into by the Treasurer of State in December 1998. The 1998 bonds were issued to advance refund approximately $102 million in Taxable Development Assistance, Series 1996 bonds. The entire $107.9 million of proceeds was used to redeem the Series 1996 bonds, including payment of a call premium.

Component Units
Subsequent to June 30, 2006, the University of Cincinnati entered into two capital leases in connection with the issuance of economic development bonds by Hamilton County, Ohio for the financing of two buildings of the King Highland Community Urban Redevelopment Corporation. The two leases total to $42.7 million and have 32-year terms.

C. Change in Reporting Entity — Combination of Component Units

Effective July 1, 2006, the Ohio General Assembly enacted into law the combination of the University of Toledo and the Medical University of Ohio into one state university to be known as the University of Toledo.

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REQUIRED SUPPLEMENTARY INFORMATION

Infrastructure Assets Accounted for Using the Modified Approach

Pavement Network

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

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

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

Pavement Network
Condition Assessment Data

Priority Subsystem

	Pavement Condition Ratings (PCR)									
	Excellent PCR = 85-100		Good PCR = 75-84		Fair PCR = 65-74		Poor PCR = Below 65		Total	
Calendar Year	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%
2005	8,581	68.65	1,962	15.69	1,505	12.04	452	3.62	12,500	100.00
2004	8,110	65.64	2,140	17.32	1,544	12.50	561	4.54	12,355	100.00
2003	7,679	62.81	2,451	20.05	1,618	13.24	477	3.90	12,225	100.00
2002	7,483	61.29	2,498	20.46	1,849	15.14	380	3.11	12,210	100.00
2001	6,753	55.74	2,688	22.19	2,162	17.85	511	4.22	12,114	100.00

General Subsystem

	Pavement Condition Ratings (PCR)									
	Excellent PCR = 85-100		Good PCR = 75-84		Fair PCR = 55-74		Poor PCR = Below 55		Total	
Calendar Year	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%	Lane-Miles	%
2005	13,623	45.16	6,813	22.58	9,161	30.37	571	1.89	30,168	100.00
2004	13,570	44.92	6,550	21.68	9,423	31.20	664	2.20	30,207	100.00
2003	12,634	41.77	6,378	21.09	10,910	36.07	324	1.07	30,246	100.00
2002	11,997	39.57	6,496	21.43	11,278	37.20	546	1.80	30,317	100.00
2001	10,635	34.89	6,547	21.47	12,393	40.65	912	2.99	30,487	100.00

Infrastructure Assets Accounted for Using the Modified Approach (Continued)

Pavement Network
Comparison of Estimated-to-Actual Maintenance and Preservation Costs
(dollars in thousands)

Priority Subsystem

Fiscal Year	Estimated	Actual
2006	$376,588	$410,049
2005	337,213	350,368
2004	195,333	273,318
2003	243,722	273,834
2002	251,216	319,518

General Subsystem

Fiscal Year	Estimated	Actual
2006	$214,826	$312,105
2005	197,716	292,303
2004	133,236	227,437
2003	135,149	209,530
2002	110,956	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 (GACR) from 0 (minimum) to nine (maximum) based on a composite measure of these major structural items.

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

Bridge Network
Condition Assessment Data
(square feet in thousands)

	General Appraisal Condition Ratings (GACR)									
	Excellent GACR = 7-9		Good GACR = 5-6		Fair GACR = 3-4		Poor GACR = 0-2		Total	
Calendar Year	Sq Ft Deck Area	%	Sq Ft Deck Area	%	Sq Ft Deck Area	%	Sq Ft Deck Area	%	Sq Ft Deck Area	%
2005	46,071	55.21	35,091	42.05	2,274	2.73	7	.01	83,443	100.00
2004	45,895	55.50	34,459	41.68	2,317	2.80	13	.02	82,684	100.00
2003	47,046	57.19	32,972	40.08	2,224	2.71	18	.02	82,260	100.00
2002	45,144	56.01	33,067	41.02	2,388	2.96	9	.01	80,608	100.00
2001	43,395	53.56	34,899	43.08	2,688	3.32	30	.04	81,012	100.00

Infrastructure Assets Accounted for Using the Modified Approach (Continued)

Bridge Network
Comparison of Estimated-to-Actual Maintenance and Preservation Costs
(dollars in thousands)

Fiscal Year	Estimated	Actual
2006	$246,095	$262,027
2005	241,670	231,864
2004	147,779	208,381
2003	180,358	229,077
2002	192,105	210,084

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, 2006

FEDERAL AGENCY	
U.S. Department of Health and Human Services	$9,724,921,078
U.S. Department of Agriculture	1,963,272,527
U.S. Department of Labor	1,491,196,920
U.S. Department of Education	1,417,696,868
U.S. Department of Transportation	1,332,196,374
U.S. Environmental Protection Agency	496,790,566
U.S. Department of Homeland Security	158,243,945
U.S. Department of Housing and Urban Development	97,865,461
Social Security Administration	80,545,581
Election Assistance Commission	63,276,257
U.S. Department of Justice	58,753,819
U.S. General Services Administration	33,246,118
U.S. Department of the Interior	32,165,583
U.S. Department of Defense	31,425,459
U.S. Department of Energy	26,106,734
U.S. Department of Veterans Affairs	15,740,148
U.S. Department of Commerce	9,698,100
Corporation for National and Community Service	7,637,781
National Foundation on the Arts and the Humanities	5,929,098
U.S. Small Business Administration	3,248,562
U.S. Equal Employment Opportunity Commission	1,724,769
U.S. Appalachian Regional Commission	1,127,420
TOTAL EXPENDITURES	**$17,052,809,168**

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STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Agriculture		
Food Stamp Cluster:		
10.551	Food Stamps	$1,238,562,174
10.561	State Administrative Matching Grants for Food Stamp Program	103,431,161
	Total Food Stamp Cluster	1,341,993,335
Child Nutrition Cluster:		
10.553	School Breakfast Program	54,653,766
10.555	National School Lunch Program	213,119,778
10.556	Special Milk Program for Children	775,858
10.559	Summer Food Service Program for Children	5,948,865
	Total Child Nutrition Cluster	274,498,267
10.025	Plant and Animal Disease, Pest Control, and Animal Care	10,844,469
10.156	Federal-State Marketing Improvement Program	32,323
10.163	Market Protection and Promotion	1,557,085
10.202	Cooperative Forestry Research	1,380
10.304	Homeland Security -- Agricultural	74,970
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	5,111,399
10.550	Food Donation	30,397,630
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	217,961,310
10.558	Child and Adult Care Food Program	64,567,192
10.560	State Administrative Expenses for Child Nutrition	4,490,919
10.565	Commodity Supplemental Food Program	817,747
10.568	Emergency Food Assistance Program (Administrative Costs)	1,748,852
10.572	WIC Farmers' Market Nutrition Program (FMNP)	491,515
10.574	Team Nutrition Grants	93,688
10.576	Senior Farmers Market Nutrition Program	1,220,838
10.664	Cooperative Forestry Assistance	5,234,519
10.665	School and Roads -- Grants to States	107,774
10.672	Rural Development, Forestry, and Communities	54,570
10.769	Rural Business Enterprise Grants	11,729
10.902	Soil and Water Conservation	326,808
10.913	Farm and Ranch Protection Program	1,634,208
	Total U.S. Department of Agriculture	**$1,963,272,527**
U.S. Department of Commerce		
11.405	Anadromous Fish Conservation Act Program	$11,823
11.419	* Coastal Zone Management Administration Awards	132,691
11.419	Coastal Zone Management Administration Awards	3,001,543
11.420	Coastal Zone Management Estuarine Research Reserves	319,777
11.611	Manufacturing Extension Partnership	6,232,266
	Total U.S. Department of Commerce	**$9,698,100**

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Defense		
12	FUSRAP Oversight: Diamond Magnesium Site and Luckey Beryllim Site	$29,649
12.002	Procurement Technical Assistance for Business Firms	486,600
12.005	Donation of Federal Surplus Property	1,054,626
12.112	Payments to States in Lieu of Real Estate Taxes	334,592
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	719,247
12.400	Military Construction, National Guard	20,705,237
12.401	National Guard Military Operations and Maintenance (O&M) Projects	8,095,508
	Total U.S. Department of Defense	**$31,425,459**
U.S. Department of Housing and Urban Development		
14.228	Community Development Block Grants\State's Program	$62,031,611
14.231	Emergency Shelter Grants Program	2,944,849
14.235	Supportive Housing Program	225,621
14.238	Shelter Plus Care	265,404
14.239	HOME Investment Partnerships Program	29,485,084
14.241	Housing Opportunities for Persons with AIDS	1,094,027
14.401	Fair Housing Assistance Program -- State and Local	1,818,865
	Total U.S. Department of Housing and Urban Development	**$97,865,461**
U.S. Department of the Interior		
Fish and Wildlife Cluster:		
15.605	Sport Fish Restoration	$8,715,344
15.611	Wildlife Restoration	6,465,548
	Total Fish and Wildlife Cluster	15,180,892
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	1,481,285
15.252	Abandoned Mine Land Reclamation (AMLR) Program	12,778,123
15.614	Costal Wetlands Planning, Protection and Restoration Act	426,200
15.616	Clean Vessel Act	215,636
15.622	Sportfishing & Boating Safety Act	203,925
15.634	State Wildlife Grants	689,951
15.808	* U.S. Geological Survey -- Research and Data Acquisition Collection	126,327
15.810	National Cooperative Geologic Mapping Program	170,384
15.916	Outdoor Recreation Acquisition, Development and Planning	892,860
	Total U.S. Department of the Interior	**$32,165,583**
U.S. Department of Justice		
16.2005-94	Domestic Cannabis Eradication Program	$388,860
16.202	Offender Reentry Program	928,117
16.203	Comprehensive Approaches to Sex Offender Management Discretionary Grant (CASOM)	35,514
16.303	Law Enforcement Assistance - FBI Fingerprint Identification	9,300
16.523	Juvenile Accountability Incentive Block Grants	2,122,507
16.540	Juvenile Justice and Delinquency Prevention -- Allocation to States	2,492,112
16.541	Developing, Testing and Demonstrating Promising New Programs	40,047
16.548	Title V -- Delinquency Prevention Program	505,062

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Justice (Continued)		
16.549	Part E -- State Challenge Activities	178,467
16.550	State Justice Statistics Program for Statistical Analysis Centers	69,486
16.554	National Criminal History Improvement Program (NCHIP)	995,962
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	1,034,601
16.564	Crime Laboratory Improvement -- Combined Offender DNA Index System Backlog Reduction	524,723
16.569	Prescription Drug Monitoring Program	172,956
16.575	Crime Victim Assistance	13,817,274
16.576	Crime Victim Compensation	6,444,000
16.579	Byrne Formula Grant Program	11,439,090
16.579	* Byrne Formula Grant Program	351,344
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	145,621
16.582	Crime Victim Assistance/Discretionary Grants	3,254
16.585	Drug Court Discretionary Grant Program	614,420
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	2,066,224
16.588	Violence Against Women Formula Grants	4,162,601
16.592	Local Law Enforcement Block Grants Program	392,066
16.593	Residential Substance Abuse Treatment for State Prisoners	1,442,088
16.601	Corrections Training and Staff Development	17,500
16.606	State Criminal Alien Assistance Program	1,064,629
16.607	Bulletproof Vest Partnership Program	44,563
16.609	Community Prosecution and Project Safe Neighborhoods	1,645,166
16.710	Public Safety Partnership and Community Policing Grants	2,478,086
16.727	Enforcing Underage Drinking Laws Program	453,203
16.735	Protecting Inmates and Safeguarding Communities Discretionary Grant Program	83,898
16.738	* Edward Byrne Memorial Justice Assistance Grant Program	15,800
16.738	Edward Byrne Memorial Justice Assistance Grant Program	2,575,278
	Total U.S. Department of Justice	**$58,753,819**
U.S. Department of Labor		
Employment Service Cluster:		
17.207	Employment Service	$29,725,968
17.801	Disabled Veterans' Outreach Program (DVOP)	4,355,018
17.804	Local Veterans' Employment Representative Program	1,094,545
	Total Employment Service Cluster	35,175,531
WIA Cluster:		
17.258	WIA Adult Program	50,435,934
17.259	WIA Youth Activities	41,278,002
17.260	WIA Dislocated Workers	53,814,814
	Total WIA Cluster	145,528,750
17.002	Labor Force Statistics	2,865,645
17.005	Compensation and Working Conditions	21,730
17.203	Labor Certification for Alien Workers	166,152
17.225	Unemployment Insurance	1,271,079,116

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Labor (Continued)		
17.235	Senior Community Service Employment Program	3,587,617
17.245	Trade Adjustment Assistance -- Workers	29,845,280
17.261	Employment and Training Administration Pilots, Demonstrations, and Research Projects	586,775
17.271	Work Opportunity Tax Credit Program(WOTC) and Welfare-to-Work Tax Credit (WtWTC)	601,456
17.504	Consultation Agreements	1,294,695
17.600	Mine Health and Safety Grants	252,429
17.720	Disability Employment Policy Development	191,744
	Total U.S. Department of Labor	**$1,491,196,920**
U.S. Department of Transportation		
*Highway Planning and Construction Cluster:***		
20.205	Highway Planning and Construction	$1,260,768,373
20.205	* Highway Planning and Construction	2,736,201
23.003	Appalachian Development Highway System	16,885,387
	Total Highway Planning and Construction Cluster	1,280,389,961
Federal Transit Cluster:		
20.500	Federal Transit -- Capital Investment Grants	$490,605
20.507	Federal Transit -- Formula Grants	6,854,128
	Total Federal Transit Cluster	7,344,733
20.106	Airport Improvement Program	219,934
20.218	National Motor Carrier Safety	6,946,886
20.219	Recreational Trails Program	465,144
20.230	Crash Data Improvement Program	54,516
20.237	Commercial Vehicle Information Systems and Networks	45,489
20.505	Federal Transit -- Metropolitan Planning Grants	3,844,874
20.509	Formula Grants for Other Than Urbanized Areas	13,146,843
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	2,000,920
20.600	State and Community Highway Safety	16,677,211
20.700	Pipeline Safety	659,857
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	400,006
	Total U.S. Department of Transportation	**$1,332,196,374**
U.S. Appalachian Regional Commission		
23.002	Appalachian Area Development	$6
23.008	Appalachian Local Access Roads	676,713
23.009	Appalachian Local Development District Assistance	96,597
23.011	Appalachian Research, Technical Assistance, and Demonstration Projects	354,104
	Total U.S. Appalachian Regional Commission	**$1,127,420**
U.S. Equal Employment Opportunity Commission		
30.002	Employment Discrimination -- State and Local Fair Employment Practices Agency Contracts	$1,724,769
	Total U.S. Equal Employment Opportunity Commission	**$1,724,769**

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
General Services Administration		
39.003	Donation of Federal Surplus Personal Property	$274,206
39.011	Election Reform Payments	32,971,912
	Total General Services Administration	**$33,246,118**
National Foundation on the Arts and the Humanities		
45.025	Promotion of the Arts -- Partnership Agreements	$787,200
45.310	State Library Program	5,141,898
	Total National Foundation on the Arts and the Humanities	**$5,929,098**
U.S. Small Business Administration		
59.037	Small Business Development Center	$3,248,562
	Total U.S. Small Business Administration	**$3,248,562**
U.S. Department of Veterans Affairs		
64.005	Grants to States for Construction of State Home Facilities	$1,516,002
64.014	Veterans State Domiciliary Care	1,708,210
64.015	Veterans State Nursing Home Care	12,042,716
64.124	All-Volunteer Force Educational Assistance	473,220
	Total U.S. Department of Veterans Affairs	**$15,740,148**
U.S. Environmental Protection Agency		
66.001	Air Pollution Control Program Support	$6,097,161
66.032	State Indoor Radon Grants	406,594
66.034	Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	613,439
66.419	Water Pollution Control State and Interstate Program Support	5,307,403
66.432	State Public Water System Supervision	3,161,579
66.433	State Underground Water Source Protection	391,453
66.454	Water Quality Management Planning	616,288
66.458	Capitalization Grants for Clean Water State Revolving Funds	372,530,266
66.460	Nonpoint Source Implementation Grants	7,473,046
66.461	Wetland Program Development Grants	349,763
66.463	Water Quality Cooperative Agreements	195,498
66.467	Wastewater Operator Training Grant Program (Technical Assistance)	36,441
66.468	Capitalization Grants for Drinking Water State Revolving Funds	87,143,683
66.469	Great Lakes Program	246,917
66.471	State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	11,317
66.472	Beach Monitoring and Notification Program Implementation Grants	203,551
66.474	Water Protection Grants to States	131,006
66.479	Wetland Program Grants - State/Tribal Environmental Outcome Wetland Demonstration Program	7,600
66.500	Environmental Protection - Consolidated Research	457,488
66.501	Environmental Protection - Consolidated Research	46,966
66.605	Performance Partnership Grants	228,696
66.606	Surveys, Studies, Investigations and Special Purpose Grants	1,130,174

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Environmental Protection Agency (Continued)		
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	339,597
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	685,427
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	383,697
66.709	Multi-media Capacity Building Grants for States and Tribes	54
66.801	Hazardous Waste Management State Program Support	4,988,980
66.802	Superfund State, Political Subdivision, and Indian Tribe Site -- Specific Cooperative Agreements	777,169
66.804	State and Tribal Underground Storage Tanks Program	190,210
66.805	Leaking Underground Storage Tank Trust Fund Program	1,491,032
66.808	Solid Waste Management Assistance Grants	1,236
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	65,418
66.811	Brownfield Pilots Cooperative Agreements	311,644
66.817	State and Tribal Response Program Grants	769,773
	Total U.S. Environmental Protection Agency	**$496,790,566**
U.S. Department of Energy		
81	Petroleum Violation Escrow Funds	$2,124,110
81	Agreement in Principle/COS	31,614
81.000	Cost Recovery Grants: Environmental Research	1,557,069
81.041	State Energy Program	1,595,665
81.042	Weatherization Assistance for Low-Income Persons	14,119,799
81.079	* Regional Biomass Energy Program	38,926
81.086	* Conservation Research and Development	69,567
81.089	* Fossil Energy Research and Development	70,043
81.103	Agreement in Principle/CO	150
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	41,209
81.119	State Energy Program Special Projects	458,582
81.502	* High End Computing and Network in Support of Energy and Homeland Security	6,000,000
	Total U.S. Department of Energy	**$26,106,734**
U.S. Department of Education		
Special Education Cluster:		
84.027	Special Education -- Grants to States	$486,087,339
84.173	Special Education -- Preschool Grants	14,955,476
	Total Special Education Cluster	501,042,815
84.000	Consolidated Administrative Fund	6,204,487
84.002	Adult Education -- State Grant Program	19,417,329
84.010	Title I Grants to Local Educational Agencies	396,518,623
84.011	Migrant Education -- State Grant Program	2,326,890
84.013	Title I Program for Neglected and Delinquent Children	2,188,894
84.026	Media and Captioning Services for Individuals with Disabilities	3,024
84.048	Vocational Education -- Basic Grants to States	48,399,604
84.069	Leveraging Educational Assistance Partnership	3,197,971
84.126	Rehabilitation Services -- Vocational Rehabilitation Grants to States	112,190,179
84.161	Rehabilitation Services -- Client Assistance Program	356,964

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Education (Continued)		
84.169	Independent Living -- State Grants	566,541
84.177	Rehabilitation Services -- Independent Living Services for Older Individuals Who Are Blind	1,216,127
84.181	Special Education -- Grants for Infants and Families with Disabilities	18,430,076
84.184	Safe and Drug-Free Schools and Communities -- National Programs	302,998
84.185	Byrd Honors Scholarships	1,541,351
84.186	Safe and Drug-Free Schools and Communities -- State Grants	15,079,342
84.187	Supported Employment Services for Individuals with Severe Disabilities	993,618
84.196	Education for Homeless Children and Youth	1,991,149
84.203	* Star Schools	1,215,703
84.206	Javits Gifted and Talented Students Education Grant Program	148,007
84.213	Even Start -- State Educational Agencies	5,967,532
84.215	Fund for the Improvement of Education	1,678,254
84.215	* Fund for the Improvement of Education	674,352
84.240	Program of Protection and Advocacy of Individual Rights	541,176
84.243	Tech-Prep Education	4,877,858
84.265	Rehabilitation Training - State Vocational Rehabilitation Unit In-service Training	135,181
84.282	Charter Schools	21,371,316
84.287	Twenty-First Century Community Learning Centers	30,437,870
84.298	State Grants for Innovative Programs	7,088,461
84.318	Education Technology State Grants	17,895,477
84.323	Special Education -- State Personnel Development	2,002,056
84.324	Research in Special Education	134,188
84.330	Advanced Placement Program	341,188
84.331	Grants to States for Incarcerated Youth Offenders	821,757
84.332	Comprehensive School Reform Demonstration	9,370,321
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	3,212,990
84.334	* Gaining Early Awareness and Readiness for Undergraduate Programs	100,000
84.342	Preparing Tomorrow's Teachers to Use Technology	411,804
84.343	Assistive Technology -- State Grants for Protection and Advocacy	163,130
84.346	Vocational Education -- Occupational and Employment Information State Grants	239,439
84.352	School Renovation Grants	889,532
84.357	Reading First State Grants	46,375,143
84.358	Rural Education	1,128,634
84.365	English Language Acquisition Grants	7,034,492
84.366	Mathematics and Science Partnerships	2,348,374
84.367	Improving Teacher Quality State Grants	109,018,572
84.369	Grants for State Assessments and Related Activities	8,539,937
84.371	Striving Readers	31,033
84.372	Longitudinal Data Systems	28,437
84.938	Hurricane Education Recovery	1,506,672
	Total U.S. Department of Education	**$1,417,696,868**
Election Assistance Commission		
90.401	Help America Vote Act Requirement Payments	$63,276,257
	Total Election Assistance Commission	**$63,276,257**

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
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FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Health and Human Services		
Aging Cluster:		
93.044	Special Programs for the Aging -- Title III, Part B -- Grants for Supportive Services and Senior Centers	$16,607,591
93.045	Special Programs for the Aging -- Title III, Part C -- Nutrition Services	21,279,412
93.053	Nutrition Services Incentive Program	5,219,479
	Total Aging Cluster	43,106,482
CCDF Cluster:		
93.575	Child Care and Development Block Grant	84,802,451
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	111,489,877
	Total Child Care Cluster	196,292,328
Medicaid Cluster:		
93.775	State Medicaid Fraud Control Units	2,806,865
93.777	State Survey and Certification of Health Care Providers and Suppliers	20,830,578
93.778	Medical Assistance Program (Medicaid)	7,397,792,458
	Total Medicaid Cluster	7,421,429,901
93.003	Public Health and Social Services Emergency Fund	1,457,601
93.006	State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	133,119
93.009	Compassion Capital Fund	525,817
93.041	Special Programs for the Aging -- Title VII, Chapter 3 -- Programs for Prevention of Elder Abuse, Neglect, and Exploitation	219,735
93.042	Special Programs for the Aging -- Title VII, Chapter 2 -- Long Term Care Ombudsman Services for Older Individuals	641,891
93.043	Special Programs for the Aging -- Title III, Part D -- Disease Prevention and Health Promotion Services	883,894
93.048	Special Programs for the Aging -- Title IV and Title II-- Discretionary Projects	65,612
93.A-04-07-0120	Immunization Registry	128,432
93.A-05-06-1327	Help me Grow / CAPTA	162,900
93.A-05-07-1343	State Children's Insurance Program	17,337
93.A-67-07-0136	Immunization Registry	117,452
93.05-0505-OH-5002	Clinical Laboratory Improvement Amendment	100,639
93.05-0605-OH-5002	Clinical Laboratory Improvement Amendment	327,456
93.052	National Family Caregiver Support Program	6,530,313
93.110	Maternal and Child Health Federal Consolidated Programs	289,249
93.118	Acquired Immunodeficiency Syndrome (AIDS) Activity	1,097,744
93.127	Emergency Medical Services for Children	1,698,100
93.130	Primary Care Services -- Resource Coordination and Development	374,250
93.136	Injury Prevention and Control Research and State and Community Based Programs	1,602,983
93.138	Protection and Advocacy for Individuals with Mental Illness	995,483
93.150	Projects for Assistance in Transition from Homelessness (PATH)	2,043,641
93.165	Grants to State for Loan Repayment Program	93,500
93.197	Childhood Lead Poisoning Prevention Projects -- State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	1,340,939

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
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FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE

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

93.200-2000-07236	Health Statistics	366,894
93.217	Family Planning -- Services	4,094,178
93.223-03-4434	Mammography Quality Standard Act Inspection	282,911
93.223-200-640045	Mammography Quality Standard Act Inspection	28,266
93.230	Consolidated Knowledge Development Application (KD&A) Program	1,409,445
93.234	Traumatic Brain Injury -- State Demonstration Grant Program	99,449
93.235	Abstinence Education Program	1,516,730
93.240	State Capacity Building	307,603
93.241	State Rural Hospital Flexibility Program	589,658
93.243	Substance Abuse and Mental Health Services -- Projects of Regional and National Significance	3,758,208
93.251	Universal Newborn Hearing Screening	121,332
93.252	Healthy Community Access Program	12,401
93.259	Rural Access to Emergency Devices Grant	200,470
93.267	State Grants for Protections and Advocacy Services	81,374
93.268	Immunization Grants	5,771,256
93.283	Centers for Disease Control and Prevention -- Investigations and Technical Assistance	41,943,249
93.301	Small Rural Hospital Improvement Grant Program	280,200
93.556	Promoting Safe and Stable Families	19,069,268
93.558	Temporary Assistance for Needy Families	745,746,099
93.563	Child Support Enforcement	187,915,380
93.564	* Child Support Enforcement Research	44,677
93.566	Refugee and Entrant Assistance -- State Administered Programs	4,534,995
93.568	Low-Income Home Energy Assistance	125,335,577
93.569	Community Services Block Grant	24,017,429
93.571	Community Services Block Grant Formula and Discretionary Awards Community Food and Nutrition Programs	196,850
93.576	Refugee and Entrant Assistance -- Discretionary Grants	393,936
93.584	Refugee and Entrant Assistance -- Targeted Assistance Grants	633,571
93.585	Empowerment Zones Program	1,528,383
93.586	State Court Improvement Program	516,322
93.590	Community-Based Child Abuse Prevention Grants	1,339,239
93.597	Grants to States for Access and Visitation Programs	201,992
93.599	Chafee Education and Training Vouchers Program (ETV)	1,769,699
93.600	Head Start	215,260
93.603	Adoption Incentive Payments	2,290
93.617	Voting Access for Individuals with Disabilities - Grants to States	187,956
93.618	Voting Access for Individuals with Disabilities -- Grants for Protection and Advocacy Systems	106,786
93.630	Developmental Disabilities Basic Support and Advocacy Grants	4,214,856
93.631	Developmental Disabilities Projects of National Significance	63,392
93.643	Children's Justice Grants to States	171,385
93.645	Child Welfare Services -- State Grants	18,173,498
93.647	* Social Services Research and Demonstration	401,375
93.658	Foster Care -- Title IV-E	200,816,451
93.659	Adoption Assistance	168,302,091
93.667	Social Services Block Grant	138,325,133

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Health and Human Services (Continued)		
93.669	Child Abuse and Neglect State Grants	510,282
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters -- Grants to States and Indian Tribes	2,686,156
93.674	Chafee Foster Care Independence Program	5,744,160
93.767	State Children's Insurance Program	165,448,348
93.768	Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	51,845
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	1,847,379
93.779	* Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	491,638
93.888	* Specially Selected Health Projects	2,023,859
93.889	National Bioterrorism Hospital Preparedness Program	12,158,595
93.913	Grants to States for Operation of Offices of Rural Health	153,232
93.917	HIV Care Formula Grants	21,430,681
93.940	HIV Prevention Activities -- Health Department Based	5,154,207
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	729,376
93.945	Assistance Programs for Chronic Disease Prevention and Control	531,570
93.946	Coop Agreements to Support State Based Safe Motherhood and Infant Health Initiatives	21,717
93.958	Block Grants for Community Mental Health Services	15,270,112
93.959	Block Grants for Prevention and Treatment of Substance Abuse	72,708,900
93.965	Coal Miners Respiratory Impairment Treatment Clinics and Services	546,570
93.977	Preventive Health Services -- Sexually Transmitted Diseases Control Grants	3,148,927
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	744,550
93.991	Preventative Health and Health Services Block Grant	4,818,114
93.994	Maternal and Child Health Services Block Grant to the States	21,936,548
	Total U.S. Department of Health and Human Services	**$9,724,921,078**
Corporation for National and Community Service		
94.002	Retired and Senior Volunteer Program	$421,045
94.003	State Commissions	588,190
94.004	Learn and Serve America -- School and Community Based Programs	1,146,849
94.006	AmeriCorps	4,768,529
94.007	Planning and Program Development Grants	81,662
94.009	Training and Technical Assistance	108,724
94.011	Foster Grandparent Program	522,782
	Total Corporation for National and Community Service	**$7,637,781**
Social Security Administration		
96	Program Income for Rehabilitating Recipients of Social Security Income and Supplemental Security Income -- Vocational Rehabilitation Program (CFDA# 84.126)	$6,101,553
96.0600-01-60051	Social Security Contract	8,396
96.0600-03-60054	Social Security Contract	122,219

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
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FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
Social Security Administration (Continued)		
96.001	Social Security -- Disability Insurance	74,152,558
96.009	Social Security State Grants for Work Incentives Assistance to Disabled Beneficiaries	160,855
	Total Social Security Administration	**$80,545,581**
U.S. Department of Homeland Security		
97.004	State Domestic Preparedness Equipment Support Program	$78,036,040
97.008	Urban Areas Security Initiative	2,415,999
97.012	Boating Safety Financial Assistance	2,496,263
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	646,702
97.021	Hazardous Material Assistance Program	880
97.029	Flood Mitigation Assistance	169,803
97.032	Crisis Counseling	56,229
97.034	Disaster Unemployment Assistance	861
97.036	Public Assistance Grants	46,435,095
97.039	Hazard Mitigation Grant	4,196,126
97.041	National Dam Safety Program	74,070
97.042	Emergency Management Performance Grants	4,443,838
97.042	* Emergency Management Performance Grants	20,000
97.045	Cooperating Technical Partners	20,745
97.047	Pre-Disaster Mitigation	40,335
97.053	Citizen Corps	160,609
97.070	Map Modernization Management Support	51,569
97.071	Metropolitan Medical Response System	49,583
97.073	State Homeland Security Program	12,899,093
97.074	Law Enforcement Terrorism Prevention Program	5,765,920
97.075	Rail & Transit Security Grant Program	22,182
97.078	Buffer Zone Protection Plan (BZPP)	242,003
	Total U.S. Department of Homeland Security	**$158,243,945**
	TOTAL EXPENDITURES	**$17,052,809,168**

* These programs are a part of the Research and Development Cluster, as defined by OMB Circular A-133. See Note 4 to the Supplementary Schedule of Expenditures of Federal Awards.

** This cluster encompasses two different federal agency programs, the U.S. Department of Transportation's federal program CFDA# 20.205 and the U.S. Appalachian Regional Commission's federal program CFDA# 23.003. In accordance with OMB Circular A-133, CFDA# 23.003 has been included as part of the U.S. Department of Transportation's programs and excluded from the U.S. Appalachian Regional Commission's programs.

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, revised June 27, 2003, requires a Supplementary Schedule of Expenditures of Federal Awards (Supplementary Schedule). The State of Ohio reports this information using the following presentations:

- Supplementary Schedule of Expenditures of Federal Awards Summarized by Federal Agency

- Supplementary Schedule of Expenditures of Federal Awards by Federal Agency and Federal Program

The schedules must report total disbursements for each federal financial assistance program, as listed in the *Catalog of Federal Domestic Assistance* (CFDA). The State of Ohio reports each federal financial assistance program not officially assigned CFDA numbers with a two-digit number that identifies the federal grantor agency or with a two-digit federal grantor agency number followed by a federal contract number, when applicable.

A. Reporting Entity

The Supplementary Schedules include all federal programs the State of Ohio has administered for the fiscal year ended June 30, 2006. The State's financial reporting entity includes the primary government and its component units.

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

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

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

- an organization is fiscally dependent on the primary government.

The State has excluded federal financial assistance reported in the Discretely Presented Component Units —College and University Funds from the Supplementary Schedules. The respective schedules of expenditures of federal awards for the following organizations, which constitute component units of the State since they impose or potentially impose financial burdens on the primary government, are subject to separate audits under OMB Circular A-133.

Colleges and Universities:

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

State Community Colleges:
Cincinnati State Community College
Clark State Community College
Columbus State Community College

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Medical College:
Medical University of Ohio

Additionally, for Single Audit purposes only, the State includes certain federal programs administered by the 88 county departments of Job and Family Services in the Supplementary Schedules. Although the counties are not included in the State's reporting entity, the counties received funding from the following federal programs, the expenditures of which are included in the Supplementary Schedules. This arrangement is in accordance with an agreement the State has with the U.S. Department of Health and Human Services.

CFDA #10.551/10.561 – Food Stamp Cluster
CFDA # 93.558 – Temporary Assistance for Needy Families
CFDA # 93.563 – Child Support Enforcement
CFDA # 93.575/93.596 – Child Care Cluster
CFDA # 93.658 – Foster Care Title -- IV-E
CFDA # 93.659 – Adoption Assistance
CFDA # 93.667 – Social Services Block Grant
CFDA # 93.767 – State Children's Insurance Program
CFDA # 93.778/93.775/93.777 – Medicaid Cluster

B. Basis of Accounting

The State prepares the Supplementary Schedules on the cash basis of accounting; therefore, the State recognizes expenditures when paid rather than when it incurs obligations.

C. Transfers of Federal Funds between State Agencies

The State excludes interagency disbursements of federal moneys among State agencies to avoid the overstatement of federal financial assistance reported on the Supplementary Schedules.

D. Indirect Costs

Indirect costs benefit more than one federal program and are not directly allocable to the programs receiving the benefits. The State recovers these costs from the federal government by applying federally approved indirect cost rates or by allocating the indirect costs among benefiting programs in accordance with federally approved plans. The State recognizes indirect costs as disbursements in the Supplementary Schedules.

E. Valuation of Non-Cash Federal Assistance

The State reports the following non-cash federal assistance programs on the Supplementary Schedules.

- *Food Donation (CFDA# 10.550)*
  Federal assistance for this program represents the value of food the State distributes to subrecipients during the fiscal year. The U.S. Department of Agriculture assigns the prices at which the State values donated food commodities.

- *Food Stamps (CFDA# 10.551)*
  Federal assistance for this program represents the value of food stamp benefits the State and its agents distribute to eligible recipients during the fiscal year. Distribution occurs when beneficiaries receive 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.

- *Donation of Federal Surplus Property (CFDA# 12.005)*
  Federal assistance for this program represents the fair market value of donated federal surplus property the State distributes to subrecipients during the fiscal year. The State calculates fair value at 23.7 percent of the property's original costs, in conformity with guidelines the U.S. Department of Defense establishes.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *Donation of Federal Surplus Personal Property (CFDA# 39.003)*
  Federal assistance for this program represents the fair market value of federal surplus personal property the State distributes to subrecipients during the fiscal year. The State calculates fair value at 23.3 percent of the property's original acquisition costs, in conformity with guidelines the U.S. General Services Administration establishes.

As of June 30, 2006, there was no outstanding inventory balances for this program.

Year-end balances of the State's non-cash federal assistance programs can be found in NOTE 3.

NOTE 2 CAPITALIZATION GRANTS FOR REVOLVING LOAN FUNDS

In fiscal year 2006, 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, 2006, outstanding loans for the Capitalization Grants for Revolving Loan Funds programs totaled approximately $995 million.

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

Capitalization Grant Loan Balance, as of 6/30/05	$915,784,455
Loans without Compliance Requirements	(489,878,315)
Loans transferred without Compliance Requirements	(48,305,975)
Net Loan Balance (Loans with Compliance Requirements)	377,600,165
New Loans Disbursed in FY 2006	96,389,007
Net Principal Repayments Received in FY 2006	(18,370,856)
Capitalized Interest Earned in FY 2006	1,356,079
Current Loan Activity	79,374,230
Ending Loan Balance (Loans with Compliance Requirements)	456,974,395
Administrative Costs in FY 2006	1,064,282
Administrative Trustee Fee	422
Loan Account Trustee Fee	587
Small System Technical Assistant	376,177
Small System Technical Assistant Trustee Fee	220
Wellhead Costs	1,284,579
Wellhead Trustee Fee	222
Administrative Interest Earned	(7,713)
Loan Account Interest Earned	(14,006)
Source Water Account Interest Earned	(7)
Small System Technical Assistant Interest Earned	(2,413)
Wellhead Interest Earned	(2,796)
Total Federal Assistance for FY 2006	$459,673,949

The total federal assistance for fiscal year 2006, as reported by the Ohio Environmental Protection Agency, for the Clean Water Revolving Fund and the Drinking Water Revolving Fund were $372,530,266 and $87,143,683 respectively.

NOTE 3 INVENTORY BALANCES FOR NON-CASH FEDERAL ASSISTANCE PROGRAMS

As of June 30, 2006, the outstanding inventory balances for the non-cash federal assistance programs are as follows:

CFDA#	Non-Cash Program	Outstanding Balance, as of 6/30/06
10.550	Food Donation	$4,964,782
12.005	Donation of Federal Surplus Property	8,031,101
	Total	$12,995,883

NOTE 4 RESEARCH AND DEVELOPMENT CLUSTER

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

CFDA#	Program	Amount
11.419	Costal Zone Management Administration Awards	$ 132,691
15.808	U.S. Geological Survey -- Research and Data Acquisition	126,327
16.579	Byrne Formula Grant Program	351,344
16.738	Edward Byrne Memorial Justice Assistance Grant Program	15,800
20.205	Highway Planning and Construction	2,736,201
81.079	Regional Biomass Energy Program	38,926
81.086	Conservation Research and Development	69,567
81.089	Fossil Energy Research and Development	70,043
81.502	High End Computing and Network in Support of Energy and Homeland Security	6,000,000
84.203	Star Schools	1,215,703
84.215	Fund for the Improvement of Education	674,352
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	100,000
93.564	Child Support Enforcement Research	44,677
93.647	Social Services Research and Demonstration	401,375
93.779	Center for Medicare and Medicaid Services (CMS) Research, Demonstrations, and Evaluations	491,638
93.888	Specially Selected Health Projects	2,023,859
97.042	Emergency Management Performance Grants	20,000
	Total Research and Development Cluster	**$ 14,512,503**

NOTE 5 HOMELAND SECURITY CLUSTER

The State has reported the following federal programs for the Homeland Security Cluster on the Supplementary Schedule of Expenditures of Federal Awards by Federal Agency and Federal Program. Several programs for federal fiscal year 2005 were incorporated into the State Domestic Preparedness Equipment Support Program (97.004) and Homeland Security Grant Program (97.067) in accordance with the guidance from the U.S. Department of Homeland Security.

CFDA#	Program	Amount
*	Law Enforcement Terrorism Prevention	$ 3,370,988
97.004	State Domestic Preparedness Equipment Support Program	28,206,163
97.053	Citizen Corps	769,371
97.004	**Total State Domestic Preparedness Equipment Support Program**	**$ 32,346,522**
97.008	Urban Areas Security Initiative	$ 2,415,999
97.042	Emergency Management Performance Grants	3,073,881
97.053	Citizen Corps	81,071
97.071	Metropolitan Medical Response System	49,583
97.073	State Homeland Security Program	11,935,054
97.074	Law Enforcement Terrorism Prevention Program Shelter's – Grants to States and Indian Tribes	5,667,202
97.067	**Homeland Security Grant Program**	**$ 23,222,790**

* - This program did not have a designated CFDA number.

NOTE 6 TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF) RESTITUTION

The Ohio Department of Job and Family Services (ODJFS or Department) advances federal funds to the County Departments of Job and Family Services (CDJFS) to carry out the purposes of the TANF program along with various other federal programs. During state fiscal years 2000 through 2004, ODJFS advanced federal dollars to the CDJFS using a consolidated funding approach. Under the consolidated funding approach, ODJFS had the capability via the Central Office Reporting System (CORe) of drawing funds from one program/funding source with available money, and crediting those funds to another program/funding source when that program/funding source's allotted budget had been exceeded.

At the conclusion of state fiscal year 2004, the Department performed a reconciliation of the consolidated funding programs. The reconciliation performed by ODJFS revealed that it had advanced $133 million in TANF federal funds to cover overspending in various programs during fiscal years 2000 through 2003 and $129 million during fiscal year 2004.

On March 7, 2005, ODJFS returned to the U.S. Department of Health and Human Services $133 million related to inappropriate expenditures for the TANF program covering the period of July 1, 2000 through June 30, 2003. Also on March 7, 2005, ODJFS made adjustments to the federal Smartlink system to transfer $90,997,998 of the $129 million related to inappropriate expenditures for fiscal year 2004 from the TANF program to the Child Care Cluster. This amount represents costs for services which were allowable for the Child Care Program.

On August 12, 2005, ODJFS returned to the U.S. Department of Health and Human Services the balance of the restitution for the $129 million amounting to $38,537,926, which restored the federal funds to the TANF program. This transaction did not, however, have any impact on the Supplementary Schedule for state fiscal year 2006 since the funds were repaid from non-federal sources.

NOTE 7 TRANSFERS BETWEEN FEDERAL PROGRAMS

During fiscal year 2006, the State made allowable transfers of approximately $77.1 million from the Temporary Assistance for Needy Families (93.558) program to the Social Services Block Grant (93.667) program. The Supplementary Schedule shows the State spent approximately $745.7 million on the Temporary Assistance for Needy Families program. The amount reported for the Temporary Assistance for Needy Families program on the Supplementary Schedule excludes the amount transferred to the Social Services Block Grant program. The amount transferred to the Social Services Block Grant program is included in the federal program expenditures for these programs. The following table shows the gross amount drawn for the Temporary Assistance for Needy Families program during fiscal year 2006 and the amount transferred to the Social Services Block Grant program.

Temporary Assistance for Needy Families ..	$ 822,832,072
Social Services Block Grant	(77,085,973)
Total Temporary Assistance for Needy Families	**$ 745,746,099**

INDEPENDENT ACCOUNTANTS' REPORTS ON COMPLIANCE AND INTERNAL CONTROLS

Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

The Honorable Ted Strickland, Governor
State of Ohio
Columbus, Ohio

We have audited the 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, 2006, which collectively comprise the State's basic financial statements, and have issued our report thereon dated March 23, 2007, wherein we noted the State of Ohio adopted GASBs 42, 46, and 47. We did not audit the financial statements of the following organizations:

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

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

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

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

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Revenues / Additions
Governmental Activities	2%	0%
Business-Type Activities	92%	44%
Aggregate Discretely Presented Component Units	96%	90%
Aggregate Remaining Fund Information	84%	25%
Workers' Compensation	100%	100%

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Ohio's internal control over financial reporting, except for those entities identified above which were performed by other auditors, to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Ohio's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. These two reportable conditions are identified in the schedule of findings and questioned costs on page 167.

Other auditors performed procedures to obtain an understanding of the internal controls of the organizations listed above. There were no comments related to these organizations which were considered reportable for the State of Ohio.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses.

We noted other matters involving the internal control over financial reporting which we did not deem reportable conditions that we have reported to the management of the State of Ohio in separate management letters issued at various times during the year.

Compliance and Other Matters

As part of reasonably assuring whether the State of Ohio's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Other auditors performed tests of noncompliance related to the organizations listed above and the results of those tests are reported separately in the audit reports of those entities. There was no noncompliance related to these organizations which was considered reportable for the State of Ohio.

We noted certain immaterial instances of noncompliance that we have reported to the management of the State of Ohio in separate management letters issued at various times during the year.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 23, 2007

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Mary Taylor, CPA
Auditor of State

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

The Honorable Ted Strickland, Governor
State of Ohio
Columbus, Ohio

Compliance

We have audited the compliance of the State of Ohio with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the State of Ohio's major federal programs. The State of Ohio's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to each major federal program. Our responsibility is to express an opinion on the State of Ohio's compliance based on our audit.

The State of Ohio's basic financial statements include the operations of State College and Universities which received federal awards that are not included in the Schedule of Federal Awards for the year ended June 30, 2006. Our audit of federal awards, described below, did not include the operations of State College and Universities because these component units engaged other auditors to audit their Federal award programs in accordance with OMB Circular A-133

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the State of Ohio's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on State of Ohio's compliance with those requirements.

As described in items 2006-EDU01-002 in the accompanying schedule of findings and questioned costs on page 173, the State of Ohio's Department of Education did not comply with the requirements regarding subrecipient monitoring applying to its Charter Schools program. Compliance with those requirements is necessary, in our opinion, for the State of Ohio to comply with requirements applicable to this program.

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As described in 2006-SOS01-047 in the accompanying schedule of findings and questioned costs on page 294, the Ohio Secretary of State did not comply with the requirements regarding cash management applying to its Election Reform Payments and Help American Vote Act programs. Compliance with those requirements is necessary, in our opinion, for the State of Ohio to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the two 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, 2006. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that OMB Circular A-133 requires us to report, which are identified in the summary of findings and questioned costs on pages 166 and 167 and described in the accompanying schedule of findings and questioned costs.

In separate letters to the State of Ohio's management issued at various times during the year, we reported other matters related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

The State of Ohio's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the State of Ohio's internal control over compliance with requirements that could directly and materially affect a major federal program 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 166 and 167 and described in the accompanying schedule of findings and questioned costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected by employees when 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. We consider certain items identified in the summary of findings and questioned costs on pages 166 and 167 and described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 19, 2007

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STATE OF OHIO
JULY 1, 2005 THROUGH JUNE 30, 2006
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OMB CIRCULAR A-133 § .505

1. SUMMARY OF AUDITORS' RESULTS		
(d)(1)(i)	*Type of Financial Statement Opinion*	Unqualified
(d)(1)(ii)	*Were there any material control weakness conditions reported at the financial statement level (GAGAS)?*	No
(d)(1)(ii)	*Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?*	Yes
(d)(1)(iii)	*Was there any reported material noncompliance at the financial statement level (GAGAS)?*	No
(d)(1)(iv)	*Were there any material internal control weakness conditions reported for major federal programs?*	Yes
(d)(1)(iv)	*Were there any other reportable internal control weakness conditions reported for major federal programs?*	Yes
(d)(1)(v)	*Type of Major Programs' Compliance Opinion*	Unqualified and Qualified – see **
(d)(1)(vi)	*Are there any other reportable findings under §.510?*	Yes
(d)(1)(vii)	*Major Programs (list):*	See pages 161 through 165
(d)(1)(viii)	*Dollar threshold for Type A and B Programs?*	A: >$30,000,000 B: >$ 4,977,941
(d)(1)(ix)	*Low Risk Auditee?*	No

** We qualified our opinion on subrecipient monitoring for the Ohio Department of Education's Charter Schools program and on cash management for the Ohio Secretary of State's Election Reform Payments and Help America Vote Act programs.

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

Finding Number	2006-JFS16-025

INTERNAL CONTROL – REPORTABLE CONDITION

See federal finding # 2006-JFS16-025 on page 232; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2006-JFS17-026

INTERNAL CONTROL – REPORTABLE CONDITION

See federal finding # 2006-JFS17-026 on page 234; this finding is also required to be reported in accordance with GAGAS.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

The findings and questioned costs are summarized by state agency and type on pages 166 and 167.

The questioned costs are summarized by federal agency, program, and amount on page 168.

The findings and questioned costs are detailed by state agency on pages 169 through 298.

STATE OF OHIO
JULY 1, 2005 THROUGH JUNE 30, 2006
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
U.S. Department of Agriculture			
10.550	Food Donation		
	Ohio Department of Education	$30,397,630	
	Total CFDA # 10.550	$30,397,630	0.18%
Food Stamp Cluster			
10.551/10.561			
	Ohio Department of Job & Family Services	$1,341,046,574	
	Other Agencies (Not Tested as a Major Program)	946,761	
	Total Food Stamp Cluster	$1,341,993,335	7.87%
Child Nutrition Cluster			
10.553/10.555/10.556/10.559			
	Ohio Department of Education	$270,951,118	
	Other Agencies (Not Tested as a Major Program)	3,547,149	
	Total Nutrition Cluster	$274,498,267	1.61%
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children		
	Ohio Department of Health	$217,961,310	
	Total CFDA # 10.557	$217,961,310	1.28%
10.558	Child and Adult Care Food Program		
	Ohio Department of Education	$64,567,192	
	Total CFDA # 10.558	$64,567,192	0.38%
U.S. Department of Housing and Urban Development			
14.228	Community Development Block Grant/State's Program		
	Ohio Department of Development	$62,031,611	
	Total CFDA # 14.228	$62,031,611	0.36%
U.S. Department of Labor			
Employment Services Cluster			
17.207/17.801/17.804			
	Ohio Department of Job & Family Services	$35,175,531	
	Total Employment Services Cluster	$35,175,531	0.21%
17.225	Unemployment Insurance		
	Ohio Department of Job & Family Services	$1,271,079,116	
	Total CFDA # 17.225	$1,271,079,116	7.45%
17.245	Trade Adjustment Assistance		
	Ohio Department of Job & Family Services	$29,845,280	
	Total CFDA # 17.245	$29,845,280	0.18%

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
Workforce Investment Act (WIA) Cluster			
17.258/17.258/17.260			
	Ohio Department of Job & Family Services	$141,617,072	
	Other Agencies (Not Tested as a Major Program)	3,911,678	
	Total WIA Cluster	$145,528,750	0.85%
U.S. Department of Transportation			
Highway Planning and Construction Cluster			
20.205/23.003			
	Ohio Department of Transportation	$1,280,389,961	
	Total Highway Planning and Construction Cluster	$1,280,389,961	7.51%
General Service Administration			
39.011	Election Reform Payments		
	Ohio Secretary of State	$32,971,912	
	Total CFDA # 39.011	$32,971,912	0.19%
U.S Environmental Protection Agency			
66.458	Capitalization Grants for Clean Water State Revolving Funds		
	Ohio Environmental Protection Agency	$372,530,266	
	Total CFDA # 66.458	$372,530,266	2.18%
66.468	Capitalization Grants for Drinking Water State Revolving Funds		
	Ohio Environmental Protection Agency	$87,143,683	
	Total CFDA # 66.468	$87,143,683	0.51%
U.S. Department of Education			
84.010	Title I Grants to Local Education Agencies		
	Ohio Department of Education	$396,518,623	
	Total CFDA # 84.010	$396,518,623	2.33%
Special Education Cluster			
84.027/84.173			
	Ohio Department of Education	$496,389,766	
	Other Agencies (Not Tested as a Major Program)	4,653,049	
	Total Special Education Cluster	$501,042,815	2.94%
84.048	Vocational Education - Basic Grants to States		
	Ohio Department of Education	$47,832,547	
	Other Agencies (Not Tested as a Major Program)	567,057	
	Total CFDA # 84.048	$48,399,604	0.28%

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
84.282	Charter Schools		
	Ohio Department of Education	$21,371,316	
	Total CFDA # 84.282	$21,371,316	0.13%
84.287	Twenty-First Centruy Community Learning Centers		
	Ohio Department of Education	$30,437,870	
	Total CFDA # 84.282	$30,437,870	0.18%
84.357	Reading First State Grants		
	Ohio Department of Education	$46,375,143	
	Total CFDA # 84.357	$46,375,143	0.27%
84.367	Improving Teacher Quality State Grants		
	Ohio Department of Education	$106,140,210	
	Other Agencies (Not Tested as a Major Program)	2,878,362	
	Total CFDA # 84.367	$109,018,572	0.64%
Election Assistance Commission			
90.401	Help America Vote Act Requirement Payments		
	Ohio Secretary of State	$63,276,257	
	Total CFDA # 90.401	$63,276,257	0.37%
U.S. Department of Health and Human Services			
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance		
	Ohio Department of Health	$41,943,249	
	Total CFDA # 93.283	$41,943,249	0.25%
93.558	Temporary Assistance for Needy Families		
	Ohio Department of Job & Family Services	$667,082,571	
	Ohio Department of Development	63,307,647	
	Other Agencies (Not Tested as a Major Program)	15,355,881	
	Total CFDA # 93.558	$745,746,099	4.37%
93.563	Child Support Enforcement		
	Ohio Department of Job & Family Services	$187,915,380	
	Total CFDA # 93.563	$187,915,380	1.10%
93.568	Low-Income Home Energy Assistance		
	Ohio Department of Development	$125,037,753	
	Other Agencies (Not Tested as a Major Program)	297,824	
	Total CFDA # 93.568	$125,335,577	0.73%

STATE OF OHIO
JULY 1, 2005 THROUGH JUNE 30, 2006
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
Child Care Cluster			
93.575/93.596			
	Ohio Department of Job & Family Services	$196,235,351	
	Other Agencies (Not Tested as a Major Program)	56,977	
	Total Child Care Cluster	$196,292,328	1.15%
93.658	Foster Care - Title IV-E		
	Ohio Department of Job & Family Services	$198,468,457	
	Other Agencies (Not Tested as a Major Program)	2,347,994	
	Total CFDA # 93.658	$200,816,451	1.18%
93.659	Adoption Assistance		
	Ohio Department of Job & Family Services	$168,302,091	
	Total CFDA # 93.659	$168,302,091	0.99%
93.667	Social Services Block Grant		
	Ohio Department of Job & Family Services	$120,083,479	
	Ohio Department of Mental Health	8,854,336	
	Other Agencies (Not Tested as a Major Program)	9,387,318	
	Total CFDA # 93.667	$138,325,133	0.81%
93.767	State Children's Insurance Program		
	Ohio Department of Job & Family Services	$139,774,705	
	Ohio Department of Mental Retardation and Developmental Disabilities	2,390,104	
	Other Agencies (Not Tested as a Major Program)	23,283,539	
	Total CFDA # 93.767	$165,448,348	0.97%
Medicaid Cluster			
93.775/93.777/93.778			
	Ohio Department of Job & Family Services	$6,260,091,322	
	Ohio Department of Mental Retardation and Developmental Disabilities	649,381,981	
	Other Agencies (Not Tested as a Major Program)	511,956,598	
	Total Medicaid Cluster	$7,421,429,901	43.52%
93.917	HIV Care Formula Grants		
	Ohio Department of Health	$21,313,470	
	Other Agencies (Not Tested as a Major Program)	117,211	
	Total CFDA # 93.917	$21,430,681	0.13%
93.994	Maternal and Child Health Services Block Grant to States		
	Ohio Department of Health	$21,936,548	
	Total CFDA # 93.994	$21,936,548	0.13%

STATE OF OHIO
JULY 1, 2005 THROUGH JUNE 30, 2006
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
	<u>U.S. Department of Homeland Security</u>		
	<u>Homeland Security Cluster</u>		
97.004/97.067			
	Ohio Department of Public Safety	$55,569,312	
	Total Homeland Security Cluster	$55,569,312	0.33%
97.008	Urban Area Security Initiative		
	Ohio Department of Public Safety	$31,794,317	
	Total CFDA # 97.008	$31,794,317	0.19%
97.036	Public Assistance Grants		
	Ohio Department of Public Safety	$45,849,910	
	Other Agencies (Not Tested as a Major Program)	303,108	
	Total CFDA # 97.004	$46,153,018	0.27%
	Total Major Federal Programs	$16,030,992,477	94.01%
	Other Federal Programs	1,021,816,691	5.99%
	Total Federal Expenditures	$17,052,809,168	100.00%

STATE OF OHIO
JULY 1, 2005 THROUGH JUNE 30, 2006
SUMMARY OF FINDINGS AND QUESTIONED COSTS

The findings listed below represent items which are being reported in the Independent Accountants' Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control Over Compliance In Accordance with OMB Circular A-133.

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE REFERENCE
Ohio Department of Development (DEV)			
1. TANF - Tracking and Documentation	2006-DEV01-001	Reportable Condition	169
Ohio Department of Education (EDU)			
1. Charter Schools - Monitoring of Subrecipients	2006-EDU01-002	Questioned Costs	173
2. Reading First - Monitoring of Subrecipients	2006-EDU02-003	Noncompliance	176
3. Twenty-First Century - Monitoring of Subrecipients	2006-EDU03-004	Noncompliance	179
4. IT - Application Development & Maintenance	2006-EDU04-005	Reportable Condition	182
Ohio Department of Health (DOH)			
1. Subrecipient Monitoring	2006-DOH01-006	Noncompliance	185
2. Federal Reporting	2006-DOH02-007	Noncompliance	189
3. MCH Grant - Lack of Earmarking Controls	2006-DOH03-008	Reportable Condition	191
4. IT - Program Change Controls	2006-DOH04-009	Reportable Condition	192
Ohio Department of Job & Family Services (JFS)			
1. MMIS - Claims Reimbursed in Excess of OAC Limits	2006-JFS01-010	Questioned Costs	195
2. MMIS - CRIS-E and MMIS Eligibility Spans Not Reconciled	2006-JFS02-011	Questioned Costs	198
3. Various Programs - Period of Availability	2006-JFS03-012	Questioned Costs	200
4. TANF - Subrecipient Monitoring - Tuscarawas County	2006-JFS04-013	Questioned Costs	203
5. Indirect Cost Allocation Variances	2006-JFS05-014	Questioned Costs	206
6. Medicaid/FS/TANF - Undocumented Eligibility-Cuyahoga Co	2006-JFS06-015	Questioned Costs	208
7. Medicaid/FS/TANF - Undocumented Eligibility - Franklin Co	2006-JFS07-016	Questioned Costs	212
8. UI & TAA Benefits - Processing of OJI Transactions	2006-JFS08-017	Questioned Costs	216
9. TANF - Refuse to Work/Child Under 6 - Lucas County	2006-JFS09-018	Questioned Costs	219
10. TANF- Missing Case Files - Franklin County	2006-JFS10-019	Questioned Costs	221
11. TANF - Refusal to Work Sanction - Tuscarawas County	2006-JFS11-020	Questioned Costs	223
12. IEVS & CRIS-E- IRS Matches Not Completed	2006-JFS12-021	Noncompliance	224
13. IEVS - Due Dates	2006-JFS13-022	Noncompliance	225
14. IEVS - Alert Resolution/Inadequate Documentation	2006-JFS14-023	Noncompliance	228
15. Employment Services - Earmarking Requirement	2006-JFS15-024	Noncompliance	230
16. All Applications - Lack of Internal Testing/Automated Cont.	2006-JFS16-025	Material Weakness	232
17. IT - Excessive Manual Overrides of CRIS-E	2006-JFS17-026	Material Weakness	234
18. IEVS/CRIS-E - Internal Controls at County Level	2006-JFS18-027	Reportable Condition	236
19. TANF - Early Learning Initiative	2006-JFS19-028	Reportable Condition	239
20. Medicaid - Prior Authorization	2006-JFS20-029	Reportable Condition	241
21. Medicaid - Managed Care	2006-JFS21-030	Reportable Condition	242
22. MMIS - Recertification of MMIS Providers	2006-JFS22-031	Reportable Condition	244
23. MMIS - Provider Master File Changes	2006-JFS23-032	Reportable Condition	246
24. Various Programs - Coding Errors	2006-JFS24-033	Reportable Condition	248
25. Unemployment Insurance - Internal Controls	2006-JFS25-034	Reportable Condition	250

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE REFERENCE
Ohio Department of Job & Family Services (JFS)			
26. Trade Adjustment Assistance - Federal Reports	2006-JFS26-035	Reportable Condition	253
27. SSBG - Incomplete Monitoring	2006-JFS27-036	Reportable Condition	254
28. Missing Documentation - Various Counties	2006-JFS28-037	Reportable Condition	256
29. IT – Missing/Incomplete Program Change Forms	2006-JFS29-038	Reportable Condition	263
30. IT - Unavailable Program Change Documentation	2006-JFS30-039	Reportable Condition	266
31. IT - Missing Approval Documentation	2006-JFS31-040	Reportable Condition	268
32. IT - CRIS-E Production Environment Security	2006-JFS32-041	Reportable Condition	270
33. IT - MMIS Production Environment Security	2006-JFS33-042	Reportable Condition	273
34. IT - WRS & UC Tax Production Environment Security	2006-JFS34-043	Reportable Condition	276
35. IT - OJI Production Environment Security	2006-JFS35-044	Reportable Condition	282
36. IT - SCOTI Production Environment Security	2006-JFS36-045	Reportable Condition	286
Ohio Department of Mental Health (DMH)			
1. Subrecipient Monitoring	2006-DMH01-046	Noncompliance	290
Ohio Secretary of State (SOS)			
1. Election Reform/HAVA - Cash Management	2006-SOS01-047	Noncompliance	294
2. Election Reform/HAVA - Interest Income	2006-SOS02-048	Noncompliance	295
3. Election Reform/HAVA - Suspension and Debarment	2006-SOS03-049	Reportable Condition	297

The findings listed below are also reported in the Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE REFERENCE
16. All Applications - Lack of Automated Controls Testing	2006-JFS16-025	Reportable Condition	232
17. IT - Excessive Manual Overrides	2006-JFS17-026	Reportable Condition	234

STATE OF OHIO
JULY 1, 2005 THROUGH JUNE 30, 2006
SUMMARY OF QUESTIONED COSTS BY FEDERAL AGENCY AND PROGRAM

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE	PAGE NUMBER(S)	QUESTIONED COSTS
U.S. DEPARTMENT OF AGRICULTURE		
10.551/10.561 – Food Stamp Cluster	208,212	$31,319
Total U.S. Department of Agriculture		$31,319
U.S. DEPARTMENT OF LABOR		
17.225 – Unemployment Insurance	216	$3,112
17.245 – Trade Adjustment Assistance	216	1,512
17.258/17.259/17.260 – WIA Cluster	200	472,584
Total U.S. Department of Labor		$477,208
U.S. DEPARTMENT OF EDUCATION		
84.282 – Charter Schools	173	$20,754,790
Total U.S. Department of Education		$20,754,790
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
93.558 – Temporary Assistance for Needy Families	200,203,208,212, 219,221,223	$538,146
93.575/93.596 – Child Care Cluster	206	104,466
93.767 – State Children's Insurance Program	206	161,962
93.775/93.777/93.778 – Medicaid Cluster	195,198,208,212	13,899,755
Total U.S. Department of Health and Human Services		$14,704,329
TOTAL QUESTIONED COSTS - STATE OF OHIO		**$35,967,646**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF DEVELOPMENT

1. TANF – TRACKING AND DOCUMENTATION

Finding Number	2006-DEV01-001
CFDA Number and Title	CFDA# 93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

INTERNAL CONTROL - REPORTABLE CONDITION

2 CFR 225 (codification of OMB Circular A-87) establishes principles and standards for determining allowable direct and indirect costs for Federal awards. The Basic Guidelines identified in Appendix A Part C are factors affecting allowability of costs and require cost to be adequately documented; such as by approved purchase orders, receiving reports, vendor invoices, canceled checks, and time and attendance records, and correctly charged as to account, amount, and period.

45 CFR 263.0 (b) states in part:

> The term "administrative costs" means costs necessary for the proper administration of the TANF program or separate State programs.
> (1) It excludes direct costs of providing program services.
> (i) For example, it excludes costs of providing diversion benefits and services, providing program information to clients, screening and assessments, development of employability plans, work activities, post-employment services, work supports, and case management. It also excludes cost for contracts devoted entirely to such activities.
> (ii) It excludes salaries and benefits costs for staff providing program services and the direct administrative costs associated with providing the services, such as cost of supplies, equipment, travel, postage, utilities, rental of office space and maintenance of office space.
> (2) It includes costs for general administration and coordination of these programs, including contract costs and all indirect costs. Example of administrative costs include:
> (i) Salaries and benefits of staff performing administrative and coordination functions;
> (ii) Activities related to eligibility determinations;
> (iii) Preparation of program plans, budgets, and schedules;
> (iv) Monitoring of programs and projects
> …

It is management's responsibility to design and implement control policies and procedures to reasonably ensure sufficient tracking of financial activity and programmatic compliance. Sufficient tracking and monitoring entails obtaining and maintaining adequate supporting documentation that details the accurate record of financial or program activity. Adequate supporting documentation not only provides evidence for future inquiry or investigation should a discrepancy occur, but also allows management and external reviewers to ensure accuracy and completeness of the program's financial activity, as well as compliance with applicable requirements. It is also management's responsibility to identify administrative costs and program costs separately in order to accurately reflect these costs and allow management and external reviewers the ability to distinguish between the costs associated with administrative and programmatic activities.

On October 6, 2005, Governor Taft issued an executive order authorizing the use of $75 million in TANF funding as a supplement to the $100 million Low-Income Home Energy Assistance Program (HEAP). The additional funding was to be used to increase the average benefits eligible Ohioans could receive as well as increase the income eligibility from 151 percent to 175 percent of the poverty level, thus allowing the State to assist a population that historically had not been served. The primary method for delivering energy assistance in Ohio is through the Ohio Department of Development's Office of Community Services (OCS) and its network of nonprofits, considered to be subrecipients. The Ohio Department of Job and Family Services (JFS) and the Ohio Department of Development (the Department) entered into an

1. TANF – TRACKING AND DOCUMENTATION (Continued)

Interagency Agreement for the purpose of providing reimbursement to the Department through the TANF program, and limited the Department's administrative costs to 10 percent of the total award. The TANF heating assistance fund (3BJ) was established within the Department's chart of accounts to account for energy assistance provided to TANF eligible households. Once the TANF expenditures were processed, the Department submitted an invoice to JFS requesting reimbursement. JFS, in turn, requested the funds from the U.S. Department of Health and Human Services and forwarded the revenue, via an Intra-State Transfer Voucher (ISTV), to Fund 3BJ. However, during fiscal year 2006:

- The Department disbursed TANF funds using both Central Accounting System (CAS) Fund 3BJ and CAS Fund 3K9, the HEAP fund. This occurred primarily in the beginning of the program when sufficient funding was not available within Fund 3BJ since this activity was on a reimbursement basis with JFS. The transactions paid from 3K9 were also coded to grant numbers associated with the HEAP program.

- One of 10 (10%) invoices/reimbursement requests, totaling $7,165,610 (the initial request), did not adequately reference the corresponding vouchers.

- Five of 38 (13.57%) voucher summaries sampled (totaling $2,119,220) and three of four higher dollar voucher summaries tested (totaling $30,978,067), split the disbursement between funds 3BJ and 3K9, but there was no supporting documentation included with the expenditure information to accurately distinguish between the amounts related to TANF and the amounts related to HEAP. Therefore, we could not determine from the expenditure support if the amounts charged to TANF related only to those individuals who were TANF eligible. However, costs were not questioned since we were able to verify the eligibility through information maintained in the Department's HEAPSys system related to the reimbursement requests to JFS for the TANF program.

- The Department did not accurately inform subrecipients of the portion of TANF expenditures, both subsidy and administrative, reimbursed to the subrecipient during the fiscal year. Instead, Department personnel informed the subrecipients the expenditures were all related to the Home Energy Assistance Program. Once the AOS brought this issue to the attention of Department management, a letter was drafted and sent to each subrecipient identifying the amount of TANF subsidy and administrative monies reimbursed during fiscal year 2006.

In addition, with regard to TANF administrative costs:

- The Department charged approximately $1,589,638 in administrative costs related to OCS to object category 5 instead of the related object category for the types of costs involved. Object category 5 is to be limited to subsidy payments. As a result, the process for determining the actual amount of administrative costs incurred by the Department was quite cumbersome.

- The Department disbursed approximately $4,871,857 in administrative costs to their subrecipients. The subrecipients report this activity using a form designed for the HEAP program to identify a combined total of both TANF and HEAP reimbursable costs which are classified as administrative costs and operational costs. The Department was not aware of the definition of administrative costs cited above and, as a result, was instructing the subrecipients to include administrative cost items in the operational category. However, this did not cause the Department to exceed their administrative cap in 2006 as the total of both these categories was below the 10 percent limit and both were considered in their calculations of administrative cost reimbursement requests to JFS.

1. TANF – TRACKING AND DOCUMENTATION (Continued)

- The Department overstated the OCS administrative expense amount in their reimbursement request to JFS for the month of April 2006 by $81,252. This was the last month the Department requested reimbursement for fiscal year 2006 as they had reached the program's total award amount. Although the Department requested more reimbursement than they should have for the month of April, they were able to provide documentation to support additional administrative costs in May and June which could have been charged to the TANF program, therefore, no costs were questioned. This issue did not cause the Department to exceed the 10 percent administrative expense allowed by the interagency agreement.

Without adequate supporting documentation for expenditures or reimbursement requests, or proper coding and tracking of transactions, the risk that transactions could be paid for ineligible beneficiaries, from the wrong program, or other compliance requirements will not be met is greatly increased. Incomplete or inconsistent guidance to the subrecipients could result in incorrect amounts on each respective subrecipient Federal Schedule by not accurately reporting the TANF disbursements. OCS management indicated the timing of the TANF program's implementation created problems in this initial year of funding. The agreement with JFS was not signed until after the start of the heating season which made it difficult to change the financial reporting and business process, originally designed for HEAP, to accommodate the TANF activities and obtain the required Controlling Board approval for the new line item. Management also indicated the Department is currently in the process of reviewing and identifying procedures to address these issues so future TANF monies will be better tracked and documented within CAS.

We recommend management review their current policies and procedures and implement appropriate controls which will reasonably ensure:

- Any transactions related to the TANF program are paid from 3BJ. If payments must be made from another fund because reimbursement requests are delayed, transactions should be coded to the TANF grant number and/or other unique coding assigned so they can be readily identified in CAS.

- All reimbursement requests include the corresponding voucher numbers so it is clear what expenditure transactions are included in the request.

- Appropriate supporting documentation is maintained with each voucher/voucher summary to identify and segregate those costs related to the TANF program from those charged to HEAP.

- All transactions, including administrative costs, are properly coded using the appropriate object of expense.

- Calculations of reimbursable administrative expenditures are properly computed and reimbursed according to the actual amounts determined using the TANF percentages.

- All requests for reimbursement are thoroughly reviewed to ensure the information included on the request is accurate, complete, and representative of actual transactions processed by the Department.

- Appropriate guidance be provided to subrecipients regarding the recording and classification of administrative expenses.

- Information is provided to the subrecipients on a regular basis to identify those transactions which have been charged to the TANF program, by type, so the subrecipients will have sufficient information to prepare their Schedules of Expenditures of Federal Awards. In addition, the agreements between the Department and the subrecipients should identify the award amount related to the TANF program and be amended as necessary.

1. TANF – TRACKING AND DOCUMENTATION (Continued)

Finally, we recommend the Department track the amount TANF funds which were paid from HEAP or other sources and ensure these funds are returned to their original source no later than the end of the TANF program.

Corrective Action Plan

The Ohio Department of Development agrees with the Auditor of State's findings and will implement the following corrective action plan:

To address the issues with coding to CAS fund 3BJ and 3K9, the department will implement a new coding system where transactions can be identified as TANF related even if payments are made from another fund pending reimbursement.

As regards the findings relating to administrative costs, implementation of the new coding system referenced previously will assist the Department in determining the actual amount of administrative costs incurred and in staying within administrative cost reimbursement limits. However, the Department has determined that it will not currently be requesting reimbursement for administrative costs and will instead be using all of the funding for benefits. In the future, the Department may again choose to seek reimbursement for administrative costs.

In response to the finding that the department did not accurately inform subrecipients of TANF funding, the department has begun issuing letters on a regular basis to the subrecipients to inform them of this information.

Additionally, the department is reviewing all processes associated with TANF to strengthen internal controls.

Anticipated Completion Date for Corrective Action

The Department plans to implement these changes by November 1, 2007.

Contact Person Responsible for Corrective Action

Nick Sunday, Chief of the Office of Community Services, ODOD, 77 South High Street, 25th Floor, Columbus, Ohio 43215, Phone: (614) 466-6207, e-mail: nsunday@odod.state.oh.us

1. CHARTER SCHOOLS – MONITORING OF SUBRECIPIENTS

Finding Number	2006-EDU01-002
CFDA Number and Title	84.282 - Charter Schools
Federal Agency	Department of Education

QUESTIONED COSTS $20,754,790

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;

During SFY 2006, EDU disbursed $20.8 million in Federal Charter Schools grant funds to qualified charter schools in the form of start-up (planning and design) and implementation sub-grants. EDU's Office of Community Schools (OCS) is responsible for monitoring the use of the Federal Charter Schools funds by the charter schools. However, during the majority of SFY 2006, 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.

As in previous years the Department has a number of potential monitoring tools in place such as required site visit reports and other monitoring procedures performed by charter school sponsors, reviews of Annual Performance Reviews (APRs) and Final Expenditure Reports (FERs), and the monitoring of A-133 audits performed on the schools. However, these tools either were not used effectively or did not provide for adequate subrecipient monitoring during SFY 2006.

OCS did not have procedures in place to ensure that charter school sponsors were performing their required compliance monitoring. Furthermore, the majority of these schools did not expend $500,000 or more in Federal money during SFY 2005, and therefore were not required to have an A-133 audit. Of the 137 charter school subrecipients that received funding during SFY 2006, only three were required to have an A-133 audit for SFY 2005, and none of these three were submitted to EDU until after SFY 2006. Finally, while the APRs and FERs do address these Federal funds, they do not provide a level of detail which would allow the Department to determine whether subrecipients are complying with applicable Federal regulations.

In April 2006, OCS implemented a pilot project establishing an improved monitoring process over their subrecipients. OCS developed a plan to focus on-site monitoring visits on those charter schools that had completed the three phases of the grant or those charter schools which were determined to be high risk. As part of the pilot program, OCS contracted with Franklin County Educational Services Center (ESC) to perform the on-site monitoring visits of the charter schools. The Franklin County ESC performed 18 on-site monitoring visits during the period April, 2006 through June, 2006. We reviewed 10 of these 18 on-site monitoring visits and identified the following weaknesses and errors:

1. CHARTER SCHOOLS – MONITORING OF SUBRECIPIENTS (Continued)

- The on-site monitoring log used to track the performance of the on-site monitoring visits was not maintained accurately;

- There was no evidence that OCS reviewed any of the 10 Management Letters we reviewed for completeness and accuracy;

- The OCS did not develop a form to be completed by the representative from the Franklin County ESC that could be used to evidence the various steps completed during the on-site monitoring visit. The only evidence of the on-site monitoring visit was the completion of a management letter and the inclusion of the invoices, purchase orders, and checks in the on-site monitoring file, though there is no evidence on these documents that they were reviewed;

- We noted several instances in which the amounts on the FER were reconciled to an accounting software printout as opposed to the appropriate invoices, purchase orders, and other supporting documentation. Without reconciling the expenditures reported on the FER to specific invoices, purchase orders, etc, there is no way to ensure that the expenditure was reviewed for allowability;

- The OCS appeared to focus their monitoring procedures on the reconciliation of the expenditures reported on the FER to the charter school's accounting records. As indicated above, most charter schools do not receive enough Federal funding to require an OMB A-133 audit. Therefore, the OCS should also ensure that the charter school satisfied the applicable OMB Circular A-133 compliance requirements, including cash management, procurement and suspension and debarment, and period of availability;

- We identified one out of 10 instances where the charter school had received more funding than allowed. The maximum amount a charter school may receive is $450,000; however, this charter school received $500,000. It appears the on-site visit did not note the problem due to a lack of documentation provided by the school and it took approximately three months after the on-site monitoring visit for OCS to detect the problem and make an attempt to retrieve the funds.

Based on these noted problems we find that, while the Department has made significant improvements and implemented an on-site subrecipient monitoring process, the process was not in place for the majority of SFY 2006 and had significant weaknesses during the short period of time it was in place. As a result of these findings and the lack of A-133 audit coverage for its subrecipients, we are questioning the $20,754,790 in payments made to the 137 Charter School grant subrecipients during SFY 2006.

Without proper monitoring procedures in place during the period of the grant award to specifically ensure that charter schools are in compliance with applicable Federal rules and regulations, the Office of Community Schools may not be able to adequately ensure that the funds are being used as they are intended or determine that the charter school is using the funds as they reported in the budgets and the FERs. In addition, the charter school may receive the funds from the next grant and continue to use them incorrectly. Based on our review and discussions with OCS personnel, it appears they were aware of the weaknesses with their during-the-award on-site monitoring and as noted above took steps to correct them. However, due to a lack of adequate staffing and other factors they were unable to implement the new system until March, 2006.

1. CHARTER SCHOOLS – MONITORING OF SUBRECIPIENTS (Continued)

We recommend that the Office of Community Schools continue to implement and improve the on-site monitoring procedures they have already developed to specifically address the compliance requirements of the program for the charter schools receiving funding through the Federal Charter Schools program. These procedures should include, at a minimum, verifying the subrecipient did not request more cash than was needed to pay the expenses, funds were used to pay for allowable expenses, and the funds were used in accordance with their budget. The monitoring procedures should also include ensuring the amounts reported on the final expenditure report agree to the subrecipient's financial records. We also recommend the Department continue developing an effective process for ensuring that charter school sponsors are performing their required compliance monitoring activities.

Corrective Action Plan

OCS will coordinate with the Offices of Grants Management and Federal Programs regarding the scheduling and breadth of sub-recipient monitoring. Responsible staff include the OCS, Grants Coordinator 2, the assigned Grants Management Consultant, and the Director of Federal Programs. Areas impacted by the action plan are: OCS, Grants Management, Federal Programs and Fiscal Services. Initial conversation began on 12/20/06, substantive work will commence by 7/01/07 and the end date is on-going.

OCS will incorporate the Monthly Fatal Error Compilation Report, along with other available tools to establish indicators of risk for sub-recipient monitoring. Responsible staff include the OCS Grants Coordinator 2. Areas impacted by the plan are OCS and School Finance. Initial conversation began on 7/10/06, substantive work will commence by 7/01/07 and the end date is on-going.

OCS will be current with the backlog of sub-recipient monitoring by 6/30/08. In FY-07 and FY-08, 107 Sub-recipient Monitoring visits will be conducted each year.

<u>FY-07 Criteria</u>
1) *Sub-recipient Monitoring visits start with all schools awarded a PCSP sub grant in 2004.*
2) *The selected schools are then broken down by region; Northwest, Northeast, Southwest and Central (Southeast is included in Central.)*
3) *Available risk indicators will be used to identify schools to be monitored sooner. Even schools not scheduled to be monitored will be immediately monitored in the event of significant incidents or events.*

<u>FY-08 Criteria</u>
1) *Sub-recipient Monitoring visits start with all schools awarded a PCSP sub grant in 2005 that were not monitored in FY-07 or were not complete during the FY-07 monitoring visit.*
2) *Schools that received awards prior to 2003 will be included.*
3) *The selected schools are then broken down by region; Northwest, Northeast, Southwest and Central (Southeast is included in Central.)*
4) *Available risk indicators will be used to identify schools to be monitored sooner. Even schools not scheduled to be monitored will be immediately monitored in the event of significant incidents or events.*

<u>FY-09 And Beyond</u>
1) *Sub-recipient Monitoring visits are conducted for each school upon completion of a grant phase.*

Actions which have been taken to address the weaknesses in monitoring of sub-recipients include:

1) *OCS has a written procedure in place to review the on-site monitoring log weekly by the Grants Coordinator 2 and an Administrative Assistant assigned to sub-recipient monitoring.*

1. CHARTER SCHOOLS – MONITORING OF SUBRECIPIENTS (Continued)

2) *Management Letters will be written by the Grants Coordinator 2 and by Franklin County contractors and will be reviewed by the assigned Administrative Assistant for completeness and accuracy. The OCS, Associate Director for Finance will review all letters a second time, and initial and date approval of the OCS paper file copy prior to the letters being sent.*
3) *OCS has developed and put into use by the Grants Coordinator 2 and FCESC contractors a form to evidence the steps completed during site reviews.*
4) *All ESCFC contractors are trained by the Grants Coordinator 2 and given a training manual with example forms and procedures including:*
   a. *Reconciliation of FER amounts to specific invoices, purchase orders to ensure allowability*
   b. *Monitoring of OMB Circular A-133 requirements including cash management, procurement and suspension and debarment, and period of availability are performed at site reviews.*
5) *The OCS, PCSP Management Analyst Supervisor has developed a procedure to generate Oracle reports twice annually which are used to prevent grant overpayments in cooperation with ODE, Grants Management.*
6) *OCS will put in place a Sponsor Evaluation Framework process to ensure sponsors perform required compliance monitoring. The process will include annual evaluation of sponsor technical assistance, monitoring and intervention in the fiscal and other performance of their sponsored schools. The start date will be 07/01/2008 and will be ongoing. The Sponsor Evaluation Quantitative Tool (attached) lists fiscal accountability items beginning on page four, and the Sponsor Self-Evaluation Tool (attached) lists fiscal accountability items beginning on page seven. Questions 55-63 in the Site Visit tool (attached) confirm responses given in the fiscal section of the Sponsor Self Evaluation tool.*

Anticipated Completion Date for Corrective Action

7/1/08

Contact Person Responsible for Corrective Action

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2. READING FIRST – MONITORING OF SUBRECIPIENTS

Finding Number	2006-EDU02-003
CFDA Number and Title	84.357 – Reading First State Grants
Federal Agency	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.

2. READING FIRST – MONITORING OF SUBRECIPIENTS (Continued)

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;

In 2003, the Ohio Department of Education (EDU) received a six-year Federal Reading First grant totaling $176 million. During State Fiscal Year (SFY) 2006, EDU disbursed over $40.6 million to 29 school districts as part of the Reading First program. The Department is responsible for monitoring the use of Federal Reading First funds by the school districts. However, our review found EDU did not have an adequate system in place for performing on-site reviews to determine whether Reading First subrecipients were using these Federal funds in accordance with applicable laws and regulations.

The Department has contracted with a consortium of three universities to provide technical assistance, professional development, and program monitoring for the Reading First program. During SFY 2006, the consortium completed three sets of program monitoring reviews over the Reading First funded districts through the completion of Program Monitoring Reports (PMRs), which consist of detailed scoring checklists completed by the reviewer which are then summarized on a cover sheet. The completed reports are submitted to the Department, and unlike previous years there was evidence that the PMRs were reviewed by the Reading First staff during FY 2006. However, the reviews were inconsistent, and we noted several instances where the results reported on the summary sheet did not agree to the results reported on the checklist. In one of these instances, had the scores from the checklist been used, the building within the school district should not have been eligible for continued Reading First funding. In addition to these noted inconsistencies, we found the monitoring review procedures do not appear sufficient to allow the Department to determine whether subrecipients are complying with applicable Federal regulations, especially the financial regulations. Furthermore, there is no evidence that the Department performed any monitoring procedures over the activities of the consortium other than the PMR reviews noted above.

The Department does have after-the-award monitoring procedures in place, primarily through its review of subrecipient A-133 audit reports. Of the 29 districts which received Federal Reading First funding during SFY 2006, 26 submitted an A-133 audit report to the Department during our audit period, while the three remaining districts received approval for an extension. In addition, the Federal Reading First program was tested as a major program for at least seven of the 29 Reading First funded districts.

Without proper internal monitoring procedures in place during the period of the grant award to provide adequate assurance that Reading First-funded districts are in compliance with applicable Federal rules and regulations, the Department may not be able to adequately ensure the funds are being used as they are intended, determine whether Reading First-funded districts are using the funds as they reported in their budgets and FERs, or that they are meeting the compliance requirements of the Reading First program. In addition, the consortium may not be properly performing monitoring procedures over the Reading First funded districts, which could affect decisions made by the Department on their determination of continued eligibility of a Reading First funded district and, consequently, the future funding to be received by that district. Based on our review and discussions with Reading First personnel, it appears they have developed procedures to address the weaknesses noted with their subrecipient monitoring system. However, due to the fact they were not formally made aware of the problem until April, 2006, and it took time to develop the new monitoring procedures, they were not able to implement their updated monitoring process until SFY 2007.

2. READING FIRST – MONITORING OF SUBRECIPIENTS (Continued)

We recommend the Department implement procedures to ensure the adequacy of the reviews performed by the consortium. We also recommend the Department continue to develop and implement procedures for on-site reviews of Reading First subrecipients which provide added assurance that subrecipients are complying with all applicable requirements and regulations of the Federal Reading First program. These reviews, which could be performed either by EDU personnel or as part of the consortium's on-site visits, should include at a minimum verifying the subrecipient did not request more cash than was needed to pay the expenses, funds were used to pay for allowable expenses, and the funds were used in accordance with their budget. The monitoring procedures should also include ensuring the amounts reported on the final expenditure report agree to the subrecipient's financial records.

Corrective Action Plan

ODE's Comprehensive Continuous Improvement Planning (CCIP) system is a tool that both the Reading First program and Grants Management utilize to establish district budgets and authorize budget revisions, process project cash requests from districts, monitor district expenditures and process final expenditure reports from districts. Through activities in the CCIP and the results of the Program Audit Compliance Tracking (PACTS), desk and financial reviews of district expenditures are initiated.

The PACTS is a Self Evaluation that districts are required to complete on the website accessible through ODE's Web portal account. The PACTS assures compliance because it is multi-tiered including desk audits, telephone surveys, self evaluations, and onsite reviews. Districts must complete the PACTS Self Evaluation by June 30 of each fiscal year. Certain factors are used to determine districts for on-site financial reviews.

The goal of ODE is to perform onsite financial reviews of all districts, but personnel resources dictate that on-site reviews are performed first on those districts that are out of compliance. Reviews have been scheduled for six school districts. Five other school districts are on the list to be reviewed, but the dates have not been determined at this point.

Reading First-Ohio is built around three program standards that all eligible districts and schools must meet in order to receive funding. The program standards also serve as the mechanism for state and district monitoring of program implementation at the classroom level to ensure all children consistently receive scientifically-based reading instruction.

As part of ODE's monitoring procedures, the Program Monitoring Tool is administered three times a year by the Reading First-Ohio Center. It is a robust instrument for determining compliance to the standards. The Reading First-Ohio Center performs district monitoring through visitations that are conducted by Regional Consultants (subcontracts of the Reading First-Ohio Center) and ODE personnel. Each district maintains detailed building specific documents that contain evidence of their compliance. The documents are updated on a regular basis and are the basis for results of the Program Monitoring Tool.

Monitoring procedures of districts require that reliable and valid data be collected by schools and districts through an electronic reporting system. The data are sent to the state monthly and quarterly or at the end of each assessment window. The data conform to USDOE Data Quality Standards of validity, accurate descriptions, editing, calculations, timeliness and reporting. As part of monitoring, district plans are reviewed by an external evaluator through feedback and recommendations on changes that may need to be made.

The ODE has instituted procedures to review Program Monitoring Reports. In addition to accompanying Regional Consultants on monitoring visits, the ODE receives electronic copies of Program Monitoring Reports, which are reviewed and if there are any concerns, these are sent to the Reading First-Ohio Center electronically for review and feedback.

2. READING FIRST – MONITORING OF SUBRECIPIENTS (Continued)

Following electronic copies, hard copies are sent to ODE for final review and signature. The results of Program Monitoring are used by ODE and the Reading First-Ohio Center to guide districts and schools to more effectively implement Reading First. Subsequent Program Monitoring visits are scheduled to verify that corrections have been implemented. Implementation is also monitored continuously through professional development and technical assistance workshops.

The Ohio Department of Education has established procedures for monitoring the activities of the Consortium. Monitoring of Reading First-Ohio Center activities is accomplished through program monitoring visits to districts and reviewing Program Monitoring Reports and attending and reviewing evaluations of workshops and trainings for data managers, resource coordinators, literacy specialists, district coordinators and, principals. ODE and the Reading First-Ohio Center co-directors have scheduled monthly meetings. At these meetings the work of the Center/Consortium is discussed and how professional development and technical assistance are being provided to districts and if the work is in accordance with the deliverables articulated in the Work Plan that is submitted by the Center at the beginning of each fiscal year.

ODE has an evaluation contract with an external evaluator that provides an objective evaluation of the Reading First-Ohio program and the work of the Reading First-Ohio Center.

Finally, ODE monitors the budget process and quarterly invoices submitted by the Reading First-Ohio Center. The invoice line items are compared against the deliverables in the Work Plan to determine if the Center is providing professional development and technical assistance to all Reading First districts. ODE requires Center co-directors to submit monthly reports of their work, which serve as updates and monitoring devices, when they are compared with other documents that ODE collects from the Center and districts participating in Reading First. In addition to the deliverables in the Work Plan, the Center creates a calendar for each school year.

Anticipated Completion Date for Corrective Action

Implemented

Contact Person Responsible for Corrective Action

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3. TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS – MONITORING OF SUBRECIPIENTS

Finding Number	2006-EDU03-004
CFDA Number and Title	84.287 – Twenty-First Century Community Learning Centers
Federal Agency	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.

3. TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS – MONITORING OF SUBRECIPIENTS (Continued)

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;

During SFY 2006, EDU disbursed over $30.6 million to 82 subrecipients as part of the 21st Century Community Learning Centers program. The Department is responsible for monitoring the use of Federal 21st Century Community Learning Centers funds by the subrecipients. However, our review found EDU did not have a system in place during SFY 2006 for performing on-site or desk reviews to determine whether 21st Century Community Learning Centers subrecipients were using these Federal funds in accordance with applicable laws and regulations.

There was evidence of two reviews performed during SFY 2006 and an analysis of the program was completed for the period ending SFY 2005, but none of these provided adequate monitoring over the federal requirements. Also, during SFY 2006 several key employees involved with the 21st Century Community Learning Centers program were replaced. The new employees implemented a new on-site monitoring process; however, this process was not placed into operation until SFY 2007.

The Department does have some after-the-award monitoring procedures in place, primarily through its review of subrecipient A-133 audit reports. Of the 82 districts which received Federal 21st Century Community Learning Centers funding during SFY 2006, 64 were required to submit an A-133 audit report to the Department. In addition, the Federal 21st Century Community Learning Centers program was tested as a major program for 23 of these 64 subrecipients.

Without proper internal monitoring procedures in place during the period of the grant award to provide adequate assurance that 21st Century Community Learning Centers program funded subrecipients are in compliance with applicable Federal rules and regulations, the Department may not be able to adequately ensure the funds are being used as they are intended, determine whether 21st Century Community Learning Centers program funded districts are using the funds as they reported in their budgets and FERs, or that they are meeting the compliance requirements of the 21st Century Community Learning Centers program. As indicated above, there was significant turnover among program personnel for this grant, and it appears the new personnel have developed procedures designed to address the weaknesses noted with their subrecipient monitoring system. However, they were not able to implement their updated monitoring process until SFY 2007.

We recommend the Department continue to develop procedures for on-site reviews of 21st Century Community Learning Centers subrecipients which provide added assurance that subrecipients are complying with all applicable requirements and regulations of the Federal 21st Century Community Learning Centers program. These reviews should include, at a minimum, verifying the subrecipient did not request more cash than was needed to pay the expenses, funds were used to pay for allowable expenses, the funds were used in accordance with their budget, and the subrecipient met the matching requirement. The monitoring procedures should also include ensuring the amounts reported on the final expenditure report agree to the subrecipient’s financial records.

3. TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS – MONITORING OF SUBRECIPIENTS (Continued)

Corrective Action Plan

- *All subrecipient programs will be reviewed each year via 2 annual progress reports and one self-assessment tool:*
  - *Learning Points 21st CCLC Profile and Performance Information Collection System online data base (effort ongoing since 2005)*
  - *A required annual program report to the ODE 21st CCLC consultants (work will begin in June 2007)*
  - *Subrecipeints will utilize the tool in a self-assessment process which will help build capacity and continuous improvement within 21st CCLC 's across the state. The onsite self monitoring tool will guide the subrecipeints to gain a greater understanding of the program parameters that should be in place and are necessary to meet the 21st CCLC guidelines for success. (Work to be completed for implementation and piloted in November 2007)*
- *These two reports identify indicators for an onsite visit based on risk factors or other measures.*
- *All subrecipients will have an onsite visit, two times for every five year grant cycle (federal guidance). A site visit tool is utilized to collect all licensure and applicable program information including an A-133 audit report. (Work to begin in 2007)*
- *All 21st CCLC are to be licensed by the state which includes 2 visits per year by the ODE and the Ohio Department of Job and Family Services licensure programs. (Work to begin in Fall 2007)*

- *ODE program staff identifies noncompliance issues, at the time of the on site visit, and create recommendations and timeline for the subrecipent to utilize for program compliance issues documented on the site monitoring tool. (Work to begin in Fall 2007)*
  - *ODE will review results with the subrecipeints and the indicated timeline for completion.*
  - *Further correspondence will be carried out via email and a final report will be sent to the site. Additional information to close the audit will also be indicated.*
  - *If an additional time is needed for specific recommendations, a two week extension may be granted. Follow up will occur with additional telephone and email follow up until all recommendations are within program compliance.*
  - *If sanctions or other measures are not remedied within the timeline outlined in the annual report recommendation or onsite monitoring tool, the 21st CCLC consultant will forward the subrecipeint a warning that funds will be withheld if the information is not completed within the time line agreed upon in the final report.*
  - *It is recommended that the subrecipent share the results of their audit with their school district or community agency.*

- *The subrecipient has 10 business days from the date of the onsite visit to return paperwork to the ODE 21st CCLC consultant and 30 days to plan and complete corrective action program activities.*

Anticipated Completion Date for Corrective Action

Fall 2007

Contact Person Responsible for Corrective Action

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4. INFORMATION TECHNOLOGY – APPLICATION DEVELOPMENT AND MAINTENANCE

Finding Number	2006-EDU04-005
CFDA Number and Title	All Programs Administered by the Department
Federal Agency	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 procedures help ensure that computer applications modified by the Department's programming staff are accurate, efficient, and meet management's requirements and deadlines. The procedures should cover such areas as programming standards, naming conventions, schedules and budgets, design standards, testing standards, approval procedures for users, approval procedures for data processing management, implementation standards and documentation standards. Controls must also restrict programmer access to the production environment and require tested and approved program changes to be moved into the live environment by individuals other than those responsible for making changes.

The Department's program change process is informal. Documentation of key control points is not required. In addition, programmers have access to the production environment and move their own changes into the production environment. Formal written procedures are not in place to track, monitor, remediate, test, implement and document all key program change life cycle phases for significant EDU applications. The Department has formed an application standards team to create and document standards which will then be presented to the Director of the Information Technology Office for formal acceptance. Once accepted, the standards will be utilized by the application developers.

Without formal program change control procedures in operation, critical data processing applications could be improperly modified, resulting in erroneous transaction processing. This could affect demographic, employment, course and financial data related to students and staff compiled in the Education Management Information System (EMIS) application. Approximately 40 federal and state programs processed and reported through the Continuous Comprehensive Improvement Planning system (CCIP) could also be affected. Finally, the integrity of school spending and payments processed by School Foundation could be affected.

In FY06, the Applications Standards Team was replaced with a more functional Enterprise Architecture team. One of the goals of the Architecture Team is to define, implement, and enforce a formal software change management process for modern web services and applications. Examples of steps taken to satisfy this goal to date are:

- Investigating software tools and processes for managing known application defects and enhancement requests from inception to delivery. Seapine Software's TestTrack Pro product has been piloted in multiple applications, most notably the CORE2 project.

- Microsoft's Visual Studio Team System and Foundation Server products have been purchased and are in the process of being deployed. This modernized development environment will allow ODE to effectively separate the roles of application architect, software developer, and application tester. It will also enable automated software unit testing, application builds, and deploy-to-production scenarios.

4. INFORMATION TECHNOLOGY – APPLICATION DEVELOPMENT AND MAINTENANCE (Continued)

- A Build Engineer has been contracted to help the Department define and establish the new application build and deployment process. Contracting for a Test Engineer to define and establish formal testing procedures should take place by January 2007.

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.

Corrective Action Plan

ODE will continue their efforts to develop and standardize the change request process. Progress to date:
- *Database management meets recommendations.*
- *All new .NET development is subject to more rigorous change control procedures than legacy ASP or COBOL programs.*
- *EMIS data processing has been partially migrated into Informatica, which has change controls that meet recommendations.*
- *Standards document is currently in draft form and being evaluated.*
- *Outsourced Test Engineer on board. Began work January 29, 2007. Responsible for developing formalized and comprehensive application testing and QA procedures; and integrating these procedures into ODE's software development life cycle (SDLC).*

Next Steps	***Anticipated Completion Dates***
Contracted Build Engineer resigned from company. Rebidding for candidate to formalize and operationalize the build/deploy process for all .NET applications. Anticipate start date 1 March 07.	*Completed*
Finalize formal application development standards.	*Completed*
Publish formal application development standards.	*Completed*
Develop automated change control workflow processes to manage resolution of Problems and Known Issues, and proper release management for enhancement requests.	*9/30/07*
Complete the .NET 2.0 applications build/deploy processes.	*1/1/08*
Researching and configuring Microsoft Team System and Foundation Server, components of which will be phased into our environment over the next six months.	*Completed*
Develop a plan for managing legacy SAS and COBOL code.	*10/1/07*
Begin planning for the ASP to .NET refactoring project, which will consolidate all web applications onto a single technology stack and SDLC; and therefore into compliance with published standards (FY08-09).	*7/1/09*

4. INFORMATION TECHNOLOGY – APPLICATION DEVELOPMENT AND MAINTENANCE (Continued)

Anticipated Completion Date for Corrective Action

7/1/09

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

1. SUBRECIPIENT MONITORING

Finding Number	2006-DOH01-006
CFDA Number and Title	10.557 – Special Supplemental Food Program for Women, Infants, and Children (WIC) 93.283 – Centers for Disease Control and Prevention – Investigations and Technical Assistance (CDC) 93.917 – HIV Care Formula Grants (HIV) 93.994 – Maternal & Child Care Health Services Block Grant to the States (MCH)
Federal Agency	Department of Agriculture Department of Health and Human Services

NONCOMPLIANCE

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 B – Audits

§ .225 Sanctions.

No audit costs may be charged to Federal Awards when audits required by this part have not been made or have been made but not in accordance with this part. In cases of continued inablility or unwillingness to have an audit conducted in accordance with this part, Federal agencies and pass-through entities shall take appropriate corrective action using sanctions such as:

(a) Withholding a percentage of Federal awards until the audit is completed satisfactorily;
(b) Withholding or disallowing overhead costs;
(c) Suspending Federal awards until the audit is conducted; or
(d) Terminating the Federal Award.

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. …

1. SUBRECIPIENT MONITORING (Continued)

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 those performance goals are achieved.

4. Ensure that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

5. Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

6. Consider whether subrecipient audits necessitate adjustments of the pass-through entity's own records.

§ .405 Management Decision.

...

(d) **Time requirements**. The entity responsible for making the management decision shall do so within six months of receipt of the audit report. Corrective action should be initiated within six months after receipt of the audit report and proceed as rapidly as possible.

Additionally, 7 CFR 246.19, Subpart F – Monitoring and Review, (b)(4) states:

> The State agency must promptly notify a local agency of any finding in a monitoring review that the local agency did not comply with program requirements. The State agency must require the local agency to submit a corrective action plan, including implementation timeframes, within 60 days of receipt of a State agency report of a monitoring review containing a finding of program noncompliance. The State agency must monitor local agency implementation of correction action plans.

The Department has established the audit requirement for all local agencies (subrecipients) that receive federal assistance, including WIC, MCH, CDC, and HIV grants, from it regardless of whether they are required to have a single audit or a financial statement audit. We selected 60 of 340 local agencies that received an award for federal fiscal year 2006 and a related grant award audit for calendar year 2004 and noted the following conditions:

- 30 of 59 (50.8%) audit reports were not received within nine months after the end of the subrecipient's fiscal year. The reports were late ranging from four days to 514 days.

- For 19 of 58 (32.8%) Departmental management letters tested, the Department did not issue a management decision on audit findings within six months after the receipt of the subrecipient's audit report. The management decisions were late ranging from 11 days to 369 days.

1. SUBRECIPIENT MONITORING (Continued)

- In 23 of 50 (46%) audit report files tested for the subrecipient taking appropriate and timely corrective actions on deficiencies identified in audits within 60 days of receipt of the management decision, the corrective action plans were late ranging from 3 days to 413 days.

- All four audit report files selected for testing where the subrecipients have been non-compliant for continued inability or unwillingness to have the required audits, ranging from 353 to 514 days, the Department has not implemented any sanctions.

Furthermore, during control testing over subrecipient monitoring, we noted seven of 18 (38.9%) audit report files tested for signatures and dating of the Single Audit Review Questionnaire by an Internal Audit Unit reviewer were missing. We also noted the WIC, CDC, and HIV units all maintained a log for their programmatic on-site reviews; however, the Grants Administration Unit and the MCH unit did not maintain a log for their on-site reviews.

If the Department does not receive subrecipient audit reports and conduct managerial reviews in a timely fashion, there is a risk that instances of subrecipient noncompliance will not be identified in a timely manner by the Department, and corrective action may not be initiated within a reasonable period of time. Furthermore, if subrecipients do not respond to the Department's findings and/or initiate appropriate corrective action in a timely manner, the Department is at risk for not complying with Federal subrecipient monitoring requirements. If the Department is not in compliance, federal funding could be reduced or taken away, or sanctions imposed by the federal grantor agency. Noncompliance could also result in the Department having to repay part or all of the grant awards to the federal government, although we questioned no related costs during this period.

Management stated subrecipients continue to submit their audit reports late, which often delays the Department's review of audit findings and subsequent corrective actions. Often, when management decisions are sent to subrecipients requiring them to take corrective action, the subrecipients are late in responding and carrying out corrective actions. Additionally, staffing shortages and learning curves for new procedures and forms in the Department's Internal Audit Unit have caused some delays.

We recommend the Department continue to review, develop, and improve its policies and procedures related to subrecipients ensuring: 1) all audit reports are received from subrecipients by the required deadline; 2) all management decisions are performed and communicated to subrecipients within six months of receiving the audit report; 3) subrecipients submit their corrective action responses to the Department within 30 days of receipt of the management decision; and 4) the Department emphasizes to their employees to properly maintain signed and dated logs documenting their on-site reviews of subrecipients. We also recommend the Department consider withholding future awards to subrecipients who are not in compliance with Single Audit requirements.

Corrective Action Plan

A. *Enhancing the ODH Single Audit (SA) review process. Quantity and quality of the reviews and follow-up should steadily improve as IAU staff continue to familiarize themselves with the procedures:*

   i. *Producing (and enforcing) an up-to-date and comprehensive Review Manual. This manual will include procedures and forms that recently been added or revised. IAU staff is currently adjusting to the new enhancements. [In-process, scheduled completion July, 2007];*

   ii. *Standardizing Review Letters – Creating new (and newly revised) templates for letters to be used for most recurring circumstances in the SA review process. [Completed September, 2006; additional revisions to be completed July, 2007];*

1. SUBRECIPIENT MONITORING (Continued)

iii. Single Audit Inventory Review – Systematic review of SA files. Files are evaluated for completion, reconciliations to GMIS module and off-line reports, and accuracy of the Review Questionnaires. [Counties 1-44, completed December, 2006; 45-88 & 99 (99 designates out-of-state subgrantee agencies) scheduled completion August, 2007].

B. Requesting additional IAU staff:

IAU does not have sufficient number of permanent staff necessary to perform all of its assigned duties in a timely fashion. The total of permanent IAU staff have been reduced from 8 (January, 2005) to 5 (June, 2007). During this same time period, IAU responsibilities have increased greatly.

A proposal has been submitted (June, 2007) to ODH management which will increase the size and efficiency of IAU.

C. ODH is currently phasing-in the use of a totally new version of the Grants Management Information System (GMIS 2.0). Enhancements in the new GMIS will eliminate some of the reporting errors and inconsistencies which were discovered to be inherent to version 1.0. GMIS 2.0 will aid in increasing the speed, efficiency and accuracy of the SA review process and the follow-up to reported findings. [In-process, as of February, 2007; each new grant year is added as needed. Should be completed by December, 2007].

D. Currently, there is a greater effort to support reported findings; require and enforce corrective actions; and, when necessary, apply sanctions to non-compliant agencies. Technical advice and training for the subrecipients has also been increased. [Current and continually being evaluated]

E. Have Staff develop and maintain a Subgrantee Monitoring Log (SML) for all subgrantee site monitoring visits. SML will include agency name, location, date of visit, ODH personnel in attendance and signature of GAU personnel responsible for conducting the visit.

F. The Department will emphasize to their employees responsible for the Maternal and Child Health Services program to properly maintain signed and dated logs documenting their on-site reviews of subrecipients.

Anticipated Completion Date for Corrective Action

All corrective actions should be complete by January 1, 2008.

Contact Person Responsible for Corrective Action

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2. FEDERAL REPORTING

Finding Number	2006-DOH02-007
CFDA Number and Title	93.917 – HIV Care Formula Grants (HIV) 93.994 – Maternal & Child Care Health Services Block Grant to the States (MCH)
Federal Agency	Department of Health and Human Services

<u>NONCOMPLIANCE</u>

45 CFR 92.41 (4) states:

When reports are required on a quarterly or semiannual basis, they will be due 30 days after the reporting period. When required on an annual basis, they will be due 90 days after the grant year. Final reports will be due 90 days after the expiration or termination of grant support.

45 CFR Part 92.41 applies to all Human Health Services Grants, including the Maternal and Child Health Services Block Grant and the Human Immunodeficiency Virus Grant, and requires that management establish and enforce internal controls over federal programs to provide reasonable assurance of the reliability and timeliness of financial reporting. The Ohio Department of Health currently administers a number of federal programs and is therefore responsible for ensuring the related reports submitted are reliable, accurate, and timely.

During testing, we noted the following areas for reporting for the MCH and HIV programs:

- The final MCH Financial Status Report 269 was not filed within 90 days of the end of the two-year grant period ended 9/30/05. The report was due 12/31/05 but was submitted 1/11/06, eight business days after the due date.

- The final HIV Financial Status Report was due 90 days after the end of the budget period, or 6/30/06. The report was not submitted until 10/31/06, which is approximately 120 days late.

The untimely submission of the final reports resulted in noncompliance with the reporting requirement stated above and could affect current and future funding received by the Department and the timeliness of information submitted to the federal grantor agency.

Management stated the Final Financial Status Report was not submitted timely due to the lengthy liquidation process that must take place before the report can be prepared. In order to submit the Final Financial Status Report, all outstanding obligations must be liquidated including obligations to subgrantees to which the HIV and MCH programs award significant funding. The subgrantees are permitted 45 days after the end of the grant period in which to submit the Final Expense Report. Once the report is received, the Department must determine if funds are owed to DOH or if funds are due to the subgrantee prior to closing out the subgrantee. The Department also submits interim Financial Status Reports.

We recommend the Department evaluate current procedures and implement policies and procedures to provide reasonable assurance the liquidation of obligations is completed quickly and federal reports are submitted timely. Additionally, we recommend the Department request an extension from the federal government when it becomes apparent that a report cannot be submitted within the allotted time frame.

2. FEDERAL REPORTING (Continued)

Corrective Action Plan

The Ohio Department of Health attempts to report in an accurate and timely manner. However, in some instances, it is difficult to meet the federal timelines regarding submission of a Final Financial Status Report (FSR) within 90 days following the end of the grant period. In order to submit a Final FSR, all outstanding obligations must be liquidated. This is difficult in the case where ODH uses the federal funds to award subgrants. Per GAPP Policy, subgrant agencies have 45 days after the grant period in which to submit their final expense report. Upon receipt of the final expense report, ODH must then closeout each subgrant agency, and determine if funds are owed to ODH or if funds are due to the subgrant agency. If funds are owed to ODH, ODH must then wait for the subgrant agency to submit a check for the balance due, which takes time because many subgrant agencies require board approval in order to process such payment. If funds are due to the subgrant agency, then ODH must process payment accordingly. The two federal grants you refer to are used to award significant funding to multiple subgrant programs.

In cases where a Final FSR cannot be submitted within the 90 days following the end of the grant period, ODH strives to submit an Interim FSR, and will follow-up with the Final FSR once all necessary steps are completed in order to do so. Though not the preferred route, this method has proven to be acceptable to these two federal funding agencies. Additionally:

- *Grants Administration Unit updated and implemented Subgrantee Close-outs on 07/01/2006 to ensure that the Federal Reporting Unit has enough time to submit the appropriate FSR 269.*
- *July 25, 2007 – Recommendation to be presented at the Grants Administrative Policies and Procedures (GAPP) Implementation Committee meeting to cease payment processing for all ODH grants of any subgrantee agency who has not submitted their respective Final Expenses Report within the allowed timeframe of 45 days after a grant period ends.*
- *July 25, 2007 - Recommendation to be presented at the GAPP Implementation Committee to cease payment process for all ODH grants of any subgrantee agency who has not returned unspent grant dollars upon submission of their Final Expense Report.*
- *Payments held – to be effective with all grants beginning 10/01/07 and thereafter.*

ODH continues to address appropriate internal controls to ensure that federal reports are submitted in the timeliest manner possible.

The Federal Reporting Unit will continue to work closely with the Grants Administration Unit to ensure timelier closeout of subgrant awards and to minimize excess cash in the field, which will result in less invoicing to subgrant agencies for refunds due. Further, ODH/OFA is considering a reorganization to move the Subgrant Closeout Unit currently under Grants Administration Unit direction to the Federal Reporting Unit to strengthen management control, which should result in more timely closeouts.

Lastly, the Federal Reporting Unit will work with appropriate program staff to request FSR extensions from the federal funder as needed.

By addressing the above items, the department should be in position to better meet federal reporting timelines.

Anticipated Completion Date for Corrective Action

Immediate and on-going.

Contact Person Responsible for Corrective Action

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3. MATCHING, LEVEL OF EFFORT, EARMARKING

Finding Number	2006-DOH03-008
CFDA Number and Title	93.994 – Maternal & Child Care Health Services Block Grant to the States (MCH)
Federal Agency	Department of Health and Human Services

<u>NONCOMPLIANCE</u>

42 USC Section 704 (d), Limitation on use of funds for administrative costs, states:

> Of the amounts paid to State under section 703 of this title from an allotment for fiscal year under section 702(c) of this title, not more than 10 percent may be used for administering the funds paid under such section.

42 USC Section 705 (a) (3) states:

> Except as provided under subsection (b) of this section, provides that the State will use –
>
> (A) at least 30 percent of such payment amounts for preventive and primary care services for children, and
>
> (B) at least 30 percent of such payment amounts for services for children with special health care needs (as specified in section 701(a)(1)(D) of this title)

The department has insufficient procedures to monitor its progress toward meeting the appropriate amount of matching, level of effort and earmarking funds throughout the year. The Budget Unit has implemented control procedures to monitor progress toward meeting the appropriate levels on a quarterly basis that began during state fiscal year 2007; however, based on our initial walkthrough of the control procedure, it does not appear the control will be sufficient monitoring of the department's progress toward meeting the appropriate amount of matching, level of effort and earmarking funds.

Without appropriate internal controls and utilizing them on a consistent basis, management cannot reasonably assure the requirements for maintenance of level of effort and earmarking are met. Management indicated they have the capacity to verify if the requirements are met, and information to ensure compliance is accessible; however, they do not feel there is a risk of not meeting the program requirements since the Department almost always significantly exceeds the maintenance of effort and earmarking requirements.

We recommend the Department review and evaluate current controls, devise, revise and implement internal controls and utilize the controls on a consistent basis to ensure compliance with earmarking requirements. The matching, level of effort, and earmarking calculations should be based on each grant. Furthermore, more recent data should be obtained in determining the historical amount used in the calculation process. These calculations should be reviewed by upper management and evidence should be maintained of the review/approval.

3. MATCHING, LEVEL OF EFFORT, EARMARKING (Continued)

Corrective Action Plan

The Department will review and evaluate current controls, devise, revise and implement internal controls and utilize the controls on a consistent basis to ensure compliance with earmarking requirements. The matching, level of effort, and earmarking calculations will be based on the Maternal and Child Health award. The Department will obtain recent data to determine the historical amount used in the calculation process. These calculations will be reviewed by upper management and evidence of the review and approval maintained.

Anticipated Completion Date for Corrective Action

The Department's anticipated completion date for this Corrective Action is January 1, 2008.

Contact Person Responsible for Corrective Action

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4. INFORMATION TECHNOLOGY – PROGRAM CHANGE CONTROLS

Finding Number	2006-DOH04005
CFDA Number and Title	10.557 – Special Supplemental Food Program for Women, Infants and Children 93.283 – Centers for Disease Control and Prevention – Investigations and Technical Assistance 93.917 – HIV Care Formula Grants 93.994 – Maternal and Child Health Services Block Grant to the States
Federal Agency	Department of Agriculture Department of Health and Human Services

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

The use of formal, well documented procedures for computer application maintenance is vital for communicating management's operational goals and intentions to programming personnel as well as training new staff. Such written procedures can help ensure that computer applications modified by the Department's programming staff perform accurately, efficiently, and meet management's requirements. The procedures typically cover such areas as request guidelines, programming standards, naming conventions, schedules and budgets, design standards, approval procedures for users, approval procedures for data processing management, and testing standards. The procedures are also used to communicate and define a proper segregation of duties within the application change process. The functions of modifying computer code, testing the changes, and placing them into production, should be appropriately delegated and segregated among personnel.

The Department did not have formal written procedures to track, monitor, remediate, test, implement, and document all mainframe or server-based program changes. In addition, the application programmer for the Women, Infants and Children (WIC) program had the access authorities to modify the application code, complete the testing of the changes, and also migrate the changed program(s) into the production environment. Lastly, the Department has not formally defined control procedures for emergency changes or correction of minor program errors. The Department did not require formal authorization or documentation for those relatively minor changes which were deemed "bug fixes."

4. INFORMATION TECHNOLOGY – PROGRAM CHANGE CONTROLS (Continued)

We also noted the following during our audit:

- The Data Service Request (DSR) form and/or HelpSTAR tracking software was not used for one of the four server-based WIC program changes made during the audit period.
- No testing documentation was maintained for the WIC mainframe program changes and the server-based WIC program changes made during the audit period.

Without formal program change control procedures in operation, critical data processing applications could be improperly modified, resulting in erroneous and unauthorized transaction processing. Without proper segregation of duties or controls that restrict access to key programs or data, either could be changed without the knowledge and/or consent of management or the user community.

The Office of Management Information Systems (OMIS) programming management indicated staffing restraints prevented the implementation of program change procedures. In the past, due to the size of the Department, verbal communication has been the standard. Missing support for changes other than "bug fixes" was an oversight.

We recommend the Department develop, formalize, and approve standards for the entire life cycle of the program change request process. Each phase of the life cycle should be planned and monitored, comply with the developed standards, be adequately documented, be staffed by competent personnel, and have appropriate project checkpoints and approvals. OMIS should either implement the procedures for all changes, including minor fixes and emergency changes, or develop additional controls to ensure infrequent changes which do not follow the normal process are authorized and properly documented.

We also recommend segregation of duties be implemented by upgrading the logical access controls of all the Department personnel who have access to the WIC program and data. Application programmers should have access only to the programs they are assigned for authorized project maintenance. The migration of the programs into the production environment should be performed by someone without program modification capabilities.

Corrective Action Plan

The Department established a formal change control process in June 2006. Application development for the WIC Program began using this procedure for all mainframe and client server changes after October 1, 2006. In addition, changes to the mainframe code are unit tested and parallel tested before being placed into production. Client server changes are unit tested by development staff and are user acceptance tested b y State WIC Program staff prior to being implemented in a small pilot testing environment. Test cases and results are documented when testing changes in system functionality to ensure changes function as required. User approval is requested prior to placing changes into production.

The application programmer supporting the Ohio WIC program is required to have the current access authorities in the system to perform the functions of this position. All production mainframe code changes follow the departments change control process. Additionally, all mainframe code changes are assigned to the mainframe developer by the Application Development Manager and changes are moved to production with the full knowledge and approval of the Application Development Manager.

4. INFORMATION TECHNOLOGY – PROGRAM CHANGE CONTROLS (Continued)

Anticipated Completion Date for Corrective Action

The application development for WIC has followed the change control process established by the department since October 1, 2006.

The department is addressing the recommendation to segregate duties for WIC mainframe codes changes through management involvement in the change control process. Management logs and assigns mainframe changes to the application developer. Management reviews test results of code changes. Management logs the change into the department's Change Control process. Management approves code changes to be placed into production when complete. Management updates the change control documentation after changes are in production. These processes have been in effect since October 1, 2006.

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF JOB & FAMILY SERVICES

1. MMIS – CLAIMS REIMBURSED IN EXCESS OF OAC LIMITS

Finding Number	2006-JFS01-010
CFDA Number and Title	93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $13,047,638

42 USC Sec. 1396 states:

> For the purpose of enabling each State, as far as practicable under the conditions in such State, to furnish (1) medical assistance on behalf of families with dependent children and of aged, blind, or disabled individuals, whose income and resources are insufficient to meet the costs of necessary medical services, and (2) rehabilitation and other services to help such families and individuals attain or retain capability for independence or self-care, there is hereby authorized to be appropriated for each fiscal year a sum sufficient to carry out the purposes of this subchapter. The sums made available under this section shall be used for making payments to States which have submitted, and had approved by the Secretary, State plans for medical assistance.

The Federal Centers for Medicare and Medicaid Services (CMS) states that the state Medicaid plan is the document that defines how each state will operate its Medicaid program. The state plan addresses the areas of state program administration, Medicaid eligibility criteria, service coverage, and provider reimbursement. The official plan is a hard-copy document that includes a range of materials in different formats, ranging from federally-defined "preprint" pages on which states check program options to free-form narratives describing detailed aspects of state Medicaid policy. The state Medicaid plan for each state is an accumulation of plan pages approved by CMS since the inception of the Medicaid program. The Medicaid Management Information System (MMIS) provided reimbursement to medical providers and managed care entities for services rendered to eligible recipients.

Ohio Administrative Code (OAC) 5101:3-10-03, which is part of the Ohio state plan, states:

> The "Medicaid Supply List" is a list of medical/surgical supplies, durable medical equipment, and supplier services, found in appendix A of this rule. This list includes the following information as described in paragraphs (A) to (G) of this rule:"
>
> (A) Alpha-numeric codes to be used when billing the department for medical supplier services.
>
> …
>
> (F) "Max Units" indicator. A maximum allowable (MAX) Indicator means the maximum quantity of the item which may be reimbursed during the time period specified unless an additional quantity has been prior authorized. If there is no maximum quantity indicated, the quantity authorized will be based on medical necessity as determined by the department.

The maximum amounts were contained in appendix A of OAC 5101:3-10-03.

For 409 procedure codes, the MMIS application did not have edits in place to prevent Medicaid and SCHIP providers from getting reimbursed above the maximum limits set in the OAC or edits that were designed to prevent the other procedure code overpayments did not function correctly.

1. MMIS – CLAIMS REIMBURSED IN EXCESS OF OAC LIMITS (Continued)

MMIS edits to prevent Medicaid and SCHIP provider payments above the unit or price limits set in the OAC were either not designed or not functioning properly for 409 Medicaid procedure codes.

As a result, Medicaid and SCHIP providers were reimbursed in excess of the limits contained in the OAC in 231,278 instances. However, we were not able to determine the amounts which related to each program separately, therefore, the excess reimbursements for the 409 procedure codes totaling $13,047,638 were questioned for the Medicaid program.

The following table shows the procedure codes/descriptions related to the 15 highest dollar amounts of excess provider reimbursement:

	Procedure Code / Medical Supply	OAC Limit for Unit or Dollar Amount	FY06 Range of Reimbursement Over OAC Limit	Total Questioned Cost	Total Count
1.	Various Codes: Garments/diapers	300 a month	301 - 10,000 per month	$ 3,369,773	25,093
2.	Various Codes: Gauze	$50 a month	$51 - $25,000 per month	$ 1,006,306	6,605
3.	Y2076: Oxygen concentrator	$267 a month	$268 - $5,535 per month	$ 878,030	4,794
4.	T4541 and T4542: Underpads	300 every 2 months	301 - 2,148 every 2 months	$ 602,309	19,660
5.	A4245: Alcohol wipes/swabs	2 per month	3 - 2,000 per month	$ 484,576	50,932
6.	E0781: Infusion pump	$8.73 a day	$15.00 - $515 per day	$ 395,402	3,020
7.	A4221: Infusion supplies	4 per month	5 - 403 per month	$ 365,682	4,049
8.	A4222: Infusion supplies	60 per month	61 - 205 per month	$ 299,665	237
9.	E0604: Breast Pump	$2.25 a day	$2.85 - $654 per day	$ 285,854	4,706
10.	E0570: Nebulizer	$133 every 5 years	$140 - $399 every 5 years	$ 275,419	9,594
11.	A4353: Catheter	60 per month	65 - 240 per month	$ 221,747	419
12.	A4351: Catheter w/ tip	200 per month	201 - 600 per month	$ 200,374	1,548
13.	A4595: TENS supplies	1 per month	2 - 21 per month	$ 168,198	2,970
14.	A4223: Infusion supplies	30 per month	31 - 233 per month	$ 147,043	521
15.	A4215: Needles	100 per month	101 - 300 per month	$ 134,276	5,448

Because the distinction between the authorized reimbursement and the overpayments could not readily be determined for each claim reimbursed, questioned costs include both the original payment amount plus the amount of payments in excess of the limit for each procedure code.

Overpayment of state and federal claims could subject the Department to possible federal sanctions, limiting the amount of funding available for program activities. Ohio Health Plans management indicated that they were not aware during the audit period that the quantity and usage limits were not prohibiting the overpayment of the aforementioned codes.

1. MMIS – CLAIMS REIMBURSED IN EXCESS OF OAC LIMITS (Continued)

We recommend that ODJFS immediately update the utilization and review edits within MMIS to help prohibit further overpayment of claims. In addition, ODJFS should seek reimbursement for the claims that were paid in excess of the limits established in the OAC. Also, ODJFS should put control procedures in place to monitor the utilization and review edits within MMIS to ensure they are in compliance with state and federal standards.

Corrective Action Plan

<u>Summary</u>
Our analysis of the AOS questioned costs based on OAC rules and program policy reduced the questioned costs to less than $3 million. Examples of why this amount has been reduced include program coverage and claims processing of prior authorization requirements for dual eligible consumers, appropriate coverage for first dates of service and determination of allowed time periods, i.e. calendar months or years vs. 30 days or 365 days.

The results have been referred to Surveillance and Utilization Review (SUR) for follow-up action and recoveries have started or been completed for over 50% of the providers affected by this issue, according to the section chief of SUR. An exact figure is not available from SUR as they expanded the recovery effort to 5 years which included the 2006 data that the AOS reviewed. SUR did not separate the 2006 data, and it would take extensive man hours to go back and isolate just the 2006 recoveries.

Corrective action has been undertaken including review and comparison of program coverage and limitation against existing controls in the MMIS subsystems in the Procedure, Drug and Diagnosis (PDD) and History Related Edits applications to identify necessary changes.

History/lifetime data elements have been updated in the PDD application to assure retention of claim history for the appropriate time frames.

In the History Related Edits application, utilization review (UR) criteria elements and new UR edits to correct payment issues have been placed into production or are being tested to address specific reimbursement issues identified by the audit.

The DME program UR criteria project incorporates the work identified in the AOS report and CSRs 378, 379 and 394 to link, delete, change or create UR criteria limit parameters to DME procedure codes. The review and implementation work completed as part of the AOS plan of correction will be beneficial in completion of this additional prepayment system UR criteria work.

Anticipated Completion Date for Corrective Action

Review and testing of PDD and UR edit file changes are scheduled to be completed by 4th quarter CY 2007.

Contact Person Responsible for Corrective Action

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2. MMIS – CRIS-E AND MMIS ELIGIBILITY SPANS NOT RECONCILED

Finding Number	2006-JFS02-011
CFDA Number and Title	93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $ 779,717

OMB Circular A-133, March 2006 Compliance Supplement states:

> …To be allowable, Medicaid costs for medical services must be: (1) covered by the State plan and waivers; (2) for an allowable service rendered (including supported by medical records or other evidence indicating that the service was actually provided and consistent with the medical diagnosis); (3) properly coded; and (4) paid at the rate allowed by the State plan. Additionally, Medicaid costs must be net of applicable credits (e.g., insurance, recoveries from other third parties who are responsible for covering the Medicaid costs, and drug rebates), paid to eligible providers, and only provided on behalf of eligible individuals.

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

ODJFS uses the CRIS-E application to determine whether individuals are eligible to receive Medicaid assistance. ODJFS then uses the MMIS application to reimburse claims that are submitted. In the processing of Medicaid claims, MMIS will verify that the recipient of the claim was marked as eligible for Medicaid in MMIS on the dates of service before paying the claim. If the claimant is marked as eligible in MMIS, even though the individual is not eligible in CRIS-E, the claim will be paid.

There are two ways that an individual could get marked as eligible in MMIS but not in CRIS-E. First, on a nightly basis, any changes from the CRIS-E application are pulled into a file that is used to update the recipient file in MMIS. However, if a record fails to update MMIS, for example if an error occurs and the record rejects the CRIS-E change, an error log is generated and the records must be manually reviewed and updated in MMIS. If the record is not manually updated in MMIS, the individual's eligibility record will not match CRIS-E. Secondly, 83 individuals had UPDATE access to the MMIS recipient file that allowed them to change any record within MMIS without requiring them to update CRIS-E. This would also cause the individual's eligibility record in MMIS not to match CRIS-E.

During the audit period, there was no reconciliation process performed to identify cases where eligibility spans differed between CRIS-E and MMIS. An MMIS program was identified in August 2006 that, when run, searched the MMIS eligibility file for any recipients with an open eligibility span that were not marked as eligible in CRIS-E, and then automatically closed the eligibility in MMIS. The program was scheduled to only run on an ad-hoc basis. During the August 2006 run, the program identified 741 MMIS eligibility spans that were systematically closed because the recipient was ineligible in CRIS-E. Of the 741 individuals that were marked as eligible in MMIS but not in CRIS-E, there were a total of 8,497 claims paid for a total reimbursement amount of $779,717, where the date of service on the claim was after the last date of Medicaid eligibility in CRIS-E. Therefore, we question the total amount of reimbursement although we are not able to separate the amounts applied to the Medicaid Cluster and the State Children's Insurance Program.

If a periodic reconciliation of changes made to MMIS and CRIS-E is not performed, changes could be made in one system that will not be reflected in the other. A recipient's eligibility status could be terminated in CRIS-E, but the recipient could still receive benefits if the status is not correctly updated in MMIS on a timely basis.

2. MMIS – CRIS-E AND MMIS ELIGIBILITY SPANS NOT RECONCILED (Continued)

If a provider's eligibility span is incorrect, non-eligible providers or provider groups could receive reimbursement from Medicaid. This increases the risk of noncompliance with federal regulations and of material errors or misstatements within the data processed, resulting in inappropriate determinations regarding eligibility, allowability, and/or benefit amounts.

According to OHP management, an MMIS Dimension request (OHP_CSR_440) has been submitted to MMIS requesting this program be placed into production to run on a nightly basis. As of October 27, 2006, this request is currently pending with MMIS staff to determine the amount of resources needed to make this requested change. The goal of OHP is to have this request completed no later than December 31, 2006 contingent upon the availability of the require MMIS resources to complete this request.

We recommend the Department take steps to help ensure a reconciliation of MMIS and CRIS-E eligibility spans is performed on a regular basis to ensure only eligible recipients and providers receive reimbursement benefits. In addition, the Department should review and recoup any amounts that were reimbursed for ineligible recipients.

Corrective Action Plan

1. *The MMIS process that validates the CRIS-E recipient eligibility requires approximately fifteen hours to execute and will be changed to execute quarterly.*

2. *The MMIS process that validates the CRIS-E recipient eligibility will be modified to reduce the execution time to less than five hours and will be scheduled to run monthly.*

3. *There exists a CSR, Customer Service Request OHP-CSR-440, to correct the daily interchange between CRIS-E and MMIS to ensure that the eligibility spans in MMIS are accurate and remain in sync with CRIS-E.*

Anticipated Completion Date for Corrective Action

1. *Scheduling the MMIS/CRIS-E validation process to execute monthly will be completed by June 30, 2007.*

2. *Modifications to the MMIS/CRIS-E validation process to reduce processing time to less than five hours and scheduling execution monthly will be completed by December 2007.*

3. *Eligibility Systems and Medical Systems will work with the OHP Project Management Office to raise the priority of work request, OHP-CSR-440. Our planning indicates that CRIS-E and MMIS may be able to jointly begin working this CSR by the first quarter of 2008. The anticipated completion date is July 2008.*

Contact Person Responsible for Corrective Action

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3. VARIOUS PROGRAMS – PERIOD OF AVAILABILITY

Finding Number	2006-JFS03-012
CFDA Number and Title	17.258/17.259/17.260 – WIA Grants 93.558 – Temporary Assistance to Needy Families 93.667 – Social Services Block Grant
Federal Agency	Department of Labor Department of Health & Human Services

QUESTIONED COSTS $662,607

20 CFR 667.107 states in part:

> (a) Grant funds expended by States. Funds allotted to States under WIA sections 127(b) and 132(b) for any program year are available for expenditure by the State receiving the funds only during that program year and the two succeeding program years.
>
> (b) Grant funds expended by local areas. (1) Funds allocated by a State to a local area under WIA sections 128(b) and 133(b), for any program year are available for expenditure only during that program year and the succeeding program year. (2) Funds which are not expended by a local area in the two-year period described in paragraph (b)(1) of this section, must be returned to the State. Funds so returned are available for expenditure by State and local recipients and subrecipients only during the third program year of availability.

45 CFR Part 260, appendix D (formerly included in the Federal Register) states, in part:

> The State must obligate by September 30 of the current fiscal year any funds for expenditures on non-assistance..… The State must liquidate these obligations by September 30 of the immediately succeeding Federal fiscal year for which the funds were awarded.

Section 404(e) of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 states:

> A State may reserve amounts paid to the State under this part for any fiscal year for the purpose of providing, without fiscal year limitation, assistance under the State program funded under this part.

Section I of the ODJFS TANF State Title IV-A Plan (effective October 1, 2005) states, in part on page 3:

> Prevention, Retention and Contingency - PRC is a state-supervised, county-administered program that serves every political subdivision in the State. The program is designed to provide benefits and services that are not considered assistance with 45 CFR 260.31.

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.

45 CFR 92.23 states in part:

> (a) Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period….
>
> (b) A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation)….

3. VARIOUS PROGRAMS – PERIOD OF AVAILABILITY (Continued)

The Department disbursed $373,921 of FY 2001 WIA grant (J383, J672, J673) funds, $98,663 of FY 2002 WIA grant (J919, J920, J921) funds and $190,023 of FY 2003 TANF grant (K139) funds outside of the allowed period of availability. Specifically:

- ODJFS had only until September 30, 2004 to expend funds from its FY 2001 WIA grants (J383, J672, J673) and only until September 30, 2005 to expend funds from its FY 2002 WIA grants (J919, J920, J921) but made some final payments to subrecipients totaling $472,584 from the grants on May 15, 2006. These payments will be questioned costs.

- ODJFS had only until December 31, 2004 to expend funds from its FY 2003 TANF grant (K139) but still expended funds totaling $190,023 from the grant between September 20, 2005 and June 21, 2006. These payments will be questioned costs.

In addition, the Department had disbursements totaling $50,075,021 of FY 2004 TANF grant (K770) funds, and $6,198,696 of FY 2004 SSBG (K766) grant funds which were outside of the allowed period of availability. Specifically:

- ODJFS had only until December 31, 2005 to expend funds from its FY 2004 TANF grant (K770) but made final closeout payments to counties totaling $50,075,021 from the grant between January 26, 2006 and June 16, 2006.

- ODJFS had only until December 31, 2005 to expend funds from its FY 2004 SSBG grant (K766) but made final closeout payments to counties totaling $6,198,696 from the grant between January 20, 2006 and January 30, 2006.

The amounts in the previous paragraph were not deemed questioned costs since the County Departments of JFS did expend these monies prior to the liquidation date. ODJFS delayed the drawdown of these funds while completing the county reconciliations; however these transactions still result in federal noncompliance.

Finally, we also noted a significant number of instances where, based on the expenditure documents we tested, the Department appeared to have obligated grant funds for a number of programs well after the obligation time period had ended. However, the Department had a different perspective from the Auditor on what constituted an obligation. Due to a lack of specific guidance in the applicable Federal regulations for the Department's primary grantor agencies (the U.S. Department of Labor and the U.S. Department of Health & Human Services) regarding obligations and liquidations, we were unable to arrive at any specific conclusion as to whether the above mentioned instances had been obligated or liquidated within the proper time period.

Failure by the Department to obligate grant funds in a timely manner or to liquidate its obligations within the time limits established by Federal regulations could result in the Department being required to repay those funds to the Federal government. According to ODJFS, the WIA funds were not liquidated in a timely manner due to a dispute with the subrecipients regarding the amounts owed and they could not determine why the questioned TANF funds were not liquidated properly. As for the TANF and SSBG closeout payments they were not made until CY 2006 due to delays in the reconciliation process.

We recommend the Department contact its Federal grantor agencies to determine the disposition of those expenditures being questioned above and to clarify what constitutes an official obligation and liquidation of grant funds. We also recommend that the Department more closely monitor its outstanding grant funds and related funding periods to help ensure that all funds are spent within the grant's period of availability. Finally, we recommend the Department take whatever steps necessary to improve coordination between the bureaus responsible for expenditures and related Federal draws.

3. VARIOUS PROGRAMS – PERIOD OF AVAILABILITY (Continued)

Corrective Action Plan

45 CFR Section 92.3 defines the obligation as the amounts of orders placed, contracts and subgrants awarded, goods and services received and similar transactions during a given period that will require payment by the grantee during the same or a future period. The Department's perspective has been funds are obligated when the county is notified of the allocations and the Department encumbers the funds. The agencies incurred and reported the expenditures during the period of availability and the Department reported the expenditures during the proper period. As a result, the Department considers these expenses to be allowable charges to the grant.

The items in question result from the Department's State Fiscal year reconciliation process. The final fiscal year reconciliation process is used to identify adjustments required to the various grants to ensure the expenditures were coded to the fiscal year in which the obligation occurred. As stated above, the agencies incurred and reported the expenditures during the period of grant availability and the Department reported the expenditures during the proper reporting period; however, since the final fiscal year reconciliation does not occur until December and January of each year the annual closeout is not completed until March. As a result, the agencies submit overpayments to the Department and the Department processes underpayments to the agencies during March. The process is further delayed if the agencies have discrepancies with the reconciliation figures.

Corrective Action – In the short-term, as suggested by the Auditor, the Department will contact the Department of Labor and the Department of Health and Human Services within sixty days to clarify what constitutes an official obligation and liquidation of grant funds. In addition, per 45 CFR Section 92.23 (b) the Department will request the Federal agencies to extend the liquidation of the obligations deadline to ensure the current closeout process is compliant. Depending on the federal response, the various bureaus within the Office of Fiscal Services will establish internal controls and processes to ensure compliance with the federal requirements for obligating and liquidating grant funds. Long-term - In addition to contacting the Department of Labor and the Department of Health and Human Services for clarification, the Department is in the process of developing and implementing the County Finance Information System (CFIS) which will do the following:

Properly track sub grant awards using acceptable fund accounting principles.
Fully integrate the local agencies with the state's accounting system (OAKS).
Be compliant with OMB Circular A-133.

This system is targeted to be in place beginning July 1, 2008 (SFY 2009) and will track the cash draws and expenditures to the individual grant awards; however, the target implementation date is dependant upon the timely and successful roll-out of the Ohio Administrative Knowledge System (OAKS). This system will give the Department the ability to track by grant as well as close out and liquidate funds within the allowable succeeding Federal fiscal year.

Anticipated Completion Date for Corrective Action

The Department will contact the Federal Agencies within sixty days to clarify the obligation and liquidation period for grant funds. In addition to the clarification, the Department will request the Federal agencies to extend the liquidation of the obligations deadline (per 45 CFR Section 92.23) to ensure the current closeout process is compliant with federal regulations. Lastly, the County Finance Information System (CFIS) is targeted to be in place beginning July 1, 2008 (SFY 2009) and will track the cash draws and expenditures to the individual grant awards permitting the funds to be closed out and liquidated within the allowable succeeding Federal fiscal year.

Contact Person Responsible for Corrective Action

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4. TANF – SUBRECIPIENT MONITORING – TUSCARAWAS COUNTY (TCDJFS)

Finding Number	2006-JFS04-013
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $320,745

The Office of Management and Budget's (OMB) Circular A-133 states, in part:

§_.400 Responsibilities

…

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

(1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R & D, and name of the Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.

(2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

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

(4) Ensure that subrecipients exceeding $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

(5) Issue a management decision on audit findings within six months after the receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

(6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

(7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

It is management's responsibility to implement policies and procedures to monitor subrecipients to help ensure they have complied with the rules and regulations related to the federal programs and have met the objectives of the programs.

4. TANF – SUBRECIPIENT MONITORING – TUSCARAWAS COUNTY (TCDJFS) (Continued)

During state fiscal year 2006, TCDJFS entered into contracts with a service agency which provided services for the following programs: Home Based Program Services, Help Me Grow, Home-Based Therapy, Kinship Navigator, Supervised Visitation, Family Meeting, and Ways to Work. This service agency was considered to be a subrecipient to TCDJFS due to exhibiting certain characteristics in performing services for the contracts, such as being responsible for adhering to federal compliance, using federal funds to carry out the programs for TCDJFS, and determining eligibility of the recipients. As such, per OMB Circular A-133, TCDJFS had certain responsibilities for their relationship with the service agency, which would include, but not be limited to, ensuring that the service agency had a single audit performed (if receiving more than $500,000 of federal funding in a fiscal year) and performing monitoring activities to ensure the service agency was complying with federal laws and regulations, adhering to contract agreements, and using federal funding on allowable costs.

TCDJFS did not have any documentation to establish that they performed site visits, monitoring, or other reviews to ensure the service provider complied with federal laws and regulations, spent funds on allowable costs, or provided services to eligible recipients in accordance with the program requirements. TCDJFS management stated they did communicate with the subrecipients on a regular basis and provided technical support; however, no documentation was presented to evidence this activity. As a result, we are questioning costs for $320,745, the total amount paid to the service provider in fiscal year 2006, for the seven contracts mentioned above.

If compliance and other monitoring reviews are not consistently performed or evidenced by proper documentation, management has little assurance subrecipients are in compliance with administrative and operational contract requirements and cannot be reasonably assured the costs charged to the programs are appropriate.

TCDJFS stated that undocumented, informal monitoring procedures were maintained throughout the audit period including procedures such as maintaining an open-line of communication with the service provider and comparing PRC applications to invoices submitted by the service provider. However, no documented procedures were in place during the audit period to evidence that monitoring occurred. TCDJFS also stated that the Tuscarawas County Family and Children First Council awarded and monitored the Help Me Grow Program ($215,523) and TCDJFS was only involved as a result of being the Administrative Agent for the Council; however, the Help Me Grow contract was approved by the TCDJFS director with no mention of acting as an Administrative Agent of the Council, and only TCDJFS, not the Council, is named as a party of the contract. In addition, the documentation presented to the auditor for the FY 2006 “grant review” between the Council and the service agency was limited to programmatic issues and did not involve reviewing financial transactions for allowable costs, verifying eligibility of the recipients, and other federal compliance requirements. TCDJFS has since implemented a formal contract and monitoring policy that should be in effect for subsequent fiscal years.

We recommend TCDJFS management enhance their monitoring procedures for all subrecipients to establish that their subrecipients are in compliance with applicable federal regulations. These procedures would also include requiring that single audits be performed for those providers receiving $500,000 or more in federal funding in a fiscal year. We also recommend management implement procedures to determine if eligibility is properly determined and only eligible recipients are receiving benefits. These procedures should be documented in some manner to evidence to management that they are in compliance with OMB Circular A-133. To ensure the subrecipient monitoring procedures are in place and operating as intended, TCDJFS management may consider periodically examining the documentation supporting their subrecipient monitoring reviews.

4. TANF – SUBRECIPIENT MONITORING – TUSCARAWAS COUNTY (TCDJFS) (Continued)

Corrective Action Plan

Tuscarawas County Job & Family Services adamantly disagrees with the costs in question based on the following facts:

31 USC 7502 (f) (2) (B) does not state that on-site visits is the only method of monitoring.

Tuscarawas County Job & Family Services contracts with Personal and Family Counseling Services to provide services to eligible recipients for the following programs: Home-Based Therapy, Kinship Navigator, Supervised Visitations, and Family Meetings. TCJFS Social Service Caseworkers make referrals to these programs after assuring that referred clients meet eligibility for Temporary Assistance for Needy Families. If the client is a current recipient of Food Stamps, Ohio Works First, or Medicaid, the client is deemed eligible for PRC. If the client is not a current recipient, a PRC application is completed. The Director, Fiscal Officer, and Program Administrators of Personal and Family Counseling communicate regularly with TCJF Director, Fiscal Officer, and Social Service Supervisors regarding the clients and programs.

The Help Me Grow Program, $215,523.00, is awarded and monitored by the Tuscarawas County Family and Children First Council. TCJF is involved as a result of being the Administrative Agent for the Council. Tuscarawas County Family and Children First Council's Grants Management Committee reviewed the Help Me Grow Program in January 2006 and July 2006. A copy of their review is available. The Ohio Family and Children First Council also conducted a review of the Help Me Grow Program. The local Family and Children First Council meets every other month. Program and financial reports are presented and discussed at every meeting.

Tuscarawas County Job & Family Services began formal contract and monitoring policy for State Fiscal Year 2007 after receiving technical assistance from the Ohio Department of Job and Family Services. A copy of the Agency Policy is available.

The Ohio Auditors met with Director Lynn Angelozzi prior to their departure on January 31, 2007. At this time the Ohio Auditors informed Director Angelozzi that there would be a recommendation in the Final Audit documenting the agency does have a contract monitoring policy. Director Angelozzi was informed of the questioned cost by phone on February 7, 2007. Director Angelozzi requested that the Auditors review and verify eligibility documentation from the statewide Public Assistance computer system CRISE at the exit conference. This request was denied. This documentation is housed at Tuscarawas County Job & Family Services.

Anticipated Completion Date for Corrective Action

Monitoring began July 1, 2006 with the first on-site review in November 2006.

Contact Person Responsible for Corrective Action

Lynn Angelozzi, Director, Tuscarawas County Department of Job & Family Services, 389 16th Street SW, New Philadelphia, OH 44663, Phone: (330) 339-7791 Ext. 229, e-mail: angell@odjfs.state.oh.us

Auditor of State's Analysis

The information included in the corrective action plan was reviewed and considered. As stated in the comment, evidence of adequate subrecipient monitoring was not available and the comment remains as stated.

5. INDIRECT COST ALLOCATION VARIANCES

Finding Number	2006-JFS05-014
CFDA Number and Title	10.551 / 10.561 - Food Stamp Cluster 93.558 - Temporary Assistance for Needy Families 93.575/93.596 - Child Care Development Fund Cluster 93.658 - Foster Care 93.659 - Adoption Assistance 93.767 - State Children's Health Insurance Program 93.775 / 93.776 / 93.777 / 93.778 - Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services

QUESTIONED COSTS $266,428

2 CFR 225 contains general principles for determining allowable costs (republished OBM Circular A-87). Subsection F of Appendix A of the document describes indirect costs and says, in part:

1. General. Indirect costs are those: Incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. The term ''indirect costs,'' as used herein, applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs within a governmental unit department or in other agencies providing services to a governmental unit department. Indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

2. Cost allocation plans and indirect cost proposals. Requirements for development and submission of cost allocation plans and indirect cost rate proposals are contained in Appendices C, D, and E to this part.

JFS has a cost allocation plan (CAP) approved by its federal grantor agency. The plan allocates costs to individual federal programs using various defined base costs and allocation methods, which differ from cost pool to cost pool. In order to charge indirect costs to the related programs appropriately, it is essential that the proper base amounts be used and the allocation methods be applied in accordance with the approved CAP.

For the quarter ending March 30, 2006, we selected five of the 66 cost pools included within the agency's CAP and performed tests to determine if the proper base amounts were used in the allocation process for the related cost pools tested. We noted that the base amounts used for two of the eight program allocations made in cost pool 15 did not agree with the supporting documentation. Since the costs are allocated by the ratio of the number of recipients by program divided by the total recipients for all programs within the cost pool, the error in the number of recipients for the two programs affected the allocations for all eight programs charged indirect costs that period. The following table shows the allocations made to the individual programs, as originally charged and as supported by the related documents.

5. INDIRECT COST ALLOCATION VARIANCES (Continued)

Program	Program #	Allocation As Charged	Allocation Per Support	Variance
TANF - MOE - Administration	1700	224,867	240,935	(16,068)
Title XIX Cris-E Direct - FFP 50%	4014	2,106,214	2,256,714	(150,499)
SCHIP	4018	348,851	186,888	161,962
Food Stamp Cris-E Direct 50%	6016	1,339,507	1,435,221	(95,714)
CCDF - Administration	7300	230,910	126,445	104,466
Title IV-E Regular Foster Care (FFP 50%)	8600	8,301	8,894	(593)
Title IV-E Regular Adoption Assistance (FFP 50%)	8601	25,633	27,464	(1,832)
General Assistance - Regular	9500	24,095	25,817	(1,722)
	Total	4,308,379	4,308,379	0

As a result, JFS has not allocated the proper costs to the federal programs within cost pool 15 and the variances that resulted in an overpayment of expenditures for the SCHIP and CCDF federal programs shown above are being questioned. The incorrect charging of expenditures to federal programs could subject the Department to fines and/or penalties from the grantor agencies. The Fiscal Specialist stated the Department was aware of the condition, which was caused by a systemic problem in the related computer application and that the Department has two years to correct the problem and report adjusted expenditures.

We recommend that JFS correct the problem with the computer application so that the appropriate bases are used to allocate the indirect costs to the federal programs. We also recommend that JFS make adjustments to the federal programs to accurately report the true expenditures of the federal programs. This step should be performed not only for the quarter noted above but all quarters affected by the allocation error. In addition, we recommend that JFS establish and/or strengthen policies and procedures to periodically monitor and test the computer application to determine if it is gathering the correct base amounts used in the allocation process. These procedures should include documentation and approval of the procedures performed by an appropriate supervisory level.

Corrective Action Plan

For the period beginning January 1, 2006, the new CAPIS (cost allocation planning information system) was implemented to collect statistics, to automate the distribution of quarterly expenditures, and to create the Administrative Cost Report (ACR). Previously this task was performed manually on an Excel spreadsheet and the end-product was called the C.A.E.R. or the cost allocation expenditure report.

During the conversion period from the manual system to the automated system, the system distributed costs based on the statistics downloaded from the Business Intelligence Channel (BIC) and the manual input of the statistics for cost pool 0015 and its related reporting categories 4018 (SCHIP) and 7300 (CCDF). Since that time, the January – March 2006 quarterly statistics have been corrected in CAPIS and a comparison of the incorrect data to the corrected data was forwarded to the Bureau of Federal Financial Reporting (BFFR) for review and adjustments. This issue first emerged through the limited review of CMS-64 and CMS-21 (performed by Centers for Medicare and Medicaid Service auditors), and as a result adjustments were made to a line on the federal report regarding Medicaid (SCHIP).

The action plan resulting from this conversion process includes:

- *Entering statistical data into CAPIS, only when automated feeds are not received from JFS subsystems;*
- *Verifying statistical information used to distribute costs, matches the information entered or uploaded through the system; and*
- *Analyzing the limited review report of CMS-64 and CMS-21 for areas of concern.*

5. INDIRECT COST ALLOCATION VARIANCES (Continued)

Anticipated Completion Date for Corrective Action

The corrected Administrative Cost Report was adjusted and forwarded to BFFR on 5/30/07. BFFR will make the corrections during the next reporting period which ends 6/30/07. In addition, the action plan stated above was implemented immediately.

Contact Person Responsible for Corrective Action

Penni Jones, Section Chief, Cost Management, Ohio Department of Job & Family Services, 30 E. Broad Street, 38th Floor, Columbus, Ohio 43215, Phone: (614) 466-1641, e-mail: jonesp@odjfs.state.oh.us

6. MEDICAID/FOOD STAMPS/TANF – UNDOCUMENTED ELIGIBILITY – CUYAHOGA COUNTY

Finding Number	2006-JFS06-015
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance to Needy Families 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services

QUESTIONED COSTS $100,262

8 USC Sec. 1642(b) states:

> State Compliance. Not later than 24 months after the date the regulations described in subsection (a) of this section are adopted, a State that administers a program that provides a Federal public benefit shall have in effect a verification system that complies with the regulations.

8 USC Sec. 1641(b) states:

> For purposes of this chapter, the term "qualified alien" means an alien who, at the time the alien applies for, receives, or attempts to receive a Federal public benefit, is -
>
> (1) an alien who is lawfully admitted for permanent residence under the Immigration and Nationality Act [8 U.S.C. 1101 et seq.],
>
> (2) an alien who is granted asylum under section 208 of such Act [8 U.S.C. 1158],
>
> (3) a refugee who is admitted to the United States under section 207 of such Act [8 U.S.C. 1157],
>
> (4) an alien who is paroled into the United States under section 212(d)(5) of such Act [8 U.S.C. 1182(d)(5)] for a period of at least 1 year,
>
> (5) an alien whose deportation is being withheld under section 243(h) of such Act [8 U.S.C. 1253] (as in effect immediately before the effective date of section 307 of division C of Public Law 104-208) or section 241(b)(3) of such Act [8 U.S.C. 1231(b)(3)] (as amended by section 305(a) of division C of Public Law 104-208),
>
> (6) an alien who is granted conditional entry pursuant to section 203(a)(7) of such Act [8 U.S.C. 1153(a)(7)] as in effect prior to April 1, 1980; (1) or

6. MEDICAID/FOOD STAMPS/TANF – UNDOCUMENTED ELIGIBILITY – CUYAHOGA COUNTY (Continued)

(7) an alien who is a Cuban and Haitian entrant (as defined in section 501(e) of the Refugee Education Assistance Act of 1980).

8 USC Sec. 1158(a)(1) states:

Any alien who is physically present in the United States or who arrives in the United States (whether or not at a designated port of arrival and including an alien who is brought to the United States after having been interdicted in international or United States waters), irrespective of such alien's status, may apply for asylum in accordance with this section or, where applicable, section 1225(b) of this title.

8 USC Sec. 1612(b) states:

(1) Limited eligibility for designated Federal programs. Notwithstanding any other provision of law and except as provided in section 1613 of this title and paragraph (2), a State is authorized to determine the eligibility of an alien who is a qualified alien (as defined in section 1641 of this title) for any designated Federal program (as defined in paragraph (3)).

. . .

(3) For purposes of this chapter, the term "designated Federal program" means any of the following:

(A) Temporary assistance for needy families. The program of block grants to States for temporary assistance for needy families under part A of title IV of the Social Security Act [42 U.S.C. 601 et seq.].

. . .

(C) Medicaid. A State plan approved under title XIX of the Social Security Act [42 U.S.C. 1396 et seq.], other than medical assistance described in section 1611(b)(1)(A) of this title.

8 USC Sec. 1612(b)(2) "Exceptions" states:

Qualified aliens under this paragraph shall be eligible for any designated Federal program.

. . .

(B) Certain permanent resident aliens

An alien who—

(i) is lawfully admitted to the United States for permanent residence under the Immigration and Nationality Act [8 USC 1101 et. seq.]; and

(ii) has worked 40 qualifying quarters of coverage as defined under title II of the Social Security Act [42 U.S.C. 401 et seq.] or can be credited with such qualifying quarters as provided under section 1645 of this title, and (II) in the case of any such qualifying quarter creditable for any period beginning after December 31, 1996, did not receive any Federal means-tested public benefit (as provided under section 1613 of this title) during any such period.

6. MEDICAID/FOOD STAMPS/TANF – UNDOCUMENTED ELIGIBILITY – CUYAHOGA COUNTY (Continued)

8 USC Sec. 1612(a) states:

(1) Limited eligibility for specified Federal programs. Notwithstanding any other provision of law and except as provided in paragraph (2), an alien who is a qualified alien (as defined in section 1641 of this title) is not eligible for any specified Federal program (as defined in paragraph (3)).

. . .

(3) For purposes of this chapter, the term "specified Federal program" means any of the following:

. . .

(B) Food stamps. The food stamp program as defined in section 3(h) of the Food Stamp Act of 1977 [7 U.S.C. 2012(h)].

8 USC Sec. 1612(a)(2)(B) states:

[Paragraph (1) [8 USC Sec. 1612(a)(1)] shall not apply to an alien who—

. . .

(ii) Has worked 40 qualifying quarters of coverage as defined under title II of the Social Security Act [42 U.S.C. 401 et seq.] or can be credited with such qualifying quarters as provided under section 1645 of this title, and (II) in the case of any such qualifying quarter creditable for any period beginning after December 31, 1996, did not receive any Federal means-tested public benefit (as provided under section 1613 of this title) during any such period.

8 USC Sec. 1613(a) states:

Notwithstanding any other provision of law and except as provided in subsections (b), (c), and (d) of this section, an alien who is a qualified alien (as defined in section 1641 of this title) and who enters the United States on or after August 22, 1996, is not eligible for any Federal means-tested public benefit for a period of 5 years beginning on the date of the alien's entry into the United States with a status within the meaning of the term "qualified alien".

8 USC Sec. 1631(a) states, in part:

Notwithstanding any other provision of law, in determining the eligibility and the amount of benefits of an alien for any Federal means-tested public benefits program (as provided under section 1613 of this title), the income and resources of the alien shall be deemed to include the following:

(1) The income and resources of any person who executed an affidavit of support pursuant to section 213A of the Immigration and Nationality Act [8 U.S.C. 1183a] (as added by section 423 and as amended by section 551(a) of the Illegal Immigration Reform and Immigrant Responsibility Act of 1996) on behalf of such alien.

. . .

When administering federal grant awards, it is the responsibility of management to develop and implement control policies and procedures to provide reasonable assurance that only eligible individuals receive assistance and the information reported to ODJFS is accurate and complete. In order for county management to ensure and verify this information, it is imperative that appropriate supporting documentation is maintained for all amounts reported and case files contain all pertinent information relating to the case and be readily accessible for review and/or reference.

6. MEDICAID/FOOD STAMPS/TANF – UNDOCUMENTED ELIGIBILITY – CUYAHOGA COUNTY (Continued)

At Cuyahoga County Department of Job and Family Services (CCDJFS), we selected 60 case files out of approximately 3,400 with recipients identified as aliens/refugees for substantive testing and noted the errors listed below. As a result, we will question the following costs (as detailed below) for Medicaid ($66,906), TANF ($10,888), and Food Stamps ($22,468), totaling $100,262, as detailed below.

- 16 (26.67%) of the case files tested did not have appropriate documentation to support the applicant had worked or qualified for 40 quarters under Title II of the Social Security Act. Four of these recipients received Medicaid, Food Stamps and TANF benefits; one recipient received both Food Stamps and Medicaid benefits; nine recipients received only Medicaid benefits; and two recipients received both Food Stamps and Medicaid benefits.

- 12 (20%) of the recipients were not residents of the United States for five years or more beginning on the date of entry; therefore, were not eligible to receive benefits. Four recipients received Medicaid, Food Stamps and TANF benefits; one recipient received both Food Stamps and Medicaid benefits; five recipients received only Medicaid benefits; and two recipients received both Food Stamps and Medicaid benefits.

- 27 (45%) of the recipients did not have sponsor information documented in their case file as required by 8 USC Sec. 1631(a). Ten of these recipients received Medicaid benefits only; six recipients received Medicaid, Food Stamps and TANF benefits; six recipients received both Food Stamps and Medicaid benefits; one of these recipients received TANF; and four received Food Stamp benefits only.

- One (1.67%) of the recipients' status was noted as refugee, for which the recipient received Food Stamps, Medicaid benefits, MA Y Transitional Medicaid, MA C and TANF benefits for ADCU, however, there was no supporting documentation available to re-determine their refugee status. Therefore, we will question costs for the benefits received for the refugee of $17,105.

- One (1.67%) of the recipients' status was noted as Cuban/Haitian entrant under CRIS-E, but the case documents only included the passports which note the alien status as a parolee, for which the recipient received Medicaid TANF benefits for MA C and ADCR, however, there was no supporting documentation available to re-determine their Cuban/Haitian entrant status. Therefore, we will question costs for the benefits received by the Cuban/Haitian entrant of $2,502.

Without consistently obtaining or maintaining the required documentation on file, the 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 recipients.

It appears this issue was caused by the complexity of the laws and regulations surrounding alien and refugee cases and a lack of procedures for staff to consistently apply in determining and documenting a recipient's alien status. CCDJFS was informed of this issue during the FY 2005 audit, but was not able to implement additional procedures prior to the end of FY 2006.

We recommend CCDJFS management continue to review current eligibility requirements for aliens/refugees with all staff and perform supervisory reviews of alien/refugee case files to provide reasonable assurance that only eligible recipients receive benefits. Additionally, we recommend CCDJFS management review current policies and procedures with all staff and implement or enforce control procedures which will reasonably ensure case files have adequate documentation to support benefit payments made to recipients. One method to ensure the required documents and 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.

6. MEDICAID/FOOD STAMPS/TANF – UNDOCUMENTED ELIGIBILITY – CUYAHOGA COUNTY (Continued)

Corrective Action Plan

- *Alien and Refugee training has been provided by Ohio Department of Job and Family Services in 2006 and was completed after the date of the audit sample period.*
- *In addition, Alien Refugee training has been incorporated into the new hire orientation.*
- *EFS internal QC has completed a 100% review of active Alien/Refugee households entering after August 22, 1996 and provided corrective action and follow-up to correct errors identified. The review was begun in February 2007 and is in the final stage of completion. Data from the review will be incorporated into future planning for training; a training refresher will be provided to all staff by October 2007.*
- *EFS implemented a supervisory review system to monitor case activity and document training needs. The system has been fully operational since February 2007 and a quarterly review of findings will be used for planning, management and training activities.*

Anticipated Completion Date for Corrective Action

October 2007

Contact Person Responsible for Corrective Action

Jacquelon Ward, Manager EFS Participant Services, Cuyahoga County Department of Job & Family Services, 1641 Payne Ave. Room 520, Cleveland, Ohio 44140, Phone: (216) 987-6387, e-mail: wardj02@odjfs.state.oh.us

7. MEDICAID/FOOD STAMPS/TANF – UNDOCUMENTED ELIGIBILITY – FRANKLIN COUNTY

Finding Number	2006-JFS07-016
CFDA Number and Title	10.551 / 10.561 - Food Stamp Cluster 93.558 - Temporary Assistance for Needy Families 93.775 /93.777 / 93.778 - Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services

<u>QUESTIONED COSTS</u> $21,866

8 USC Sec. 1641(b) states:

For purposes of this chapter, the term "qualified alien" means an alien who, at the time the alien applies for, receives, or attempts to receive a Federal public benefit, is -

(1) an alien who is lawfully admitted for permanent residence under the Immigration and Nationality Act [8 U.S.C. 1101 et seq.],

(2) an alien who is granted asylum under section 208 of such Act [8 U.S.C. 1158],

(3) a refugee who is admitted to the United States under section 207 of such Act [8 U.S.C. 1157],

(4) an alien who is paroled into the United States under section 212(d)(5) of such Act [8 U.S.C. 1182(d)(5)] for a period of at least 1 year,

7. MEDICAID/FOOD STAMPS/TANF – UNDOCUMENTED ELIGIBILITY – FRANKLIN COUNTY (Continued)

(5) an alien whose deportation is being withheld under section 243(h) of such Act [8 U.S.C. 1253] (as in effect immediately before the effective date of section 307 of division C of Public Law 104-208) or section 241(b)(3) of such Act [8 U.S.C. 1231(b)(3)] (as amended by section 305(a) of division C of Public Law 104-208),

(6) an alien who is granted conditional entry pursuant to section 203(a)(7) of such Act [8 U.S.C. 1153(a)(7)] as in effect prior to April 1, 1980; (1) or (7) an alien who is a Cuban and Haitian entrant (as defined in section 501(e) of the Refugee Education Assistance Act of 1980).

8 USC Sec. 1612(b) states:

(1) Notwithstanding any other provision of law and except as provided in section 1613 of this title and paragraph (2), a State is authorized to determine the eligibility of an alien who is a qualified alien (as defined in section 1641 of this title) for any designated Federal program (as defined in paragraph (3)).

(3) For purposes of this chapter, the term "designated Federal program" means any of the following:

(A) Temporary assistance for needy families. The program of block grants to States for temporary assistance for needy families under part A of title IV of the Social Security Act [42 U.S.C. 601 et seq.].

(C) Medicaid. A State plan approved under title XIX of the Social Security Act [42 U.S.C. 1396 et seq.], other than medical assistance described in section 1611(b)(1)(A) of this title.

8 USC Sec. 1612(b)(2) “Exceptions” states:

Qualified aliens under this paragraph shall be eligible for any designated Federal program.

(B) Certain permanent resident aliens

An alien who—

(i) is lawfully admitted to the United States for permanent residence under the Immigration and Nationality Act [8 USC 1101 et. seq.]; and

(ii) Has worked 40 qualifying quarters of coverage as defined under title II of the Social Security Act [42 U.S.C. 401 et seq.] or can be credited with such qualifying quarters as provided under section 1645 of this title, and (II) in the case of any such qualifying quarter creditable for any period beginning after December 31, 1996, did not receive any Federal means-tested public benefit (as provided under section 1613 of this title) during any such period.

8 USC Sec. 1612(a) states:

(1) Notwithstanding any other provision of law and except as provided in paragraph (2), an alien who is a qualified alien (as defined in section 1641 of this title) is not eligible for any specified Federal program (as defined in paragraph (3)).

(3) For purposes of this chapter, the term "specified Federal program" means any of the following:

(B) Food stamps. The food stamp program as defined in section 3(h) of the Food Stamp Act of 1977 [7 U.S.C. 2012(h)].

7. MEDICAID/FOOD STAMPS/TANF – UNDOCUMENTED ELIGIBILITY – FRANKLIN COUNTY (Continued)

When administering federal grant awards, it is the responsibility of management to develop and implement control policies and procedures to provide reasonable assurance that only eligible individuals receive assistance and the information reported to ODJFS is accurate and complete. In order for county management to ensure and verify this information, it is imperative that appropriate supporting documentation is maintained for all amounts reported and case files contain all pertinent information relating to the case and be readily accessible for review and/or reference.

Based upon the results of the substantive/compliance test performed, we determined that four out of 20 tested Qualified Alien recipients were ineligible to receive Public Assistance program (Medicaid, TANF, and/or Food Stamp) benefits during fiscal year 2006, for the following reasons:

- For two of the 20 recipients there were no INS documents included in the case file which would provide evidence that would substantiate the recipient's status as a "Qualified Alien" and to document the type of "Qualified Alien" of which they were classified. Since we were unable to determine whether the recipient was a "Qualified Alien" and were unable to verify their "Qualified Alien" type, these recipients are considered ineligible.

- For two of the 20 recipients, the recipient was admitted as a Permanent Resident, however, no evidence exists (within the case file or in CRIS-E) that the eligibility criteria for Medicaid, TANF, and/or Food Stamps was satisfied.

Since the recipients were determined to be ineligible to receive Public Assistance program benefits, we are questioning the costs of all Public Assistance program benefits the ineligible recipients received during fiscal year 2006, totaling $21,866 ($5,494 – Medicaid; $7,521 – TANF; $8,851 - Food Stamps).

Without consistently obtaining or maintaining the required documentation on file, the Franklin County Department of Job and Family Services (FCDJFS) may not be able to fully support or ensure payments were made only to or on behalf of eligible recipients. The lack of supporting documentation could result in questionable benefit payments and increase the risk that payments could be made to ineligible recipients.

According to the Department, two of the recipients received Public Assistance benefits due to oversights by case workers. They also indicated that the INS documents, which are used to substantiate the recipient's status as "Qualified Alien", were missing from the recipient's case file due to case worker oversight.

We recommend the Franklin County Department of Job and Family Services' management review current eligibility requirements for Qualified Aliens with all staff and perform supervisory reviews of Qualified Alien case files to provide reasonable assurance that only eligible recipients receive benefits. Additionally, we recommend FCDJFS management review current policies and procedures with all staff and implement or enforce control procedures which will reasonably ensure case files have adequate documentation to support benefit payments made to recipients. One method to ensure that the required documents were submitted by the recipient and that the recipient met program eligibility criteria would be to develop and use a checklist. The checklist could note the documents that the recipient is required to submit and how the recipient met the criteria to be eligible to receive program benefits.

7. MEDICAID/FOOD STAMPS/TANF – UNDOCUMENTED ELIGIBILITY – FRANKLIN COUNTY (Continued)

Corrective Action Plan

The following outlines the action Franklin CDJFS will take to address this finding:

a. *A refugee checklist and other handouts have been developed to ensure that the proper documentation is in the case file. The desk aids were sent to staff at the end of 2006. Copies of these handouts are attached.*
b. *Arrangements are being made with ODJFS to schedule alien training. Attendance at this training will be required and there will be sign in sheets.*
c. *With the agency remodel, there will initially be dedicated Limited English Proficiency (LEP) units at two of the Community Opportunity Centers, namely the Northeast and West Centers. These two centers have the highest alien population at this time. Ultimately, all five of the Opportunity Centers will have LEP units to accommodate our alien population.*
d. *Alien supervisory reviews will be completed in the LEP units.*
e. *Our agency is currently working with Northwoods Consulting Partners on a document management project. Imaging will improve documentation of eligibility decisions and, thus, ensure that appropriate supporting documentation is in the case.*

Anticipated Completion Date for Corrective Action

The anticipated completion dates for the above corrective action steps are indicated below.

a. *The refugee desk aids were sent to staff at the end of 2006.*
b. *No firm dates for the alien training have been made as of this time. We expect the training to take place within the coming year.*
c. *The agency remodel at the Opportunity Centers is expected to be completed by the end of this year. LEP units should be in place at each of the Centers within the same time frame.*
d. *Alien supervisory reviews should begin once the LEP units are up and running at each of the Centers.*
e. *The Northwoods imaging project is expected to begin in July 2007 and should be completed in 2008*.

Contact Person Responsible for Corrective Action

Esther Adkins, Assistant Director, Franklin County Department of Jobs & Family Services, 80 E. Fulton Street, Columbus, Ohio 43215, Phone: (614) 462-6066, e-mail: eadkins@fcdjfs.franklincountyohio.gov

8. UI AND TAA BENEFITS – PROCESSING OF OJI TRANSACTIONS

Finding Number	2006-JFS08-017
CFDA Number and Title	17.225 – Unemployment Insurance 17.245 – Trade Adjustment Assistance
Federal Agency	Department of Labor

<u>QUESTIONED COSTS</u> $4,624

42 USC 503 relates to State laws for Grants to States for Unemployment Compensation Administration and states, in part:

(a) Provisions required

The Secretary of Labor shall make no certification for payment to any State unless he finds that the law of such State, approved by the Secretary of Labor under the Federal Unemployment Tax Act [26 U.S.C. 3301 et seq.], includes provision for -

(1) Such methods of administration (including after January 1, 1940, methods relating to the establishment and maintenance of personnel standards on a merit basis, except that the Secretary of Labor shall exercise no authority with respect to the selection, tenure of office, and compensation of any individual employed in accordance with such methods) as are found by the Secretary of Labor to be reasonably calculated to insure full payment of unemployment compensation when due;

Ohio Revised Code (ORC) Chapter 4141 prescribes a number of factors that need to be met before an applicant is determined eligible for unemployment compensation benefits. ORC Section 4141.29 contains specific conditions for eligibility and qualification of benefits. ORC Section 4141.28 (D) states, in part: "The director shall promptly examine any application for determination of benefit rights. On the basis of the information available to the director under this chapter, the director shall determine whether or not the application is valid, and if valid, the date on which the benefit year shall commence and the weekly benefit amount."

On August 17, 2004, JFS started running the new computer application known as the Ohio Job Insurance (OJI) program, which replaced the older Benefits System. Based on testing we performed, we noted instances where OJI appears not to function appropriately and where data or transactions were not processed accurately. Some of the instances are indicative that OJI issued duplicate warrants or did not convert data correctly. The instances consist of the following items:

a. We tested 60 unemployment compensation benefit payment transactions to determine if the benefits paid amount was calculated correctly. Part of this test was also to determine if the former employer's reported wages for the applicant were properly recorded in the Ohio Job Insurance (OJI) system and agreed with the Wage Record system, from which it was derived. There were four instances where the weekly benefit amount (WBA) may have been calculated incorrectly. The WBA is calculated based on a minimum number of qualifying weeks and the amount of wages paid during those weeks. The OJI system reported wages for each of these four claimants but didn't identify a number of weeks for those wages. Without both pieces of information, the correct WBA cannot be determined, which would cause the claimant to be paid more or less than he/she should have been paid, if all the information was present. The lack of documentation for the four claimants results in questioned costs of $1,683. The results of our sample project to be over $10,000.

8. UI AND TAA BENEFITS – PROCESSING OF OJI TRANSACTIONS (Continued)

b. We performed an additional test to identify potential errors consisting of payments issued and cleared during FY 2006, to claimants for a specific benefit week where the payment amount exceeded the maximum amount allowed for the benefit week, we noted two exceptions. For the first item, a claimant had been paid excess benefits from a November 8, 2003 benefit year ending (BYE) claim. Later, when the claimant applied for benefits against a January 15, 2005 BYE claim, the OJI system used benefits from this second claim to offset and reduce the overpayment from the prior claim. Unfortunately, during the current audit period the OJI system went on to cancel the entire overpayment balance and issued a check for $1,429 to the claimant in error. For the second item, the claimant was eligible for 13 weeks of both temporary extended unemployment compensation (TEUC) and 13 weeks of trade reduction assistance (TRA) benefits during calendar years 2002 and 2003. The older Dynacom system, which was in place before the OJI system, shows that excess TRA payments of $1,512 were paid to the claimant. Instead of recording an overpayment to the claimant's account, the OJI system issued a check for this amount to the claimant. The amounts from these two exceptions total $2,941 and project to over $10,000 and thus will be considered as questioned costs.

Disbursing benefit payments to undeserved claimants can be viewed as noncompliance by the JFS, a condition which could result in federal funding being reduced or taken away, or sanctions imposed by the federal grantor agency. Noncompliance could also result in the Department having to repay part or all of the grant awards to the federal government. Also, given the type of conditions noted, there is uncertainty that the OJI system processed some transactions accurately during the year. These items indicate the OJI system and the related controls in it are not operating appropriately and as intended by management. This increases the risk of transaction error and reduces the level of assurance management can place on the system. JFS management stated that the weeks that were not recorded on OJI could be correct but said it would involve too much detailed work to find out if the weeks should have been zero or if it was a data entry error. The other exceptions were caused by the conversion of data from the old benefits system to the newer OJI system and how OJI treated the data.

We recommend the Department develop a flag or other warning process to indicate when weeks were left blank in the Wage Record system so that these can be investigated to determine if the weeks should be zero or were a data entry error. Also, any changes made to the employer's reported wages for the claimant should be recorded in both the OJI and Wage Record systems. We further recommend that the Department recover the benefit overpayments that were paid to claimants and investigate the conditions noted, taking the necessary steps to resolve or correct any inappropriate actions found. In addition, we recommend that management review the OJI system and devise and implement internal control procedures that provide reasonable assurance that OJI retains historical data within the system and appropriately processes future benefit transactions so that benefit claims are made only to claimants who are eligible for such payments. As with any control procedure, JFS should periodically monitor and test whether the established controls are working effectively.

Corrective Action Plan

Issue One:

We disagree with the finding. It was explained to the auditor that there are valid legal reasons why a claimant may receive wages in a time period, but have no weeks worked. As an example this most frequently occurs when an individual receives back pay or some other delayed compensation. There are other legal valid reasons. Likewise, it was explained to the auditor that the OJI system and the Wage Record system were not designed to be in lockstep agreement since there are many business reasons for the two systems to maintain independent databases while still being able to communicate together. The key phrase in the auditor's finding is that these four items "may have been calculated incorrectly." The auditor did not complete the audit investigation to determine if there actually was an incorrect calculation. There is no lack of documentation. The items were paid properly. As items are verified in the future if a claim has zero weeks worked in a time period, it will be reported as "ZERO" rather than left blank. No corrective action is required.

8. UI AND TAA BENEFITS – PROCESSING OF OJI TRANSACTIONS (Continued)

Issue Two:

b -1. This is a repeat finding. We agree with the finding.
A claimant was paid excess benefits from a November 8, 2003 benefit year ending (BYE) claim. Later, when the claimant applied for benefits against a January 15, 2005 BYE claim, the OJI system used benefits from this second claim to offset and reduce the overpayment from the prior claim. During the current audit period the OJI system went on to cancel the entire overpayment balance and issued a check for $1,429 to the claimant in error.

There was a known problem with repayments in the form of offsets on overpayments which had reached their expiration date. This problem was identified in defect 7417 and corrected as one of the Deloitte deliverables CA7_27, Expired Overpayments. The problem was stated as such:

Currently in OJI, when a pay adjustment transaction (i.e. recalculation of weeks) is triggered on a claim with an expired overpayment (i.e. passed statute of limitations (SOL) date), the entire expired overpayment amount is reset during nightly batch processing. In other words, the associated repayments (including offsets) are backed-out, and the overpayment is returned to its full value, as if it was not expired. (Repayments are defined as any cash, check, money order, etc. received by the claimant, to apply toward an overpayment. Offsets are a separate type of repayment.)

During the rest of nightly batch, all of the weeks are reprocessed, where the status of a week may change from its previous state (i.e. a previous offset week could become a paid week or vice versa) The fix involved in this deliverable entailed:

1. The system must store, as a constant value, the amount of repayments (including offsets) applied toward an overpayment before it expires. This equates to one new field in the Overpayment table in the database.
2. The system must store, as a constant value, the amount of penalty weeks applied toward an overpayment before it expires. This equates to one new field in the Overpayment table.
3. The system must store the amount of expired penalty weeks. This equates to one new field in the Overpayment table.
4. For an expired overpayment associated with a claim against which a Pay Adjustment transaction is triggered, the system must only apply the amount of repayments (including offsets) applied toward the overpayment before it expired (based on the aforementioned constant value).
5. For an expired overpayment associated with a claim against which a Pay Adjustment transaction is triggered, the system must only apply the amount of penalty weeks applied toward the overpayment before it expired (based on the aforementioned constant value).
6. For an expired overpayment associated with a claim against which a Pay Adjustment transaction is triggered, the system must expire (again) the associated overpayment (within the Pay Adjustment batch process).

The other part of the equation which caused the pay adjustment to occur on this claim was because staff cleared two issues, Late filing and an expected earnings issue. Another Deloitte deliverable, CA7_30, Pay Adjustments, involved changes to OJI which would decrease the reasons a pay adjustment would occur on a claim. If this fix had been in place at the time this occurred on 7/25/05, no pay adjustment would have occurred and thus no payment would have been released.

The two fixes listed above are the preventive measures that have taken place to remove the possibility from this kind of situation from reoccurring. No further corrective action is necessary.

8. UI AND TAA BENEFITS – PROCESSING OF OJI TRANSACTIONS (Continued)

b-2. We agree with this finding.
The second instance, detailing the $1,512, was caused by staff clearing converted issues. As a result of clearing the issues, the OJI system released the previously offset money, so the system paid the claimant. If the statute of limitations has not run out on this item, then an overpayment will be established per the policy.

Anticipated Completion Date for Corrective Action

Completed. No additional corrective action required.

Contact Person Responsible for Corrective Action

Jason Turner, Assistant Chief, Systems Support, Ohio Department of Job & Family Service, 4020 E. Fifth Avenue, Columbus, OH 43219, Phone: (614) 466-9232, e-mail: turnej04@ojfs.state.oh.us

Auditor of State's Analysis

Additional documentation was requested but not provided. Therefore, the comment remains as stated.

9. TANF – SANCTIONS FOR REFUSAL TO WORK WITH CHILD UNDER SIX – LUCAS COUNTY

Finding Number	2006-JFS09-018
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $ 4,272

42 USC Sec. 607(e) states, in part

> . . .
>
> (2) Exception
>
> Notwithstanding paragraph (1), a State may not reduce or terminate assistance under the State program funded under this part based on a refusal of an individual to engage in work required in accordance with this section if the individual is a single custodial parent caring for a child who has not attained 6 years of age, and the individual proves that the individual has a demonstrated inability (as determined by the state) to obtain needed child care, for 1 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

9. TANF – SANCTIONS FOR REFUSAL TO WORK WITH CHILD UNDER SIX – LUCAS COUNTY (Continued)

45 CFR 261.14(a) states:

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

At the Lucas County Department of Job and Family Services (LCDJFS), we selected 15, of approximately 1,268, Ohio Works First (OWF) assistance groups (AGs) required to participate in Work Activities with a Child Under Six from the GWP518 reports and performed a compliance test of the sanctions for refusal to work due to inability to obtain child care and noted one (6.7%) of the OWF AG's benefits were not reduced or denied, as required. Although we did not observe any indications that the AG did not participate due to the inability to obtain child care, the client did not participate in their required hours of participation, did not have good cause for non-participation, and were not sanctioned for failure to participate. LCDJFS failed to properly assign, follow up and verify client participation in work or educational activities.

As a result, we are questioning the costs for OWF cash assistance payments for $4,272 (projected to be more than $10,000) from the date of noncompliance to the end of the fiscal year. Additionally, there is a risk that an AG who is not eligible to receive benefits under this program during a sanction period may not be eligible for benefits under other programs during the same period of noncompliance.

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 that the caseload for social services case managers was very high and that the agency lacked effective policy and procedures for monitoring of cases.

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.

9. TANF – SANCTIONS FOR REFUSAL TO WORK WITH CHILD UNDER SIX – LUCAS COUNTY (Continued)

Corrective Action Plan

Several changes have been implemented to date to eliminate this finding. First, 7 more staff were hired in October 2006 to reduce caseload size and, therefore, increase case manageability. Increasing the staff size helped to reduce filing errors. Second, support staff are required to open case files for all new clients, eliminating duplicate cases being created, and this change was implemented in September 2006. Third, work activities cases are in the process of being imaged. Imaging is being implemented by using a "day forward" strategy so that Intakes and/or Redeterminations will be imaged as they occur. All supporting case documents will be filed electronically in ON-BASE, therefore eliminating the need to locate a physical copy of the case. The Imaging of the cases is an on-going procedure; however, most existing cases will be imaged by the end of 2008.

Effective 12/1/2006 LCDJFS management personnel reviews ODJFS work activities reports on a monthly basis to ensure that all work required clients have been assigned.

Anticipated Completion Date for Corrective Action

Most corrective actions have been implemented to date. Imaging is on-going and is expected to be completed by February, 2008.

Contact Person Responsible for Corrective Action

Jamalica Dudziak, Work Activities Program Administrator, Lucas County Department of Job & Family Services, 3210 Monroe St., Toledo, Ohio 43606, Phone: (419) 213-8470, e-mail: dudzij@odjfs.state.oh.us

10. TANF – MISSING CASE FILES – FRANKLIN COUNTY

Finding Number	2006-JFS10-019
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $2,762

45 CFR Section 261.14 states in part:

(a) If an individual refuses to engage in work required under section 407 of the Act, the State must reduce or terminate the amount of assistance payable to the family, subject to any good cause or other exceptions the State may establish. Such a reduction is governed by the provisions of Sec. 261.16.

Additionally, case files and all pertinent support documentation should be maintained by the Franklin County Department of Job and Family Services (FCDJFS) to provide evidence that controls performed by the County for the Temporary Assistance to Needy Families (TANF-OWF) have been performed, to provide back-up documentation for the case activity input into CRIS-E, and that the agency is complying with federal rules and regulations.

During substantive testing of the TANF-OWF program, there were two case files out of 15 selected for testing that were missing. The two case files and their supporting documentation could not be located by FCDJFS for eligibility and special tests and provision requirement testing noted above, and we were unable to determine eligibility in any other manner. The amounts from these two exceptions total $2,762 and project to over $10,000 and thus will be considered as questioned costs.

10. TANF – MISSING CASE FILES – FRANKLIN COUNTY (Continued)

Missing case files and documentation increases the risk that amounts and other information reported to the federal grantor agencies may not reflect actual program activities. Without consistently obtaining or maintaining the required documentation on file, FCDJFS may not be able to fully support or ensure payments were made only to or on behalf of eligible recipients. The lack of supporting documentation could result in questionable benefit payments and increase the risk that payments could be made to ineligible clients.

According to the County, the missing case files are due to the number of case files maintained by the Department and frequent movement of the case files. The missing items were determined to be oversights by Department personnel.

We recommend management review current policies and procedures and/or implement new control procedures that will reasonably ensure that case files have adequate documentation to support payments made to recipients. We recommend management communicate its policies and procedures to staff to ensure they are carried out as intended. In addition, management may consider performing periodic reviews of the case files to ensure established controls and record retention procedures are being followed by FCDJFS personnel.

Corrective Action Plan

The following outlines the action Franklin CDJFS will take to address this finding:

a. As mentioned in Finding #1, our agency is currently working with Northwoods Consulting Partners on a document management project. Imaging will improve documentation of eligibility decisions and, thus, ensure that appropriate supporting documentation is in the case.
b. Our agency has dedicated resources in the file area to purge case records in preparation for the Northwoods project

Anticipated Completion Date for Corrective Action

The anticipated completion dates for the above corrective action steps are indicated below.

a. The Northwoods imaging project is expected to begin in July 2007 and should be completed in 2008.
b. Additional support is currently working in the file area to purge case records.

Contact Person Responsible for Corrective Action

Esther Adkins, Assistant Director, Franklin County Department of Jobs & Family Services, 80 E. Fulton Street, Columbus, Ohio 43215, Phone: (614) 462-6066, e-mail: eadkins@fcdjfs.franklincountyohio.gov

11. TANF – REFUSUAL TO WORK SANCTION – TUSCARAWAS COUNTY (TCDJFS)

Finding Number	2006-JFS11-020
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

QUESTIONED COSTS $1,935

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 Sec. 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 10, out of approximately 118, Adult Custodial Parent under Six when Child Care Not Available sanctions processed from the GWP523 reports. One (10%) Ohio Works First (OWF) Assistance Group (AG) was not in compliance with their self-sufficiency contract (Employability Contract) and did not have good cause for refusal to work. Tuscarawas County Department of Job and Family Services (TCDJFS) failed to properly sanction the client for refusal to work during December 2005 through March 2006. The individual that was an exception in our test was provided paid assistance during a sanction period which was not related to the individual's inability to obtain needed child care.

As a result, we are questioning the costs for OWF cash assistance payments for $1,935 (projected to be more than $10,000) for the duration of the sanction period. Additionally, there is a risk that an AG who is not eligible to receive benefits under this program during a sanction period may not be eligible for benefits under other programs during the same period of noncompliance.

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 TCDJFS is making payments during ineligible periods, there is greater risk of potential questioned costs which could jeopardize future funding. TCDJFS indicated that they failed to impose a sanction timely which resulted in payments totaling $1,935 to be issued to an individual during a sanction period.

We recommend management review current policies and procedures and/or implement revised control procedures which ensure only eligible individuals receive assistance and sanctions are imposed in a timely manner. We recommend management communicate its policies and procedures to staff to ensure they are carried out as intended.

Corrective Action Plan

Income Maintenance Supervisors will address staff regarding prompt attention be given to requests for sanctions, hearings and compliances for both. Both of these issues will be addressed, and training is to be provided at the next quarterly Income Maintenance staff meeting.

11. TANF – REFUSUAL TO WORK SANCTION – TUSCARAWAS COUNTY (TCDJFS)

Anticipated Completion Date for Corrective Action

Income Maintenance Supervisors will discuss issues with staff in scheduled unit staff meetings in February 2007 and March 2007. A quarterly staff meeting is scheduled for May 3, 2007.

Contact Person Responsible for Corrective Action

Lynn Angelozzi, Director, Tuscarawas County Department of Job & Family Services, 389 16th Street SW, New Philadelphia, OH 44663, Phone: (330) 339-7791 Ext. 229, e-mail: angell@odjfs.state.oh.us

12. IEVS AND CRIS-E – IRS MATCHES NOT COMPLETED FOR AUDIT PERIOD

Finding Number	2006-JFS12-021
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services

NONCOMPLIANCE

45 CFR 205.56(a) states, in part:

> The State agency will use the information obtained under Sec. 205.55, in conjunction with other information, for:
>
> (1) Determining individuals' eligibility for assistance under the State plan and determining the amount of assistance. …
>
> …

45 CFR 205.55(a) states, in part:

> … , the State agency will request through the IEVS:
>
> (4) Unearned income information from the Internal Revenue Service available under section 6103 (l)(7)(B) of the Internal Revenue Code of 1954, for all applicants at the first opportunity following receipt of the application for all recipients on a yearly basis. The request shall be made at the time and in the manner set forth by the Commissioner of Internal Revenue.

On a monthly basis, ODJFS matches all newly approved Food Stamp, TANF, Medicaid, and SCHIP applicants against the IRS' unearned income records for interest, dividends, and other types of unearned income. Also, during the third quarter, annual matches are completed for all open cases by social security number. However, during FY06, ODJFS only matched new cases entered during July and August 2005. Matches were not performed from September 2005 through June 2006.

Without performing matches as designed, client income and resource information recorded in the CRIS-E will not be verified to outside sources as required by federal rules and regulations. Ultimately, this could lead to improper benefits being distributed to recipients and federal sanctions against the Department.

12. IEVS AND CRIS-E – IRS MATCHES NOT COMPLETED FOR AUDIT PERIOD (Continued)

According to ODJFS MIS management, ODJFS was waiting on the IRS contract to be signed for the exchange of data. ODJFS continued to run the outbound request jobs and held the resulting tapes. When the IRS contract was in place, ODJFS sent all of the pending request files to the IRS. The IRS ran a special match for ODJFS against 2004 data, and ODJFS loaded these responses on 10/13/06. On 10/30/06, ODJFS began processing the 2005 and 2006 responses. IRS matching is now current and ODJFS is following the published IRS schedule.

We recommend the client take the necessary steps to ensure contracts with the IRS are signed in a timely manner to prevent the interruption of the required matching of the Income and Eligibility Verification System's (IEVS) newly approved applicants with the IRS' unearned income records.

Corrective Action Plan

Once the contract was in place we sent all of the pending request files to the IRS. They ran a special match for us against their 2004 data. We loaded these responses on 10/13/06. On 10/30/06 we began processing the 2005 responses. We are now current and following the published schedule.

Anticipated Completion Date for Corrective Action

Completed as of 11/30/06

Contact Person Responsible for Corrective Action

Keith Krautter, Eligibility Systems Section Chief, Ohio Department of Jobs & Family Services, 4200 E. Fifth Ave., Columbus, Ohio 43219, Phone: (614) 387-8438, e-mail: krautk@odjfs.state.oh.us

13. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – DUE DATES

Finding Number	2006-JFS13-022
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services

<u>NONCOMPLIANCE</u>

Federal regulations require states to maintain an IEVS system, as indicated below:

7 CFR 272.8(a)(1) states, in part:

> State agencies 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. . . .

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

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 the Income and Eligibility Verification System (IEVS) and established their own targeting system for processing IEVS matches. The IEVS compares income, as reported by the recipients, to information maintained by outside sources. Information that does not appear to agree is communicated in the form of a CRIS-E alert, which is forwarded to the appropriate county for investigation.

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. This was the primary IEVS guide until March 2006, when the IEVS CRIS-E Alert Processing Instruction Guide was completed to replace CRIS-E "Flash #61." The new guide states:

> ODJFS monitors the CDJFS (County Departments of Job and Family Services) IEVS activities by reviewing selected cases for timeliness and accuracy of the processing of alerts, and the safeguarding of IEVS information.

The guide specifies the due dates for completing IEVS alerts, depending on the program and priority ranking assigned by the Department of Job & Family Services. Low alerts are considered informational only and are not required to be processed although they are issued with a completion due date. In addition, in SFY04, the IEVS went through a redesign where medium alerts were eliminated and all alerts were deemed either high or low; however, medium priority alerts were still periodically received. The following chart outlines the required timeframes to work the alerts according to the redesign of the IEVS process:

Program	Priority Ranking	Federal Due Date (Number of Days)	IEVS CRIS-E Alert Processing Instruction Guide Due Date (Number of Days)
Food Stamp Cluster	High	90	90
Food Stamp Cluster	Medium	120	90
Food Stamp Cluster	Low	N/A	180
Temporary Assistance for Needy Families	High	45	45
Temporary Assistance for Needy Families	Medium	120	120
Temporary Assistance for Needy Families	Low	N/A	180
Medicaid Cluster/State Children's Insurance Program	High	45	45
Medicaid Cluster/State Children's Insurance Program	Medium	120	120
Medicaid Cluster/State Children's Insurance Program	Low	N/A	180

During the FY2006 audit, seven counties were selected for testing for the timely completion of IEVS alerts in accordance with the ODJFS standards set forth in the IEVS CRIS-E Alert Processing Instruction Guide. Cuyahoga, Franklin, Hamilton, Lucas, Montgomery, Stark, and Summit counties represented approximately 52% of the nearly 1.6 million annual IEVS high priority alerts issued in state fiscal year 2006.

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

From a sample of 60 IEVS high priority alerts tested, eight (13.5%) alerts were not resolved by the mandated timeframe and there was no documentation to indicate a third party verification was pending.

Of the eight delinquent High Priority alerts:

- Three were resolved 1 - 30 days beyond the due date.
- Two were resolved 91 - 180 days beyond the due date.
- Three were either resolved 180 days beyond the due date or not resolved at all.

In addition, an analysis of an additional sample of 60 high priority alerts (30 for Food Stamps and 30 for Medicaid/SCHIP/TANF) was performed to determine whether resolution due dates generated by the automated CRIS-E system were accurate and in accordance with federal and state rules and regulations, the State Plan, and any IEVS waivers granted for the period covered. Of the sample of 60, there was one (1.7%) Food Stamps high priority alert where the listed due date in CRIS-E was outside the federally mandated timeframe.

Not completing the IEVS alerts within the established timelines increases the risk that benefits given to ineligible recipients for inappropriate amounts will not be identified timely. Failure to comply with the requirements related to IEVS could also result in federal sanctions or penalties.

ODJFS and CDJFS IEVS management indicated these delinquencies were caused by:

- Lack of training developed specifically for warranty supervisors on IVES.
- Lack of detailed reports that included not just unresolved IEVS alerts, but resolved, as well.
- Lack of cooperation and timely responses from employers.
- Case load size at the counties (i.e. one county's responsibilities for benefits issued increased from 87,000 families to 127,000 while staff decreased by 25% during the same time period.

We recommend the Department work with the counties to implement control policies and procedures to reasonably ensure matches are completed by the due dates specified in the IEVS CRIS-E Alert Processing Instruction Guide. 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.

Corrective Action Plan

Currently, the ODJFS Bureau of Program Integrity, Fraud Control Section, conducts reviews of each county agency's IEVS processing activities. As a corrective action, we will

a. add to our reviews a component to determine whether formal coordinator/supervisory reviews are occurring at the county level, and whether there is documentation of these coordinator/supervisory reviews; if not, and if the applicable county is not in compliance with the timely completion requirement, we will require their corrective action;

b. assist applicable counties in their development and implementation of the supervisory review process; and

c. monitor to assure that corrective action is implemented.

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

Anticipated Completion Date for Corrective Action

Revision of forms and procedures will be completed by August 1, 2007, to be used in any reviews conducted thereafter.

Contact Person Responsible for Corrective Action

Jane Wasman, Chief, Fraud Control Section, Bureau of Program Integrity, Office of Research, Assessment and Accountability, Ohio Department of Jobs & Family Services, PO Box 1618, Columbus, OH 43216-1618, Phone: (614) 728-7743, e-mail: wasmaj@odjfs.state.oh.us

14. IEVS/CRIS-E - ALERT RESOLUTION/INADEQUATE DOCUMENTATION

Finding Number	2006-JFS14-023
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services

<u>NONCOMPLIANCE</u>

7 CFR 272.8(e) states:

> Documentation. The State agency must document, as required by § 273.3(f)(6), information obtained through the IEVS both when an adverse action is and is not instituted.

7 CFR 273.2(f)(6) states:

> Documentation. Case files must be documented to support eligibility, ineligibility, and benefit level determinations. Documentation shall be in sufficient detail to permit a reviewer to determine the reasonableness and accuracy of the determination.

45 CFR 205.56(a)(1)(iv) states, in part:

> For individuals who are recipients when the information is received or for whom a decision could not be made prior to authorization of benefits, the State agency shall . . . initiate a notice of case action or entry in the case record that no case action is necessary . . .

Ohio Admin Code Section 5101:1-1-36(E)(3) states:

> Once the CDJFS completes the IEVS match process, the results will be recorded in CRIS-E history.

The Income and Eligibility Verification System (IEVS) compares income, as reported by the recipients, to information maintained by outside sources. Information which does not appear to agree is communicated in the form of a CRIS-E alert, which is forwarded to the appropriate county for investigation.

14. IEVS/CRIS-E - ALERT RESOLUTION/INADEQUATE DOCUMENTATION (Continued)

26 USC 6103 states:

> Returns and return information shall be confidential,
>
> > ...(2) no officer or employee of any State, any local law enforcement agency receiving information under subsection (i)(7)(A), any local child support enforcement agency, or any local agency administering a program listed in subsection (l)(7)(D) who has or had access to returns or return information under this section…. shall disclose any return or return information obtained by him in any manner in connection with his service as such an officer or an employee or otherwise or under the provisions of this section…

Documentation retained in the CRIS-E system includes running record comments, resolution codes, and other supporting screens such as budget and employment history screens used in the determination of benefits. Through the resolution of IEVS alerts, budget and employment information may be updated, resulting in the recipient's eligibility determination being re-performed. An adjustment of eligibility for all program benefits could occur.

The following errors were noted in the IEVS documentation testing for the seven selected counties: Cuyahoga, Franklin, Hamilton, Lucas, Montgomery, Stark, and Summit:

- 60 matches were tested to determine whether alerts that impacted multiple programs were updated for each program. Of the 60 alerts, 49 impacted multiple programs and 5 of the 49 applicable matches (10%) were not resolved accurately for all programs.

- 7 of the 60 matches (or 12%) were not completed properly and were not documented within the case.

- 18 of the 60 items tested were IRS alerts. Of the 18, 2 (or 11%) federal return information matches reflected federal return information in CRIS-E's running record comments screens (CLRC) even though federal requirements prohibited all extraneous disclosure of federal return information.

- 15 of the 60 matches (or 25%) did not have proper result codes. Of 60 applicable sampled alerts, 7 (12%) were not documented adequately within the CRIS-E system to provide sufficient evidence for the adequate resolution of the alert.

Without adequate documentation, a reviewer cannot determine if an IEVS alert has been resolved in accordance with standards, which may lead to benefits being issued to ineligible recipients or benefits being paid in inappropriate amounts. Additionally, disclosure of federal return information could ultimately result in litigation, including fines and/or penalties.

ODJFS and CDJFS IEVS management indicated the noncompliance is the result of the following:

- Lack of training developed specifically for warranty supervisors on IVES.
- Lack of detailed reports that included not just unresolved IEVS alerts, but resolved, as well.
- Lack of cooperation and timely responses from employers.
- Case load size at the counties (i.e. one county's responsibilities for benefits issued increased from 87,000 families to 127,000 while staff decreased by 25% during the same time period.

The Department should enforce policies and procedures detailing specific requirements regarding how county caseworkers should process, resolve, and document IEVS alerts to ensure they are resolved accurately and are documented in accordance with federal and state requirements. In addition, the Department should work with the counties to develop and implement a thorough and consistent supervisory review process for the resolution and documentation of IEVS alerts. This may help ensure supporting documentation is being maintained in accordance with the policies and procedures, and with applicable requirements and evidence the alert has been processed, resolved, and documented.

14. IEVS/CRIS-E - ALERT RESOLUTION/INADEQUATE DOCUMENTATION (Continued)

Corrective Action Plan

Currently, the ODJFS Bureau of Program Integrity, Fraud Control Section, conducts reviews of each county agency's IEVS processing activities. As a corrective action, we will

a. add to our reviews a component to determine whether formal coordinator/supervisory reviews are occurring at the county level, and whether there is documentation of these coordinator/supervisory reviews; if not, and if the applicable county is not in compliance with the documentation requirement, we will require their corrective action;

b. assist applicable counties in their development and implementation of the supervisory review process; and

c. monitor to assure that corrective action is implemented.

Anticipated Completion Date for Corrective Action

Revision of forms and procedures will be completed by August 1, 2007, to be used in any reviews conducted thereafter.

Contact Person Responsible for Corrective Action

Jane Wasman, Chief, Fraud Control Section, Bureau of Program Integrity, Office of Research, Assessment and Accountability, Ohio Department of Jobs & Family Services, PO Box 1618, Columbus, OH 43216-1618, Phone: (614) 728-7743, e-mail: wasmaj@odjfs.state.oh.us

15. ES – EARMARKING REQUIREMENT

Finding Number	2006-JFS15-024
CFDA Number and Title	17.207/17.801/17.804 – Employment Service Cluster
Federal Agency	Department of Labor

NONCOMPLIANCE

29 USC 49f relates to the percentage disposition of allotted funds under the Employment Service (ES) program (Wagner-Peyser Act funding) and states that:

(b) Ten percent of the sums allotted to each State pursuant to section 49e of this title shall be reserved for use in accordance with this subsection by the Governor of each such State to provide -

(1) performance incentives for public employment service offices and programs, consistent with performance standards established by the Secretary, taking into account direct or indirect placements (including those resulting from self-directed job search or group job search activities assisted by such offices or programs), wages on entered employment, retention, and other appropriate factors;

15. ES – EARMARKING REQUIREMENT (Continued)

> (2) services for groups with special needs, carried out pursuant to joint agreements between the employment service and the appropriate local workforce investment board and chief elected official or officials or other public agencies or private nonprofit organizations; and
>
> (3) the extra costs of exemplary models for delivering services of the types described in subsection (a) of this section.

We tested the SF-269 (Financial Status Report) report prepared for the ES program for the quarter ending December 31, 2005. The report indicated that $25,562,243 of the $27,478,392 federal award had been expended, and that only $422,308 had been spent on activity costs related to the 10 percent earmark requirement. Even if the remaining unliqudated obligations of $633,187 and the unobligated balance of $1,282,961 were spent on the earmarked activities, JFS would spend less than the 10 percent required for these activities. Thus, the Department has not complied with the stated federal requirement.

Noncompliance by JFS could result in federal funding being reduced or taken away, or sanctions imposed by the federal grantor agency. Noncompliance could also result in the Department having to repay part or all of the grant awards to the federal government, although we questioned no related costs during this period.

JFS management believed that they spent the award appropriately. In the five-year ES state plan JFS stated they thought the Wagner-Peyser program was underfunded and therefore it was their intention to use the Wagner-Peyser 10 percent funds for the costs of general administration and provision of routine employment services. JFS assumed this approach was acceptable to the grantor agency since the grantor agency approved the state plan and hasn't questioned JFS about spending of the 10 percent funds.

We recommend the Department take the necessary steps to comply with the 10 percent earmark federal requirement. These steps may involve management reviewing the current process and implementing internal control procedures that provide reasonable assurance that future expenditures of the ES program will be spent on the specified activities. We also recommend that, if JFS disagrees with the federal requirement, the Department discuss the matter with the grantor agency and request a waiver from the requirement.

Corrective Action Plan

The ODJFS Office of Workforce Development (OWD) has a long history of serving special populations, while operating under the approved state plan. While these costs were not initially segregated by the 90%/10% formula, historically OWD did expend funds toward the earmarking requirements for this funding stream. At the time of this finding, OWD did not have accounting controls in place to adequately document the expenditure of funds toward this requirement. However, OWD has since created an accounting structure that captures the costs under the statutory formulas.

OWD continues to assess needs of special populations/exemplary programs (including the populations referenced in 29 USC 49f (b), target labor exchange initiatives toward these special populations of job seekers/employers and to assist employers in upgrading the skills of current workers at risk of being displaced. With the improved accounting mechanisms that have been put in place, OWD is now able to track these expenses.

The Program Year 2005 Wagner Peyser allotment is in operation during the period from July 1, 2005 through June 30, 2008. The current accounting structure does allow for the recording of expenses to meet the 10% earmark requirement. Additionally, the PY 2005 federal reports as annotated do reflect the growing cumulative expenses against this earmark requirement. Further expenses to meet this earmark will be driven through the revised accounting structure. Additionally, staff within the ODJFS Office of

15. ES – EARMARKING REQUIREMENT (Continued)

Fiscal Services will reflect the updated activity and expenses on the required federal reports for this funding stream.

The Program year 2004 grant closed before this issue was identified in the 2005 Single State Audit and our control structure was not in place in time to prevent this observation. However, since the release of the 2005 Single State Audit, OWD has taken the necessary corrective action to achieve and maintain compliance with the requirements of 29 USC 49f (b) by making the necessary adjustments to the accounting system to track the expenses for the above activities while at the same time strengthening our commitment to support these additional activities.

Anticipated Completion Date for Corrective Action

June, 2007

Contact Person Responsible for Corrective Action

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16. ALL APPLICATIONS – LACK OF INTERNAL TESTING OF AUTOMATED CONTROLS

Finding Number	2006-JFS16-025
CFDA Number and Title	All Programs Administered by the Department
Federal Agency	Department of Agriculture Department of Health and Human Services Department of Labor

INTERNAL CONTROL – MATERIAL WEAKNESS

Federal regulations allow, and in some cases require, states to utilize computer systems for processing individual eligibility determinations and delivery of benefits. Often these computer systems are complex and separate from the agency's regular financial system. Typical functions of complex computer systems may include evaluating applicant information and determining eligibility and/or benefit amounts; maintaining eligibility records; determining the allowability of services; tracking the period of time an individual is eligible; and maintaining financial, statistical, and other data that must be reported to grantor federal agencies. It is management's responsibility to establish and implement internal control procedures to reasonably ensure program objectives and requirements are met and information (both financial and non-financial) is accurately and completely processed and maintained. Appropriate monitoring is performed to provide assurance the established manual and automated controls are operating effectively.

Additionally, with regard to programs administered on behalf of the Department of Health and Human Services, 45 CFR 95.621 (f)(2)(iii) requires states to perform risk analyses to ensure appropriate safeguards are incorporated into new and existing systems on a periodic basis and whenever significant system changes occur. 45 CFR 95.621 (f)(3) further requires states to review the ADP system security of these systems on a biennial basis. At a minimum, the reviews are to include the evaluation of physical and data security, operating procedures, and personnel practices.

16. ALL APPLICATIONS – LACK OF INTERNAL TESTING OF AUTOMATED CONTROLS (Continued)

The Department places immeasurable reliance on a number of complex information systems (CRIS-E, FACSIS, MMIS, SETS, CORe, SCOTI, WRS, OJI, and UC) to record and process eligibility and financial information for all their major federal programs. However, during the audit period, the Department did not have any internal, independent individuals assigned to evaluate the ADP environment and provide assurance to management that the programs' objectives and requirements of 45 CFR 95.621 were achieved. Instead, management relied heavily on the Department's Management Information Systems (MIS) personnel who were directly responsible for the ADP environment and external auditors to review, monitor, and troubleshoot problems as they arose. These MIS individuals may not have the necessary knowledge of program requirements, and may lack the necessary objectivity and independence because they are responsible for programming, operating, and/or securing these critical systems. In addition, the external auditors are oversight-oriented and report on audit objectives defined by various branches and levels of government in the interest of assuring effective legislative and public oversight of government activities, instead of being management-oriented with consideration of the entire ADP environment.

The MIS personnel responsible for the operation of the ADP environment completed a risk analysis of only the Ohio Job Insurance (OJI) data processing systems in conjunction with the Department's overall Internal Accounting Controls Program (IACP) review in 2006, as mandated by the Governor for all cabinet level agencies. However, the requirements of this analysis do not meet all the requirements specified in the federal regulations.

Without sufficient, experienced internal personnel possessing the appropriate technical skills to independently analyze, evaluate, and test their complex information systems, ODJFS management may not be reasonably assured these systems are processing transactions accurately, completely, and in accordance with federal compliance requirements. This increases the risk of noncompliance with federal regulations and of material errors or misstatements within the data processed, resulting in inappropriate determinations regarding eligibility, allowability, and/or benefit amounts.

The Bureau of Production Systems management indicated ODJFS has relied on external reviews by Health and Human Services, the Auditor of State, the Internal Revenue Service, and other federal agencies. In addition, the Bureau Chief acknowledged the need for internal reviews, but indicated there were insufficient resources to perform them.

We recommend ODJFS management implement a process for conducting internal independent reviews of significant computer systems (CRIS-E, FACSIS, MMIS, SETS, CORe, SCOTI, WRS, OJI, and UC) as required by federal and state guidelines. The reviews should be designed to provide management with reasonable assurance these large, critical systems are operating effectively and in accordance with program guidelines. We recommend these reviews or audits be conducted by personnel with the necessary program and information systems audit and control expertise. All test procedures, working papers, and supporting documentation related to the analysis and testing should be maintained and the results and recommendations should be communicated, in writing, to the Director and/or other appropriate upper management. ODJFS should evaluate the results and ensure timely corrective action is taken to address risk areas and/or weaknesses identified.

16. ALL APPLICATIONS – LACK OF INTERNAL TESTING OF AUTOMATED CONTROLS (Continued)

Corrective Action Plan

A Request for Quote (RFQ) was issued On December 27, 2005 to procure an independent third party vendor to conduct an audit ensuring sufficient checks and balances of financial transactions occurring in the Ohio Job Insurance (OJI) program are sound and consistently accurate. No responses to the request were received.

The Department then worked in conjunction with the Office of Information Technology (OIT) to issue an agency level Request for Proposal (RFP) to vendors previously qualified as IV&V vendors for any cabinet agency requirement. The proposal was issued on July 19, 2006. No responses were received.

The RFP was edited and a third attempt was issued on August 14, 2006. Two responses were received by the required response date of September 6, 2006. A contract was awarded to MAXIMUS and activities subsequently launched in December, 2006. The anticipated date for completion of the audit remains June 30, 2007.

The Office of MIS remains substantially concerned with the exorbitant cost of such activities, and remains confident that quality assurance measures performed internally suffice to ensure the integrity of IT development.

Anticipated Completion Date for Corrective Action

June 30, 2007

Contact Person Responsible for Corrective Action

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17. INFORMATION TECHNOLOGY – EXCESSIVE MANUAL OVERRIDES OF CRIS-E

Finding Number	2006-JFS17-026
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services

INTERNAL CONTROL – MATERIAL WEAKNESS

When utilizing and relying upon a complex data processing system with many users, it is vital to address the users' needs and minimize the manual and human input necessary to complete a transaction.

ODJFS uses the Client Registry Information System-Enhanced (CRIS-E) to determine eligibility and benefit amounts for public assistance programs totaling approximately $1.2 billion for Food Stamps, $576 million for Temporary Assistance for Needy Families (TANF), $235 million for State Children's Insurance Program (SCHIP), and $12.1 billion for Medicaid in fiscal year 2006. To facilitate changes to the programmed criteria in CRIS-E, the Department has implemented a process where the users

17. INFORMATION TECHNOLOGY – EXCESSIVE MANUAL OVERRIDES OF CRIS-E

(caseworkers) notify the appropriate Department personnel of the need for a program modification through Customer Service Requests (CSRs). Until these changes are made, the caseworkers must, in most cases, manually override the CRIS-E flags. At the end of FY 2006, there were 1,289 open CSRs (424 of the 1,289 were new in FY06) requested through the CRIS-E Help Desk to help alleviate manual override situations encountered by county staff statewide. Also, as of April 2006, there were 168 manual override situations reported by the case workers to the Help Desk that users must perform to correct cases within CRIS-E.

In addition, CRIS-E maintains monthly reports of manual override processing and statistics. In FY06, there was an average of 15,480 manual overrides completed per month, for a total of approximately 185,760 manual overrides completed in FY06.

By not completing CRIS-E program modifications in a timely manner, the need for frequent manual overrides is increased. This involves a great deal of judgment on the part of caseworkers and their supervisors. Under these circumstances, the risk of errors occurring in benefit eligibility determinations is greatly increased, and caseworker efficiency is decreased because of the cumbersome process. Eligibility errors have, in the past, resulted in federal fiscal sanctions against the Department.

ODJFS' Management indicated that they continue to prioritize CSR work for maintenance and development. Factors considered in the Office's prioritization process include customer impact, program risk, federal/state mandate, system impact, and financial impact. The presence of manual overrides influences the customer impact, program risk, and system impact considerations. Their plans are to continue to identify CSRs resulting in manual overrides and prioritize each CSR as described.

We recommend ODJFS continue to analyze their process of addressing manual overrides. We also recommend the Department prioritize CSRs related to manual overrides and devote the necessary resources to minimize manual override situations in CRIS-E.

Corrective Action Plan

The FIAT Process was a planned design feature of the CRIS-E system which exists to ensure that correct benefits can be created. It makes good business sense to address many of these FIATS, but some FIATS will always exist. The program area has focused emphasis on functionality prioritization of requests rather than fiats, particularly those that don't have fiats.

Program approach has been that fiats are frustrating to use and counter-productive to the system, but missing or erroneous processing with larger impact (no benefits, wrong benefits, threat of legal action, large numbers affected, *etc) are higher in the prioritization. Several changes (detailed list available) are necessary to align the system and policy to reduce the number of FIATs, and to ensure that all qualified individuals receive benefits.*

Anticipated Completion Date for Corrective Action

unknown

Contact Person Responsible for Corrective Action

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18. IEVS/CRIS-E – INTERNAL CONTROLS AT COUNTY LEVEL

Finding Number	2006-JFS18-027
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

Sound internal control procedures require 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.

In addition, the IEVS CRIS-E Processing Instruction Guide produced by ODJFS states:

> The CDJFS is responsible to assure that IEVS alerts are processed appropriately and timely. Internal quality control reviews and/or supervisory reviews should be conducted to assure proper processing. Timely processing of IEVS alerts will result in higher payment accuracy.

We examined the internal control systems surrounding the processing of IEVS alerts at the following seven County Departments of Job & Family Services (CDJFS): Cuyahoga, Franklin, Hamilton, Lucas, Montgomery, Stark, and Summit. Based on interviews with the CDJFS workers and observations at the counties, we identified the following exceptions:

Stark County:

The Stark County DJFS (SCDJFS) did not use the CRIS-E GDE007RA reports to help confirm all IEVS alerts were received and processed. In addition, there was no evidence of a log or other monitoring documentation used by the Stark County management to provide evidence that all of the county's alerts were received, monitored, and processed.

The IEVS Coordinator received the GDE089RA, GDE090RA, and GDE091RA CRIS-E reports that enabled her to monitor delinquent IEVS alerts on a monthly basis. However, there was no evidence that the information contained in the reports was consistently communicated to the staff or supervisors responsible for the actual resolution of delinquent alerts.

Although the SCDJFS Quality Assurance unit reviewed CRIS-E cases on a periodic basis, the reviews did not consistently contain IEVS alerts. In addition, the Quality Assurance unit did not have documented procedures to specify how to perform a detailed review of the IEVS alerts within the CRIS-E cases. Therefore, there was no evidence that an internal quality control review of the IEVS alerts was occurring to assure proper processing as required by the ODJFS Processing Instruction Guide.

County delinquent matching procedures did not agree with the SCDJFS IEVS policy. The SCDJFS IEVS policy requires the IEVS workers to submit a monthly listing of delinquent matches, including the type of match and the delinquency, to the IEVS Coordinator. There were no listings submitted to the IEVS Coordinator during FY06.

18. IEVS/CRIS-E – INTERNAL CONTROLS AT COUNTY LEVEL (Continued)

Lucas County:

The Lucas County DJFS (LCDJFS) did not use the CRIS-E GDE007RA reports to help confirm all IEVS alerts were received and processed. In addition, there was no evidence of a log or other monitoring documentation used by the Lucas County management to provide evidence that all of the county's alerts were received, monitored, and processed.

The LCDJFS did not use the GDE089RA, GDE090RA, or the GDE091RA CRIS-E reports or any other documentation to monitor the IEVS alerts are processed within federal time requirements.

Team leaders were responsible for reviewing IEVS alerts within their units; however, there was no evidence to support these reviews to confirm IEVS' alert information was accurately completed and documented.

Hamilton County:

As IEVS alerts were received by the county, the alerts were investigated to determine if further action was required. Alerts requiring third-party income/resource verification were marked as resolved in CRIS-E prior to actual initiation and/or receipt of third-party verification and then forwarded to an overpayment specialist for review.

Cuyahoga County:

The C.U.R.E. unit reviewed Food Stamp cases on a regular basis; however, these reviews were not specific to the IEVS alert process. The reviews only encompassed programs other than Food Stamps if the selected case was for a recipient enrolled in multiple programs. Team Coordinators and Team Leaders were responsible for reviewing cases within their units; however, there was no evidence to support the completion of these reviews to ensure IEVS alert information was accurately completed and adequately documented.

As a result of improper IEVS alert resolution and documentation, eligibility error rates may increase, resulting in federal fines and penalties against the Department. Also, authorized public assistance eligibility amounts may be overstated. In addition, if IEVS alerts are incorrectly marked as resolved, monitoring reports of the review of delinquent alerts will be skewed due to inaccurate data. This increases the risk that alerts are not being resolved according to federal and state standards.

Through discussion with the CDJFS IEVS coordinators, IEVS alerts have not been effectively monitored due to management time constraints and the large volume of alerts received.

We recommend the Department:

- Implement a tracking system at the county level (or expand their current tracking system) to effectively identify the status of all current and delinquent alerts assigned to each case worker.

- Develop and utilize written policies and procedures with the collaboration of county management that incorporates the procedures established at the state level. This will assist caseworkers and supervisors in the IEVS process and document the organizational structure of the county. In addition, the policies and procedures should identify key approved controls used by the county to reasonably ensure IEVS alerts received are processed timely and accurately and delinquencies are prevented and/or detected.

18. IEVS/CRIS-E – INTERNAL CONTROLS AT COUNTY LEVEL (Continued)

- Implement a mandatory supervisory review of IEVS alerts 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.

- To assist caseworkers and supervisors in the IEVS process, develop, implement, and maintain performance guidelines at the counties that incorporate the standards developed by ODJFS. Procedures should ensure that only resolved alerts get marked as completed in the CRIS-E application. Alerts requiring third-party verification should be marked as such and not as being resolved in order to minimize delinquency rates.

Corrective Action Plan

Currently, the ODJFS Bureau of Program Integrity, Fraud Control Section, conducts reviews of each county agency's IEVS processing activities. As a corrective action, we will

a. *add to our reviews a component to determine whether formal coordinator/supervisory reviews are occurring at the county level, and whether there is documentation of these coordinator/supervisory reviews; if not, and if the applicable county is not in compliance with the internal control requirement, we will require their corrective action; and*

b. *assist applicable counties in their development and implementation of the supervisory review process; and*

c. *monitor to assure that corrective action is implemented*.

Anticipated Completion Date for Corrective Action

Revision of forms and procedures will be completed by August 1, 2007, to be used in any reviews conducted thereafter.

Contact Person Responsible for Corrective Action

Jane Wasman, Chief, Fraud Control Section, Bureau of Program Integrity, Office of Research, Assessment and Accountability, Ohio Department of Jobs & Family Services, PO Box 1618, Columbus, OH 43216-1618, Phone: (614) 728-7743, e-mail: wasmaj@odjfs.state.oh.us

19. TANF – EARLY LEARNING INITIATIVE

Finding Number	2006-JFS19-028
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services

INTERNAL CONTROL - REPORTABLE CONDITION

It is management's responsibility to devise and implement an adequate internal control structure capable of providing reasonable assurance their objectives are being achieved. The Early Learning Initiative (ELI) program, supported by TANF funding, is designed to provide pre-school children with school readiness and meet the child care needs of working families. Per OAC section 5102:2-16-07, the County Departments of Job and Family Services (CDJFS) are responsible for "assisting applicants in completing the application process and of making eligibility determinations at those locations". It is the responsibility of ODJFS to ensure the expenditures for the program are properly paid and coded in the accounting system. ODJFS must also reasonably ensure the CDJFS offices and providers are complying with the eligibility and documentation requirements of the program.

During state fiscal year 2006, ODJFS disbursed approximately $55 million in TANF funds to 77 ELI providers on behalf of eligible recipients. These types of transactions are considered subsidy payments and are to be coded to object category 5 in the Central Accounting System (CAS). However, all 1,264 ELI vouchers processed during the state fiscal year were coded to object category 1, personal services. In order to receive payment, ELI providers enter the attendance of eligible children into a system called Kinderattend. Kinderattend is linked to the ODJFS 3299 system which stores eligibility information for the children, including the eligible time spans, as determined and entered by each CDJFS. ODJFS then relies on the information in these two systems to prepare the payment to the provider. Currently, ODJFS performs monitoring procedures of the CDFJS' to ensure that eligibility is being determined correctly; however, there is no monitoring of the 3299 system to ensure the eligibility was entered correctly and is representative of the documentation maintained in the county's case file. In addition, ODJFS performs monitoring of ELI providers to ensure they are complying with the rules and regulations of the ELI program, including keeping attendance records and receiving payments for only eligible children. However, ODJFS was unable to locate 22 of 30 monitoring files requested, therefore, we could not verify the procedures were performed as intended.

Without consistently monitoring the data entry of eligibility information into the 3299 system, there is an increased risk that payments could be made to ineligible recipients and could result in questionable benefit payments. Without maintaining the required documentation to support monitoring visits, management may not be able to fully support payments were made only to or on behalf of eligible recipients. In addition, the incorrect coding of these transactions could result in inaccurate or misleading information reported to the federal government or other interested parties, including management.

ODJFS management indicated the missing documentation was attributed to a recent move of the office; they believe these files were lost in the move. In addition, management stated they did not fully understand the importance of ensuring the eligibility information was properly entered into the 3299 as part of their monitoring at the CDJFS'. With regard to the coding of these transactions, ODJFS indicated they believed object category 1 to be appropriate since the payments were made to the vendor; they did not realize object 5 was the correct code since these transactions related to benefit payments.

19. TANF – EARLY LEARNING INITIATIVE (Continued)

We recommend ODJFS review their current polices and procedures and implement appropriate controls which will reasonably ensure payments are being made only to appropriate vendors for eligible children and that supporting documentation is maintained to substantiate all monitoring procedures performed. These policies and procedures should include comparing the 3299 system to the manual determinations of eligibility made at the county level to ensure the information was entered accurately. These procedures should be performed timely, thoroughly documented, and reviewed by appropriate supervisory personnel. Finally, we recommend management review its current policies and procedures for coding of ELI expenditures to ensure such policies and procedures are in conformity with established cost principles and coding structure established by the State's Office of Budget and Management; all future transactions should be recoded under object category 5 to represent the payment of benefits.

Corrective Action Plan

1. The Bureau of Child Care and Development (BCCD) will pull the sample to conduct the Child Care Eligibility review from data in the 3299 system. Pulling the sample from the 3299 system will provide reasonable assurance that the children reported in this system are eligible for Child Care as well as ELI services.

2. The monitoring documents requested were from SFY 2006, the first year of the ELI program. A majority of the files were either lost, misplaced, or misfiled during the process of the office moving from 255 E. Main Street to the Lazarus Building. Both ELI Consultants and support staff, who boxed the files at 255 E. Main, remember packing the files and labeling the box(es). An extensive search of the office was conducted but the box(es) containing the files is yet to be located. Additional SFY 2006 monitoring files are available for review, but only 8 of the 30 specific files requested.

To prevent this from happening in the future. the ELI Unit will ensure both hard copies and electronic copies of documents relating to on-site monitoring visits will be by maintained by the responsible Contract Consultant as well as collectively on the ELI Unit shared drive.

3. ELI providers are not considered sub-recipient rather they have been identified as vendors. As such, the contract between ODJFS and the ELI providers is a personal services contract. Therefore, they should be coded as object 1 and not changed to object 5.

Anticipated Completion Date for Corrective Action

1. Upon the next Child Care eligibility review cycle.

2. Upon the next ELI monitoring cycle

3. N/A

Contact Person Responsible for Corrective Action

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20. MEDICAID – PRIOR AUTHORIZATION

Finding Number	2006-JFS20-029
CFDA Number and Title	93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

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

Sound accounting practices require management to devise and implement an adequate internal control structure capable of providing them with reasonable assurance their objectives are being achieved. For the ODJFS federal programs, this must include internal controls that reasonably ensure amounts claimed for federal reimbursement are processed accurately, completely, and in compliance with federal laws and regulations; and are adequately documented to provide management with some assurance the controls are being performed timely and consistently.

The State's Medicaid program is administered by ODJFS to pay for eligible medical services, some of which require the review and approval of the Prior Authorization Unit prior to claims submission. The provider must include the authorization number on the claim in order to receive payment for these types of services. During fiscal year 2006, the Prior Authorization Unit processed approximately 201,000 prior authorization forms related to more than $337 million in payments. However, the Prior Authorization Unit does not have a system to track the receipt and status of prior authorization requests. Providers often send multiple requests for the same service because the status of the original request cannot be identified and the review and notification process is typically lengthy, resulting in potential duplicate prior authorization requests. The Prior Authorization Unit currently does not have any formal policies and procedures or consistent practices in place to handle duplicate requests for prior authorization. The Unit relies on their six reviewers to recognize duplicates (since there is no tracking system in place to recognize them) and not issue another authorization number. The reviewers will handle the identified duplicates in a variety of ways, including drawing a line through the request and discarding the form.

Without sufficient controls and tracking procedures over prior authorization request forms, there is an increased risk of duplicate approvals for the same service. This increases the risk of errors during Medicaid claims processing which could result in inappropriate benefit payments. In addition, without sufficient policies and procedures in place for handling duplicated request forms, management may not be reasonably assured the reviewers are handling the duplicated request as intended. ODJFS management indicated they were aware of the deficiency in tracking prior authorization forms and have asked providers not to submit multiple requests. They also indicated they believed the edit checks within MMIS would prevent duplicate payments; however, we were not able to verify this during our field work.

We recommend the Department devise and implement policies and procedures to provide reasonable assurance the Prior Authorization Unit is not approving duplicate requests for prior authorization. This would include implementing a system which would track all requests received and would alert staff of duplicated request forms. These policies and procedures should also address how duplicated request forms should be processed. In addition, management should evaluate the amount of time needed to process a prior authorization request and make the changes necessary to ensure requests are processed and returned to providers within a reasonable time.

20. MEDICAID – PRIOR AUTHORIZATION (Continued)

Corrective Action Plan

The Prior Authorization Unit recognizes the need for improved tracking of requests. However, the process continues to be paper-intensive, without electronic ability to enter requests into a data base, to prevent duplicates. A protocol and consistent practice has been in place and continues to be used to manage duplicate paper requests. Duplicates are identified either by the nurse reviewer at the time of review, or by a management analyst, at the time it is entered into the MIS claims system. The duplicate request is handle the same in both instances. It is clearly marked by drawing a line across the request form, and notating the duplicate. Once identified, the duplicate is not entered into the system, nor assigned a new PA number. A second check point is in place, and edits exist in the MIS claims system to prevent payment for a claim for the same date, same recipient, same service or equipment.

Funding requests for an electronic data management system have been presented to OHP administration. Extensive evaluation of the current paper process, time studies for RN reviews of prior authorization requests, and process improvement strategies have been identified. Continued research and assessment of other methods of tracking are currently underway, given system and resource constraints. A new tracking system is planned for implementation during 2008.

Anticipated Completion Date for Corrective Action

Protocols for tracking and handling duplicate requests will continue for the 'paper process'. Improvements have been made to the mail sort process, and organization of requests in date order. A pre-review process has been established, to delete duplicates prior to RN reviews.

Protocols and tracking using an electronic data management system are dependent upon 2008-09 State budgets, and OHP funding sources.

Contact Person Responsible for Corrective Action

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21. MEDICAID – MANAGED CARE

Finding Number	2006-JFS21-030
CFDA Number and Title	93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

INTERNAL CONTROL - REPORTABLE CONDITION

Federal regulations require management to devise and implement an adequate internal control structure capable of providing them with reasonable assurance their objectives are being achieved. ODJFS currently operates the Managed Care Program under a State Plan Amendment. It is the Department's responsibility to monitor the activities of the Managed Care Plans for overall compliance with federal requirements and program objectives.

21. MEDICAID – MANAGED CARE (Continued)

The Bureau of Managed Health Care is responsible for the development, administration and assessment of the Ohio Medicaid Managed Health Care Program. During fiscal year 2006, the Managed Care Program served approximately 700,000 consumers in 17 counties. ODJFS contracted with nine qualified managed care plans in order to provide health care services to Medicaid recipients. It is the responsibility of the Bureau to monitor the contracts between ODJFS and the managed care plans. The Bureau indicated their monitoring includes ensuring managed care plans meet program standards and are in compliance with program requirements. During the first half of the fiscal year, the Bureau used an Access database and compiled a monthly county-specific minimum provider panel requirement tracking grid for each plan, which was reviewed to ensure minimum provider panel requirements were met. However, beginning in January 2006, the Managed Care section implemented a new system using an Oracle relational database. According to management, this new system did not initially have the ability to print the necessary monitoring reports; therefore, the Bureau's staff used an on-screen process for reviewing the managed care provider panels. As a result, we were unable to verify the managed care plans were sufficiently meeting the minimum panel requirements during the second half of the audit period.

Without performing adequate monitoring procedures and/or maintaining the necessary supporting documents, management may not be reasonably assured the Department is in compliance with program requirements. This increases the risk that requirements of the managed care plans are not being met.

ODJFS management indicated the Contract Administration Section was forced to focus all their resources on the implementation of the new system. Due to the statewide expansion of the Managed Care Plan, it was extremely time consuming to enroll the new providers for counties that had previously not been covered under the Managed Care Plan and, as a result, the Managed Care Section discontinued documenting their monthly monitoring that had previously been in place. Management indicated new reports were developed subsequent to our audit period which are part of a new monitoring process which includes the monthly review of an electronic report created to review the manage care plans provider panels. However, we were not able to perform procedures to verify this new process was working as intended.

We recommend ODJFS management implement policies and procedures to reasonably ensure adequate controls are in place to monitor overall program performance, including meeting the minimum panel requirements managed care plans. Management should also ensure that proper supporting documentation be maintained relating to capacity requirements. The procedures should be performed timely, thoroughly documented, and reviewed by appropriate supervisory personnel. All work performed should included sign-offs by the preparer and the reviewer.

Corrective Action Plan

As a result of the 2006-2007 budget bill, ODJFS was mandated to expand the Covered Families and Children (CFC) Managed Care Program statewide and develop a new statewide Managed Care Program for a portion of the Aged, Blind, and Disabled (ABD) population. During SFY 2006 the Department made a number of preparations for the legislatively-mandated expansion that would expand the managed care program serving 530,000 consumers in June 2005 to one which was expected to serve 1.2 million consumers when fully implemented.

The Ohio Medicaid managed care program includes a requirement that specifies a certain number of minimum providers with which each MCP must contract. This requirement is not federally-required, but was developed as a tool for ODJFS to use to help ensure that MCP members have access to services covered by Medicaid. A number of other tools are also used to monitor MCP members' access to Medicaid services. Many program changes were needed to support the move from a county-based program to a statewide program, including revisions to the minimum provider panel requirements that

21. MEDICAID – MANAGED CARE (Continued)

would be implemented for the statewide program. The need to process and monitor minimum providers statewide necessitated a more sophisticated computer system for receiving, processing, reporting, and *monitoring MCP provider panel data. The BMHC worked with MIS staff to develop the improved Oracle relational database that was implemented during SFY 2006. Reports from the new database were not immediately available upon implementation of the new database so Bureau staff used an on-screen process for reviewing the MCPs' provider panels. Once the new reports were developed, tested, and operational, the bureau instituted a new monitoring process that now involves the monthly review of an electronic report created for monitoring each MCPs' provider panels. The BMHC's new monitoring process includes documenting the review of each electronic provider panel report. This electronic process promotes a timely review of the minimum provider panel requirement and reduces our previous dependency on paper, while still allowing the ability to print hard copy reports, as needed, for audit or other purposes.*

The database conversion was implemented in SFY 2006, with the newly developed reports available for use beginning December 2006. BMHC implemented the new electronic report review process and resumed the ability to provide documentation of the monthly review of provider panel minimums beginning with December 2006 data.

Anticipated Completion Date for Corrective Action

As noted above, the BMHC implemented correction by January 2007.

Contact Person Responsible for Corrective Action

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22. MMIS – RECERTIFICATION OF PROVIDERS

Finding Number	2006-JFS22-031
CFDA Number and Title	93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

The Ohio Administrative Code 5101:3-1-17 states:

> An "eligible provider" is any individual, group, corporation, or institution licensed or approved by a standard-setting or regulatory agency, and approved for participation in the Medicaid program by the Ohio Department of Job and Family Services ….

The Medicaid Management Information System (MMIS) provides reimbursement to medical providers and managed care entities for services rendered to eligible recipients. The medical providers must complete an application process and possess valid licensure and accreditations before being eligible to receive reimbursement through MMIS. Once the provider is approved, they are marked as active in MMIS and allowed to submit claims for reimbursement until the provider is marked inactive (for example through voluntary withdrawal from MMIS, license becomes invalid, death, etc.). The provider's recertification date, the date when the provider's license will expire if not renewed, is also entered into the MMIS application.

22. MMIS – RECERTIFICATION OF PROVIDERS (Continued)

For in-state physicians, osteopaths, and podiatrists, ODJFS has a process in place to receive information from the Ohio medical boards regarding license renewals and disciplinary actions. Recertification data for these providers is updated in MMIS on a monthly basis.

For all other licensed providers, such as dentists, nurses, chiropractors, etc., ODJFS relies on the providers for notification of any change in status. As of April 2006, 23,602 (25%) of the 93,053 active medical providers on the MMIS provider master file had an expired recertification date. Ohio Health Plan management does not research or resolve any providers with expired recertification dates.

Without periodic review to ensure providers have met licensure and/or accreditation requirements, ineligible providers marked as active may receive reimbursement from the Medicaid program. Inappropriate reimbursement of federal claims could subject the Department to possible federal sanctions.

According to Ohio Health Plan management, the department has decided that instead of earmarking license expiration dates, they will implement a redesign of the provider master file implementing advanced functionality for denying claims of providers whose licenses are not current in the provider master file. As of August 8, 2006 the Department began denying claims of certain unlicensed durable medical equipment providers. The Department will phase in the process of denying claims of other unlicensed providers, but this phase-in process will extend beyond the original expected completion date of July 2007.

We recommend that ODJFS work with the medical licensing boards to verify all Medicaid providers possess a valid license or accreditation. The Department should establish a process to review potentially ineligible providers and provide timely inactivation in MMIS when ineligibility is established. The process should ensure their active status is correct. We also recommend the Department implement detective controls to regularly report and review all providers with an expired recertification date.

Corrective Action Plan

The ODJFS concurs with the Auditor's recommendations that the OHP Provider Master file should be up to date and contain only those providers who are active and certified. We would like to note, however, that certain constraints prohibit OHP from removing inactive providers from the file.

During this past year, the Office of Ohio Health Plans (OHP), continued to explore several avenues to assure that the provider master file contains accurate information. The ODJFS has proposed budget language in Sub. H.B. No.119 which is pending in the Senate Finance and Financial Institution Committee now (June 7, 2007) to:

- *Require providers to obtain a time limited provider agreement*

The time limited process will require providers to re-enroll with the department
It is the department's belief that time limited provider agreements will further reduce the opportunity for providers to be listed on the provider master file without the appropriate certification.

Furthermore, OHP is in the process of undertaking the large task of correlating the National Provider Identifier (NPI) with the Ohio Medicaid Legacy number. Although not directly related to this finding, in order to correlate the two numbers (NPI and Medicaid Number), staff have daily opportunities to be in the provider master file, and do make changes as they find them and as are appropriate. This ***does not*** *mean that correlating the NPI and the Medicaid number are a means to making changes regarding certifications, by virtue of the need to update the master file, the opportunities are increased to find and correct information.*

- *Work with the Board of Nursing*

22. MMIS – RECERTIFICATION OF PROVIDERS (Continued)

During this past year, a staff member has been assigned to attend the Board of Nursing public meetings and to access the Board's minutes. We continue to have a vision of working with all of the provider boards as our human capital resources permit.

Anticipated Completion Date for Corrective Action

ODJFS will implement the time limited provider agreements as soon as the effective date identified in the budget bill once it is signed by the Governor. Longer term, we still anticipate that the procurement of a new payment processing system, the Medicaid Information Technology system (MITS), will alleviate many of the limitations of our current processing system. The ability to deny claims based upon a past dated certification date is anticipated to be a business requirement for the new processing system. HB 119 (as of June 7, 2007) also includes financial support for the new payment processing system; however, full implementation of MITS is not expected approximately for three years from the July 2007 effective date of the contract to build the system .

Contact Person Responsible for Corrective Action

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23. MMIS – PROVIDER MASTER FILE CHANGES

Finding Number	2006-JFS23-032
CFDA Number and Title	93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

To help ensure data integrity, it is prudent that data input for electronic processing be properly authorized and accurately input. Another method of ensuring data integrity is to establish a separation of duties among those inputting data and those reviewing and approving the data. Additionally, in situations where data is incorrectly input, procedures are established for the correction and resubmission of erroneous input data.

The Medicaid Management Information System (MMIS) provides reimbursement to medical providers and managed care entities for services rendered to eligible recipients. Medicaid providers submit changes to their Medicaid accounts to the Ohio Health Plans (OHP). OHP then inputs the changes into the MMIS Provider Master file for processing. Current procedures require change requests are to be documented, authorized, date stamped by the individual entering the data, and stamped by the supervisor who reviews the data entered. However, during the FY06 testing of changes to the Provider Master file, the following exceptions were noted:

- 3 of the 70 (4%) change requests sampled had no supporting change documentation.
- 10 of the remaining 67 (15%) changes tested did not have supporting evidence of authorization or approval by the provider.
- 31 of the remaining 67 (46%) were missing the date stamp of the Provider Enrollment staff who entered the change.

23. MMIS – PROVIDER MASTER FILE CHANGES (Continued)

- 64 of the remaining 67 (95%) were missing the stamp of the supervisor or lead worker who should have reviewed the change.

- 9 of the 70 (13%) changes could not be verified as correct in production because the documentation was incomplete.

Of the 67 changes that could be tested, 50 related to the provider being terminated or made inactive and 11 related to changes in the providers group. Based on discussions with ODJFS personnel, an edit report listing these changes is generated which is reviewed by OHP staff to determine if additional follow-up is required. If, through this follow-up, the provider claim record shows that claims have been submitted and paid for dates of service after the termination date, that record is updated in the PMF with the appropriate termination date and the provider record is then referred to the Office of Research, Assessment and Accountability for an analysis of whether any overpayment recovery efforts need to be implemented. We were able to determine through our testing that a report was in place identifying provider status changes with an effective date of 120 days or older. As a result, no costs were questioned.

If a provider's status is updated incorrectly, non-eligible providers or provider groups could receive reimbursement from Medicaid. In addition, if a provider's address is updated incorrectly, correspondence will be returned as undeliverable and the provider will have to work with OHP to have the error corrected, which could cost several hours of personnel research time and additional postage and handling charges to resend correspondence.

According to OHP management, as of June 2006, the management analyst assigned to complete reviews of provider changes was working on changes made in January 2006 and after. In addition, management indicated there were no requirements during the audit period to provide change documentation approvals since an independent analyst was tasked to review all the entered changes for completeness and accuracy. The review process did not occur in compliance with managements' intentions.

We recommend that management ensure that all change documentation, including evidence of data entry and review, be maintained for each change made to the Provider Master File. Also, management should emphasize to their data entry personnel to check the data they have input when making changes to the MMIS Provider Master file. We also recommend that Ohio Health Plan Management assign an employee to periodically conduct and document reviews of the change requests input to the MMIS Provider Master file. It is also important that, when errors are identified, they are corrected immediately.

Corrective Action Plan

The department does not fully agree with the following portion of this finding. In 2005 the Bureau of Plan Operations (BPO), in conjunction with MMIS and the Ohio State Medical Board, endeavored to make improvements in the processing of termination of provider records (specifically records of Osteopaths, Physicians, and Podiatrists) where the providers' license has lapsed or expired. The goal was to automate the process wherever possible. MMIS auto terminates provider records in the provider master file (PMF) based on the Ohio State Medical Board file match for reasons such as the providers' retirement or death. Provider Network Management (PNM) staff also terminate providers' records in the PMF using the Ohio State Medical Board licensing files because the provider failures to renew their medical license. These improved electronic based processes do not depend upon the provider's approval of the change to their provider record in the PMF. Where possible a paper copy of the documentation of the change to the provider record will be filed in the provider's file. The documentation of the change in the PMF is stored in the MMIS system in the BOMM reports provided to the department and copies of the BOMM reports can also be found in BPO.

23. MMIS – PROVIDER MASTER FILE CHANGES (Continued)

For those changes which must be manually done and where a date stamp and staff initializing changes are appropriate, the following steps have been taken:

a. *The Quality Assurance staff person has been provided a stamp indicating their initials and date for use on all reviews.*
b. *Supervisory staff will be counseled concerning the reportable findings and a provision will be added to their quarterly evaluations concerning their compliance with the requirement to initial and date stamp the review of line staff work.*
c. *Line staff will be counseled regarding the incomplete or missing documentation and a provision will be added to their quarterly evaluations on compliance with the documentation requirement.*

Anticipated Completion Date for Corrective Action

Date stamp has been received by the Quality Assurance staff person. Counseling of staff begins June 14, 2007. Changes to staff quarterly evaluations will be implemented in the next quarter beginning July 2007.

Contact Person Responsible for Corrective Action

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24. VARIOUS PROGRAMS – CODING ERRORS

Finding Number	2006-JFS24-033
CFDA Number and Title	93.563 – Child Support Enforcement 93.658 - Foster Care 93.659 - Adoption Assistance 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health & Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

It is management's responsibility to consistently and efficiently track and compile financial data related to federal program activities. This is typically accomplished through the use of a chart of accounts with enough detail to reasonably ensure financial information can be gathered and organized to allow management to 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 Departmental perspective for each program as a whole.

We identified the following errors/inconsistencies in revenue and expenditure coding for state fiscal year 2006:

24. VARIOUS PROGRAMS – CODING ERRORS (Continued)

A. Child Support Enforcement (CFDA #93.563):

- $7,094,453 of state fiscal year 2006 expenditures were recorded as disbursements from the federal fiscal year 2005 grant L481 in the Central Accounting System (CAS). However, revenue draws supporting these expenditures originated from the federal fiscal year 2006 award, grant number M083.

- $12,344,583 of state fiscal year 2006 expenditures were recorded as disbursements from the federal fiscal year 2003 grant K140 in CAS. However, these expenditures should have been coded as State Funds Only (STFO) since they involved intrastate transfers of tax refund child support collections and were not directly drawn from Federal funds.

- $79,457,108 of state fiscal year 2006 expenditures were recorded as disbursements from the federal fiscal year 2005 grant L481 in CAS. However, these expenditures should have been coded as State Funds Only (STFO) since they involved intrastate transfers of tax refund child support collections and were not directly drawn from Federal funds.

B. Foster Care (CFDA #93.658):

- $662,384 of state fiscal year 2006 expenditures were recorded as disbursements from the federal fiscal year 2002 grant J686 in CAS. However, revenue draws supporting these expenditures originated from the federal fiscal year 2005 award, grant number L473 or the federal fiscal year 2006 award, grant number M089.

- $1,824 of state fiscal year 2006 expenditures were recorded as disbursements from the federal fiscal year 2005 grant L473 in CAS. However, revenue draws supporting these expenditures originated from the federal fiscal year 2006 award, grant number M089.

C. Adoption Assistance (CFDA #93.659):

- $53,002 of state fiscal year 2006 expenditures were recorded as disbursements from the federal fiscal year 2005 grant L471 in CAS. However, revenue draws supporting these expenditures originated from the federal fiscal year 2006 award, grant number M090.

D. Medicaid (CFDA #93.778):

- $346,206 of state fiscal year 2006 expenditures were recorded as disbursements from the federal fiscal year 2004 grant K163 in CAS. However, revenue draws supporting these expenditures originated from the federal fiscal year 2005 award, grant number L476.

- $27,823 of state fiscal year 2006 expenditures were recorded as disbursements from the federal fiscal year 2005 grant K774 in CAS. However, revenue draws supporting these expenditures originated from the federal fiscal year 2006 award, grant number M094.

- $1,517,060 of state fiscal year 2006 expenditures were recorded as disbursements from the federal fiscal year 2005 grant K774 in CAS. However they should not have been recorded as grant expenditures since they were redistributions of HCAP refunds from several hospitals.

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. Inaccurate coding increases the risk of misstatements in amounts included on any internal or external reports, which could subject the Department to fines and/or sanctions or a reduction in future federal funding. Although these items did not result in questioned costs because the reimbursements were drawn from the correct federal program or they were not actually federal funds, other items did result in questioned costs related to period of availability – see comment 2006-JFS03-012. Based on various discussions with ODJFS' personnel, it appears the reason these funds were coded incorrectly was due to a lack of coordination between various bureaus with the Department regarding to which grants expenditures and related draws should be coded.

24. VARIOUS PROGRAMS – CODING ERRORS (Continued)

We recommend ODJFS management develop and implement policies and procedures requiring a periodic comparison of financial activity recorded in the State's accounting system to the Department's chart of accounts and internal accounting records. This could be accomplished by utilizing the Crystal Reports software currently maintained by ODJFS. Information maintained in the State's accounting system could be exported and organized as to identify all coding variables which are not included on or consistent with the Department's chart of accounts. Any discrepancies or unusual activity should be documented, investigated, and any necessary corrective actions implemented. We also recommend the Department take whatever steps necessary to improve coordination between the bureaus responsible for expenditures and related Federal draws.

Corrective Action Plan

We agree with the finding. A process was developed and implemented on April 1, 2005, for catching erroneous grant codes on disbursement/expenditure transactions and communicating the need to process coding corrections for those transactions, to include following up to make sure the corrections are posted in the Central Accounting System. We will review these processes and implement any necessary enhancements to assure erroneous grant codes are corrected in the Central Accounting System as the system permits. We will also prepare and review routine reports that will identify grant coding errors for those transactions not considered during the performance of the routine process identified above.

VSUEs and ISTVs are not currently a part of the process listed above but will be included going forward. The coding errors have been corrected in SFY '07.

Anticipated Completion Date for Corrective Action

The corrective action plan is in place as described above and is an on-going process. It is anticipated that the VSUEs and ISTVs will be incorporated in SFY '08 (beginning July 1, 2007).

Contact Person Responsible for Corrective Action

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25. UNEMPLOYMENT INSURANCE – INTERNAL CONTROLS

Finding Number	2006-JFS25-034
CFDA Number and Title	17.225 – Unemployment Insurance
Federal Agency	Department of Labor

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

OMB Circular A-133, § _.300, states in part:

The auditee shall:

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

25. UNEMPLOYMENT INSURANCE – INTERNAL CONTROLS (Continued)

JFS has established certain internal controls for its administration of the Unemployment Insurance (UI) federal program. Based on testing performed, JFS did not consistently apply these controls during fiscal year 2006 or the controls did not achieve the intended purpose. We noted the following conditions:

- JFS received deposits of money known as “overpayment” receipts that consist of the reimbursement of benefit payments, originally paid to claimants and later returned (paid back to JFS) when a determination was made, through either the identification of an error or an appeal process, that a claimant received benefit payments in excess of the benefits for which the claimant was eligible. The original benefit payments for which the overpayment was paid back could have been made from several different benefit types, including regular benefits, unemployment compensation for ex-servicemen, unemployment compensation for federal employees, temporary extended unemployment compensation, disaster unemployment assistance, and trade adjustment assistance. Transactions for the disaster and trade assistance benefit types are recorded in separate physical accounts; the other benefit types are recorded in the benefits custodial account. JFS is required to track and report to DOL the activity for each type of benefit separately. However, the Department’s new Ohio Job Insurance (OJI) system was not able to accurately identify or record the type of benefit overpayment being repaid and credit it back to the original source. OJI credited the overpayment collections to the benefits custodial account as a return of regular benefits. Thus, this condition resulted in the individual types of benefits not reflecting the transaction activity correctly, although the total amount of all benefits combined was not affected. Individual employer accounts did not appear to be affected by this miscoding in OJI. During the year JFS received $6,495,925 in 25,419 overpayment reimbursements. The Attorney General’s Office collected $6,976,921.

- During discussions with the Chief of the Benefit Payment Control section, we noted that JFS did not have any controls in place to review and determine the accuracy of amounts on the quarterly ETA 227 reports. Amounts are pulled from the OJI system and sent to the DOL without any verification of the accuracy of the amounts.

- A control failure was noted for one of the two quarterly ETA 191 reports tested; the UC Manager 2 in the Benefits Finance section did not review the report that was submitted to the Labor Market Information (LMI) section for the 4th quarter of SFY 2006. LMI actually submits the report to DOL.

When controls are not consistently applied or applied too late to prevent an error, there is a risk that fraudulent, inaccurate and incomplete transactions may be processed and assets/resources of the Department could be compromised and irregularities could occur without being detected in a timely manner or at all. Without adequate documentation of controls, management cannot be assured the controls are working as intended or provide evidence to persons external to the organization, such as auditors. JFS management stated that they were aware of the overpayment reimbursement problem and is working with the IT staff to correct it. JFS is also aware of the lack of controls in place for the ETA 227 report and steps are being taken to implement controls. The error for the ETA 191 report was considered an oversight.

We recommend the Department apply their control procedures consistently and in a timely manner so as to achieve their intended purpose. Specifically, we recommend JFS should continue with its revision of the OJI system to identify the type of benefit payments from which the overpayments were made so that repayment of such amounts can be credited back to the appropriate benefit type and account; establish and document controls to review amounts on the ETA 227 reports before submission; and consistently follow the documented controls in place for the ETA 191 reports. We also recommend that management periodically monitor the established procedures to help ensure they are being performed timely, consistently, and effectively.

25. UNEMPLOYMENT INSURANCE – INTERNAL CONTROLS (Continued)

Corrective Action Plan

Issue One:
We agree with the audit finding. UC Benefits and Finance staff are working with MIS staff to resolve OJI defect #9088 submitted on March 29, 2005. Once the correction is promoted, the funding sources of the all reimbursements will be identified retroactively so that the funds can be credited back to correct fund type in one lump sum. Then, all future reimbursements will be transferred a daily basis. This activity will be tracked by Finance in compliance with DOL requirements.

A remedy was promoted on 2/15/07, however, the report is currently unable to provide a breakdown of the Attorney General certified repayments. Thus, we are unable to identify 100% of all funding sources. A subsequent remedy is in process.

As a work-around, all reimbursements entered by Finance staff after 5/31/07 will be credited on a daily basis. Reimbursements entered by the AG after 5/31/07 will be credited weekly since the AG sends us the money on a weekly basis.

Issue Two:
*We agree with the audit finding. The ETA-227 was submitted past due two times out of four during the July 1, 2005 through June 30, 2006 audit year. However, since October 2006 the report has consistently been timely. This indicates that the timeliness issues have been successfully resolved. New procedures were enacted after the end of the audit period to verify the accuracy of the amounts on the report.
This issue is now considered resolved.*

Issue Three:
We agree with the audit finding. The 4th quarter, SFY 2006 ETA191 report was checked for accuracy by the Benefits Finance Support unit staff and approved by the unit supervisor according to established procedures and submitted timely by LMI to the DOL.

The benefits finance support supervisor in charge of authorizing the submission of the 4th quarter report to the DOL was new to the position at that time and new to the process. He gave LMI a verbal authorization to submit the report instead of our normal method of email. The unit procedures manual has been updated to provide more explicit instructions regarding the authorization process. This issue is now considered resolved.

Anticipated Completion Date for Corrective Action

Issue One:	*Completed 5/31/07*
Issue Two:	*Completed 5/31/07*
Issue Three:	*Completed 5/31/07*

Contact Person Responsible for Corrective Action

John Herold, Acting Section Chief, Ohio Department of Job & Family Services, 4020 E. Fifth Avenue, Columbus, OH 43216, Phone: (614) 466-9270, e-mail: herolj@odjfs.state.oh.us

26. TRADE ADJUSTMENT ASSISTANCE – FEDERAL REPORTS

Finding Number	2006-JFS26-035
CFDA Number and Title	17.245 – Trade Adjustment Assistance-Workers
Federal Agency	Department of Labor

INTERNAL CONTROL – REPORTABLE CONDITION

JFS is required to submit the following reports to the Department of Labor (DOL) in connection with the administration of the Trade Adjustment Assistance (TAA) federal program:

- *Trade Act Participant Report* (TAPR) (*OMB No. 1205-0392*) – State Employment Security Agencies are required to submit quarterly reports on participant characteristics, services and benefits received, and outcomes achieved. "Electronic TAPR files are due to the Department no later than 45 calendar days after the end of each quarter of reporting." (ETA TAPR General Reporting Instructions and Specifications, revised 2006)

- ETA 563, *Quarterly Determinations, Allowance Activities and Reemployment Services Under the Trade Act (OMB No. 1205-0016)* - This report is due quarterly from each State Workforce Agency. The report details quarterly activities for each petition in the state and is due "by the last day of the month following the end of the reporting period which the reports cover" (ETA Handbook No. 315, Chapter III, 2d).

It is management's responsibility to implement control policies and procedures to reasonably ensure the federal reports they submit are accurate, complete, and in compliance with program requirements. It is imperative that management be able to provide the underlying data and related program documentation required to prepare and support these reports.

JFS did not have control procedures in place during the year to review and approve the ETA 563 reports for accuracy and completeness before submitting the reports. In addition, JFS was able to furnish only limited documentation to support the data shown on the ETA 563 reports. Furthermore, JFS did not submit the ETA 563 report for the October-December 2005 quarter, in final correct format accepted by DOL, until March 13, 2006 or nearly a month after it was due. JFS also did not submit the TAPR report for the October-December 2005 quarter, in final correct format accepted by DOL, until March 28, 2006 or 13 days after it was due. This report had already received a one-month extension from the DOL.

If the underlying data for the reports cannot be readily verified, the Department and the federal government may not be reasonably assured the information is accurate and complete. Submitting the reports late could subject the Department to federal sanctions, limiting the amount of funding for program activities. JFS management stated the relatively new Ohio Job Insurance system was designed to generate the ETA 563 report without staff intervention, but the program's report modules are not working as intended.

We recommend the Department devise and implement policies and procedures to provide reasonable assurance the federal reports are accurate, complete, submitted timely, and in compliance with federal requirements. At a minimum, the controls should include a review of the reports and verifying the amounts on them before the reports are submitted. In addition, the Department should maintain appropriate supporting documentation for the reports and copies of the reports submitted. We also recommend management periodically monitor the preparation and accuracy of these reports and formally document their reviews.

26. TRADE ADJUSTMENT ASSISTANCE – FEDERAL REPORTS (Continued)

Corrective Action Plan

We agree with the auditor in this finding. Ohio has worked diligently on moving the ETA-563 report from an entirely manual process to an automated one. New reporting requirements were identified January 2007; these changes affect the programming logic for this report data; Business Rules have been written and established through OJI to effectively and efficiently pull the data for new requirements for this report. The submission date has been extended to be able to accommodate the new requirements. The TAA unit has implemented an automated process for reconciliation of the data which proved adequate to the Auditors. The TRA unit has implemented a similar process for reconciliation for future reports, and the Auditors have conceded the reconciliation is adequate. In addition, the report will be reviewed and signed off by the Unit Section Chief prior to submission. We believe this exception has been corrected.

Anticipated Completion Date for Corrective Action

Completed. No further action necessary.

Contact Person Responsible for Corrective Action

Elaine Haley, Assistant Section Chief, Trade Section, Ohio Department of Job & Family Services, 4020 E. Fifth Avenue, Columbus, OH, 43215, Phone: (614) 466-5428, e-mail: Haleye@odjfs.state.oh.us

27. SOCIAL SERVICES BLOCK GRANT – INCOMPLETE MONITORING

Finding Number	2006-JFS27-036
CFDA Number and Title	93.667 – Social Services Block Grant
Federal Agency	Department of Health and Human Services

INTERNAL CONTROL - REPORTABLE CONDITION

Federal regulations require management to devise and implement an adequate internal control structure capable of providing them with reasonable assurance their objectives are being achieved. The Ohio Department of Job and Family Services (JFS) 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 2006, JFS disbursed approximately $113.5 million in SSBG funds to the counties (approximately 93% of the total program). This includes approximately $74 million in funds transferred by JFS to SSBG from the Temporary Assistance for Needy Families (TANF) Program which has restrictions on its use. The Department has not designed appropriate monitoring procedures to provide reasonable assurance the county agencies were in compliance with federal requirements related to the SSBG program. The Department's Bureau of Audit (BOA) conducted several on-site reviews of the county agencies during the fiscal year. In November 2005, BOA developed and implemented a series of changes to their county audit procedures which included segregated testing of contract expenditures (e.g., TANF, SSBG), procedures to reasonably ensure counties were properly determining program eligibility, and procedures to evaluate the allowability and appropriateness of the benefits paid. BOA did not document the program requirements when determining eligibility for SSBG or provide sufficient audit detail to recalculate a recipient's eligibility determination. In addition, there was no evidence to indicate BOA reviewed the SSBG charges paid from the TANF transfer funds.

27. SOCIAL SERVICES BLOCK GRANT – INCOMPLETE MONITORING (Continued)

Without performing adequate monitoring procedures and/or maintaining the necessary supporting documents, management may not be reasonably assured the Department is in compliance with federal program requirements. This increases the risk that necessary corrective actions may not be properly or timely implemented resulting in noncompliance, and/or fines or penalties which could adversely affect program funding. According to BOA Management, program eligibility requirements and/or determinations were not thoroughly documented since the staff performing the work is trained in these specific areas. In addition, BOA was unable to provide the auditors with the necessary documentation to evidence their review of the TANF transfers.

We recommend JFS strengthen their monitoring procedures of county activities and implement procedures to ensure proper documentation is maintained at all levels. These monitoring procedures should cover all programmatic and financial requirements of the program, including those related to the TANF transfers. Particular attention should be paid to the eligibility requirements included in the OMB Circular A-133 Compliance Supplement. These procedures may include, but are not limited to, periodic on-site reviews of county operations and federal program compliance by SSBG program staff members and/or other qualified JFS personnel. The procedures should be performed timely, thoroughly documented in which a reviewer could re-calculate eligibility, and reviewed by appropriate supervisory personnel.

Corrective Action Plan

ODJFS is currently in the process of a general review of our county audit/monitoring process. As part of this process, we will review the federal requirements for monitoring of our county subrecipients and determine the appropriate extent of monitoring for the SSBG program, including the extent to which the necessary monitoring is to be provided by the Bureau of Audit auditing process or by other recognized monitoring procedures and/or administrative units within ODJFS. The resulting process will involve considerations of risk and cost effectiveness and will be sufficient, in the opinion of ODJFS executive management, to satisfy the department's monitoring obligation as a pass-through entity

Anticipated Completion Date for Corrective Action

December 31, 2007

Contact Person Responsible for Corrective Action

William C. Severns, Bureau Chief, Bureau of Audit, Ohio Department of Jobs & Family Services, 4020 E. 5th Ave., P.O. Box 1618, Columbus, Ohio 4321-1618, Phone: (614) 644-2219, e-mail: severb@odjfs.state.oh.us

28. MISSING DOCUMENTATION – VARIOUS COUNTIES

Finding Number	2006-JFS28-037
CFDA Number and Title	10.551/10.561– Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.575/93.596 – Child Care Cluster 93.775/93.777/93.778 – Medicaid Cluster 93.767 – State Children's Insurance Program
Federal Agency	Department of Agriculture Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

When administering federal grant awards for the Ohio Department of Job and Family Services (ODJFS), it is each County Department of Job and Family Services managements' responsibility to provide reasonable assurance that only eligible individuals receive assistance and information reported to ODJFS is accurate and complete. In order for county management to ensure and verify this, it is imperative that appropriate supporting documentation be maintained for all amounts reported and case files contain all pertinent information relating to the case and be readily accessible for review and/or reference. The ODJFS Administrative Procedure Manual Chapter 9212 states, in part:

> Financial, programmatic, statistical, and recipient records and supporting documents must be retained for a minimum of three years. The minimum retention period for public assistance records depends upon whether the assistance group is active or inactive. ODJFS requires inactive assistance group records to be held for a minimum of three years after the group has become inactive. For active assistance groups, or assistance groups that have been inactive for less than three years, ODJFS requires a minimum retention period of seven years for documentation, including old application/reapplication forms and monthly reporting forms which were obtained for the assistance group record.

ODJFS is responsible for establishing guidelines and regulations for implementation at the county level and for overseeing county activities to reasonably ensure ODJFS is in compliance with federal program requirements.

Three of six counties tested were missing required case file or other documentation for control testing of various programs, as follows. The error rates listed represent the results of testing at the individual counties identified and not for the programs as a whole.

Cuyahoga County – Temporary Assistance for Needy Families

During Direct Program Expenditure testing of six OWF expenditures, out of 6,078, we noted the following:

- Two (33%) PRC Request Forms were not included in the case file.

During Eligibility control testing of 20 TANF PRC case files, out of 6,078, we noted the following:

- Five (25%) PRC applications were not included in the case file.
- Two (10%) PRC Request forms were not included in the case file.
- Eleven (55%) PRC Notices (on decision of eligibility for request) were not included in the case file.

28. MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

Cuyahoga County – Temporary Assistance for Needy Families (Continued)

During Special Tests and Provisions (Child Support Non-Cooperation, Sanctioned) control testing of 20 case files, out of 185, we noted the following:

- Four (20%) Self-Sufficiency Contracts were not included in the case file.
- Five (25%) Self-Sufficiency Plans were not included in the case file.
- Eight (40%) Sanction Intervention Letters were not included in the case files.

During Special Tests and Provisions (Refusal to Work, Sanctioned) control testing of 20 case files, out of 191, we noted the following:

- Six (30%) Sanction Intervention Letters were not included in the case file.

During Special Tests and Provisions (Refusal to Work, Non-Sanctioned) control testing of 20 case files, out of 24,882, we noted the following:

- Three (15%) Self-Sufficiency Contracts were not included in the case file.
- Three (15%) Self-Sufficiency Plans were not included in the case file.

During Special Tests and Provisions (Adult Custodial Parent with Child Under Six when Child Care is Not Available, Sanctioned) control testing of 20 case files, out of 290, we noted the following:

- Five (25%) Self-Sufficiency Contracts/Plans were not included in the case file.
- Five (25%) Sanction Intervention Letters were not included in the case file.

During Special Tests and Provisions (Adult Custodial Parent with Child Under Six when Child Care is Not Available, Non-Sanctioned) control testing of 20 case files, out of 77,600, we noted the following:

- Four (20%) Self-Sufficiency Contracts or Plans were not included in the case file.

Cuyahoga County – Food Stamp Cluster

During Reporting control testing of 20 Food Stamp case files, out of 1,661, we noted the following:

- Two (10%) benefit recovery claim case files were either missing or misplaced.

Lucas County – Temporary Assistance for Needy Families

During eligibility control testing of 10 OWF case files, out of 7,050, we noted the following:

- One (10%) did not have the physical copy of the Employability Contract and Plan (ECP).

During Special Tests and Provisions control testing (Non-Cooperation with Child Support Sanctions) of 20 case files, out of 2,460, we noted the following:

- Seven (35%) did not have the physical copy of the Employability Contract and Plan (ECP).

During Special Tests and Provisions control testing (Non-Cooperation with Child Support Not Sanctioned) of 20 case files, out of 102, we noted the following:

- Three (15%) referrals for sanction (AEIGC) could not be located.
- Fourteen (70%) did not have a physical copy of the Employability Contract and Plan (ECP).
- Eleven (55%) case files could not be located.

28. MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

Lucas County – Temporary Assistance for Needy Families (Continued)

During Special Tests and Provisions control testing (Refusal To Work Sanctions) of 20 case files, out of 2,358, we noted the following:

- Four (20%) did not have a physical copy of the Employability Contract and Plan (ECP).
- Two (10%) case files could not be located.
- One (5%) work activities referral form (Form 1505) could not be located.

During Special Tests and Provisions control testing (Refusal To Work Not Sanctioned) of 20 case files, out of 4,692, we noted the following:

- Four (20%) case files could not be located.
- Eight (40%) did not have a physical copy of the Employability Contract and Plan (ECP).

During Special Tests and Provisions control testing (Adult Custodial Parent with Child Under Six Sanctions) of 20 case files, out of 2,136, we noted the following:

- Three (15%) did not have a physical copy of the Employability Contract and Plan (ECP).

During Special Tests and Provisions control testing (Adult Custodial Parent with Child Under Six Not Sanctioned) of 20 case files, out of 1,268, we noted the following:

- Three (15%) did not have a physical copy of the Employability Contract and Plan (ECP).

Franklin County – Temporary Assistance for Needy Families

During Special Tests and Provisions control testing for the TANF program, we noted the following:

- Three out of 10 (30%) case files tested had Self Sufficiency Contracts missing from the recipient's case file. Therefore, no evidence exists within the case file that the recipient ensured that they were aware of the program's requirements/penalties and that they will comply with the plan provided. Additionally, no evidence exists within the case file that the case manager stated that FCDJFS will comply with the obligations noted within the contract.

- One out of 20 (5%) case files tested for Child Support Non-Cooperation had no letter of notification maintained on CRIS-E. Therefore, the auditor could not verify that the recipient received notification that they were in violation of the program's requirements and their benefits were being reduced or cancelled.

- Six out of 20 (30%) case files tested for Refusal to Work had no letter of notification maintained on CRIS-E. Therefore, the auditor could not verify that the recipient received notification that they were in violation of the program's requirements and their benefits were being reduced or cancelled.

- For five out of 20 (25%) case files tested for Refusal to Work, the FCDJFS was unable to locate the case file and/or the timesheet. Therefore, the auditor could not verify that the recipient complied with his/her Self Sufficiency Contract (SSC), and worked the required number of hours.

- For three out of the 15 (20%) case files tested for Refusal to Work, the case file did not contain the recipient's new Self Sufficiency Contract following their renewal after the sanction period. Therefore, the auditor could not verify that the recipient and the caseworker came to an agreement to ensure program compliance in order to continue receiving benefits.

28. MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

Franklin County – Child Care Cluster

During Eligibility control testing for the Child Care Cluster, we noted the following:

- For five out of 20 (25%) case files selected, the auditor noted that no Child Care Application could be located within the case files.

- For five out of 20 (25%) case files selected, verification documentation was not placed in the recipient's case file.

- For nine out of 20 (45%) case files selected, no final approval documentation was available within the case files. In some cases, no documentation was located, while in others some of, but not all of the documentation could be located.

Franklin County – Medicaid Cluster

During Eligibility control testing for the Medicaid Cluster, we noted the following:

- For one out of 10 (10%) case files tested, the recipient's case file could not be located. Therefore, no evidence exists within the case file that the application/re-application verification checklist was completed, the required verifications were submitted, and an application was completed and that the applicant agreed to the program's eligibility terms.

Franklin County – State Children's Insurance Program

During Eligibility control testing for the SCHIP program, we noted the following:

- For three out of the 20 (15%) case files tested, the recipient's current application and required verifications were missing. We also noted that for three out of the 10 (30%) case files tested, the application/re-application verification checklists were missing. Therefore, no evidence exists within the case file that the required verifications were submitted, an application was completed, and that the application/re-application verification checklist was completed.

Without appropriate supporting documentation on file, county personnel may not be able to evaluate the appropriateness of eligibility determinations/denials, reasonably ensure the amount of benefits paid is accurate, or reasonably ensure the designed procedures are in place and operating as management intended. In addition, county and ODJFS management may not be reasonably assured the amounts reported are accurate and complete, that adjustments made to original reports were appropriate, or compliance requirements are being met. Without completing and retaining a copy of the application/agreement, the county may not have a solid legal position to ensure the recipient's compliance with federal regulations.

Cuyahoga County management stated the missing case files and documentation should be in the imaging system or on the caseworker's desk, but could not be located due to the EFS backlog scanning project. Lucas County management indicated the missing documents and case files were the result of the Casework Services Division being understaffed, case loads being significantly high, and the lack of a Centralized Social Service Case Tracking System. Franklin County management indicated the missing documents and case files were due to the number of case files maintained by the Department and frequent movement of the case files.

28. MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

We recommend Cuyahoga, Lucas, and Franklin County 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 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, and revise records retention policies to maintain appropriate documentation for auditing purposes.

Corrective Action Plan

Cuyahoga County:

TANF:

- *Continued monitoring and follow-up will be maintained regarding record/paper flow from the worker's desk into the optically imaged record repository.*
- *The Agency completed a review with all staff in the fall of 2006 to improve staff's technical skills in regard to document saves and signature burning to the imaging repository.*
- *Internal QC reviewers monitor and cite missing documentation in the repository as an error to facilitate correction and follow-up by case work staff. Documentation of errors is provided to team leaders to ensure monitoring and follow-up.*
- *The Agency contracted with an record imaging consultant for a full review of record handling and processing practices in Cuyahoga EFS and received recommendations for process improvements to encompass equipment improvements, software improvements, and general process improvements.*
- *All staff will receive refresher training on document preparation for imaging by August 2007.*
- *Planning is underway to implement recommendations made to improve the overall process of imaging.*

Food Stamps:

In an effort to track the location of files, commencing March 15, 2007, the Investigator Assistant that forwards claim files to the Records Management Department or to Optical imaging shall document the date, case name, case number, and where the file was sent. Periodically, the Investigator Assistant will check to ensure the case is in the appropriate location.

Lucas County:

TANF:

In all instances of missing ECP's under this Finding, it was noted in CLRC that an ECP was signed but the ECP was not found in the case file. Several changes have been implemented to date to address this filing error. First, 7 more staff were hired in October 2006 to reduce caseload size and, therefore, increase case manageability. Increasing the staff size helped to reduce filing errors. Second, support staff are required to open case files for all new clients, eliminating duplicate cases being created, and this change was implemented in September 2006. Third, work activities cases are

28. MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

in the process of being imaged. Imaging is being implemented by using a "day forward" strategy so that Intakes and/or Redeterminations will be imaged as they occur. All supporting case documents will be filed electronically in ON-BASE, therefore eliminating the need to locate a physical copy of the case. The Imaging of the cases is an on-going procedure; however, most existing cases will be imaged by the end of 2008.

New Employees were sending the AEIGC forms back to child support in error which accounted for the referrals not date stamped and signed. Directive sent to workers in June of 2006 stating that referrals were to be kept in the unit for tracking purposes.

This sample is of CSEA referrals of sanctions that could be taken and due to this type of sampling, many of the referrals are not linked to an open work activities case. For example, the case could be a child only case, pending benefits, a closed case, or a work activity exempt case. Some of the missing cases are presumably due to these instances and in many instances the ECP is not in place because the clients are not Work Required.

Agency changed the method of referral from the 1505 paper referral to an electronic Grid that is sent to Data Services clerical directly. All grids are saved electronically to prevent loss. Grids are sent daily in the PM and following day the referral Grid is distributed to Data Services staff. Business day following the date the grid is sent is "the date receipt".

<u>Franklin County:</u>

<u>TANF:</u>

a. As mentioned in other responses to findings, our agency is currently working with Northwoods Consulting Partners on a document management project. Imaging will improve documentation of eligibility decisions and, thus, ensure that appropriate supporting documentation is in the case.
b. Supervisors review cases for correct eligibility and documentation on a regular basis. Attached are the "Supervisor Case Review Sheet" and "Child Care Review Sheet" that supervisors complete during the review process.

<u>Child Care:</u>

The following outlines the action Franklin CDJFS will take to address this finding:
a. A refugee checklist and other handouts have been developed to ensure that the proper documentation is in the case file. The desk aids were sent to staff at the end of 2006. Copies of these handouts are attached.
b. Arrangements are being made with ODJFS to schedule alien training. Attendance at this training will be required and there will be sign in sheets.
c. With the agency remodel, there will initially be dedicated Limited English Proficiency (LEP) units at two of the Community Opportunity Centers, namely the Northeast and West Centers. These two centers have the highest alien population at this time. Ultimately, all five of the Opportunity Centers will have LEP units to accommodate our alien population.
d. Alien supervisory reviews will be completed in the LEP units.
e. Our agency is currently working with Northwoods Consulting Partners on a document management project. Imaging will improve documentation of eligibility decisions and, thus, ensure that appropriate supporting documentation is in the case.

28. MISSING DOCUMENTATION – VARIOUS COUNTIES (Continued)

Medicaid:

As mentioned, our agency is currently working with Northwoods Consulting Partners on a document management project. Imaging will improve documentation of eligibility decisions and, thus, ensure that appropriate supporting documentation is in the case. Our agency has dedicated resources in the file area to purge case records in preparation for the Northwoods project.

State Children's Insurance Program:

As mentioned, our agency is currently working with Northwoods Consulting Partners on a document management project. Imaging will improve documentation of eligibility decisions and, thus, ensure that appropriate supporting documentation is in the case. Our agency has dedicated resources in the file area to purge case records in preparation for the Northwoods project.

Anticipated Completion Date for Corrective Action

September 2007

The implementation date for the corrective action plan is (was) 3/15/07. The plan is currently being utilized and will be audited quarterly (6/15, 9/15, 12/15) to determine if further controls are necessary.

Lucas County:

Most corrective actions have been implemented to date. Imaging is on-going and to be completed by February, 2008.

Franklin County:

The Northwoods imaging project is expected to begin in July 2007 and should be completed in 2008. Case reviews are currently being completed by supervisors on a regular basis. Additional support is currently working in the file area to purge case records.

Contact Person Responsible for Corrective Action

Cuyahoga County:

Jacquelon Ward, Manager EFS Participant Services, Cuyahoga County Department of Jobs & Family Services, 1641 Payne Ave Rm 520 Cleveland, Ohio 44140, Phone: (216) 987-6387, e-mail: wardj02@odjfs.state.oh.us

Lucas County:

Jamalica Dudziak, Work Activities Program Administrator, Lucas County Department of Jobs & Family Serivces, 3210 Monroe St., Toledo, Ohio 43699, Phone: (419) 213-8470, e-mail: Dudzij@odjfs.state.oh.us

Franklin County:

Esther Adkins, Assistant Director, Franklin County Department of Jobs & Family Services, 80 E. Fulton Street, Columbus, Ohio 43215, Phone: (614) 462-6066, e-mail: eadkins@fcdjfs.franklincountyohio.gov

29. INFORMATION TECHNOLOGY – MISSING/INCOMPLETE PROGRAM CHANGE FORMS

Finding Number	2006-JFS29-038
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 17.225 – Unemployment Insurance 93.558 – Temporary Assistance for Needy Families 93.563 – Child Support Enforcement 93.658 – Foster Care 93.659 – Adoption Assistance 93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services Department of Labor

INTERNAL CONTROL – REPORTABLE CONDITION

The following is stated in the ODJFS Information Security Policy, section 27.1, "Change Control Procedures:"

> In order to minimize the corruption of information systems, there should be strict control over the implementation of changes. Formal change control procedures should reasonably ensure that security and control procedures are not compromised, that support programmers are given access only to those parts of the system necessary for them to perform their jobs, and that formal interdisciplinary agreement and approval for any change are obtained. This process should include:

- Maintaining a record of agreed upon authorization levels including:
  - IT support team focal point for change requests;
  - user authority for submission of change requests;
  - user authority levels for acceptance of detailed proposals;
  - user authority for the acceptance of completed changes;
- Only accepting changes submitted by authorized users.
- Reviewing security controls and integrity procedures to ensure that they will not be compromised by the changes.
- Identifying all computer software, data files, database entities and hardware that require amendment.
- Obtaining approval for detailed proposals before work commences.
- Ensuring that changes are accepted by the authorized user before implementation.
- Ensuring that the system documentation set is updated on the completion of each change and that old documentation is archived or disposed of.
- Maintaining a version control for all software updates.
- Maintaining an audit log of all change requests.

29. INFORMATION TECHNOLOGY – MISSING/INCOMPLETE PROGRAM CHANGE FORMS (Continued)

During the FY06 audit, the following results were found:

Application	Number of Changes Sampled	Number of Undocumented Changes	Number of Changes With Incomplete Documentation
MMIS	14	0	1 (7%)
CRIS-E	18	0	12 (67%)
SETS	28	0	14 (50%)
FACSIS	4	1 (25%)	0
OJI (Front-End)	36	2 (6%)	33 (92%)
OJI (Back-End)	24	0	23 (96%)

Without following standardized procedures for modifying application programs, the risk is increased that unauthorized change requests could result in program changes being made in noncompliance with management's original intentions, requirements, or objectives. According to MIS management, the incomplete program change documentation occurred as a result of the limitations in the overall mandatory control features within the Test Director tool that OJI was utilizing during the audit.

We recommend that ODJFS complete the change request forms in their entirety before moving changes into production. Appropriate approvals should be obtained and documented at all required stages of the program change cycle to ensure updated applications are operating as intended. Management should periodically verify that these controls are functioning as intended.

Corrective Action Plan

<u>OJI</u>
The OJI application was implemented in August 2004. Customer requests were entered into the Test Director product and tracked through the development process.

The OJI Section has migrated from Test Director into the mainstream JFS MIS Dimensions tool as of January 2007. This move to Dimensions will help to ensure that issues identified within this finding are avoided as change requests are mandatory within the dimensions enterprise change flow. The Customer Service request is the starting point for all work related activity within Dimensions. Implementation of this tool will provide assurance that program change request forms are always present.

<u>CRIS-E</u>
The Eligibility Systems section has recently procured Mercury Interactive's Quick Test Pro, and has a set of thirty (30) automated test scripts which are being used for testing the CRIS-E application. The use of Quick Test Pro will continue to grow as we expand our testing capacity with new test database environments and on-line regions, with the goal of full system regression testing for all major planned releases.

In addition, both the eICMS and TANF-WRT applications were load-tested using Mercury Interactive's LoadRunner tool prior to production deployment, after major enhancements were made by in-house developers. This testing enabled us to catch issues that otherwise would only have been found in production, when the entire user population was accessing the application(s).

29. INFORMATION TECHNOLOGY – MISSING/INCOMPLETE PROGRAM CHANGE FORMS (Continued)

FACSIS
The team handling FACSIS will use the Merant Dimensions product in order to mitigate this finding.

MMIS
Medical Systems utilizes current tools, Dimensions, to manage our change process. Medical Systems has designed application rule changes to Dimensions that improve the compliance to the Change Control process. The new Dimensions rules will restrict the closing of change forms unless all the steps of the Change Control process have been followed.

SETS
Work with the Dimensions team to see what change can be put in place so that the user is forced to follow the life cycle.

Anticipated Completion Date for Corrective Action

OJI *– Dimensions Change Management Process OJI implemented January 2007.*

CRIS-E **–** *Completed - March 30, 2006*

MMIS *- Medical Systems will be training staff on the Dimensions Rules in June 2007 and we estimate that we will implement these rule changes by December 2007.*

FACSIS *– Completed – August 2006*

SETS *– Anticipated completion date for this action is May 2008.*

Contact Person Responsible for Corrective Action

OJI
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30. INFORMATION TECHNOLOGY – UNAVAILABLE PROGRAM CHANGE DOCUMENTATION

Finding Number	2006-JFS30-039
CFDA Number and Title	17.225 – Unemployment Insurance 93.658 – Foster Care 93.659 – Adoption Assistance 93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services Department of Labor

INTERNAL CONTROL – REPORTABLE CONDITION

Effective control procedures require reviews and testing of program changes to provide management assurance that users' requirements are achieved prior to a program being transferred into the production environment. Standard testing procedures are an essential component of the overall program change process, and they are designed to gain adequate assurance over the application programming logic. Furthermore, the procedures require that documentation of all testing of program changes along with evidence of user acceptance of the results be maintained.

During the FY06 audit, ODJFS had a policy in place guiding the program change process for the significant applications, including MMIS, FACSIS, and OJI. The policies were designed to provide enough detail to adequately control the program change processes and to ensure testing documentation and results were maintained. During the audit period, the following was found:

Application	Number of Changes Sampled	Number of Changes Without Test Documentation or Test Results
MMIS	14	4 (29%)
FACSIS	4	4 (100%)
OJI (Front-End)	36	4 (11%)
OJI (Back-End)	24	3 (13%)

Without following standardized procedures for maintaining testing documentation, the Department increases the risk that requested changes are incomplete, unapproved, or do not meet users' expectations. Also, without maintaining adequate testing documentation, it may be impossible to duplicate or evaluate testing scenarios in the event that problems arise later that require subsequent review of the program change.

The ODJFS MIS Management indicated that MIS bureaus and sections did not consistently follow the established standards for maintaining testing documentation across the Department due to resource constraints.

We recommend ODJFS follow the established program change documentation standards to reasonably ensure all key documentation of the testing performed for all program changes is maintained. In addition, user acceptance should be obtained for all pertinent changes to help ensure the applications are operating as intended. As with any effective internal control, these standards should be periodically reviewed by management to ensure procedures are being appropriately followed.

30. INFORMATION TECHNOLOGY – UNAVAILABLE PROGRAM CHANGE DOCUMENTATION (Continued)

Corrective Action Plan

OJI
The OJI application was implemented in August 2004. Customer requests were entered into the Test Director product and tracked through the development process. The process for release consisted of several points of review including development immediate management, build coordination and release management. The OJI Section has migrated from Test Director into the mainstream JFS MIS Dimensions tool as of January 2007. This move to Dimensions will help to ensure that issues identified within this finding are avoided as testing documentation is captured within the dimensions production release flow. The Work Request life cycle requires that developers must formally submit their changes to the state of ready for baseline, at this state it is the reviewer's responsibility to ensure that the changes being submitted were made in compliance with the section standards including unit testing. The Release Package life cycle contains two additional states through which system testing (sys test state) and user acceptance testing (acc test state) phases are tracked. Each of these states allows for inclusion of formal test documentation.

FACSIS
The FACSIS team will document testing performed more accurately in the future to include a testing outline and a summary of results.

MMIS
Medical Systems agrees that testing documentation standards should be followed to ensure that customer requirements have been met and desired changes function as expected. However, we also believe that the more significant artifact from system testing process is the addition of specific testing transactions to the universal system regression testing repository. This repository will allow execution of full system functionality testing and will further ensure that new system changes function as requested and perform harmoniously with other system components. Medical Systems is relying on the Mercury testing tool suite to capture specific system testing documentation and transactions and to house and execute the system transaction repository.

Anticipated Completion Date for Corrective Action

OJI *- Dimension Change Management Process for OJI implemented January 2007.*

FACSIS *– Process completion date May 31, 2007.*

MMIS *- The Mercury testing suite has been purchased and training is being scheduled, we anticipate we will begin using this tool to capture our system testing documentation and transactions by October 200.*

Contact Person Responsible for Corrective Action

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31. INFORMATION TECHNOLOGY – MISSING APPROVAL DOCUMENTATION

Finding Number	2006-JFS31-040
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 17.225 – Unemployment Insurance 93.558 – Temporary Assistance for Needy Families 93.563 – Child Support Enforcement 93.658 – Foster Care 93.659 – Adoption Assistance 93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services Department of Labor

INTERNAL CONTROL – REPORTABLE CONDITION

Information technology departments establish and follow change control procedures in order to reasonably ensure only properly tested, reviewed, and approved changes are transferred into the live environment.

At ODJFS, the change process for the applications is largely controlled through automated change control software tools. Authorized programming staff members are required to formally indicate through these tools when all tests, reviews, and approvals have been completed. After receipt of formal authorization, staff members independent of the programming staff move programs into production.

During our FY06 testing of the Department's application changes, we found the following exceptions:

Application	Number of Changes Sampled	Number Without Documented Approval Before the Change Was Placed In Production	
MMIS	14	1	(7%)
CRIS-E	18	6	(34%)
SETS	28	14	(50%)
FACSIS	4	1	(25%)
OJI (Front-End)	34	3	(9%)

Without following standardized procedures for migrating changed and approved programs into production, the risk is increased that unauthorized, untested, and unapproved program changes could be placed in production (maliciously or mistakenly) contrary to management's original intentions, requirements, or objectives.

ODJFS' MIS management indicated that there should have been documentation for every change that was migrated into production; however, they acknowledged that missing approvals may be the result of verbal or e-mail approvals outside of the formal change process.

We recommend ODJFS ensure all program changes are properly tested, reviewed, and approved by management and documented approval is gained before the change is transferred into the live environment. Management should also periodically review documentation to provide evidence that only tested, reviewed, and approved program changes are being processed.

31. INFORMATION TECHNOLOGY – MISSING APPROVAL DOCUMENTATION (Continued)

Corrective Action Plan

<u>OJI</u>

The OJI application was implemented in August 2004. During the initial phases of production a change tracking process was implemented for OJI production. Customer requests were entered into the Test Director product and tracked through the development process. The process for release consisted of several points of review including development immediate management, build coordination and release management. The OJI Section has migrated from Test Director into the mainstream JFS MIS Dimensions tool as of January 2007. This move to Dimensions will help to ensure that issues identified within this finding are avoided as the process flow for moving changed elements into production are integral to the dimensions flow. Prior to implementation into production the formal release package life cycle is followed. As part of this process work is assigned to developers via Work Requests, allowing for the developer to move changes into a conformance review state. This action indicates from the developers perspective that the changes are ready. A review of the work occurs at the conformance review state, confirmation that the changes are ready for migration is confirmed by the reviewer by movement of the work request into the ready for baseline state. The release package life cycle has multiple steps identified for testing including System test and User acceptance test. Each of these states provide for formal review points that the changes are ready for migration.

<u>CRIS-E</u>

After researching these, it is apparent that this software was modified prior to implementation of PVCS/Dimensions and the record of these CSR's is archived in paper form. Going forward, the implementation of dimensions, along with requirements that software can not be promoted without proper documentation has eliminated the possibility of software being installed without proper documentation.

<u>FACSIS</u>

The team handling FACSIS will use the Merant Dimensions product in order to mitigate this finding.

<u>MMIS</u>

Medical Systems agrees with the recommendation that standardized processes for application change control, including migration approval are essential to prior to any software change implementation into Production. Medical Systems utilizes Dimensions, to manage our change process. Medical Systems has designed application rule changes to Dimensions that improve the compliance to the Change Control process. The new Dimensions rules will restrict the migration of software changes without specific and appropriate approval.

<u>SETS</u>

The above issue has been correct by the following process:

1) *The Office of Child Support did not have anyone with the Dimensions system profile to approve the Dimensions Release Pack due to access issues which have been fixed.*
2) *Staff was not closing out Dimensions Release Pack due the lack of knowledge to do so and this issue has been address.*

Anticipated Completion Date for Corrective Action

<u>OJI</u> *- Dimension Change Management Process for OJI implemented January 2007.*

<u>CRIS-E</u> *– Completed January 1, 2005*

<u>FACSIS</u> *– Completed August 2006*

<u>MMIS</u> *- Medical Systems will be training staff on the Dimensions Rules in June 2007 and we estimate that we will implement these rule changes by December 2007.*

<u>SETS</u> *- The above issues were close out in July 2006.*

31. INFORMATION TECHNOLOGY – MISSING APPROVAL DOCUMENTATION (Continued)

Contact Person Responsible for Corrective Action

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32. INFORMATION TECHNOLOGY – CRIS-E PRODUCTION ENVIRONMENT SECURITY

Finding Number	2006-JFS32-041
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

Sound IT practices require organizations to establish procedures to ensure that data is input by only authorized staff. Once access is established, the organization must have controls in place to monitor use of the computer and periodically confirm that employees' current computer access is commensurate with their job responsibilities.

The ODJFS Information Security Policy states under section 3.1.3 that the departmental unit-appointed Security Designees are responsible for performing periodic reviews of user access to ensure that all accesses are appropriate and current. In addition, section 18.1.3 states that to maintain effective control over access to the networks and data, the Chief Security Officer will conduct periodic reviews of users' access rights. This review will reasonably ensure that users' access capabilities are reviewed for appropriateness and privilege allocations are checked at regular intervals to ensure that unauthorized privileges have not been obtained.

Also, under section 23.1.1 of the ODJFS Information Security Policy, procedures for monitoring system use must be established. Such procedures are necessary to reasonably ensure that users are only performing processes that have been explicitly authorized. The level of monitoring required for individual systems should be determined by a separate risk assessment. Areas that should be considered include

32. INFORMATION TECHNOLOGY – CRIS-E PRODUCTION ENVIRONMENT SECURITY (Continued)

access failures, logon parameters for indications of abnormal use or revived user IDs, allocation and use of accounts with a privileged access capability, tracking of selected transactions and the use of sensitive resources.

ODJFS uses the Client Registry Information System-Enhanced (CRIS-E) to determine eligibility and benefit amounts for public assistance programs.

The following weaknesses were noted regarding IT security of CRIS-E:

- Although computer security violations for the ODJFS mainframe were captured daily and available for review by Departmental and Office of Information Technology (OIT) personnel, application level security violation reports were not generated or reviewed for CRIS-E.
- The department did not have procedures in place to provide direction for the periodic access confirmation process.
- A complete access reconciliation was not performed to confirm CRIS-E mainframe and network access authorities of employees were commensurate with their job duties.

Additionally, the following personnel had access which was inappropriate for their job functions:

- 2 of 10 users within the UPROFILE group had a security screen which is used to set up/change access levels within CRIS-E.
- 4 of 174 users within the WCRISE group had access to alter the Benefits Issuance, BI, warrant/payment files that process benefit payments.
- 4 of 58 users within the WINC group had access to alter the BI warrant/payment files that process benefit payments.
- 3of 23 users within the WICMS group had access to alter the BI warrant/payment files that process benefit payments.
- 258 of 321 users within multiple groups had access to the recurring and auxiliary warrant/payment files that process payments of benefits.
- 1 of 5 users with the WCLUIPRD group had access to update the online and batch program files. (dataset: WCLIENT.PROD.*)
- 9 of 14 users within the WBCM group had access to update the online and batch program files. (dataset: WCLIENT.PROD.*)

When security violations are not detected and resolved, there is a greater risk of unauthorized access to the system. Without a limited number of authorized personnel having access to the CRIS-E subsystems, there is an increased likelihood of incorrect processing of public assistance benefits. Without guidance for periodic confirmations, staff will not know how often access reconciliations should be completed, which systems should be reviewed, who should perform the reconciliations, or what and how long documentation should be maintained as an audit trail. In addition, without an accurate periodic review of user access, the risk is increased that unauthorized users have inappropriate access to program and data files because they either were not granted access appropriately, changed job responsibilities and no longer required the access, or were terminated from the Agency and did not have their access appropriately severed. Unauthorized access could result in the execution of inappropriate application transactions or the alteration of program or data files, which could be a misuse or fraudulent misappropriation of state resources or federal program monies.

32. INFORMATION TECHNOLOGY – CRIS-E PRODUCTION ENVIRONMENT SECURITY (Continued)

According to ODJFS Information Security management, the review of user access privileges is an ongoing effort in the Information Security unit. It is balanced with the actual initial administration of access. Several strides in this area have been achieved. A partial review of the ODJFS network user accounts was completed, as well as the CRIS-E user accounts within the MIS department. A review of outside agencies' access (Auditors, SSA, etc.) is in process. With the staff shortage as well as the increasing workload with regard to functional areas of responsibility, this makes it even more challenging for the unit to dedicate appropriate time for reviews of user access privileges.

The Information security management also indicated that the CRIS-E system does currently have security violations logged via their respective security systems. For CRIS-E, RACF logons are required and as stated in the finding there is a log produced for all RACF violations and is monitored by both ODJFS and DAS security staff.

We recommend management limit the number of authorized personnel with access to the CRIS-E subsystems to help ensure access restrictions are commensurate with current assigned job duties. We also recommend the Department periodically review access levels for the CRIS-E subsystems in accordance with the ODJFS Information Security Policy to detect and prevent inappropriate access levels. This includes, but is not limited to, completing the following on a periodic basis:

- Review and verify that mainframe, application, and network-level profiles and access authorities are appropriate for the assigned job functions of all state-level employees, outside contractors, and all relevant county employees and maintain documentation as an audit trail.

- Distribute a report of pertinent mainframe, application, and network-level profiles and access authorities to user management to confirm any access authority changes made and maintain documentation as an audit trail.

We also recommend ODJFS IT administration complies with their Information Security Policy by ensuring computer security violations and activity are logged, reported, reviewed, and appropriately escalated on a regular basis for the CRIS-E application to identify and resolve incidents involving unauthorized activity.

Corrective Action Plan

CRIS-E Profile level access can not be completely controlled by MIS because the counties have (and require) the ability to assign workers to roles and profiles as they see fit.

Changing the application security codes every 60 days would be a function of the Information Security Section, INFOSEC. CRIS-E understand the criticality of cycling passwords on a routine bases, we will work with INFOSEC to implement a practice that will force routine changing of user passwords.

Currently, CRIS-E reviews the RACF security access semi-annually to ensure that CRIS-E access is commensurate with job functions. The audit review listed several instances of individuals with inappropriate access. There are reasons, production support, warranty support, team or project lead responsibilities that might warrant specific access that might seems inappropriate. CRIS-E would like to review the audit work papers to determine if there were legitimate circumstances for the access.

Anticipated Completion Date for Corrective Action

CRIS-E will meet with INFOSEC to request the implementation of a process to force changes to user passwords. Our goal will be to implement this process by January 2008.

CRIS-E will continue its semi-annual review of RACF access for accuracy and appropriateness. Our next review will September 2007.

32. INFORMATION TECHNOLOGY – CRIS-E PRODUCTION ENVIRONMENT SECURITY (Continued)

Contact Person Responsible for Corrective Action

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33. INFORMATION TECHNOLOGY – MMIS PRODUCTION ENVIRONMENT SECURITY

Finding Number	2006-JFS33-042
CFDA Number and Title	93.767 – State Children's Insurance Program 93.775/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services

INTERNAL CONTROL – REPORTABLE CONDITION

Organizations restrict access to their computer systems, programs, and data to help reduce the risk of unauthorized access. Typically, logical access to automated information is restricted by the use of a password associated with access rules. Standard password administration guidelines suggest passwords be a minimum number of characters in length, difficult to guess, contain no repeating characters, and changed at least quarterly. In addition, access procedures should provide for the suspension of user identification codes or the disability of the terminal, microcomputer, or data entry device following a pre-defined number of unsuccessful attempts to access the system or applications.

The ODJFS Information Security Policy section 19.1 states that passwords should be changed at least every 60 days or at any time a user feels the password has been compromised. Also, section 21.1.1, "Terminal Logon Procedures" states the number of unsuccessful logon attempts allowed should be limited to three before action is taken to inactivate the account until it is reset by the system administrator.

The ODJFS Information Security Policy section 3.1.3 states the departmental unit-appointed security designees are responsible for performing periodic reviews of user access to ensure that all accesses are appropriate and current. In addition, section 18.1.3 states, in part, to maintain effective control over access to the networks and data, the Chief Security Officer will conduct periodic reviews of users' access rights. This review will reasonably ensure that users' access capabilities are reviewed for appropriateness and privilege allocations are checked at regular intervals to ensure that unauthorized privileges have not been obtained.

The ODJFS Information Security Policy section 23.1.1 also indicates the procedures for monitoring system use must be established. Such procedures are necessary to reasonably ensure that users are only performing processes that have been explicitly authorized. The level of monitoring required for individual systems should be determined by a separate risk assessment. Areas that should be considered include access failures, logon parameters for indications of abnormal use or revived user IDs, allocation and use of accounts with a privileged access capability, tracking of selected transactions, and the use of sensitive resources.

ODJFS maintains the Medicaid Management Information System (MMIS) that provides reimbursement to medical providers for eligible services rendered. As described in detail below, multiple computer security issues were identified for the MMIS system.

33. INFORMATION TECHNOLOGY – MMIS PRODUCTION ENVIRONMENT SECURITY (Continued)

MMIS was protected at the system level by the RACF security software. MMIS application-level security included a unique five-digit user number and four-digit security code that were automatically assigned to each user. However, the security codes did not have a password expiration or lockout threshold and had to be manually changed. In addition, MMIS security codes had not been changed by ODJFS in over seven years.

The following were instances of individuals having inappropriate access based on their job duties:

- 9 of 58 users with UPDATE access to the Claims Exam Entry subsystem (PF1).
- 17 of 68 users with UPDATE access to the Suspended Claims Correction subsystem (PF2).
- 1 of 5 users with UPDATE access to the Procedure, Drug, and Diagnosis subsystem (PF5).
- 1 of 6 users with UPDATE access to the MMIS Provider Charge File subsystem (PF6).
- 10 of 26 users with UPDATE access to the MMIS Text & Exception Code subsystem (PF7).
- 7 of 34 users with UPDATE access to the MMIS Provider subsystem (PF8).
- 23 of 83 users with UPDATE access to the Recipient Eligibility subsystem (PF9).
- 14 of the 28 users with UPDATE or DELETE access to the Prior Authorization subsystem (PF11).
- 4 of 11 users in the WTAPE group had ALTER access to the MMIS warrant processing file that contained all the Medicaid payments being disbursed through MMIS, UPDATE access to the MMIS production datasets for the Procedure, Drug, and Diagnosis (PDD) file, UPDATE access to the production datasets for the Provider Charge file, and UPDATE access to the production datasets for the Medicaid Recipient file in MMIS.
- 1 of 3 groups (WCLAUPRD) with UPDATE access to the MMIS RACF program dataset WCLAIMS.PROD.* (online and batch program files) should have had READ only access.
- 9 of 14 users in the WBCM group had UPDATE access to the MMIS RACF program dataset WCLAIMS.PROD.* (online and batch program files).

The Department completed the annual access reconciliation for MMIS during FY06, during which all of the departments, agencies, and counties that were requested to review their MMIS access provided a response to indicate a review was completed. However, 3 of 15 (20%) counties and agencies reviewed during our audit requested changes or deletions of access that were not made in production.

In addition, the InfoSec Unit manually created an Excel spreadsheet that tracked the MMIS production access and was used to perform the access reconciliation. When the manual spreadsheet was compared to the actual MMIS production access, it was noted that 24 accounts in production as of 8/2/06 were not accurately represented on the manual spreadsheet.

Computer security violations of the ODJFS mainframe were captured daily on the RACF Activity Report and were available for review by the InfoSec Unit. The Office of Information Technology (OIT) IBM RACF security administrator placed the security violations report online for a data security analyst to review and resolve any issues on the RACF Activity Report on a daily basis. The report contained RACF security violations, unauthorized attempts to access datasets, and password resets. Although network level violation reports were reviewed, no application-level security violations reports were generated or reviewed for the MMIS application.

33. INFORMATION TECHNOLOGY – MMIS PRODUCTION ENVIRONMENT SECURITY (Continued)

Inadequate password lifetimes and allowing a person excessive unsuccessful login attempts could allow an individual to learn or guess someone's password and attempt to gain unauthorized access to the system or functions not required to perform their job. This could result in an unauthorized individual gaining access to the system and accidentally or intentionally deleting or altering sensitive data.

Without an accurate periodic review of user access, the risk is increased that unauthorized users have inappropriate access to program and data files because they either were not granted access appropriately, changed job responsibilities and no longer required the access, or were terminated from the Agency and did not have their access appropriately severed. When security violations are not detected and resolved, there is a greater risk that unauthorized access to the system will be increased and may go unnoticed for extended periods of time.

Without strictly limiting the number of authorized personnel having access to the MMIS subsystems, there is an increased likelihood of incorrect processing of Medicaid claims and provider reimbursement or the alteration of program or data files, which could be a misuse or fraudulent misappropriation of state resources or federal program monies.

ODJFS' MIS management indicated that when MMIS was developed, the security codes were designed to be manually changed by Data Security. Now that MMIS has grown to over 4,000 users, the amount of labor involved in changing the codes is too large for the Data Security Department to efficiently complete.

Ohio Health Plans (OHP) management indicated that, over time, the need for access has lessened. Security administration responsibilities have been assigned to many personnel in OHP and MIS. This coupled with a lack of adequate documentation and outdated procedures may have resulted in the inappropriate access.

OHP management also indicated they performed the annual access reconciliation for MMIS and although they received all correspondences back, not all responses were updated in the production environment.

According to Data Security management, when MMIS was implemented over thirteen years ago, no logic was written by the programmers to include the generation of security violation reports. It was also decided by management that the IBM RACF system security was the most important component of security because a lack of resources limits the amount of reports that can be reviewed.

We recommend the MMIS application security codes be changed at least every 60 days, in compliance with the ODJFS Information Security Policy. In addition, MMIS password accounts should be set to automatically lock the account after three unsuccessful attempts to comply with the Security Policy and to adequately reduce the chance of unauthorized access to programs and data.

We also recommend that management limit the number of authorized personnel having access to the MMIS subsystems to help ensure access restrictions are commensurate with their current assigned job duties. The Department should periodically review access levels for the MMIS subsystems in accordance with the ODJFS Information Security Policy to detect and prevent inappropriate access levels. This includes completing the following functions on a periodic basis:

- Review and verify that mainframe, application, and network-level profiles and access authorities are appropriate for the assigned job functions of all state-level employees, outside contractors, and all relevant county employees and maintain documentation as an audit trail.

- Distribute a report of pertinent mainframe, application, and network-level profiles and access authorities to user management to confirm any access authority changes made and maintain documentation as an audit trail.

33. INFORMATION TECHNOLOGY – MMIS PRODUCTION ENVIRONMENT SECURITY (Continued)

In addition, ODJFS IT administration should comply with their Information Security Policy by ensuring that computer violation and security activity is logged, reported, reviewed, and appropriately escalated on a regular basis for the MMIS application to identify and resolve incidents involving unauthorized activity.

Corrective Action Plan

Changing the application security codes every 60 days would be a function of the Information Security Section, INFOSEC. Medical Systems understand the criticality of cycling passwords on a routine bases, we will work with INFOSEC to implement a practice that will force routine changing of user passwords.

Currently, Medical Systems reviews the RACF security access semi-annually to ensure that MMIS access is commensurate with job functions. The audit review listed several instances of individuals with inappropriate access. There are reasons, production support, warranty support, team or project lead responsibilities that might warrant specific access that might seems inappropriate. Medical Systems would like to review the audit work papers to determine if there were legitimate circumstances for the access.

Anticipated Completion Date for Corrective Action

Medical Systems will meet with INFOSEC to request the implementation of a process to force changes to user passwords. Our goal will be to implement this process by January 2008.

Medical Systems will continue its semi-annual review of RACF access for accuracy and appropriateness. Our next review will September 2007.

Contact Person Responsible for Corrective Action

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34. INFORMATION TECHNOLOGY – WRS and UC TAX PRODUCTION ENVIRONMENT SECURITY

Finding Number	2006-JFS34-043
CFDA Number and Title	17.225 – Unemployment Insurance
Federal Agency	Department of Labor

INTERNAL CONTROL – REPORTABLE CONDITION

Organizations restrict access to their computer systems, programs, and data to help reduce the risk of unauthorized access. Typically, logical access to automated information is restricted by the use of a password associated with access rules. Standard password administration guidelines suggest passwords be a minimum number of characters in length, difficult to guess, contain no repeating characters, and changed at least quarterly. In addition, access procedures should provide for the suspension of user identification codes or the disability of the terminal, microcomputer, or data entry device following a pre-defined number of unsuccessful attempts to access the system or applications. To maintain security, organizations periodically confirm that employees' current computer access is commensurate with their job responsibilities.

34. INFORMATION TECHNOLOGY – WRS and UC TAX PRODUCTION ENVIRONMENT SECURITY (Continued)

The ODJFS Information Security Policy section 19.1 states that passwords should be changed at least every 60 days or at any time a user feels the password has been compromised. Also, section 21.1.1, "Terminal Logon Procedures" states the number of unsuccessful logon attempts allowed should be limited to three before action is taken to inactivate the account until it is reset by the system administrator.

The ODJFS Information Security Policy section 3.1.3 states the departmental unit-appointed security designees are responsible for performing periodic reviews of user access to ensure that all accesses are appropriate and current. In addition, section 18.1.3 states, in part, to maintain effective control over access to the networks and data, the Chief Security Officer will conduct periodic reviews of users' access rights. This review will reasonably ensure that users' access capabilities are reviewed for appropriateness and privilege allocations are checked at regular intervals to ensure that unauthorized privileges have not been obtained.

The ODJFS Information Security Policy section 23.1.1 also indicates the procedures for monitoring system use must be established. Such procedures are necessary to reasonably ensure that users are only performing processes that have been explicitly authorized. The level of monitoring required for individual systems should be determined by a separate risk assessment. Areas that should be considered include access failures, logon parameters for indications of abnormal use or revived user IDs, allocation and use of accounts with a privileged access capability, tracking of selected transactions, and the use of sensitive resources.

Governmental entities are responsible for safeguarding confidential information that comes into their possession. In order to address this responsibility, entities establish policies and procedures regarding the handling of their citizens' confidential information.

Two major unemployment applications, the Wage Record System (WRS) and the Unemployment Compensation (UC) tax application, are used to process and collect Ohio unemployment taxes and store and report wage information for Ohio employers. Multiple weaknesses were noted regarding the computer security for these systems as explained in the paragraphs which follow.

One of the major program processing environments used by these unemployment applications is the Demand system, which is only used by the IT personnel to gain access to test and production programs and data files. Password parameters were not set to ODJFS standards for the Demand application for all users as follows:

- 24 accounts had a maximum threshold of five failed logon attempts before the user ID was disabled.
- 46 accounts had the maximum failed logon attempt threshold set at zero which meant that the accounts would never lockout. Seven of these accounts had administrator privileges.
- 4 accounts had a 9,999 day (27 year) password lifetime.
- 42 accounts had 7,300 day (20 year) password lifetime. Eight of these had administrator privileges.
- 51 accounts were set to zero days of inactivity; thus the accounts would never be disabled due to inactivity. Seven accounts had administrator privileges.

34. INFORMATION TECHNOLOGY – WRS and UC TAX PRODUCTION ENVIRONMENT SECURITY (Continued)

Whenever a Demand user account was no longer needed, the user ID was disabled, but not deleted. The system disables IDs for accounts that have not been used in over 30 days. Of the DEMAND accounts on the UNISYS system, 71% (190 of 266) were disabled.

During the audit period, there were no procedures in place to give direction on how often access reconciliations should be completed, which systems should be reviewed, who should perform the reconciliations, or what and how long documentation should be maintained as an audit trail.

Although there were 448 UC users and 367 WRS mainframe application users (SSON) for individuals dispersed throughout the 88 Ohio counties, management did not perform a complete access reconciliation FY06 to confirm the employees' mainframe and network access authorities were commensurate with their job duties for UC and WRS. Although network-level violation reports were reviewed, no application-level security violations reports were generated or reviewed for the WRS and UC applications.

For the WRS and the UC applications, the Social Security Number (SSN) was utilized as the user ID for signing on to the respective online application systems. The SSNs were thus displayed on security reports and screens that showed the user ID.

In order for users to access the WRS and UC applications, the user must have both SSON and application access (WRS or UC) assigned to their user ID and password. There were 17 users with SSON access but no WRS application access, and 57 users with WRS application access but no SSON access. Also, there were seven users with SSON access but no UC application access, and 324 users with UC application access but no SSON access.

Inadequate password lifetimes and allowing a user excessive unsuccessful login attempts could allow an individual to learn or guess someone's password and attempt to gain unauthorized access to the system or functions not required to perform their job. This could result in an unauthorized individual gaining access to the system and accidentally or intentionally deleting or altering sensitive data.

Having an excessive number of unused accounts makes it more difficult to manage and monitor the accounts. The additional accounts make periodic reviews of user access cumbersome because it is difficult to differentiate between terminated users and users that just need their password reset. In addition, because there is not a user monitoring the account, unused accounts may be targeted for unauthorized use.

With users located in 88 counties, the risk of unused or unneeded access increases. Without a periodic review of user access, unauthorized users may have inappropriate access to program and data files because they either were not granted access appropriately, changed job responsibilities and no longer required the access, or were terminated from the Department and did not have their access appropriately severed. In addition, since security violations are not detected and resolved, there is an even greater risk that fraudulent and accidental transactions or security breaches would go undetected. Unauthorized access could result in the execution of inappropriate application transactions or the alteration of program or data files, which could be a misuse or fraudulent misappropriation of state resources or federal program monies.

34. INFORMATION TECHNOLOGY – WRS and UC TAX PRODUCTION ENVIRONMENT SECURITY (Continued)

When first created, the SSN was used to administer the Social Security program and has since come to be used as a “primary key” for individuals within the United States. Payroll, credit records, driver’s licenses, bank statements, etc. are sometimes indexed by SSN. As a result, disclosure and processing of these numbers is of major concern to most citizens and privacy advocates. The SSN is frequently used by those involved in identity theft, since it is interconnected with so many other forms of identification and because it is generally required by financial institutions to set-up bank accounts, apply for credit cards, and obtain loans. Allowing public access to sensitive information, such as SSNs, increases the risk of misuse of the information. Ultimately, this could lead to undue public scrutiny if this information were to be misused.

Although users could not access the WRS or UC applications without both accesses assigned, if the users had access to the application and not the network but were able to log into the network using other resources, they would be able to perform all transactions previously authorized, and vice versa. The high number of users with one access and not the other also indicates that access privilege assignments, revocations, and reviews are not occurring on a consistent basis.

According to MIS management, the majority of the accounts with failed logon attempts and inactivity set at zero were either system accounts or users with system administrator privileges. Many of the accounts were required by OS2200 requirements to always stay active in order to keep the system functional. Also, users were being disabled instead of deleted because the System Programmer felt it was sufficient to disable the user accounts since documentation of the termination was being maintained. They also felt the UNISYS demand users were revoked and therefore represented no significant risk or additional exposure. In fact by reissuing these IDs to only the same employee, this maintained an effective audit record of any transactions, as it ensured that each ID had only been issued to one person, and each individual had only one ID. This increased the systems integrity for tracking users’ activity. The Unisys system was on schedule to be decommissioned in the 3rd quarter of 2006.

The MIS Information Security management stated the review of user access privileges is an ongoing effort in the Information Security unit. It is balanced with the actual initial administration of access. Several strides in this area have been achieved. A partial review of the ODJFS network user accounts was completed, as well as the CRIS-E user accounts within the MIS department. A review of outside agencies access (Auditors, SSA, etc.) is in process. With the staff shortage as well as the increasing workload with regard to functional areas of responsibility, this makes it even more challenging for the unit to dedicate appropriate time for reviews of user access privileges.

The MIS management also indicated that when the applications were placed in production, security violation reports were not created. Also, when the WRS and UC systems were designed approximately 20 years ago, the SSN was used as the identifier because the systems being replaced already utilized the SSN as the identifier in the respective security systems.

We recommend the Demand system passwords be changed at least every 60 days, in compliance with the ODJFS Information Security Policy. In addition, Demand password accounts should be set to automatically lock the account after three unsuccessful attempts to comply with the Security Policy and to adequately reduce the chance of unauthorized access to programs and data. Finally, user accounts should have a parameter that disables the account after a period of inactivity.

34. INFORMATION TECHNOLOGY – WRS and UC TAX PRODUCTION ENVIRONMENT SECURITY (Continued)

We also recommend ODJFS immediately review all Demand accounts and either delete accounts of any users who no longer require Demand access or group them into a group that would identify the accounts as terminated individuals so that the Information Security unit would be able to easily identify the difference between disabled and terminated accounts. ODJFS should also perform access reviews on a regular basis to comply with the ODJFS Information Security Policy. This includes completing the following functions on a periodic basis:

- Review and verify that mainframe, application, and network-level profiles and access authorities are appropriate for the assigned job functions of all state-level employees, relevant county employees, and outside contractors and maintain documentation as an audit trail.

- Distribute a report of pertinent mainframe, application, and network-level profiles and access authorities to user management to confirm any access authority changes made and maintain documentation as an audit trail.

We recommend ODJFS IT administration comply with their Information Security Policy by ensuring that computer violation and security activity is logged, reported, reviewed, and appropriately escalated on a regular basis for the WRS and UC applications to identify and resolve incidents involving unauthorized activity. We also recommend management evaluate and modify the information being used as the key identifier in its WRS and UC applications to reasonably ensure employees' SSNs are safeguarded. All network and application access be reviewed and reconciled for the WRS and UC applications to ensure accounts for users who are unauthorized to have both network and application access are removed.

Corrective Action Plan

A. Periodic access reconciliations were not accurately completed for WRS and UC. Security violations reports were not being produced and reviewed at a system level WRS and UC.

Response: The periodic access reconciliation reports were generated on a quarterly basis by MIS. There reports are furnished to UC Program Services, specifically the WR, CN and Function 15 reports, the only remaining production applications on the UNISYS platform. The periodic access reconciliations by UC Program Services were not documented sufficiently to confirm adherence to quarterly reviews, this effort will be followed up on by MIS operations staff to ensure we have compliance going forward.

A daily review of the audit accounting logs will be initiated to identify any demand security access violations. Code will be developed by the UNISYS systems staff to filter the daily logs. Currently demand access violations are reported on the operators console.

B. Terminated Demand users were being disabled instead of deleted and there was no way to distinguish between a disabled or deleted user.

Response: The MIS systems staff do not delete demand user-id's once issued. The id is disabled either through non-use, or more proactively, when a user no longer requires it, or is unauthorized to use it. In order to provide the annual audit with documentation of demand id deletions, a form will be created to document any action leading to disabling an id. A quarterly review of the id's will be performed to ensure that access is only available to authorized users.

34. INFORMATION TECHNOLOGY – WRS and UC TAX PRODUCTION ENVIRONMENT SECURITY (Continued)

MIS and User IT Security Area – WRS/UC – Access to Production Environments

C. SSN was the key identifier (user IDs) in the WRS and UC applications.

Response: Programmatic changes have been made to address this issue, they were not implemented. The UC and WRS applications were due to be replaced by the ERIC application, the timeline for this to occur has been extended until November 2007. With this change in schedule a review of implementing these changes will occur. MIS needs to ensure that these changes will not have any impact on production operations. The determination of the potential impact will be made by June 22, 2007.

D. 24 accounts had a maximum of 5 failed logon attempts before the user ID was disabled (the ODJFS Information Security Policy stated that an account should lockout after three failed attempts). 46 accounts had a maximum failed logon attempt set at zero (accounts would never lockout). Four accounts had a 9999-day (27 year) password lifetime, and 42 accounts had 7300-day (20 year) password lifetime. 51 accounts had no disabling parameter set, i.e. the accounts would never be disabled due to inactivity.

Response: The accounts which had 5 failed attempts before being disabled is in line with the current ODJFS Information Security Policy (http://innerweb.odjfs.state.oh.us/Omis/InfoSecurity/InfoSecPolicy.pdf), section 21.1.1. A verification of the UNISYS operation system was performed that five (5) is the maximum limit for failed login attempts before the demand id is disabled.

The 46 accounts that have the maximum failed attempts set to zero are for system admin staff or internal processors like CmPlus. The other accounts including the 27 year and 20 year password timeframes were also internal system processor accounts. These time frame setting were chosen to avoid failure of the internal system processors. Having an expiring password time frame would cause vital components to fail upon a forced password change scenario.

E. Seventeen users had SSON but not WRS application access, and 57 users had WRS application access but not SSON access. Seven users had SSON access but not UC application access, and 324 users had UC application access but no SSON access.

Response: The security build into both the UC and WRS applications occurs at two levels. Without access at both levels an individual can not gain access to the application. The first level of security is maintained externally in the SSON security system. An individual who is part of the SSON security is granted access to specific applications, including WRS and UC. If they do not have this access at the application level they can not get to the application. The second layer of security is built within the applications themselves. Once past SSON an individual only is granted access if they are identified within the internal UC and/or WRS control tables. The internal control table defines the level of access (which screens) a user may access.

The internal control tables can be set to not allow any screen access even though the user is identified internally. This is the method by which access is terminated once a user is no longer authorized. A review of the external and internal control tables will occur to ensure that only authorized individuals have access and that the tables are aligned between SSON and internal settings on a quarterly basis. Reports will be generated to document the settings.

34. INFORMATION TECHNOLOGY – WRS and UC TAX PRODUCTION ENVIRONMENT SECURITY (Continued)

Anticipated Completion Date for Corrective Action

A. Quarterly Review Follow-up to commence June 22, 2007.
B. Quarterly review – April 1, 2007, documentation for removal of id (pro-active disabling) June 15, 2007. June 22, 2007 for daily audit accounting log review.
C. Assessment of Impact to be completed by June 22, 2007
D. No Action
E. Quarterly Review Follow-up to commence with Program Area June 22, 2007

Contact Person Responsible for Corrective Action

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35. INFORMATION TECHNOLOGY – OJI PRODUCTION ENVIRONMENT SECURITY

Finding Number	2006-JFS35-044
CFDA Number and Title	17.225 – Unemployment Insurance
Federal Agency	Department of Labor

INTERNAL CONTROL – REPORTABLE CONDITION

Organizations logically restrict access to their computer systems, programs, and data to help reduce the risk of unauthorized use of key computer resources. They establish levels of access commensurate to a specific user's job responsibilities. Access to special privileges and system utilities which may be used to override other controls are tightly restricted. Computer systems are regularly monitored for possible misuse and periodic reviews of user access are performed to ensure all access is authorized.

Typically, logical access to automated information is restricted by the use of a password associated with access rules. Standard password administration guidelines suggest passwords be a minimum number of characters in length, difficult to guess, contain no repeating characters, and changed at least quarterly. In addition, access procedures provide for the suspension of user identification codes or the disability of the terminal, microcomputer, or data entry device following a pre-defined number of unsuccessful attempts to access the system or applications.

The ODJFS Information Security Policy includes the following sections which govern implementation of the controls described above:

- Section 3.1.3, "Security Designees."
- Section 18.1, "Authorized User Registration."
- Section 18.1.1, "Privilege Management."
- Section 18.1.3, "Review of User Access Rights."
- Section 19.1, "Password Use."
- Section 21.1.1, "Terminal Logon Procedures."
- Section 22.1.1 "Use of System Utilities."
- Section 23.1.1, "Monitoring System Use."

35. INFORMATION TECHNOLOGY – OJI PRODUCTION ENVIRONMENT SECURITY (Continued)

The Ohio Job Insurance (OJI) application is a web-based system with a centralized statewide database. Thus OJI can be accessed using an Internet browser (for example, Microsoft Internet Explorer) and information entered and retrieved from all call centers, processing centers, one-stop locations, and the central office, resides in the same database.

The following OJI users had excessive access to sensitive privileges:

- 9 of 16 users within the WBCM group had access to update the DB2 security table.
- 9 of 9 system administrator users had access to update multiple sensitive screens and functions.
- The Help Desk and INFOSEC users had access to update multiple security screens.
- 1 of 9 system administrator user's account was not required to use the switch user (su) command to log in. The "su" command allowed IT security administrators to identify which user was accessing the system administrator account. In addition, the account password for this account was set to never expire.

Procedures were not in place to give direction on how often access reconciliations should be completed, which systems should be reviewed, who should perform the reconciliations, or what and how long documentation should be maintained as an audit trail. Management did not perform a complete access reconciliation in FY06 to confirm that employees' OJI mainframe and network access authorities were commensurate with their job duties.

Although computer security violations of the ODJFS mainframe and the AIX UNIX server were captured daily and were available for review by the InfoSec Unit, and the OIT demilitarized zone (DMZ) staff monitored security violations at the HTTP IP layer, no application-level security violations reports were generated or reviewed for the OJI application.

Password parameters were not set to ODJFS standards for the OJI application. Accounts had an automatic lockout of the account after five invalid logon attempts. ODJFS policy requires lockout after three attempts. In addition, fifteen percent of the 159 accounts had a password lifetime of 52 weeks. The policy states password should be changed at least every 60 days.

The weaknesses described increase the risk of unauthorized access to OJI. With unauthorized access, users could execute inappropriate application transactions or alter programs or data files. Unauthorized access could jeopardize the integrity of departmental data or result in the misuse or fraudulent misappropriation of state resources or federal program monies.

Without an accurate periodic review of user access, the risk is increased that unauthorized users have inappropriate access to program and data files because they either were not granted access appropriately, changed job responsibilities and no longer required the access, or were terminated from the Agency and did not have their access appropriately severed. Without security violation monitoring, unauthorized access and any resulting accidental or fraudulent transactions may not be detected.

Per the Bureau of Benefit Integrity management, there were three users who were BPC (Benefit Payment Control) managers who were originally given the Systems Administrator role in order to access needed functionally, but no longer required the role. The Systems Administrator role will no longer be utilized.

35. INFORMATION TECHNOLOGY – OJI PRODUCTION ENVIRONMENT SECURITY (Continued)

Per the Bureau of Network Services management, one employee was no longer employed with InfoSec and notice was sent for the OJI profile to be removed, but the access was never terminated. In addition, the review of user access privileges is an ongoing effort in the Information Security unit. It is balanced with the actual initial administration of access. Several strides in this area have been achieved. A partial review of the ODJFS network user accounts was completed, as well as the CRIS-E user accounts within the MIS department. A review of outside agencies access (Auditors, SSA, etc.) is in process. With the staff shortage as well as the increasing workload with regard to functional areas of responsibility, this makes it even more challenging for the unit to dedicate appropriate time for reviews of user access privileges.

The Bureau of Network Services management also indicated that the AIX UNIX logs identify any system security errors on the Application and DB server layer and the DAS DMZ staff monitors any security violations at the HTTPI Presentation layer. They are required to notify the ODJFS Chief Security Officer immediately if a security violation is logged. As to application security, all of these systems were designed to specifications that were reviewed by federal teams and passed their respective reviews. This functionality has not changed.

We recommend the Department review and implement access restrictions to all of the sensitive OJI application profiles and utilities. Access should be commensurate with the current job responsibilities of the users and granted based upon the principle of least privilege or need-to know. Additionally, we recommend the Department comply with their Information Security Policy by reviewing and implementing access restrictions to the production environments for the applications and data. If temporary access is granted to certain employees, a tickler or reminder should be established so that ODJFS personnel know to adjust that access in the future.

We also recommend the OJI administrator accounts be set with a default login value of 'false' to require the users to 'switch user' into the accounts, rather than directly logging in.

We also recommend ODJFS complete the following functions on a periodic basis:

- Review and verify that mainframe, application, and network-level profiles and access authorities are appropriate for the assigned job functions of all state-level employees, outside contractors and relevant county employees, and maintain documentation as an audit trail.

- Distribute a report of pertinent mainframe, application, and network-level profiles and access authorities to user management to confirm any access authority changes made and maintain documentation as an audit trail.

We recommend ODJFS IT management comply with their Information Security Policy by ensuring that computer violation and security activity is logged, reported, reviewed, and appropriately escalated on a regular basis for the OJI application to identify and resolve incidents involving unauthorized activity. We also recommend the OJI passwords be changed at least every 60 days. In addition, the OJI accounts should be set to automatically lock the account after three unsuccessful attempts to comply with the Security Policy and to adequately reduce the chance of unauthorized access to programs and data.

35. INFORMATION TECHNOLOGY – OJI PRODUCTION ENVIRONMENT SECURITY (Continued)

Corrective Action Plan

We agree with the auditor's finding.

A. Periodic access reconciliations were not accurately completed for OJI.

Response: BISS performs a quarterly review of access for all OJI servers. Development staff do not have access to production boxes and have read only access within the production application itself. OJI development staff will provide follow-up verification to ensure that quarterly reviews are completed to reconcile access authorizations. Adding this step will provide a second level review and assist BISS with ensuring appropriate access level exist.

B. Security violations reports were not being produced and reviewed at an application level for OJI.

Response: For production outward facing application, including OJI, OIT provides oversight for monitoring access violations. This information is communicated directly to the JFS Chief Security officer. The OJI section will meet with and document the service level agreement in place with OIT. For test environments, access monitoring is done on an ad hoc basis by BISS staff. As in the production environment OJI staff will meet with BISS to establish a service level agreement understanding

C. 159 OJI accounts had an automatic lockout of the account after five invalid login attempts (the ODJFS Information Security Policy stated that an account should lockout after three failed attempts).

Response: The accounts which had 5 failed attempts before being disabled is in line with the current JFS Information Security Policy (http://innerweb.odjfs.state.oh.us/Omis/InfoSecurity/InfoSecPolicy.pdf), section 21.1.1.

Fifteen percent of the 159 accounts were set for a password lifetime of 52 weeks, a review of all accounts will be done to ensure they adhere to JFS standards.

D. OJI programs had users with unauthorized access, including unauthorized access to sensitive profiles.

Response: Development staff do not have access to production servers and have only read only access to the production application. As part of the quarterly follow-up to ensure that access reconciliation is being done at the server level, OJI staff will also do a follow-up for internal test application level access with the program area. Adding this step will provide a second level review and assist the program area with ensuring appropriate access level exist.

Anticipated Completion Date for Corrective Action

A. Quarterly review follow-up to commence April 1, 2007.
B. Service Level agreement OIT – June 1, 2007
C. Internal BISS understanding – May 15, 2007
D. Quarter review follow-up to commence April 1, 2007

Contact Person Responsible for Corrective Action

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36. INFORMATION TECHNOLOGY – SCOTI PRODUCTION ENVIRONMENT SECURITY

Finding Number	2006-JFS36-045
CFDA Number and Title	17.207/17.801/17.804 – Employment Services Cluster 17.258/17.259/17.260 – WIA Cluster
Federal Agency	Department of Labor

INTERNAL CONTROL – REPORTABLE CONDITION

To help reduce the likelihood of unauthorized use of key computer resources, organizations logically restrict access to their computer systems, programs, and data. The level of access established must be commensurate to a specific user's job responsibilities. Access to special privileges and system utilities which may be used to override other controls are tightly restricted. Computer systems are regularly monitored for possible misuse and periodic reviews of user access are performed to ensure all access is authorized.

Typically, logical access to automated information is restricted by the use of a password associated with access rules. Standard password administration guidelines suggest passwords be a minimum number of characters in length, difficult to guess, contain no repeating characters, and changed at least quarterly. In addition, access procedures provide for the suspension of user identification codes or the disability of the terminal, microcomputer, or data entry device following a pre-defined number of unsuccessful attempts to access the system or applications.

The ODJFS Information Security Policy includes the following sections which govern implementation of the controls described above:

- Section 3.1.3, "Security Designees."
- Section 18.1, "Authorized User Registration."
- Section 18.1.1, "Privilege Management."
- Section 18.1.3, "Review of User Access Rights."
- Section 19.1, "Password Use."
- Section 21.1.1, "Terminal Logon Procedures."
- Section 22.1.1 "Use of System Utilities."
- Section 23.1.1, "Monitoring System Use."

The Sharing Career Opportunities Training Information (SCOTI) application is a web-based system that was acquired to meet the needs of the ODJFS Office of Workforce Development in managing the state's Federal Workforce Investment Act (WIA) and Wagner-Peyser Act (Labor Exchange) requirements.

Several weaknesses were noted regarding the information technology controls for the SCOTI application. The system administrator account had the ability to change, add, or delete all data and application files. There were 56 SCOTI system administrator (scotadmg) users on nine servers that housed the production environment for the SCOTI application. One of the 56 scotadmg users was identified as not needing access for their jobs. Also, of eight users assigned to the security manager access role that gave UPDATE capabilities to multiple security screens, one of these users should not have access due to the user no longer being employed with InfoSec.

Computer security violations of the ODJFS mainframe and AIX UNIX servers were captured daily and were available for review by the InfoSec Unit. The OIT demilitarized zone (DMZ) staff monitored any security violations at the HTTP IP layer and notified the ODJFS Chief Security Officer immediately if a security violation was logged. Although network level violation reports were reviewed, no application-level security violations reports were generated or reviewed for the SCOTI application.

36. INFORMATION TECHNOLOGY – SCOTI PRODUCTION ENVIRONMENT SECURITY (Continued)

Password parameters were not set to ODJFS standards for the SCOTI application for users. Although policy requires an automatic lockout of the account after three invalid attempts, accounts were not locked out until five invalid attempts. In addition, 36 of 172 accounts had password lifetimes of one year.

During the audit period, there were no procedures in place to provide direction on how often access reconciliations should be completed, which systems should be reviewed, who should perform the reconciliations, or what and how long documentation should be maintained as an audit trail. There also was not a complete access reconciliation carried out by management to confirm the employees' SCOTI mainframe and network access authorities were commensurate with their job responsibilities.

The weaknesses described increase the risk of unauthorized access to SCOTI. With unauthorized access, users could execute inappropriate application transactions or alter programs or data files. Unauthorized access could jeopardize the integrity of departmental data or result in the misuse or fraudulent misappropriation of state resources or federal program monies.

Without an accurate periodic review of user access, the risk is increased that unauthorized users have inappropriate access to program and data files because they either were not granted access appropriately, changed job responsibilities and no longer required the access, or were terminated from the Agency and did not have their access appropriately severed. Without security violation monitoring, unauthorized access and any resulting accidental or fraudulent transactions may not be detected.

Per the Bureau of Network Services management, one employee was no longer employed with InfoSec and notice was sent for the SCOTI profile to be removed, but the access was never terminated. In addition, review of user access privileges is an ongoing effort in the Information Security unit. It is balanced with the actual initial administration of access. Several strides in this area have been achieved. A partial review of the ODJFS network user accounts was completed, as well as the CRIS-E user accounts within the MIS department. A review of outside agencies access (Auditors, SSA, etc.) is in process. With the staff shortage as well as the increasing workload with regard to functional areas of responsibility, this makes it even more challenging for the unit to dedicate appropriate time for reviews of user access privileges.

Per the MIS management, the AIX UNIX logs identify any system security errors on the Application and DB server layer, while the DAS DMZ staff monitors any security violations at the HTTPI Presentation layer. They are required to notify the ODJFS Chief Security Officer immediately if a security violation is logged. As for application security, all of these systems were designed to specifications that were reviewed by federal teams and passed their respective reviews. This functionality has not changed.

We recommend the Department review and implement access restrictions to all of the sensitive SCOTI application profiles and utilities. Additionally, we recommend the Department comply with their Information Security Policy by reviewing and implementing access restrictions to the production environments for the applications and data. If temporary access is granted to certain employees, a tickler or reminder should be established so that ODJFS personnel know to adjust that access in the future. Access should be commensurate with the current job responsibilities of the users and granted based upon the principle of least privilege or need-to know. Also, ODJFS should periodically complete a review to validate employee access in accordance with the ODJFS Information Security Policy.

We also recommend ODJFS IT management comply with their Information Security Policy by ensuring that computer violation and security activity is logged, reported, reviewed, and appropriately escalated on a regular basis for the SCOTI application to identify and resolve incidents involving unauthorized activity.

36. INFORMATION TECHNOLOGY – SCOTI PRODUCTION ENVIRONMENT SECURITY (Continued)

We recommend the SCOTI passwords be changed at least every 60 days and accounts be set to automatically lock the account after three unsuccessful attempts, in compliance with the ODJFS Information Security Policy.

We also recommend ODJFS complete the following functions on a periodic basis:

- Review and verify that mainframe, application, and network-level profiles and access authorities are appropriate for the assigned job functions of all state-level employees, outside contractors, and relevant county employees and maintain documentation as an audit trail.

- Distribute a report of pertinent mainframe, application, and network-level profiles and access authorities to user management to confirm any access authority changes made and maintain documentation as an audit trail.

Corrective Action Plan

A. Periodic access reconciliations were not accurately completed for SCOTI.

Response: BISS performs a quarterly review of access for all SCOTI servers. Development staff do not have access to production boxes and have read only access within the production application itself. SCOTI development staff will provide follow-up verification to ensure that quarterly reviews are completed to reconcile access authorizations. Adding this step will provide a second level review and assist BISS with ensuring appropriate access level exist.

B. Security violations reports were not being produced and reviewed at an application level for SCOTI.

Response: For production outward facing application, including SCOTI, OIT provides oversight for monitoring access violations. This information is communicated directly to the JFS Chief Security officer. The SCOTI section will meet with and document the service level agreement in place with OIT. For test environments, access monitoring is done on an ad hoc basis by BISS staff. As in the production environment SCOTI staff will meet with BISS to establish a service level agreement understanding.

C. 172 SCOTI accounts had an automatic lockout of the account after five invalid login attempts (the ODJFS Information Security Policy stated that an account should lockout after three failed attempts).

Response: The accounts which had 5 failed attempts before being disabled is in line with the current JFS Information Security Policy (http://innerweb.odjfs.state.oh.us/Omis/InfoSecurity/InfoSecPolicy.pdf), section 21.1.1. The policy was not updated properly on the web at the time of the audit, the policy was updated, the SCOTI lockout was appropriate.

MIS and User IT Security Area – SCOTI – Access to Production Environments

36 of 172 accounts had password lifetimes of one year, a review of all accounts will be made to ensure adherence to JFS standards.

D. SCOTI servers and groups had a user with unauthorized access, including unauthorized access to sensitive SCOTI profiles.

Response: Development staff do not have access to production servers and have only read only access to the production application. As part of the quarterly follow-up to ensure that access reconciliation is being done at the server level, SCOTI staff will also do a follow-up for internal test application level access with the program area. Adding this step will provide a second level review and assist the program area with ensuring appropriate access level exist.

36. INFORMATION TECHNOLOGY – SCOTI PRODUCTION ENVIRONMENT SECURITY (Continued)

Anticipated Completion Date for Corrective Action

A. Quarterly review with BISS follow-up to commence June 22, 2007.
B. Service Level agreement (OIT review) to be completed by June 22, 2007.
C. Internal BISS OJI service level agreement to be completed by June 22, 2007.
D. OJI quarterly review follow-up with Business area to commence July 1, 2007.

Contact Person Responsible for Corrective Action

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1. MEDICAID, SCHIP, AND SSBG – SUBRECIPIENT MONITORING

Finding Number	2006-DMH01-046
CFDA Number and Title	93.667 – Social Services Block Grant (SSBG) 93.767 – State Children's Insurance Program (SCHIP) 93.778 – Medical Assistance Program (Medicaid)
Federal Agency	Department of Health and Human Services

NONCOMPLIANCE

The Office of Management and Budget's (OMB) Circular A-133 states in part:

§. _400 Responsibilities

…

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

(1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R & D, and name of the Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.

(2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

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

(4) Ensure that subrecipients exceeding $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

(5) Issue a management decision on audit findings within six months after the receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

§. _405 Management decision

(a) **General.** The management decision shall clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action. If the auditee has not completed corrective action, a timetable for follow-up should be given. Prior to issuing the management decision, the Federal agency or pass-through entity may request additional information or documentation from the auditee, including a request for auditor assurance related to the documentation, as a way of mitigating disallowed costs. The management decision should describe any appeal process available to the auditee.

1. MEDICAID, SCHIP, AND SSBG – SUBRECIPIENT MONITORING (Continued)

It is management's responsibility to implement policies and procedures to monitor subrecipients to help ensure they have complied with the rules and regulations related to the programs and have met the objectives of the programs.

The Ohio Department of Mental Health (the Department) passes through at least 93% of their federal Medicaid and State Children's Insurance Program (SCHIP) funds and 100% of their federal Social Services Block Grant (SSBG) funds to Community Mental Health (CMH) Boards around the State of Ohio. For state fiscal year 2006, the Department disbursed approximately $251,318,212 in Medicaid, $17,299,361 in SCHIP funds, and $8,854,336 in SSBG funds. The CMH Boards, which are considered to be subrecipients by the Department, in turn disburse these funds to provider agencies.

On February 21, 2006, the Department hired a new employee to focus on subrecipient monitoring issues noted in previous Single Audit reports. Although it appears the Department is in the process of implementing and modifying some of its subrecipient monitoring procedures, the majority of fiscal year 2006 did not include adequate subrecipient monitoring procedures as noted during our review and testing of the Department's subrecipient monitoring process as follows:

- During the first eight months of the fiscal year, the review of subrecipients' independent audit reports did not include reviewing the accompanying federal schedule to verify that all federal grants that should be listed were included on the federal schedule with the appropriate name, CFDA number, and source of funds. In addition, the amounts reported on the federal schedule were not reviewed to determine if they reasonably agreed with the amounts the Department has in their records as being disbursed to the subrecipient.

- There is no written plan in place or reviewed/approved by management describing subrecipient monitoring activities or who is responsible for coordinating such activities. The Department is currently drafting audit guidelines and working with other State agencies to finalize these procedures.

- The Department did not monitor subrecipients through on-site reviews or desk reviews for those subrecipients requiring A-133 audits as well as those that do not require A-133 audits.

- Management decisions were not completed when findings were noted in the review of audit reports. However, it appears the Department currently has implemented utilization of an access database which will provide management with a tool to track management decisions based on audit findings.

- One of ten (10%) CMH Board audit reports and four of ten (40%) provider audit reports selected for testing were not received within nine months (between one to four months late). Additionally, there was no documentation maintained of follow-up action taken by the client related to these late reports.

- One of ten (10%) provider audits selected for testing required a corrective action plan; however, no management decision was issued within six months of the audit.

- Ten of ten (100%) CMH Board agreements selected for review did not contain the CFDA number, title, and award amount granted.

The lack of adequate subrecipient monitoring procedures during fiscal year 2006 results in noncompliance with the subrecipient monitoring requirements of OMB Circular No. A-133. Furthermore, the Department cannot be reasonably assured the subrecipients have met the requirements of the Medicaid, SCHIP, and SSBG grant programs. Federal noncompliance could result in the identification of questioned costs and may impact the amount of federal funding received in subsequent years.

1. MEDICAID, SCHIP, AND SSBG – SUBRECIPIENT MONITORING (Continued)

Management indicated they are aware of these issues and have been conducting managerial level meetings with the Ohio Department of Job and Family Services and the Ohio Department of Alcohol and Drug Addiction Services to discuss possible coordination of efforts between the agencies to determine how additional monitoring activities will be implemented within the Department. Additionally, the Department hired a new employee to specifically focus on these subrecipient monitoring concerns and started implementing several procedures to address several issues noted above.

We recommend the Department develop a comprehensive and coordinated subrecipient monitoring process which includes, but is not limited to, the following:

- A review of the requirements for subrecipient monitoring established by OMB Circular No. A-133 and an evaluation of the sufficiency of the Department's current monitoring policies and procedures. In accordance with OMB Circular No. A-133, the Department should consider various risk factors in developing subrecipient monitoring procedures, such as the relative size and complexity of the federal awards administered by subrecipients, prior experience with each subrecipient, and the cost-effectiveness of various monitoring procedures.

- A formal procedural manual to document the Department's monitoring approach. This procedural manual should document the Department's methodology for performing subrecipient reviews and the nature, timing, and extent of the reviews to be performed. It should also include the methodology for resolving findings of subrecipient noncompliance or weaknesses as well as the impact of subrecipient activities on the Department's ability to comply with applicable federal regulations. The written plan should identify personnel assigned to oversee and coordinate subrecipient monitoring activities.

- A review and analysis of the federal schedule and other portions of the A-133 reports received to verify the funds awarded to the subrecipient are properly identified on the schedule and to determine the amount of coverage obtained from the A-133 audits. This will require the Department to track the amount of federal funds, by program, provided to each subrecipient on a calendar year basis (or other fiscal period used by the subrecipients) to determine the amount expected to be reported on the federal schedules. This information should also be provided to the subrecipient to aid in their federal schedule preparation and help identify any problems or concerns. If findings are noted during the review of the A-133 reports, a management decision should be issued in accordance with OMB Circular No. A-133.

- Monitoring of the subrecipient's use of federal awards through site visits or other means to provide reasonable assurance the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of the grant agreements and that performance goals are achieved. The reviews conducted via on-site visits should include evaluations of the subrecipients' processes and procedures over critical single audit compliance requirements such as allowable costs, matching, cash management, and period of availability. Supervisory reviews should be performed to determine the adequacy of subrecipient monitoring performed.

1. MEDICAID, SCHIP, AND SSBG – SUBRECIPIENT MONITORING (Continued)

Corrective Action Plan

The Department hired an employee in February, 2006 to perform subrecipient monitoring. The findings noted by the auditor are currently being addressed, however since the hiring occurred late in the fiscal year, the CAP were implemented late in SFY 2006. Therefore due to the eight months prior to the staff person's start date, the findings were repeated from the prior audit.

The Department is documenting a risk-based approach in its subrecipient monitoring and is developing procedures for performing site and desk reviews and other means to provide reasonable assurance the subrecipient administers federal awards in compliance with laws, regulations and the provisions of the grant agreements. The Department will include in its procedures an evaluation of the subrecipient's processes and procedures over critical single audit requirements such as allowable costs, matching and cash management.

Anticipated Completion Date for Corrective Action

The Department has completed portions of the CAP as of SFY 2006. We anticipate completing the entire CAP by December 31, 2007.

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO SECRETARY OF STATE

1. CASH MANAGEMENT

Finding Number	2006-SOS01-047
CFDA Number and Title	39.011 – Election Reform Payments 90.401 – Help America Vote Act Requirements Payments
Federal Agency	General Services Administration, Elections Assistance Commission

NONCOMPLIANCE

31 CFR 205 prescribes rules for transferring funds between the federal government and states for federal assistance programs listed in the Catalog of Federal Domestic Assistance. If a federal assistance program is covered by a treasury-state agreement, it follows the rules contained in the agreement; otherwise, it follows the rules listed in subpart B of the federal regulations. The Help America Vote Act (HAVA) programs are not included within a treasury-state agreement. Subpart B of 31 CFR part 205.33 (a) states:

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

Also, the grant award notification from the federal grantor says: "In addition, Title I funds are subject to the Cash Management Improvement Act (CMIA) that is generally applicable to all federal grants."

We selected 10 of the 88 counties to which the Office disbursed HAVA federal funds. We noted the Office disbursed funds to all 10 counties in a lump sum payment, which was not limited to the minimum amounts needed and were not based on actual, immediate cash requirements of the county. Based on our review of the reports submitted to the Office by the counties, we determined that the time period between when the counties received the funds and when they made their first expenditures of those funds ranged from 11 days to ten months. At the end of the audit period, eight of the counties had not expended all of the federal funds they received.

Under these conditions, the counties received federal funds without having an actual or immediate need for the federal funds, and the Office did not comply with the CMIA regulations. Noncompliance by the Office could result in federal funding being reduced or taken away, or sanctions imposed by the federal grantor agency. Noncompliance could also result in the Office having to repay part or all of the grant awards back to the federal government. Office management stated the Office followed an approach in disbursing federal funds to the county subgrantees similar to what the federal grantor agency used to disburse funds to the office; namely, in a lump sum.

We recommend the Office limit disbursements to counties based on the counties actual, immediate cash requirements. We also recommend the Office provide training about the CMIA requirements to employees who are involved with these types of transactions.

1. CASH MANAGEMENT (Continued)

Corrective Action Plan

This was also a finding of the U.S. Election Assistance Commission (EAC). The current Secretary of State agrees with this finding that the former Secretary of State's office advanced Help America Vote Act (HAVA) funds to counties that exceeded the counties' immediate cash needs which is inconsistent with federal cash management requirements. The Secretary of State will develop policies and procedures to minimize the time elapsing between the transfer of funds from the Secretary of State's office to the counties and the counties' use of those funds. Further, the Secretary of State is requiring all counties to immediately return any remaining HAVA grant funds to this office where interest will accrue and be used for ongoing allowable program purposes.

Anticipated Completion Date for Corrective Action

The unused grant dollars are being returned by the counties to the Secretary of State's Office. The final 6 counties have their checks in process. The policies for subgrantee fund distribution are being finalized and will be similar to the ADA/HHS grant policies/procedures the Secretary of State's office uses which incorporates the 3-day rule for grant fund usage.

Contact Person Responsible for Corrective Action

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2. INTEREST INCOME

Finding Number	2006-SOS02-048
CFDA Number and Title	39.011 – Election Reform Payments 90.401 – Help America Vote Act Requirements Payments
Federal Agency	General Services Administration, Elections Assistance Commission

NONCOMPLIANCE

Title II, Subtitle D, Sec. 254 (b) of the HAVA Act of 2002 states, in part:

(1) ELECTION FUND DESCRIBED.—For purposes of subsection (a)(5), a fund described in this subsection with respect to a State is a fund which is established in the treasury of the State government, which is used in accordance with paragraph (2), and which consists of the following amounts:

(A) Amounts appropriated or otherwise made available by the State for carrying out the activities for which the requirements payment is made to the State under this part.
(B) The requirements payment made to the State under this part.
(C) Such other amounts as may be appropriated under law.
(D) Interest earned on deposits of the fund.

(2) USE OF FUND.—Amounts in the fund shall be used by the State exclusively to carry out the activities for which the requirements payment is made to the State under this part.

2. INTEREST INCOME (Continued)

Since the inception of the HAVA awards in state fiscal year 2003, the Office received $10,384,931 in Section 101 funds, $30,667,664 in Section 102 funds and $90,992,517 in Section 251 funds. All interest earned on these funds was deposited into the state's general revenue fund instead of being deposited into the accounts established for the HAVA programs. The Ohio Office of Budget and Management (OBM) calculated that approximately $6,832,752 of interest was earned on the federal HAVA funds since the funds were first received. House Bill 699, effective March 29, 2007, with certain sections effective December 28, 2006, required $6,832,752 to be transferred from the general revenue fund to the HAVA program funds in January 2007, and also required that interest earned on the HAVA program funds be retained by those funds. We determined that this transfer of $6,832,752 occurred on January 19, 2007, and that another transfer of $307,088 occurred on February 9, 2007, for interest calculated on the balance of HAVA funds for the first six months of FY 2007. Furthermore, we noted the Office could not identify specific control procedures to help ensure compliance with the above requirement.

When interest earned on the federal funds was not deposited into the appropriate program funds, the Office did not comply with the cited HAVA Act section. Noncompliance by the Office could result in federal funding being reduced or taken away, or sanctions imposed by the federal grantor agency. Noncompliance could also result in the Office having to repay part or all of the grant awards back to the federal government. Office management stated they were not aware if interest was earned on the federal funds or that the interest needed to be retained by the federal program. Subsequently, the Office learned that Ohio Revised Code section 113.09 required that all investment earnings on money deposited in the state treasury is credited to the state general revenue fund unless the disposition of funds is otherwise provided by law. Not knowing this to be the case, the Office had not requested legislation so that interest earned on the HAVA funds would be credited to the HAVA programs.

We recommend the Office implement controls to help comply with the interest earning requirements. Such controls may involve ensuring that training on the program requirements is provided to those employees involved with the HAVA programs, or determine whether the interest earned quarterly on the funds is deposited into the related funds via a reconciliation process. We also recommend the Office periodically monitor whether the controls established are working as intended.

Corrective Action Plan

This was also a finding of the U.S. Election Assistance Commission (EAC). Legislation was enacted in December 2006 (House Bill 699) that authorized the transfer of $6,832,752 from the GRF to the HAVA funds for all interest accrued on the HAVA grant funds through the period ending June 30, 2006, and an amount equaling the interest earned for the 1st and 2nd quarters of FY 2007 ($307,087.78). Further, language was included to require the ongoing interest earnings of the HAVA funds be transferred to the HAVA funds and that statutory authority is also included in the pending biennial budget for FY 2008 and FY 2009. The Office of Budget and Management calculates ongoing interest on a quarterly basis and transfers it to those funds authorized to receive interest earnings. The FY 2007 third quarter transfer was made on April 1, 2007. All transfers were documented in the HAVA grant financial information files.

Anticipated Completion Date for Corrective Action

This corrective action has been completed.

Contact Person Responsible for Corrective Action

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3. SUSPENSION AND DEBARMENT

Finding Number	2006-SOS03-049
CFDA Number and Title	39.011 – Election Reform Payments 90.401 – Help America Vote Act Requirements Payments
Federal Agency	General Services Administration, Elections Assistance Commission

INTERNAL CONTROL - REPORTABLE CONDITION

41 CFR 105-68 requires that non-federal entities receiving federal assistance are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred, or whose principals are suspended or debarred, from conducting business with federal funds. Effective November 26, 2003, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the other entity is not suspended or debarred or otherwise excluded. Per 41 CFR 105-68.330 this verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transactions with that entity.

It is management's responsibility to establish controls to be used by the Office to ensure compliance with the suspension and debarment requirement. It is imperative that control procedures be adequately documented to evidence they are performed timely; consistently; as intended and by an appropriate level of management, enabling management to place reliance on them.

The Ohio Secretary of State contracted with three vendors to whom the Office disbursed $96,248,169 of HAVA funds during FY 2006. The Office could not identify specific control procedures used to help ensure compliance with this requirement. In addition, the Office could not provide any documentation that it checked the EPLS system, obtained related certifications, or included the necessary clauses in the covered transactions with other entities. Without the Office having suspension and debarment controls in place, it increases the risk that noncompliance could occur. As a result, a vendor that has been disqualified from conducting federal business could end up doing business with the Office and receive federal money. The Finance Grants Manager stated the legal department is responsible for checking for suspended or debarred vendors. However, the legal department was unable to provide any evidence they performed the required investigations. The Finance Grants Manager also said the Office did not have a formal procedure for obtaining this assurance.

We recommend the Office implement controls to help comply with the suspension and debarment requirements. One control may involve obtaining a certification from potential vendors that they are not suspended or debarred from engaging in business transactions using federal funds. We also recommend the Office maintain documentation that it performed this verification process.

3. SUSPENSION AND DEBARMENT (Continued)

Corrective Action Plan

The current Secretary of State agrees with this finding. The prior administration's legal department conducted suspension and debarment vendor checks, but did not document that the action was taken. The finance office will establish procedures to check and document that all vendors doing business with the Ohio Secretary of State are not part of the federal suspension and debarment list of the GSA.

Anticipated Completion Date for Corrective Action

The documentation of the procedures is being finalized and will be completed by June 15, 2007.

Contact Person Responsible for Corrective Action

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SUPPLEMENTAL INFORMATION

STATE OF OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
JULY 1, 2005 THROUGH JUNE 30, 2006

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Development	2005-DEV01-001 **Home Investment Partnerships Program – Matching**	Yes	
Ohio Department of Education	2003-EDU01-003 2004-EDU01-005 2005-EDU01-002 **Charter Schools – Monitoring of Subrecipients**	No	The finding has been re-peated in the FY 2006 Single Audit. See 2006-EDU01-002.
	2005-EDU02-003 **Reading First – Monitoring of Subrecipients**	No	The finding has been re-peated in the FY 2006 Single Audit. See 2006-EDU02-003.
	2001-EDU14-020 2002-EDU14-019 2003-EDU06-008 2004-EDU05-009 2005-EDU03-004 **DP — Application Development and Maintenance**	No	The finding has been re-peated in the FY 2006 Single Audit. See 2006-EDU04-005.
Ohio Department of Health	2005-DOH01-005 **WIC – Unsupported Food Instrument Costs**	Yes	
	2001-DOH01-022 2002-DOH01-020 2003-DOH01-009 2004-DOH02-012 2005-DOH02-006 **Subrecipient Monitoring**	No	The finding has been re-peated in the FY 2006 Single Audit. See 2006-DOH01-006.
	2004-DOH03-013 2005-DOH03-007 **Early Redemption of Food Instruments**	Yes	
	2004-DOH04-014 2005-DOH04-008 **Federal Reporting**	No	The finding has been re-peated in the FY 2006 Single Audit. See 2006-DOH02-007.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Health (Continued)	2005-DOH05-009 **MCH Grant – Lack of Earmarking Controls**	No	The finding has been repeated in the FY 2006 Single Audit. See 2006-DOH03-008.
	2003-DOH03-011 2004-DOH06-016 2005-DOH06-010 **DP – Program Change Controls**	No	The finding has been repeated in the FY 2006 Single Audit. See 2006-DOH04-009.
Ohio Department of Job and Family Services	2005-JFS01-011 **SSBG – Earmarking of TANF Transfer**	Yes	
	2005-JFS02-012 **Medicaid/SCHIP – Unlicensed Providers**	Yes	
	2004-JFS12-028 2005-JFS03-013 **Various Programs – Cost Allocation – Hamilton County**	Yes	
	2001-JFS03-028 2002-JFS03-024 2003-JFS02-013 2004-JFS03-019 2005-JFS04-014 **Foster Care – Duplicate Payments**	No	The questioned cost is no longer considered a reportable item under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
	2005-JFS05-015 **Unemployment Insurance – Overpayment of Benefits**	Yes	
	2005-JFS06-016 **Medicaid/TANF/FS – Undocumented Eligibility – Cuyahoga County**	No	The finding has been repeated in the FY 2006 Single Audit. See 2006-JFS06-015.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services (Continued)	2005-JFS07-017 **TANF – Lack of Supporting Documentation – Paulding County**	Yes	
	2005-JFS08-018 **TANF – Refuse to Work/Child Under 6 – Lucas County**	No	The finding has been repeated in the FY 2006 Single Audit. See 2006-JFS09-018.
	2002-JFS06-027 2003-JFS09-020 2004-JFS05-021 2005-JFS09-019 **TANF –Refusal to Work Sanction – Lucas County**	No	The questioned cost is no longer considered a reportable item under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
	2005-JFS10-020 **SCHIP – Undocumented Eligibility – Cuyahoga County**	Yes	
	2005-JFS11-021 **Medicaid – Undocumented Eligibility – Cuyahoga County**	Yes	
	2005-JFS12-022 **Medicaid – Transportation Claim Overpayment**	Yes	
	2005-JFS13-023 **Medicaid – Ineligible Recipients**	Yes	
	2005-JFS14-024 **TANF – Missing Documentation – Hamilton County**	Yes	

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services (Continued)	2005-JFS15-025 **TANF – Undocumented Eligibility – Cuyahoga County**	Yes	
	2005-JFS16-026 **TANF – Refusal to Work – Trumbull County**	Yes	
	2005-JFS17-027 **TANF – Unallowable Expenditure – Paulding County**	Yes	
	2005-JFS18-028 **Adoption Assistance – Revenue Coding Errors**	Yes	
	2005-JFS19-029 **IEVS – Third Party Match**	Yes	
	2001-JFS15-040 2002-JFS19-040 2003-JFS20-031 2004-JFS13-029 2005-JFS20-030 **IEVS – Due Dates**	No	The finding has been repeated in the FY 2006 Single Audit. See 2006-JFS13-022.
	2005-JFS21-031 **IEVS – Inadequate Documentation**	No	The finding has been repeated in the FY 2006 Single Audit. See 2006-JFS14-023.
	2001-JFS25-050 2002-JFS27-048 2003-JFS30-041 2004-JFS17-033 2005-JFS22-032 **Medicaid/SCHIP – Subrecipient Monitoring**	Yes	
	2005-JFS23-033 **Employment Services – Earmarking Requirement**	No	The finding has been repeated in the FY 2006 Single Audit. See 2006-JFS15-024.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services (Continued)	2005-JFS24-034 **Unemployment Insurance – Federal Reporting**	No	The finding is no longer considered a reportable under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
	2005-JFS25-035 **Unemployment Insurance – Processing of OJI Transaction**	No	The finding has been re-peated in the FY 2006 Single Audit. See 2006-JFS08-017.
	2004-JFS23-039 2005-JFS26-036 **Internal Reviews of Automated Systems**	No	The finding has been re-peated in the FY 2006 Single Audit. See 2006-JFS16-025.
	2003-JFS56-057 2004-JFS21-037 2005-JFS27-037 **CORe Advance Calculation**	Yes	
	2001-JFS33-058 2002-JFS38-059 2003-JFS37-048 2004-JFS22-038 2005-JFS28-038 **DP – Manual Overrides of CRIS-E**	No	The finding has been re-peated in the FY 2006 Single Audit. See 2006-JFS17-026.
	2005-JFS29-039 **Adoption Assistance – Payment Limits**	No	The finding is no longer considered a reportable condition under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services (Continued)	2001-JFS51-076 2002-JFS53-074 2003-JFS48-059 2004-JFS30-046 2005-JFS30-040 **Medicaid/SCHIP – Third-party Liabilities**	Yes	
	2001-JFS07-032 2002-JFS12-033 2003-JFS12-023 2004-JFS31-047 2005-JFS31-041 **Medicaid/SCHIP – Drug Rebate Payments**	No	The finding is no longer considered a reportable condition under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
	2004-JFS18-034 2005-JFS32-042 **Employment Services Reporting**	Yes	
	2005-JFS33-043 **Unemployment Insurance – Internal Controls**	No	The finding has been repeated in the FY 2006 Single Audit. See 2006-JFS25-034.
	2005-JFS34-044 **WIA – Guidance to Subrecipients**	Yes	
	2005-JFS35-045 **Trade Adjustment Assistance – Federal Reports**	No	The finding has been repeated in the FY 2006 Single Audit. See 2006-JFS26-035.
	2001-JFS40-065 2002-JFS45-066 2003-JFS42-053 2004-JFS38-054 2005-JFS36-046 **SSBG – Incomplete Monitoring**	No	The finding has been repeated in the FY 2006 Single Audit. See 2006-JFS27-036.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services (Continued)	2001-JFS10-035 2001-JFS59-084 2002-JFS14-035 2002-JFS61-082 2003-JFS52-063 2004-JFS39-055 2005-JFS37-047 **Missing Documentation – Various Counties**	No	The finding has been re-peated in the FY 2006 Single Audit. See 2006-JFS28-037.
	2004-JFS37-053 2005-JFS38-048 **CORe Reporting of Accruals and Obligations**	No	The finding is no longer considered a reportable condition under the provisions of OMB Circular A-133; however a verbal recommendation for improvement has been given to the Ohio Department of Job and Family Services.
	2004-JFS32-048 2005-JFS39-049 **MMIS Provider Statuses**	No	The finding has been re-peated in the FY 2006 Single Audit. See 2006-JFS22-031.
	2004-JFS43-059 2005-JFS40-050 **DP – MMIS & CRIS-E Missing Change Request Forms**	No	The finding has been re-peated in the FY 2006 Single Audit. See 2006-JFS29-038.
	2001-JFS68-093 2002-JFS69-090 2003-JFS62-073 2004-JFS44-060 2005-JFS41-051 **DP – MMIS/CRIS-E Program Change Documentation**	No	The finding has been re-peated in the FY 2006 Single Audit. See 2006-JFS30-039.
	2005-JFS42-052 **DP – OJI Programmer Access to Production**	Yes	

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services (Continued)	2004-JFS52-068 2005-JFS43-053 **DP – Level of Access to Production Environment**	No	The finding has been re-peated in the FY 2006 Single Audit. See 2006-JFS32-041 through 2006-JFS36-045.
	2004-JFS54-070 2005-JFS44-054 **DP – Unauthorized Access to SCOTI & OJI Profiles**	No	The finding has been re-peated in the FY 2006 Single Audit. See 2006-JFS35-044 through 2006-JFS36-045.
	2004-JFS33-049 2005-JFS45-055 **DP – Data Entry Errors in MMIS Provider Master File**	No	The finding has been re-peated in the FY 2006 Single Audit. See 2006-JFS23-032.
	2005-JFS46-056 **DP – Controls over Application Changes**	No	The finding has been re-peated in the FY 2006 Single Audit. See 2006-JFS31-040.
	2004-JFS34-050 2005-JFS47-057 **MMIS Edit Changes**	No	The finding has been re-peated in the FY 2006 Single Audit. See 2006-JFS32-041 and 2006-JFS33-042.
Ohio Department of Mental Health	2001-DMH01-094 2002-DMH01-091 2003-DMH01-074 2004-DMH01-074 2005-DMH01-058 **Subrecipient Monitoring**	No	The finding has been re-peated in the FY 2006 Single Audit. See 2006-DMH01-046.
Ohio Department of Mental Retardation and Developmental Disabilities	2005-DMR01-059 **Medicaid/SCHIP – Supporting Documentation**	Yes	

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Mental Retardation and Developmental Disabilities (Continued)	2005-DMR02-060 **DP – Network Operating System**	No	The finding is no longer considered a reportable condition under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Mental Retardation and Developmental Disabilities.
	2003-DMR04-078 2004-DMR04-078 2005-DMR03-061 **DP – Transfer into the Live Environment**	No	The finding is no longer considered a reportable condition under the provisions of OMB Circular A-133; however a related recommendation for improvement has been included in the Management Letter for the Ohio Department of Mental Retardation and Developmental Disabilities.
Ohio Department of Public Safety	2005-DHS01-062 **State Domestic Preparedness Program – Monitoring of Subrecipients**	Yes	

Mary Taylor, CPA
Auditor of State

STATE OF OHIO
SINGLE AUDIT

FRANKLIN COUNTY

CLERK'S CERTIFICATION
This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JULY 26, 2007

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