STATE OF OHIO

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2008

Mary Taylor, CPA
Auditor of State

STATE OF OHIO

SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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NOTE:

The State of Ohio *Comprehensive Annual Financial Report* for fiscal year ended June 30, 2008, 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
2008 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, 2008. Four of the 12 opinion units are audited entirely or in part by independent accounting firms under contract with the Auditor of State. The remaining eight opinion unit audits are performed by audit staff of the Auditor of State. This division of responsibility is described on page 1 in our Independent Accountants' Report.

We audited the basic financial statements of the State of Ohio as of and for the period ended June 30, 2008, 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, 2008, included 16 significant deficiencies from five separate state agencies. These comments are summarized on page 188 of this report.

AUDIT RESPONSIBILITIES AND REPORTING UNDER OMB CIRCULAR A-133

The Single Audit Act requires an annual audit of the State's federal financial assistance programs. The specific audit and reporting requirements are set forth in U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The Schedule of Expenditures of Federal Awards (the Schedule) reports federal expenditures for each federal financial assistance program by federal agency, as identified by the Catalog of Federal Domestic Assistance (CFDA) number. As detailed on pages 147 through 157, the State administered 338 federal programs from 22 Federal agencies with total federal expenditures of $17.7 billion in fiscal year 2008.

The Schedule is used for identifying Type A and Type B programs. For fiscal year 2008, Type A federal programs for the State of Ohio were those programs with annual federal expenditures exceeding $30 million. There were 30 programs at or above this amount. The remaining 308 programs were classified as Type B programs. The identification of Type A and B programs is used to determine which federal programs will be tested in detail for compliance with federal laws and regulations. Under Circular A-133, the auditor uses a risk-based approach to testing. Once programs are classified as Type A or B, they are then assessed as either high or low risk programs. All high-risk Type A programs are considered major programs and are tested in detail for compliance with federal regulations. One high-risk Type B program is then selected for testing to replace each low-risk Type A program. Low-risk Type A programs must be tested at least once every three years. The State of Ohio had 22 high-risk Type A programs and 10 high-risk Type B programs selected for testing as major programs in fiscal year 2008.

With the concurrence 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 the 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 2008 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 has permitted the exclusion of the State's colleges and universities' federal financial assistance from the State's Schedule although their financial activities are included in the State's financial statements (Discretely Presented Component Units). The State's colleges and universities 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 32 major federal financial assistance programs and describes instances of noncompliance with Federal requirements we detected that require reporting per Circular A-133. This report also describes any significant deficiencies we identified related to controls used to administer Federal financial assistance programs, and any significant deficiencies we determined to be material weaknesses.

SUMMARY OF FINDINGS AND QUESTIONED COSTS

The fiscal year 2008 Schedule of Findings and Questioned Costs contains 55 findings. Three of these findings, beginning on page 173, related only to our Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*. These three comments were related to the State's financial reporting function.

Also, we reported two findings related to the State's new enterprise resource planning system, OAKS, as material weaknesses. One material weakness involved certain control objectives for security that were not met in the Auditor of State's SAS 70 report on OAKS. The second material weakness indicated controls were not in place in the OAKS software to reconcile the Financials (FIN) and Human Capital Management (HCM) module transaction totals to the totals reflected in the production general ledger, either on a monthly basis or at year end. These two issues caused us to increase our overall testing in order to lower our overall audit risk.

The 52 A-133 findings, beginning on page 191, related to the federal programs at 10 state agencies. Of these federal findings, 14 resulted in questioned costs, nine were noncompliance, six were identified as material weaknesses, and 26 were significant deficiencies. The 14 findings with questioned costs totaled $3,714,099. This is the lowest total questioned cost amount in our State Single Audit report since 1998. A significant portion of the total questioned costs amount related to the two following comments:

- The Ohio Department of Job and Family Services had questioned costs of $2,140,644 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 302 medical supply codes were either not designed or not functioning properly, which allowed providers to be reimbursed for any amount for these supplies. The Department has the opportunity to recoup these overpayments from providers. It should be noted that our questioned costs include 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 begin on page 228.

- The Ohio Department of Public Safety had questioned costs of $1,376,142 related to the Homeland Security Cluster. The Department was unable to provide adequate documentation to support the entire federal draw included in our testing, which was one of two high dollar items tested. As such, we were unable to determine if the Department was in compliance with 31 CFR 205.33 and questioned the costs of $1,376,142. The finding and related client corrective action plan begin on page 306.

- We also had two findings with undetermined questioned costs. Both of these findings occurred with the Ohio Department of Job and Family Services. One finding related to voided warrants for the Medicaid Cluster and the Department not being able to provide documentation that cancelled warrants were properly credited to the Medicaid program for part of the fiscal year. The other finding related to the Child Care Cluster program in that the Department was unable to provide documentation to the auditors that they complied with applicable cash management provisions relating to the mandatory and matching portion for CFDA #93.596. The findings and client corrective action plans begin on page 255.

The schedule below identifies the number of reportable conditions included in the State of Ohio Single Audit from fiscal year 2003 through 2006, as well as the number of significant deficiencies identified in 2007 and 2008. The U.S. Office of Management and Budget Circular A-133 changed the previous definition of reportable conditions to significant deficiencies for the 2007 State Single Audit. The schedule is divided by state agency and does include findings which were repeated over a number of years.

State Agency	2008	2007	2006	2005	2004	2003
Ohio Dept. of Job & Family Services	30	34	36	47	57	62
Ohio Department of Education	2	5	4	3	6	6
Ohio Department of Health	6	3	4	6	6	3
Ohio Dept. of Developmental Disabilities	0	0	0	3	5	4
Ohio Department of Development	1	2	1	1	0	0
Ohio Department of Mental Health	1	1	1	1	1	1
Ohio Department of Public Safety	4	3	0	1	0	0
Ohio Office of Budget and Management	4	1	0	0	0	0
Ohio Administrative Knowledge System	4	1	N/A	N/A	N/A	N/A
Other State Agencies	3	3	3	0	4	2
Total	**55**	**53**	**49**	**62**	**79**	**78**

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

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FINANCIAL SECTION

Mary Taylor, CPA
Auditor of State

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, 2008, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following organizations:

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

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

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

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

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

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Revenues / Additions
Governmental Activities	2%	1%
Business-Type Activities	93%	41%
Aggregate Discretely Presented Component Units	84%	97%
Aggregate Remaining Fund Information	97%	32%
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, 2008, and respective changes in financial position and cash flows, where applicable, and respective budgetary comparisons for the general and major special revenue funds thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated October 2, 2009, 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 require. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 2, 2009

State of Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008

(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, 2008. 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 $23.72 billion, as of June 30, 2008, increased $1.07 billion since the previous year. Net assets of the State's component units reported in the amount of $13.79 billion, as of June 30, 2008, decreased $329.3 million since the end of last fiscal year. Additional discussion of the State's government-wide balances and activities, as of and for the year ended June 30, 2008, can be found beginning on page 7.

Fund Financial Statements

Governmental funds reported combined ending fund balances of $12.2 billion that was comprised of $5.89 billion reserved for specific purposes, such as for debt service, state and local highway construction, and federal programs; $6.09 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 $799.3 million deficit. The balances and activities of the State's governmental funds are discussed further beginning on page 12.

As of June 30, 2008, the General Fund's fund balance was approximately $2.6 billion, including $81.7 million reserved for "other" specific purposes, as detailed in NOTE 17; $662.7 million reserved for nonappropriable items; and $1.01 billion in designations for budget stabilization and other purposes. The General Fund's fund balance increased by $342.7 million (exclusive of a $2.6 million increase in inventories) or 15.2 percent during fiscal year 2008. The balances and activities of the General Fund are discussed further beginning on page 12.

Proprietary funds reported net assets of $3.14 billion, as of June 30, 2008, an increase of $11 million since June 30, 2007. The largest net increase was $197.7 million reported for the Workers' Compensation Enterprise Fund, while the largest net decrease was $156.3 million in the Unemployment Compensation Fund. The balances and activities of the proprietary funds are discussed further beginning on page 17.

Capital Assets

The carrying amount of capital assets for the State's primary government increased to $24.76 billion at June 30, 2008. The majority of the increase of $368.6 million or 1.5 percent during fiscal year 2008 was for acquisition of land and highway network infrastructure, and for the construction of buildings, land improvements, and the Ohio Administrative Knowledge System (OAKS). Further discussion of the State's capital assets can be found beginning on page 18.

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

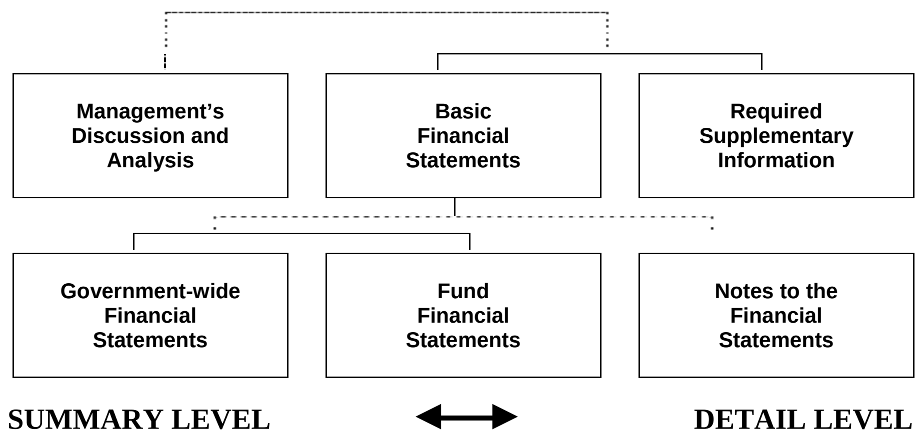
Overall, the carrying amount of total long-term debt for the State's primary government increased $5 billion or 43.1 percent during fiscal year 2008 and reported an ending balance of $16.59 billion. During the year, the State issued at par $268 million in general obligation bonds, $5.79 billion in revenue bonds, $80 million in special obligation bonds, and $75.1 million in certificates of participation. The State issued no refunding debt during the fiscal year. Additional discussion of the State's bonds and certificates of participation can be found beginning on page 19.

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 58 through 140 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 142 through 144 of this report.

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

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

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

Government-wide Financial Statements

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

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

The State's government-wide financial statements, which can be found on pages 25 through 28 of this report, are divided into three categories as follows.

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

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

Component Units — The State presents the financial activities of the School Facilities Commission, Cultural Facilities Commission, eTech Ohio Commission, Ohio Water Development Authority, Ohio Air Quality Development Authority, the Ohio Capital Fund, and 22 state-assisted colleges and universities as discretely presented component units under a separate column in the government-wide financial statements. The 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, 25 debt service funds, and 11 capital projects funds. Under separate columns, information is presented in the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund 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 47 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 29 through 40 of this report while the combining fund statements and schedules can be found on pages 147 through 206 of the State's CAFR.

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

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

The enterprise funds are the same as the State's business-type activities reported in the government-wide financial statements, but the proprietary fund financial statements provide more detail and additional information, such as information on cash flows. The basic proprietary fund financial statements can be found on pages 41 through 48 of this report while the combining fund statements can be found on pages 207 through 215 of the State's CAFR.

Fiduciary Funds — The State is the trustee, or fiduciary, for assets that — because of a trust arrangement — can only be used for the trust beneficiaries. The State is responsible for ensuring the assets reported in these funds are used for their intended purposes. All of the State's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets. The State excludes the State Highway Patrol Retirement System Pension Trust Fund, Variable College Savings Plan Private-Purpose Trust Fund, STAR Ohio Investment Trust Fund, and the agency funds from its government-wide financial statements because the State cannot use these assets to finance its operations. The basic fiduciary fund financial statements can be found on pages 49 through 52 of this report.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Assets. During fiscal year 2008, as shown in the table below, the combined net assets of the State's primary government increased $1.07 billion or 4.7 percent. Net assets reported for governmental activities increased $1.06 billion or 5.4 percent and business-type activities increased $11 million, or 0.4 percent. Condensed financial information derived from the Statement of Net Assets for the primary government follows.

Primary Government
Statement of Net Assets
As of June 30, 2008
With Comparatives as of June 30, 2007
(dollars in thousands)

	As of June 30, 2008			As of June 30, 2007 (as restated)		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Assets:						
Current and Other Noncurrent Assets	$22,105,754	$24,073,397	$46,179,151	$17,230,308	$24,089,153	$41,319,461
Capital Assets	24,629,764	128,243	24,758,007	24,258,279	131,092	24,389,371
Total Assets	46,735,518	24,201,640	70,937,158	41,488,587	24,220,245	65,708,832
Liabilities:						
Current and Other Liabilities	8,971,924	(188,199)	8,783,725	9,684,926	4,220	9,689,146
Noncurrent Liabilities	17,177,435	21,253,740	38,431,175	12,273,207	21,090,876	33,364,083
Total Liabilities	26,149,359	21,065,541	47,214,900	21,958,133	21,095,096	43,053,229
Net Assets:						
Invested in Capital Assets, Net of Related Debt	21,983,900	32,068	22,015,968	21,477,381	19,322	21,496,703
Restricted	2,601,580	521,766	3,123,346	2,360,396	682,126	3,042,522
Unrestricted	(3,999,321)	2,582,265	(1,417,056)	(4,307,323)	2,423,701	(1,883,622)
Total Net Assets	20,586,159	3,136,099	23,722,258	$19,530,454	$3,125,149	22,655,603

As of June 30, 2008, 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 $22.02 billion. Restricted net assets were approximately $3.12 billion, resulting in a $1.42 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 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 $9.9 billion of outstanding general obligation and special obligation debt at June 30, 2008, $6.98 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, 2008, the State's governmental activities have significant unfunded liabilities for compensated absences in the amount of $398.8 million (see NOTE 14A.) and a $815.5 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 2008 and 2007, follows.

Primary Government
Statement of Activities
For the Fiscal Year Ended June 30, 2008
With Comparatives for the Fiscal Year Ended June 30, 2007
(dollars in thousands)

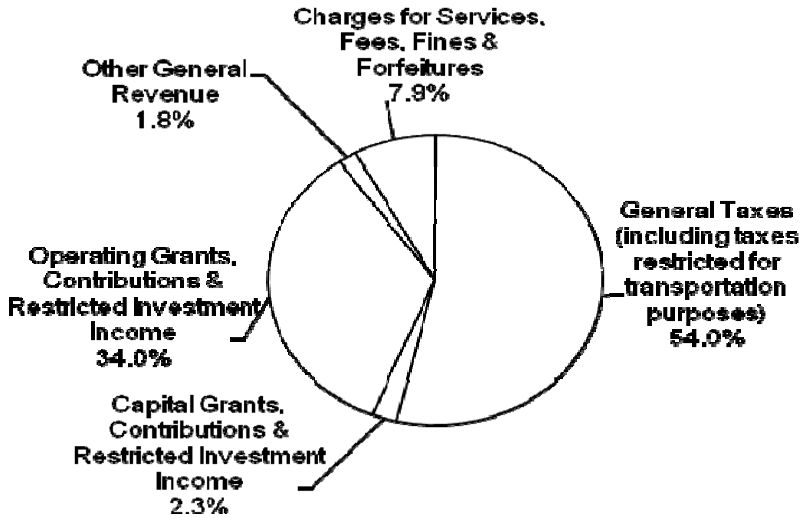
	Fiscal Year 2008			Fiscal Year 2007 (as restated)		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Program Revenues:						
Charges for Services, Fees, Fines and Forfeitures	$3,539,963	$6,418,651	$9,958,614	$ 3,101,007	$8,389,550	$11,490,557
Operating Grants, Contributions and Restricted Investment Income/(Loss)	15,123,481	877,482	16,000,963	14,964,098	1,339,887	16,303,985
Capital Grants, Contributions and Restricted Investment Income/(Loss)	1,070,309	—	1,070,309	1,286,426	—	1,286,426
Total Program Revenues	19,733,753	7,296,133	27,029,886	19,351,531	9,729,437	29,080,968
General Revenues:						
General Taxes	22,044,780	—	22,044,780	21,661,379	—	21,661,379
Taxes Restricted for Transportation	1,820,336	—	1,820,336	1,835,478	—	1,835,478
Tobacco Settlement	362,897	—	362,897	361,552	—	361,552
Escheat Property	185,016	—	185,016	31,009	—	31,009
Unrestricted Investment Income	250,293	—	250,293	206,414	—	206,414
Federal	2	—	2	—	—	—
Other	200	19	219	383	372	755
Total General Revenues	24,663,524	19	24,663,543	24,096,215	372	24,096,587
Total Revenues	44,397,277	7,296,152	51,693,429	43,447,746	9,729,809	53,177,555
Expenses:						
Primary, Secondary and Other Education	11,304,014	—	11,304,014	11,467,076	—	11,467,076
Higher Education Support	2,729,423	—	2,729,423	2,546,530	—	2,546,530
Public Assistance and Medicaid	16,003,345	—	16,003,345	15,782,074	—	15,782,074
Health and Human Services	3,651,313	—	3,651,313	3,538,858	—	3,538,858
Justice and Public Protection	3,127,726	—	3,127,726	3,102,172	—	3,102,172
Environmental Protection and Natural Resources	394,459	—	394,459	435,235	—	435,235
Transportation	2,078,872	—	2,078,872	1,998,166	—	1,998,166
General Government	746,490	—	746,490	884,590	—	884,590
Community and Economic Development	4,017,838	—	4,017,838	3,789,404	—	3,789,404
Interest on Long-Term Debt (excludes interest charged as program expense)	173,934	—	173,934	169,776	—	169,776
Workers' Compensation	—	2,675,254	2,675,254	—	2,760,313	2,760,313
Lottery Commission	—	1,704,848	1,704,848	—	1,696,881	1,696,881
Unemployment Compensation	—	1,333,180	1,333,180	—	1,175,682	1,175,682
Ohio Building Authority	—	28,117	28,117	—	28,188	28,188
Tuition Trust Authority	—	121,673	121,673	—	92,798	92,798
Liquor Control	—	460,398	460,398	—	444,119	444,119
Underground Parking Garage	—	2,665	2,665	—	2,519	2,519
Office of Auditor of State	—	73,225	73,225	—	74,487	74,487
Total Expenses	44,227,414	6,399,360	50,626,774	43,713,881	6,274,987	49,988,868
Surplus/(Deficiency) Before Transfers	169,863	896,792	1,066,655	(266,135)	3,454,822	3,188,687
Transfers-Internal Activities	885,842	(885,842)	—	853,171	(853,171)	—
Change in Net Assets	1,055,705	10,950	1,066,655	587,036	2,601,651	3,188,687
Net Assets, July 1 (as restated)	19,530,454	3,125,149	22,655,603	18,943,418	523,498	19,466,916
Net Assets, June 30	$20,586,159	$3,136,099	$23,722,258	$19,530,454	$3,125,149	$22,655,603

Governmental Activities

Revenues were slightly over expenditures during fiscal year 2008, and when combined with transfers from the State's business-type activities, net assets for governmental activities increased from $19.53 billion, at July 1, 2007, to $20.59 billion, at June 30, 2008, or $1.06 billion. Revenues for fiscal year 2008 in the amount of $44.4 billion were 2.2 percent higher than those reported for fiscal year 2007. This increase in revenues can be attributed to stronger income and sales taxes, increased charges for services, fees, fines, and forfeitures, the large transfer of escheat property to the general fund, and increased collections of the Commercial Activity Tax which offset decreases in the Corporate and Public Utility taxes. Net transfers for fiscal year 2008 also increased to $885.8 million, or by 3.8 percent, when compared to fiscal year 2007. Expenses also increased as the reported $44.23 billion in spending represented a 1.1 percent increase over fiscal year 2007.

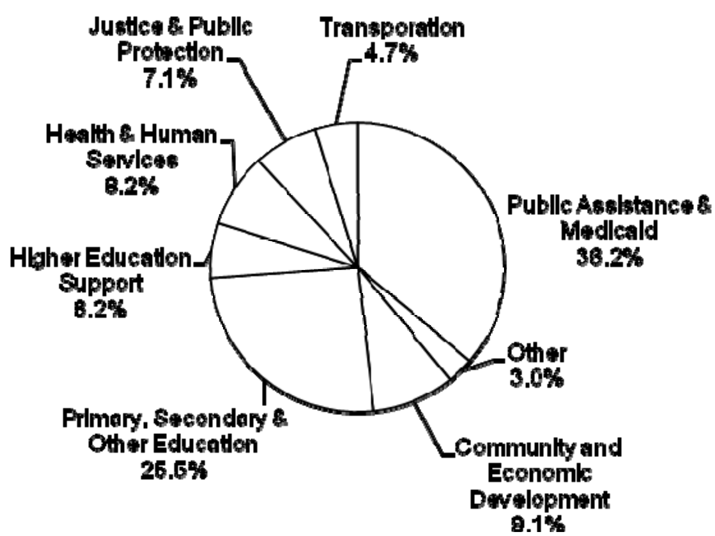
The following charts illustrate revenue by sources and expenses by program of governmental activities as percentages of total revenues and program expenses, respectively, reported for the fiscal year ended June 30, 2008.

Governmental Activities-Sources of Revenue
Fiscal Year 2008



Total FY 08 Revenue for Governmental Activities = $44.4 Billion

Governmental Activities — Expenses by Program
Fiscal Year 2008



FY 08 Program Expenses for Governmental Activities = $44.23 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, 2008 and 2007. 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, 2008
With Comparatives for the Fiscal Year Ended June 30, 2007
(dollars in thousands)

	For the Fiscal Year Ended June 30, 2008			
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	$11,304,014	$9,569,754	84.7%	21.6%
Higher Education Support	2,729,423	2,677,003	98.1	6.1
Public Assistance and Medicaid	16,003,345	4,630,440	28.9	10.5
Health and Human Services	3,651,313	1,311,422	35.9	3.0
Justice and Public Protection	3,127,726	2,006,652	64.2	4.5
Environmental Protection and Natural Resources	394,459	109,908	27.9	0.2
Transportation	2,078,872	864,434	41.6	2.0
General Government	746,490	(130,201)	(17.4)	(0.3)
Community and Economic Development	4,017,838	3,280,315	81.6	7.4
Interest on Long-Term Debt	173,934	173,934	100.0	0.4
Total Governmental Activities	$44,227,414	$24,493,661	55.4	55.4%

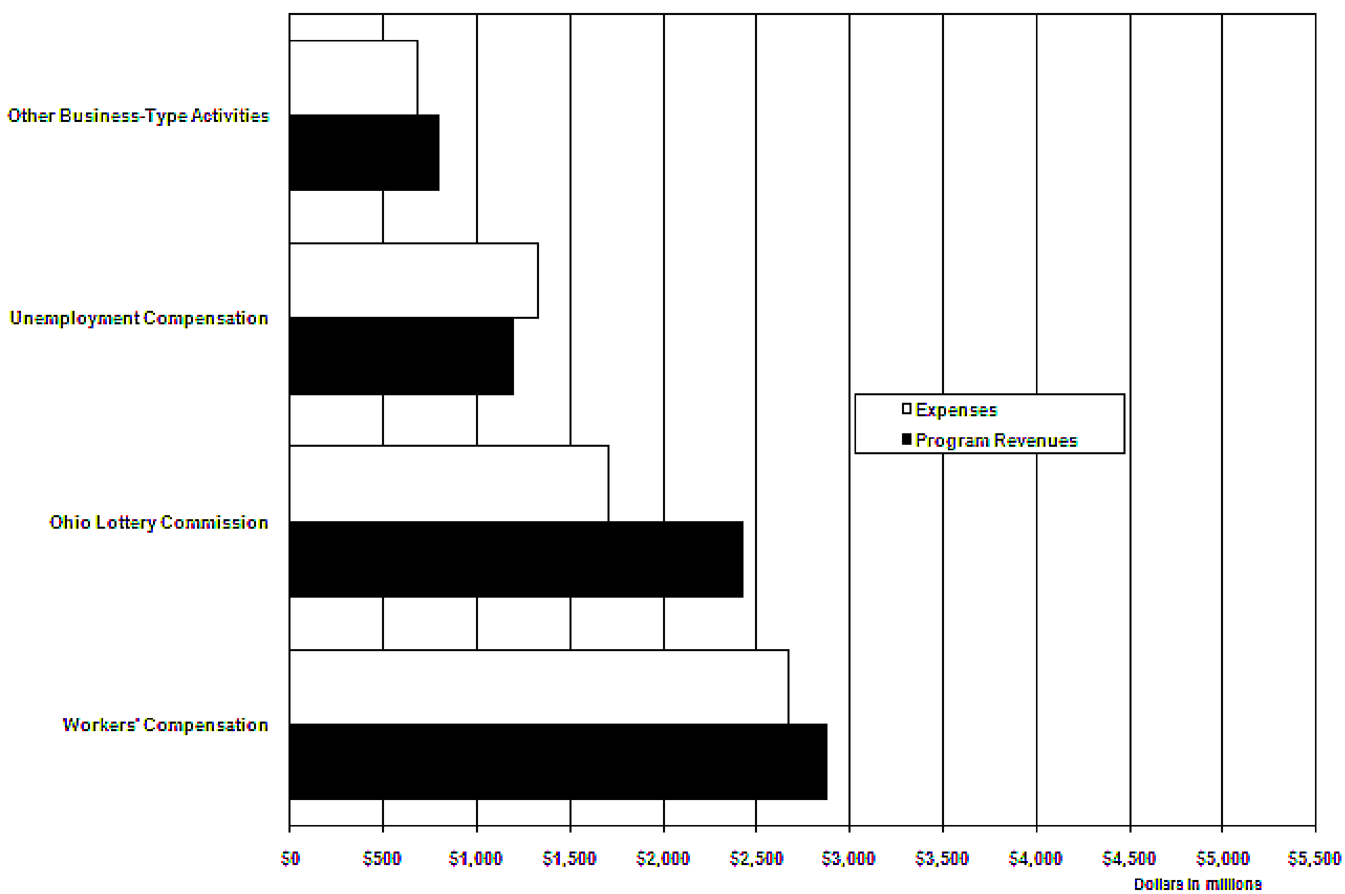
	For the Fiscal Year Ended June 30, 2007			
Program	**Program Expenses**	**Net Cost of Program**	**Net Cost as Percentage of Total Expenses for Program**	**Net Cost as Percentage of Total Expenses — All Programs**
Primary, Secondary and Other Education	$11,467,076	$ 9,763,763	85.1%	22.3%
Higher Education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

Business-Type Activities
The State's enterprise funds reported net assets of $3.14 billion, as of June 30, 2008, as compared to $3.13 million in net assets, as of June 30, 2007, an increase of 0.3 percent. The primary increase in net assets for the business-type activities was the Workers' Compensation Fund, which reported net assets of $2.5 billion, as of June 30, 2008, as compared to $2.31 billion, as of June 30, 2007, a $197.7 million increase. The Lottery Commission Fund reported net assets of $133.9 million, as of June 30, 2008, compared to $90.4 million in net assets, as of June 30, 2007, an increase of $43.5 million, or 48.1 percent. The Office of the Auditor of State Fund reported net assets of $16.2 million for June 30, 2008, an increase of $4 million, or 33.3 percent, over June 30, 2007. On the other hand, a number of funds showed decreases of net assets for the fiscal year. The Unemployment Compensation Fund posted a $156.3 million or 25.7 percent decrease in net assets during fiscal year 2008 when the fund reported net assets of $452.1 million, as of June 30, 2008, compared to $608.4 million in net assets as of June 30, 2007. The Tuition Trust Authority Fund lost $62.2 million in fiscal year 2008, giving it net assets at June 30, 2008 of $(31.2), as compared to net assets of $31 million at June 30, 2007. The Liquor Control fund showed net assets of $30.3 million in fiscal year 2008, as compared to $42.6 million for fiscal year 2007, a decrease of $12.4 million, or 29 percent.

For the Workers' Compensation Fund, the increase in net assets is mainly due premium and assessment income and investment income growing more rapidly than benefits and compensation income. For the Lottery Commission Fund, the increase in net assets resulted from increased investment income combined with lower interest expense. In the Office of Auditor of State Fund, increased charges for audit services combined with lower operational costs to produce the increase in net assets. For funds that suffered a decrease in net assets, the Unemployment Compensation Fund had benefits and claims expenses that grew more rapidly than premium and assessment income. In the case of the Tuition Trust Authority Fund, the decrease in net assets resulted from decreased investment income combined with increased actuarial tuition benefits expense, while the Liquor Control Enterprise Fund experienced an increase in operating income but transferred much more to the governmental funds.

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

Business-Type Activities — Expenses and Program Revenues
Fiscal Year 2008



Additional analysis of the Business-Type Activities revenues and expenses is included with the discussion of the Proprietary Funds beginning on page 17.

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, 2008 and June 30, 2007 (dollars in thousands).

	As of and for the Fiscal Year Ended June 30, 2008			
	General Fund	Other Major Funds	Nonmajor Governmental Funds	Total Governmental Funds
Unreserved/Undesignated Fund Balance	$844,713	$(1,557,432)	$(86,554)	$(799,273)
Designated Fund Balance	1,012,288	—	—	1,012,288
Total Fund Balance	2,601,372	6,677,810	2,915,903	12,195,085
Total Revenues	26,384,411	14,079,990	3,667,901	44,132,302
Total Expenditures	25,122,540	14,225,795	6,390,859	45,739,194

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

General Fund

The main operating fund of the State is the General Fund. During fiscal year 2008, General Fund revenue increased by $453.1 million while expenditures decreased by $21.8 million. Other sources and uses, however, showed a large decline of $478 million when compared with fiscal year 2007. As a result, the fund balance increased by $342.7 million (exclusive of a $2.6 million increase in inventories) or 15.2 percent.

General Fund Budgetary Highlights

The State ended the first year of its biennial budget period on June 30, 2008, with a General Fund budgetary fund balance (i.e., cash less encumbrances) of $2.23 billion. Total budgetary sources for the General Fund (including $1.4 billion in transfers from other funds) in the amount of $28.12 billion were below final estimates by $220.9 million or 0.8 percent during fiscal year 2008, while total tax receipts were below final estimates by $107.8 million or 0.6 percent. Total budgetary uses for the General Fund (including $786.2 million in transfers to other funds) in the amount of $28.87 billion were below final estimates by $712.9 million or 2.4 percent for fiscal year 2008. During fiscal year 2008, it was not necessary to use any of the $1.01 billion that had been designated for budget stabilization purposes at June 30, 2007.

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

For fiscal year 2008, revenues in the GRF were $81.8 million, or 0.3 percent, below estimates. Negative variances in the GRF tax receipts include: personal income tax, $34.5 million or 0.4 percent; non-auto sales and use tax, $26.5 million, or 0.4 percent; and cigarette tax, $19.1 million, or 2.0 percent.

The personal income tax, after adjusting for the change in allocation for the local government funds, grew 1.5 percent compared with fiscal year 2007 after the effects of the third of the five annual 4.2 percent income tax rate cuts was factored in. Employer withholdings and quarterly estimated payments both fell behind estimates as the year progressed, due to unemployment which has increased for the last six straight months. Employer withholdings were $20.6 million below estimate by fiscal year end, while quarterly estimated payments were $39.2 million below estimate. Quarterly estimated payments increased 1.3 percent compared to fiscal year 2007, well below the estimated increase of 3.7 percent. Annual returns exceeded estimates by $76 million, but this was offset by income tax refunds which also exceeded estimates by $74.7 million.

Non-auto sales and use tax generated higher than expected revenues in five of the first seven months of the fiscal year, but the negative variances of the last five months erased what had been a year-to-date surplus. This is reflective of weakening consumer confidence and sharply higher fuel and food prices, which has the effect of shifting spending from taxable goods and services to those that are exempt from the sales tax. The Department of Taxation estimates that food and fuel price increases have reduced non-auto sales and use tax collections by $8 million to $12 million per month for the last six months of fiscal year 2008. During fiscal year 2008, non-auto sales and use tax receipts grew 2.1 percent over fiscal year 2007, after adjusting for the changes in the allocation for the local government funds. However, all of that growth came in the first seven months of the fiscal year. In the last five months, collections have dropped 0.8 percent from fiscal year 2007, despite the positive impact in June from the federal stimulus payments.

Cigarette tax receipts fell 3.6 percent from fiscal year 2007. This larger-than-expected drop is likely the result of a combination of factors, including the combined efforts of the smoking ban, and high fuel and food prices, which reduced disposable income.

Transfers into the GRF were $90.1 million in fiscal year 2008. They were above estimates by $87.1 million, or 7.6 percent. This variance was due to changes in the law that took effect in fiscal year 2008 that provides for the transfer to the GRF of excess money remaining in the fund used to reimburse local schools for tax revenues they lost due to the phase-out of the tangible personal property tax.

Disbursements for fiscal year 2008 in the GRF were below estimates by $716.9 million, or 2.7 percent. Primary, Secondary, and Other Education function disbursements were below estimates by $175.4 million, or 2.5 percent, primarily due to student enrollment in fiscal year 2008 being lower than anticipated.

Spending for the Higher Education function was below estimates by $96.6 million, or 3.7 percent. This is largely due to the delay in implementing the Choose Ohio First scholarships, the Ohio Research Scholars, and the James A. Rhodes scholarship programs until fiscal year 2009, as part of the budget recalibration plan adopted by the Ohio Board of Regents in response to the State's budget directives.

Spending for the Public Assistance and Medicaid function was lower than budgeted by $419 million, or 3.9 percent. Most of this was due to the timing of the last Medicaid payments for fiscal year 2008, which were delayed until July 1, 2008, and expended during fiscal year 2009. Expenditures for Medicaid have been rising and caseloads have been increasing since June 2007 and continuing to exceed the estimate. At the end of fiscal year 2008, Medicaid had an average of 24,000 additional enrollees in the program.

Expenditures for the Health and Human Services function were below estimate by $44.9 million, or 3.4 percent. This was primarily attributable to the recalibration plans of three agencies which resulted in their lower-than-expected spending: $7.1 million at the Department of Mental Health, $4.3 million at the Department of Mental Retardation and Developmental Disabilities, and $17.6 million at the Department of Aging.

Debt Service expenditures were less than expected for fiscal year 2008. This is largely the result of the October 2007 issuance of $5.53 billion Buckeye Tobacco Settlement Asset-Backed Bonds. The proceeds of these tobacco bonds are being used in place of General Obligation debt (the debt service on which is paid from the GRF) to fund the State's share of rebuilding elementary and secondary school buildings across the State and for higher education facilities.

Consistent with state law, the Governor's Executive Budget for the 2008-09 biennium was released in March 2007 and introduced in the General Assembly. After extended hearings and review, the appropriations act (Act) for the 2008-09 biennium for the GRF was passed by the General Assembly and signed (with selective vetoes) by the then Governor on June 30, 2007.

The continued implementation of the restructuring of State taxes was commenced in 2006-07. The Act was based upon then estimated total GRF biennial revenues of approximately $53.5 billion, a 3.9 percent increase over the 2006-07 biennial revenue, and total GRF biennial appropriations of approximately $52.4 billion, a 2.1 percent increase over the 2006-07 biennial expenditures. Spending increases for major program categories over the 2006-07 actual expenditures were: 2.2 percent for Medicaid (the Act also included a number of Medicaid reform and cost containment initiatives); 13.2 percent for higher education; 5.3 percent for elementary and secondary education; 4.9 percent for corrections and youth services; and 4.7 percent for mental health and mental retardation. The Executive Budget and the GRF appropriations Act complied with legislation signed into law on

June 5, 2006 that limits most GRF appropriations commencing with the 2008-09 biennium. This statutory limitation initially uses fiscal year 2007 GRF appropriations as a baseline and then applies an annual growth factor of the greater of 3.5 percent or the sum of the inflation rates and rate of State population change. Every fourth fiscal year thereafter becomes a new base year. GRF appropriations for debt service payments are expressly excepted from this statutory limitation. The Executive Budget, the GRF appropriations Act and the separate appropriations acts for the biennium included all necessary debt service and lease rental payments related to State obligations.

The original GRF expenditure authorizations for the 2008-09 biennium reflected and were supported by tax law changes contained in the Act, including:

- Restructuring nonresident tax exemption for Ohio motor vehicle purchases projected to produce approximately $54 million for the biennium.

- Restoring local government fund support by committing a set percent of all tax revenues deposited into the GRF. Local governments will receive 3.7 percent of total GRF tax revenues annually and local libraries will receive 2.2 percent of total GRF tax revenues annually.

- Eliminating the $300 per month cigarette and tobacco product importation exemption projected to produce approximately $25 million annually.

The GRF appropriations Act also created the Buckeye Tobacco Settlement Financing Authority to securitize tobacco settlement receipts payable to the State under the November 1998 national tobacco settlement. On October 29, 2007, the Authority issued its $5.53 billion Tobacco Asset-Backed Bonds to fund capital expenditures for higher education ($938 million) and common school ($4.11 billion) purposes over the next three years in lieu of the State issuing GRF-backed general obligation bonds to fund those capital expenditures. The resulting debt service savings to the GRF is funding the expansion of the homestead exemption property tax relief program in the Act. The Act reprograms all prior General Assembly allocations of anticipated tobacco settlement receipts to enable the pledge of 100 percent of those receipts to the payment of debt service on the Authority's obligations. The State had previously enacted legislation allocating its anticipated share of those receipts through fiscal year 2012 and making a partial allocation thereafter through fiscal year 2025. Except for fiscal years 2002 through 2004, none of the receipts were applied to existing operating programs of the State. Under those previously enacted allocations, the largest amount was to be applied to elementary and secondary school capital expenditures, with other amounts allocated for smoking cessation and other health-related purposes, biomedical research and technology transfer, and assistance to the tobacco growing areas in the State.

With the Ohio economy expected to be negatively affected by the national economic downturn, OBM in January 2008 reduced its original GRF revenue projections by $172.6 million for fiscal year 2008 and $385.1 million for fiscal year 2009. Based on those lower GRF revenue estimates and increased costs associated with Medicaid caseloads, OBM projected a budgetary shortfall for the current biennium of $733 million. The following executive and legislative actions were taken in response:

- The Governor on January 31, 2008, issued an executive order directing expenditure reductions and spending controls totaling approximately $509.1 million for the biennium as well as limitations on major purchases, hiring and travel. Allocation of those reductions is determined by the OBM Director in consultation with the affected agencies and departments, with annual expenditure reductions ranging up to 10 percent. An employee reduction plan was also announced aimed at reducing the State's workforce by up to 2,700 employees through attrition, unfilled vacancies and an early retirement incentive program. Expressly excluded from the cutbacks are appropriations for or relating to debt service on State obligations, State higher education instructional support, foundation formula support for primary and secondary education, Medicaid entitlement programs, and ad valorem property tax relief payments.

- Unspent agency appropriations totaling $120.2 million in fiscal year 2008 and $78 million in fiscal year 2009 were transferred to the GRF.

- Authorizing expansion of the State-run lottery system to include "keno" games projected to generate $65 million in fiscal year 2009, although actual revenues are below estimates.

In March 2008, in response to the national economic downturn, the Governor proposed a $1.7 billion economic stimulus plan to help the Ohio economy through investments in logistics and distribution, bio-products and biomedical research, advanced and renewable energy, local government infrastructure, conservation projects and brownfield revitalization projects. These investments were to be funded primarily through new GRF bond-backed capital appropriations. After extensive hearings and review, the General Assembly in June passed a $1.57 billion economic stimulus package that mirrored the purposes proposed by the Governor and added funding for higher education workforce programs and expanded the State's historic preservation tax credits. The sources of funding for the stimulus plan include, in addition to the GRF-backed bonds, $230 million from the Ohio Tobacco Prevention Foundation (this transfer is subject to a pending legal challenge), $370 million in GRF operating appropriations to be made over the next five fiscal years, $184 million in bonds backed by net profit from the State's liquor enterprise, and $200 million in bonds backed by highway user receipts.

In June 2008, the General Assembly also passed legislation that provides for, among other things, transfers to the GRF, after a selective line-item veto, of up to $63.3 million from the Budget Stabilization Fund for the State's share of increased Medicaid costs, $55 million from rotary funds and $25 million in uncommitted interest earnings from proceeds of the State's Tobacco Settlement Asset-Backed bonds.

With the Ohio economy continuing to be negatively affected by the national economic downturn, OBM on September 10, 2008 announced a $540 million reduction in its GRF revenue projections for fiscal year 2009 and a projected fiscal year budgetary shortfall of the same amount. Executive actions announced to offset the projected shortfall include:

- Use of additional planned fiscal year-end lapses and GRF carry-forward totaling $126.4 million.

- Use of balances in various non-GRF rotary funds totaling $112 million.

- Transfer to the GRF an additional $40 million of interest earnings on the proceeds of the tobacco securitization referred to above.

- As authorized by June 2008 legislation referred to above, a transfer to the GRF of $63.3 million to pay for previously authorized Medicaid cost expenditures.

The $198.3 million balance of the reduction is being offset by a 4.75 percent reduction in most agency appropriations, which does not apply to appropriations for debt service or tax relief, Medicaid and disability financial assistance, aid to local school districts, or the Department of Rehabilitation and Corrections, the Department of Youth Services, and selected others.

On December 1, 2008, OBM announced a further $640.4 million reduction in GRF revenue projections for fiscal year 2009 expected to result in a projected fiscal year budgetary shortfall of the same amount. Executive actions announced to offset much of that projected shortfall include:

- Reducing total GRF Medicaid spending by $311.1 million by using cash from non-GRF Medicaid accounts and the corresponding federal share previously planned for use in fiscal year 2010.

- Reducing total Medicaid program spending by $21.3 million by enhanced focus on use of other third party liability sources and other program savings exceeding original estimates.

- Reducing other GRF expenditures by $180.5 million through a further 5.75 percent reduction in most agency appropriations, which does not apply to appropriations for debt service or tax relief, Medicaid and disability financial assistance, aid to local school districts, or the Department of Rehabilitation and Corrections, the Department of Youth Services, and selected others. These reductions are in addition to the approximately $1.27 billion of reductions in the 2008-09 biennium budget already undertaken.

The remaining $131.9 million of the shortfall will be offset by additional Federal Medical Assistance Payments to be received under the American Recovery and Reinvestment Act of 2009, which will increase federal Medicaid match to the GRF by that amount, after taking into account the loss of federal match from the two Medicaid related actions outlined above.

On May 7, 2009, OBM reported that April State income tax receipts were $321.6 million below December 2008's revised projections. In response, OBM is considering additional fiscal year 2009 expenditure reductions currently estimated to exceed $98 million, transferring money from the Budget Stabilization fund, and restructuring $52.8 million of GRF fiscal year 2009 debt service into fiscal years 2012 through 2021.

The State ended fiscal year 2008 with a GRF cash balance of $1.68 billion and a GRF budgetary fund balance of $807.5 million. The State did not designate any cash in the GRF for transfer to the budget stabilization fund for fiscal year 2008, as of June 30, 2008.

Other Major Governmental Funds
The *Job, Family and Other Human Services Fund*, had a fund balance of $140 million at June 30, 2008, a decrease of $59.1 million, or 29.7 percent, compared to fiscal year 2007. Expenditures exceeded revenues by $83 million, but net transfers-in totaled $23.9 million.

Public Assistance and Medicaid expenditures increased $103.8 million, or 1.9 percent, compared to the previous fiscal year. This increase in expenditures was partially offset by a $30.7 million, or 0.6 percent, increase in federal government revenue compared to the previous fiscal year. The increase in expenditures was due to the costs for the Medicaid, TANF, Food Stamps, Unemployment Insurance, and the federally funded day-care programs all increasing due to increased enrollments largely attributable to increased unemployment and increased costs of providing medical care due to inflation. Transfers-in to the *Job, Family and Other Human Services Fund* decreased by $81.9 million, or 73.9 percent, compared to fiscal year 2007. This is largely due to certain revenues previously recorded as transfers-in now being reported as Other Revenues. This also accounts for the increase of Other Revenue in the fund by $55.8 million, or 36.9 percent, when compared to fiscal year 2007.

The *Education Fund*, as of June 30, 2008, had a fund balance of $115.1 million, an increase of $13.3 million since June 30, 2007. Expenditures decreased by $8.2 million, or 0.3 percent, compared to fiscal year 2007. Revenues in the Education Fund increased by $7.8 million, or 0.5 percent, in fiscal year 2008. Fiscal year 2008 net transfers-in for the fund in the amount of $674.2 million declined by 39.6 million, or 5.6 percent, compared to fiscal year 2007. This decline is primarily due to the fact that, in accordance with the Ohio Revised Code, the Revenue Distribution Fund (see below) was not required to make transfers of excess funds to the Education Fund, based on the cash balances in the respective funds. In fiscal year 2007, the amount of such transfers totaled $50.1 million.

The fund balance for the *Highway Operating Fund*, as of June 30, 2008, totaled approximately one billion dollars, an increase of $115.4 million (including a $1.7 million increase in inventories) or 13 percent since June 30, 2007. The increase was due to net transfers which totaled $264 million and more than offset the excess of expenditures over revenues of $150.3 million. The net transfers increased by $79.4 million, or 43 percent, when compared to fiscal year 2007. This increase in net transfers is attributable to a decrease in transfers-out of $95.9 million compared to fiscal year 2007, and $92 million of this decrease is due to the replacement of the transfers-out with other sources of revenue in the fund that previously recorded the corresponding transfers-in.

Total revenues in the fund totaled $1.91 billion in fiscal year 2008, a decrease of $209.9 million, or 9.9 percent, from fiscal year 2007. Federal revenues of $1.1 billion represented a $221.1 million, or 16.7 percent, decline from fiscal year 2007. Part of this decline relates to federal reimbursement for debt service costs relating to certain construction bonds that the State received 100 percent reimbursement for in fiscal year 2007, but that is reimbursed at 80 percent beginning in fiscal year 2008. The rest of the decline is attributable to various factors, including weather-related decreased construction expenditures which reduced the State's eligibility to receive federal reimbursement, and timing differences in the receipt of the federal reimbursement. Partially offsetting this decline in federal revenues, Other revenues totaled $45.6 million for fiscal year 2008, which was an increase of $22.9 million, or 101.2 percent, over fiscal year 2007. There were several reasons for this increase: the State sold major highway right of ways for $2.9 million; several large construction projects that receive local government reimbursement were completed; and the fund received $22.8 million in reimbursement for bridge painting settlements.

Total expenditures in the fund totaled $2.06 billion in fiscal year 2008, a decrease of $106.1 million, or 4.9 percent, from fiscal year 2007. The reason for this decrease relates to the decreased construction expenditures referred to previously above.

For the *Revenue Distribution Fund*, as of June 30, 2008, the fund balance totaled ($45.4) million, a decrease of $49.7 million since June 30, 2007. Fiscal year 2008 net transfers of ($773.3) million were greater than the $723.6 million excess of revenues over expenditures, thus causing the decrease in fund balance.

Expenditures in the Primary, Secondary and Other Education function increased by $239.7 million, or 43.5 percent, compared to fiscal year 2007. This increase was almost entirely attributable to the fund's increased collections of the commercial activities tax. The taxes are subsequently distributed to local school districts to serve as a replacement for revenues lost by the local school districts due to the expiration of the tangible property tax, which previously provided funding to local school districts.

Expenditures in the Community and Economic Development function of the Revenue Distribution Fund increased by $149.9 million, or 7.2 percent, compared to fiscal year 2007. This increase was almost entirely attributable to the fund's increased collections of the commercial activities tax. The taxes are subsequently distributed to local governments to serve as a replacement for revenues lost by the local governments due to the expiration of the tangible property tax, which previously provided funding to local governments.

Corporate and public utility tax revenues increased by $449.8 million, or 43.7 percent, compared to fiscal year 2007. The fund's increased share of collections of the commercial activities tax, which continued to be phased in during fiscal year 2008, accounted for the majority of the increase.

The *Buckeye Tobacco Settlement Financing Authority Revenue Bonds Fund* ended fiscal year 2008 with a $5.5 million fund balance. This fund was established during fiscal year 2008 due to the issuance of $5.5 million in revenue bonds used to fund long-lived capital projects at State-supported institutions of higher education and to pay the State's share of the cost of rebuilding elementary and secondary school facilities across the State. Its revenue includes tobacco settlement revenue and investment income of $348 million during fiscal year 2008. Expenditures include payments for principal and interest on the revenue bonds totaling $323.3 million during fiscal year 2008.

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

For the *Workers' Compensation Fund*, the $197.7 million increase in net assets was primarily due to premium and assessment income of $2.14 billion which, when combined with $719.9 million in investment income, more than offset benefits and compensation adjustment expenses of $2.59 billion. This increase in net assets represents a 91.6 percent decrease compared to the $2.44 billion increase in net assets that occurred in fiscal year 2007. The fiscal year 2007 increase, however, was primarily due to a $1.9 billion one-time adjustment in premium and assessment income which was a result of the passage of Ohio House Bill 100 in June 2007, which granted the Bureau the authority to assess employers in future periods for amounts needed to fund the Disabled Workers' Relief Fund, resulting in the recording of an unbilled receivable equal to the discounted reserve for compensation and compensation adjustment expenses in the fund.

Workers' compensation benefits and claims expenses totaled $2.59 billion in fiscal year 2008, compared to $2.67 billion in fiscal year 2007, a decrease of $79.7 million or 3.0 percent. This decrease is primarily due to lower than expected levels of medical inflation, leading to favorable reserve development. Medical reserves for claims occurring on or before June 30, 2007 declined by $701 million in fiscal year 2008. By comparison, in fiscal year 2007, medical reserves for claims occurring on or before June 30, 2006 declined by $995 million.

Investment income of $719.9 million in fiscal year 2008 represents a decrease of $191.6 million, or 21 percent, compared to fiscal year 2007. At June 30, 2006, approximately 96 percent of BWC's investments were held in a passively managed bond index fund. As of September 2007, the bond index fund units were liquidated and assets were transitioned to long-duration fixed income securities, treasury inflation protected securities, and domestic equity securities that are managed by three external money managers. Another contributing factor in the decrease of investment income in fiscal year 2008 was the sale of 66 private equity partnerships for a net loss of $51.2 million.

For fiscal year 2008, the *Lottery Commission Fund* reported $716 million in net income before transfers of $672.5 million and $335 thousand to the Education and General funds, respectively, posting a $43.5 million, or 48.1 percent, increase in the fund's net assets. The fiscal year 2008 increase in the Lottery Commission Fund's net assets is partially due to increases in unrealized investment income of $27.6 million, or 45.8 percent, which in turn were due to an increase in the fair market value of the Lottery Commission's investments, while interest expense in the form of borrower rebates associated with securities lending transactions decreased by $8.7 million, or 36.3 percent, compared to fiscal year 2007. Increased ticket sales of $65.7 million, or 2.9 percent, were approximately offset by increased prize expenses, which are directly proportional to ticket sales, of $58.7 million, or 4.4 percent. Other nonoperating expenses, which primarily reflect the amortization of prize liabilities, also declined by $46.7 million, or 54.6 percent, when compared to fiscal year 2007.

For the *Unemployment Compensation Fund,* unemployment benefits and claims expenses of $1.33 billion were $157.5 million, or 13.4 percent more than in fiscal year 2007, while premium and assessment income of $1.11 billion increased only $50.7 million, or 4.8 percent from that of fiscal year 2007. This resulted in a net loss of $156.3 million, which was an increase of $89 million, or 132.2 percent, over the loss in fiscal year 2007. For calendar years 2007 and 2008, Ohio's annualized average unemployment rate was 5.6 percent and 6.5 percent, respectively, according to the U.S. Department of Labor.

Nonmajor Proprietary Funds
For fiscal year 2008, the *Tuition Trust Authority Fund* posted a $31.2 million deficit at June 30, 2008, due to a net loss of $62.2 million incurred in fiscal year 2008. The loss is due primarily to a $322.1 million, or 124 percent, de-

crease in net income as compared to fiscal year 2007. This decrease in net income, in turn, is due to two primary factors: a $140.5 million, or 120.2 percent, decrease in investment income (which was due partially to a poor rate of return on investments of -3.6 percent in fiscal year 2008, and partially to a decrease of invested assets of $134.8 million, or 15 percent, compared to fiscal year 2007), and to a $153.7 million, or 68.3 percent, increase in actuarial tuition benefits expense (which is reflected as “Other” operating revenues in the financial statements) as a result of the change in tuition benefits payable from fiscal year 2007 to fiscal year 2008, due to negative investment returns in fiscal year 2008 and a change in the investment return assumption downward from 7 percent to 6.5 percent beginning in fiscal year 2008. These factors offset a decrease of $71.2 million, or 8.2 percent, in tuition benefits payable, which resulted from the continued suspension of sales in the Guaranteed Savings Plan and the change in tuition inflation assumption during future years. The final factor contributing to the decrease in net income was a $28.2 million, or 34.1 percent, increase in tuition expense in fiscal year 2008 compared to fiscal year 2007.

The *Office of the Auditor of State* Fund recognized an increase of net assets from $12.1 million at June 30, 2007 to $16.2 million at June 30, 2008, an increase of 33.3 percent. This increase is due to additional charge for sales and services revenues of $3.1 million, or 7.4 percent, in fiscal year 2008 due to an increase in the charges for audits of State agencies and local governments, combined with a $1.3 million decrease in administrative expenses due to the transfer of the warrant writing function to the State’s Office of Budget and Management.

The *Liquor Control Fund* reported a decrease in net assets of $12.4 million, or 29 percent, after transferring $215.8 million to the General Fund and other governmental funds. This transfer represented an increase of $37.2 million, or 20.8 percent, over fiscal year 2007. Operating income increased in fiscal year 2008 by $7.9 million, or 4 percent, compared to fiscal year 2007, with the increase being mostly due to increased liquor sales.

In fiscal year 2008, transfers from proprietary funds to governmental funds totaled $933.1 million, up $20.2 million or 2.2 percent when compared to the $912.9 million in transfers-out reported in fiscal year 2007.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2008 and June 30, 2007, the State had invested $24.76 billion and $24.39 billion, respectively, net of accumulated depreciation of $2.66 billion and $2.42 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, 2008
With Comparatives as of June 30, 2007
(dollars in thousands)

	As of June 30, 2008			As of June 30, 2007		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Land	$1,885,135	$11,994	$1,897,129	$ 1,817,502	$ 11,994	$ 1,829,496
Buildings	1,935,616	93,115	2,028,731	1,925,273	100,049	2,025,322
Land Improvements	199,236	13	199,249	195,045	14	195,059
Machinery and Equipment	199,401	20,475	219,876	194,971	16,255	211,226
Vehicles	138,895	2,646	141,541	143,701	2,780	146,481
Infrastructure:						
Highway Network:						
General Subsystem	8,387,073	—	8,387,073	8,363,606	—	8,363,606
Priority Subsystem	7,469,454	—	7,469,454	7,320,525	—	7,320,525
Bridge Network	2,541,870	—	2,541,870	2,496,039	—	2,496,039
Parks, Recreation, and Natural Resources System	47,393	—	47,393	44,094	—	44,094
	22,804,073	128,243	22,932,316	22,500,756	131,092	22,631,848
Construction-in-Progress	1,825,691	—	1,825,691	1,757,523	—	1,757,523
Total Capital Assets, Net	$24,629,764	$128,243	$24,758,007	$24,258,279	$131,092	$24,389,371

During fiscal year 2008, the State recognized $403.3 million in annual depreciation expense relative to its general governmental capital assets as compared with $240.9 million in annual depreciation expense recognized in fiscal year 2007. The State also recognized $15.7 million in annual depreciation expense relative to its business-type capital assets as compared with $14.4 million in annual depreciation expense recognized in fiscal year 2007.

Additionally, the State completed construction on a variety of projects at various state facilities during fiscal year 2008 totaling approximately $387 million, as compared with $356.9 million in the previous fiscal year. The total increase in the State's capital assets, net of accumulated depreciation, for the current fiscal year was 1.5 percent (approximately a 1.5 percent increase for governmental activities and a 2.2 percent decrease for business-type activities). As is further detailed in NOTE 19D. of the notes to the financial statements, the State had $107.6 million in major construction commitments (unrelated to infrastructure), as of June 30, 2008, as compared with the $92 million balance reported for June 30, 2007.

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 42,782 in lane miles of highway (12,718 in lane miles for the priority highway subsystem and 30,064 in lane miles for the general highway subsystem) and approximately 104.1 million square feet of deck area that comprises 14,242 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 2007, indicates that only 3.1 percent and 5.2 percent of the priority and general subsystems, respectively, were assigned a "poor" condition rating. For calendar year 2006, only 3.1 percent and 1.5 percent of the priority and general subsystems, respectively, were assigned a "poor" condition rating.

For the bridge network, it is the State's intention to allow no more than 15 percent of the total number of square feet of deck area to be in "fair" or "poor" condition. The most recent condition assessment, completed by the Ohio Department of Transportation for calendar year 2007, indicates that only 3.4 percent and .05 percent of the number of square feet of bridge deck area were considered to be in "fair" and "poor" conditions, respectively. For calendar year 2006, only 2.8 percent and .01 percent of the number of square feet of bridge deck area were considered to be in "fair" and "poor" conditions, respectively.

For fiscal year 2008, total actual maintenance and preservation costs for the priority and general subsystems were $405.3 million and $237.1 million, respectively, compared to estimated costs of $357.4 million for the priority system and $178.3 million for the general system, while total actual maintenance and preservation costs for the bridge network was $313.8 million compared to estimated costs of $288.3 million. For the previous fiscal year, total actual maintenance and preservation costs for the priority and general subsystems were $418.9 million and $268.8 million respectively, compared to estimated costs of $403.1 million for the priority system and $196.8 million for the general system, while total actual maintenance and preservation costs for the bridge network was $313.3 million compared to estimated costs of $290.7 million. The State's costs for actual maintenance and preservation costs for infrastructure have exceeded estimates over the past two years due to steadily increasing underlying costs for the materials and labor associated with infrastructure projects.

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

During fiscal year 2008, the State issued at par $268 million in general obligation bonds, $5.79 billion in revenue bonds, $80 million in special obligation bonds, and $75.1 million in certificates of participation. No refunding bonds were issued during the fiscal year. The total increase in the State's debt obligations for the current fiscal year, as based on carrying amount, was 43.1 percent (a 43.7 percent increase for governmental activities and a 15.9 percent decrease for business-type activities).

As of June 30, 2008 and June 30, 2007, the State had total debt of approximately $16.59 billion and $11.6 billion, respectively, as shown in the table below.

Bonds and Notes Payable and Certificates of Participation
As of June 30, 2008
With Comparatives as of June 30, 2007
(dollars in thousands)

	As of June 30, 2008			As of June 30, 2007		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Bonds and Notes Payable:						
General Obligation Bonds	$ 7,310,376	$ —	$ 7,310,376	$ 7,583,266	$ —	$ 7,583,266
Revenue Bonds and Notes	6,413,182	97,286	6,510,468	811,910	115,740	927,650
Special Obligation Bonds	2,585,319	—	2,585,319	2,966,105	—	2,966,105
Certificates of Participation	187,336	—	187,336	122,182	—	122,182
Total Debt	16,496,213	$ 97,286	$16,593,499	$11,483,463	$115,740	$11,599,203

Credit Ratings

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

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

The State's revenue bonds are rated as follows:

Revenue Bonds	Fitch	Moody's	S&P	Source of State Payment
Governmental Activities:				
Treasurer of State:				
Economic Development	A+	Aa3	AA-	Net Liquor Profits
State Infrastructure Bank	AA-	Aa2	AA	Federal Transportation Grants and Loan Receipts
Revitalization Projects	A+	A1	A+	Net Liquor Profits
Buckeye Tobacco Settlement Financing Authority	BBB+	Baa3	BBB	Pledged Receipts from the Tobacco Master Settlement Agreement
Business-Type Activities:				
Bureau of Workers' Compensation	AA	Aa3	AA	Workers' Compensation Enterprise Fund

On June 10, 2009, Fitch downgraded the State's general obligation credit rating to AA from AA+, downgraded the State's special obligation credit rating to AA- from AA, and downgraded the Bureau of Workers' Compensation revenue bonds to AA- from AA. Fitch also revised its credit outlook associated with the ratings to stable from negative.

On June 15, 2009, Moody's downgraded the State's general obligation credit rating to Aa2 from Aa1, downgraded the State's special obligation credit rating to Aa3 from Aa2, and downgraded the Bureau of Workers' Compensation revenue bonds to A1 from Aa3. Moody's also revised its credit outlook associated with the ratings to stable from negative.

S&P upgraded the ratings on the Economic Development revenue debt from AA- to AA, and also upgraded the ratings on the Revitalization Projects revenue debt from A+ to AA. On September 23, 2009, S&P revised its "credit outlook" on the State from "stable" to "negative." The change in credit outlook is not a precursor to a rating change, but is an indication over the intermediate to longer term of a potential change.

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

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

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

Conditions Expected to Affect Future Operations

Economic Factors
Nationally, the economy contracted in the second quarter of 2009 and for the fourth consecutive quarter, but at the slowest pace since the 1.5 percent increase in the second quarter of 2008. Leading economic indicators suggest that an economic recovery is taking hold. Despite raising projections for near-term growth, economists expect the recovery from the 2007-2009 recession to be weak by historical standards, as were the recoveries from the 1990-1991 and 2001 recessions. The pace of economic recovery in Ohio will depend heavily on the fate of the motor vehicle industry and the strength of export markets.

The rate of change in real Gross Domestic Product (GDP) was a decrease of one percent in the second quarter, following declines of 6.4 percent in the first quarter and 5.4 percent in the fourth quarter of 2008. Compared with a year earlier, real GDP was down 3.9 percent. The economy has contracted in four consecutive quarters and five out of the last six quarters and by the largest amount over a four-quarter span in the post-World War II period.

Recent monthly patterns in related indicators point toward gains in personal consumption expenditures, investment in business equipment and exports during the third quarter of 2009. Reflecting convincing improvement in construction activity during the summer months of 2009, investment in residential structures could be unchanged during the third quarter of 2009, which would be the best showing since the fourth quarter of 2005. Recent indicators point with somewhat less certainty to a much smaller decline in business inventories.

As a result, forecasters project an increase in real GDP of three percent or higher during the third quarter of 2009. Although this would be a modest pace by historical standards early in a recovery, three percent growth would be a marked improvement from expectations earlier in the year. As recently as March 2009, for example, IHS Global Insight was predicting a decline of 1.2 percent for third-quarter real GDP.

Employment remained in a downtrend through August 2009 and the unemployment rate increased to a new high for the cycle, at 9.7 percent in the U.S. in August 2009 and 11.2 percent in Ohio in July 2009. Employment in Ohio increased by 9,800 jobs in July 2009 after decreasing by 254,000 jobs between July 2008 and June 2009. During the twelve month period ending June 2009, employment in Ohio increased in educational and health services and leisure and hospitality. Employment levels decreased in manufacturing, professional and business services, and trade, transportation and utilities. More than one half of the job loss in professional and business services occurred in the employment services category.

Ohio personal income decreased 2.2 percent in the first quarter of calendar year 2009 for the third consecutive quarterly decline. Compared with a year earlier, Ohio personal income was higher by .7 percent in the first quarter 2009, the weakest year-over-year comparison since the second quarter of 1961. This drop in Ohio personal income during the first quarter 2009 reflected large decreases in wage and salary disbursements and dividends, interest and rent, partially offset by a large increase in current personal transfer receipts. Wage and salary disbursements decreased 5.7 percent, annualized, following a drop of 2.3 percent in the fourth quarter of 2008 to 1.2

percent below the 2008 level. Most of the decline in wage and salary disbursements occurred in manufacturing, accompanied by a substantial decline in finance and insurance.

As of July 2009, U.S. personal income was unchanged after decreasing 1.1 percent in June 2009 and increasing 1.4 percent in May 2009. These trends take into consideration consumer income and spending resulting from the American Recovery and Reinvestment Act (ARRA) and the federal rebates for new car purchases. Excluding the effects of ARRA, U.S. personal income increased .1 percent, .2 percent, and .1 percent for May, June, and July, respectively. Wage and salary disbursements, which comprise more than one-half of personal income, increased .1 percent in July 2009, following eight straight months of decline. Compared with a year earlier, wage and salary disbursements were down 5.1 percent, the same as in June 2009 and the low point of the cycle. U.S. personal income was down 2.4 percent from a year earlier, up from a year-over-year decline of 3.2 percent in June 2009.

General Revenue Fund

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

During fiscal year 2009, the gross domestic product (GDP) of the national economy declined all four quarters. The quarter ended June 30, 2009, however, showed some improvement in that the annualized decrease in the GDP fell to 1 percent, as opposed to decreases of 6.4 percent for the quarter ended March 31, 2009 and 5.4 percent for the quarter ended December 31, 2008. Ohio's unemployment rate hit 11.1 percent in June 2009. Employment in Ohio decreased by 279,000 jobs, or 5.2 percent, during the twelve month period ending in June, 2009.

Given this economic situation, it is not surprising that in fiscal year 2009, Ohio's GRF tax receipts posted a decrease of $2.33 billion, or 12 percent, when compared to fiscal year 2008. Reductions of this magnitude have not been experienced in the last 50 years. Ultimately, Ohio's tax receipts fell $950.9 million, or 5.3 percent, below December's revised estimates. Non-tax receipts were $188.6 million, or 2.6 percent, below estimates. This reality forced the administration to transfer $1.01 billion from the Budget Stabilization fund, bringing transfer revenue for the fiscal year to $2.43 billion, which was $871.7 million, or 55.8 percent, more than estimated, to ensure that the State ended fiscal year 2009 in balance. Even with the transfer from the Budget Stabilization fund, total revenues and transfers were still $267.9 million, or 1 percent, below estimates, and were only $25.2 million, or 0.1 percent, above fiscal year 2008 total revenues and transfers.

The largest shortfall in tax revenues was in the personal income tax, which totaled $7.63 billion in revenues for fiscal year 2009, a shortage of $629.6 million, or 7.6 percent, below estimates. Compared to the previous fiscal year, personal income tax receipts were $1.49 billion, or 16.3 percent, lower. The high level of unemployment resulted in withholding taxes that were $200.6 million below estimate for the fiscal year, while the economic downturn and stock market slump also affected non-wage income sources, such as capital gains and interest and dividends, which resulted in quarterly estimated payments being $215.2 million below estimates.

The non-auto sales and use tax also performed poorly throughout fiscal year 2009, with total receipts of $6.24 billion being $337.9 million, or 5.1 percent, below estimates. Compared to fiscal year 2008, receipts were $431.5 million, or 6.5 percent lower.

Given the poor revenue situation, the administration repeatedly cut appropriations during fiscal year 2009. Expenditures were held in strict control, with total expenditures and transfers for the fiscal year being $101.7 million, or 0.4 percent, below the last December 2008 budget levels. Executive order reductions and budget directives served to preserve key investments in education and safety-net services over the course of the fiscal year.

Public Assistance and Medicaid expenditures totaled $11.1 billion for fiscal year 2009, which was $200.5 million, or 1.8 percent, below estimates. This is despite the fact that managed care and fee-for-service payments of approximately $434 million originally scheduled to be paid in June 2008 were instead paid in July, 2008. This was partially offset by a fee-for-service payment of $70.9 million originally slated to be disbursed in June 2009 that was instead posted in July 2009 due to timing issues around the year end close. The increased use of non-GRF funds is one reason for expenditures coming in under estimates. Other reasons include: Medicaid inpatient hospital disbursements continue to be under projections; caseloads and costs per claim under the Waivers program continues to be lower than expected; and although Medicaid caseloads grew for 17 consecutive months through May 2009, the rate of increase declined in May, while enrollments in the ABD category remain under projections.

Debt service disbursements for fiscal year 2009 were $616.2 million, which is $67.3 million, or 9.8 percent, below estimates. This reflects a restructuring of the State's outstanding GRF-backed obligations. The restructuring was carefully developed to ensure that the final term of the new debt did not exceed the final term of the existing debt or the useful life of the financed assets, and to maintain the rapid amortization of the State's total GRF-backed debt.

Tax Relief expenditures, in contrast, totaled $1.53 billion, which is $178.5 million, or 13.2 percent, above estimates. This is accounted for by the fact that additional tax relief appropriations attributable to the expansion of the homestead exemption are not included in the expenditure estimates for fiscal year 2009, and also due to the timing of requests for payments from local governments for reimbursement of the tax rollback on non-homestead eligible properties.

The future looks somewhat brighter, since leading economic indicators seem to point to an economic recovery beginning nationally during the summer months of 2009. Economists expect this recovery, however, to be weak by historical standards. The pace of economic recovery in Ohio will depend heavily on the fate of the motor vehicle industry.

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, 2008
(dollars in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS:				
Cash Equity with Treasurer	$ 8,121,369	$ 125,660	$ 8,247,029	$ 3,652,949
Cash and Cash Equivalents	124,533	394,326	518,859	1,097,019
Investments	1,015,478	16,979,459	17,994,937	6,575,242
Collateral on Lent Securities	3,304,352	40,072	3,344,424	1,099,521
Deposit with Federal Government	—	427,589	427,589	—
Taxes Receivable	1,697,595	—	1,697,595	—
Intergovernmental Receivable	1,393,488	7,273	1,400,761	57,758
Premiums and				
Assessments Receivable	—	3,702,636	3,702,636	—
Investment Trade Receivable	—	81,315	81,315	—
Loans Receivable, Net	1,044,323	—	1,044,323	288,186
Receivable from Primary Government	—	—	—	40,336
Receivable from Component Units	4,014,630	—	4,014,630	—
Other Receivables	462,333	449,321	911,654	1,122,668
Inventories	76,242	37,306	113,548	53,716
Other Assets	111,837	17,374	129,211	594,412
Restricted Assets:				
Cash Equity with Treasurer	—	105	105	7,155
Cash and Cash Equivalents	141,797	1,216	143,013	480,441
Investments	392,040	1,497,705	1,889,745	1,299,426
Collateral on Lent Securities	—	307,740	307,740	—
Intergovernmental Receivable	—	—	—	76
Loans Receivable, Net	—	—	—	3,886,554
Other Receivables	205,737	4,300	210,037	—
Capital Assets Being Depreciated, Net	2,459,431	116,249	2,575,680	7,942,041
Capital Assets Not Being Depreciated	22,170,333	11,994	22,182,327	1,159,161
TOTAL ASSETS	**46,735,518**	**24,201,640**	**70,937,158**	**29,356,661**
LIABILITIES:				
Accounts Payable	604,335	43,503	647,838	461,549
Accrued Liabilities	428,736	5,862	434,598	612,505
Medicaid Claims Payable	920,976	—	920,976	—
Obligations Under Securities Lending	3,304,352	347,812	3,652,164	1,099,521
Investment Trade Payable	—	129,896	129,896	—
Intergovernmental Payable	1,705,143	924	1,706,067	31,328
Internal Balances	816,582	(816,582)	—	—
Payable to Primary Government	—	—	—	4,014,630
Payable to Component Units	40,151	215	40,366	—
Unearned Revenue	334,976	1,672	336,648	402,298
Benefits Payable	—	5,395	5,395	—
Refund and Other Liabilities	816,673	93,104	909,777	80,313
Noncurrent Liabilities:				
Bonds and Notes Payable:				
Due in One Year	1,043,690	16,005	1,059,695	835,371
Due in More Than One Year	15,265,187	81,281	15,346,468	5,527,538
Certificates of Participation:				
Due in One Year	9,863	—	9,863	405
Due in More Than One Year	177,473	—	177,473	4,670
Other Noncurrent Liabilities:				
Due in One Year	141,017	2,562,809	2,703,826	1,196,788
Due in More Than One Year	540,205	18,593,645	19,133,850	1,298,641
TOTAL LIABILITIES	**26,149,359**	**21,065,541**	**47,214,900**	**15,565,557**

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

	GOVERNMENTAL ACTIVITIES	*BUSINESS-TYPE ACTIVITIES*	*TOTAL*	*COMPONENT UNITS*
NET ASSETS:				
Invested in Capital Assets,				
Net of Related Debt......................................	*21,983,900*	*32,068*	*22,015,968*	*5,469,999*
Restricted for:				
Primary, Secondary and Other Education....	*41,842*	—	*41,842*	*2,573*
Transportation and Highway Safety............	*844,666*	—	*844,666*	—
State and Local				
Highway Construction..............................	*118,011*	—	*118,011*	—
Federal Programs..	*76,396*	—	*76,396*	*22*
Coal Research				
and Development Program......................	—	—	—	*6,929*
Clean Ohio Program....................................	*90,485*	—	*90,485*	—
Community and Economic Development				
and Capital Purposes................................	*1,420,180*	—	*1,420,180*	*4,582*
Debt Service..	—	—	—	*2,580,256*
Enterprise Bond Program............................	*10,000*	—	*10,000*	—
Deferred Lottery Prizes................................	—	*44,126*	*44,126*	—
Unemployment Compensation....................	—	*452,082*	*452,082*	—
Ohio Building Authority................................	—	*25,558*	*25,558*	—
Nonexpendable for				
Colleges and Universities.........................	—	—	—	*3,350,650*
Expendable for				
Colleges and Universities.........................	—	—	—	*1,972,687*
Unrestricted (Deficits)......................................	*(3,999,321)*	*2,582,265*	*(1,417,056)*	*403,406*
TOTAL NET ASSETS..................................	***$ 20,586,159***	***$ 3,136,099***	***$ 23,722,258***	***$ 13,791,104***

STATE OF OHIO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(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	$ 11,304,014	$ 29,479	$ 1,704,781	$ —	$ (9,569,754)
Higher Education Support	2,729,423	4,049	48,371	—	(2,677,003)
Public Assistance and Medicaid	16,003,345	1,021,341	10,351,564	—	(4,630,440)
Health and Human Services	3,651,313	297,356	2,041,821	714	(1,311,422)
Justice and Public Protection	3,127,726	879,534	240,751	789	(2,006,652)
Environmental Protection and Natural Resources	394,459	202,183	77,998	4,370	(109,908)
Transportation	2,078,872	49,141	114,621	1,050,676	(864,434)
General Government	746,490	694,492	180,554	1,645	130,201
Community and Economic Development	4,017,838	362,388	363,020	12,115	(3,280,315)
Interest on Long-Term Debt (excludes interest charged as program expense)	173,934	—	—	—	(173,934)
TOTAL GOVERNMENTAL ACTIVITIES	**44,227,414**	**3,539,963**	**15,123,481**	**1,070,309**	**(24,493,661)**
BUSINESS-TYPE ACTIVITIES:					
Workers' Compensation	2,675,254	2,160,649	719,870	—	205,265
Lottery Commission	1,704,848	2,332,866	88,007	—	716,025
Unemployment Compensation	1,333,180	1,174,979	21,208	—	(136,993)
Ohio Building Authority	28,117	26,725	802	—	(590)
Tuition Trust Authority	121,673	11,864	47,562	—	(62,247)
Liquor Control	460,398	663,830	—	—	203,432
Underground Parking Garage	2,665	2,782	8	—	125
Office of Auditor of State	73,225	44,956	25	—	(28,244)
TOTAL BUSINESS-TYPE ACTIVITIES	**6,399,360**	**6,418,651**	**877,482**	**—**	**896,773**
TOTAL PRIMARY GOVERNMENT	**$ 50,626,774**	**$ 9,958,614**	**$ 16,000,963**	**$ 1,070,309**	**$ (23,596,888)**
COMPONENT UNITS:					
School Facilities Commission	$ 799,861	$ 86,765	$ 98,389	$ —	$ (614,707)
Ohio Water Development Authority	128,993	146,298	147,444	—	164,749
Ohio State University	3,922,257	2,743,454	654,682	6,754	(517,367)
University of Cincinnati	989,155	453,837	232,374	1,228	(301,716)
Other Component Units	4,650,667	2,773,193	463,787	48,325	(1,365,362)
TOTAL COMPONENT UNITS	**$ 10,490,933**	**$ 6,203,547**	**$ 1,596,676**	**$ 56,307**	**$ (2,634,403)**

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

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
CHANGES IN NET ASSETS:				
Net (Expense) Revenue	$ (24,493,661)	$ 896,773	$ (23,596,888)	$ (2,634,403)
General Revenues:				
Taxes:				
Income	9,887,502	—	9,887,502	—
Sales	7,863,969	—	7,863,969	—
Corporate and Public Utility	1,610,629	—	1,610,629	—
Cigarette	950,646	—	950,646	—
Other	1,732,034	—	1,732,034	—
Restricted for Transportation Purposes:				
Motor Vehicle Fuel Taxes	1,820,336	—	1,820,336	—
Total Taxes	23,865,116	—	23,865,116	—
Tobacco Settlement	362,897	—	362,897	—
Escheat Property	185,016	—	185,016	—
Unrestricted Investment Income	250,293	—	250,293	(183,255)
State Assistance	—	—	—	2,137,077
Federal	2	—	2	—
Other	200	19	219	217,603
Additions to Endowments and Permanent Fund Principal	—	—	—	133,647
Transfers-Internal Activities	885,842	(885,842)	—	—
TOTAL GENERAL REVENUES, CONTRIBUTIONS, SPECIAL ITEMS AND TRANSFERS	**25,549,366**	**(885,823)**	**24,663,543**	**2,305,072**
CHANGE IN NET ASSETS	**1,055,705**	**10,950**	**1,066,655**	**(329,331)**
NET ASSETS, JULY 1 (as restated)	19,530,454	3,125,149	22,655,603	14,120,435
NET ASSETS, JUNE 30	**$ 20,586,159**	**$ 3,136,099**	**$ 23,722,258**	**$ 13,791,104**

STATE OF OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	**JOB, FAMILY AND OTHER HUMAN SERVICES**	**EDUCATION**
ASSETS:			
Cash Equity with Treasurer	$ 3,397,620	$ 310,513	$ 128,550
Cash and Cash Equivalents	10,283	2,884	59
Investments	601,021	8,266	2,641
Collateral on Lent Securities	1,294,439	120,795	42,162
Taxes Receivable	1,112,695	—	—
Intergovernmental Receivable	545,398	345,982	111,411
Loans Receivable, Net	254,317	—	250
Interfund Receivable	6,615	84	65
Receivable from Component Units	—	—	—
Other Receivables	166,635	186,782	220
Inventories	26,295	—	—
Other Assets	17,626	2,156	6,185
TOTAL ASSETS	**$ 7,432,944**	**$ 977,462**	**$ 291,543**
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts Payable	$ 164,460	$ 83,318	$ 20,321
Accrued Liabilities	167,716	22,277	2,319
Medicaid Claims Payable	805,179	1,014	—
Obligations Under Securities Lending	1,294,439	120,795	42,162
Intergovernmental Payable	467,150	178,802	54,557
Interfund Payable	715,117	15,144	2,871
Payable to Component Units	12,815	1,420	1,108
Deferred Revenue	434,175	177,211	7,484
Unearned Revenue	—	232,090	45,622
Refund and Other Liabilities	763,146	5,347	—
Liability for Escheat Property	7,375	—	—
TOTAL LIABILITIES	4,831,572	837,418	176,444
FUND BALANCES:			
Reserved for:			
Debt Service	—	—	—
Encumbrances	386,672	1,031,904	29,155
Noncurrent Portion of Loans Receivable	249,717	—	250
Loan Commitments	—	—	—
Inventories	26,295	—	—
State and Local Highway Construction	—	—	—
Federal Programs	—	2,782	7,677
Other	81,687	29,101	545
Unreserved/Designated	1,012,288	—	—
Unreserved/Undesignated:			
General Fund	844,713	—	—
Special Revenue Funds	—	(923,743)	77,472
Debt Service Funds	—	—	—
Capital Projects Funds	—	—	—
TOTAL FUND BALANCES (DEFICITS)	2,601,372	140,044	115,099
TOTAL LIABILITIES AND FUND BALANCES	**$ 7,432,944**	**$ 977,462**	**$ 291,543**

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

HIGHWAY OPERATING	REVENUE DISTRIBUTION	BUCKEYE TOBACCO SETTLEMENT FINANCING AUTHORITY REVENUE BONDS	NONMAJOR GOVERNMENTAL FUNDS	TOTAL
$ 970,612	$ 220,770	$ —	$ 3,093,304	$ 8,121,369
746	11,279	141,938	99,141	266,330
—	—	392,040	403,550	1,407,518
368,684	84,331	—	1,393,941	3,304,352
66,421	509,636	—	8,843	1,697,595
100,213	—	—	290,484	1,393,488
102,895	—	—	686,861	1,044,323
1,181	116,432	915,531	4,909	1,044,817
—	—	4,014,630	—	4,014,630
5,385	—	205,737	103,311	668,070
29,664	—	—	20,283	76,242
3,279	—	—	6,487	35,733
$ 1,649,080	**$ 942,448**	**$ 5,669,876**	**$ 6,111,114**	**$ 23,074,467**
$ 143,560	$ —	$ —	$ 192,676	$ 604,335
28,842	—	—	60,141	281,295
—	—	—	114,783	920,976
368,684	84,331	—	1,393,941	3,304,352
1,584	824,889	—	178,161	1,705,143
93,615	1,106	—	1,033,580	1,861,433
330	—	—	24,478	40,151
8,855	22,777	205,469	145,363	1,001,334
—	7,092	—	50,172	334,976
—	47,603	—	1,916	818,012
—	—	—	—	7,375
645,470	987,798	205,469	3,195,211	10,879,382
—	—	5,464,267	43,701	5,507,968
1,402,115	—	—	2,042,677	4,892,523
100,888	—	—	669,916	1,020,771
—	—	—	104,702	104,702
29,664	—	—	20,283	76,242
—	118,012	—	—	118,012
11,095	—	—	39,207	60,761
7,787	—	—	81,968	201,088
—	—	—	—	1,012,288
—	—	—	—	844,713
(547,939)	(163,362)	—	169,770	(1,387,802)
—	—	140	—	140
—	—	—	(256,324)	(256,324)
1,003,610	(45,350)	5,464,407	2,915,900	12,195,082
$ 1,649,080	**$ 942,448**	**$ 5,669,876**	**$ 6,111,111**	**$ 23,074,464**

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STATE OF OHIO

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS

JUNE 30, 2008

(dollars in thousands)

Total Fund Balances for Governmental Funds	***$ 12,195,085***
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	*1,885,136*
Buildings and Improvements, net of $1,630,611 accumulated depreciation	*1,935,616*
Land Improvements, net of $200,657 accumulated depreciation	*199,236*
Machinery and Equipment, net of $443,767 accumulated depreciation	*199,401*
Vehicles, net of $131,320 accumulated depreciation	*138,894*
Infrastructure, net of $6,916 accumulated depreciation	*18,445,790*
Construction-in-Progress	*1,825,691*
	24,629,764
Some of the State's revenues are collected after year-end but are not available soon enough to pay for the current period's (within 60 days of year-end) expenditures, and therefore, are deferred in the funds.	
Taxes Receivable	*386,052*
Intergovernmental Receivable	*288,587*
Other Receivables	*320,713*
Other Assets	*5,982*
	1,001,334
Unamortized bond issue costs are not financial resources, and therefore, are not reported in the funds.	*76,104*
The following liabilities are not due and payable in the current period, and therefore, are not reported in the funds.	
Accrued Liabilities:	
Interest Payable	*(147,441)*
Refunds and Other Liabilities	*1,373*
Bonds and Notes Payable:	
General Obligation Bonds	*(7,310,376)*
Revenue Bonds	*(6,413,182)*
Special Obligation Bonds	*(2,585,319)*
Certificates of Participation	*(187,336)*
Other Noncurrent Liabilities:	
Compensated Absences	*(398,311)*
Capital Leases Payable	*(9,804)*
Litigation Liabilities	*(11,303)*
Estimated Claims Payable	*(3,787)*
Liability for Escheat Property	*(250,642)*
	(17,316,128)
Total Net Assets of Governmental Activities	***$ 20,586,159***

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, 2008

(dollars in thousands)

	MAJOR FUNDS		
	GENERAL	JOB, FAMILY AND OTHER HUMAN SERVICES	EDUCATION
REVENUES:			
Income Taxes	$ 8,955,642	$ —	$ —
Sales Taxes	7,556,034	—	—
Corporate and Public Utility Taxes	1,198,202	—	—
Motor Vehicle Fuel Taxes	—	—	—
Cigarette Taxes	950,644	—	—
Other Taxes	601,557	2,911	—
Licenses, Permits and Fees	328,260	484,006	579
Sales, Services and Charges	51,351	509	447
Federal Government	5,626,381	5,322,652	1,679,458
Tobacco Settlement	1,135	—	—
Escheat Property	137,125	—	—
Investment Income	395,408	31,280	5,284
Other	582,672	206,822	27,761
TOTAL REVENUES	**26,384,411**	**6,048,180**	**1,713,529**
EXPENDITURES:			
CURRENT OPERATING:			
Primary, Secondary and Other Education	7,735,139	1,614	2,335,627
Higher Education Support	2,270,998	186	22,258
Public Assistance and Medicaid	10,548,380	5,454,677	—
Health and Human Services	1,277,637	572,830	1,833
Justice and Public Protection	2,101,223	51,573	14,703
Environmental Protection and Natural Resources	86,833	—	—
Transportation	22,625	—	—
General Government	438,076	2,261	—
Community and Economic Development	641,619	45,727	—
CAPITAL OUTLAY	10	2,298	—
DEBT SERVICE	—	—	—
TOTAL EXPENDITURES	**25,122,540**	**6,131,166**	**2,374,421**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	**1,261,871**	**(82,986)**	**(660,892)**
OTHER FINANCING SOURCES (USES):			
Bonds and Certificates of Participation Issued	7,998	—	—
Premiums/Discounts	—	—	—
Capital Leases	1,533	—	—
Transfers-in	496,538	28,991	697,399
Transfers-out	(1,424,672)	(5,082)	(23,193)
TOTAL OTHER FINANCING SOURCES (USES)	**(918,603)**	**23,909**	**674,206**
NET CHANGE IN FUND BALANCES	**343,268**	**(59,077)**	**13,314**
FUND BALANCES, July 1	2,255,526	199,121	101,785
Increase for Changes in Inventories	2,578	—	—
FUND BALANCES (DEFICITS), JUNE 30	**$ 2,601,372**	**$ 140,044**	**$ 115,099**

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

HIGHWAY OPERATING	REVENUE DISTRIBUTION	BUCKEYE TOBACCO SETTLEMENT FINANCING AUTHORITY REVENUE BONDS	NONMAJOR GOVERNMENTAL FUNDS	TOTAL
$ —	$ 802,907	$ —	$ 7,788	$ 9,766,337
—	285,289	—	22,646	7,863,969
—	1,480,009	—	1,540	2,679,751
645,922	1,128,516	—	45,898	1,820,336
—	—	—	2	950,646
—	13,859	—	44,586	662,913
68,780	350,650	—	1,057,145	2,289,420
2,545	—	—	28,315	83,167
1,104,333	—	—	2,007,184	15,740,008
—	—	333,135	—	334,270
—	—	—	—	137,125
39,512	2,255	14,893	117,303	605,935
45,574	102	—	335,494	1,198,425
1,906,666	**4,063,587**	**348,028**	**3,667,901**	**44,132,302**
—	790,601	97,370	1,675	10,962,026
—	—	—	294,024	2,587,466
—	—	—	—	16,003,057
—	1,968	—	1,738,005	3,592,273
—	318,387	—	640,794	3,126,680
—	—	—	322,810	409,643
2,056,952	—	—	589	2,080,166
—	—	—	208,437	648,774
—	2,228,982	—	990,381	3,906,709
—	—	—	545,517	547,825
—	—	225,948	1,648,627	1,874,575
2,056,952	**3,339,938**	**323,318**	**6,390,859**	**45,739,194**
(150,286)	**723,649**	**24,710**	**(2,722,958)**	**(1,606,892)**
—	—	5,531,595	675,106	6,214,699
—	—	(66,825)	24,080	(42,745)
—	—	—	—	1,533
481,553	200,869	—	1,757,680	3,663,030
(217,563)	(974,139)	(25,073)	(107,466)	(2,777,188)
263,990	**(773,270)**	**5,439,697**	**2,349,400**	**7,059,329**
113,704	**(49,621)**	**5,464,407**	**(373,558)**	**5,452,437**
888,196	4,271	—	3,269,178	6,718,077
1,710	—	—	20,283	24,571
$ 1,003,610	**$ (45,350)**	**$ 5,464,407**	**$ 2,915,903**	**$ 12,195,085**

STATE OF OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2008

(dollars in thousands)

Net Change in Fund Balances -- Total Governmental Funds............................		***$ 5,452,437***
Change in Inventories...		*24,571*
		5,477,008
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..	*716,613*	
Depreciation Expense..	*(345,128)*	
Excess of Capital Outlay Over Depreciation Expense...................................		*371,485*
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...	*(268,000)*	
Revenue Bonds...	*(5,791,594)*	
Special Obligation Bonds..	*(80,000)*	
Refunding Bonds, including Bond Premium/Discount, Net...............................	*—*	
Certificates of Participation...	*(75,105)*	
Premiums and Discounts, Net:		
General Obligation Bonds...	*(11,106)*	
Revenue Bonds..	*56,507*	
Special Obligation Bonds...	*(1,944)*	
Certificates of Participation..	*(712)*	
Deferred Refunding Loss..	*—*	
Capital Leases..	*(1,533)*	
Total Debt Proceeds...		*(6,173,487)*
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...	*535,605*	
Revenue Bonds..	*154,940*	
Special Obligation Bonds...	*454,854*	
Certificates of Participation..	*9,320*	
Capital Lease Payments..	*10,466*	
Total Long-Term Debt Repayment..		*1,165,185*
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the governmental funds. Deferred revenues increased by this amount this year.		*114,784*

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....................................	*20,978*	
Increase in Accrued Interest and Other Accrued Liabilities...............................	*(22,986)*	
Amortization of Bond Premiums/Accretion of Bond Discount, Net.....................	*27,834*	
Amortization of Deferred Refunding Loss..	*(23,348)*	
Decrease in Compensated Absences..	*51,977*	
Increase in Litigation Liabilities...	*(6,605)*	
Decrease in Estimated Claims Payable..	*4,989*	
Decrease in Liability for Escheat Property...	*47,891*	
Total additional expenditures..		*100,730*
Change in Net Assets of Governmental Activities...		***$ 1,055,705***

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, 2008

(dollars in thousands)

	GENERAL			
	BUDGET			VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL	ACTUAL	POSITIVE/ (NEGATIVE)
REVENUES:				
Income Taxes	$ 9,146,500	$ 9,149,200	$ 9,114,735	$ (34,465)
Sales Taxes	7,680,621	7,639,500	7,614,131	(25,369)
Corporate and Public Utility Taxes	1,233,306	1,151,106	1,142,408	(8,698)
Motor Vehicle Fuel Taxes	—	—	—	—
Cigarette Taxes	970,000	970,000	950,939	(19,061)
Other Taxes	630,520	620,520	600,290	(20,230)
Licenses, Permits and Fees	383,466	383,466	342,671	(40,795)
Sales, Services and Charges	38,634	38,634	38,173	(461)
Federal Government	5,876,989	5,672,433	5,711,473	39,040
Tobacco Settlement	—	—	1,135	1,135
Investment Income	180,868	180,868	132,415	(48,453)
Other	1,218,557	1,218,557	1,078,231	(140,326)
TOTAL REVENUES	**27,359,461**	**27,024,284**	**26,726,601**	**(297,683)**
BUDGETARY EXPENDITURES:				
CURRENT OPERATING:				
Primary, Secondary and Other Education	8,039,965	8,122,205	7,937,398	184,807
Higher Education Support	2,464,584	2,468,834	2,370,924	97,910
Public Assistance and Medicaid	11,211,005	11,401,005	11,245,785	155,220
Health and Human Services	1,520,566	1,530,498	1,451,396	79,102
Justice and Public Protection	2,272,003	2,290,466	2,230,112	60,354
Environmental Protection and Natural Resources	136,537	136,855	126,659	10,196
Transportation	37,952	37,952	34,587	3,365
General Government	797,064	814,082	701,116	112,966
Community and Economic Development	729,852	775,237	763,601	11,636
CAPITAL OUTLAY	122	122	98	24
DEBT SERVICE	1,273,858	1,241,155	1,220,143	21,012
TOTAL BUDGETARY EXPENDITURES	**28,483,508**	**28,818,411**	**28,081,819**	**736,592**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES	**(1,124,047)**	**(1,794,127)**	**(1,355,218)**	**438,909**
OTHER FINANCING SOURCES (USES):				
Transfers-in	1,320,345	1,318,566	1,395,388	76,822
Transfers-out	(762,515)	(762,515)	(786,174)	(23,659)
TOTAL OTHER FINANCING SOURCES (USES)	**557,830**	**556,051**	**609,214**	**53,163**
NET CHANGE IN FUND BALANCES	**$ (566,217)**	**$ (1,238,076)**	**(746,004)**	**$ 492,072**
BUDGETARY FUND BALANCES (DEFICITS), JULY 1			1,607,476	
Outstanding Encumbrances at Beginning of Fiscal Year			1,368,069	
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30			**$ 2,229,541**	

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

ORIGINAL	FINAL	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)	ORIGINAL	FINAL	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE/ (NEGATIVE)
		$ —				$ —	
		—				—	
		—				—	
		—				—	
		—				—	
		2,911				—	
		484,904				579	
		509				447	
		3,994,208				1,688,028	
		—				—	
		30,902				5,187	
		395,668				37,874	
		4,909,102				**1,732,115**	
$ 2,665	$ 2,665	1,890	$ 775	$ 2,449,000	$ 2,596,724	2,426,517	$ 170,207
7,985	7,985	1,860	6,125	31,061	32,541	27,511	5,030
5,995,101	6,012,573	5,291,223	721,350	—	—	—	—
762,146	763,851	605,692	158,159	3,575	3,575	2,300	1,275
76,830	95,047	72,347	22,700	35,570	36,020	25,152	10,868
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
2,260	2,260	1,285	975	—	—	—	—
46,672	46,672	46,604	68	—	—	—	—
26,515	26,526	4,286	22,240	—	—	—	—
—	—	—	—	—	—	—	—
$ 6,920,174	**$ 6,957,579**	**6,025,187**	**$ 932,392**	**$ 2,519,206**	**$ 2,668,860**	**2,481,480**	**$ 187,380**
		(1,116,085)				**(749,365)**	
		3,708				688,099	
		(6,579)				(1,005)	
		(2,871)				**687,094**	
		(1,118,956)				**(62,271)**	
		(859,939)				83,922	
		1,065,196				38,121	
		$ (913,699)				**$ 59,772**	

(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, 2008

(dollars in thousands)

(continued)

	HIGHWAY OPERATING			
	BUDGET			VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL	ACTUAL	POSITIVE/ (NEGATIVE)
REVENUES:				
Income Taxes			$ —	
Sales Taxes			—	
Corporate and Public Utility Taxes			—	
Motor Vehicle Fuel Taxes			670,044	
Cigarette Taxes			—	
Other Taxes			—	
Licenses, Permits and Fees			67,920	
Sales, Services and Charges			2,545	
Federal Government			1,148,410	
Tobacco Settlement			—	
Investment Income			33,984	
Other			126,486	
TOTAL REVENUES			**2,049,389**	
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	4,204,113	5,507,792	3,741,583	1,766,209
General Government	—	—	—	—
Community and Economic Development	—	—	—	—
CAPITAL OUTLAY	—	—	—	—
DEBT SERVICE	10,555	10,555	10,520	35
TOTAL BUDGETARY EXPENDITURES	**$ 4,214,668**	**$ 5,518,347**	**3,752,103**	**$ 1,766,244**
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) BUDGETARY EXPENDITURES			**(1,702,714)**	
OTHER FINANCING SOURCES (USES):				
Transfers-in			482,027	
Transfers-out			(207,298)	
TOTAL OTHER FINANCING SOURCES (USES)			**274,729**	
NET CHANGE IN FUND BALANCES			**(1,427,985)**	
BUDGETARY FUND BALANCES (DEFICITS), JULY 1			(827,538)	
Outstanding Encumbrances at Beginning of Fiscal Year			1,667,535	
BUDGETARY FUND BALANCES (DEFICITS), JUNE 30			**$ (587,988)**	

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)
		$ 725,666	
		245,945	
		1,373,179	
		1,175,922	
		—	
		13,859	
		508,920	
		—	
		—	
		—	
		2,229	
		102	
		4,045,822	
$ 711,992	$ 711,992	706,305	$ 5,687
—	—	—	—
—	—	—	—
1,972	1,972	1,972	—
554,483	554,483	496,936	57,547
—	—	—	—
—	—	—	—
—	—	—	—
2,241,584	2,241,584	2,142,890	98,694
—	—	—	—
—	—	—	—
$ 3,510,031	**$ 3,510,031**	**3,348,103**	**$ 161,928**
		697,719	
		673,646	
		(1,422,544)	
		(748,898)	
		(51,179)	
		259,522	
		—	
		$ 208,343	

STATE OF OHIO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS -- ENTERPRISE
JUNE 30, 2008
(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer	$ 11,856	$ 81,658	$ —
Cash and Cash Equivalents	366,222	10,588	4,617
Collateral on Lent Securities	2,933	31,232	—
Restricted Assets:			
Cash Equity with Treasurer	—	105	—
Investments	—	50,468	—
Collateral on Lent Securities	—	307,740	—
Other Receivables	—	4,300	—
Deposit with Federal Government	—	—	427,589
Intergovernmental Receivable	—	—	137
Premiums and Assessments Receivable	996,984	—	17,186
Investment Trade Receivable	81,315	—	—
Interfund Receivable	74,527	—	—
Other Receivables	384,997	44,431	11,769
Inventories	—	—	—
Other Assets	2,686	7,188	6,396
TOTAL CURRENT ASSETS	**1,921,520**	**537,710**	**467,694**
NONCURRENT ASSETS:			
Restricted Assets:			
Cash and Cash Equivalents	1,216	—	—
Investments	—	735,003	—
Investments	16,903,409	—	—
Premiums and Assessments Receivable	2,688,466	—	—
Interfund Receivable	752,833	—	—
Capital Assets Being Depreciated, Net	102,536	4,389	—
Capital Assets Not Being Depreciated	11,994	—	—
TOTAL NONCURRENT ASSETS	**20,460,454**	**739,392**	**—**
TOTAL ASSETS	**22,381,974**	**1,277,102**	**467,694**
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts Payable	7,687	9,349	—
Accrued Liabilities	—	—	—
Obligations Under Securities Lending	2,933	338,972	—
Investment Trade Payable	129,896	—	—
Intergovernmental Payable	—	—	509
Deferred Prize Awards Payable	—	54,873	—
Interfund Payable	—	5,655	—
Unearned Revenue	—	1,579	—
Benefits Payable	1,892,226	—	5,395
Payable to Component Units	—	215	—
Refund and Other Liabilities	576,831	42,244	9,708
Bonds and Notes Payable	16,005	—	—
TOTAL CURRENT LIABILITIES	**2,625,578**	**452,887**	**15,612**
NONCURRENT LIABILITIES:			
Deferred Prize Awards Payable	—	685,315	—
Interfund Payable	—	2,188	—
Benefits Payable	15,708,119	—	—
Refund and Other Liabilities	1,463,707	2,783	—
Bonds and Notes Payable	81,281	—	—
TOTAL NONCURRENT LIABILITIES	**17,253,107**	**690,286**	**—**
TOTAL LIABILITIES	**19,878,685**	**1,143,173**	**15,612**
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	18,368	4,389	—
Restricted for Deferred Lottery Prizes	—	44,126	—
Unrestricted	2,484,921	85,414	452,082
TOTAL NET ASSETS	**$ 2,503,289**	**$ 133,929**	**$ 452,082**

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 32,146	$ 125,660
12,899	394,326
5,907	40,072
—	105
101,468	151,936
—	307,740
—	4,300
—	427,589
7,136	7,273
—	1,014,170
—	81,315
2,065	76,592
8,124	449,321
37,306	37,306
1,104	17,374
208,155	***3,135,079***
—	1,216
610,766	1,345,769
76,050	16,979,459
—	2,688,466
7,317	760,150
9,324	116,249
—	11,994
703,457	***21,903,303***
911,612	***25,038,382***
26,467	43,503
5,862	5,862
5,907	347,812
—	129,896
415	924
—	54,873
3,118	8,773
93	1,672
74,400	1,972,021
—	215
5,631	634,414
—	16,005
121,893	***3,215,970***
—	685,315
9,199	11,387
725,400	16,433,519
8,321	1,474,811
—	81,281
742,920	***18,686,313***
864,813	***21,902,283***
9,311	32,068
—	44,126
37,488	3,059,905
$ 46,799	***$ 3,136,099***

STATE OF OHIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
OPERATING REVENUES:			
Charges for Sales and Services	$ —	$ 2,325,140	$ 11,963
Premium and Assessment Income	2,138,402	—	1,108,760
Federal Government	—	—	18,761
Investment Income	—	—	—
Other	22,247	7,726	34,291
TOTAL OPERATING REVENUES	**2,160,649**	**2,332,866**	**1,173,775**
OPERATING EXPENSES:			
Costs of Sales and Services	—	—	—
Administration	43,042	108,904	—
Bonuses and Commissions	—	143,926	—
Prizes	—	1,397,019	—
Benefits and Claims	2,587,483	—	1,333,000
Depreciation	11,798	990	—
Other	32,931	16	180
TOTAL OPERATING EXPENSES	**2,675,254**	**1,650,855**	**1,333,180**
OPERATING INCOME (LOSS)	**(514,605)**	**682,011**	**(159,405)**
NONOPERATING REVENUES (EXPENSES):			
Investment Income	719,870	88,007	22,412
Interest Expense	—	(15,214)	—
Federal Grants	—	—	—
Other	—	(38,779)	—
TOTAL NONOPERATING REVENUES (EXPENSES)	**719,870**	**34,014**	**22,412**
INCOME (LOSS) BEFORE TRANSFERS	**205,265**	**716,025**	**(136,993)**
TRANSFERS:			
Transfers-in	—	—	3,519
Transfers-out	(7,522)	(672,519)	(22,808)
TOTAL TRANSFERS	**(7,522)**	**(672,519)**	**(19,289)**
NET INCOME (LOSS)	**197,743**	**43,506**	**(156,282)**
NET ASSETS, JULY 1 (as restated)	2,305,546	90,423	608,364
NET ASSETS, JUNE 30	**$ 2,503,289**	**$ 133,929**	**$ 452,082**

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 746,518	$ 3,083,621
—	3,247,162
—	18,761
(23,638)	(23,638)
74,839	139,103
797,719	**6,465,009**
488,432	488,432
81,754	233,700
—	143,926
—	1,397,019
110,940	4,031,423
2,943	15,731
1,668	34,795
685,737	**6,345,026**
111,982	**119,983**
810	831,099
(40)	(15,254)
25	25
(282)	(39,061)
513	**776,809**
112,495	**896,792**
43,713	47,232
(230,225)	(933,074)
(186,512)	**(885,842)**
(74,017)	**10,950**
120,816	3,125,149
$ 46,799	**$ 3,136,099**

STATE OF OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(dollars in thousands)

	MAJOR PROPRIETARY FUNDS		
	WORKERS' COMPENSATION	LOTTERY COMMISSION	UNEMPLOYMENT COMPENSATION
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	$ —	$ 2,323,038	$ —
Cash Received from Premiums and Assessments	2,467,854	—	1,115,723
Cash Received from Multi-State Lottery for Grand Prize Winner	—	111,152	—
Cash Received from Interfund Services Provided	70,311	1,822	—
Other Operating Cash Receipts	32,489	5,904	32,524
Cash Payments to Suppliers for Goods and Services	(63,120)	(82,287)	(32)
Cash Payments to Employees for Services	(244,568)	(25,298)	—
Cash Payments for Benefits and Claims	(2,237,987)	—	(1,187,002)
Cash Payments for Lottery Prizes	—	(1,480,621)	—
Cash Payments for Bonuses and Commissions	—	(144,062)	—
Cash Payments for Premium Reductions and Refunds	(127,852)	—	—
Cash Payments for Interfund Services Used	(12,711)	(3,989)	—
Other Operating Cash Payments	—	(16)	(51,999)
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	**(115,584)**	**705,643**	**(90,786)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers-in	—	—	3,519
Transfers-out	(7,522)	(672,519)	(22,808)
Federal Grants	—	—	—
NET CASH FLOWS (USED) BY NONCAPITAL FINANCING ACTIVITIES	**(7,522)**	**(672,519)**	**(19,289)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal Payments on Bonds and Capital Leases	(15,055)	—	—
Interest Paid	(5,291)	—	—
Acquisition and Construction of Capital Assets	(9,521)	(2,831)	—
Principal Receipts on Capital Leases Receivable	—	—	—
Proceeds from Sales of Capital Assets	120	193	—
NET CASH FLOWS (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(29,747)**	**(2,638)**	**—**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of Investments	(7,667,843)	(155,484)	(1,103,092)
Proceeds from the Sales and Maturities of Investments	7,023,339	108,274	1,217,104
Investment Income Received	859,795	39,447	60
Borrower Rebates and Agent Fees	(12,623)	(15,401)	—
Due to State	—	5,562	—
NET CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES	**202,668**	**(17,602)**	**114,072**
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	**49,815**	**12,884**	**3,997**
CASH AND CASH EQUIVALENTS, JULY 1	329,479	79,467	620
CASH AND CASH EQUIVALENTS, JUNE 30	**$ 379,294**	**$ 92,351**	**$ 4,617**

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 733,290	$ 3,056,328
—	3,583,577
—	111,152
2,010	74,143
14,149	85,066
(482,957)	(628,396)
(92,396)	(362,262)
—	(3,424,989)
—	(1,480,621)
—	(144,062)
—	(127,852)
(2,946)	(19,646)
(109,346)	(161,361)
61,804	**561,077**
43,553	47,072
(230,225)	(933,074)
27	27
(186,645)	**(885,975)**
(2,696)	(17,751)
(31)	(5,322)
(1,131)	(13,483)
2,259	2,259
26	339
(1,573)	**(33,958)**
(1,518,848)	(10,445,267)
1,599,064	9,947,781
31,886	931,188
—	(28,024)
—	5,562
112,102	**411,240**
(14,312)	**52,384**
59,357	468,923
$ 45,045	**$ 521,307**

(continued)

STATE OF OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS -- ENTERPRISE
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(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)	$ (514,605)	$ 682,011	$ (159,405)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Investment Income	—	—	—
Depreciation	11,798	990	—
Provision for Uncollectible Accounts	96,690	—	—
Amortization of Premiums and Discounts	(735)	—	—
Interest on Bonds, Notes and Capital Leases	5,291	—	—
Miscellaneous Nonoperating (Revenues) Expenses	(5,687)	—	—
Decrease (Increase) in Assets:			
Deposit with Federal Government	—	—	72,361
Intergovernmental Receivable	—	—	3,751
Premiums and Assessments Receivable	150,581	—	(5,400)
Interfund Receivable	60,394	—	—
Other Receivables	(110,392)	(2,689)	(1,781)
Inventories	—	—	—
Other Assets	450	(658)	1,387
Increase (Decrease) in Liabilities:			
Accounts Payable	(1,778)	(1,683)	—
Accrued Liabilities	—	—	—
Intergovernmental Payable	—	—	(492)
Deferred Prize Awards Payable	—	20,611	—
Interfund Payable	—	(386)	—
Unearned Revenue	—	586	—
Benefits Payable	187,680	—	939
Refund and Other Liabilities	4,729	6,861	(2,146)
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	**$ (115,584)**	**$ 705,643**	**$ (90,786)**
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Change in Fair Value of Investments	$ 143,510	$ 80,922	$ —

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

NONMAJOR PROPRIETARY FUNDS	TOTAL
$ 111,982	$ 119,983
23,638	23,638
2,943	15,731
—	96,690
71	(664)
—	5,291
—	(5,687)
—	72,361
(884)	2,867
—	145,181
236	60,630
234	(114,628)
161	161
(182)	997
(4,893)	(8,354)
219	219
(23)	(515)
—	20,611
(785)	(1,171)
85	671
—	188,619
(70,998)	(61,554)
$ 61,804	**$ 561,077**
$ —	$ 224,432

STATE OF OHIO
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008
(dollars in thousands)

	PENSION TRUST	PRIVATE-PURPOSE TRUST	INVESTMENT TRUST
	STATE HIGHWAY PATROL RETIREMENT SYSTEM (as of 12/31/07)	VARIABLE COLLEGE SAVINGS PLAN	STAR OHIO
ASSETS:			
Cash Equity with Treasurer	$ —	$ —	$ —
Cash and Cash Equivalents	12,226	81,399	—
Investments (at fair value):			
U.S. Government and Agency Obligations	—	—	3,346,875
Common and Preferred Stock	211,261	—	—
Corporate Bonds and Notes	—	—	—
Foreign Stocks and Bonds	13,369	—	—
Commercial Paper	—	—	1,130,358
Repurchase Agreements	—	—	11,896
Mutual Funds	430,426	5,106,293	469,313
Real Estate	51,108	—	—
Venture Capital	—	—	—
Direct Mortgage Loans	—	—	—
Partnership and Hedge Funds	121,074	—	—
State Treasury Asset Reserve of Ohio (STAR Ohio)	—	—	—
Collateral on Lent Securities	94,654	—	—
Employer Contributions Receivable	1,546	—	—
Employee Contributions Receivable	1,087	—	—
Interfund Receivable	—	—	—
Other Receivables	730	16,540	1,170
Other Assets	—	—	—
Capital Assets, Net	10	—	—
TOTAL ASSETS	**937,491**	**5,204,232**	**4,959,612**
LIABILITIES:			
Accounts Payable	1,334	—	—
Accrued Liabilities	1,459	6,091	—
Obligations Under Securities Lending	94,654	—	—
Deferred Retirement Option Plan	5,631	—	—
Intergovernmental Payable	—	—	—
Refund and Other Liabilities	709	13,299	1,564
TOTAL LIABILITIES	**103,787**	**19,390**	**1,564**
NET ASSETS:			
Held in Trust for:			
Employees' Pension Benefits	718,779	—	—
Employees' Postemployment Healthcare Benefits	114,925	—	—
Individuals, Organizations and Other Governments	—	5,184,842	—
Pool Participants	—	—	4,958,048
TOTAL NET ASSETS	**$ 833,704**	**$ 5,184,842**	**$ 4,958,048**

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

AGENCY
$ 274,850
185,495
13,515,476
62,950,056
13,473,128
40,904,191
5,321,367
—
7,994,207
15,119,939
6,967,485
13,392,839
—
100,461
105,005
—
—
34
1,288
449,058
—
180,754,879
—
—
105,005
—
145,142
180,504,732
180,754,879
—
—
—
—
$ —

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STATE OF OHIO

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

(dollars in thousands)

	PENSION TRUST	PRIVATE-PURPOSE TRUST	INVESTMENT TRUST
	STATE HIGHWAY PATROL RETIREMENT SYSTEM (for the fiscal year ended 12/31/07)	VARIABLE COLLEGE SAVINGS PLAN	STAR OHIO
ADDITIONS:			
Contributions from:			
Employer	$ 24,233	$ —	$ —
Employees	8,901	—	—
Plan Participants	—	1,460,560	—
Other	719	—	—
Total Contributions	33,853	1,460,560	—
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	53,547	(963,314)	—
Interest, Dividends and Other	19,584	388,827	193,999
Total Investment Income	73,131	(574,487)	193,999
Less: Investment Expense	11,544	37,179	4,180
Net Investment Income	61,587	(611,666)	189,819
Capital Share and Individual Account Transactions:			
Shares Sold	—	—	17,241,773
Reinvested Distributions	—	—	189,820
Shares Redeemed	—	—	(16,336,029)
Net Capital Share and Individual Account Transactions	—	—	1,095,564
TOTAL ADDITIONS	**95,440**	**848,894**	**1,285,383**
DEDUCTIONS:			
Pension Benefits Paid to Participants or Beneficiaries	44,677	—	—
Healthcare Benefits Paid to Participants or Beneficiaries	10,354	—	—
Refunds of Employee Contributions	99	—	—
Administrative Expense	702	—	—
Transfers to Other Retirement Systems	331	—	—
Distributions to Shareholders and Plan Participants	—	1,194,920	189,820
TOTAL DEDUCTIONS	**56,163**	**1,194,920**	**189,820**
CHANGE IN NET ASSETS HELD FOR:			
Employees' Pension Benefits	34,198	—	—
Employees' Postemployment Healthcare Benefits	5,079	—	—
Individuals, Organizations and Other Governments	—	(346,026)	—
Pool Participants	—	—	1,095,563
TOTAL CHANGE IN NET ASSETS	39,277	(346,026)	1,095,563
NET ASSETS, JULY 1 (as restated)	794,427	5,530,868	3,862,485
NET ASSETS, JUNE 30	**$ 833,704**	**$ 5,184,842**	**$ 4,958,048**

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, 2008
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY (as of 12/31/07)	OHIO STATE UNIVERSITY
ASSETS:			
CURRENT ASSETS:			
Cash Equity with Treasurer	$ 3,630,349	$ 12	$ —
Cash and Cash Equivalents	—	32,163	386,518
Investments	—	47,419	516,401
Collateral on Lent Securities	1,093,224	—	—
Intergovernmental Receivable	—	245	666
Loans Receivable, Net	1,537	1,885	11,350
Receivable from Primary Government	200	—	5,972
Other Receivables	10	108	458,385
Inventories	—	—	25,434
Other Assets	38	—	37,675
TOTAL CURRENT ASSETS	**4,725,358**	**81,832**	**1,442,401**
NONCURRENT ASSETS:			
Restricted Assets:			
Cash Equity with Treasurer	2,573	—	—
Cash and Cash Equivalents	—	463,325	—
Investments	—	778,281	—
Intergovernmental Receivable	—	76	—
Loans Receivable, Net	—	3,886,554	—
Investments	—	26,994	2,178,654
Loans Receivable, Net	5,956	40,594	60,816
Other Receivables	—	4,745	9,384
Other Assets	—	46,636	—
Capital Assets Being Depreciated, Net	24	1,273	2,581,527
Capital Assets Not Being Depreciated	777	539	342,506
TOTAL NONCURRENT ASSETS	**9,330**	**5,249,017**	**5,172,887**
TOTAL ASSETS	**4,734,688**	**5,330,849**	**6,615,288**
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts Payable	12,744	49,520	173,404
Accrued Liabilities	387	12,873	347,402
Obligations Under Securities Lending	1,093,224	—	—
Intergovernmental Payable	1,077,081	787	—
Unearned Revenue	—	—	168,535
Refund and Other Liabilities	1,105	—	34,875
Bonds and Notes Payable	—	201,875	509,068
Certificates of Participation	—	—	405
TOTAL CURRENT LIABILITIES	**2,184,541**	**265,055**	**1,233,689**
NONCURRENT LIABILITIES:			
Intergovernmental Payable	642,487	—	—
Unearned Revenue	—	—	—
Refund and Other Liabilities	600	180	212,283
Payable to Primary Government	4,014,630	—	—
Bonds and Notes Payable	—	2,283,822	538,945
Certificates of Participation	—	—	4,670
TOTAL NONCURRENT LIABILITIES	**4,657,717**	**2,284,002**	**755,898**
TOTAL LIABILITIES	**6,842,258**	**2,549,057**	**1,989,587**
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	24	1,812	1,847,935
Restricted for:			
Primary, Secondary and Other Education	2,573	—	—
Federal Programs	—	—	—
Coal Research and Development Program	—	—	—
Community and Economic Development and Capital Purposes	—	—	—
Debt Service	—	2,580,256	—
Nonexpendable:			
Scholarships and Fellowships	—	—	—
Research	—	—	—
Endowments and Quasi-Endowments	—	—	1,228,922
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	—	—	5,971
Endowments and Quasi-Endowments	—	—	170,810
Current Operations	—	—	353,866
Loans, Grants and Other College and University Purposes	—	—	—
Unrestricted (Deficits)	(2,110,167)	199,724	1,018,197
TOTAL NET ASSETS (DEFICITS)	**$ (2,107,570)**	**$ 2,781,792**	**$ 4,625,701**

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
$ —	$ 22,588	$ 3,652,949
89,445	588,893	1,097,019
53,916	1,074,639	1,692,375
—	6,297	1,099,521
—	56,847	57,758
3,266	17,533	35,571
92	34,072	40,336
82,335	381,848	922,686
2,001	26,281	53,716
5,531	55,299	98,543
236,586	**2,264,297**	**8,750,474**
—	4,582	7,155
—	17,116	480,441
—	521,145	1,299,426
—	—	76
—	—	3,886,554
1,164,569	1,512,650	4,882,867
33,282	111,967	252,615
55,887	129,966	199,982
400,877	48,356	495,869
1,220,925	4,138,292	7,942,041
249,541	565,798	1,159,161
3,125,081	**7,049,872**	**20,606,187**
3,361,667	**9,314,169**	**29,356,661**
59,039	166,842	461,549
71,328	180,515	612,505
—	6,297	1,099,521
—	5,268	1,083,136
40,429	225,808	434,772
42,823	114,015	192,818
56,608	67,820	835,371
—	—	405
270,227	**766,565**	**4,720,077**
—	8,325	650,812
—	6,652	6,652
209,994	218,121	641,178
—	—	4,014,630
875,619	1,829,152	5,527,538
—	—	4,670
1,085,613	**2,062,250**	**10,845,480**
1,355,840	**2,828,815**	**15,565,557**
457,218	3,163,010	5,469,999
—	—	2,573
—	22	22
—	6,929	6,929
—	4,582	4,582
—	—	2,580,256
139,516	123,430	262,946
97,680	2,586	100,266
622,918	644,139	2,495,979
389,446	102,013	491,459
50,306	182,779	233,085
114,223	20,475	134,698
33,439	172,919	206,358
45,155	16,815	61,970
32,973	140,857	173,830
13	8,814	8,827
18,992	93,979	118,942
120,236	31,888	322,934
11,056	108,010	472,932
12,763	226,348	239,111
(140,107)	1,435,759	403,406
$ 2,005,827	**$ 6,485,354**	**$ 13,791,104**

STATE OF OHIO
COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(dollars in thousands)

	MAJOR COMPONENT UNITS		
	SCHOOL FACILITIES COMMISSION	OHIO WATER DEVELOPMENT AUTHORITY (for the year ended 12/31/07)	OHIO STATE UNIVERSITY
EXPENSES:			
Primary, Secondary and Other Education	$ 799,855	$ —	$ —
Community and Economic Development	—	—	—
Cost of Services	—	113,071	—
Administration	—	11,364	—
Education and General:			
Instruction and Departmental Research	—	—	817,146
Separately Budgeted Research	—	—	391,987
Public Service	—	—	121,565
Academic Support	—	—	135,720
Student Services	—	—	86,829
Institutional Support	—	—	166,172
Operation and Maintenance of Plant	—	—	115,107
Scholarships and Fellowships	—	—	71,260
Auxiliary Enterprises	—	—	220,682
Hospitals	—	—	1,526,253
Interest on Long-Term Debt	—	395	42,437
Depreciation	6	117	213,594
Other	—	4,046	13,505
TOTAL EXPENSES	**799,861**	**128,993**	**3,922,257**
PROGRAM REVENUES:			
Charges for Services, Fees, Fines and Forfeitures	86,765	146,298	2,743,454
Operating Grants, Contributions and Restricted Investment Income	98,389	147,444	654,682
Capital Grants, Contributions and Restricted Investment Income	—	—	6,754
TOTAL PROGRAM REVENUES	**185,154**	**293,742**	**3,404,890**
NET PROGRAM (EXPENSE) REVENUE	**(614,707)**	**164,749**	**(517,367)**
GENERAL REVENUES:			
Unrestricted Investment Income	—	6,218	(141,558)
State Assistance	97,370	—	556,384
Other	—	19	2,316
TOTAL GENERAL REVENUES	**97,370**	**6,237**	**417,142**
ADDITIONS (DEDUCTIONS) TO ENDOWMENTS AND PERMANENT FUND PRINCIPAL	**—**	**—**	**59,108**
CHANGE IN NET ASSETS	**(517,337)**	**170,986**	**(41,117)**
NET ASSETS (DEFICITS), JULY 1 (as restated)	(1,590,233)	2,610,806	4,666,818
NET ASSETS (DEFICITS), JUNE 30	**$ (2,107,570)**	**$ 2,781,792**	**$ 4,625,701**

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

UNIVERSITY OF CINCINNATI	NONMAJOR COMPONENT UNITS	TOTAL
$ —	$ 29,905	$ 829,760
—	27,827	27,827
—	—	113,071
—	—	11,364
283,503	1,481,502	2,582,151
157,843	186,909	736,739
57,247	134,908	313,720
63,944	404,127	603,791
37,722	216,819	341,370
87,404	428,892	682,468
63,560	302,512	481,179
23,630	201,731	296,621
78,163	569,950	868,795
—	286,021	1,812,274
41,264	74,295	158,391
88,040	274,038	575,795
6,835	31,231	55,617
989,155	**4,650,667**	**10,490,933**
453,837	2,773,193	6,203,547
232,374	463,787	1,596,676
1,228	48,325	56,307
687,439	**3,285,305**	**7,856,530**
(301,716)	**(1,365,362)**	**(2,634,403)**
—	(47,915)	(183,255)
239,105	1,244,218	2,137,077
5,235	210,033	217,603
244,340	**1,406,336**	**2,171,425**
37,668	**36,871**	**133,647**
(19,708)	**77,845**	**(329,331)**
2,025,535	6,407,509	14,120,435
$ 2,005,827	**$ 6,485,354**	**$ 13,791,104**

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Ohio, as of June 30, 2008, and for the year then ended, conform with generally accepted accounting principles (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are included in the GASB's *Codification of Governmental Accounting and Financial Reporting Standards*. The State's significant accounting policies are as follows.

A. Financial Reporting Entity

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

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

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

- an organization is fiscally dependent on the primary government.

1. Blended Component Units

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

2. Discretely Presented Component Units

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

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

B. Basis of Presentation
Government-wide Statements — The Statement of Net Assets and the Statement of Activities display information about the primary government (the State) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities.

Fiduciary funds of the primary government and component units that are fiduciary in nature are reported only in the statements of fiduciary net assets and changes in fiduciary net assets.

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

The Statement of Net Assets reports all financial and capital resources using the economic resources measurement focus and the accrual basis of accounting. The State presents the statement in a format that displays *assets 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

The State reports the following major governmental funds:

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

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

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

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

Revenue Distribution Special Revenue Fund — This fund accounts for tax relief and aid to local government programs, which derive funding from tax and other revenues levied, collected, and designated by the State for these purposes.

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

The State reports the following major proprietary funds:

Workers' Compensation Enterprise Fund — This fund accounts for the operations of the Ohio Bureau of Workers' Compensation and the 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:

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2007.

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

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

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

The State reports the following major component unit funds:

The *School Facilities Commission* 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, 2007. 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Improvements General Obligations
Highway Improvements General Obligations
Development General Obligations
Highway General Obligations
Public Improvements General Obligations
Vietnam Conflict Compensation
  General Obligations
Economic Development Revenue Bonds
Infrastructure Bank Revenue Bonds

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revitalization Project Revenue Bonds
Buckeye Tobacco Settlement Financing Authority
Revenue Bonds
Chapter 154 Special Obligations
School Building Program Special Obligations
Ohio Building Authority Special Obligations
Transportation Certificates of Participation
OAKS Certificates of Participation
STARS Certificates of Participation
OAKS Project
STARS Project

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

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

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.

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 include investments with original maturities of three months or less from the date of acquisition for the Workers' Compensation Enterprise Fund.

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

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

F. Investments

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The State has established the following capitalization thresholds:

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

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

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

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

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

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

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

that made the loan to the fund that received the loan.

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

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

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

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

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

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

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

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

NOTE 2 RESTATEMENTS AND CHANGES IN ACCOUNTING PRINCIPLES AND STANDARDS

A. Restatements
Restatements of net assets, as of June 30, 2007, for the primary government and component units that resulted from prior period adjustments for corrections of errors are presented in the following tables (dollars in thousands).

Government-Wide Financial Statements:	Business-Type Activities	Total Primary Government	Component Units
Net Assets, as of June 30, 2007, As Previously Reported	$3,126,531	$22,656,985	$14,125,856
Corrections that Increased/(Decreased) Net Assets:			
Noncurrent Liabilities	(1,382)	(1,382)	-
Ohio Capital Fund	-	-	(5,421)
Total Corrections, Net	(1,382)	(1,382)	(5,421)
Net Assets, July 1, 2007, As Restated	$3,125,149	$22,655,603	$14,120,435

Fiduciary Fund Financial Statements:	Investment Trust
Net Assets, as of June 30, 2007, As Previously Reported	$3,919,623
Changes in Reporting Entity	(57,138)
Net Assets, July 1, 2007, As Restated	$3,862,485

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

Discretely Presented Component Units Fund Financial Statements:	Nonmajor Component Units	Total Component Units
Net Assets, as of June 30, 2007, As Previously Reported	$6,412,930	$14,125,856
Corrections that Increased/(Decreased) Net Assets:		
Ohio Capital Fund	(5,421)	(5,421)
Total Corrections, Net	(5,421)	(5,421)
Net Assets, July 1, 2007, As Restated	$6,407,509	$14,120,435

B. Implementation of Recently Issued Accounting Pronouncements

For the fiscal year ended June 30, 2008, the State implemented the provisions of

- Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.
- Governmental Accounting Standards Board (GASB) Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*
- Governmental Accounting Standards Board (GASB) Statement No. 50, *Pension Disclosures - an amendment of GASB Statements No. 25 and No. 27.*
- Governmental Accounting Standards Board (GASB) Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.
- Governmental Accounting Standards Board (GASB) Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*.

GASB 45 establishes standards for the measurement, recognition, and display of OPEB expenses/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

GASB 48 establishes the criteria for reporting transactions as revenue or as a liability, whereby an interest in the government's expected cash flows from collecting specific receivables or specific revenues are exchanged for immediate cash payments, generally a single lump sum. This Statement also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenues, including residual interests and recourse provisions.

GASB 50 establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined benefit and defined contribution pensions. It amends note disclosures and required supplementary information (RSI) standards of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with applicable changes adopted in Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

GASB 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into GASB authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles.

GASB 56 incorporates into the GASB authoritative literature, certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addressed three issues not included in the authoritative literature that establishes accounting principles - related party transactions, going concern considerations, and subsequent events. The Statement does not establish new accounting standards but rather incorporates the existing guidance into the GASB standards to the extent appropriate in a governmental environment.

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

GASB Technical Bulletin No. 2008-1 clarifies the requirements of Statements 27 and 45 for calculating the annual required contribution (ARC) adjustment. Specifically, this Technical Bulletin applies to situations in which the actuarial valuation separately identifies the actual amount that is included in the ARC related to the amortization of past employer contribution deficiencies or excess contributions to a pension or other postemployment benefit (OPEB) plan (the known amount).

C. Recently Issued GASB Pronouncements

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

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

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

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The requirements of GASB 53 are effective for periods beginning after June 15, 2009. This Statement addresses the recognition, measurement, and disclosure of information regarding derivatives instruments entered into by state and local governments. This Statement describes the methods of evaluating effectiveness such as consistent critical terms method and more quantitative methods such as synthetic instrument method, dollar-offset method, and regression analysis method. A key provision of this Statement is that derivative instruments covered in its scope, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, are reported at fair value.

In February 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The provisions of GASB 54 are effective for financial statements for periods beginning after June 15, 2010. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

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 2008. 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.

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

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 2008, whenever signed into law or otherwise legally authorized.

For fiscal year 2008, no excess expenditures over appropriations were reported in individual funds.

A reconciliation of the fund balances reported under the GAAP basis and budgetary basis for the General Fund and the major special revenue 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, 2008
(dollars in thousands)

		Major Special Revenue Funds			
	General	Job, Family, and Other Human Services	Education	Highway Operating	Revenue Distribution
Total Fund Balances - GAAP Basis	$2,601,372	$140,044	$115,099	$1,003,610	($45,350)
Less: Reserved Fund Balances	744,371	1,063,787	37,627	1,551,549	118,012
Less: Designated Fund Balances	1,012,288	-	-	-	-
Unreserved/Undesignated Fund Balances —					
GAAP Basis	844,713	(923,743)	77,472	(547,939)	(163,362)
BASIS DIFFERENCES					
Revenue Accruals/Adjustments:					
Cash Equity with Treasurer	(60,665)	(7,924)	(18,192)	(7,549)	(12,428)
Taxes Receivable	(1,112,695)	-	-	(66,421)	(509,636)
Intergovernmental Receivable	(545,398)	(345,982)	(111,411)	(100,213)	-
Loans Receivable, Net	(254,317)	-	(250)	(102,895)	-
Interfund Receivable	(6,615)	(84)	(65)	(1,181)	(116,432)
Other Receivables	(166,635)	(186,782)	(220)	(5,385)	-
Deferred Revenue	434,175	177,211	7,484	8,855	22,777
Unearned Revenue	-	232,090	45,622	-	7,092
Total Revenue Accruals/Adjustments	(1,712,150)	(131,471)	(77,032)	(274,789)	(608,627)
Expenditure Accruals/Adjustments:					
Cash Equity with Treasurer	(64,124)	(8,106)	(752)	(12,631)	-
Inventories	(26,295)	-	-	(29,664)	-
Other Assets	(17,626)	(2,156)	(6,185)	(3,279)	-
Accounts Payable	164,459	83,316	20,318	143,561	-
Accrued Liabilities	167,716	22,277	2,319	28,842	-
Medicaid Claims Payable	805,179	1,014	-	-	-
Intergovernmental Payable	467,150	178,802	54,557	1,584	824,889
Interfund Payable	715,117	15,144	2,871	93,615	1,106
Payable to Component Units	12,814	1,420	1,108	330	-
Refund and Other Liabilities	763,146	5,347	-	-	47,603
Liability for Escheat Property	7,375	-	-	-	-
Total Expenditure Accruals/Adjustments	2,994,911	297,058	74,236	222,358	873,598
Other Adjustments:					
Fund Balance Reclassifications:					
From Unreserved (Non-GAAP Budgetary Basis)					
to Reserved for:					
Noncurrent Portion of Loans Receivable	249,717	-	250	100,888	-
Inventories	26,295	-	-	29,664	-
State and Local Highway Construction	-	-	-	-	118,011
Federal Programs	-	2,782	7,677	11,095	-
Other	81,687	29,101	545	7,787	-
From Undesignated (Non-GAAP					
Budgetary Basis) to Designated	1,012,288	-	-	-	-
Cash and Investments Held					
Outside of State Treasury	(611,304)	(11,150)	(2,700)	(746)	(11,279)
Other	-	2	4	(1)	2
Total Other Adjustments	758,683	20,735	5,776	148,687	106,734
Total Basis Differences	2,041,444	186,322	2,980	96,256	371,705
TIMING DIFFERENCES					
Encumbrances	(656,616)	(176,278)	(20,680)	(136,305)	-
Budgetary Fund Balances (Deficits) —					
Non-GAAP Basis	$2,229,541	($913,699)	$59,772	($587,988)	$208,343

NOTE 4 DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

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

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

The table below reports the carrying amount of deposits, as of June 30, 2008, 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, 2008
(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	$945,946	$913,747	$10,741	$260,775	$177
Component Units	868,108	994,918	28,300	813,363	89,906
Total Deposits — Reporting Entity	$1,814,054	$1,908,665	$39,041	$1,074,138	$90,083

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The following tables report the fair value, as of June 30, 2008, 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 30,2008
(dollar in thousands)

Investments for the Primary Government (including Fiduciary Activities), as of June 30, 2008	Total Fair Value	Uninsured, Unregistered, and Held by the Counterparty's Trust Departmentor Agent but not in the State's Name
Investments Subject to Custodial Credit Risk Exposure:		
U.S. Government Obligations	$11,051,819	$185,516
U.S. Government Obligations—Strips	921,582	-
U.S. Agency Obligations	16,111,050	-
U.S. Agency Obligations—Strips	301,398	-
Common and Preferred Stock	66,273,647	-
Corporate Bonds and Notes	17,940,733	-
Corporate Bonds and Notes—Strips	394	-
Municipal Obligations	226,004	-
Commercial Paper	8,724,466	-
Repurchase Agreements	18,487	259
Mortgage and Asset-Backed Securities	13,448,703	-
International Investments:		
Foreign Stocks	38,508,908	-
Foreign Bonds	3,031,916	-
High-Yield and Emerging Markets Fixed Income	1,417,563	-
Securities Lending Collateral:		
Commercial Paper	22,943	-
Repurchase Agreements	1,555,000	-
Mortgage and Asset-Backed Securities	2,013	-
Variable Rate Notes	1,924,176	-
Master Notes	202,000	-
U.S. Agency Obligations	172,928	-
Corporate Bonds	16,022	-
Bond Mutual Funds	874,860	-
Negotiable Certificates of Deposit	175,244	-
		$185,775
Investments Not Subject to Custodial Credit Risk Exposure:		
Investments Held by Broker-Dealers under Securities Loans with Cash Collateral:		
U.S. Government Obligations	747,459	
U.S. Agency Obligations	3,977,813	
U.S. Agency Obligations—Strips	9,144	
Common and Preferred Stock	85,925	
International Investments:		
Foreign Stocks	4,255	
International Investments-Commingled Equity Funds	1,175,674	
Equity Mutual Funds	9,533,402	
Bond Mutual Funds	7,811,423	
Real Estate	15,171,047	
Venture Capital	6,967,485	
Partnerships and Hedge Funds	136,500	
Investment Contracts	5,966	
Deposit with Federal Government	427,589	
Component Units' Equity in State Treasurer's Cash and Investment Pool	(4,759,624)	
Component Units' Equity in the State Treasury Asset Reserve of Ohio	(530,544)	
Total Investments — Primary Government	$223,685,370	

(Continued)

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Investments for Component Units, as of June 30, 2008	Total Fair Value	Uninsured, Unregistered, and Held by the Counterparty's Trust Department of Agent but not in the Component Unit's Name	Counterparty but not in the Component Unit's Name
Investments Subject to Custodial Credit Risk Exposure:			
U.S. Government Obligations	$300,061	$178,099	$68,741
U.S. Government Obligations—Strips	5,676	3,715	-
U.S. Agency Obligations	919,242	445,844	187,669
Common and Preferred Stock	1,156,228	227,015	366,701
Corporate Bonds and Notes	283,928	156,936	74,626
Commercial Paper	24,246	7,325	-
Repurchase Agreements	176,455	39,416	118,359
Mortgage and Asset-Backed Securities	69,586	401	-
Negotiable Certificates of Deposit	1,781	-	-
Municipal Obligations	136,088	80,017	52,571
International Investments:			
Foreign Stocks	266,103	647	-
Foreign Bonds	7	-	-
Other Investments	3,788	-	-
		$1,139,415	$868,667
Investments Not Subject to Custodial Credit Risk Exposure:			
Equity Mutual Funds	2,171,735		
Bond Mutual Funds	947,415		
Real Estate	197,374		
Life Insurance	16,679		
Investment Contracts	239,314		
Charitable Remainder Trusts	292,258		
Partnerships and Hedge Funds	845,512		
Investment in State Treasurer's Cash and Investment Pool	4,759,624		
Investment in the State Treasury Asset Reserve of Ohio (STAR Ohio)	530,544		
Total Investments — Component Units	13,343,644		
Total Investments — Reporting Entity	$237,029,014		

Reconciliation of Deposits and Investments Disclosures with Financial Statements
As of June 30, 2008
(dollars in thousands)

	Government-Wide Statement of Net Assets			Fiduciary Funds Statement of Net Assets	Total
	Governmental Activities	Business-Type Activities	Component Unit		
Cash Equity with Treasurer	$8,121,369	$125,660	$3,652,949	$274,850	$12,174,828
Cash and Cash Equivalents	124,533	394,326	1,097,019	279,120	1,894,998
Investments	1,015,478	16,979,459	6,575,242	190,631,122	215,201,301
Collateral on Lent Securities	3,304,352	40,072	1,099,521	199,659	4,643,604
Deposit with Federal Government	-	427,589	-	-	427,589
Restricted Assets:					
Cash Equity with Treasurer	-	105	7,155	-	7,260
Cash and Cash Equivalents	141,797	1,216	480,441	-	623,454
Investments	392,040	1,497,705	1,299,426	-	3,189,171
Collateral on Lent Securities	-	307,740	-	-	307,740
Total Reporting Entity	$13,099,569	$19,773,872	$14,211,753	$191,384,751	$238,469,945
Total Carrying Amount of Deposits and Investments per Financial Statements					$238,469,945
Outstanding Warrants and Other Reconciling Items					390,260
Differences Resulting from Component Units with December 31 Year-Ends					(17,137)
Total Carrying Amount of Deposits and Investments Disclosed in Note 4					$238,843,068

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The total carrying amount of deposits and investments, as of June 30, 2008, reported for the primary government and its component units is (dollars in thousands) $238,469,945. The total of the carrying amounts of both deposits in the amount of $1,814,054 and investments in the amount of $237,029,014 that has been categorized and disclosed in this note is $238,843,068. 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 the short-term debt, the rating must be "A1" or equivalent by all agencies that rate the issuer, with at least two agencies rating the issuer;
- Corporate notes must be rated at a minimum of "Aa" by Moody's Investors Service and a minimum of "AA" by Standard & Poor's for long-term debt;
- Foreign debt must be guaranteed as to principal and interest by the United States or be rated in one of the three highest categories by at least two rating agencies; and
- For Registered Investment Companies (Mutual Funds), no-load money market mutual funds must carry a rating of "AAm", "AAm-G", or better by Standard & Poor's or the equivalent rating of another agency.

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

Workers' Compensation Enterprise Fund

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

State Highway Patrol Retirement
System Pension Trust Fund

When purchased, bond investments must be rated within the four highest classifications of at least two rating agencies.

STAR Ohio Investment Trust Fund

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

Retirement Systems Agency Fund

For the Ohio Public Employees Retirement System, non-investment grade securities are limited to 15 percent of the total Global Bond portfolio assets. Under the Cash Management Policy, issues rated in the A2/P2 category are limited to five percent of 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,

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

- Securities in the core fixed income portfolio shall be rated “BBB-” or better by two standard rating agencies at the time of the purchase;

- Securities in the high yield fixed income portfolio are high yield bonds issued by U.S. corporations with a minimum rating of “CCC” or equivalent;

- Investment managers may purchase securities that are “Not Rated” as long as they deem these securities to be at least equivalent to the minimum ratings; and

- Commercial paper must be rated within the two highest classifications established by two standard rating agencies.

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

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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Primary Government (including Fiduciary Activities)
Investment Credit Ratings
As of June 30, 2008
(dollars in thousands)

	Credit Rating					
Investment Type	AAA/Aaa	AA/Aa	A/A-1	BBB/Baa	BB/Ba	B
U.S. Agency Obligations	$20,012,404	$59,555	$16,904	$ -	$ -	$ -
U.S. Agency Obligations—Strips	310,542	-	-	-	-	-
Corporate Bonds and Notes	2,918,683	2,707,653	5,856,387	4,896,605	520,404	755,180
Corporate Bonds and Notes—Strips	394	-	-	-	-	-
Municipal Bonds	95,586	103,915	13,069	13,434	-	-
Commercial Paper	4,303,446	1,384,390	3,023,420	-	-	-
Repurchase Agreements	15,764	2,464	-	-	-	-
Mortgage and Asset-Backed Securities	12,857,854	302,819	87,027	78,072	1,231	4,009
Foreign Bonds	251,590	189,092	741,145	1,004,692	261,756	100,873
High-Yield & Emerging Markets Fixed Income	14,413	3,242	41,593	113,133	301,788	559,593
Bond Mutual Funds	7,191,072	194,935	4,939	33,998	58,950	60,686
Investment Contracts	-	-	-	-	-	-
Securities Lending Collateral:						
Commercial Paper	-	3,993	3,983	-	-	-
Repurchase Agreements	-	300,000	1,255,000	-	-	-
Mortgage and Asset-Backed Securities	-	2,013	-	-	-	-
Variable Rate Notes	74,936	801,957	937,818	109,465	-	-
Master Notes	-	202,000	-	-	-	-
Corporate Bonds	-	-	-	-	-	-
U.S. Government Agency	172,928	-	-	-	-	-
Bond Mutual Funds	874,860					
Negotiable Certificates of Deposit	-	75,000	100,244	-	-	-
Total Primary Government	$49,094,472	$6,333,028	$12,081,529	$6,249,399	$1,144,129	$1,480,341

	Credit Rating					
Investment Type	CCC/Caa	CC/Ca	C	D	Unrated	Total
U.S. Agency Obligations	$ -	$ -	$ -	$ -	$ -	$20,088,863
U.S. Agency Obligations—Strips	-	-	-	-	-	310,542
Corporate Bonds and Notes	218,231	159	-	-	67,431	17,940,733
Corporate Bonds and Notes—Strips	-	-	-	-	-	394
Municipal Bonds	-	-	-	-	-	226,004
Commercial Paper	-	-	-	-	13,210	8,724,466
Repurchase Agreements	-	-	-	-	259	18,487
Mortgage and Asset-Backed Securities	5,096	-	170	-	112,425	13,448,703
Foreign Bonds	4,426	-	-	7,013	471,329	3,031,916
High-Yield & Emerging Markets Fixed Income	122,275	-	-	7,903	253,623	1,417,563
Bond Mutual Funds	-	-	-	-	266,843	7,811,423
Investment Contracts	-	-	-	-	5,966	5,966
Securities Lending Collateral:						
Commercial Paper	-	-	-	-	14,967	22,943
Repurchase Agreements	-	-	-	-	-	1,555,000
Mortgage and Asset-Backed Securities	-	-	-	-	-	2,013
Variable Rate Notes	-	-	-	-	-	1,924,176
Master Notes	-	-	-	-	-	202,000
Corporate Bonds	-	-	-	-	16,022	16,022
U.S. Government Agency	-	-	-	-	-	172,928
Bond Mutual Funds	-	-	-	-	-	874,860
Negotiable Certificates of Deposit	-	-	-	-	-	175,244
Total Primary Government	$350,028	$159	$170	$14,916	$1,222,075	$77,970,246

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Component Units
Investment Credit Ratings
As of June 30, 2008
(dollars in thousands)

Investment Type	Credit Rating AAA/Aaa	AA/Aa	A/A-1	BBB/Baa	BB/Ba	B
U.S. Agency Obligations	$784,748	$416	$ -	$ -	$ -	$ -
Corporate Bonds and Notes	76,872	64,569	115,395	16,614	2,146	3,832
Commercial Paper	-	-	24,246	-	-	-
Repurchase Agreements	137,039	-	-	-	-	-
Mortgage and Asset-Backed Securities	1,787	-	-	-	-	-
Negotiable Certificates of Deposit	-	-	-	-	-	-
Municipal Obligations	114,382	21,072	384	-	-	-
Bond Mutual Funds	508,222	268,858	41,076	22,175	3,224	2,777
Foreign Bonds	-	-	-	-	-	-
Investment Contracts	-	-	-	-	-	-
Other Investments	-	-	-	-	-	-
Total Component Units	$1,623,050	$354,915	$181,101	$38,789	$5,370	$6,609

Investment Type	Credit Rating CCC/Caa	CC/Ca	Unrated	Total
U.S. Agency Obligations	$ -	$ -	$134,078	$919,242
Corporate Bonds and Notes	717	126	3,657	283,928
Commercial Paper	-	-	-	24,246
Repurchase Agreements	-	-	39,416	176,455
Mortgage and Asset-Backed Securities	-	-	67,799	69,586
Negotiable Certificates of Deposit	-	-	1,781	1,781
Municipal Obligations	-	-	250	136,088
Bond Mutual Funds	1,002	-	100,081	947,415
Foreign Bonds	-	-	7	7
Investment Contracts	-	-	239,314	239,314
Other Investments	-	-	2,386	2,386
Total Component Units	$1,719	$126	$588,769	$2,800,448

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

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

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

3. Concentration of Credit Risk

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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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

- Investments in commercial paper may not exceed 25 percent of the State's total average portfolio;
- Bankers acceptances cannot exceed 10 percent of the State's total average portfolio;
- Debt interests cannot exceed 25 percent of the State's total average portfolio;
- Debt interests in foreign nations may not exceed one percent of the State's total average portfolio; and,
- Debt interests of a single issuer may not exceed one-half of one percent of the State's total average portfolio.

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

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

The investment policies of the Treasurer of State's Office also specify that commercial paper is limited to no more than five percent of the issuing corporation's total outstanding commercial paper, and investments in a single issuer are further limited to no more than two percent of the total average portfolio except for the U.S. government obligations, limited at 100 percent; repurchases agreement counterparties, limited at the lesser of five percent of $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 or 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 of $500 million; and mutual funds, limited at 10 percent.

As of June 30, 2008, all investments meet the requirements of the State's law and policies, when applicable. However, investments in certain issuers are at least five percent of investment balances, as follows (dollars in thousands):

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Issuer	Amount	Percentage of Investment Balance
Governmental and Business-Type Activities:		
Federal National Mortgage Association	$3,885,968	13%
Federal Home Loan Bank	1,134,239	4%
Federal Home Loan Mortgage Corporation	2,093,929	7%
STAR Ohio Investment Trust Fund:		
Federal National Mortgage Association	1,500,651	23%
Federal Home Loan Bank	1,465,244	22%
Federal Home Loan Mortgage Corporation	1,279,300	19%
School Facilities Commission Component Unit Fund:		
Federal National Mortgage Association	1,392,604	29%
Federal Home Loan Bank	451,339	9%
Federal Home Loan Mortgage Corporation	718,226	15%
Ohio Water Development Authority Component Unit Fund (12/31/07):		
AIGMFC	194,720	15%
FNMA	96,311	7%
FHLB	109,916	8%

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

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

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

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

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

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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 or 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, 2008, several investments reported as "Cash Equity with Treasurer" have terms that make their fair values highly sensitive to the interest rate changes. The U.S. agency obligations investment type includes $6.8 million of investments with call dates during fiscal years 2009 and 2011. These investments have maturities between fiscal year 2010 and 2014 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, 2008. Master Notes of $187 million, variable rate notes of $716 million, and U.S. agency obligations of $148 million have daily reset dates. Mortgage and asset-backed securities of $2 million, variable rate notes of $556 million, and negotiable certificates of deposit of $75 million have monthly reset dates. Variable rate notes of $528 million and negotiable certificates of deposit of $100 million have quarterly reset dates.

The Lottery Commission Enterprise Fund has collateral on lent securities with reset dates. Master notes and variable rate notes with reset dates are reported as collateral on lent securities. Master notes of $15 million, and U.S. agency obligations of $25 million have daily reset dates. Variable rate notes of $57 million, $45 million, and $20 million, respectively, have daily, monthly, and quarterly reset dates.

Also during fiscal year 2008, the Treasurer of State acted as the custodian of the Retirement System 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 tables list the investment maturities of the State's investments. All investments at June 30, 2008, meet the requirements of the State's laws and policies, when applicable.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Primary Government (including Fiduciary Activities)
Investments Subject to Interest Rate Risk
As of June 30, 2008
(dollars in thousands)

Investment Type	Investment Maturities (in years)				Total
	Less than 1	1-5	6-10	More than 10	
U.S. Government Obligations	$717,123	$2,299,371	$1,729,023	$7,053,761	$11,799,278
U.S. Government Obligations—Strips	23,071	80,554	95,277	722,680	921,582
U.S. Agency Obligations	7,218,978	7,785,758	1,111,312	3,972,815	20,088,863
U.S. Agency Obligations—Strips	11,440	91,255	106,776	101,071	310,542
Corporate Bonds and Notes	1,973,801	4,635,680	3,494,361	7,836,891	17,940,733
Corporate Bonds and Notes—Strips	-	-	-	394	394
Municipal Bonds	-	-	3,707	222,297	226,004
Commercial Paper	8,724,466	-	-	-	8,724,466
Repurchase Agreements	18,487	-	-	-	18,487
Mortgage and Asset-Backed Securities	16,367	233,399	554,614	12,644,323	13,448,703
Foreign Bonds	155,467	456,799	755,741	1,663,909	3,031,916
High-Yield & Emerging Markets Fixed Income	214,187	231,669	670,868	300,839	1,417,563
Bond Mutual Funds	3,190,196	1,267,467	2,300,722	1,053,038	7,811,423
Investment Contracts	-	5,966	-	-	5,966
Securities Lending Collateral:					
Commercial Paper	22,943	-	-	-	22,943
Repurchase Agreements	1,555,000	-	-	-	1,555,000
Mortgage and Asset-Backed Securities	2,013	-	-	-	2,013
Variable Rate Notes	1,924,176	-	-	-	1,924,176
Master Notes	202,000	-	-	-	202,000
Corporate Bonds	16,022	-	-	-	16,022
U.S. Agency Obligations	172,928	-	-	-	172,928
Bond Mutual Funds	874,860	-	-	-	874,860
Negotiable Certificates of Deposit	175,244	-	-	-	175,244
Total Primary Government	$27,208,769	$17,087,918	$10,822,401	$35,572,018	$90,691,106

Component Units
Investments Subject to Interest Rate Risk
As of June 30, 2008
(dollars in thousands)

Investment Type	Investment Maturities (in years)				Total
	Less than 1	1-5	6-10	More than 10	
U.S. Government Obligations	$83,871	$167,183	$31,912	$17,095	$300,061
U.S. Government Obligations—Strips	850	4,040	396	390	5,676
U.S. Agency Obligations	392,271	329,786	100,965	96,220	919,242
Corporate Bonds and Notes	105,599	78,065	30,241	70,023	283,928
Commercial Paper	24,246	-	-	-	24,246
Repurchase Agreements	176,455	-	-	-	176,455
Mortgage and Asset-Backed Securities	3,503	4,227	5,311	56,545	69,586
Negotiable Certificates of Deposit	733	1,048	-	-	1,781
Municipal Obligations	75,181	5,632	1,550	53,725	136,088
Bond Mutual Funds	309,256	313,568	253,654	70,937	947,415
Foreign Bonds	-	7	-	-	7
Investment Contracts	180,829	-	-	58,485	239,314
Other Investments	367	1,836	183	-	2,386
Total Component Units	$1,353,161	$905,392	$424,212	$423,420	$3,106,185

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. That State's law and investment policies include provisions to limit the exposure to this type of risk.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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 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.

The State Teachers Retirement System international investments include forward contracts and equity swaps with negative fair values. Negative investment values, as applicable, are included by currency for Fiduciary Activities in the table on the following page.

As of June, 30, 2008, 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, 2008
(dollars in thousands)

Currency	Fiduciary Activities Stocks	Fiduciary Activities Bonds	Fiduciary Activities High-Yield & Emerging Markets Fixed Income	Total
Argentinean Peso	$515	$3,905	$ -	$4,420
Australian Dollar	722,793	-	-	722,793
Brazilian Real	467,044	56,819	19,040	542,903
British Pound	2,531,211	130,433	-	2,661,644
Bulgarian Lev	2,692	-	-	2,692
Canadian Dollar	941,748	79,797	-	1,021,545
Chilean Peso	17,601	17,650	-	35,251
Chinese Yuan	11,413	-	-	11,413
Colombian Peso	3,661	-	6,013	9,674
Czech Koruna	74,977	-	-	74,977
Danish Krone	164,222	-	-	164,222
Egyptian Pound	53,226	2,616	287	56,129
Euro	4,881,495	238,459	(683)	5,119,271
Hong Kong Dollar	965,034	-	-	965,034
Hungarian Forint	36,873	3,498	-	40,371
Indian Rupee	129,337	-	-	129,337
Indonesian Rupiah	110,074	12,270	330	122,674
Israeli Shekel	125,419	2,478	-	127,897
Japanese Yen	2,495,813	-	29	2,495,842
Jordanian Dollar	1	-	-	1
Malaysian Ringgit	133,110	9,273	6,305	148,688
Mexican Peso	167,664	14,658	4,963	187,285
New Zealand Dollar	(5,112)	-	-	(5,112)
Norwegian Krone	330,722	-	-	330,722
Pakistani Rupee	9,827	-	-	9,827
Philippines Peso	18,462	-	-	18,462
Polish Zloty	55,034	2,419	-	57,453
Romanian Leu	2,052	-	-	2,052
Russian Ruble	46,212	-	-	46,212
Singapore Dollar	269,224	-	-	269,224
South African Rand	300,262	4,167	-	304,429
South Korean Won	759,918	422	-	760,340
Sri Lankan Rupee	5,763	-	-	5,763
Swedish Krona	279,980	36,939	-	316,919
Swiss Franc	817,194	-	-	817,194
Taiwan Dollar	540,674	-	-	540,674
Thailand Baht	158,775	-	-	158,775
Turkish Lira	186,471	21,811	1,033	209,315
Ukraine Hryvana	2,345	-	-	2,345
Uruguyuan Peso	-	6,368	643	7,011
Zimbabwean Dollar	1,328	-	-	1,328
Investments Held in Foreign Currency	$17,815,054	$643,982	$37,960	$18,496,996
Foreign Investments Held in U.S. Dollars				25,641,320
Total Foreign Investments-Primary Government, including Fiduciary Activities				$44,138,316

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Component Units
International Investments—Foreign Currency Risk
As of June 30, 2008
(dollars in thousands)

The Ohio State University:

Currency	Included in the Balance Reported For Common & Preferred Stock	Total
Australian Dollar	$4,346	$4,346
Brazilian Real	6,610	6,610
British Pound	26,363	26,363
Canadian Dollar	9,059	9,059
Danish Krone	1,590	1,590
Euro	62,775	62,775
Hong Kong Dollar	10,190	10,190
Hungarian Forint	461	461
Indonesian Rupiah	980	980
Israeli Shekel	179	179
Japanese Yen	38,687	38,687
Malaysian Ringgit	1,199	1,199
Mexican Peso	2,899	2,899
New Zealand Dollar	291	291
Norwegian Krone	6,674	6,674
Polish Zloty	377	377
Singapore Dollar	1,717	1,717
South African Rand	7,030	7,030
South Korean Won	11,259	11,259
Swedish Krona	3,842	3,842
Swiss Franc	5,439	5,439
Taiwan Dollar	5,330	5,330
Thailand Baht	2,345	2,345
Turkish Lira	396	396
Total Investments Held in Foreign Currency-Ohio State University	210,038	210,038

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Nonmajor Component Units:

Currency	Included in the Balance Reported for Common & Preferred Stock
Australian Dollar	$3,250
Brazilian Real	2,085
British Pound	8,067
Canadian Dollar	4,856
Chinese Yuan	207
Euro	10,067
Hong Kong Dollar	2,422
Indian Rupee	391
Indonesian Rupiah	204
Israeli Shekel	139
Japanese Yen	12,196
Mexican Peso	289
Netherlands Antilles Guilder	613
New Zealand Dollar	49
Norwegian Krone	2,756
Russian Ruble	96
Singapore Dollar	454
South African Rand	3,257
South Korean Won	1,996
Swedish Krona	365
Swiss Franc	862
Taiwan Dollar	100
Thailand Baht	12
Turkish Lira	297
Investments Held in Foreign Currency	55,030
Foreign Investments Held in U.S. Dollars	1,035
Total Nonmajor Component Units	$56,065

D. Securities Lending Transactions

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

At the time of the loan, the Treasurer of State requires its custodial agents to ensure that the State’s lent securities are collateralized at no less than 102 percent 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, 2008, the State had no credit exposure since the amount the State owed to the borrowers at least equaled or exceeded that amount borrowers owed to 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 11 days or less while the weighted average maturity of securities loans is 11 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.

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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 2008, the State had not experienced any losses due to credit or market risk on securities lending activities.

In fiscal year 2008, the Treasurer lent U.S. government and agency obligations in exchange for cash collateral while the SHPRS lent equity securities in exchange for cash collateral.

NOTE 5 RECEIVABLES

A. Taxes Receivable – Primary Government

Current taxes receivable are expected to be collected in the next fiscal year while noncurrent taxes receivable are not expected to be collected until more than one year from the balance sheet date. As of June 30, 2008, approximately $386.1 million of the net taxes receivable balance is also reported as deferred revenue on the governmental funds' balance sheet, of which $363.3 million is reported in the General Fund and $22.8 million is reported in the Revenue Distribution Special Revenue Fund.

Refund liabilities for income and corporation franchise taxes, totaling approximately $809.2 million, are reported for governmental activities as "Refunds and Other Liabilities" on the Statement of Net Assets, of which $761.6 million is reported in the General Fund and $47.6 million is reported in the Revenue Distribution Special Revenue Fund on the governmental funds' balance sheet.

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

	Governmental Activities				
	Major Governmental Funds				
	General	Highway Operating	Revenue Distribution	Nonmajor Governmental Activites	Total Primary Government
Current-Due Within One Year:					
Income Taxes	$582,949	$ -	$33,917	$169	$617,035
Sales Taxes	385,961	-	24,200	439	410,600
Motor Vehicle Fuel Taxes	-	66,421	98,111	5,522	170,054
Commercial Activity Taxes	-	-	316,713	-	316,713
Public Utility Taxes	70,947	-	32,128	-	103,075
Severance Taxes	-	-	-	2,713	2,713
	1,039,857	66,421	505,069	8,843	1,620,190
Noncurrent-Due in More Than One Year:					
Income Taxes	72,838	-	4,567	-	77,405
Taxes Receivable, Net	$1,112,695	$66,421	$509,636	$8,843	$1,697,595

NOTE 5 RECEIVABLES (Continued)

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, 2008 (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	$502,075	$39,206	$ -	$4,117	$545,398
Job, Family and Other Human Services	289,976	56,006	-	-	345,982
Education	38,496	72,915	-	-	111,411
Highway Operating	100,213	-	-	-	100,213
Nonmajor Governmental Funds	234,029	37,985	-	18,470	290,484
Total Governmental Activities	1,164,789	206,112	-	22,587	1,393,488
Business-Type Activities:					
Major Proprietary Funds:					
Unemployment Compensation	-	-	137	-	137
Nonmajor Proprietary Funds	20	-	-	7,116	7,136
Total Business-Type Activities	20	-	137	7,116	7,273
Intergovernmental Receivable	$1,164,809	$206,112	$137	$29,703	$1,400,761

C. Loans Receivable

Loans receivable for the primary government and its discretely presented major component units, as of June 30, 2008, are detailed in the following tables (dollars in thousands):

Primary Government - Loans Receivable

	Governmental Activities				
	Major Governmental Funds				
Loan Program	General	Education	Highway Operating	Nonmajor Governmental Funds	Total Primary Government
Housing Finance	$227,633	$ -	$ -	$ -	$227,633
School District Solvency Assistance	19,097	-	-	-	19,097
Wayne Trace Local School District	3,966	-	-	-	3,966
State Workforce Development	866	-	-	-	866
Office of Minority Financial Incentives	850	-	-	-	850
Professional Development	1,043	-	-	-	1,043
Columbiana County Economic Stabilization	177	-	-	-	177
Small Government Fire Departments	822	-	-	-	822
Nurses Education Assistance	-	250	-	-	250
Highway, Transit, & Aviation Infrastructure Bank	-	-	102,895	-	102,895
Economic Development Office of Financial Incentives	-	-	-	340,768	340,768
Rail Development	-	-	-	3,980	3,980
Brownfield Revolving Loan	-	-	-	3,070	3,070
Local Infrastructure Improvements	-	-	-	339,041	339,041
Natural Resources	-	-	-	2	2
Loans Receivable, Gross	254,454	250	102,895	686,861	1,044,460
Estimated Uncollectible	(137)	-	-	-	(137)
Loans Receivable, Net	$254,317	$250	$102,895	$686,861	$1,044,323
Current-Due Within One Year	$50,396	$125	$14,497	$78,355	$143,373
Noncurrent-Due in More Than One Year	203,921	125	88,398	608,506	900,950
Loans Receivable, Net	$254,317	$250	$102,895	$686,861	$1,044,323

NOTE 5 RECEIVABLES (Continued)

Major Component Units - Loans Receivable

Loan Program	Ohio Water Development Authority (12/31/07)	Ohio State University	University of Cincinnati
Water and Wastewater Treatment (including restricted portion)	$3,929,033	$ -	$ -
Student	-	88,866	41,445
Other	-	-	748
Loans Receivable, Gross	3,929,033	88,866	42,193
Estimated Uncollectible	-	(16,700)	(5,645)
Loans Receivable, Net	$3,929,033	$72,166	$36,548
Current-Due Within One Year	$1,885	$11,350	$3,266
Noncurrent-Due in More Than One Year	3,927,148	60,816	33,282
Loans Receivable, Net	$3,929,033	$72,166	$36,548

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, 2008, consist of the following (dollars in thousands).

Primary Government - Other Receivables

	Governmental Activities						
	Major Governmental Funds						
Types of Receivables	General	Job, Family & Other Human Services	Education	Highway Operating	Buckeye Tobacco Settlement Financing Authority	Nonmajor Govern-mental Funds	Total
Manufacturers' Rebates	$58,521	$90,730	$ -	$ -	$ -	$12,054	$161,305
Tobacco Settlement	-	-	-	-	205,469	76,465	281,934
Health Facility Bed Assessments	-	58,915	-	-	-	-	58,915
Interest	37,720	-	-	3,233	268	900	42,121
Accounts	56,847	33,358	159	1,722	-	5,241	97,327
Environmental Legal Settlements	-	-	-	-	-	7,540	7,540
Miscellaneous	13,547	3,779	61	430	-	1,111	18,928
Other Receivables, Net-	$166,635	$186,782	$220	$5,385	$205,737	$103,311	$668,070
Current-Due Within One Year	$166,635	$186,782	$220	$5,385	$268	$26,846	$386,136
Noncurrent-Due in More Than One Year	-	-	-	-	205,469	76,465	281,934
Other Receivables, Net	$166,635	$186,782	$220	$5,385	$205,737	$103,311	$668,070

	Business-Type Activities				
	Major Proprietary Funds				
Type of Receivable	Workers' Compen-sation	Lottery Commission	Unemploy-ment Compen-sation	Nonmajor Proprietary Funds	Total
Accounts	$1,067,313	$ -	$80,260	$946	$1,148,519
Interest and Dividends (including restricted portion)	200,414	4,300	-	7,129	211,843
Lottery Sales Agents	-	44,745	-	-	44,745
Miscellaneous	-	-	-	49	49
Other Receivables, Gross	1,267,727	49,045	80,260	8,124	1,405,156
Estimated Uncollectible	(882,730)	(314)	(68,491)	-	(951,535)
Other Receivables, Net-Due Within One Year	$384,997	$48,731	$11,769	$8,124	$453,621
Total Primary Government					$1,121,691

NOTE 5 RECEIVABLES (Continued)

Major Component Units - Other Receivables

Types of Receivables	Ohio State University	University of Cincinnati
Accounts	$970,231	$25,869
Interest	18,896	491
Investment Trade Receivable (Stock Proceeds)	-	7
Dividends Receivable	-	7,290
Pledges	42,076	72,992
Unbilled Charges	-	40,044
Other Receivables, Gross	1,031,203	146,693
Estimated Uncollectible	(563,434)	(8,471)
Other Receivables, Net	$467,769	$138,222
Current-Due Within One Year	$458,385	$82,335
Noncurrent-Due Within More Than One Year	9,384	55,887
Other Receivables, Net	$467,769	$138,222

The "Other Receivables" balance reported in the fiduciary funds as of June 30, 2008, is comprised of interest due of approximately $3.3 million, investment trade receivable of $13.9 million, and miscellaneous receivables of $2.5 million.

NOTE 6 PAYABLES

A. Accrued Liabilities
Details on accrued liabilities for the primary government and its discretely presented major component units reporting significant balances, as of June 30, 2008, follow (dollars in thousands).

Primary Government - Accrued Liabilities

	Wages and Employee Benefits	Accured Interest	Other	Total Accrued Liabilities
Governmental Activities:				
Major Governmental Funds:				
General	$167,716	$ -	$ -	$167,716
Job, Family and Other Human Services	22,277	-	-	22,277
Education	2,319	-	-	2,319
Highway Operating	28,842	-	-	28,842
Nonmajor Governmental Funds	60,115	-	26	60,141
	281,269	-	26	281,295
Reconcilliation of balance in fund financial statements to government-wide financial statements due to basis differences	-	147,441	-	147,441
Total Governmental Activities	281,269	147,441	26	428,736
Business-Type Activities:				
Nonmajor Proprietary Funds	5,862	-	-	5,862
Total Primary Government	$287,131	$147,441	$26	$434,598

	Wages and Employee Benefits	Health Benefit Claims	Management and Administrative Expenses	Total Accrued Expenses
Fiduciary Activities:				
State Highway Patrol Retirement System Pension Trust (12/31/2007)	$1,241	$218	$ -	$1,459
Variable College Savings Plan Private-Purpose Trust	-	-	6,091	6,091
Total Fiduciary Activities	$1,241	$218	$6,091	$7,550

NOTE 6 PAYABLES (Continued)

Major Component Units - Accrued Liabilities

	Wages and Employee Benefits	Self-Insurance	Accrued Interest	Other	Total Accrued Liabilities
Ohio State University	$171,998	$139,094	$4,057	$32,253	$347,402
University of Cincinnati	28,586	-	4,918	37,824	71,328

B. Intergovernmental Payable

The intergovernmental payable balances for the primary government, as of June 30, 2008, are comprised of the following (dollars in thousands).

Primary Government - Intergovernmental Payable

	Local Government				
	Shared Revenue and Local Permissive Taxed	Subsidies and Other	Federal Government	Other States	Total
Governmental Activities:					
Major Governmental Funds:					
General	$287,968	$157,202	$21,980	$ -	$467,150
Job, Family and Other Human Services	-	178,802	-	-	178,802
Education	-	54,554	3	-	54,557
Highway Operating	-	1,584	-	-	1,584
Revenue Distribution	822,581	-	-	2,308	824,889
Nonmajor Governmental Funds	-	178,161	-	-	178,161
Total Governmental Activities	1,110,549	570,303	21,983	2,308	1,705,143
Business-Type Activities:					
Major Proprietary Funds:					
Unemployment Compensation	-	153	356	-	509
Nonmajor Proprietary Funds	415	-	-	-	415
Total Business-Type Activities	415	153	356	-	924
Total Primary Government	$1,110,964	$570,456	$22,339	$2,308	$1,706,067
Fiduciary Activities:					
Holding and Distribution Agency Fund	$ -	$ -	$2,789	$3,715	$ 6,504
Payroll Withholding and Fringe Benefits Agency Fund	-	315	-	-	315
Other Agency Fund	135,638	2,685	-	-	138,323
Total Fiduciary Activities	$135,638	$3,000	$2,789	$3,715	$145,142

As of June 30, 2008, the School Facilities Commission Component Unit Fund reported an intergovernmental payable balance totaling approximately $1.72 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, 2008, 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 Liabilties

	Estimated Tax Refund Claims					
	Personal Income Tax	Corporation Franchise Tax	Total Tax Refund Liabilities	Interest on Lawyers' Trust Accounts	Other	Total
Governmental Activities:						
Major Governmental Funds:						
General	$629,042	$132,517	$761,559	$ -	$1,587	$763,146
Job, Family and Other Human Services	-	-	-	2,072	3,275	5,347
Revenue Distribution	39,295	8,308	47,603	-	-	47,603
Nonmajor Governmental Funds	-	-	-	-	1,916	1,916
	668,337	140,825	809,162	2,072	6,778	818,012
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the government-financial statements	-	-	-	-	(1,339)	(1,339)
Total Governmental Activities	$668,337	$140,825	$809,162	$2,072	$5,439	$816,673

	Reserve for Compensa-tion Adjustment	Refund and Security Deposits	Compensated Absences	Capital Leases	Other	Total
Business-Type Activities:						
Major Proprietary Funds:						
Workers' Compensation	$1,834,993	$88,918	$22,802	$ -	$93,825	$2,040,538
Lottery Commission	-	39,857	3,038	-	2,132	45,027
Unemployment Compensation	-	9,708	-	-	-	9,708
Nonmajor Proprietary Funds	-	2,615	9,869	12	1,456	13,952
	1,834,993	141,098	35,709	12	97,413	2,109,225
Reconciliation of balances included in the "Other Noncurrent Liabilities" balance in the government-financial statements	(1,834,993)	(88,918)	(35,537)	(12)	(56,661)	(2,016,121)
Total Business-Type Activities	$ -	$52,180	$172	$ -	$40,752	$93,104
				Total Primary Government		$909,777

	Child Support Collections	Refund and Security Deposits	Payroll Withholdings	Retirement Systems' Assets	Other	Total
Fiduciary Activities:						
State Highway Patrol Retirement System Pension Trust (12/31/2007)	$ -	$ -	$ -	$ -	$709	$709
Variable College Savings Plan Private-Purpose Trust	-	-	-	-	13,299	13,299
STAR Ohio Investment Trust	-	-	-	-	1,564	1,564
Agency Funds:						
Holding and Distribution	-	18,451	-	-	-	18,451
Centralized Child Support Collections	77,514	-	-	-	-	77,514
Retirement Systems	-	-	-	179,623,891	-	179,623,891
Payroll Withholding and Fringe Benefits	-	-	168,376	-	-	168,376
Other	-	411,838	-	46,757	157,905	616,500
Total Fiduciary Activities	$77,514	$430,289	$168,376	$179,670,648	$173,477	$180,520,304

NOTE 6 PAYABLES (Continued)

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	$47,532	$97,039	$23,010	$48,898	$30,679	$247,158
University of Cincinnati	30,217	62,864	153,725	-	6,011	252,817

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

A. Interfund Balances

Interfund balances, as of June 30, 2008, consist of the following (in thousands):

	Due To							
	Governmental Activities							
Due from	General	Job, Family and Other Human Services	Education	Highway Operating	Revenue Distribution	Buckeye Tobacco Settlement Financing Authority Revenue Bonds	Nonmajor Governmental Funds	Total
Major Governmental Funds:								
General	$ -	$ -	$ -	$ -	$116,406	$ -	$3,327	$119,733
Revenue Distribution	-	-	-	712	-	-	394	1,106
Nonmajor Governmental Funds	-	-	-	-	-	915,531	136	915,667
Total Governmental Activities	-	-	-	712	116,406	915,531	3,857	1,036,506
Business-Type Activities:								
Major Proprietary Funds:								
Lottery Commission	3,730	84	65	469	26	-	938	5,312
Nonmajor Proprietary Funds	2,885	-	-	-	-	-	114	2,999
Total Business-Type Activities	6,615	84	65	469	26	-	1,052	8,311
Total Primary Government	$6,615	$84	$65	$1,181	$116,432	$915,531	$4,909	$1,044,817

	Business-Type Activities			Fiduciary Fund	
	Major Proprietary Fund				
Due from	Workers' Compensation	Nonmajor Proprietary Funds	Total	Agency	Total Primary Government
Major Governmental Funds:					
General	$586,003	$9,381	$595,384	$ -	$715,117
Job, Family, Other Human Services	15,144	-	15,144	-	15,144
Education	2,871	-	2,871	-	2,871
Highway Operating	93,615	-	93,615	-	93,615
Revenue Distribution	-	-	-	-	1,106
Nonmajor Governmental Funds	117,912	1	117,913	-	1,033,580
Total Governmental Activities	815,545	9,382	824,927	-	1,861,433
Business-Type Activities:					
Major Proprietary Funds:					
Lottery Commission	2,497	-	2,497	34	7,843
Nonmajor Proprietary Funds	9,318	-	9,318	-	12,317
Total Business-Type Activities	11,815	-	11,815	34	20,160
Total Primary Government	$827,360	$9,382	$836,742	$34	$1,881,593

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

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 nonmajor governmental funds include an internal balance for bond proceeds transferred from the Buckeye Tobacco Settlement Financing Authority to fund capital projects at state-supported institutions of higher education. This assistance is included in the nonmajor funds as a due to/from other fund of $915.5 million and is being amortized over the projected payment period of the future tobacco settlement receipts.

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 $827.4 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 $815.5 million in the internal balance reported for governmental activities.

B. Interfund Transfers
Interfund transfers, for the fiscal year ended of June 30, 2008, 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	$ -	$6,183	$8,492	$ -	$10,307	$1,355,977	$1,380,959
Job, Family and Other Human Services	33	-	1,501	-	-	29	1,563
Education	22,702	-	-	-	-	491	23,193
Highway Operating	400	-	-	-	190,562	26,601	217,563
Revenue Distribution	216,428	-	15,222	481,553	-	260,936	974,139
Buckeye Tobacco Settlement Financing Authority Revenue Bonds	-	-	-	-	-	25,073	25,073
Nonmajor Governmental Funds	82,118	-	-	-	-	25,348	107,466
Total Governmental Activities	321,681	6,183	25,215	481,553	200,869	1,694,455	2,729,956
Major Proprietary Funds:							
Workers' Compensation	7,522	-	-	-	-	-	7,522
Lottery Commission	335	-	672,184	-	-	-	672,519
Unemployment Compensation	-	22,808	-	-	-	-	22,808
Nonmajor Proprietary Funds	167,000	-	-	-	-	63,225	230,225
Total Business-Type Activities	174,857	22,808	672,184	-	-	63,225	933,074
Total Primary Government	$496,538	$28,991	$697,399	$481,553	$200,869	$1,757,680	$3,663,030

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

	Business-Type Activities			
	Major Proprietary Fund			
Transferred from	Unemployment Compensation	Nonmajor Proprietary Funds	Total	Total Primary Government
Major Governmental Funds:				
General	$ -	$43,713	$43,713	1,424,672
Job, Family and Other Human Services	3,519	-	3,519	5,082
Education	-	-	-	23,193
Highway Operating	-	-	-	217,563
Revenue Distribution	-	-	-	974,139
Buckeye Tobacco Settlement Financing Authority Revenue Bonds	-	-	-	25,073
Nonmajor Governmental Funds	-	-	-	107,466
Total Governmental Activities	3,519	43,713	47,232	2,777,188
Major Proprietary Funds:				
Workers' Compensation	-	-	-	7,522
Lottery Commission	-	-	-	672,519
Unemployment Compensation	-	-	-	22,808
Nonmajor Proprietary Funds	-	-	-	230,225
Total Business-Type Activities	-	-	-	933,074
Total Primary Government	$3,519	$43,713	$47,232	$3,710,262

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

C. Component Units
For fiscal year 2008, the component units reported $2.14 billion in state assistance revenue from the primary government in the Statement of Activities.

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

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

The primary government also transferred bond proceeds to the School Facilities Commission to pay the State's share of the cost of rebuilding elementary and secondary school facilities across the State. This assistance is included as a receivable of the Buckeye Tobacco Settlement Financing Authority for $4.01 billion and is being amortized over the projected payment period of the future tobacco settlement receipts.

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

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

Primary Government
(dollars in thousands)

	Receivable from the Component Units	Payable to the Component Units	Program Expenses for State Assistance to Component Units: Primary, Secondary, and Other Education Function	Higher Education Support Function	Total State Assistance to the Component Units
Major Governmental Funds:					
General	$ -	$12,815	$120,640	$1,794,238	$1,914,878
Job, Family and Other Human Services	-	1,420	-	-	-
Education	-	1,108	-	-	-
Highway Operating	-	330	-	-	-
Buckeye Tobacco Settlement Financing Authority Revenue Bonds	4,014,630	-	-	-	-
Nonmajor Governmental Funds	-	24,478	-	222,199	222,199
Total Governmental Activities	4,014,630	40,151	120,640	2,016,437	2,137,077
Major Proprietary Funds:					
Lottery Commission	-	215	-	-	-
Total Business-Type Activities	-	215	-	-	-
Total Primary Government	$4,014,630	$40,366	$120,640	$2,016,437	$2,137,077

Component Units
(dollars in thousands)

	Receivable from the Primary Government	Payable to the Primary Government	Total State Assistantce from the Primary Government
Major Component Units:			
School Facilities Commission	$200	$4,014,630	$97,370
Ohio State University	5,972	-	556,384
University of Cincinnati	92	-	239,105
Nonmajor Component Units	34,072	-	1,244,218
	40,336	4,014,630	2,137,077
Variance Due to Year-End Differences (June 30 versus December 31)	30	-	-
Total Component Units	$40,366	$4,014,630	$2,137,077

NOTE 8 CAPITAL ASSETS

A. Primary Government

Capital asset activity, for the year ended June 30, 2008, reported for the primary government was as follows (dollars in thousands):

	Primary Government			
	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	$1,817,502	$71,201	($3,568)	$1,885,135
Buildings	60,060	-	(152)	59,908
Land Improvements	1,202	-	-	1,202
Construction-in-Progress	1,757,523	455,208	(387,040)	1,825,691
Infrastructure:				
Highway Network:				
General Subsystem	8,363,606	38,694	(15,227)	8,387,073
Priority Subsystem	7,320,525	152,933	(4,004)	7,469,454
Bridge Network	2,496,039	56,825	(10,994)	2,541,870
Total Capital Assets Not Being Depreciated	21,816,457	774,861	(420,985)	22,170,333
Other Capital Assets:				
Buildings	3,322,214	257,246	(73,141)	3,506,319
Land Improvements	359,712	40,679	(1,700)	398,691
Machinery and Equipment	612,696	71,906	(41,434)	643,168
Vehicles	266,779	23,125	(19,689)	270,215
Infrastructure:				
Parks, Recreation and Natural Resources Network	49,016	6,497	(1,204)	54,309
Total Other Capital Assets at Historical Cost	4,610,417	399,453	(137,168)	4,872,702
Less Accumulated Depreciation for:				
Buildings	1,457,001	218,125	(44,515)	1,630,611
Land Improvements	165,869	35,960	(1,172)	200,657
Machinery and Equipment	417,725	66,988	(40,946)	443,767
Vehicles	123,078	21,930	(13,688)	131,320
Infrastructure:				
Parks, Recreation and Natural Resources Network	4,922	2,125	(131)	6,916
Total Accumulated Depreciation	2,168,595	345,128	(100,452)	2,413,271
Other Capital Assets, Net	2,441,822	54,325	(36,716)	2,459,431
Governmental Activities- Capital Assets, Net	$24,258,279	$829,186	($457,701)	$24,629,764

For fiscal year 2008, the State charged depreciation expense to the following governmental functions:

Governmental Activities:	*(in 000s)*
Primary, Secondary and Other Education	$1,010
Public Assistance and Medicaid	4,798
Health and Human Services	20,736
Justice and Public Protection	81,466
Environmental Protection and Natural Resources	137,267
Transportation	27,240
General Government	125,311
Community and Economic Development	5,487
Total Depreciation Expense for Govenmental Activities	403,315
Gains (Losses) on Capital Asst Disposals Included in Depreciation	(58,187)
Fiscal Year 2008 Increases to Accumulated Depreciation	$345,128

As of June 30, 2008, the State considered the following governmental capital asset balances as being temporarily or permanently impaired and removed from service.

NOTE 8 CAPITAL ASSETS (Continued)

Governmental Activities:	*(in 000s)*
Temporarily Impaired Assets Removed from Service:	
Buildings	$13,503
Land Improvements	225
Total	$13,728
Permanently Impaired Assets Removed from Service:	
Buildings	$1,426
Land Improvements	10
Total	$1,436

	Primary Government (Continued)			
	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Business-Type Activities:				
Capital Assets Not Being Depreciated:				
Land	$11,994	$ -	$ -	$11,994
Construction-In Progress	-	-	-	-
Total Capital Assets Not Being Depreciated	11,994	-	-	11,994
Other Capital Assets:				
Buildings	222,974	449	-	223,423
Land Improvements	66	-	-	66
Machinery and Equipment	144,758	12,038	(23,321)	133,475
Vehicles	5,035	907	(1,251)	4,691
Total Other Capital Assets at Historical Cost	372,833	13,394	(24,572)	361,655
Less Accumulated Depreciation for:				
Buildings	122,925	7,383	-	130,308
Land Improvements	52	1	-	53
Machinery and Equipment	128,503	7,276	(22,779)	113,000
Vehicles	2,255	798	(1,008)	2,045
Total Accumulated Depreciation	253,735	15,458	(23,787)	245,406
Other Capital Assets, Net	119,098	(2,064)	(785)	116,249
Busines-Type Activities - Capital Assets, Net	$131,092	($2,064)	($785)	$128,243

For fiscal year 2008, the State charged depreciation expense to the following business-type functions:

Business-Type Activities	*(in 000s)*
Workers' Compensation	$11,798
Lottery Commission	990
Tuition Trust Authority	26
Liquor Control	760
Underground Parking Garage	626
Office of Auditor of State	1,531
Total Depreciation Expense for Business-Type Activities	15,731
Gains (Losses) on Capital Asset Disposals Included in Depreciation	(273)
Fiscal year 2008 Increase to Accumulated Depreciation	$15,458

B. Major Component Units

Capital asset activity, for the year ended June 30, 2008, reported for discretely presented major component unit funds with significant capital asset balance was as follows (dollars in thousands):

NOTE 8 CAPITAL ASSETS (Continued)

	Major Component Units			
	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Ohio State University:				
Capital Assets Not Being Depreciated:				
Land	$52,053	$3,650	($6,826)	$48,877
Construction-in-Progress	281,575	12,054	-	293,629
Total Capital Assets Not Being Depreciated	333,628	15,704	(6,826)	342,506
Other Capital Assets:				
Buildings	3,247,839	204,841	(4,258)	3,448,422
Land Improvements	257,017	18,863	(6,078)	269,802
Machinery, Equipment and Vehicles	820,968	90,933	(66,616)	845,285
Library Books and Publications	163,767	3,666	(2,890)	164,543
Total Other Capital Assets at Historical Cost	4,489,591	318,303	(79,842)	4,728,052
Other Capital Assets:				
Buildings	1,170,291	115,380	(385)	1,285,286
Land Improvements	139,878	10,677	(1,538)	149,017
Machinery, Equipment and Vehicles	542,853	82,346	(59,647)	565,552
Library Books and Publications	144,369	5,191	(2,890)	146,670
Total Accumulated Depreciation	1,997,391	213,594	(64,460)	2,146,525
Other Capital Assets, Net	2,492,200	104,709	(15,382)	2,581,527
Total Capital Assets, Net	$2,825,828	$120,413	($22,208)	$2,924,033
University of Cincinnati:				
Capital Assets Not Being Depreciated:				
Land	$21,923	$ -	$ -	$21,923
Construction-in-Progress	176,665	71,839	(25,250)	223,254
Collections of Works of Art and Historical Treasures	4,364	-	-	4,364
Total Capital Assets Not Being Depreciated	202,952	71,839	(25,250)	249,541
Other Capital Assets:				
Buildings	1,597,898	13,653	-	1,611,551
Land Improvements	81,629	4,773	-	86,402
Machinery, Equipment and Vehicles	205,033	9,761	(11,307)	203,487
Library Books and Publications	140,741	9,155	(549)	149,347
Infrastructure	96,353	3,891	-	100,244
Total Other Capital Assets at Historical Cost	2,121,654	41,233	(11,856)	2,151,031
Less Accumulated Depreciation for:				
Buildings	574,167	57,521	-	631,688
Land Improvements	14,688	4,121	-	18,809
Machinery, Equipment and Vehicles	123,480	15,804	(10,191)	129,093
Library Books and Publications	91,959	6,905	(386)	98,478
Infrastructure	48,349	3,689	-	52,038
Total Accumulated Depreciation	852,643	88,040	(10,577)	930,106
Other Capital Assets, Net	1,269,011	(46,807)	(1,279)	1,220,925
Total Capital Assets, Net	$1,471,963	$25,032	($26,529)	$1,470,466

For fiscal year 2008, Ohio State University and the University of Cincinnati reported approximately $213.6 million and $88 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 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

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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 total years of service credit as of December 31, 2002, and new employees hired on or after January 1, 2003, are eligible to select one of the OPERS retirement plans, as listed above, in which they wish to participate. Members not eligible to select a plan include law enforcement officers, (who must participate in the defined benefit plan), college and university employees who choose to participate in one of the university's alternative retirement plans (see NOTE 9D), and re-employed OPERS retirees. Participants may change their selection once prior to attaining five years of service credit, once after attaining five years of service credit 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 or 60 contributing months of credited service. Regular employees retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit amounts. Law enforcement employees may retire at age 48 with 25 or more years of credited service.

The retirement allowance for the defined benefit plan is 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 of the original base amount regardless of changes in the Consumer Price Index.

The retirement allowance for the defined benefit portion of the combined plan is 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 of the original base amount regardless of changes in the Consumer Price Index. Additionally, retirees receive the proceeds of their individual retirement plans in a manner similar to retirees in the defined contribution plan, as discussed below.

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

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 2008, which are the same for the defined benefit, defined contribution, and combined plans, were as follows:

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

	Contribution Rates	
	Employee Share	Employer Share
Regular Employees:		
July 1, 2007 through December 31, 2007	9.50%	13.77%
January 1, 2008 through June 30, 2008	10.00%	14.00%
Law Enforcement Employees:		
July 1, 2007 through December 31, 2007	10.10%	17.17%
January 1, 2008 through June 30, 2008	10.10%	17.40%

The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for regular employees and 18.1 percent of covered payroll for law enforcement employees. The maximum employer contribution rate for regular employees has been reached. The employer rate for law enforcement employees is scheduled to increase to 17.63 percent, beginning January 1, 2009, and incrementally thereafter, until reaching 18.1 percent on January 1, 2011.

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

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

	2008	2007	2006
Primary Government:			
Regular Employees	$ 217,003	$ 254,977	$253,259
Law Enforcement Employees................	3,718	4,112	3,988
Total	$ 220,721	$ 259,089	$257,247

Major Component Units:			
School Facilities Commission	$268	$317	$297
Ohio Water Development Authority.....	72	89	82
Ohio State University..........	63,104	70,385	62,108
University of Cincinnati.......	11,672	14,162	13,285

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

	2008	2007	2006
Primary Government:			
Employer Contributions	$4,407	$3,455	$2,598
Employee Contributions	9,721	7,718	5,828
Major Component Units:			
Ohio State University:			
Employer Contributions ...	1,988	1,618	1,185
Employee Contributions ..	4,425	3,536	2,494
University of Cincinnati:			
Employer Contributions ...	300	292	236
Employee Contributions ..	640	595	460

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

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Other Postemployment Benefits (OPEB)

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

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

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

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

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

	Employer Share
July 1, 2007 through December 31, 2007	6.00%
January 1, 2008 through June 30, 2008	7.00%

Active members do not make contributions to the OPEB Plan. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

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

	2008	2007	2006
Primary Government:			
Regular Employees	$ 190,963	$ 135,968	$117,294
Law Enforcement			
Employees..................	2,238	1,589	1,349
Total	$ 193,201	$ 137,557	$118,643
Major Component Units:			
School Facilities			
Commission	$236	$169	$137
Ohio Water			
Development Authority.......	64	47	38
Ohio State University............	55,482	37,523	28,752
University of Cincinnati..........	10,262	7,550	6,151

Members of the defined contribution plan may access a Retiree Medical Account upon retirement. During fiscal year 2008, employers paid 4.5 percent of their share into members' accounts for the period covering July 1, 2007 through June 30, 2008. 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 ten 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.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

	2008	2007	2006
Primary Government............	$2,272	$1,805	$1,423
Major Component Units:			
Ohio State University.........	954	796	629
University of Cincinnati......	144	144	125

The number of active contributing participants for the primary government was 57,809, as of June 30, 2008.

The Health Care Preservation Plan adopted by the OPERS Retirement Board on September 9, 2004, became effective on January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008 which will allow additional funds to be allocated to the health care plan.

Early Retirement Incentives (ERI)
State agencies, or departments within agencies, may offer voluntary ERI under Section 145.297, Ohio Revised Code. Through the ERI Program, the State can offer to purchase up to a maximum of five years worth of service credit from OPERS on behalf of employees who would then meet the age and service requirements to qualify for retirement. Qualifying employees must have at least 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 the effective date, and the amount of service credit offered must be at least two 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, 2008, the State had no significant liability balances relative to existing ERI agreements with State employees covered by OPERS. During fiscal year 2008, the State incurred expenditures/expenses totaling $14.4 million for 339 employees who entered into ERI agreements with the State.

B. State Teachers Retirement System of Ohio (STRS)
Pension Benefits
STRS is a cost-sharing, multiple-employer public employee retirement system that administers three separate pension plans – a defined benefit plan, a defined contribution plan, and a combined plan with features of both the defined benefit plan and the defined contribution plan. STRS benefits are established under Chapter 3307, Ohio Revised Code.

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

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

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

Under the "money-purchase benefit" calculation, a member's lifetime contributions, plus interest at specified rates, are matched by an equal amount from contributed employer funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance. Benefits are increased annually by three percent of the original base amount.

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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.

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 2008 were 14 percent for employers and ten percent for employees for the defined benefit, defined contribution, and combined plans. For the defined benefit and combined plans, 13 percent of the employer rate is used to fund pension obligations. For the defined contribution plan, 10.5 percent of the employer's share is deposited into individual employee accounts, while 3.5 percent is paid to the defined benefit plan.

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

	2008	2007	2006
Primary Government............	$7,536	$7,477	$7,162
Major Component Units:			
Ohio State University............	36,631	35,523	34,038
University of Cincinnati.........	14,487	14,395	14,188

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):

	2008	2007	2006
Primary Government:			
Employer Contributions	$105	$88	$101
Employee Contributions	170	148	166
Major Component Units:			
Ohio State University:			
Employer Contributions	2,707	2,103	1,438
Employee Contributions ...	3,149	2,475	1,719
University of Cincinnati:			
Employer Contributions	813	769	789
Employee Contributions ...	1,038	973	970

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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 (614) 227-4090 or (888) 227-7877.

Other Postemployment Benefits (OPEB)
The STRS plan provides comprehensive healthcare benefits to retirees and their dependents that are enrolled in the defined benefit and combined plans. Benefits include hospitalization, physician's fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

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 post-employment healthcare benefits.

The employer contribution is financed on a pay-as-you-go basis. As of June 30, 2008, net assets available for future healthcare benefits were $3.66 billion. Employer contributions required and made for the last three fiscal years for the defined benefit and the defined benefit portion of the combined plans were as follows (dollars in thousands):

	2008	2007	2006
Primary Government..............	$580	$575	$551
Major Component Units:			
Ohio State University..........	2,818	2,733	2,618
University of Cincinnati.......	1,114	1,107	1,091

The number of eligible benefit recipients for STRS as a whole was 166,273, as of June 30, 2008; a breakout of the number of eligible recipients for the primary government and its component units, as of June 30, 2008, is unavailable.

C. State Highway Patrol Retirement System (SHPRS)
SHPRS, a component unit of the State, was established in 1944 by the General Assembly as a single-employer, defined benefit pension plan and is administered by the State.

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

SHPRS is authorized under Chapter 5505, Ohio Revised Code, to provide retirement and disability benefits to retired members and survivor benefits to qualified dependents of deceased members of the Ohio State Highway Patrol. In addition to providing pension benefits, SHPRS is authorized by Chapter 5505, Ohio Revised Code, to pay health insurance claims on behalf of all persons receiving a monthly pension or survivor benefit and Part B basic premiums for those eligible benefit recipients upon proof of coverage.

Chapter 5505, Ohio Revised Code, requires contributions by active members and the Ohio State Highway Patrol. The employee contribution rate is established by the General Assembly, and any change in the rate requires legislative action. The 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 contribution rate.

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

All investments are reported at fair value. Fair value is, "the amount that the plan can reasonably expect to receive for an investment in a current sale, between a willing buyer and a willing seller – that is, other than in a forced or liquidation sale."

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

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

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

Pension Benefits
The employer and employee contribution rates, as of December 31, 2007, were 25.5 percent and ten percent, respectively.

During calendar year 2007, all of the employees' contributions funded pension benefits while 22 percent of the employer's contributions funded pension benefits from January 1, 2007 through June 30, 2007 and 21 percent from July 1, 2007 through December 31, 2007. The difference in the total employer rates charged and the employer rates applicable to the funding of pension benefits is applied to the funding of postemployment healthcare benefits.

The employer contributions for calendar year 2007 were approximately $19.9 million. The employer's annual required contribution (ARC) 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
2007	$21,666	92.1%
2006	19,567	98.5%
2005	18,468	100.0%

For years ending 2007 and 2006 contributions made by employers did not meet the ARC, but they did meet the statutory requirements.

SHPRS used the entry-age, normal actuarial cost method for the Schedule of Funding Progress for the actuarial valuation, dated December 31, 2007. Assumptions used in preparing the Schedule of Funding Progress and in determining the annual required contribution include: an eight-percent rate of return on investments; projected salary increase of four percent attributable to inflation and additional projected salary increases ranging from 0.3 percent to ten percent attributable to seniority and merit; price inflation was assumed to be at least four percent a year; and postretirement increases each year equal to three percent after the retiree reaches age 53. Maximum contribution rates were not considered in the projection of actuarially accrued liabilities for pension benefits.

The unfunded actuarial accrued liability is being amortized using the level-percentage of projected payroll method over a closed period of 27 years.

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

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

(A) Valuation Year	(B) Actuarial Accrued Liability (AAL)	(C) Valuation Assets	(D) Unfunded Actuarial Accrued Liability (UAAL) (B)-(C)	(E) Ratio of Assets to AAL (C)/(B)	(F) Active Member Payroll	(G) UAAL as Percentage of Active Member Payroll (D)/(F)
2007	$866,255	$700,861	$165,394	80.9%	$93,753	176.4%
2006	807,761	653,493	154,268	80.9%	85,878	179.6%
2005 (a)	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%

(a) Assumption or method charge

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Other Post Employment Benefits (OPEB)

During calendar year 2007, 3.5 percent of the employer's contributions funded healthcare benefits from January 1, 2007 through June 30, 2007 and 4.5 percent from July 1, 2007 through December 31, 2007. Active members do not make contributions to the OPEB plan.

The employer contributions for calendar year 2007 were approximately $4.6 million. The employer's annual required contribution (ARC) for the last two calendar years were as follows (dollars in thousands):

For the Year Ended December 31,	Primary Government	Percentage of Employer's ARC Contributed
2007	$18,303	25.0%
2006	15,962	21.2%

Data for 2005 is not available, so only two years is shown.

For years ending 2007 and 2006 contributions made by employers did not meet the ARC, but they did meet the statutory requirements.

The cost of retiree healthcare benefits is recognized as claims incurred and premiums paid. The calendar year 2007 expense was $11.3 million. The number of active contributing plan participants, as of December 31, 2007, was 1,597.

Healthcare benefits are advance funded by the employer using the entry-age, normal actuarial cost method for the Schedule of Funding Progress for the actuarial valuation, dated December 31, 2007, for OPEB. Assumptions used in preparing the Schedule of Funding Progress and in determining the annual required contribution include: a 6.5 percent rate of return on investments; projected salary increase of four percent attributable to inflation and additional projected salary increases ranging from 0.3 percent to 10 percent a year attributable to seniority and merit; and price inflation was assumed to be at least four percent a year. Maximum contribution rates were not considered in the projection of actuarially accrued liabilities for OPEB benefits.

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

Premiums are assumed to increase annually by four percent, plus an additional percentage ranging from 0.5 percent to five percent through 2018. Net assets available for benefits allocated to healthcare costs at December 31, 2007 were $111.2 million, and included investments carried at fair value, as previously described.

As of December 31, 2007, 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 $224.1 million, the actuarial accrued liability for healthcare benefits at that date was $335.2 million.

The Schedule of Funding Progress for OPEB for the last three years is presented below.

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

(A) Valuation Year	(B) Actuarial Accrued Liability (AAL)	(C) Valuation Assets	(D) Unfunded Actuarial Accrued Liability (UAAL) (B)-(C)	(E) Ratio of Assets to AAL (C)/(B)	(F) Active Member Payroll	(G) UAAL as Percentage of Active Member Payroll (D)/(F)
2007	$335,232	$111,180	$224,052	33.2%	$93,753	239.0%
2006	294,079	104,857	189,222	35.7%	85,878	220.3%
2005	281,094	95,889	185,205	34.1%	83,408	222.0%

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

NOTE 9 PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

higher education, who otherwise would be covered by OPERS or STRS. Classified civil service employees hired on or after August 1, 2005 are also eligible to participate in the ARP.

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

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

For the year ended June 30, 2008, employers were required to contribute 0.54 percent for the period August 1, 2007 through December 31, 2007 and 0.77 percent for the period January 1, 2008 through June 30, 2008 of a participating employee's salary to OPERS in cases when the employee would have otherwise been enrolled in OPERS.

Ohio law also requires each public institution of higher education to contribute 3.5 percent of a participating employee's gross salary, for the year ended June 30, 2008, to STRS in cases when the employee would have otherwise been enrolled in STRS.

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

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

For the State's discretely presented major component units, employer and employee contributions required and made for the year ended June 30, 2008, for the ARP follow (dollars in thousands):

	OPERS	STRS
Major Component Units:		
Ohio State University:		
Employer Contributions	$19,980	$14,850
Employee Contributions ...	14,738	14,143
University of Cincinnati:		
Employer Contributions	7,588	6,142
Employee Contributions ...	5,420	4,387

NOTE 10 GENERAL OBLIGATION BONDS

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

A 1999 constitutional amendment provided for the issuance of Common School Capital Facilities Bonds and Higher Education Capital Facilities Bonds. As of June 30, 2008, the General Assembly had authorized the issuance of $3.35 billion in Common Schools Capital Facilities Bonds, of which $3.29 billion has been issued. As of June 30, 2008, the General Assembly has also authorized the issuance of $2.61 billion in Higher Education Capital Facilities Bonds, of which $2 billion has been issued.

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

Through the approval of the November 1995 amendment, voters authorized the issuance of Highway Capital Improvements Bonds in amounts up to $220 million in any fiscal year (plus any prior fiscal years' principal amounts not issued under the new authorization), with no more than $1.2 billion outstanding at any time. As of June 30, 2008, the General Assembly has authorized the issuance of approximately $2.42 billion in Highway Capital Improvements Bonds, of which $1.95 billion has been issued.

Constitutional amendments in 1995 and 2005 allowed for the issuance of $3.75 billion of general obligation bonds for infrastructure improvements (Infrastructure Bonds). Issuances are limited to $120 million in any fiscal year through fiscal year 2013, with an increase in the annual issuance amount to $150 million for fiscal years 2014 through 2018. As of June 30, 2008, the General Assembly had authorized $2.88 billion of these bonds to be sold (excluding any amounts for unaccreted discount on capital appreciation bonds at issuance), of which $2.40 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, 2008, the General Assembly had authorized the issuance of $231 million in Coal Research and Development Bonds, of which $158 million had been issued.

Legislative authorizations for the issuance of Natural Resources Capital Facilities Bonds totaled $350 million, as of June 30, 2008, of which $295 million had been issued.

A 2000 constitutional amendment allowed for outstanding Conservation Projects Bonds up to $200 million. No more than $50 million may be issued during a fiscal year. As of June 30, 2008, the General Assembly had authorized the issuance of approximately $240 million in Conservation Projects Bonds of which $200 million had been issued.

Through approval of the November 2005 amendment, voters authorized the issuance of $500 million of Third Frontier Research and Development Bonds. Not more than $100 million may be issued in each of the first three years and not more than $50 million may be issued in any of the subsequent fiscal years. As of June 30, 2008, the General Assembly had authorized the issuance of $350 million in Third Frontier Research and Development Bonds, of which $80.7 million had been issued as of June 30, 2008.

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 $120 million in Site Development Bonds as of June 30, 2008, of which $30 million had been issued.

General obligation bonds outstanding and future general obligation debt service requirements, as of June 30, 2008, are presented in the table below. For the variable-rate bonds, using the assumption that current interest rates remain the same over their term, the interest and net swap payment amounts are based on rates as of June 30, 2008. As rates vary, variable-rate bond interest payments and net swap payments vary.

Primary Government-Governmental Activities
Summary of General Obligation Bonds
and Future Funding Requirements
As of June 30, 2008
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized But Unissued
Common Schools Capital Facilities	2000-07	2.5%-5.5%	2027	$2,863,173	$55,000
Higher Education Capital Facilities	2000-07	2.5%-5.4%	2027	1,652,103	613,000
Highway Capital Improvements	1999-08	2.4%-5.6%	2018	867,149	475,000
Infrastructure Improvements	1990-08	2.6%-7.6%	2028	1,476,061	480,014
Coal Research and Development	2000-08	2.0%-5.0%	2016	32,616	73,000
Natural Resources Capital Facilities	1999-07	3.0%-5.0%	2020	160,501	55,000
Conservation Projects	2002-07	2.3%-5.3%	2023	171,381	40,000
Third Frontier Research and Development	2007	4.0%-5.5%	2017	62,755	269,280
Site Development	2007	3.4%-5.3%	2016	24,637	90,000
Total General Obligation Bonds				$7,310,376	$2,150,294

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

Future Funding of Current Interest and Capital Appreciation Bonds:

Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2009	$531,820	$295,274	($104)	$826,990
2010	524,910	272,279	(53)	797,136
2011	501,830	249,174	-	751,004
2012	499,835	227,530	-	727,365
2013	497,440	206,076	-	703,516
2014-2018	1,891,875	723,917	-	2,615,792
2019-2023	1,524,530	312,254	-	1,836,784
2024-2028	456,645	38,632	-	495,277
Total Current Interest and Capital Appreciation Bonds	$6,428,885	$2,325,136	($157)	$8,753,864

Future Funding of Variable-Rate Bonds:

Year Ending June 30,	Principal	Interest	Interest Rate Swaps, Net	Total
2009	$17,235	$10,981	$9,638	$37,854
2010	19,345	10,694	8,665	38,704
2011	21,125	10,393	6,230	37,748
2012	19,230	10,086	6,117	35,433
2013	18,125	9,788	5,996	33,909
2014-2018	284,400	38,865	26,206	349,471
2019-2023	249,965	17,542	13,298	280,805
2024-2028	78,995	2,050	1,297	82,342
Total Variable-Rate Bonds	$708,420	$110,399	$77,447	$896,266

Total General Obligation Bonds	7,137,305
Unamortized Premium/(Discount), Net	217,687
Deferred Refunding Loss	(44,616)
Total Carrying Amount	$7,310,376

For the year ended June 30, 2008, NOTE 15 summarizes changes in general obligation bonds.

Interest Rate Swaps

As of June 30, 2008, approximately $718.9 million of issued Infrastructure Improvement Bonds and Common Schools Bonds include associated interest-rate swaps. Terms of the swap agreements are provided in the tables on pages 112 and114. Fair value has been determined using the zero-coupon method.

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

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

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

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

Primary Government-Governmental Activities
Interest Rate Swaps—Infrastructure Improvements
As of June 30, 2008
(dollars in thousands)

Issue	Type of Swap	Original Notational Amount	Underlying Index	Counterparty's Swap Rate at 06/30/2008	State's Swap Rate at 06/30/2008	Effective Date	Termination (Maturity) Date	Fair Value
Infrastructure Improvements, Series 2001B	Floating to Fixed knock-out	$63,900	SIFMA Index	1.55%	4.63%	11/29/2001	8/1/2021	($2,913)
Credit Quality Ratings of Counterparty:	50% Aaa/AAA Bear Stearns Financial Products; 50% A1/A+ Morgan Stanley Capital Services							
Infrastructure Improvements, Refunding Series 2003B	Floating to Fixed	$104,315	Actual Bond Rate	1.55%	2.96%	2/26/2003	8/1/2008	($119)
Credit Quality Ratings of Counterparty:	A1/A+ Morgan Stanley Capital Services							
Infrastructure Improvements, Refunding Series 2003D	Floating to Fixed	$58,085	Actual Bond Rate	1.55%	3.04%	3/20/2003	2/1/2010	($547)
Credit Quality Ratings of Counterparty:	A1/A+ Morgan Stanley Capital Services							
Infrastructure Improvements, Series 2003F	Fixed to Floating	$30,115	SIFMA Index	2.54%	1.55%	12/4/2003	2/1/2010	$27
Credit Quality Ratings of Counterparty:	Aaa/AA JP Morgan Chase							
Infrastructure Improvements, Refunding Series 2004A	Floating to Fixed Enhanced LIBOR	$58,725	LIBOR (See terms below)	1.80%	3.51%	3/3/2004	2/1/2023	($1,762)
Credit Quality Ratings of Counterparty:	A1/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%)

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, 2008. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

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

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

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

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 was not exposed to credit risk because the swap had a negative fair value at June 30, 2008. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

Infrastructure Improvements-Refunding Series 2003D
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 was not exposed to credit risk because the swap had a negative fair value at June 30, 2008. 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-Series 2003F
The State entered into an interest rate swap to convert a portion of the Series 2003F fixed-rate bonds into a synthetic variable rate. The combination of fixed-rate bonds and a fixed-to-floating swap creates synthetic variable-rate debt that is exposed to changing interest rates. The borrowing cost is less than the traditional variable borrowing cost.

The State has credit risk exposure of $27 thousand at June 30, 2008.

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 was not exposed to credit risk because the swap had a negative fair value at June 30, 2008. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

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

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

Primary Government-Governmental Activities
Interest Rate Swaps—Common Schools
As of June 30, 2008
(dollars in thousands)

Issue	Type of Swap	Original Notational Amount	Underlying Index	Counterparty's Swap Rate at 06/30/2008	State's Swap Rate at 06/30/2008	Effective Date	Termination (Maturity) Date	Fair Value
Common Schools, Series 2003D	Floating to Fixed LIBOR	$67,000	LIBOR (see terms below)	1.85%	3.41%	9/14/2007	3/15/2024	($502)
Credit Quality Ratings of Counterparty: 50% Aaa/AA JP Morgan Chase; 50% A1/A+ Morgan Stanley Capital Services								
Terms: 65% of 1-month LIBOR + 25 basis points								
Common Schools, Series 2005A	Floating to Fixed LIBOR	$100,000	LIBOR (see terms below)	2.38%	3.75%	1/15/2008	3/15/2010	($5,550)
Credit Quality Ratings of Counterparty: 50% Aaa/AAA Bear Stearns Financial Products; 50% Aaa/AA JP Morgan Chase								
Terms: 67% of 1-month LIBOR+72.6 basis points								
Common Schools, Series 2005B	Floating to Fixed LIBOR	$100,000	LIBOR (see terms below)	2.38%	3.75%	1/15/2008	3/15/2010	($5,550)
Credit Quality Ratings of Counterparty: 50% Aaa/AAA Bear Stearns Financial Products; 50% Aaa/AA JP Morgan Chase								
Terms: 67% of 1-month LIBOR +72.6 basis points								
Common Schools, Series 2006B	Floating to Fixed LIBOR	$100,000	LIBOR (see terms below)	1.85%	3.20%	6/15/2006	6/15/2026	$475
Credit Quality Ratings of Counterparty: 50% Aa2/AA- UBS AG; 50% Aaa/AA- Royal Bank of Canada								
Terms: 65% of 1-month LIBOR + 25 basis points								
Common Schools, Series 2006C	Floating to Fixed LIBOR	$100,000	LIBOR (see terms below)	1.85%	3.20%	6/15/2006	6/15/2026	$475
Credit Quality Ratings of Counterparty: 50% Aa2/AA- UBS AG; 50% Aaa/AA- Royal Bank of Canada								
Terms: 65% of 1-month LIBOR + 25 basis points								

Common Schools-Series 2003D
The State entered into a floating to fixed interest rate swap to convert its Common Schools, Series 2003D variable-rate bonds into a synthetic fixed rate through March 15, 2024. The swap allows the State to achieve variable rate exposure synthetically at a rate equal to the LIBOR index plus 25 basis points. The synthetic variable rate created under this swap exposes the State to the risk of rising interest rates.

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2008. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

The 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.

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

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

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2008. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

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

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

The State was not exposed to credit risk because the swap had a negative fair value at June 30, 2008. However, should interest rates change and the fair value of the swap becomes positive, the State would be exposed to credit risk in the amount of the derivative's fair value.

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

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

The State has credit risk exposure of $475 thousand at June 30, 2008.

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 of $475 thousand at June 30, 2008.

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

NOTE 10 GENERAL OBLIGATION BONDS (Continued)

Advance Refundings

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

The State has defeased general obligation bonds in prior years and placed the proceeds in irrevocable trusts. As of June 30, 2008, the balances in these trusts for bonds defeased in prior years were $262.8 million for Infrastructure Improvement Bonds, $32.6 million for Natural Resources Bonds, $156.3 million for Common Schools Bonds, and $106 million for Higher Education Bonds.

NOTE 11 REVENUE BONDS AND NOTES

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

A. Primary Government

Economic Development bonds, issued by the Treasurer of State for the Office of Financial Incentive's Direct Loan Program, provide financing for loans and loan guarantees to businesses within the State for economic development projects that create or retain jobs in the State. The taxable bonds, payable through 2026, are backed with profits derived from the sale of spirituous liquor by the Division of Liquor Control and pledged moneys and related investment earnings held in reserve under a trust agreement with a financial institution.

Revitalization Project revenue bonds provide financing to enable the remediation or clean up of contaminated publicly or privately owned lands to allow for their environmentally safe and productive development. The Revitalization Project bonds, payable through 2023, are also backed with profits derived from the sale of spirituous liquor by the Division of Liquor Control.

Pledged net liquor revenues through the maturity of the Economic Development and Revitalization Project revenue bonds total approximately $641.6 million. During fiscal year 2008, pledged net revenues were $204.2 million. Principal and interest requirements for fiscal year 2008 totaled $39.6 million.

Since fiscal year 1998, the Treasurer of State has issued a total of $933 million in State Infrastructure Bank Bonds for various transportation construction projects financed by the Department of Transportation. The State has pledged federal highway receipts and loan repayments received under the State Infrastructure Bank Loan Program as the primary source of moneys for meeting the principal and interest requirements on the bonds. Issuances for the State Infrastructure Bank are, in part, used for the acquisition, construction, or improvement of capital assets. Total pledged federal highway receipts and loan repayments through the maturity of the bonds in 2022 are estimated at approximately $598.1 million. For fiscal year 2008, principal and interest payments on the revenue bonds were $128.1 million and pledged receipts were $119.1 million.

BTSFA is authorized by the Ohio General Assembly to issue and to sell obligations, the aggregate principle amount of which shall not exceed $6 billion, exclusive of obligations issued to refund, renew, or advance refund other obligations issued or incurred. On October 29, 2007, BTSFA successfully securitized 100 percent of the projected tobacco settlement receipts for the next 45 years through the issuance of five series of asset-backed revenue bonds, aggregating in the amount of $5.53 billion. The future tobacco settlement receipts, including related investment earnings and net of specified operating and enforcement expenses, have been pledged to repay the bonds, which are payable through 2052. Annual principal and interest payments on the bonds will require 100 percent of the net tobacco settlement receipts. As of June 30, 2008, the total principal and interest payments remaining to be paid on the bonds were $19.21 billion. Principal and interest paid and total net tobacco settlement receipts for fiscal year 2008 were $200.5 million and $345.5 million, respectively. For fiscal year 2008, net tobacco settlement receipts exceeded principal and interest because only one semi-annual interest payment was required to be made on the bonds prior to year-end. In the event that the assets of BTSFA have been exhausted, no amounts will thereafter be paid on the bonds. After the bonds and any related operating expenses have been fully paid, any remaining tobacco settlement receipts will become payable to the State. The bonds include fixed rate serial bonds, fixed rate current interest turbo term bonds, and capital appreciation turbo term bonds which will convert to fixed rate current interest turbo term bonds. They were issued to fund long-lived capital projects at state-supported institutions of higher education and to pay the State's share of the cost of rebuilding elementary and secondary school facilities across the State. Additional information on these bonds can be found in BTSFA's stand-alone financial report.

NOTE 11 REVENUE BONDS AND NOTES (Continued)

Revenue bonds accounted for in business-type activities finance the construction costs of the William Green Building, which houses the main operations of the Ohio Bureau of Workers' Compensation in Columbus. The debt issuance for the William Green Building has been used for acquisition and construction of capital assets. The bonds are collateralized by lease rental payments pledged by BWC to OBA. The lease rental payments are based on the estimated debt service of the bonds, but are limited to an amount appropriated by the Ohio General Assembly in the biennial budget. Total pledged payments through the maturity of the bonds in 2014 are estimated at approximately $111 million. For fiscal year 2008, both the total lease rental payments and the principal and interest payments on the revenue bonds were $20.4 million.

The principal and interest requirements on the OBA revenue bonds that matured during fiscal year 2008 were paid from rentals received under long-term lease agreements. The last debt service payments on the OBA bonds were made during fiscal year 2008.

Revenue bonds outstanding for the primary government, as of June 30, 2008, are presented below.

For the year ended June 30, 2008, NOTE 15 summarizes changes in revenue bonds.

Future bond service requirements for revenue bonds of the primary government, as of June 30, 2008, are presented below.

Primary Government
Revenue Bonds
As of June 30, 2008
(dollars in thousands)

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
Governmental Activities:				
Treasurer of State:				
Economic Development	1997-06	4.7%-7.7%	2026	$298,804
Revitalization Project	2003-08	2.5%-5.0%	2023	136,622
State Infrastructure Bank	2002-08	3.0%-6.0%	2022	519,358
Buckeye Tobacco Settlement Financing Authority	2008	4.0%-7.5%	2052	5,458,398
Total Governmental Activities				6,413,182
Business-Type Activities:				
Bureau of Workers' Compensation	2003	1.6%-4.0%	2014	97,286
Total Business-Type Activities				97,286
Total Revenue Bonds				$6,510,468

NOTE 11 REVENUE BONDS AND NOTES (Continued)

Primary Government
Future Funding Requirements for Revenue Bonds
As of June 30, 2008
(dollars in thousands)

	Governmental Activities			Business-Type Activities			Total		
Year Ending June 30,	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2009	$135,995	$329,220	$465,215	$16,005	$4,606	$20,611	$152,000	$333,826	$485,826
2010	149,635	323,078	472,713	15,930	3,867	19,797	165,565	326,945	492,510
2011	139,655	315,708	455,363	15,865	3,109	18,974	155,520	318,817	474,337
2012	133,630	309,046	442,676	15,890	2,326	18,216	149,520	311,372	460,892
2013	117,300	302,533	419,833	15,915	1,543	17,458	133,215	304,076	437,291
2014-2018	649,685	1,416,919	2,066,604	15,200	751	15,951	664,885	1,417,670	2,082,555
2019-2023	754,540	1,238,568	1,993,108	-	-	-	754,540	1,238,568	1,993,108
2024-2028	624,220	1,043,461	1,667,681	-	-	-	624,220	1,043,461	1,667,681
2029-2033	608,330	871,589	1,479,919	-	-	-	608,330	871,589	1,479,919
2034-2038	599,610	824,059	1,423,669	-	-	-	599,610	824,059	1,423,669
2039-2043	1,050,840	553,092	1,603,932	-	-	-	1,050,840	553,092	1,603,932
2044-2048	1,355,567	3,188,594	4,544,161	-	-	-	1,355,567	3,188,594	4,544,161
2049-2052	133,856	3,283,444	3,417,300	-	-	-	133,856	3,283,444	3,417,300
	6,452,863	13,999,311	20,452,174	94,805	16,202	111,007	6,547,668	14,015,513	20,563,181
Net Unamortized Premium/(Discount)	(32,001)	-	(32,001)	3,788	-	3,788	(28,213)	-	(28,213)
Deferred Refunding Loss	(7,680)	-	(7,680)	(1,307)	-	(1,307)	(8,987)	-	(8,987)
Total	$6,413,182	$13,999,311	$20,412,493	$97,286	$16,202	$113,488	$6,510,468	$14,015,513	$20,525,981

B. Component Units

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

A portion of OWDA's outstanding bonds has been issued for the Water Pollution Control Loan Program, which provides low-cost financing to LGAs for the construction of wastewater treatment facilities. In the event pledged program revenues, which consist of interest payments from the LGAs and reimbursement for construction costs, are not sufficient to meet debt service requirements for the bonds, the General Assembly may appropriate moneys for the full replenishment of a bond reserve. As of December 31, 2007, approximately $1.42 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, 2007, were as follows (dollars in thousands):

Year Ending December 31,	Principal	Interest	Total
2008	$70,285	$67,155	$137,440
2009	80,420	63,927	144,347
2010	86,190	59,916	146,106
2011	89,895	55,640	145,535
2012	71,390	51,405	122,795
2013-2017	366,060	202,621	568,681
2018-2022	423,635	101,332	524,967
2023-2027	180,860	14,274	195,134
	1,368,735	616,270	1,985,005
Net Unamortized Premium/(Discount)	83,852	-	83,852
Deferred Refunding Loss	(31,056)	-	(31,056)
Total	$1,421,531	$616,270	$2,037,801

Of the outstanding revenue bonds and notes reported for the OWDA component unit fund, approximately $99.6 million in bonds have 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)

2007 the rate for 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 resident facilities and auxiliary facilities such as dining halls, hospitals, parking facilities, bookstores and athletic facilities.

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

Future bond service requirements for revenue bonds and notes reported for the discretely presented major component units, as of June 30, 2008, are shown below.

Major Component Units
Future Funding Requirements for Revenue Bonds
As of June 30, 2008
(dollars in thousands)

Year Ending December 31 or June 30,	Ohio Water Development Authority (12/31/2007)			Ohio State University			University of Cincinnati		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2008	$202,295	$113,704	$315,999	$509,067	$31,847	$540,914	$55,760	$49,039	$104,799
2009	164,965	103,145	268,110	33,602	25,134	58,736	32,520	46,890	79,410
2010	140,100	95,389	235,489	44,296	23,722	68,018	34,955	45,353	80,308
2011	144,660	88,688	233,348	36,320	22,129	58,449	37,985	43,648	81,633
2012	149,215	81,934	231,149	45,788	19,123	64,911	39,455	41,680	81,135
2013-2017	705,075	319,021	1,024,096	127,355	75,980	203,335	227,505	174,518	402,023
2018-2022	623,315	162,063	785,378	122,953	46,087	169,040	236,905	108,881	345,786
2023-2027	281,205	34,365	315,570	70,211	21,352	91,563	173,060	52,313	225,373
2028-2032	34,605	5,639	40,244	47,640	6,358	53,998	82,480	10,780	93,260
2033-2037	4,845	274	5,119	10,781	140	10,921	3,055	153	3,208
	$2,450,280	$1,004,222	$3,454,502	$1,048,013	$271,872	$1,319,885	$923,680	$573,255	$1,496,935
Net Unamortized Premium/(Discount)	89,599	-	89,599	-	-	-	8,547	-	8,547
Deferred Refunding Loss	(54,182)	-	(54,182)	-	-	-	-	-	-
Total	$2,485,697	$1,004,222	$3,489,919	$1,048,013	$271,872	$1,319,885	$932,227	$573,255	$1,505,482

NOTE 12 SPECIAL OBLIGATION BONDS

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

OBA bonds finance the capital costs of categories of facilities including correctional facilities and office buildings for state departments and agencies and, in some cases, related facilities for local governments. These issuances are, in part, used for acquisition, construction, or improvement of capital assets.

Under the authority of Chapter 154, Ohio Revised Code, the Treasurer of State is the issuer of special obligation bonds that finance the cost of capital facilities for state-supported institutions of higher education, mental health and retardation institutions, parks and recreation, and cultural and sports facilities. These issuances are, in part, used for acquisition, construction, or improvement of capital assets.

Elementary and Secondary Education Bonds, which the Treasurer of State issued for the Department of Education, finance the construction costs of capital facilities for local school districts. During fiscal year 2008, all debt service payments for Elementary and Secondary Education Bonds were made and no amounts remained outstanding at the end of the fiscal year.

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

NOTE 12 SPECIAL OBLIGATION BONDS (Continued)

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, 2008, are presented in the following table.

Primary Government-Governmental Activities
Special Obligation Bonds
As of June 30, 2008 *(dollars in thousands)*

	Fiscal Years Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance	Authorized but Unissued
Ohio Building Authority	1993-08	2.0%-6.0%	2025	$1,634,373	$228,600
Treasurer of State Chapter 154 Bonds	1997-08	3.1%-5.5%	2020	950,946	383,225
				$2,585,319	$611,825

Future special obligation debt service requirements, as of June 30, 2008, were as follows (dollars in thousands):

Year Ending June 30,	Principal	Interest	Total
2009	$351,585	$118,425	$470,010
2010	341,775	100,947	442,722
2011	313,600	84,466	398,066
2012	286,270	69,896	356,166
2013	238,000	57,093	295,093
2014-2018	708,205	161,321	869,526
2019-2023	264,585	40,576	305,161
2024-2028	33,760	2,273	36,033
	2,537,780	634,997	3,172,777
Net Unamortized Premium/(Discount)	97,616	-	97,616
Deferred Refunding Loss	(50,077)	-	(50,077)
Total	$2,585,319	$634,997	$3,220,316

For the year ended June 30, 2008, NOTE 15 summarizes changes in special obligation bonds.

In prior years, the OBA and the Treasurer of State defeased certain bond issues by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds.

Accordingly, the various trust accounts' assets and liabilities for the defeased bonds are not included in the State's financial statements. As of June 30, 2008, $360.5 million and $122.8 million of OBA and Chapter 154 special obligations bonds, respectively, are considered defeased and no longer outstanding.

NOTE 13 CERTIFICATES OF PARTICIPATION

A. Primary Government
As of June 30, 2008, approximately $187.3 million in certificate of participation (COP) obligations were reported in governmental activities.

In fiscal year 1992, the Ohio Department of Transportation participated in the issuance of $8.7 million of COP obligations to finance the acquisition of the Panhandle Rail Line Project. Beginning in fiscal year 2005, the Ohio Department of Administrative Services participated in the issuance of $146.1 million of COP obligations to finance the acquisition of the Ohio Administrative Knowledge System (OAKS), a statewide Enterprise Resource Planning (ERP) system. These issuances are, in part, used for acquisition, construction, or improvement of capital assets.

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

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

NOTE 13 CERTIFICATES OF PARTICIPATION (Continued)

Obligations outstanding for the primary government under COP financing arrangements, as of June 30, 2008, are presented in the following table.

Primary Government — Governmental Activities
Certificate of Participation Obligations
As of June 30, 2008
(dollars in thousands)

	Fiscal Year Issued	Interest Rates	Maturing Through Fiscal Year	Outstanding Balance
Department of Transportation:				
Panhandle Rail Line Project	1992	6.50%	2012	$3,210
Department of Administrative Services:				
Ohio Administrative Knowledge System (OAKS)	2005-2008	3.1%-5.25%	2019	143,275
State Taxation Accounting and Revenue System (STARS)	2008	3.0%-5.0%	2019	40,851
Total Certificates of Participation				$187,336

As of June 30, 2008, the primary government's future commitments under the COP financing arrangements were as follows (dollars in thousands):

Year Ending	Principal	Interest	Total
2009	$9,810	$7,489	$17,299
2010	14,725	7,536	22,261
2011	15,405	6,868	22,273
2012	18,230	6,123	24,353
2013	17,565	5,259	22,824
2014-2018	91,625	13,088	104,713
2019-2023	13,200	290	13,490
	180,560	46,653	227,213
Net Unamortized Premium	6,776	-	6,776
Total	$187,336	$46,653	$233,989

For the year ended June 30, 2008, NOTE 15 summarizes changes in COP obligations.

B. Component Units

For the State's component units, approximately $5.1 million in COP obligations are reported in the component unit funds. The obligations finance building construction costs at The Ohio State University.

During fiscal year 2008 debt service payments for the outstanding obligations at the University of Cincinnati and University of Akron were made. No outstanding amounts remain for obligations at these universities as of June 30, 2008.

As of June 30, 2008, 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, 2008

	Ohio State University		
Year Ending June	Principal	Interest	Total
2009	$405	$242	$647
2010	425	222	647
2011	445	202	647
2012	465	180	645
2013	490	156	646
2014-2018	2,845	311	3,156
Total	$5,075	$1,313	$6,388

NOTE 14 OTHER NONCURRENT LIABILITIES

As of June 30, 2008, in addition to bonds and certificates of participation obligations discussed in NOTES 10 through 13, the State reports the following noncurrent liabilities in its financial statements (dollars in thousands):

Non-Current Liabilities	
Governmental Activities:	
Compensated Absences	$398,846
Capital Leases Payable	9,804
Litigation Liabilities	4,698
Estimated Claims Payable	9,857
Liability for Escheat Property	258,017
Total Governmental Activities	$681,222
Business-Type Activities:	
Compensated Absences	35,537
Capital Leases Payable	12
Workers' Compensation:	
Benefits Payable	17,600,345
Other	1,980,572
Deferred Prize Awards Payable	740,188
Tuition Benefits Payable	799,800
Total Business-Type Activities	21,156,454
Total Primary Government	$21,837,676

For the year ended June 30, 2008, 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, 2008, was $434.3 million, of which $398.8 million is allocable to governmental activities and $35.5 million is allocable to business-type activities.

As of June 30, 2008, discretely presented major component units reported a total of $160.8 million in compensated absences liabilities, as detailed by major component unit in NOTE 15.

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

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

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

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

The primary government's total operating lease expenditures/expenses for fiscal year 2008 were approximately $87.5 million.

Future minimum lease commitments for operating leases and capital leases judged to be noncancelable, as of June 30, 2008, were as follows (dollars in thousands):

NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

Primary Government

Year Ending June 30,	Operating Leases
2009	$4,233
2010	163
2011	60
2012	14
2013	5
Total minimum lease payments	$4,475

Year Ending June 30,	Capital Leases Governmental Activities	Business-Type Activities	Total
2009	$2,293	$9	$2,302
2010	1,877	3	1,880
2011	1,740	-	1,740
2012	1,656	-	1,656
2013	1,478	-	1,478
2014-2018	2,339	-	2,339
Total Lease Payments	11,383	12	11,395
Amount for Interest	(1,579)	-	(1,579)
Present Value of Net Minimum Lease Payments	$9,804	$12	$9,816

As of June 30, 2008, the primary government had the following capital assets under capital leases (dollars in thousands):

Primary Government

	Governmental Activities	Business-Type Activities	Total
Equipment	$21,763	$19	$21,782
Vehicles	481	-	481
Total	$22,244	$19	$22,263

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, 2008, are presented in the table on the following page.

NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

Major Component Units		
Capital Leases		
Year Ending June 30,	Ohio State University	University of Cincinnati
2009	$8,179	$15,285
2010	6,389	15,159
2011	4,165	14,140
2012	2,956	13,711
2013	2,351	12,590
2014-2018	736	61,261
2019-2023	-	55,347
2024-2028	-	37,690
2029-2033	-	17,398
Total Minimum Lease Payments	24,776	242,581
Amount for interest	(1,767)	(88,856)
Present Value of Net Minimum Lease Payments	$23,009	$153,725
Equipment & Vehicles	$53,042	$ -
Buildings	-	182,966
Total	$53,042	$182,966

C. Litigation Liabilities
In instances when the unfavorable outcome of a pending litigation has been assessed to be probable, liabilities are recorded in the financial statements. As of June 30, 2008, $4.7 million in liabilities ultimately payable from various governmental funds has been recorded for this purpose. For information on the State's loss contingencies arising from pending litigation, see NOTE 19.

D. Estimated Claims Payable
For governmental activities, the State recognized $6.6 million in estimated claims liabilities, as of June 30, 2008, for damaged state vehicles covered under the State's self-insured program, which was established in the General Fund for this purpose at the Department of Administrative Services.

Additionally, the State reported $3.3 million in estimated claims for defaulted loans under the Ohio Enterprise Bond Programs at the Department of Development, as of June 30, 2008. The program is included in governmental activities and is accounted for in the Community and Economic Development Special Revenue Fund.

E. Liability for Escheat Property
The State records 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, 2008, the liability totaled approximately $258 million.

F. Worker's Compensation
Benefits Payable
As discussed in NOTE 20, the Worker's Compensation Enterprise Fund provides benefits to employees for losses sustained from job-related injury, disease, or death. The Bureau has computed a reserve for compensation, as of June 30, 2008, in the amount of approximately $17.60 billion. The reserve, which includes estimates for reported claims and claims incurred but not reported, is included in the "Benefits Payable" balance reported for the enterprise fund.

G. Deferred Prize Awards Payable
Future installment payments for the deferred prize awards payable are reported at present value based upon interest rates that the Treasurer of State provides to the Lottery Commission Enterprise Fund. The interest rates, ranging from 3.8 to 7.8 percent, represent the expected long-term rate of return on the assets restricted for the payment of deferred prize awards. Once established for a particular deferred prize award, the interest rate does not fluctuate with changes in the expected long-term rate of return. The difference between the present value and gross amount of the obligations is amortized into income over the terms of the obligations using the interest method. As of June 30, 2008, this payable totals $740.2 million.

NOTE 14 OTHER NONCURRENT LIABILITIES (Continued)

Future payments of prize awards, stated at present value, as of June 30, 2008, follow (dollars in thousands)

Year Ending June 30,	
2009	$95,026
2010	77,736
2011	75,016
2012	74,939
2013	74,786
2014-2018	350,127
2019-2023	195,163
2024-2028	74,346
2029-2033	47,799
2034-2038	1,087
	1,066,025
Unamortized Discount	(325,837)
Net Prize Liability	$740,188

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

H. Tuition Benefits Payable

The actuarial present value of future tuition benefits payable from the Tuition Trust Authority Enterprise Fund was approximately $799.8 million, as of June 30, 2008. The valuation method reflects the present value of estimated tuition benefits that will be paid in future years and is adjusted for the effects of projected tuition increases in state universities and state community colleges and termination of participant contracts under the plan.

The following assumptions were used in the actuarial determination of tuition benefits payable: 6.5 percent rate of return, compounded annually, on the investment of current and future assets; a projected annual tuition increase of six percent for 2009 and 2010, and nine percent thereafter, as well as a 2.5 percent Consumer Price Index inflation rate. The effect of changes due to experience and actuarial assumption changes follow (dollars in millions):

Actuarial Reserve, as of June 30, 2007	$28.5
Adjustment to Beginning of Year's Assets	(1.9)
Interest on the Deficit at 7 Percent	1.9
Investment Loss	(87.7)
Lower-Than-Assumed Tuition Increase	6.1
Change in Assumption for Future Tuition Growth	31.4
Interest Gain on Late Tuition Payouts	0.7
Change in the investment return assumption	(23.3)
Other	4.1
Actuarial Deficit, as of June 30, 2008	($40.2)

As of June 30, 2008, the market value of actuarial net assets available for the payment of the tuition benefits payable was $759.6 million.

I. Other Liabilities

The Workers' Compensation Enterprise Fund reports approximately $1.98 billion in other noncurrent liabilities, as of June 30, 2008, of which 1.) $1.83 billion is comprised of the compensation adjustment expenses liability for estimated future expenses to be incurred in the settlement of claims, as discussed further in NOTE 20, 2.) $88.9 million represents premium payment security deposits collected in advance from private employers to reduce credit risk for premiums collected in subsequent periods, and 3.) $56.7 million consists of other miscellaneous liabilities.

NOTE 15 CHANGES IN NONCURRENT LIABILITIES

A. Primary Government
Changes in noncurrent liabilities, for the year ended June 30, 2008, are presented for the primary government in the following table.

Primary Government
Changes in Noncurrent Liabilities
For the Fiscal Year Ended June 30, 2008
(dollars in thousands)

Governmental Activities:	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008	Amount Due Within One Year
Bonds and Notes Payable:					
General Obligation Bonds (NOTE 10)	$7,583,266	$296,836	$569,726	$7,310,376	$550,170
Revenue Bonds (NOTE 11)	811,910	5,829,750	228,478	6,413,182	137,045
Special Obligation Bonds (NOTE 12)	2,966,105	96,671	477,457	2,585,319	356,475
Total Bonds and Notes Payable	11,361,281	6,223,257	1,275,661	16,308,877	1,043,690
Certificates of Participation (NOTE 13)	122,182	75,973	10,819	187,336	9,863
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences	450,288	334,970	386,412	398,846	54,974
Capital Leases Payable	18,737	1,533	10,466	9,804	1,857
Litigation Liabilities	4,698	-	-	4,698	-
Estimated Claims Payable	8,776	4,046	2,965	9,857	2,313
Liability for Escheat Property	307,245	-	49,228	258,017	81,873
Total Other Noncurrent Liabilities	789,744	340,549	449,071	681,222	141,017
Total Noncurrent Liabilities	$12,273,207	$6,639,779	$1,735,551	$17,177,435	$1,194,570

Business-Type Activities:	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008	Amount Due Within One Year
Bonds and Notes Payable:					
Revenue Bonds (NOTE 11)	$115,740	$577	$19,031	$97,286	$16,005
Other Noncurrent Liabilities (NOTE 14):					
Compensated Absences	40,439	24,665	29,567	35,537	3,610
Capital Leases Payable	22	-	10	12	9
Workers' Compensation:					
Benefits Payable	17,412,665	2,958,088	2,770,408	17,600,345	1,892,226
Other:					
Adjustment Expenses Liability	1,858,529	-	23,536	1,834,993	481,030
Premium Payment Security Deposits	87,808	4,007	2,897	88,918	-
Miscellaneous	22,187	97,904	63,430	56,661	56,661
Deferred Prize Awards Payable	680,984	162,893	103,689	740,188	54,873
Tuition Benefits Payable	871,000	-	71,200	799,800	74,400
Workers' Compensation Claims- Auditor of State's Office	120	-	120	-	-
Total Other Noncurrent Liabilities	20,973,754	3,247,557	3,064,857	21,156,454	2,562,809
Total Noncurrent Liabilities	$21,089,494	$3,248,134	$3,083,888	$21,253,740	$2,578,814

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 2008, the State's primary government included interest expense on its debt issues in the following governmental functions rather than reporting it separately as interest expense. The related borrowings are essential to the creation or continuing existence of the programs they finance. The various state subsidy programs supported by the borrowings provide direct state assistance to local governments for their respective capital and construction or research projects. None of the financing provided under these programs benefits the general operations of the primary government, and

NOTE 15 CHANGES IN NONCURRENT LIABILITIES (Continued)

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	$404,019
Higher Education Support	142,075
Health and Human Services.............................	529
Environmental Protection and Natural Resources	1,033
Community and Economic Development...........	104,837
Total Interest Expense Charged to Governmental Functions	$652,493

B. Component Units

Changes in noncurrent liabilities, for the year ended June 30, 2008 (December 31, 2007 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, 2008
(dollars in thousands)

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Amount Due Within One Year
School Facilities Commission:					
Intergovernmental Payable	$2,110,319	$517,343	$933,366	$1,694,296	$1,051,809
Compensated Absences*	739	537	571	705	105
Total	$2,111,058	$517,880	$933,937	$1,695,001	$1,051,914
Ohio Water Development Authority:					
Revenue Bonds & Notes Payable (NOTE 11)	$2,566,950	$49,550	$130,803	$2,485,697	$201,875
Compensated Absences*	161	22	3	180	-
Total	$2,567,111	$49,572	$130,806	$2,485,877	$201,875
Ohio State University:					
Compensated Absences*	$91,478	$12,483	$6,923	$97,038	$6,921
Capital Leases Payable*	24,144	5,098	6,233	23,009	7,497
Other Liabilities*	106,857	12,873	9,065	110,665	4,011
Revenue Bonds & Notes Payable (NOTE 11)	1,088,482	10,426	50,895	1,048,013	509,068
Certificates of Participation (NOTE 13)	5,465	-	390	5,075	405
Total	$1,316,426	$40,880	$73,506	$1,283,800	$527,902
University of Cincinnati:					
Compensated Absences*	$64,408	$1,427	$2,971	$62,864	$33,528
Capital Leases Payable*	159,515	-	5,790	153,725	7,505
Other Liabilities*	46,198	66,929	76,899	36,228	1,790
Revenue Bonds & Notes Payable (NOTE 11)	908,289	275,289	251,351	932,227	56,608
Certificates of Participation (NOTE 13)	90	-	90	-	-
Total	$1,178,500	$343,645	$337,101	$1,185,044	$99,431

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

NOTE 16 NO COMMITMENT DEBT

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

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

As of June 30, 2008 (December 31, 2007 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	$164,820
Hospital Facilities Bonds	7,320
Ohio Department of Transportation:	
Akron-Canton Airport Project Bonds...........	6,320
Total Primary Government	$178,460
Component Units (12/31/07):	
Ohio Water Development Authority	$2,284,405
Ohio Air Quality Development Authority	1,600,000
Total Component Units	$3,884,405

NOTE 17 FUND DEFICITS, "OTHER" RESERVES AND DESGINATIONS

A. Fund Deficits
The following individual funds reported deficits that are reflected in the State's basic financial statements, as of June 30, 2008 (dollars in thousands):

Primary Government:	
Major Government Funds:	
Revenue Distribution..............................	($45,350)
Nonmajor Governmental Funds:	
Higher Education Improvements	
Special Revenue Fund........................	(166,714)
Nonmajor Proprietary Funds:	
Tuition Trust Authority............................	(31,207)
Total Governmental Funds:	($243,271)
Component Units:	
Major Component Units:	
School Facilities Commission Fund	($2,107,570)
Nonmajor Component Units:	
Ohio Capital Fund..................................	(14,117)
Total Component Units:	($2,121,687)

B. "Other" Fund Balance Reserves and Designations
Details on the "Reserved for Other" account reported in the governmental funds, as of June 30, 2008, are presented in the table on the following page.

The unreserved fund balance for the General Fund, as of June 30, 2008, has been designated for budget stabilization in the amount of $1.01 billion.

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

Primary Government
Governmental Funds — Reserved for Other
As of June 30, 2008
(dollars in thousands)

	General Fund	Job, Family, and Other Human Services	Education	Highway Operating	Nonmajor Governmental Funds	Total Governmental Funds
Compensated Absences	$25,544	$3,270	$342	$4,508	$8,933	$42,597
Prepaids (included in "Other Assets")	17,603	2,156	203	3,279	6,271	29,512
Advances to Local Governments	38,539	23,675	-	-	-	62,214
Ohio Enterprise Bond Program	-	-	-	-	10,000	10,000
Loan Guarantee Programs	1	-	-	-	19,372	19,373
Assets in Excess of Debt Service Requirements	-	-	-	-	3	3
Environmental Protection and Natural Resources	-	-	-	-	1,783	1,783
Community and Economic Development	-	-	-	-	35,609	35,609
Total Reserved for Other	$81,687	$29,101	$545	$7,787	$81,971	$201,091

NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS

A. Joint Ventures

Great Lakes Protection Fund (GLPF)

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

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

Annually, one-third of the GLPF's net earnings is allocated and paid to the member states in proportion to their respective cash contributions to the GLPF. The allocation is based on the amount and period of time the state's contributions were invested. GLPF earnings distributions are to be used by the states to finance projects that are compatible with the GLPF's objectives. Ohio applies its distribution (approximately $640 thousand) to the operations of its own projections 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, 2007 (the GLPF's year-end), are presented below (dollars in thousands):

	Contribution Required	Contribution Received	Contribution Percentage
Michigan	$25,000	$25,000	30.9%
Indiana*	16,000	-	-
Illinois	15,000	15,000	18.4%
Ohio	14,000	14,000	17.3%
New York	12,000	12,000	14.8%
Wisconsin	12,000	12,000	14.8%
Minnesota	1,500	1,500	1.9%
Pennsylvania	1,500	1,500	1.9%
Total	$97,000	$81,000	100.00%

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

NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

Summary Financial information for the GLPF, for the fiscal year ended December 31, 2007, was as follows (dollars in thousands):

Cash and Investments	$139,010
Other Assets	373
Total Assets	$139,383
Total Liabilities	$4,095
Total Net Assets	135,288
Total Liabilities and Net Assets	$139,383
Total Revenues and Other Additions	$10,881
Total Expenditures	(7,796)
Net Increase in Net Assets	$3,085

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

Local Community and Technical Colleges

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

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

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

Fiscal year 2008 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 on the following page (dollars in thousands).

NOTE 18 JOINT VENTURES AND RELATED ORGANIZATIONS (Continued)

	Operating Subsidies	Capital Subsidies	Total
Local Community Colleges:			
Cuyahoga	$61,253	$5,939	$67,192
Jefferson	4,516	-	4,516
Lakeland	18,162	2,211	20,373
Lorain County	26,571	7,021	33,592
Rio Grande	5,488	-	5,488
Sinclair	50,076	1,931	52,007
Total Local Community Colleges	166,066	17,102	183,168
Technical Colleges:			
Belmont	5,770	92	5,862
Central Ohio	8,675	796	9,471
Hocking	16,966	1,914	18,880
James A. Rhodes	8,779	1,847	10,626
Marion	5,491	-	5,491
Zane	5,099	834	5,933
North Central	8,077	831	8,908
Stark	18,563	3,012	21,575
Total Technical Colleges	77,420	9,326	86,746
Total	$243,486	$26,428	$269,914

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 2008, the State had the following related-party transactions with its related organizations:

- The General Fund reports $228 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 $2.3 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 Ohio Administrative Knowledge System. The primary purpose of the funds is to streamline payroll and other administrative disbursement processing for these organizations. The financial activities of the funds, which do not receive any funding support from the primary government, have been included in the agency funds.
- From the Job, Family and Other Human Services Fund, the Public Defender's Office paid the Ohio Legal Assistance Foundation approximately $8 million for administrative services performed under contract for the distribution of state funding to nonprofit legal aid societies

NOTE 19 CONTINGENCIES AND COMMITMENTS

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

NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

Department of Education (ODE)

Litigation pending in the Hamilton County Court of Appeals contests that the Ohio Department of Education improperly and retroactively recalculated the number of district residents attending community schools during fiscal year 2005. Plaintiff Cincinnati City School District Board of Education claims this resulted in significant reductions in state funding in fiscal years 2006 and 2007. Those claims are based on statutory theories. The trial court entered summary judgment in favor of Plaintiff on November 22, 2006, and a final judgment on January 5, 2007, in an amount of $4.7 million. A liability for $4.7 million has been included as "Other Noncurrent Liabilities-Due in More Than One Year" account for governmental activities in the government-wide Statement of Net Assets. A liability of $1.6 million has been included as "Refund and Other Liabilities" account for the General Fund in the governmental funds Balance Sheet.

Bureau of Workers' Compensation (BWC)

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

A class action case has been filed alleging that BWC/IC identifies permanent total disability (PTD) recipients not represented by counsel and encourages them to settle their PTD claims for substantially less than their actuarial present value. The plaintiffs contend that BWC refused to conduct good-faith settlement negotiations with PTD recipients represented by counsel. The trial court denied BWC's motion to dismiss and/or change of venue, and granted class certification. The 8th District Court of Appeals has issued a ruling affirming the trial court's rulings. BWC has appealed to the Ohio Supreme Court. In May 2008, the Ohio Supreme Court reversed the Court of Appeals' decision and held that, because this matter is a claim against the State for money due under a contract, and not a claim of equitable restitution, it must be brought before the Ohio Court of Claims. To date, plaintiffs have not filed action in the Court of Claims.

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

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

BWC/IC was also involved in litigation in which the plaintiff argued that BWC/IC can only change reimbursement rates by promulgating a rule under ORC Chapter 119. The trial court issued a declaration that BWC/IC improperly reduced reimbursement fees to the hospitals. BWC appealed to the 10th District Court of Appeals. A decision was issued in March 2007 affirming the decision of the trial court. BWC/IC did not appeal the decision to the Ohio Supreme Court. BWC/IC has offered to settle with hospitals that may be impacted by this case. In February 2008, BWC/IC sent settlement release agreements to 274 affected hospitals. An estimated liability of $73.7 million was accrued with payments of $33.1 million made during fiscal year 2008.

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

B. Federal Awards

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

As a result of the fiscal year 2007 State of Ohio Single Audit (issued in April 2008), $7.4 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, 2008.

NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

C. Loan Commitments

As of June 30, 2008, 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................................	$6,719
Brownfield Revolving Loans	881
	7,600
Local Infrastructure and Transportation Improvements	
Ohio Public Works Commission:	
State Capital Improvements Loans	49,229
Revolving Loans	47,873
	97,102
Total Nonmajor Governmental Funds	$104,702

As of December 31, 2007, loan commitments for the Ohio Water Development Authority, a discretely presented major component unit, were as follows (dollars in thousands):

Water Pollution Control Loan	$460,459
Fresh Water	99,107
Drinking Water Assistance	76,268
Community Assistance	14,202
Rural Utility Services	6,871
Other Projects	6,759
Total	$663,666

D. Construction Commitments

As of June 30, 2008, the Ohio Department of Transportation had total contractual commitments of approximately $1.99 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 $941.4 million, $403.5 million, $575.6 million and $66.6 million, respectively.

As of June 30, 2008, 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	$32,778
Parks and Recreation Improvements	7,674
Administrative Services	
Building Improvements	21,913
Youth Services Building Improvements	9,838
Adult Correctional Building Improvements	27,856
Highway Safety Building Improvements	25
Ohio Parks and Natural Resources	7,563
Total	$107,647
Major Component Units	
Ohio State University	$247,003
University of Cincinnati	255,472

NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

E. Tobacco Settlement

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

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

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

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

During fiscal year 2008, Ohio received $333.1 million, which is approximately $32.2 million or 8.8 percent less than the pre-adjusted base payment for the year.

As of June 30, 2008, the estimated tobacco settlement receivable in the amount of $281.9 million is included in "Other Receivables" reported for the governmental funds. The receivable includes $29.1 million for payments withheld from BTSFA beginning with fiscal year 2008 and $76.5 million for payments withheld from the State for fiscal years 2006 and 2007. These amounts were withheld by the cigarette manufacturers when they exercised the market share loss provisions of the MSA. The moneys are on deposit in an escrow account until pending litigation between the States and the manufacturers is resolved. Both the Authority and the State contend that they have met their obligations under the MSA and are due the payments withheld.

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

The enforcement of the terms of the MSA has been challenged by lawsuits and may continue to be challenged in the future. In the event of an adverse court ruling, BTSFA may not have adequate financial resources to make payment on the BTSFA revenue bonds, as discussed in NOTE 11.

NOTE 19 CONTINGENCIES AND COMMITMENTS (Continued)

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
2009..............	$347,164	$22,871	$370,035
2010..............	351,203	23,137	374,340
2011..............	355,467	23,418	378,885
2012..............	359,652	23,694	383,346
2013..............	363,783	23,966	387,749
2014-2018....	1,928,044	98,603	2,026,647
2019-2023....	2,233,412	-	2,233,412
2024-2028....	2,376,766	-	2,376,766
2029-2033....	2,539,413	-	2,539,413
2034-2038....	2,708,501	-	2,708,501
2039-2043....	2,884,757	-	2,884,757
2044-2048....	3,068,685	-	3,068,685
2049-2053....	2,599,051	-	2,599,051
Total	$22,115,898	$215,689	$22,331,587

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, 2008, in the amount of approximately $17.60 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 $1.83 billion, is an estimate of future expenses to be incurred in the settlement of claims. The estimate for this liability is based on projected claim-related expenses, estimated costs of the managed care Health Partnership Program, nonincremental adjustment expense, and the reserve for compensation.

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

Benefits payable and the compensation adjustment expenses liability have been discounted at five percent to reflect the present value of future benefit payments. The selected discount rate approximates an average yield on United States government securities with durations similar to the expected claims underlying the Fund's reserves. The undiscounted reserves for the benefits and compensation adjustment expenses totaled $36.40 billion, as of June 30, 2008, and $37 billion, as of June 30, 2007. For additional information, refer to the Fund's separate audited financial report, for the fiscal year ended June 30, 2008.

NOTE 20 RISK FINANCING (Continued)

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

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

	Fiscal Year 2008	Fiscal Year 2007
Benefits Payable and Compensation Adjustment Expenses Liability, as of July 1	$19,271	$18,927
Incurred Compensation and Compensation Adjustment Benefits	2,587	2,667
Incurred Compensation and Compensation Adjustment Benefit Payments and Other Adjustments	(2,423)	(2,323)
Benefits Payable and Compensation Adjustment Expenses Liability, as of June 30	$19,435	$19,271

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

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

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

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

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

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

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

As of June 30, 2008, approximately $100.6 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 2008	Fiscal Year 2007
Claims Liabilities, as of July 1	$33,165	$35,662
Incurred Claims	217,475	205,041
Claims Payments	(216,805)	(207,538)
Claims Liabilities, as of June 30	$33,835	$33,165

NOTE 20 RISK FINANCING (Continued)

As of June 30, 2008, the resources on deposit in the Agency Fund for the Ohio Med Health Plan exceeded the estimated claims liability by approximately $66.8 million, thereby resulting in a funding surplus. Eighty-five percent or $56.8 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, 2008, 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 2008	Fiscal Year 2007
Claims Liabilities, as of July 1	$9,010	$7,685
Incurred Claims	70,374	69,556
Claims Payments	(68,262)	(68,231)
Claims Liabilities, as of June 30 ..	$11,122	$9,010

As of June 30, 2008, the estimated claims liability exceeded resources on deposit in the Agency Fund for the United Healthcare Plan by approximately $43.6 million, thereby resulting in a funding deficit. Eighty-five percent or $37.1 million of the deficit, representing the employer share, was reallocated back to the governmental and proprietary funds, with a resulting increase to expenditures/expenses.

As of June 30, 2008, approximately $25.8 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 2008	Fiscal Year 2007
Claims Liabilities, as of July 1	$9,570	$8,194
Incurred Claims	69,713	66,294
Claims Payments	(70,175)	(64,918)
Claims Liabilities, as of June 30 ..	$9,108	$9,570

As of June 30, 2008, the resources on deposit in the Agency Fund for the Aetna Plan exceeded the estimated claims liability by approximately $16.7 million, thereby resulting in a funding surplus. Eighty-five percent or $14.2 million of the surplus, representing the employer share, was reallocated back to the governmental and proprietary funds, with a resulting reduction in expenditures/expenses.

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

NOTE 21 SUBSEQUENT EVENTS

A. Bond Issuances

Subsequent to June 30, 2008 (December 31, 2007, for the Ohio Water Development Authority), the State issued major debt as detailed in the table below:

Debt Issuances
Subsequent to June 30, 2008
(dollars in thousands)

	Date Issued	Net Interest Rate or True Interest Cost	Amount
Primary Government:			
Ohio Public Facilities Commission-General Obligation Bonds:			
Infrastructure Improvements, Series 2008A	10/08/08	5.23%	$240,000
Third Frontier Research and Development, Series 2008A	08/06/08	5.25%	39,980
Common Schools Capital Facilities - Refunding Series 2009A	01/13/09	2.57%	91,170
Higher Education Capital Facilities, Refunding Series 2009A	01/13/09	2.65%	86,905
Infrastructure Improvements, Refunding Series 2009A	01/13/09	1.91%	49,995
Third Frontier Research and Development, Series 2009A	02/24/09	2.80%	60,000
Common Schools Capital Facilities - Refunding Series 2009B	05/18/09	2.82%	102,970
Higher Education Capital Facilities, Refunding Series 2009B	05/18/09	2.91%	48,745
Infrastructure Improvements, Refunding Series 2009B	05/18/09	2.91%	81,990
Coal Development, Series J	08/25/09	3.03%	10,000
Coal Development, Series K	08/25/09	2.21%	30,000
Total General Obligation Bonds			841,755
Treasurer of State-Revenue Bonds:			
State Infrastructure Project, Series 2008-1	10/21/08	4.99%	375,000
Total Revenue Bonds			375,000
Treasurer of State-Special Obligation Bonds:			
Mental Health Capital Facilities, Series II-2008A	07/29/08	3.78%	30,000
Cultural and Sports Capital Facilities, Refunding Series 2008A	07/29/08	2.88%	6,880
Cultural and Sports Capital Facilities, Series 2008B	11/19/08	3.73%	30,000
Parks and Recreation Facilities, 2009A	03/03/09	3.88%	35,000
Development Assistance Tax Exempt, Series 2009A	06/10/09	3.56%	26,290
Development Assistance Taxable, Series 2009B	06/10/09	4.28%	23,710
Ohio Building Authority-Special Obligation Bonds			
State Facilities (Administrative Building), Series 2009A	01/13/09	4.12%	60,000
State Facilities (Adult Correctional Facility), Series 2009A	01/13/09	4.13%	40,000
Highway Safety, Series 2009A	01/13/09	1.93%	1,685
Juvenile Correctional Facility, Refunding Series 2009A	01/13/09	2.06%	37,825
State Facilities (Administrative Building), Refunding Series 2009B	09/02/09	3.44%	86,590
State Facilities (Adult Correctional Facility), Refunding Series 2009B	09/02/09	3.48%	75,790
Juvenile Correctional Facility, Refunding Series 2009B	09/02/09	3.53%	16,820
Total Special Obligation Bonds			470,590
Ohio Department of Administrative Services Certificates of Participation:			
Ohio Administrative Knowledge System, Series 2009A	01/22/09	3.28%	39,105
Total Certificates of Participation			39,105
Total Primary Government			$1,726,450

NOTE 21 SUBSEQUENT EVENTS (Continued)

Debt Issuances
Subsequent to June 30, 2008
(dollars in thousands)

	Date Issued	Net Interest Rate or True Interest Cost	Amount
Major Component Units:			
Ohio Water Development Authority Debt:			
Bond Anticipation Notes (BANs):			
2008A Community Assistance Refunding BANs	03/19/08	2.00%	$24,550
2008B Community Assistance BANs	11/05/08	4.00%	24,550
2008 State Match WPCLF Revenue BANs	12/04/08	3.00%	40,000
Total Bond Anticipation Notes			89,100
Commercial Paper:			
2008 Fresh Water Commercial Paper, Series A (Maturity Date: 3/12/08)	01/09/08	2.70%	12,500
2008 Fresh Water Commercial Paper, Series B (Maturity Date: 3/12/08)	01/10/08	2.70%	12,500
2008 Fresh Water Commercial Paper, Series C (Maturity Date: 7/1/08)	03/12/08	1.85%	25,000
2008 Fresh Water Commercial Paper, Series D (Maturity Date: 12/04/08)	07/01/08	1.80%	65,000
2008 Fresh Water Commercial Paper, Series E (Maturity Date: 2/11/09)	10/16/08	2.75%	40,000
2008 Fresh Water Commercial Paper, Series F (Maturity Date: $32,500 on 4/03/09 and $32,500 on 4/08/09)	12/04/08	0.85%	65,000
2008 Fresh Water Commercial Paper, Series G (Maturity Date: 4/03/09)	02/11/09	0.70%	40,000
Total Commercial Paper			260,000
Revenue Bonds:			
2008 Drinking Water Assistance Refunding Revenue Bonds	05/29/08	3.25% - 5.00%	71,915
2009A Fresh Water Revenue Bonds	04/02/09	2.00% - 5.00%	122,205
2009 WPCLF Refunding Revenue Bonds-Water Quality Series 2009	09/24/09	2.00% - 5.00%	229,120
2009 Community Assistance Refunding Revenue Bonds	09/30/09	2.00% - 5.00%	25,185
Total Revenue Bonds			448,425
Total Ohio Water Development Authority			$797,525
Ohio State University Debt:			
General Receipts Bonds, Series 2008B	09/30/08	Variable	$127,770
General Receipts Bonds, Series 2008A	01/16/09	2.00% - 5.00%	217,595
Total Ohio State University			345,365
University of Cincinnati Debt:			
Bond Anticipation Notes (BANs):			
Bond Anticipation Notes, Series 2008E	07/22/08	2.75%	$36,055
Bond Anticipation Notes, Series 2008H	12/18/08	2.00%	17,000
Bond Anticipation Notes, Series 2009A	05/12/09	1.50%	23,900
Bond Anticipation Notes, Series 2009B	07/21/09	2.00%	31,350
Total Bond Anticipation Notes			108,305
General Receipts Bonds:			
General Receipts Bonds, Series 2008F	11/21/08	Variable	99,860
General Receipts Bonds, Series 2008G	12/18/08	4.00% - 5.50%	19,210
* General Receipts Bonds, Series 2009C	10/01/09	1.26% - 5.00%	49,890
Total General Receipts Bonds			168,960
Equipment Lease - CCM Steinway Pianos	06/17/09	4.02%	4,071
Total University of Cincinnati			$281,336

* *Subject to change*

NOTE 21 SUBSEQUENT EVENTS (Continued)

B. Litigation
The following cases have an effect on the State's financial operations subsequent to June 30, 2008.

A class action case was filed against the Bureau of Workers' Compensation (BWC) alleging that non-group-rated employers subsidize group-rated employers, and that this bias in premiums violates various provisions of the Ohio Constitution. Plaintiffs have asked the court to declare the group rating plan unconstitutional and require BWC to repay to the class members all excessive premiums collected by BWC, with interest and attorney fees. In April 2008, plaintiffs filed a motion for a preliminary injunction enjoining BWC from enforcing the group rating statutes during pendency of the action (beginning July 1, 2008). A hearing was held on the injunction request in August 2008. Parties are awaiting the Court's decision on the motion for injunction. The ultimate outcome of the litigation cannot presently be determined. Management is vigorously defending this case.

During fiscal year 2009, the Department of Education settled a case with Dayton City School District for $1.7 million. The Dayton City School District originally intended to join the suit with the Cincinnati City School District, discussed in NOTE 19.

In the Sogg v. Department of Commerce case, the plaintiff claims a provision in Section 169.08(D) of Ohio Revised Code creates an unconstitutional taking of property in violation of takings clause of the United States and Ohio Constitutions. In April 2009, the Supreme Court of Ohio declared Section 169.08(D) unconstitutional. The Court held that the State may not retain the interest earned on unclaimed funds and that claimants are entitled to interest on the funds for the four years prior to the filing of the claim. The case was remanded to the trial court to determine the method for determining the amount of interest owed to each claimant in the class. On August 18, 2009, the trial court issued an opinion in which it found that the eligible class members should be awarded interest on their accounts at the rate of six percent per annum. However, this interest rate is among several issues that are not yet resolved and will be used in the calculations of the State's liability.

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

Also during fiscal year 2009, the Department of Natural Resources was found liable for a maximum of $3.3 million, resulting from an eminent domain case. The Department of Transportation also was found liable in two eminent domain cases for a total of $9.1 million, of which $4.6 million has been on deposit with the Court for the duration of the litigation.

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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	%
2007	8,457	66.50	2,752	21.63	1,120	8.81	389	3.06	12,718	100.00
2006	8,918	70.47	1,940	15.33	1,400	11.07	397	3.13	12,655	100.00
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

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	%
2007	14,650	48.73	6,531	21.72	7,319	24.34	1,564	5.21	30,064	100.00
2006	14,757	49.00	6,650	22.08	8,249	27.39	462	1.53	30,118	100.00
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

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
2008	$357,396	$405,258
2007	403,067	418,936
2006	376,588	410,049
2005	337,213	350,368
2004	195,333	273,318

General Subsystem

Fiscal Year	Estimated	Actual
2008	$178,252	$237,050
2007	196,814	268,839
2006	214,826	312,105
2005	197,716	292,303
2004	133,236	227,437

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	%
2007	50,056	48.09	50,484	48.50	3,493	3.36	51	.05	104,084	100.00
2006	43,942	52.03	38,104	45.12	2,396	2.84	5	.01	84,447	100.00
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

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
2008	$288,329	$313,801
2007	290,732	313,272
2006	246,095	262,027
2005	241,670	231,864
2004	147,779	208,381

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, 2008

FEDERAL AGENCY	
U.S. Department of Health and Human Services	$10,401,597,084
U.S. Department of Agriculture	2,254,941,075
U.S. Department of Labor	1,623,256,415
U.S. Department of Education	1,363,875,259
U.S. Department of Transportation	1,175,176,354
U.S. Environmental Protection Agency	483,658,379
Social Security Administration	82,624,888
U.S. Department of Housing and Urban Development	80,914,695
U.S. Department of Homeland Security	71,269,191
U.S. Department of Justice	49,631,319
U.S. Department of Defense	43,067,787
U.S. Department of the Interior	25,027,895
U.S. Department of Energy	18,818,476
U.S. Department of Veterans Affairs	16,462,444
U.S. Department of Commerce	9,853,870
Corporation for National and Community Service	6,537,220
National Foundation on the Arts and the Humanities	6,519,364
Election Assistance Commission	4,027,629
U.S. Small Business Administration	3,409,823
U.S. Equal Employment Opportunity Commission	1,037,972
U.S. Appalachian Regional Commission	917,835
U.S. General Services Administration	164,030
TOTAL EXPENDITURES	**$17,722,789,004**

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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, 2008

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Agriculture		
Food Stamp Cluster:		
10.551	Food Stamps	$1,412,383,710
10.561	State Administrative Matching Grants for the Food Stamp Program	108,279,306
	Total Food Stamp Cluster	1,520,663,016
Child Nutrition Cluster:		
10.553	School Breakfast Program	75,134,725
10.555	National School Lunch Program	264,500,878
10.556	Special Milk Program for Children	669,840
10.559	Summer Food Service Program for Children	8,003,179
	Total Child Nutrition Cluster	348,308,622
Emergency Food Assistance Cluster:		
10.568	Emergency Food Assistance Program (Administrative Costs)	1,750,320
	Total Emergency Food Assistance Cluster	1,750,320
Schools and Roads Cluster:		
10.665	School and Roads -- Grants to States	132,660
	Total Schools and Roads Cluster	132,660
10.025	Plant and Animal Disease, Pest Control, and Animal Care	2,350,676
10.156	Federal-State Marketing Improvement Program (Organic)	9,797
10.163	Market Protection and Promotion	1,959,667
10.169	Specialty Crop Block Grant Program	23,789
10.207	* Animal Health and Disease Research	70,045
10.304	Homeland Security -- Agricultural	18,099
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	4,685,996
10.550	Food Donation	37,541,803
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	249,862,643
10.558	Child and Adult Care Food Program	77,760,289
10.560	State Administrative Expenses for Child Nutrition	4,679,396
10.565	Commodity Supplemental Food Program	860,211
10.572	WIC Farmers' Market Nutrition Program (FMNP)	378,466
10.574	Team Nutrition Grants	35,787
10.576	Senior Farmers Market Nutrition Program	1,160,176
10.579	Child Nutrition Discretionary Grants Limited Availability	56,792
10.664	Cooperative Forestry Assistance	2,183,050
10.672	Rural Development, Forestry, and Communities	61,460
10.676	Forest Legacy Program	40,000
10.677	Forest Land Enhancement Programs	5,000
10.902	Soil and Water Conservation	287,565
10.904	Watershed Protection & Flood Prevention	15,750
10.913	Farm and Ranch Lands Protection Program	40,000
	Total U.S. Department of Agriculture	**$2,254,941,075**

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Commerce		
11.407	Interjurisdictional Fisheries Act of 1986	$12,358
11.419	Coastal Zone Management Administration Awards	4,885,553
11.420	Coastal Zone Management Estuarine Research Reserves	353,132
11.611	Manufacturing Extension Partnership	4,602,827
	Total U.S. Department of Commerce	**$9,853,870**
U.S. Department of Defense		
12	FUSRAP Oversight: Diamond Magnesium Site and Luckey Beryllium Site	$61,859
12.002	Procurement Technical Assistance for Business Firms	522,146
12.005	Donation of Federal Surplus Personal Property	2,988,439
12.112	Payments to States in Lieu of Real Estate Taxes	479,686
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	635,613
12.400	Military Construction, National Guard	8,963,028
12.401	National Guard Military Operations and Maintenance (O&M) Projects	29,352,027
12.630	Basic, Applied and Advanced Research in Science and Engineering	64,989
	Total U.S. Department of Defense	**$43,067,787**
U.S. Department of Housing and Urban Development		
14.228	Community Development Block Grants/State's Program	$47,452,622
14.231	Emergency Shelter Grants Program	2,408,045
14.235	Supportive Housing Program	331,068
14.238	Shelter Plus Care	104,168
14.239	HOME Investment Partnerships Program	27,011,851
14.241	Housing Opportunities for Persons with AIDS	899,455
14.401	Fair Housing Assistance Program -- State and Local	2,707,486
	Total U.S. Department of Housing and Urban Development	**$80,914,695**
U.S. Department of the Interior		
Fish and Wildlife Cluster:		
15.605	Sport Fish Restoration	$6,848,502
15.611	Wildlife Restoration	4,012,660
	Total Fish and Wildlife Cluster	10,861,162
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	2,049,878
15.252	Abandoned Mine Land Reclamation (AMLR) Program	7,385,351
15.255	Applied Science Program Cooperative Agreements Related to Coal Mining and Reclamation	22,795
15.608	Fish and Wildlife Management Assistance	24,500
15.614	Coastal Wetlands Planning, Protection, and Restoration Act	460,124
15.615	Cooperative Endangered Species Conservation Fund	632,809
15.616	Clean Vessel Act	274,888
15.622	Sportfishing and Boating Safety Act	326,500
15.634	State Wildlife Grants	996,412
15.637	Migratory Bird Joint Ventures	20,000

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of the Interior (Continued)		
15.808	U.S. Geological Survey -- Research and Data Collection	826,811
15.810	* National Cooperative Geologic Mapping Program	91,027
15.916	Outdoor Recreation Acquisition, Development and Planning	1,055,638
	Total U.S. Department of the Interior	**$25,027,895**
U.S. Department of Justice		
16.2007-96	Domestic Cannabis Eradication Program	$430,000
16.2008-95	Domestic Cannabis Eradication Program	2,748
16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry)	242,021
16.203	Comprehensive Approaches to Sex Offender Management Discretionary Grant (CASOM)	113,616
16.321	Anti-terrorism Emergency Reserve	108,781
16.523	Juvenile Accountability Block Grants	1,208,313
16.528	Enhanced Training and Services to End Violence and Abuse of Women Later in Life	149
16.540	Juvenile Justice and Delinquency Prevention -- Allocation to States	2,124,120
16.548	Title V -- Delinquency Prevention Program	96,075
16.550	State Justice Statistics Program for Statistical Analysis Centers	39,073
16.554	National Criminal History Improvement Program (NCHIP)	525,954
16.560	* National Institute of Justice Research, Evaluation, and Development Project Grants	16,910
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	1,150,797
16.564	Crime Laboratory Improvement -- Combined Offender DNA Index System Backlog Reduction	18,428
16.575	Crime Victim Assistance	13,561,856
16.576	Crime Victim Compensation	3,983,500
16.579	Edward Byrne Memorial Formula Grant Program	1,319,663
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	658,540
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	7,911,698
16.588	Violence Against Women Formula Grants	4,175,855
16.593	Residential Substance Abuse Treatment for State Prisoners	360,677
16.601	Corrections Training and Staff Development	235
16.606	State Criminal Alien Assistance Program	497,156
16.607	Bulletproof Vest Partnership Program	147,954
16.609	Community Prosecution and Project Safe Neighborhoods	290,943
16.710	Public Safety Partnership and Community Policing Grants	756,437
16.727	Enforcing Underage Drinking Laws Program	336,907
16.734	Special Data Collections and Statistical Studies	13,066
16.738	* Edward Byrne Memorial Justice Assistance Grant Program	25,000
16.738	Edward Byrne Memorial Justice Assistance Grant Program	6,533,567
16.739	National Prison Rape Statistics Program	1,081,373
16.741	Forensic DNA Capacity Enhancement Program	16,187
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	389,386
16.743	National Institute of Justice Forensic Casework DNA Backlog Reduction Program	144,200
16.744	Anti-Gang Initiative	1,350,134
	Total U.S. Department of Justice	**$49,631,319**

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Labor		
Employment Service Cluster:		
17.207	Employment Service/Wagner-Peyser Funded Activities	$30,744,460
17.801	Disabled Veterans' Outreach Program (DVOP)	6,853,353
17.804	Local Veterans' Employment Representative Program	651,019
	Total Employment Service Cluster	38,248,832
WIA Cluster:		
17.258	WIA Adult Program	56,300,176
17.259	WIA Youth Activities	36,302,475
17.260	WIA Dislocated Workers	53,740,799
	Total WIA Cluster	146,343,450
17.002	Labor Force Statistics	2,760,222
17.005	Compensation and Working Conditions	33,699
17.225	Unemployment Insurance	1,417,839,537
17.235	Senior Community Service Employment Program	4,086,123
17.245	Trade Adjustment Assistance	10,169,652
17.252	Attestations by Employers using Non-Immigrant Aliens in Specialty Occupations	432,775
17.261	WIA Pilots, Demonstrations, and Research Projects	512,169
17.266	Work Incentive Grants	30,375
17.271	Work Opportunity Tax Credit Program (WOTC)	947,443
17.273	Temporary Labor Certification for Foreign Workers (ALC)	268,895
17.504	Consultation Agreements	1,343,249
17.600	Mine Health and Safety Grants	239,994
	Total U.S. Department of Labor	**$1,623,256,415**
U.S. Department of Transportation		
*Highway Planning and Construction Cluster:***		
20.205	* Highway Planning and Construction	$2,680,540
20.205	Highway Planning and Construction	1,079,180,090
23.003	Appalachian Development Highway System	37,420,743
	Total Highway Planning and Construction Cluster	1,119,281,373
Federal Transit Cluster:		
20.500	Federal Transit -- Capital Investment Grants	5,247
20.507	Federal Transit -- Formula Grants	10,477,964
	Total Federal Transit Cluster	10,483,211
Transit Services Programs Cluster:		
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	2,105,819
	Total Transit Services Programs Cluster	2,105,819
Highway Safety Cluster:		
20.600	State and Community Highway Safety	13,605,012
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	1,545
20.610	State Traffic Safety Information System Improvement Grants	27,672
20.612	Incentive Grant Program to Increase Motorcyclist Safety	6,000
	Total Highway Safety Cluster	13,640,229

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Transportation (Continued)		
20.106	Airport Improvement Program	67,145
20.218	National Motor Carrier Safety	10,706,868
20.219	Recreational Trails Program	1,097,218
20.230	Crash Data Improvement Program	74,195
20.237	Commercial Vehicle Information Systems and Networks	52,366
20.505	Federal Transit -- Metropolitan Planning Grants	3,362,941
20.509	Formula Grants for Other Than Urbanized Areas	13,514,139
20.700	Pipeline Safety	438,469
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	352,381
	Total U.S. Department of Transportation	**$1,175,176,354**
U.S. Appalachian Regional Commission		
23.002	Appalachian Area Development	$10,000
23.008	Appalachian Local Access Roads	706,630
23.011	Appalachian Research, Technical Assistance, and Demonstration Projects	201,205
	Total U.S. Appalachian Regional Commission	**$917,835**
U.S. Equal Employment Opportunity Commission		
30.002	Employment Discrimination -- State and Local Fair Employment Practices Agency Contracts	$1,037,972
	Total U.S. Equal Employment Opportunity Commission	**$1,037,972**
General Services Administration		
39.003	Donation of Federal Surplus Personal Property	$164,030
	Total General Services Administration	**$164,030**
National Foundation on the Arts and the Humanities		
45.025	Promotion of the Arts -- Partnership Agreements	$832,300
45.310	Grants to States	5,687,064
	Total National Foundation on the Arts and the Humanities	**$6,519,364**
U.S. Small Business Administration		
59.037	Small Business Development Center	$3,409,823
	Total U.S. Small Business Administration	**$3,409,823**
U.S. Department of Veterans Affairs		
64.005	Grants to States for Construction of State Home Facilities	$132,223
64.014	Veterans State Domiciliary Care	2,041,567
64.015	Veterans State Nursing Home Care	13,712,918
64.124	All-Volunteer Force Educational Assistance	575,736
	Total U.S. Department of Veterans Affairs	**$16,462,444**
U.S. Environmental Protection Agency		
66.001	Air Pollution Control Program Support	$5,048,441
66.032	State Indoor Radon Grants	455,304
66.034	Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	1,394,866
66.419	Water Pollution Control State, Interstate, and Tribal Program Support	4,991,872

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
BY FEDERAL AGENCY AND FEDERAL PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE

U.S. Environmental Protection Agency (Continued)		
66.432	State Public Water System Supervision	2,799,970
66.433	State Underground Water Source Protection	269,477
66.436	Surveys, Studies, Demonstrations and Special Purpose Grants - Section 1442 of the Safe Drinking Water Act	4,690
66.454	Water Quality Management Planning	534,532
66.458	Capitalization Grants for Clean Water State Revolving Funds	328,692,444
66.460	Nonpoint Source Implementation Grants	6,879,645
66.461	Regional Wetland Program Development Grants	110,159
66.467	Wastewater Operator Training Grant Program (Technical Assistance)	29,949
66.468	Capitalization Grants for Drinking Water State Revolving Funds	118,136,103
66.469	Great Lakes Program	507,795
66.471	State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	294,714
66.472	Beach Monitoring and Notification Program Implementation Grants	242,358
66.474	Water Protection Grants to States	203,189
66.479	Wetland Program Grants - State/Tribal Environmental Outcome Wetland Demonstration Program	241,067
66.501	Environmental Protection - Consolidated Research	64,703
66.605	Performance Partnership Grants	202,042
66.606	Surveys, Studies, Investigations and Special Purpose Grants	67,248
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	113,988
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	728,386
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	268,806
66.709	Multi-media Capacity Building Grants for States and Tribes	17,796
66.801	Hazardous Waste Management State Program Support	5,010,581
66.802	Superfund State, Political Subdivision, and Indian Tribe Site -- Specific Cooperative Agreements	700,593
66.804	State and Tribal Underground Storage Tanks Program	341,785
66.805	Leaking Underground Storage Tank Trust Fund Program	1,460,669
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	284,115
66.817	State and Tribal Response Program Grants	995,936
66.818	Brownfield Assessments and Cleanup Cooperative Agreements	2,565,156
	Total U.S. Environmental Protection Agency	**$483,658,379**
U.S. Department of Energy		
81	Petroleum Violation Escrow Funds	$1,675,174
81	Agreement in Principle/COS	10,606
81.000	Cost Recovery Grants: Environmental Research	677,315
81.041	* State Energy Program	145,355
81.041	State Energy Program	1,330,551
81.042	Weatherization Assistance for Low-Income Persons	13,935,274
81.079	* Regional Biomass Energy Program	4,454
81.086	* Conservation Research and Development	8,226
81.087	Renewable Energy Research and Development	14,478
81.104	Office of Environmental Cleanup and Acceleration	593,323
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	563
81.119	State Energy Program Special Projects	423,157
	Total U.S. Department of Energy	**$18,818,476**

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SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
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FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Education		
Special Education Cluster:		
84.027	Special Education -- Grants to States	$491,420,874
84.173	Special Education -- Preschool Grants	13,048,401
	Total Special Education Cluster	504,469,275
84.000	Consolidated Administrative Fund	8,792,239
84.002	Adult Education -- State Grant Program	18,008,722
84.010	Title I Grants to Local Educational Agencies	411,969,825
84.011	Migrant Education -- State Grant Program	2,459,013
84.013	Title I Program for Neglected and Delinquent Children	1,880,951
84.048	Vocational Education -- Basic Grants to States	44,635,581
84.069	Leveraging Educational Assistance Partnership	1,303,245
84.126	Rehabilitation Services -- Vocational Rehabilitation Grants to States	122,483,348
84.144	Migrant Education Coordination Program	15,000
84.161	Rehabilitation Services -- Client Assistance Program	341,495
84.169	Independent Living -- State Grants	653,452
84.177	Rehabilitation Services -- Independent Living Services for Older Individuals Who Are Blind	1,525,157
84.181	Special Education -- Grants for Infants and Families with Disabilities	10,846,122
84.185	Byrd Honors Scholarships	1,531,208
84.186	Safe and Drug-Free Schools and Communities -- State Grants	11,291,725
84.187	Supported Employment Services for Individuals with Severe Disabilities	861,823
84.196	Education for Homeless Children and Youth	1,812,256
84.203	* Star Schools	3,135,627
84.206	Javits Gifted and Talented Students Education Grant Program	164,527
84.213	Even Start -- State Educational Agencies	2,498,202
84.215	* Fund for the Improvement of Education	332,773
84.215	Fund for the Improvement of Education	686,706
84.235	Rehabilitation Services -- Demonstrations and Training Program	20,307
84.240	Program of Protection and Advocacy of Individual Rights	482,871
84.243	Tech-Prep Education	4,039,698
84.265	Rehabilitation Training - State Vocational Rehabilitation Unit In-service Training	138,920
84.282	Charter Schools	13,607,426
84.287	Twenty-First Century Community Learning Centers	25,701,669
84.293	Foreign Language Assistance	45,715
84.298	State Grants for Innovative Programs	4,056,456
84.318	Education Technology State Grants	8,630,906
84.323	Special Education -- State Personnel Development	2,889,531
84.330	Advanced Placement Program	169,494
84.331	Grants to States for Incarcerated Youth Offenders	573,208
84.332	Comprehensive School Reform Demonstration	1,156,901
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	3,185,245
84.343	Assistive Technology -- State Grants for Protection and Advocacy	129,627
84.346	Vocational Education -- Occupational and Employment Information State Grants	76,035
84.357	Reading First State Grants	19,078,820
84.358	Rural Education	1,498,581
84.365	English Language Acquisition Grants	6,749,012
84.366	Mathematics and Science Partnerships	4,996,549
84.367	Improving Teacher Quality State Grants	97,578,189

STATE OF OHIO
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FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
U.S. Department of Education (Continued)		
84.369	Grants for State Assessments and Related Activities	11,208,740
84.371	Striving Readers	2,087,759
84.372	Statewide Data Systems	2,216,442
84.374	Teacher Incentive Fund	1,858,886
	Total U.S. Department of Education	**$1,363,875,259**
Election Assistance Commission		
90.401	Help America Vote Act Requirement Payments	$4,027,629
	Total Election Assistance Commission	**$4,027,629**
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	$12,984,994
93.045	Special Programs for the Aging -- Title III, Part C -- Nutrition Services	20,398,649
93.053	Nutrition Services Incentive Program	5,081,245
	Total Aging Cluster	38,464,888
CCDF Cluster:		
93.575	Child Care and Development Block Grant	31,025,491
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	168,478,931
	Total Child Care Cluster	199,504,422
Medicaid Cluster:		
93.775	State Medicaid Fraud Control Units	2,786,030
93.776	Hurricane Katrina Relief	1,446
93.777	State Survey and Certification of Health Care Providers and Suppliers	15,751,762
93.778	Medical Assistance Program (Medicaid)	7,819,444,577
	Total Medicaid Cluster	7,837,983,815
93.003	Public Health and Social Services Emergency Fund	169,997
93.006	State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	63,012
93.009	Compassion Capital Fund	274,347
93.041	Special Programs for the Aging -- Title VII, Chapter 3 -- Programs for Prevention of Elder Abuse, Neglect, and Exploitation	192,445
93.042	Special Programs for the Aging -- Title VII, Chapter 2 -- Long Term Care Ombudsman Services for Older Individuals	500,527
93.043	Special Programs for the Aging -- Title III, Part D -- Disease Prevention and Health Promotion Services	772,551
93.048	Special Programs for the Aging -- Title IV and Title II-- Discretionary Projects	891,652
93.052	National Family Caregiver Support, Title III, Part E	5,463,774
93.063	Centers for Genomics and Public Health	100,000
93.069	Public Health Emergency Preparedness	24,761,970
93.086	Healthy Marriage Promotion and Responsible Fatherhood Grants	344,149
93.110	Maternal and Child Health Federal Consolidated Programs	383,700
93.118	Acquired Immunodeficiency Syndrome (AIDS) Activity	1,964,943
93.127	Emergency Medical Services for Children	56,827
93.130	Primary Care Services -- Resource Coordination and Development	8,333,174

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FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE

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

93.136	Injury Prevention and Control Research and State and Community Based Programs	2,836,490
93.138	Protection and Advocacy for Individuals with Mental Illness	999,493
93.150	Projects for Assistance in Transition from Homelessness (PATH)	1,830,072
93.165	Grants to State for Loan Repayment Program	191
93.197	Childhood Lead Poisoning Prevention Projects -- State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	1,208,284
93.200-1998-07265	National Death Index	85
93.200-2000-07236	NCHS Birth	32,208
93.200-2007-M-19950	VS Birth	395,895
93.200-2008-M-25005	National Death Index	144
93.217	Family Planning -- Services	3,190,524
93.230	Consolidated Knowledge Development Application (KD&A) Program	1,172,248
93.234	Traumatic Brain Injury -- State Demonstration Grant Program	175,081
93.235	Abstinence Education Program	410,354
93.240	State Capacity Building	408,300
93.241	State Rural Hospital Flexibility Program	1,956,265
93.243	Substance Abuse and Mental Health Services -- Projects of Regional and National Significance	2,946,215
93.251	Universal Newborn Hearing Screening	208,491
93.267	State Grants for Protections and Advocacy Services	52,975
93.268	Immunization Grants	6,711,456
93.275	Substance Abuse and Mental Health Services-Access to Recovery	510,046
93.283	Centers for Disease Control and Prevention -- Investigations and Technical Assistance	21,203,502
93.301	Small Rural Hospital Improvement Grant Program	65,521
93.556	Promoting Safe and Stable Families	15,814,812
93.558	Temporary Assistance for Needy Families	965,171,753
93.563	Child Support Enforcement	159,187,976
93.566	Refugee and Entrant Assistance -- State Administered Programs	7,364,572
93.568	Low-Income Home Energy Assistance	144,768,710
93.569	Community Services Block Grant	22,723,275
93.576	Refugee and Entrant Assistance -- Discretionary Grants	286,065
93.584	Refugee and Entrant Assistance -- Targeted Assistance Grants	744,013
93.585	Empowerment Zones Program	134,074
93.586	State Court Improvement Program	588,232
93.590	Community-Based Child Abuse Prevention Grants	3,177,778
93.597	Grants to States for Access and Visitation Programs	267,451
93.599	Chafee Education and Training Vouchers Program (ETV)	1,931,256
93.600	Head Start	204,244
93.617	Voting Access for Individuals with Disabilities - Grants to States	51,039
93.618	Voting Access for Individuals with Disabilities -- Grants for Protection and Advocacy Systems	97,144
93.630	Developmental Disabilities Basic Support and Advocacy Grants	3,924,220
93.643	Children's Justice Grants to States	1,316,839
93.645	Child Welfare Services -- State Grants	11,670,143
93.658	Foster Care -- Title IV-E	198,351,850
93.659	Adoption Assistance	175,161,878
93.667	Social Services Block Grant	147,170,061

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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)		
93.669	Child Abuse and Neglect State Grants	1,960,083
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters -- Grants to States and Indian Tribes	2,542,173
93.674	Chafee Foster Care Independence Program	4,478,708
93.767	State Children's Insurance Program	202,871,610
93.768	Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	348,202
93.779	* Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	114,376
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	988,192
93.793	Medicaid Transformation Grants	1,739
93.888	* Specially Selected Health Projects	211,752
93.889	National Bioterrorism Hospital Preparedness Program	17,435,129
93.913	Grants to States for Operation of Offices of Rural Health	1,408
93.917	HIV Care Formula Grants	18,789,161
93.940	HIV Prevention Activities -- Health Department Based	8,380,151
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	533,435
93.945	Assistance Programs for Chronic Disease Prevention and Control	20,896
93.946	Cooperative Agreements to Support State Based Safe Motherhood and Infant Health Initiatives	603,050
93.958	Block Grants for Community Mental Health Services	13,987,573
93.959	Block Grants for Prevention and Treatment of Substance Abuse	70,673,019
93.965	Coal Miners Respiratory Impairment Treatment Clinics and Services	681,401
93.977	Preventive Health Services -- Sexually Transmitted Diseases Control Grants	2,456,228
93.982	Mental Health Disaster Assistance and Emergency Mental Health	36,177
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	1,401
93.991	Preventative Health and Health Services Block Grant	3,657,602
93.994	Maternal and Child Health Services Block Grant to the States	24,147,538
93.A-67-06-1137	Child Care Development	360
93.A-89-17-0705	Refugee Health	17,714
93.HHSF223200640045C	Mammography Quality Standard Act Inspection	2,525
93.SS00-07-31108	National Death Index	87
93.SS00-07-60007	National Death Index	360
93.SS00-08-30322	Enumeration at Birth	7,616
	Total U.S. Department of Health and Human Services	**$10,401,597,084**
Corporation for National and Community Service		
Foster Grandparent/Senior Companion Cluster:		
94.011	Foster Grandparent Program	$85,247
	Total Foster Grandparent/Senior Companion Cluster	85,247
94.003	State Commissions	401,528
94.004	Learn and Serve America -- School and Community Based Programs	584,257
94.006	AmeriCorps	5,297,802
94.007	Planning and Program Development Grants	37,955
94.009	Training and Technical Assistance	130,431
	Total Corporation for National and Community Service	**$6,537,220**

STATE OF OHIO
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
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FEDERAL AGENCY/CFDA NUMBER/PROGRAM TITLE		
Social Security Administration		
Disability Insurance/SSI Cluster:		
96.001	Social Security -- Disability Insurance	$76,758,203
	Total Disability Insurance/SSI Cluster	76,758,203
96.0600-03-60054	Social Security Enumeration at Birth	17,464
96.000	Program Income for Rehabilitating Recipients of Social Security Income and Supplemental Security Income -- Vocational Rehabilitation Program	5,381,280
96.008	Social Security - Work Incentives Planning and Assistance Program	326,370
96.009	Social Security State Grants for Work Incentives Assistance to Disabled Beneficiaries	141,571
	Total Social Security Administration	**$82,624,888**
U.S. Department of Homeland Security		
Homeland Security Cluster:		
97.067	Homeland Security Grant Program	$27,002,956
	Total Homeland Security Cluster	27,002,956
97.008	Urban Areas Security Initiative	1,691,583
97.012	Boating Safety Financial Assistance	4,735,124
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	961,281
97.023	Community Assistance Program - State Support Services Element (CAP-SSSE)	168,578
97.029	Flood Mitigation Assistance	188,718
97.032	Crisis Counseling	194,143
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	25,437,072
97.039	Hazard Mitigation Grant	3,203,030
97.041	National Dam Safety Program	65,478
97.042	Emergency Management Performance Grants	5,165,429
97.045	Cooperating Technical Partners	11,530
97.070	Map Modernization Management Support	40,738
97.075	Rail & Transit Security Grant Program	756,927
97.078	Buffer Zone Protection Plan (BZPP)	1,032,064
97.091	Homeland Security Biowatch Program	608,095
97.092	Repetitive Flood Claims	6,445
	Total U.S. Department of Homeland Security	**$71,269,191**
	TOTAL EXPENDITURES	**$17,722,789,004**

* 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, 2008. The State's financial reporting entity includes the primary government and its component units.

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

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

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

The State has excluded federal financial assistance reported in the Discretely Presented Component Units from the Supplementary Schedules. The respective schedules of expenditures of federal awards for the following organizations, which constitute component units of the State since they impose or potentially impose financial burdens on the primary government, are subject to separate audits under OMB Circular A-133.

Colleges and Universities:

State Universities*:*
Bowling Green State University
Central State University
Cleveland State University
Kent State University
Miami University
Ohio State University
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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

State Community Colleges (Continued):
Columbus State Community College
Edison State Community College
Northwest State Community College
Owens State Community College
Southern State Community College
Terra State Community College
Washington State Community College

Other Discretely Presented Component Units:

Ohio Air Quality Development Authority

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 – CCDF Cluster
CFDA # 93.658 – Foster Care Title -- IV-E
CFDA # 93.659 – Adoption Assistance
CFDA # 93.667 – Social Services Block Grant
CFDA # 93.767 – State Children's Insurance Program
CFDA # 93.775/93.776/ 93.777/93.778 – Medicaid Cluster

B. Basis of Accounting

The State prepares the Supplementary Schedules on the cash basis of accounting; therefore, the State recognizes expenditures when paid rather than when it incurs obligations.

C. Transfers of Federal Funds between State Agencies

The State excludes interagency disbursements of federal moneys among State agencies to avoid the overstatement of federal financial assistance reported on the Supplementary Schedules.

D. Indirect Costs

Indirect costs benefit more than one federal program and are not directly allocable to the programs receiving the benefits. The State recovers these costs from the federal government by applying federally approved indirect cost rates or by allocating the indirect costs among benefiting programs in accordance with federally approved plans. The State recognizes indirect costs as disbursements in the Supplementary Schedules.

E. Valuation of Non-Cash Federal Assistance

The State reports the following non-cash federal assistance programs on the Supplementary Schedules.

- *Food Donation (CFDA# 10.550)*
  Federal assistance for this program represents the value of food the State distributes to subrecipients during the fiscal year. The U.S. Department of Agriculture assigns the prices at which the State values donated food commodities.

- *Food Stamps (CFDA# 10.551)*
  Federal assistance for this program represents the value of food stamp benefits redeemed by eligible recipients during the fiscal year. Redemption occurs when beneficiaries use food stamp benefits from the State at approved vendor locations, via electronic benefits transfer (EBT).

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *Donation of Federal Surplus Personal Property (CFDA# 12.005)*
  Federal assistance for this program represents the fair market value of donated federal surplus personal property the State distributes to subrecipients during the fiscal year. The State calculates fair value at 23.3 percent of the property's original costs, in conformity with guidelines the U.S. Department of Defense establishes.

- *Donation of Federal Surplus Personal Property (CFDA# 39.003)*
  Federal assistance for this program represents the fair market value of federal surplus personal property the State distributes to subrecipients during the fiscal year. The State calculates fair value at 23.3 percent of the property's original acquisition costs, in conformity with guidelines the U.S. General Services Administration establishes.

Year-end balances of the State's non-cash federal assistance programs can be found in NOTE 3.

NOTE 2 CAPITALIZATION GRANTS FOR REVOLVING LOAN FUNDS

In fiscal year 2008, 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, 2008, outstanding loans for the Capitalization Grants for Revolving Loan Funds programs totaled approximately $1.046 billion.

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

Capitalization Grant Loan Balance, as of 6/30/07	$1,000,386,193
Loans without Compliance Requirements	(506,406,337)
Loans transferred without Compliance Requirements	(95,616,720)
Net Loan Balance (Loans with Compliance Requirements)	398,363,136
New Loans Disbursed	62,680,716
Net Principal Repayments Received	(17,778,199)
Capitalized Interest Earned	1,068,808
Current Loan Activity	45,971,325
Ending Loan Balance (Loans with Compliance Requirements)	444,334,461
Administrative Costs	985,974
Administrative Trustee Fee	250
Loan Account Trustee Fee	24
Small System Technical Assistant Costs	411,637
Small System Technical Assistant Trustee Fee	88
Wellhead Costs	1,108,703
Wellhead Trustee Fee	301
Administrative Interest Earned	(4,420)
Loan Account Interest Earned	(3,427)
Source Water Account Interest Earned	(6)
Small System Technical Assistant Interest Earned	(1,259)
Wellhead Interest Earned	(3,779)
Total Federal Assistance for FY 2008	$446,828,547

The total federal assistance for fiscal year 2008, as reported by the Ohio Environmental Protection Agency, for the Clean Water Revolving Fund and the Drinking Water Revolving Fund were $328,692,444 and $118,136,103 respectively.

NOTE 3 INVENTORY BALANCES FOR NON-CASH FEDERAL ASSISTANCE PROGRAMS

As of June 30, 2008, the outstanding inventory balances for the non-cash federal assistance programs are as follows:

CFDA#	Non-Cash Program	Outstanding Balance, as of 6/30/08
10.550	Food Donation	$ 5,981,698
12.005	Donation of Federal Surplus Personal Property	10,061,896
39.003	Donation of Federal Surplus Personal Property	164,030
	Total	$16,207,624

NOTE 4 RESEARCH AND DEVELOPMENT CLUSTER

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

CFDA#	Program	Amount
10.207	Animal Health and Disease Research	$ 70,045
15.810	National Cooperative Geologic Mapping Program	91,027
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	16,910
16.738	Edward Byrne Memorial Justice Assistance Grant Program	25,000
20.205	Highway Planning and Construction	2,680,540
81.041	State Energy Program	145,355
81.079	Regional Biomass Energy Program	4,454
81.086	Conservation Research and Development	8,226
84.203	Star Schools	3,135,627
84.215	Fund for the Improvement of Education	332,773
93.779	Center for Medicare and Medicaid Services (CMS) Research, Demonstrations, and Evaluations	114,376
93.888	Specially Selected Health Projects	211,752
	Total Research and Development Cluster	**$ 6,836,085**

NOTE 5 TRANSFERS BETWEEN FEDERAL PROGRAMS

During fiscal year 2008, the State made allowable transfers of approximately $80.1 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 $965.1 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 2008 and the amount transferred to the Social Services Block Grant program.

Temporary Assistance for Needy Families	$ 1,045,311,530
Social Services Block Grant	(80,139,777)
Total Temporary Assistance for Needy Families.	**$ 965,171,753**

NOTE 6 CHILD SUPPORT ENFORCEMENT

The Ohio Department of Job and Family Services returned $9,845,896 to the United States Department of Health and Human Services during the fiscal year ended June 30, 2008, as a result of a Child Support Enforcement federal audit conducted for the federal fiscal year 2004. This amount was not included in the adjustments for the Child Support Enforcement program on the Supplementary Schedule of Expenditures of Federal Awards since these funds were repaid from non federal sources and the audit finding was a prior fiscal period.

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INDEPENDENT ACCOUNTANTS' REPORTS ON COMPLIANCE AND INTERNAL CONTROLS

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Ohio (the State) as of and for the year ended June 30, 2008, which collectively comprise the State's basic financial statements, and have issued our report thereon dated October 2, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. We did not audit the financial statements of the following organizations:

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

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

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

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

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

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Revenues / Additions
Governmental Activities	2%	1%
Business-Type Activities	93%	41%
Aggregate Discretely Presented Component Units	84%	97%
Aggregate Remaining Fund Information	97%	32%
Workers' Compensation	100%	100%

Those financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these independently audited organizations is based on the reports of the other auditors. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that those auditors separately reported.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Ohio's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the State of Ohio's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the State of Ohio's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the State of Ohio's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the State of Ohio's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the deficiencies listed in the table below, identified in the summary of findings and questioned costs on page 188, and described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

State Agency	Significant Deficiency Finding Numbers
Ohio Administrative Knowledge System	2008-OAKS01-004 through 2008-OAKS04-007
Ohio Office of Budget and Management	2008-OBM01-001 through 2008-OBM03-003 and 2008-OBM01-008
Ohio Department of Education	2008-EDU01-010 and 2008-EDU02-011
Ohio Department of Job & Family Services	2008-JFS15-032 through 2008-JFS17-034, 2008-JFS27-044, and 2008-JFS38-045
Ohio Department of Transportation	2008-DOT01-055

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the State of Ohio's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses.

Of the significant deficiencies described above, we believe findings 2008-OAKS01-004 and 2008-OAKS02-005 are also material weaknesses.

We noted other matters that we have reported to the management of the State of Ohio in a separate management letter issued October 2, 2009.

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 an instance of noncompliance or other matters that we must report under *Government Auditing Standards* identified in the summary of findings and questioned costs on page 188 and described in the accompanying schedule of findings and questioned costs as item 2008-OBM01-008.

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

October 2, 2009

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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, 2008. 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, 2008. Our audit of federal awards, described below, did not include the operations of State College and Universities because these component units engaged other auditors to audit their Federal award programs in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the State of Ohio's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on State of Ohio's compliance with those requirements.

In our opinion, 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, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that OMB Circular A-133 requires us to report, which are listed in the table below, identified in the summary of findings and questioned costs on pages 186 and 187, and described in the accompanying schedule of findings and questioned costs.

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State Agency	Noncompliance Finding Numbers
Ohio Office of Budget and Management	2008-OBM01-008
Ohio Department of Health	2008-DOH01-012 through 2008-DOH03-14
Ohio Department of Job & Family Services	2008-JFS01-018 through 2008-JFS14-031
Ohio Department of Mental Health	2008-DMH01-048
Ohio Department of Public Safety	2008-DPS01-049 through 2008-DPS03-051
Ohio Rehabilitation Services Commission	2008-RSC01-053

In separate letters issued to the State of Ohio's state agency management, we reported other matters related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

The State of Ohio's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the State of Ohio's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Ohio's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the State of Ohio's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the State of Ohio's ability to administer a federal program such that there is more than a remote likelihood that the State of Ohio's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement. We consider the items listed in the table below, identified in the summary of findings and questioned costs on pages 186 and 187, and described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

State Agency	Significant Deficiency Finding Numbers
Ohio Administrative Knowledge System	2008-OAKS01-004 through 2008-OAKS04-007
Ohio Office of Budget and Management	2008-OBM01-008
Ohio Department of Development	2008-DEV01-009
Ohio Department of Education	2008-EDU01-010 and 2008-EDU02-011
Ohio Department of Health	2008-DOH02-013 through 2008-DOH06-017
Ohio Department of Job & Family Services	2008-JFS14-031 through 2008-JFS30-047
Ohio Department of Mental Health	2008-DMH01-048
Ohio Department of Public Safety	2008-DPS02-050 through 2008-DHS04-052
Ohio Rehabilitation Services Commission	2008-RSC01-053 and 2008-RSC02-054
Ohio Department of Transportation	2008-DOT01-055

A material weakness is significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that the State of Ohio's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider the items listed in the table below, identified in the summary of findings and questioned costs on pages 186 and 187, and described in the accompanying schedule of findings and questioned costs to be material weaknesses.

State Agency	Material Weakness Finding Numbers
Ohio Administrative Knowledge System	2008-OAKS01-004 and 2008-OAKS02-005
Ohio Department of Health	2008-DOH04-015
Ohio Department of Job & Family Services	2008-JFS15-032 through 2008-JFS17-034

In separate letters issued to the State of Ohio's state agency management, we reported other matters related to internal control over federal compliance not requiring inclusion in this report.

The State of Ohio's responses to the findings we identified are described in the accompanying schedule of findings and questioned costs. We did not audit the State of Ohio's responses and, accordingly, we express no opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 2, 2009

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OMB CIRCULAR A-133 § .505

1. SUMMARY OF AUDITORS' RESULTS		
(d)(1)(i)	*Type of Financial Statement Opinion*	Unqualified
(d)(1)(ii)	*Were there any material control weaknesses reported at the financial statement level (GAGAS)?*	Yes
(d)(1)(ii)	*Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?*	Yes
(d)(1)(iii)	*Was there any reported material noncompliance at the financial statement level (GAGAS)?*	Yes
(d)(1)(iv)	*Were there any material internal control weaknesses reported for major federal programs?*	Yes
(d)(1)(iv)	*Were there any other significant deficiencies in internal control reported for major federal programs?*	Yes
(d)(1)(v)	*Type of Major Programs' Compliance Opinion*	Unqualified
(d)(1)(vi)	*Are there any reportable findings under § .510?*	Yes
(d)(1)(vii)	*Major Programs (list):*	See pages 182 through 185
(d)(1)(viii)	*Dollar Threshold: Type A\Risk Assessed Type B Programs*	A: >$30,000,000 B: >$ 5,182,788
(d)(1)(ix)	*Low Risk Auditee?*	No

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

1. INCONSISTENCY IN FINANCIAL REPORTING

Finding Number	2008-OBM01-001
State Agency	Office of Budget and Management

<u>SIGNIFICANT DEFICIENCY</u>

Effective internal controls over financial reporting help prevent or detect misstatements in the accounting records and financial statements, as well as reasonably ensure compliance with laws, regulations and accounting principles generally accepted in the United States of America. These controls must include documented policies and procedures that increase the likelihood that financial statements include the same types of accruals and adjustments from year to year.

The Ohio Office of Budget and Management (OBM) is responsible for preparing the State of Ohio Comprehensive Annual Financial Report (CAFR). The State of Ohio implemented a new Enterprise Resource Planning (ERP) system called the Ohio Administrative Knowledge System (OAKS). This ERP

1. INCONSISTENCY IN FINANCIAL REPORTING (Continued)

system is used by the state to support administrative functions, such as finance (in the FIN module) and human resources (in the HCM module) for the state's agencies, boards, and commissions. The FIN module, which is the primary source of the State's financial transactions, was implemented on July 1, 2007 and was utilized in totality for the first time in preparing the fiscal year 2008 financial statements.

Every year, OBM has made journal entry adjustments to convert the governmental funds statements, prepared on a modified accrual basis, to the government-wide statements, prepared on a full accrual basis. However, the coding "trees" used within OAKS to determine the classification of the activities recorded in these journal entries contained an error. This error resulted in $858,074,000 in expenditures being incorrectly reported under *Community and Economic Development* in the Statement of Activities instead of its proper placement in *Primary, Secondary and Other Education*. There was no impact on total expenditures. Once this error was identified by the Auditors, OBM adjusted the $858,074,000 to the proper function/program.

In addition, every year, OBM has made journal entry adjustments for interfund activity which they call "interfund eliminations". These eliminations have included the federal pass-through, reimbursement, and inter-fund transactions that occur between state agencies. The purpose of making these adjustments is to prevent the inflation of revenues and expenditures for transactions occurring among the state agencies. However, for FY 2008, OBM did not initially accrue the adjustment for the reimbursement and inter-fund eliminations because the coding necessary to make these adjustments was not included in OAKS for the period under audit. As a result, financial statements were presented for audit without these adjustments and certain functions/programs within the financial statements were significantly higher than the prior year. Even though these inflated revenues and expenditures did not exceed the auditor's materiality threshold, the differences for the General opinion unit in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance and the Governmental Activities opinion unit in the Government-wide Statement of Activities were more than inconsequential, as defined in Statement of Auditing Standards No. 112. The amount of the impact on the fund balance for the Education opinion unit was considered material (understated by 18%). After the auditor discussed this issue with them, OBM estimated and adjusted the reimbursement (approximately $544.6 million) and inter-fund (approximately $48 million) elimination amounts in the financial statements, as identified in the following table:

Function/Program	General	Education	Other Governmental Fund Types	Government-wide
Revenue Reduction	$544,233,055	$7,669,713	$40,775,554	$592,678,322
Expenditure Reduction	$517,019,294	$25,894,076	$49,767,954	$592,678,322
Cash Equity Change	($27,213,761)	$18,224,363	$8,992,400	$0
Fund Balance Change	($27,213,761)	$18,224,363	$8,992,400	$0

Inflated amounts in financial statements or incorrect function/program entries can misrepresent an entity's actual financial activity. Inconsistency in financial reporting may negatively affect users' confidence in an organization's financial statements. Inconsistent reporting also causes a governmental entity to have to explain these differences in their Management Discussion and Analysis without a supporting change in activity.

As stated above, data was not readily available in OAKS for OBM Financial Reporting to create all of the interfund elimination journal entries. OBM was able to make the adjustment for the federal pass-through eliminations, which is the bulk of the interfund eliminations. OBM management stated that, as of March 2009, this coding is now available in OAKS, which OBM will be able to utilize for their FY 2010 financial statements. We have not, however, verified these changes. The error in the coding "trees" was considered an oversight in the implementation of the new system.

1. INCONSISTENCY IN FINANCIAL REPORTING (Continued)

We recommend OBM obtain the information necessary to reasonably estimate these adjustments for future financial statements. This may entail obtaining the information from the state agencies via the "GAAP package" financial reporting process, or modifying the computer system to include the necessary coding. We also recommend OBM evaluate the coding "trees" used to prepare the government-wide financial statements and make any adjustments necessary to reasonably ensure the activities are being reported in the correct function/program.

Official's Response and Corrective Action Plan

As mentioned in the Auditors comment, The FIN module, which is the primary source of the State's financial transactions, was implemented on July 1, 2007 and was utilized in totality for the first time in preparing the fiscal year 2008 financial statements. Planning and development efforts for the new enterprise wide system began in 2001 under the Taft Administration and were finally implemented in 2007. Initial implementation of OAKS for the July 1, 2007 go live did not include a financial reporting provision for the initial year of operation. Thus, the implementation of the OAKS system necessitated a complete redesign of the financial reporting contained in the previous CAS environment. A decision was made to take a measured approach and invest in the long term future of the financial reporting sub module and develop a system and process that would provide long term efficiencies and benefits. The items reported are the result of errors and omissions in first year of operation and are not indicative of system design flaws or process weaknesses. We have captured a list of "lessons learned" items from the 2008 inaugural year and incorporated them into our system and process development efforts to ensure errors and omissions in future years are minimized.

Processes have been developed to ensure that trees are now consistent between the ACTUALS ledgers and the financial reporting ledgers. This will result in consistent reporting.

In March 2009, an edit was applied to the OAKS system to require an ISTV cross reference field in order to process an intrastate transaction. The presence of this field permits us to identify all such transactions for the purpose of elimination in the financial statements which we will be able to utilize completely for the FY 2010 financial statements. Due to the timing of the enhancement, we will need to use an alternative method for 2009 which is consistent with the 2008 methodology.

Anticipated Completion Date for Corrective Action

Corrective action plans completed.

Contact Person Responsible for Corrective Action

Tom Holsinger, Deputy Director Accounting Administration, Office of Budget and Management, 30 E. Broad St., Columbus, OH 43215, Phone: (614) 728-4734, e-mail: tom.holsinger@obm.state.oh.us

2. TIMELINESS OF FINANCIAL REPORTING

Finding Number	2008-OBM02-002
State Agency	Office of Budget and Management

SIGNIFICANT DEFICIENCY

Governmental Accounting Standards Board Concepts Statement No. 1 includes *timeliness* among the basic characteristics required for effective communication of financial information. This statement also notes that "Timeliness alone does not make information useful, but the passage of time usually diminishes the usefulness that the information otherwise would have had." Many users rely on a

2. TIMELINESS OF FINANCIAL REPORTING (Continued)

governmental entity's financial statements for various purposes, including their decision to provide services to that entity or to purchase the governmental entity's bonds. Additionally, a government's financial statements are a necessary component of documents which must be submitted within established time frames. One such document is the Single Audit report, which is required to be submitted to the federal audit clearinghouse within nine months of the entity's fiscal year end.

The State of Ohio's Office of Budget and Management (OBM) is responsible for completing the State of Ohio's financial statements based on information obtained from their accounting system, state agencies, and independently audited organizations within the State's reporting entity. However, the draft fiscal year 2008 State of Ohio accrual-based financial statements were not completed and provided to the Auditor until June 30, 2009, one year after fiscal year end. The fiscal year 2008 notes to the financial statements were not initially provided for audit until July 31, 2009. As a result, financial statement users did not receive timely accrual-based information to evaluate the State's financial condition or make financial decisions based upon this information. This condition also significantly delayed the completion and issuance of the fiscal year 2008 State Single Audit report.

The State of Ohio implemented the financial module of a new enterprise resource planning system known as OAKS (Ohio Administrative Knowledge System) on July 1, 2007. As a result, OBM Financial Reporting had to modify many of the processes they use to compile the State's financial statements. In addition, OBM Financial Reporting staff experienced issues with obtaining information from and appropriate access to OAKS, which further delayed their process.

We recommend State management attempt to overcome the delays experienced during the preparation of the accrual-based financial statements and prepare timely accrual-based financial statements for audit. This may entail continuing to increase the priority placed on the financial reporting process and obtaining more timely cooperation from other state agencies and OAKS personnel.

Official's Response and Corrective Action Plan

As mentioned in the Auditors comment, the FIN module, which is the primary source of the State's financial transactions, was implemented on July 1, 2007 and was utilized in totality for the first time in preparing the fiscal year 2008 financial statements. Planning and development efforts for the new enterprise wide system began in 2001 under the Taft Administration and were finally implemented in 2007. Initial implementation of OAKS for the July 1, 2007 go-live did not include a financial reporting provision for the initial year of operation. Thus, the implementation of the OAKS system necessitated a complete redesign of the financial reporting contained in the previous CAS environment. A decision was made to take a measured approach and invest in the long term future of the financial reporting sub module and develop a system and process that would provide long term efficiencies and benefits. In addition, OBM Financial Reporting staff experienced issues with obtaining information from agencies and appropriate security access to OAKS, which further delayed the process.

OBM Management made a decision to invest in the long term future of the financial reporting sub module to develop a system and related process that would provide long term efficiencies and benefits. OBM employed outside resources to evaluate a reporting solution. The decision was made to develop the required reporting using the Nvision tool. It was also determined that a series of combination data edits were required to ensure the accuracy of the data and consistency with the ACTUALS ledger.

Several first year processes and testing were performed to validate the new system. The FY 2007 ending balances, which constitute the FY 2008 beginning balances, had to be loaded into the new environment and tested for accuracy through the newly designed reporting. In subsequent years prior year ending balances will be rolled forward resulting in greater speed and accuracy. For 2008 and beyond, 34 of 44 basic financial statements can be produced directly from OAKS as opposed to 16 in the prior CAS environment. This results in greatly increased efficiency and accuracy.

2. TIMELINESS OF FINANCIAL REPORTING (Continued)

Based on our 2008 investment, we anticipate substantial improvement in the timeline for delivering the 2009 draft accrual-based financial statements to the Auditor of State, in spite of the compressed time line as we continue to work on FY 2009 while concurrently completing FY 2008.

Anticipated Completion Date for Corrective Action

Corrective action plans completed.

Contact Person Responsible for Corrective Action

Tom Holsinger, Deputy Director Accounting Administration, Office of Budget and Management, 30 E. Broad St., Columbus, OH 43215, Phone: (614) 728-4734, e-mail: tom.holsinger@obm.state.oh.us

3. INTERNAL CONTROLS OVER VENDOR ACCOUNT CHANGES IN OAKS

Finding Number	2008-OBM03-003
State Agency	Office of Budget and Management

SIGNIFICANT DEFICIENCY

Organizations establish internal controls over vendor standing data to reduce the risk of loss due to error or fraud. These controls include manual and automated restrictions designed to prevent unauthorized persons from effecting changes to vendor information on an entity's computer system. Such controls help increase the likelihood that only appropriate vendors will be paid for services rendered to the organization, and are especially vital when an organization processes numerous payments throughout the year using an automated process.

The State of Ohio uses the OAKS FIN application module to process non-payroll expenditures for each participating state agency. During fiscal year 2008, the State of Ohio processed $50,091,679,643 in non-payroll expenditures using OAKS, which serves as the State's accounting system. Approximately 74% of these expenditures are paid via electronic funds transfer (EFT) payments. The vendor information is initially entered into the OAKS vendor file by the Office of Budget and Management (OBM), based on a vendor entry form received from the state agency wishing to do business with the vendor. All new vendors established in OAKS are set to be paid by warrant. If a vendor chooses to receive EFT payments, they must submit directly to OBM an "Authorization Agreement for Direct Deposit of State Warrants" which is available on the OBM website. A prepared form includes the vendor's federal tax identification number and the bank account number to which they have requested the funds to be deposited, and must be an original, signed document accompanied by a voided check from that account. Any changes to an established vendor's information, such as address or bank account number, are made via the same form, with an original signature and voided check from the account, sent directly to OBM. Approximately 1,300 changes are made to the vendor table each month. Any state agency can use a vendor once it has been entered into OAKS.

OBM's method of verifying the EFT payment entry form consists of ensuring the vendor address on the voided check matches the vendor address on the form and the vendor's federal tax ID number on the entry form matches the vendor's tax ID in the system. After verifying the information, the OBM clerk makes the vendor changes in OAKS and writes their initials on the form. However, there is no verification that the person requesting the change is an authentic representative of the vendor. This limited review, coupled with the fact that the entry form can be accessed by the general public, increases the risk that vendor information can be changed inappropriately and/or fraudulently. This can cause a state agency to

3. INTERNAL CONTROLS OVER VENDOR ACCOUNT CHANGES IN OAKS (Continued)

opt for an incorrect vendor selection for payment and/or state monies being submitted electronically to an erroneous bank account. OBM felt their controls were sufficient, and has since enhanced these controls, although these have not yet been tested by the auditor.

We recommend OBM management implement additional controls in their vendor account change process to include the verification of the identity of those individuals attempting to change vendor information in the OAKS system. These controls may include, but are not limited to:

- limiting access to the direct deposit form to authorized vendor personnel;
- requiring notarization of the prepared form;
- instituting a signatory requirement to pre-establish vendor representatives authorized to make changes to their payment account and provide a signature reference for OBM personnel to verify the direct deposit form when a change is requested;
- providing a user id and password to authenticate vendor identity.

In addition, supervisory personnel should periodically review the vendor change process and assure the controls are in place and operating effectively.

Official's Response and Corrective Action Plan

Based on a volume in excess of 15,000 changes annually, The Auditor of State was not able to provide any examples during the FY 2008 audit period where the existing controls in place resulted in compromised data or increased exposure.

OBM believes that our existing controls in this area are sufficient based on the relative risk and the recent enhancement of the controls requiring the requestor of a banking change to provide both before and after information on requested EFT changes. Independent verification of the approximately 1,300 changes made to the vendor table each month as suggested by the Auditor is not deemed to be cost effective and the best usage of taxpayer funds.

Based on a lack of documented evidence, OBM management does not agree that this item constitutes a Significant Deficiency and it should not be reported in this manner.

Anticipated Completion Date for Corrective Action

No corrective actions to be implemented.

Contact Person Responsible for Corrective Action

Tom Holsinger, Deputy Director Accounting Administration, Office of Budget and Management, 30 E. Broad St., Columbus, OH 43215, Phone: (614) 728-4734, e-mail: tom.holsinger@obm.state.oh.us

Auditor of State's Conclusion

Although a specific payment error was not identified in the testing performed for fiscal year 2008, there was a control failure that occurred during the subsequent period prior to the issuance of this report. We believe this issue represents a significant weakness in the design of the control system, given the volume and dollar amounts associated with EFT transactions.

Finding Number	2008-OAKS01-004

SIGNIFICANT DEFICIENCY – MATERIAL WEAKNESS

See federal finding # 2008-OAKS01-004 on page 191; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2008-OAKS02-005

SIGNIFICANT DEFICIENCY – MATERIAL WEAKNESS

See federal finding # 2008-OAKS02-005 on page 197; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2008-OAKS03-006

SIGNIFICANT DEFICIENCY

See federal finding # 2008-OAKS03-006 on page 201; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2008-OAKS04-007

SIGNIFICANT DEFICIENCY

See federal finding # 2008-OAKS04-007 on page 203; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2008-OBM01-008

SIGNIFICANT DEFICIENCY

See federal finding # 2008- OBM01-008 on page 206; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2008-EDU01-010

SIGNIFICANT DEFICIENCY

See federal finding # 2008-EDU01-010 on page 210; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2008-EDU02-011

SIGNIFICANT DEFICIENCY

See federal finding # 2008-EDU02-011 on page 212; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2008-JFS15-032

SIGNIFICANT DEFICIENCY

See federal finding # 2008-JFS15-032 on page 265; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2008-JFS16-033

SIGNIFICANT DEFICIENCY

See federal finding # 2008-JFS16-033 on page 267; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2008-JFS17-034

SIGNIFICANT DEFICIENCY

See federal finding # 2008-JFS17-034 on page 268; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2008-JFS27-044

SIGNIFICANT DEFICIENCY

See federal finding # 2008-JFS27-044 on page 291; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2008-JFS28-045

SIGNIFICANT DEFICIENCY

See federal finding # 2008-JFS28-045 on page 295; this finding is also required to be reported in accordance with GAGAS.

Finding Number	2008-DOT01-055

SIGNIFICANT DEFICIENCY

See federal finding # 2008-DOT01-055 on page 319; 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 186 and 187.

The questioned costs are summarized by federal agency, program, and amount on page 189.

The findings and questioned costs are detailed by state agency on pages 191 through 320.

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
U.S. Department of Agriculture			
Food Stamp Cluster			
10.551/10.561			
	Ohio Department of Job & Family Services	$1,519,826,184	
	Other Agencies (Not Tested as a Major Program)	836,832	
	Total Food Stamp Cluster	$1,520,663,016	8.58%
Child Nutrition Cluster			
10.553/10.555/10.556/10.559			
	Ohio Department of Education	$344,227,736	
	Other Agencies (Not Tested as a Major Program)	4,080,886	
	Total Child Nutrition Cluster	$348,308,622	1.97%
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children		
	Ohio Department of Health	$249,862,643	
	Total CFDA # 10.557	$249,862,643	1.41%
10.558	Child and Adult Care Food Program		
	Ohio Department of Education	$77,760,289	
	Total CFDA # 10.558	$77,760,289	0.44%
U.S. Department of Labor			
Employment Services Cluster			
17.207/17.801/17.804			
	Ohio Department of Job & Family Services	$38,248,832	
	Total Employment Services Cluster	$38,248,832	0.22%
17.225	Unemployment Insurance		
	Ohio Department of Job & Family Services	$1,417,839,537	
	Total CFDA # 17.225	$1,417,839,537	8.00%
17.245	Trade Adjustment Assistance		
	Ohio Department of Job & Family Services	$10,169,652	
	Total CFDA # 17.245	$10,169,652	0.06%
Workforce Investment Act (WIA) Cluster			
17.258/17.259/17.260			
	Ohio Department of Job & Family Services	$142,260,514	
	Other Agencies (Not Tested as a Major Program)	4,082,936	
	Total WIA Cluster	$146,343,450	0.83%

STATE OF OHIO
JULY 1, 2007 THROUGH JUNE 30, 2008
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
U.S. Department of Transportation			
Highway Planning and Construction Cluster			
20.205/23.003			
	Ohio Department of Transportation	$1,119,166,781	
	Other Agencies (Not Tested as a Major Program)	114,592	
	Total Highway Planning and Construction Cluster	$1,119,281,373	6.32%
U.S. Department of Education			
84.010	Title I Grants to Local Education Agencies		
	Ohio Department of Education	$411,969,825	
	Total CFDA # 84.010	$411,969,825	2.32%
Special Education Cluster			
84.027/84.173			
	Ohio Department of Education	$499,407,332	
	Other Agencies (Not Tested as a Major Program)	5,061,943	
	Total Special Education Cluster	$504,469,275	2.85%
84.126	Rehabilitation Services-Vocational Rehabilitation Grants to States		
	Rehabilitation Services Commission	$122,483,348	
	Total CFDA #84.126	$122,483,348	0.69%
84.282	Charter Schools		
	Ohio Department of Education	$13,607,426	
	Total CFDA # 84.282	$13,607,426	0.08%
84.287	Twenty-First Century Community Learning Centers		
	Ohio Department of Education	$25,701,669	
	Total CFDA # 84.287	$25,701,669	0.15%
84.357	Reading First State Grants		
	Ohio Department of Education	$19,078,820	
	Total CFDA # 84.357	$19,078,820	0.11%
84.367	Improving Teacher Quality State Grants		
	Ohio Department of Education	$93,970,404	
	Other Agencies (Not Tested as a Major Program)	3,607,785	
	Total CFDA # 84.367	$97,578,189	0.55%
Election Assistance Commission			
90.401	Help America Vote Act Requirement Payments		
	Secretary of State	$4,027,629	
	Total CFDA # 90.401	$4,027,629	0.02%

STATE OF OHIO
JULY 1, 2007 THROUGH JUNE 30, 2008
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
U.S. Department of Health and Human Services			
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance		
	Ohio Department of Health	$21,203,502	
	Total CFDA # 93.283	$21,203,502	0.12%
93.558	Temporary Assistance for Needy Families		
	Ohio Department of Job & Family Services	$911,957,405	
	Ohio Department of Development	45,000,000	
	Other Agencies (Not Tested as a Major Program)	8,214,348	
	Total CFDA # 93.558	$965,171,753	5.45%
93.563	Child Support Enforcement		
	Ohio Department of Job & Family Services	$159,187,976	
	Total CFDA # 93.563	$159,187,976	0.90%
93.568	Low-Income Home Energy Assistance		
	Ohio Department of Development	$144,478,331	
	Other Agencies (Not Tested as a Major Program)	290,379	
	Total CFDA # 93.568	$144,768,710	0.82%
93.569	Community Services Block Grant		
	Ohio Department of Development	$22,723,275	
	Total CFDA # 93.569	$22,723,275	0.13%
Child Care Cluster			
93.575/93.596			
	Ohio Department of Job & Family Services	$199,033,880	
	Other Agencies (Not Tested as a Major Program)	470,542	
	Total Child Care Cluster	$199,504,422	1.13%
93.658	Foster Care - Title IV-E		
	Ohio Department of Job & Family Services	$195,507,997	
	Other Agencies (Not Tested as a Major Program)	2,843,853	
	Total CFDA # 93.658	$198,351,850	1.12%
93.659	Adoption Assistance		
	Ohio Department of Job & Family Services	$175,161,878	
	Total CFDA # 93.659	$175,161,878	0.99%
93.667	Social Services Block Grant		
	Ohio Department of Job & Family Services	$131,847,797	
	Ohio Department of Mental Health	8,240,257	
	Other Agencies (Not Tested as a Major Program)	7,082,007	
	Total CFDA # 93.667	$147,170,061	0.83%

STATE OF OHIO
JULY 1, 2007 THROUGH JUNE 30, 2008
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL PROGRAMS

CFDA #	Program Name / State Agency	Disbursements	Percent of Total
93.767	State Children's Insurance Program		
	Ohio Department of Job & Family Services	$172,669,561	
	Ohio Department of Mental Health	22,487,431	
	Other Agencies (Not Tested as a Major Program)	7,714,618	
	Total CFDA # 93.767	$202,871,610	1.14%
Medicaid Cluster			
93.775/93.776/93.777/93.778			
	Ohio Department of Job & Family Services	$6,578,131,104	
	Ohio Department of Mental Retardation and Developmental Disabilities	692,472,202	
	Ohio Department of Mental Health	287,338,627	
	Other Agencies (Not Tested as a Major Program)	280,041,882	
	Total Medicaid Cluster	$7,837,983,815	44.23%
93.917	HIV Care Formula Grants		
	Ohio Department of Health	$18,789,161	
	Total CFDA # 93.917	$18,789,161	0.11%
93.994	Maternal and Child Health Services Block Grant to the States		
	Ohio Department of Health	$24,147,538	
	Total CFDA # 93.994	$24,147,538	0.14%
Social Security Administration			
Disability Insurance/SSI Cluster			
96.001	Social Security - Disability Insurance		
	Ohio Rehabilitation Services Commission	$76,758,203	
	Total SSI Cluster	$76,758,203	0.43%
U.S. Department of Homeland Security			
Homeland Security Cluster			
97.067	Homeland Security Grant Program		
	Ohio Department of Public Safety	$25,816,039	
	Other Agencies (Not Tested as a Major Program)	$1,186,917	
	Total Homeland Security Cluster	$27,002,956	0.15%
Total Major Federal Programs		$16,348,190,305	92.24%
Other Federal Programs		1,374,598,699	7.76%
Total Federal Awards Expenditures		$17,722,789,004	100.00%

STATE OF OHIO
JULY 1, 2007 THROUGH JUNE 30, 2008
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 Administrative Knowledge System (OAKS) *			
1. IT - OAKS Security	2008-OAKS01-004	Material Weakness/ Significant Deficiency	191
2. IT - OAKS Reconciliations	2008-OAKS02-005	Material Weakness/ Significant Deficiency	197
3. IT - OAKS Program Changes	2008-OAKS03-006	Significant Deficiency	201
4. IT - OAKS FIN Requisition and Chartfield Maint. Controls	2008-OAKS04-007	Significant Deficiency	203
Ohio Office of Budget and Management (OBM)			
1. Cash Management - Interest Distributions	2008-OBM01-008	Noncompliance/ Significant Deficiency	206
Ohio Department of Development (DEV)			
1. HEAP/TANF - Tracking and Documentation	2008-DEV01-009	Significant Deficiency	208
Ohio Department of Education (EDU)			
1. IT - Application Development & Maintenance	2008-EDU01-010	Significant Deficiency	210
2. IT - Security	2008-EDU02-011	Significant Deficiency	212
Ohio Department of Health (DOH)			
1. Period of Availability	2008-DOH01-012	Questioned Costs	215
2. Subrecipient Monitoring	2008-DOH02-013	Noncompliance/ Significant Deficiency	217
3. Earmarking - MCH	2008-DOH03-014	Noncompliance/ Significant Deficiency	220
4. Cash Management	2008-DOH03-015	Material Weakness/ Significant Deficiency	222
5. Lack of Monitoring Conts - Matching & Level of Effort - MCH	2008-DOH03-016	Significant Deficiency	224
6. IT - Program Change Controls	2008-DOH03-017	Significant Deficiency	225
Ohio Department of Job & Family Services (JFS)			
1. MMIS - Claims Reimbursed in Excess of OAC Limits	2008-JFS01-018	Questioned Costs	228
2. Medicaid/FS/TANF-Alien/Refugee Missing Doc - Franklin Co	2008-JFS02-019	Questioned Costs	231
3. Medicaid/TANF - Missing Case Files - Franklin County	2008-JFS03-020	Questioned Costs	235
4. Medicaid/FS-Alien/Refugee Undoc. Eligibility - Cuyahoga Co	2008-JFS04-021	Questioned Costs	236
5. SCHIP - Ineligible Recipient	2008-JFS05-022	Questioned Costs	240
6. TANF - Refusal to Work - Various Counties	2008-JFS06-023	Questioned Costs	242
7. Medicaid/SCHIP - Prior Authorization	2008-JFS07-024	Questioned Costs	246
8. TANF - ELI Missing Case File - Franklin County	2008-JFS08-025	Questioned Costs	248
9. Medicaid/SCHIP - Third Party Liability	2008-JFS09-026	Questioned Costs	251
10. Child Care - Improper Payment - Lucas County	2008-JFS10-027	Questioned Costs	253
11. Medicaid - Voided Warrants	2008-JFS11-028	Questioned Costs	255
12. Child Care Cluster - Cash Management	2008-JFS12-029	Questioned Costs	258
13. IEVS - Due Dates	2008-JFS13-030	Noncompliance	260
14. IEVS - Alert Resolution/Inadequate Documentation	2008-JFS14-031	Noncompliance/ Significant Deficiency	262

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

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE REFERENCE
Ohio Department of Job & Family Services (JFS)			
15. All Applications-Lack of Internal Testing/Automated Controls	2008-JFS15-032	Material Weakness/ Significant Deficiency	265
16. IT - Manual Overrides of CRIS-E	2008-JFS16-033	Material Weakness/ Significant Deficiency	267
17. IT - Access to CRIS-E BI Warrant Files	2008-JFS17-034	Material Weakness/ Significant Deficiency	268
18. Various Programs - Coding	2008-JFS18-035	Significant Deficiency	271
19. MMIS - Recertification of Providers	2008-JFS19-036	Significant Deficiency	274
20. Unemployment Insurance Benefits Paid After Ben. Year End	2008-JFS20-037	Significant Deficiency	276
21. Oversight of County Operations - Various Programs	2008-JFS21-038	Significant Deficiency	278
22. IT - Missing/Incomplete Program Change Request Forms	2008-JFS22-039	Significant Deficiency	280
23. IT - Unavailable Program Change Test Documentation	2008-JFS23-040	Significant Deficiency	282
24. IT - Missing Approval Documentation	2008-JFS24-041	Significant Deficiency	284
25. IT - MMIS Production Environment Security	2008-JFS25-042	Significant Deficiency	285
26. IT - CRIS-E Production Environment Security	2008-JFS26-043	Significant Deficiency	289
27. IT - WRS & UC Tax Production Environment Security	2008-JFS27-044	Significant Deficiency	291
28. IT - OJI Production Environment Security	2008-JFS28-045	Significant Deficiency	295
29. IT - SCOTI Production Environment Security	2008-JFS29-046	Significant Deficiency	297
30. IT - Novell Password Parameters	2008-JFS30-047	Significant Deficiency	301
Ohio Department of Mental Health (DMH)			
1. Subrecipient Monitoring	2008-DMH01-048	Noncompliance/ Significant Deficiency	303
Ohio Department of Public Safety (DPS)			
1. Homeland Security Cluster - Cash Management	2008-DPS01-049	Questioned Costs	306
2. Homeland Security Cluster - Inaccurate Federal Reports	2008-DPS02-050	Noncompliance/ Significant Deficiency	307
3. Homeland Security Cluster - Federal Schedule	2008-DPS03-051	Noncompliance/ Significant Deficiency	309
4. Homeland Security Cluster - Equipment Management	2008-DPS04-052	Significant Deficiency	312
Ohio Rehabilitation Services Commission (RSC)			
1. Voc. Rehab. & Social Security Disability Ins – Cash Mgmt	2008-RSC01-053	Noncompliance/ Significant Deficiency	315
2. Social Security Disability Insurance – Doc. of Controls	2008-RSC02-054	Significant Deficiency	317
Ohio Department of Transportation (DOT)			
1. IT - Security	2008-DOT01-055	Significant Deficiency	319

STATE OF OHIO
JULY 1, 2007 THROUGH JUNE 30, 2008
SUMMARY OF FINDINGS AND QUESTIONED COSTS

The findings listed below are also reported in the Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE REFERENCE
Ohio Administrative Knowledge System (OAKS)			
1. IT - OAKS Security	2008-OAKS01-004	Material Weakness/ Significant Deficiency	191
2. IT - OAKS Reconciliations	2008-OAKS02-005	Material Weakness/ Significant Deficiency	197
3. IT - OAKS Program Changes	2008-OAKS03-006	Significant Deficiency	201
4. IT - OAKS FIN Requisition and Chartfield Maint. Controls	2008-OAKS04-007	Significant Deficiency	203
Ohio Office of Budget and Management (OBM)			
1. Cash Management - Interest Distributions	2008-OBM01-008	Noncompliance/ Significant Deficiency	206
Ohio Department of Education (EDU)			
1. IT - Application Development & Maintenance	2008-EDU01-010	Significant Deficiency	210
2. IT - Security	2008-EDU02-011	Significant Deficiency	212
Ohio Department of Job & Family Services (JFS			
15. All Applications-Lack of Internal Testing/Automated Controls	2008-JFS15-032	Significant Deficiency	265
16. IT - Manual Overrides of CRIS-E	2008-JFS16-033	Significant Deficiency	267
17. IT - Access to CRIS-E BI Warrant Files	2008-JFS17-034	Significant Deficiency	268
27. IT - WRS & UC Tax Production Environment Security	2008-JFS27-044	Significant Deficiency	291
28. IT - OJI Production Environment Security	2008-JFS28-045	Significant Deficiency	295
Ohio Department of Transportation (DOT)			
1. IT - Security	2008-DOT01-055	Significant Deficiency	319

The findings listed below are only reported in the Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

AGENCY/COMMENTS	FINDING NUMBER	TYPE OF FINDING	PAGE REFERENCE
Ohio Office of Budget and Management (OBM)			
1. Inconsistency in Financial Reporting	2008-OBM01-001	Significant Deficiency	174
2. Timeliness of Financial Reporting	2008-OBM02-002	Significant Deficiency	175
3. Internal Controls Over Vendor Account Changes in OAKS	2008-OBM03-003	Significant Deficiency	177

STATE OF OHIO
JULY 1, 2007 THROUGH JUNE 30, 2008
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	231, 236	$30,123
10.557 – Special Supplemental Food Program for Women, Infants, and Children	215	49,562
Total U.S. Department of Agriculture		$79,685
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
93.283 – Centers for Disease Control and Prevention – Investigations and Technical Assistance	215,	$4,106
93.558 – Temporary Assistance for Needy Families	231,235,242,248	9,232
93.575/93.596 – CCDF Cluster	253, 258*	95
93.767 – State Children's Insurance Program	240, 251	4,727
93.775/93.777/93.778 – Medicaid Cluster	228,231,235,236, 246,251, 255*	2,240,111
Total U.S. Department of Health and Human Services		$2,258,271
U.S. DEPARTMENT OF HOMELAND SECURITY		
97.004/97.067 – Homeland Security Cluster	306	$1,376,143
Total U.S. Department of Homeland Security		$1,376,143
TOTAL QUESTIONED COSTS - STATE OF OHIO		**$3,714,099**

Note: * Finding numbers 2008-JFS11-028 on page 255 and 2008-JFS12-029 on page 258 reported questioned costs for which the amounts could not be determined.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO ADMINISTRATIVE KNOWLEDGE SYSTEM

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

Finding Number	2008-OAKS01-004
CFDA Number and Title	All Programs Administered by the State
Federal Agency	All Federal Agencies
Compliance Requirement	Activities Allowed or Unallowed; Allowable Costs; Cash Management; Matching, Level of Effort, Earmarking; Period of Availability; Procurement and Suspension and Debarment; Program Income; and Reporting

SIGNIFICANT DEFICIENCY – MATERIAL WEAKNESS

To help reduce the likelihood of unauthorized use of key computer resources, organizations restrict both logical and physical access to their computer systems, programs, and data. The level of access established must be commensurate to a specific user's current job responsibilities and needs, requested by an appropriate level of management, approved by system owners, implemented by designated security personnel, and periodically reviewed and validated by management. In a sound internal control environment, these security controls and restrictions would include, but not be limited to:

- Policies which identify the proper use of IDs and passwords and sanctions for misuse. Management must ensure employees are aware of the importance of maintaining individual IDs and the confidentiality of their passwords.
- Access rules which require passwords be a minimum number of characters in length, difficult to guess, contain no repeating characters, and changed periodically and provide for the suspension of user identification codes or the disability of the terminal, PC, or data entry device following a pre-defined number of unsuccessful attempts to access the system or applications.
- The use of a formalized access request form to document information about the employee and the access requested, and to provide a format for authorization by user and data processing management.
- Proper communication between departments when transferring or terminating employees and immediately upgrading or removing the electronic and physical access rights of users who have changed jobs or left the organization.
- Edit checks which promote the accuracy, completeness, and validity of data and provide for an appropriate separation of duties between incompatible functions.
- The use of security auditing tools to selectively record events for analysis and detection of security breaches. The audit data is typically recorded in log files and unique audit session ID called "audit tag" are generated and associated with the user's process.
- Environmental and physical control features (temperature controls, fire extinguishers/sprinklers, door locks, etc.) to protect the systems' hardware and data.

The State of Ohio implemented a new Enterprise Resource Planning (ERP) system called the Ohio Administrative Knowledge System (OAKS). This ERP system is used by the state to support administrative functions, such as finance (in the FIN module) and human resources (in the HCM module) for the state's agencies, boards, and commissions. The HCM module was implemented in January 2007 and the FIN module was implemented July 1, 2007. Functional responsibilities related to the OAKS HCM and FIN modules during the audit period were as follows:

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

- Accenture was the project contractor responsible for the administration, security, maintenance, and operations of the OAKS software.
- DAS provided the data processing center (with Internet services and utilities) that housed the OAKS production servers.
- OBM was responsible for the integrity of the FIN data and paying the State's obligations through OAKS via electronic fund transfers (EFT process).
- DAS was responsible for the integrity of the HCM data, the warrant writing facilities and related operations.

In state fiscal year 2008, as reported by the OAKS FIN general ledger, OAKS processed $58.9 billion in revenue and $50.1 billion in non-payroll expenditures, and HCM processed approximately $4.4 billion in payroll expenditures. These transactions included both state and federal funds for state agencies, departments, boards, commissions, and universities; 112 entities that processed revenue and 150 that processed expenditures. Although security features were built into the OAKS system, multiple control weaknesses that represented varying degrees of risk to the OAKS processing environment existed during fiscal year 2008. These weaknesses are presented below in two sections: material control deficiencies that pose the greatest risk to the security of the HCM and FIN processing environments; and other control deficiencies that, although individually pose less control risk, contribute significantly, in aggregate, to the overall risk of the OAKS security environment.

MATERIAL CONTROL DEFICIENCIES

- Password parameters were not set to OAKS standards for the UNIX servers that house the production OAKS programs and data for all 198 state and contractor user accounts as follows:

  – Accounts and passwords never expired.
  – Accounts did not lock out after a set number of invalid attempts.
  – Accounts were not disabled after a predetermined amount of terminal inactivity.
  – Passwords were not required to be reset after the account was re-opened.
  – Passwords were not required to be unique, which allowed previous passwords to be re-used.

- Of 60 tested FIN users sampled from a population of 13,740, five (projected to 1,145) were authorized by a CFO/Designee not listed on the authorized signatory listing. In addition, one of 60 users (projected to 229) had a form submitted with no CFO listed.

- There were 13 of 60 tested FIN users (projected to 3,000) who had additional roles not authorized on the User Security Access request form or the documentation which defined initial role assignments between OAKS and their home agencies.

- There were 72 unauthorized user accounts that could move FIN program code into production or could make changes directly to production program code.

- There were 22 unauthorized user accounts that could move HCM program code into production or could make changes directly into production code.

- Effective segregation of duties was not in place for 10 developer accounts that had access to make changes to the HCM production programs and also had access to move code into the HCM production environment.

- Three developer accounts had unauthorized access to the OAKS production databases.

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

- There were 95 user accounts with unauthorized access to one or more permission lists that allowed the ability to modify access roles in FIN. There was one system account that was erroneously shared by the security team with access to six permission lists in FIN. Additionally, there were 83 database administrators, six developers, and 14 contracted employees with access to add and modify user roles in FIN.

- 37 users either had UPDATE access instead of VIEW access to the FIN vendor database or had job duties that were questionable for requiring any logical access to the vendor database.

- One user had unauthorized access to post directly to the Actuals ledgers (production GL).

- Eight of 18 users had unauthorized access to update the FIN chartfields.

- Instead of being restricted to their own agency, 307 users had a security profile that allowed the user access to HCM data for *all* agencies within the State of Ohio. Fifteen of the 35 user accounts tested with this level of security did not have a corresponding security request form available for review and 23 had no authorizing signature.

- There is a corrections security privilege within the OAKS HCM module that allows modifications to existing employee payroll records and position data. There were 255 users with this privilege that no longer required that access.

- Five of 60 HCM users tested (projected to 278) were not included on the original approval spreadsheets for their agency submitted during the initial load and did not have an approved security access request form in place of the original approval. Of the 55 users who had access requests available, 50 (projected to 3,000) had access roles in HCM which were not authorized.

- Periodic access reviews of the user accounts with access to the HCM and/or FIN application modules in OAKS were not completed.

- Periodic access reviews of the Windows user accounts with access to the OAKS network were not completed.

- OAKS did not have formalized procedures that effectively addressed the termination of state or contracted personnel. Of the 5,810 employees terminated during the audit period, 381 had access roles in FIN that were not revoked and 23 had access roles in HCM that were not revoked.

OTHER CONTROL DEFICIENCIES

<u>Security Management</u>

- Eight of 30 (27%) employees tested did not have a signed non-disclosure agreement available and 12 (40%) did not have a signed acknowledgement of the OAKS workplace and IT policies.

- PeopleSoft security violation incident reports were not maintained to evidence that incidents were reviewed and addressed during the audit period.

- The login logs for the OAKS production servers did not track when users switched from using their own accounts to the OAKS superuser account. This information is important for monitoring use of the superuser account. The 16 logs tested from the four production servers were either not available or were missing various weeks of data.

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

Security Access Forms

- For four of the 60 HCM users tested, security access forms were not approved or completed properly. There was no pre-authorized list of supervisors authorized to submit access requests for each agency.

- There were multiple versions of the HCM access request form, and none contained a complete and accurate listing of assigned roles.

- 18 of the 30 Windows users tested did not have an IT access request form available to document authorization of access or the level of network access requested.

Unauthorized Access

- 48 users with access to the FIN development testing environment were unauthorized.

- 34 users with access to the FIN test production testing environment were unauthorized.

- 186 users with access to the HCM development testing environment were unauthorized.

- The OAKS QAS test environment was refreshed every two weeks with production data. This gave test personnel the ability to view production data that included personal employee information.

- One HCM developer with login access to three of the four production UNIX servers, and two FIN developers whose accounts were disabled, should have had their access removed.

- 11 user accounts had unauthorized access on the four OAKS production servers.

- There were 11 HCM accounts with the security administrator role that were loaded with the original PeopleSoft installation. Although the accounts were locked, users with the security administrator role (and SWAT2 role) had the capability to unlock the 11 accounts.

- Electronic access to the OAKS FIN, HCM, EPM (data warehouse environment), and CRM (Customer Relationship Management) data was controlled through the database servers. There were 35 users with access to the OAKS production databases that did not require the access as follows:

  - 17 users did not require access to the HCM production database.
  - 14 users did not require access to the FIN production database.
  - Three users did not require access to the EPM data warehouse.
  - One user did not require access to the CRM database.

- Logical access to the PeopleSoft automated batch scheduling software that scheduled all the batch jobs was administered through the batch administrator account. Eight OAKS batch team members (two state employees and six contractors) knew the password and used the batch administrator account. Additionally, the account had a password lifetime of 26 years and there was no evidence indicating the account password was changed during the audit period, even though employees with knowledge of the password were terminated during the audit period.

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

- When logged in to OAKS_HCM with a user who had row-level access for agency "A" and searching for an employee known to the application to work for agency "B", OAKS did not allow the personal and job data for the employee at agency "B" to be accessed or modified. However, OAKS did allow changing the department in the position data screen to a department defined to agency "B" and subsequently allowed an employee from agency "A" to be assigned to a position at agency "B".

- Combo codes indicate the account to be charged for various payroll expenditures (earnings, deductions, taxes, etc.) and multiple combo codes may be assigned for a given position. When attempting to manually enter a HCM combo code for agency "B" while logged in as an agency "A" user, the combo code was accepted.

Physical Security

We noted the following during testing of physical access controls at the main OAKS Project Management Office (PMO1):

- Of the 255 available access cards, 37 cards/slots did not match up from the key pad to the spreadsheet maintained to track the keycard access. Six cards were assigned to unauthorized users and two employees were assigned multiple cards.

- 12 of 25 users with access to the server room were unauthorized. In addition, because reports were unavailable, the ability to monitor server room access assignments was cumbersome and user access had to be reviewed one user at a time.

- A door leading into PMO1 from the State Library did not lock during business hours. Although a visitor sign-in sheet was maintained at the receptionist's desk, all visitors were not required to sign in to gain access to the building.

- Key network servers and hardware components were on the floor of the server room. In addition, humidity controls did not exist, resulting in severe mold on the wall and ceiling.

We noted the following during testing of physical access controls at the State of Ohio Computer Center (SOCC):

- OAKS production servers and tapes were not physically restricted from non-OAKS personnel. The OAKS servers were housed in cages, but the cages were not locked. In addition, OAKS data tapes were sitting against the wall unsecured.

- The computer room that houses the OAKS production servers also houses production servers owned and operated by other state agencies. Although a physical access reconciliation process was in place, 339 users had access cards to this computer room location.

- The DAS/OIT security department completed quarterly reconciliations with all participating agencies to validate physical access restrictions to the SOCC. No documentation in response to the reconciliation requests was available for three agencies (ODE, ODH, and DPS).

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

Sound IT security controls are imperative for ensuring only authorized personnel are processing OAKS FIN and HCM transactions. Without a combination of effective password and login controls in place, documented access authorities for all users, comprehensive and timely termination procedures, and regularly-scheduled reconciliations of defined user access rights, the risk could be significantly heightened that financial programs and data files would be purposely or accidently destroyed or corrupted. Misuse or misappropriation of material state and federal monies could occur as a result of unauthorized access to testing or production regions of OAKS.

In addition, a lack of adequate security violation and administrative account monitoring provides an even greater risk that fraudulent and accidental transactions could occur. Security breaches or unnecessary use of superuser accounts would also go undetected. Inadequate physical and environmental controls would contribute to the risk of unauthorized access to key hardware and software assets. Improper environmental controls could lead to the corruption of key data files and damage to equipment.

Several security weaknesses were the result of a lack of monitoring to ensure that control procedures were being consistently performed and the documentation evidencing performance of the control was maintained. Contributing factors include turnover and vacancies in several key OAKS management positions and heavy reliance on contract personnel. In addition, according to OAKS management, in some instances elevated access was granted to help ensure users had sufficient access to perform their jobs prior to and during the implementation phases of the OAKS system and was not subsequently reviewed and removed after OAKS was in production.

We recommend OAKS management update their policies and procedures and strengthen internal controls related to the monitoring, security, and storage of the OAKS programs and data. Management must ensure employees or contractors responsible for performing control procedures have the necessary training and knowledge and must ensure that controls are operating effectively. The strengthened controls should help ensure OAKS HCM and FIN transactions are securely and continually accessed by only authorized personnel, user access is accurately documented, access is periodically reconciled, and all related OAKS hardware components are physically and environmentally secure.

Official's Response and Corrective Action Plan

There is no evidence provided that links these comments to potential material discrepancies in financial reporting. OAKS management began remediation efforts of all security comments as soon as they were known. At this point remediation has been completed on 19 of 21 security related SAS 70 comments.

We strongly disagree with the auditor's assertion that any material weakness existed with respect to this comment. The auditor has not disclosed testing to support findings of material weaknesses in the summarized comments. Without testing there is no basis for this determination.

Anticipated Completion Date for Corrective Action

Remediation has been completed on 19 comments and will be completed on the 2 (two) remaining comments by January 2010. OAKS management continues on a daily basis to monitor OAKS security.

Contact Person Responsible for Corrective Action

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

Auditor of State's Conclusion

We appreciate that OAKS management has begun remediation of 19 of the 21 comments described in the Auditor of State's SAS 70 report on OAKS, which we issued January 22, 2009. While we agree these deficiencies did not result in material misstatements, professional standards require us to categorize these deficiencies based on the *potential* for unauthorized transactions and/or program changes which could compromise the integrity of the financial reporting process.

The Official's statement above that "The auditor has not disclosed testing . . ." is incorrect. Our work papers include audit documentation to support all the statements we made above, which was part of the Auditor of State's SAS 70 report on the OAKS system. We can share our supporting evidence upon management's request.

2. INFORMATION TECHNOLOGY – OAKS RECONCILIATIONS

Finding Number	2008-OAKS02-005
CFDA Number and Title	All Programs Administered by the State
Federal Agency	All Federal Agencies
Compliance Requirement	Activities Allowed or Unallowed; Allowable Costs; Cash Management; Matching, Level of Effort, Earmarking; Period of Availability; Procurement and Suspension and Debarment; Program Income; and Reporting

<u>SIGNIFICANT DEFICIENCY – MATERIAL WEAKNESS</u>

When an effective automated accounting system processes transactions, controls are in place to help ensure these transactions are entered by authorized personnel. These detail transactions must be accepted, processed, validated, and posted in a controlled manner. The detail transactions must be completely and accurately processed and posted to a general ledger (GL) that fairly represents these detail transactions to allow accurate financial reporting to occur. Timely reconciliations of the control totals between the detail transactions and the summary totals in the GL provide an effective control to help ensure the integrity of the financial reporting from the GL.

During fiscal year 2008, the State of Ohio processed $58,914,962,687 in revenue and $54,487,730,121 in expenditures (comprised of $50,091,679,643 for non-payroll expenditures and $4,396,050,478 for payroll expenditures) using the Ohio Administrative Knowledge System (OAKS), which serves as the State's accounting system. However, controls were not in place in the OAKS software to reconcile the Financials (FIN) and Human Capital Management (HCM) module transaction totals to the totals reflected in the production GL, either on a monthly basis or at year end, nor was OAKS management aware if manual reconciliations were being performed by state personnel during the audit period between the GL and detail files. Although OBM management indicated they did perform cash reconciliations between the modules, GL and Treasurer of State, these procedures were not performed until after year end and were not part of our OAKS testing. Therefore, the auditor performed extensive manual reconciliation procedures and, after much difficulty and extensive investigation of many significant preliminary variances, determined there were no material variances between the GL and the detail transaction files.

While performing these procedures, we also noted the following issues that increased the likelihood of variances between the transactions and the GL. Although the amounts of the variances are not all significant, these issues identify areas were additional edits or other controls are warranted.

2. INFORMATION TECHNOLOGY – OAKS RECONCILIATIONS (Continued)

- The system allows transactions coded with expenditure account codes to be processed in the accounts receivable (AR) module and transactions coded with revenue account codes to be processed in the accounts payable (AP) module. Although AR transactions in the AP module would be acceptable if they were refunds, there was not an effective way to identify refund transactions. We identified 761 non-payroll expenditure transactions, totaling $28,554,770, in the AR module; and 286 revenue transactions totaling $827 in the AP module.
- The system does not have an edit to prevent identical journal IDs with different account codes from being used for corresponding transactions in the detail files and the GL journal tables. Such transactions were identified in the 2008 data (possibly the result of account code changes in the GL that were not also made to the original transaction).
- No edit is in place to require the agency (entered as Department ID) or fund be included in the data entered into the detail transaction in AR. Although such an edit is in place when transactions are posted to the GL, no corresponding adjustments are made to the AR transactions to include this missing information. We noted 85 AR transactions totaling $12 million that did not have an agency assigned to the transactions and 365,621 AR transactions totaling $55 billion with no fund. This did not impact the financial statements because the information was added at the GL level; however, the detail support did not reflect how this information was recorded.
- The system edits designed to prevent payroll and AP transactions from being entered without an agency were not functioning as intended. We noted 27,000 payroll transactions totaling $16 million and 181 AP transactions totaling $37,100 that did not have an agency assigned to the transaction.
- The miscellaneous revenue table in OAKS allowed transactions to have dollar amounts with three decimal places, causing rounding errors.
- Adjustments made to the GL for revenue, payroll and non-payroll expenditure Chartfields, were not retroactively changed in the original module (AR, AP, HCM). Because the GL adjustments were not linked to the original transaction, there was no way to determine if a transaction was modified or cancelled by looking at the transaction detail.
- Dates within OAKS were not always consistent; it was difficult to determine the appropriate date for a transaction, and there was not a formal guide to define the meaning and use of the available dates.

In addition to the OAKS FIN and HCM applications, the PeopleSoft Enterprise Performance Management (EPM) environment, referred to as the OAKS data warehouse, provided a repository of financial data extracted nightly from the OAKS production environment. This data warehouse was used by agency users and staff to query data and produce standard and customized financial reports for use by their respective agencies. Although not a mirror image of all the transactions in production, the data warehouse was designed to reflect a complete and accurate financial picture of the production GL and to provide for financial reporting from the data warehouse without disruption of the production environment's processes. However, no reconciliation of the production GL to the data warehouse totals and amounts occurred for fiscal year 2008 in order to ensure the integrity of the financial information from the EPM and the custom reports produced from it by the agency users.

If the integrity of the detail transaction data is compromised, the financial reporting that comes from the corresponding general ledgers is susceptible to error. Questionable general ledger data increases the risk that the State's financial condition may be misrepresented. This would impact the integrity of the State of Ohio's Comprehensive Annual Financial Report, a key document relied on by many external entities. In addition, the integrity of any financial reporting originating from the data warehouse could be jeopardized if the data warehouse control totals are not routinely reconciled to the production GL.

According to OAKS and OBM management, automated control procedures were not designed in PeopleSoft during fiscal year 2008 to reconcile the OAKS detail transaction control totals to the production GL control totals. Since management's emphasis was to meet the July 1, 2007 deadline to get FIN into production, these automated or any compensating manual controls were not a priority to design and implement. Production GL to data warehouse reconciliations were designed and implemented, but were inadequate and operated for only a part of the audit period. Management indicated it was not a priority to address these issues during the fiscal year.

2. INFORMATION TECHNOLOGY – OAKS RECONCILIATIONS (Continued)

The edits that required chartfields such as fund and department were not originally built into the purchased software. Although the edits were planned to be implemented into the customized software, OAKS management did not have time to design and implement them before FIN went into production. Subsequent coding corrections in the GL were not required to be automatically synchronized or manually changed in the respective OAKS modules. OAKS management could not explain why some journal entries entered in the GL had no corresponding entry in the OAKS modules. OBM management indicated the majority of these items related to corrections for errors made by state agencies as they were adapting to this new system.

We recommend OAKS management implement automated and/or manual controls to provide month-end and year-end reconciliations between the detail HCM and FIN transaction totals and the corresponding production GL summary totals. We also recommend timely reconciliation procedures be implemented to ensure the continual agreement of production GL totals to the corresponding data warehouse totals. Any significant variances identified as part of these reconciliation procedures should be investigated and any required adjustments resulting from this process thoroughly documented and approved by an appropriate level of management. Support documentation of the reconciliations should be maintained for at least one audit cycle.

In addition, to help eliminate potential variances in amounts between the detail transaction files and the GL, we recommend:

- Edits be enhanced to help ensure all OAKS agency transaction data is entered completely and accurately according to DAS and OBM specifications. This should include a control to ensure a required field, such as agency or fund, is not left blank.
- Transactions are only entered into the correct OAKS modules.
- Edits be implemented to ensure identical journal IDs in the transaction files and GL also have identical account codes.
- Adjustments made directly to the GL are also applied to the OAKS module where the transaction originated.
- Transaction amounts are accepted throughout OAKS with a consistent number of decimal places.
- All dates are consistently applied throughout OAKS and documentation to explain the various dates in OAKS is readily available.

Official's Response and Corrective Action Plan

As mentioned in the Auditors report, The FIN module, which is the primary source of the State's financial transactions, was implemented on July 1, 2007 and was utilized in totality for the first time in preparing the fiscal year 2008 financial statements. Planning and development efforts for the new enterprise wide system began in 2001 under the Taft Administration and were finally implemented in 2007.

In FY 2009 OBM created the Data Integrity Group within State Accounting to address the reconciliation, validation and control requirements of the OAKS system. When fully staffed, the department will contain four individuals with the accounting, analysis, auditing and technical skills to develop and implement the appropriate validation methodologies.

Subsequent to go live, OBM also identified many of the same issues as the auditor and has initiated corrective actions, many of which, are complete or well under way. Although the discrepancies noted by the auditor are insignificant, OBM strongly supports data accuracy and integrity and has placed a priority on this effort. Below are specific responses to the individual items addressed in the auditors comment:

- *For FY 2008 year end, reconciliations were performed as a manual control mitigating the risk of a lack of system controls that were not in place in the OAKS software throughout FY 2008. The mitigating control, cash reconciliation, included three sources of information drawn from (1) the OAKS general ledger, (2) detail queries for OAKS detail posted in the A/R and A/P sub-modules within OAKS and*

2. INFORMATION TECHNOLOGY – OAKS RECONCILIATIONS (Continued)

(3) the Treasurer of State published record of Revenue, Disbursements and Cash Balance. Monthly system balancing has been in effect since July 2009. As suggested by the auditor, this is a control balancing of OAKS detail transactions by source of origin to the General Ledger account balances for all balance sheet accounts and total revenue and expense account categories. This is a high level data integrity reconciliation of general ledger balances to sub module postings of A/R, A/P, HCM, and JRN (misc journal corrections) by journal entry and date.

- *There are a finite number of non-payroll journal entries that bypass the sub ledgers and post directly to the OAKS general ledger. All of these are reviewed and posted by OBM. These occur for error corrections and reclassification of large subsidy payments where reversal and correction through the sub-modules is impractical. These are being logged and reviewed by OBM State Accounting. These are reviewed with the agency for root cause and corrective actions developed which will further limit this activity.*

- *A system edit is currently in test mode which restricts expenditure accounts in the A/R module and revenue accounts in the A/P module as appropriate.*

- *Identical journal ID's are used in the sub-modules and G/L in certain cases to provide a cross reference when corrections are made in the G/L. Although the ID is the same, the journals are unique by virtue of association with the system date and time stamp. This is delivered PeopleSoft functionality which would require a custom code update. We do not agree that this is necessary. We will communicate to users to append a letter to the original ID to create a more unique journal ID.*

- *An enhancement request to require business unit and fund when entering transactions in A/R was prepared shortly after go live. Since the change would require thousands of development hours it was shelved due to many competing priorities in the post go live environment. OBM has revisited this request and it is being costed out in the new managed services environment.*

- *HCM payroll entries are occasionally interfaced to OAKS without appropriate combo edit codes. This occurs because HCM went live prior to FIN and HCM was programmed initially to interface into CAS, a non PeopleSoft application. When the system integration is properly configured HCM and FIN share common chart field values so that interfacing entries are validated prior to entering the GL. The OAKS Quality Assurance team is working with Oracle to determine the size of this remediation effort. We anticipate having this completed prior to the close of FY10.*

- *Three decimal places is a standard delivered configuration of PeopleSoft. To change to the recommended two would require significant custom coding. OBM does not believe this is a prudent strategy or an effective use of limited resources.*

- *There are several dates within PeopleSoft for financial transactions. The Data Integrity Group is actively working to understand these in connection with their reconciliation activity in establishing cutoff dates between the modules and G/L. Once a firm understanding is confirmed it will be communicate throughout the OAKs community.*

Anticipated Completion Date for Corrective Action

Various, all completed by end of FY 2010.

Contact Person Responsible for Corrective Action

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3. INFORMATION TECHNOLOGY – LACK OF PROGRAM CHANGE CONTROLS IN OAKS

Finding Number	2008-OAKS03-006
CFDA Number and Title	All Programs Administered by the State
Federal Agency	All Federal Agencies
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs, Reporting

SIGNIFICANT DEFICIENCY

In order to minimize the corruption of information systems and help ensure automated applications are performing as management intended, strict controls must be in place to guide program modifications during the entire program change life cycle. In a sound internal control environment, these program change controls and restrictions would include, but not be limited to, the following control procedures:

- All program change requests are documented, initiated by authorized users, prioritized, assigned, and approved by the proper user and IT authorities during key control points of the program change life cycle. All key program change documentation is maintained according to published program change policies and standards.
- Documentation of all test plans and test results for program changes must be maintained along with evidence of user and IT acceptance of those results.
- Access to test regions must be restricted to authorized programmers and/or developers. A secure test region is designed and established to be representative of the planned operations environment relative to security, internal control, operational practices, data quality, and privacy requirements.
- Sensitive production data that must be used in the test environment is masked or sanitized to prevent IT personnel from unnecessarily viewing personal information. If sanitizing the test data prevents effective testing, the sensitive data must be sanitized or deleted immediately following successful testing and documentation.
- All tested programs must be approved before the final migration into the production environment. Documentation of that approval must be maintained.
- Program changes must be documented to be clear and meaningful to facilitate effective application modifications from subsequent programmers.

In state fiscal year 2008, as reported by the OAKS FIN general ledger, OAKS processed $58.9 billion in revenue and $50.1 billion in non-payroll expenditures, and HCM processed approximately $4.4 billion in payroll expenditures. The change process for the OAKS FIN and HCM application modules is largely controlled through automated change control software tools. Authorized programming staff members are required to formally indicate, through the use of 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. As noted by the exceptions identified below, program change controls were not consistently performed:

- Six (15%) of the 39 tested HCM change requests and one (3%) of the tested 38 HCM System Investigation Requests (SIR) change requests were not authorized by OAKS management to complete the requested program change.
- 19 of the 39 (49%) HCM tested change requests did not have programmers assigned to the requests.
- Both testing and pre-migration approvals were not documented for four HCM maintenance packs prior to placing these changes in production.
- Test documentation was not available for any of the 23 FIN or 37 HCM changes tested.
- Eight of 23 selected FIN program changes and eight of 57 selected HCM program changes did not have corresponding updated technical documentation.

3. INFORMATION TECHNOLOGY – LACK OF PROGRAM CHANGE CONTROLS IN OAKS (Continued)

In addition, the OAKS test and development servers under the control of Accenture were housed at a Cincinnati area data center. These OAKS FIN and HCM testing environments were populated with live production data. The data contained sensitive information about all state employees, including salaries, social security numbers, bank account numbers, and dependent information. The personal information in the data was not sanitized or masked. The Mercury ITG software used by OAKS provided tracking and monitoring of application changes and a feature to mask and sanitize data used for the testing environment; however, this feature was not used. As a result, any user with access to the test environment could view employees' personal information.

If standardized procedures for modifying application programs, maintaining testing documentation, and migrating changed and approved programs into production are not followed, unauthorized, incomplete, or untested program changes could be placed in production. The lack of adequate test documentation and program change comment cross referencing may increase the cost and time burden to the State for future program modifications because an information systems professional who is unfamiliar with the programs would not have current information to obtain an understanding of the changes to applications. In addition, it may be impossible to duplicate or evaluate testing scenarios in the event that problems arise later that require subsequent review of the program changes. These control weaknesses could adversely affect the State's ability to effectively modify the programs that process state revenue and expenditure transactions.

Additionally, by using actual production data in the testing environment, any user with access to the testing environment could access sensitive data and use this information for fraudulent activities or personal gain.

According to OAKS management, because many of the project assignments were pre-determined, documenting these assignments was overlooked. Approvals of the program changes were completed; however, not all of the approval documentation could be located at the time of the audit. OAKS management also indicated the HCM maintenance pack changes with missing required testing and pre-migration approvals had e-mail notifications that testing was completed and approved; however, the related e-mails could not be located at the time of the audit. Management noted that all of the HCM and FIN program changes identified with missing change documentation were due to oversight by the programmers making the changes.

In addition, OAKS management said they were refreshing the test environments with live data so that developers would be able to test scenarios similar to production and that it would take a significant effort to mask the data; however, OAKS management has been looking into methods to mask sensitive data in the development and test environments. At this time, there were no plans to mask data in the QAS environments due to the need to perform root cause analysis.

We recommend OAKS management:

- Complete the change request forms in their entirety as program change work progresses from project submission to the final documentation and training stages. This includes ensuring all key user acceptance and IT approvals required on the form are documented.
- Follow established program change documentation standards to reasonably ensure all necessary test plans and corresponding results for all program changes are maintained.
- Follow established program change documentation standards to reasonably ensure technical and user documentation is provided and maintained.

Additionally, all production data used in the testing environment should be sanitized or masked, whenever possible, to prevent the compromise of sensitive employee information. If sanitizing the test data prevents effective testing, the sensitive data should be sanitized, masked, or deleted immediately following successful testing and documentation.

3. INFORMATION TECHNOLOGY – LACK OF PROGRAM CHANGE CONTROLS IN OAKS (Continued)

Official's Response and Corrective Action Plan

There is no evidence provided that links these comments to potential material discrepancies in financial reporting. OAKS management began corrective planning and remediation efforts of all application and hardware control comments as soon as they were known. At this point remediation has been completed on 5 (five) of these comments and remediation of the remaining comment is projected to be completed by January 2010.

We strongly disagree with the auditor's assertion that any significant deficiency existed with respect to this comment. The auditor has not disclosed testing to support findings of material weaknesses in the summarized comments. Without testing there is no basis for this determination.

Anticipated Completion Date for Corrective Action

Remediation has been completed for 5 of the 6 comments contained in the SAS 70 audit. OAKS management continues to remediate the remaining item, with a projected completion date of January 2010.

Contact Person Responsible for Corrective Action

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Auditor of State's Conclusion

We appreciate that OAKS management has begun remediation of the comments described above. While we agree these deficiencies did not result in material misstatements, professional standards require us to categorize these deficiencies based on the *potential* for unauthorized or inappropriate program changes which could compromise the integrity of the financial reporting process. The Official's statement above that "The auditor has not disclosed testing . . ." is incorrect. Our work papers include audit documentation to support all the statements we made above, which was part of the Auditor of State's SAS 70 report on the OAKS system, dated January 22, 2009. We can share our supporting evidence upon management's request.

4. INFORMATION TECHNOLOGY – OAKS REQUISITIONS & CHARTFIELD MAINTENANCE CONTROLS

Finding Number	2008-OAKS04-007
CFDA Number and Title	All Programs Administered by the State
Federal Agency	All Federal Agencies
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs, Procurement, Reporting

<u>SIGNIFICANT DEFICIENCY</u>

To reduce the risk of loss due to error or misuse of state and federal resources, controls over the purchasing process typically require approval for purchase of goods and services by someone independent of the person requesting the goods or services. Similarly, when changes must be made to important standing data that will impact multiple transactions, the changes must be approved by an authorized individual and documented.

4. INFORMATION TECHNOLOGY – OAKS REQUISITIONS & CHARTFIELD MAINTENANCE CONTROLS (Continued)

The State of Ohio uses the OAKS FIN application module to process all revenue and expenditures for each state agency. During fiscal year 2008, the State of Ohio processed $58,914,962,687 in revenue and $50,091,679,643 in non-payroll expenditures using OAKS, which serves as the State's accounting system. The OAKS system uses a workflow process which allows for multiple levels of approval for electronic requisitions and subsequent purchase orders. A FIN user with both the ability to create and submit a requisition (requisitioner security role) and the final approver role (level 4) within OAKS security could create and approve their own requisition/purchase order. As of May 2008, 268 users were granted this access within OAKS FIN. In addition, there were 700 requisitions within the FIN module from 25 different agencies where the creator and approver of the requisition was the same user, for a total dollar amount of $180,192,618.

Also, OAKS General Ledger defines the financial structure of each organization by combining separate and distinct fields called Chartfields. OAKS uses Chartfields to classify the State's Chart of Accounts for financial reporting. OBM creates and/or modifies Chartfield accounts (department, program, grant/project, project, service location, reporting, agency use, and budget reference) based on Chartfield Change Request forms that are submitted by state agencies. OBM management was responsible for the maintenance of other Chartfields related to the Fund, Account, ALI, and ISTV XREF, and any changes were initiated by OBM personnel. There were 795 changes made to the Fund, Account, ALI, and ISTV XREF Chartfields during fiscal year 2008. However, documentation of these changes was not maintained during the audit period, and a full review of the Chartfields was not performed. In addition, OBM did not maintain a list of authorized agency approvers for the Chartfield Change Request forms. We tested a sample of 60 of 8,913 Chartfields that were added or modified based on agency requests during the audit period and noted the following:

- 24 of 60 changes (40%) did not have a change request form or other documentation available; therefore, we could not determine whether the changes were approved or accurately input into OAKS.
- Of the 36 change request forms available for testing, 16 (44%) were not approved by an authorized agency representative.
- For two of the 36 Chartfield changes input into OAKS, the data in the system was not supported by the available documentation. In one instance the user asked for the program value to be inactivated as of 7/1/08; however it was not actually inactivated until 7/28/08. In the second instance, the request to inactivate the program value was not made. According to OAKS personnel, the agency verbally requested the change request be disregarded, but did not send a formal retraction and no other documentation was maintained.

Without the proper segregation of duties within an organization, there is an increased risk that unauthorized or incorrect purchases are being made. This could result in the misuse of state and federal monies. Finally, if proper change control procedures are not practiced for Chartfield maintenance, there is an increased risk that unauthorized or incorrect Chartfield changes could be made and impact the classification of transactions entered into the OAKS FIN module.

DAS FIN management indicated the system was designed to prevent a user from approving a requisition they created and entered; however, it was not functioning properly during the audit period. OBM management indicated that many of the Chartfields were converted from CAS values when OAKS was developed and because this was a mass-change task, individual documentation was not maintained. If a modification was made to the description or short description, a form was not always completed due to the modification not affecting the Chartfield value. Additionally, due to time constraints, many modifications were requested via e-mail, and the e-mail documentation was not always maintained.

4. INFORMATION TECHNOLOGY – OAKS REQUISITIONS & CHARTFIELD MAINTENANCE CONTROLS (Continued)

We recommend OAKS FIN management implement changes to ensure that users are restricted from creating and approving their own requisition/purchase order. When exceptions must occur, an additional subsequent approval should be required. Management should also ensure that proper segregation of duties is enforced throughout the FIN system. In addition, management should query all purchase orders and vouchers dispersed during the audit period to identify any expense transactions that were submitted and approved by the same individual. These transactions should then be given to the agencies and/or the State's Office of Internal Audit for review to ensure the amounts dispersed were authorized and allowable.

We also recommend OBM management ensure the Chartfield Change Request forms received from the agencies are completed in their entirety and any related support documentation is maintained prior to processing the requested change. A list of personnel authorized to submit the request forms should be established, periodically reconciled with the agencies, and readily available to all OBM maintenance personnel. Procedures should also be established and implemented for the documentation of changes to the Fund, Account, ALI, ISTV and XREF Chartfields made by OBM without the formal request of an agency. Lastly, a full review and confirmation of the current Chartfields should be performed to validate the existing values are correct and authorized by the user agencies.

Official's Response and Corrective Action Plan

There is no evidence provided that links these comments to potential material discrepancies in financial reporting. OAKS management began corrective planning and remediation efforts of all requisitions and chartfield maintenance comments as soon as they were known. At this point remediation has been completed on both these comments.

We strongly disagree with the auditor's assertion that any significant deficiency existed with respect to this comment. The auditor has not disclosed testing to support findings of material weaknesses in the summarized comments. Without testing there is no basis for this determination.

Anticipated Completion Date for Corrective Action

Remediation efforts have been completed on this comment. OAKS management continues to monitor requisition and chartfield maintenance requirements.

Contact Person Responsible for Corrective Action

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Auditor of State's Conclusion

We appreciate that OAKS management has begun remediation of the comments described above. While we agree these deficiencies did not result in material misstatements, professional standards require us to categorize these deficiencies based on the *potential* for unauthorized or inappropriate purchases or program changes which could compromise the integrity of the financial reporting process.

The Official's statement above that "The auditor has not disclosed testing . . ." is incorrect. Our work papers include audit documentation to support all the statements we made above, which was part of the Auditor of State's SAS 70 report on the OAKS system, dated January 22, 2009. We can share our supporting evidence upon management's request.

1. CASH MANAGEMENT – INTEREST DISTRIBUTION

Finding Number	2008-OBM01-008
CFDA Number and Title	Various
Federal Agency	Various
Compliance Requirement	Cash Management

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

31 CFR 205.19 states, in part:

> (c) A State must calculate and report interest liabilities on the basis of its fiscal year. A state must ensure that its interest calculation is auditable and retain a record of the calculations.
>
> . . .

It is imperative management establish policies and procedures which provide reasonable assurance the interest calculation and distribution is accurate and complete and provide for the effective management of records to reasonably ensure appropriate supporting documentation is maintained for all amounts calculated, allocated, and disbursed, and to support the decisions made in all aspects of the process.

In order to determine the amount of interest to be distributed to each state fund, including those that have federal activity ("federal funds"), the Office of Budget and Management (OBM) prepares an interest distribution spreadsheet quarterly. After this determination, the State credits the state funds, including applicable federal funds, with their respective share of investment earnings. The earnings for the federal funds are then immediately transferred from each federal fund to the Cash Management Improvement Fund. Annually, the State reimburses the federal government with their share of the interest earnings on the federal funds from the Cash Management Improvement Fund. The State's interest earnings liability to the federal government for state fiscal year 2008 totaled $2,466,256. OBM was unable to provide support documentation for each of the federal funds' average daily cash balance from each quarter of SFY 2008 recorded in the interest distribution spreadsheet. Additionally, the amount of interest to be distributed to each federal fund was not identified in the spreadsheet. Therefore, we were unable to determine if the amount of interest distributed to the federal funds was complete and accurate. Costs were not questioned, however, because the disbursement of funds to the federal government based on this information did not occur until March 2009, subsequent to our audit period.

Without maintaining the proper support documentation, the State may not be able to fully support or ensure compliance with federal laws and regulations. Lack of compliance could result in questioned costs, fines, and/or penalties. Management indicated the individual responsible for preparing the fiscal year 2008 spreadsheet was no longer employed with the agency and the support documentation could not be located.

We recommend OBM management review current policies and procedures related to investment earnings. Policies and procedures should be updated/implemented as necessary to reasonably ensure appropriate documentation is maintained to support all interest calculations and distributions, and include procedures to ensure all appropriate documentation is obtained from departing employees. We recommend management communicate its policies and procedures to staff to ensure they are carried out as intended. In addition, management should perform periodic reviews of the investment earnings spreadsheet to ensure controls and record retention procedures are being followed by OBM personnel. With regard to the specific payment made in March 2009, we recommend OBM try to locate the documentation related to the calculations related to the interest distributions or otherwise substantiate the amounts to avoid a questioned cost in the fiscal year 2009 audit.

1. CASH MANAGEMENT – INTEREST DISTRIBUTION (Continued)

Official's Response and Corrective Action Plan

The interest allocation process for FY2008 was based on a manually prepared spreadsheet. With regard to the specific payment made in March 2009, OBM has located the documentation related to the calculations related to the interest distributions or otherwise substantiate the payment amounts to avoid a questioned cost in the fiscal year 2009 audit.

Anticipated Completion Date for Corrective Action

Effective with FY 2009 beginning 7/1/08, a new OAKS base interest allocation module was implemented. This is an automated system based on daily fund balances contained in the OAKS system. The system calculates interest transfers and systematically prepares the journal entry posting. Once reviewed, the interest is posted.

We believe that the new system has the necessary controls and audit trail features.

Contact Person Responsible for Corrective Action

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1. TANF/HEAP – TRACKING AND DOCUMENTATION

Finding Number	2008-DEV01-009
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families 93.568 – Low-Income Home Energy Assistance
Federal Agency	Department of Health and Human Services
Compliance Requirement	Allowable Costs and Cost Principles

<u>SIGNIFICANT DEFICIENCY</u>

2 CFR 225 (codification of OMB Circular A-87) establishes principles and standards for determining allowable direct and indirect costs for Federal awards. The Basic Guidelines identified in Appendix A Part C are factors affecting allowability of costs and require costs to be adequately documented; such as by approved purchase orders, receiving reports, vendor invoices, canceled checks, and time and attendance records, and correctly charged as to account, amount, and period.

It is management's responsibility to design and implement control policies and procedures to ensure sufficient tracking of financial activity and programmatic compliance. Sufficient tracking and monitoring entails obtaining and maintaining adequate supporting documentation that details the accurate record of financial or program activity. Adequate supporting documentation not only provides evidence for future inquiry or investigation should a discrepancy occur, but also allows management and external reviewers to ensure accuracy and completeness of the program's financial activity as well as compliance with applicable requirements.

On October 6, 2005, Governor Taft issued an executive order authorizing the use of $75 million in Temporary Assistance for Needy Families (TANF) funding as a supplement to the $100 million Low-Income Home Energy Assistance Program (HEAP). In July 2006, an additional $45 million and $15 million in TANF funding was authorized to supplement HEAP for state fiscal years 2007 and 2008, respectively. These additional funds were to be used to increase the average benefits that eligible Ohioans could receive, as well as increase the income eligibility from 151 percent to 175 percent of the poverty level, thus allowing the State to assist a population that historically has not been served. The primary method for delivering energy assistance in Ohio is through the Ohio Department of Development's Office of Community Services (OCS) and its network of nonprofits. The Ohio Department of Job and Family Services (JFS) and the Ohio Department of Development (the Department) have entered into an Interagency Agreement for the purpose of providing reimbursement to the Department through the TANF program. The TANF heating assistance fund (3BJ0) 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 3BJ0. However, during fiscal year 2008:

- The Department disbursed TANF funds using both Ohio Administrative Knowledge System Fund (OAKS) Fund 3BJ0 and OAKS Fund 3K90, the HEAP fund. The transactions paid from 3K90 were also coded to grant numbers associated with the HEAP program.

1. TANF/HEAP – TRACKING AND DOCUMENTATION (Continued)

- Nine of 60 (15%) vouchers tested (totaling $28,509,703) split the disbursement between funds 3BJ0 and 3K90, but there was no supporting documentation included with the expenditure information to accurately distinguish between the amounts related to TANF and the amounts related to HEAP. Therefore, we were not able to determine from the expenditure support if the amounts charged to TANF related to only those individuals who were TANF eligible. However, costs were not questioned since we were able to verify the eligibility through information maintained in the Department's HEAPSys/OCEAN systems related to the disbursement requests to JFS for the TANF program.

As a result of the process used, the Department had to make almost $10 million in adjustments between funds 3K90 and 3BJ0 in fiscal year 2008. Although the Department maintained documentation to support the adjustments, they were done on a net basis.

Without adequate supporting documentation for expenditures or proper coding and tracking of transactions, the risk that federal funds could be paid for ineligible beneficiaries or from the wrong program, or other compliance requirements will not be met is greatly increased. OCS management indicated the timing of the TANF program's implementation created problems in the initial year of funding (2006) which carried over into fiscal years 2007 and 2008. They indicated they will no longer be receiving TANF funding in fiscal year 2009.

We recommend management ensure the amount of TANF funds that were paid from HEAP or other sources was returned to their original source. In addition, if TANF funds are received in the future, we recommend that any expenditure transactions related to TANF be assigned unique coding so they can be readily identified in the State's accounting system.

Official's Response and Corrective Action Plan

As of the date of this report, the Ohio Department of Development (ODOD) does not anticipate receiving additional TANF funds. In the event that future TANF funding is received, ODOD has developed a coding system which will allow costs associated with both TANF and LIHEAP to be readily identified. Additionally, the department continues to review all processes associated with TANF in order to strengthen internal controls.

Anticipated Completion Date for Corrective Action

This corrective action has already been completed.

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF EDUCATION

1. INFORMATION TECHNOLOGY – APPLICATION DEVELOPMENT AND MAINTENANCE

Finding Number	2008-EDU01-010
CFDA Number and Title	84.010 – Title I 84.027/84.173 – Special Education Cluster
Federal Agency	Department of Education
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs, Eligibility, Reporting

SIGNIFICANT DEFICIENCY

The use of formal, well documented procedures for computer application maintenance is vital for communicating management's operational goals and intentions to programming personnel as well as for 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 typically 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 Education Management Information System (EMIS) is the statewide data collection system of student enrollment and financial information for Ohio's primary and secondary education entities. EMIS enrollment data and the calculated average daily membership for each entity helps the Department determine the level of state funding entities will receive through School Foundation payments, and federal funds they will be eligible to receive from the Title I program and Special Education cluster. Title I and Special Education expenditures in fiscal year 2008 totaled more than $911 million. The School Foundation application uses EMIS data to calculate state funding levels and process the actual distribution of school district payments. The School Foundation payments processed for fiscal year 2008 totaled approximately $5.6 billion, bringing the total transactions processed to approximately $6.5 billion.

During the audit period, the Department's program change process for EMIS and School Foundation applications was informal and documentation of key control approvals was not required. In addition, programmers had access to the production environment and moved their own changes to the production environment. Formal written procedures were not in place to track, monitor, remediate, test, implement and document all key program change life cycle phases for EMIS and School Foundation.

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 EMIS application. Errors and/or improper modifications to EMIS data could adversely affect the Department's ability to comply with federal reporting, eligibility, and allowable cost requirements. The integrity of school spending and payments processed by School Foundation could be affected. The Department indicated that efforts for formal program change control procedures were being developed for new applications and were not scheduled for completion until after fiscal year 2008.

We recommend the Department fully implement approved standards and controls for the entire life cycle of the program change request process for the EMIS and School Foundation applications. Each phase of the program change process should be planned, controlled, and monitored. Segregation of duties must exist to prevent programmers from migrating their own program changes. 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.

1. INFORMATION TECHNOLOGY – APPLICATION DEVELOPMENT AND MAINTENANCE (Continued)

Official's Response and Corrective Action Plan

To date, the Information Technology Office has drafted a Change Management policy with Change Management procedures. The policies and procedures completely support a formal approval process. We have recently selected a software application to support a change management initiative and are in the process of procuring it. Once the application is procured we will adjust our procedures to fit the application and begin to implement change management.

Currently, there are three groups within the functional areas of EMIS and School Foundation. There is EMIS Informatica Support, EMIS Legacy Support, and School Foundation.

At this point in time, the EMIS Informatica Support team is practicing segregation of duties. This is accomplished by ensuring procedurally that no one promotes their own code, with the exception of work done during after-hours emergencies.

The EMIS Legacy Support team is not currently practicing segregation of duties. As the EMIS redesign project is completed, the majority of the work that they do will transition over to Informatica and more closely mirror the work that is currently done by the EMIS Informatica Support team. When this transition occurs, the team will follow the same procedures that the EMIS Informatica Support uses for segregation of duties.

The Agency does not feel that the risk associated with the duties performed by the School Foundation team warrants a need for segregation of duties at this time. We have put other controls in place such as internal and external payment reviews and the posting of payment details on the Department's website that mitigate any risk that may exist. Examples of internal controls in place include: comparisons between the SF-3 calculations and the simulation calculations calculated by the Department's Simulation, Foundation and Analysis section, SF-3 line by line comparison documents by payment showing the difference between the previous calculation and the current calculation, speedchart detail report reviewed by the Department's fiscal section which reconciles to the statement of settlement reports and the INF02 payment file, verifying the payment file total matches the total on the CPS subsidy payment request form created by the Department's Fiscal Services section.

Examples of external controls in place include: backup worksheets produced for the public available via the web showing the data and formulas used for the major calculations found on the SF-3, community school, educational service center and MR/DD payment reports, web-based average daily membership (ADM) detail sheets detailing ADM reported in EMIS plus additional add-ons required by law to get to the numbers on the SF-3.

Due to the small size of this team (5 FTE, 1 contractor) the cost benefit of implementing segregation of duties does not support the expansion of the resources that would be required or the risks associated with missing a payment due to staff limitations and availability.

Anticipated Completion Date for Corrective Action

*Change Management: **June 30, 2010***

*Segregation of Duties: All planned changes will be in place by **June 30, 2010***

Contact Person Responsible for Corrective Action

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2. INFORMATION TECHNOLOGY – COMPUTER SECURITY

Finding Number	2008-EDU02-011
CFDA Number and Title	All Programs Administered by the Department
Federal Agency	Department of Agriculture Department of Education
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs, Cash Management, Eligibility, Matching Level of Effort, Reporting

SIGNIFICANT DEFICIENCY

Sound internal controls require the administration of a formal and approved computer policy to provide standards, policies, and procedures for key computer administration and custodial functions performed by Department personnel. Procedures must provide detailed security measures or processes at the departmental, system, or operating environment level. In addition, security standards provide management with the ability to evaluate and measure compliance with established policies. In order to ensure communication of an organization's philosophies, policies, and obligations regarding computer usage, employees are typically required to formally acknowledge receipt of the policy and its updates and management properly maintains a record of the policy acknowledgments.

Key components of comprehensive computer security policies and procedures include documented guidelines to maintain the integrity of essential EDU applications and data by addressing the following areas of computer security:

- Access to computer systems, programs, and data must be authorized and restricted to only the needs of users' specific job responsibilities. In order to reasonably ensure users are authorized, a formal, documented access authorization request process must be in place when granting access to all system users.
- A periodic review of user access must be conducted to verify that all granted electronic and physical authorities are appropriate and current.
- Effective and timely access termination procedures must occur to provide for the suspension of all electronic and physical user access capabilities, upon separation from EDU employment.

EDU's server-based computer applications were used in processing state and federal financial transactions during state fiscal year 2008. These applications and their respective state and/or federal amounts processed included over $1 billion through Comprehensive Continuous Improvement Planning (CCIP), $5.6 billion through School Foundation (SF), and $422 million through Claims Reimbursement and Reporting System (CRRS). The Centralized Payment System (CPS) processes the majority of ODE's federal and state subsidy payments totaling $8 billion. EMIS is the school enrollment data collection system used by EDU and all school districts to support the school foundation payments and to support the amount of federal funding provided to the schools. SF uses this EMIS data to determine appropriate amounts for state funding, based on pre-defined eligibility rules, and processes the actual distribution of school district payments. CRRS processes applications for the Child Nutrition Cluster and the Child and Adult Care Food programs for participating schools and processes their claims for reimbursement. CCIP integrates district and building-level planning and processes applications for funded programs, their related payments, and final expenditure reports for more than 50 state and federal programs. CPS transmits most of the federal program transactions and federal subsidy payments from EDU to OAKS for processing.

During the audit period, approximately 150 users had access to the EMIS and SF programs and data, 3,600 could access CRRS programs and data, and 6,000 users had access to CCIP programs and data. These user figures include an estimated 50 contractors who worked at EDU. However, as noted below, computer security controls related to the access of these users to EDU's significant automated systems were not in place and/or functioning as intended:

2. INFORMATION TECHNOLOGY – COMPUTER SECURITY (Continued)

- The Department did not have a formally approved computer security policy or user acknowledgment procedures. Draft computer security policies were published in June 2008.
- ODE did not have a formal documentation process in place to record authorization or access rights to these audit-significant systems. In addition, complete documentation of authorization of existing employees and contractors was not maintained.
- Periodic access reconciliation reviews were not performed to confirm their employees' and contractors' logical and physical access rights were commensurate with their assigned job duties.
- No formalized procedures existed to address the termination of contracted personnel. Although HR Exit Checklists were in place for state EDU employees, three of the ten (30%) forms for the separated employees tested were not completed. Also, the checklists did not contain verification of notification to ITO to have the user's logical access removed.

Without formal policies and procedures in place guiding the administration, security, and management of the data processing environments for all system users, access to EDU's electronic resources may not be in compliance with Department management's intentions. Unauthorized access to various electronic resources may occur because a user's electronic and physical access authorities were not documented, approved, or periodically reconciled. A lack of effective and timely termination procedures may not allow for the change or discontinuation of the user's access rights when their employment status changes.

Personnel having unauthorized or inappropriate access to the EDU applications increases the likelihood of incorrect processing of transactions or reporting related to material federal programs such as Title I, Special Education, Child Nutrition, Charter Schools and others. A misuse or fraudulent misappropriation of state resources or federal program monies could occur.

The Department indicated it is in the process of addressing account management as a part of their Information Security initiative. Policy user acceptance will also be implemented, but the exact procedure for assurance had not been approved as of the time of the audit. The Department also indicated they have developed, approved and implemented new reconciliation and termination procedures, but the timing was such that these procedures were not in place until after the end of the fiscal year.

We recommend the Department:

- Continue their efforts to formalize, publish, and implement all the ITO security policies and procedures in the Standard Operating Procedures Manual and require all Department computer users to formally acknowledge their receipt and understanding of the policies. Documentation of this acknowledgment should be maintained by the Department.

- Continue their efforts to approve and implement a user authorization request process to document and authorize the most current logical and physical access assigned for all new and current users of the system. Documentation of logical access should cover both operating system and application-level access. In addition, periodic access reviews should be completed to validate all current network and application access is necessary for users' job functions.

- Formalize and approve termination procedures to guide the separation of both contractor and EDU employees. Stringent procedures should be finalized and documented to help ensure access to both logical and physical resources are removed or suspended within a few days of an employee's separation from EDU employment. Also, we recommend EDU ensure all exit checklists are completed in their entirety and include approval evidence that ITO is notified to remove the access upon employee termination. Evidence that ITO effectively removed the access should be maintained as an audit trail.

Once EDU's current initiatives to complete these access authorization, reconciliation, and termination policies and procedures are finalized, documented, and approved, they should be incorporated into the computer security policy for the Department.

2. INFORMATION TECHNOLOGY – COMPUTER SECURITY (Continued)

Official's Response and Corrective Action Plan

Over the past year, the agency has continued to develop our Information Security Program and has developed what we believe are a strong set of policies. These policies are consistent with the ISO 27000 series of Information Security Standards and bring us into compliance with OIT policy and State Law. Developing a program of this nature and fully implementing it is a time consuming process and requires significant effort on the part of agency staff.

While our policy framework has been completed and polices have been published, our education and awareness program has not been implemented. The Information Security Office in collaboration with the Human Resources Development Office is in the process of reviewing and refining a program for all employees. We expect to roll out this program as early as December of 2009 and have all employees through the program by the end of Fiscal Year 2010. The culmination of this education effort will include user acknowledgement of the policies.

In addition to these efforts, the agency has developed and implemented a System and Resource access procedure to address part of the audit finding around access control. This procedure went into effect in December of 2008. The procedure requires a form be completed for any new access to a system or information resource. Once submitted, the supervisor is notified of the request. This process is only in effect for new requests and does not cover existing access.

We began work on a complementing procedure to handle employee termination and changes in duties but have not implemented that process to date. We plan to implement this procedure as well as an inventory procedure that will catalog the access privileges of each employee. This catalog or inventory will be reviewed annually with the employee's supervisor to ensure that the access is appropriate to the role of the employee. It is expected that the implementation will begin before the end of the calendar year.

The agency will also be evaluating a process to establish true role-based access control for internal positions where access is determined by the position you hold and then modified from there as the business need exists. No commitment has been made to this effort but it is under evaluation and may impact the implementation of this corrective action plan if our direction should change.

Anticipated Completion Date for Corrective Action

Education and Awareness of formal policies, including employee acknowledgement, annual reviews of employee access rights and periodic reviews of access rights reconciliation: ***June 30, 2010***

Documentation of access rights for all employees: ***June 30, 2010***

Full implementation of the Termination procedures and System and Resource Access process, including an inventory of employee access: ***June 30, 2010***

Contact Person Responsible for Corrective Action

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1. PERIOD OF AVAILABILITY

Finding Number	2008-DOH01-012
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)
Federal Agency	Department of Agriculture Department of Health and Human Services
Compliance Requirement	Period of Availability

<u>QUESTIONED COSTS</u> $53,668

45 CFR 92.23 relates to the period of availability of funds for federal funds provided by the U.S. Department of Health and Human Services, and states:

> (a) *General.* Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.
>
> (b) *Liquidation of obligations.* A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF–269). The Federal agency may extend this deadline at the request of the grantee.

7 CFR 3016 contains similar language for federal funds provided by the U.S. Department of Agriculture.

The Department received federal funds from the U.S. Department of Health and Human Services to administer the Centers for Disease Control and Prevention (CDC) federal program and federal funds from the U.S. Department of Agriculture to administer the Special Supplemental Food Program for Women, Infants, and Children (WIC) federal program. Per the grant award, the period of availability (POA) for the CDC program is one year, beginning in August and continues until the following August. Per the grant award and 7 CFR 246.16 (b)(3), the period of availability for the WIC program is also one year, beginning in October and continues until the following September, except for approved spend forward and back spend options. The Department received approval from the CDC federal grantor agency to extend the liquidation period to June 30, 2008; however, the approval did not extend the period to obligate funds. The Department did not receive an extension for the WIC program. Based on testing of the period of availability for these two programs, the Department did not comply with the related compliance requirement, as follows:

<u>CDC</u>

- The Department charged 2,103 disbursements to the grant ending August 30, 2007, (Account 24P6) after the funding period of the award. Of the 50 transactions selected for testing from these disbursements, three totaling $4,106 (projected to be more than $10,000) related to transactions where the supporting documents showed the underlying obligations were incurred after the end of the funding period, resulting in questioned costs.

<u>WIC</u>

- The Department charged 2,150 disbursements to the grant ending September 30, 2007, (Account 89L7) after the end of the funding period of the award. Of the 50 transactions selected for testing from these disbursements, eight totaling $49,562 related to transactions where the supporting documents showed the underlying obligations were incurred after the end of the award period, resulting in questioned costs. All of these items related to payments for redeemed food instruments.

1. PERIOD OF AVAILABILITY (Continued)

The combined total for the funds the Department obligated after the allowed period is $53,668 and is considered questioned costs. Failure by the Department to obligate and liquidate its federal funds within the time limits established by federal regulations could result in the Department being required to repay those funds to the federal government unless carryover of unobligated balances is permitted or an extension is obtained.

The WIC Program Analysis Unit Supervisor indicated he believed these errors were the result of a coding mistake resulting from a manual entry system. These items were inadvertently coded to the 2007 award when they should have been coded to the 2008 award. However, the Department could not provide documentation to verify this assertion. The Chief of Federal Reporting could not provide a specific reason why the CDC funds were obligated after the allowed period, but suspect it was caused by the implementation of the new state accounting system, effective July 1, 2007, and the Department's difficulty in getting useable data from the new system for several months after implementation.

We recommend the Department review more closely the grant coding prior to finalizing the information in the system to help ensure that items are coded to the proper award. We also recommend the Department review grant balances prior to the expiration of the available period to determine if any unpaid obligations exist and request documentation for all obligations made towards the end of the period of availability so that management is capable of effectively determining when the obligation was made. The Department should more closely monitor cash requests and subsequent expenditures to help ensure that funds are spent within the grant's period of availability and liquidation period. If subgrantees are delinquent in requesting or making timely disbursements, we recommend the Department consider sanctions or other allowed actions to help subgrantees increase their timeliness.

Official's Response and Corrective Action Plan

The amount listed in the single audit review is materially overstated. ODH bases this upon a detailed review of the audit test done to determine if current year payments were charged to the prior year grant period. This test involves matching Vendor Batch Transactions (VBT's) with payments. A VBT is essentially a deposit slip of food instrument coupons. The assertion made in the finding is that all of the coupons in each of the eight VBT's cited (totaling $49,562) were charged to the prior year USDA grant. ODH's review determined the vast majority of the coupons were paid by the correct grant. A very small number of rejected coupons were manually entered into the payment system and coded to the wrong year. ODH believes this total to be $356.14. This review also illustrates that the systematic payment process is inherently sound.

Anticipated Completion Date for Corrective Action

We believe the miscoding to be a relatively low-risk finding based on human error. The process is primarily automated with minimal manual input. We believe no corrective action is necessary except to further emphasize (in staff training) care in entering correct coding for manual processing.

We will continue to monitor and evaluate the process and make adjustments as deemed appropriate. These actions are current and on-going as of September 15, 2009.

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF HEALTH

2. SUBRECIPIENT MONITORING

Finding Number	2008-DOH02-013
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
Compliance Requirement	Subrecipient Monitoring

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

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

> **Subpart C—Auditees**
> **§ .320 Report submission**.
>
> **(a) General**. The audit shall be completed and the data collection form described in paragraph **(b)** of this section and reporting package described in paragraph **(c)** of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.
> …
>
> **Subpart D—Federal Agencies and Pass-Through Entities**
> **§ .400 Responsibilities.**
>
> …
>
> **(d) Pass-through entity responsibilities**. A pass-through entity shall perform the following for the federal awards it makes:
>
> …
>
> 3. Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
>
> 4. Ensure that subrecipients expending $300,000 *($500,000 for fiscal years ending after December 31, 2003)* or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.
>
> 5. Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
>
> …

2. SUBRECIPIENT MONITORING (Continued)

§__.405 Management Decision.

...

(d) Time requirements. The entity responsible for making the management decision shall do so within six months of receipt of the audit report. Corrective action should be initiated within six months after receipt of the audit report and proceed as rapidly as possible.

During the fiscal year, the Department disbursed approximately $41,328,463, $14,424,655, $10,641,809, and $5,519,242 in program costs to subrecipients in the WIC, CDC, MCH, and HIV federal programs, respectively. The Department has established an audit requirement for all local agencies (subrecipients) that receive federal assistance from it, including WIC, MCH, CDC, and HIV grants, regardless of whether they are required to have a single audit or a financial statement audit. Based on a test of 85 of 338 local agencies that received an award for federal fiscal year 2008 and the related grant award audit for calendar year 2006, the Department did not comply with the subrecipient monitoring requirements, as indicated below.

- Although audit reports from the Department's subrecipients were not received timely, as indicated in the table below, the Department did not determine if these subrecipients received an extension for submission of the audit report in advance from the cognizant or oversight agency for audit. In addition, the Department did not have any documentation to indicate it had identified these reports as being late nor did it have a process in place to follow-up on untimely reports.

Program	# of Exceptions / # Tested	Days Late
WIC	11 of 25 (44%)	one to 267; average 86
CDC	12 of 25 (48%)	four to 291; average 111
MCH	ten of 24 (42%)	one to 261; average 67
HIV	six of ten (60%)	five to 273; average 99

- The Department did not issue timely management decisions on audit findings, as indicated in the table below.

Program	# of Exceptions / # Tested	Days Late
WIC	three of seven (43%)	61, 148, and 149
CDC	six of 12 (50%)	75 to 150; average 116
MCH	three of nine (33%)	63, 111, and 157
HIV	one of one (100%)	46

- Even though the Department did not receive documentation from their subrecipients that appropriate and timely corrective action on deficiencies was initiated (as indicated in the table below), it did not have any documentation to identify the late corrective action plans or if appropriate follow-up measures were taken to determine the status of these outstanding items.

Program	# of Exceptions / # Tested	Days Late
WIC	one of six (17%)	11 months at time of testing
CDC	two of 13 (15%)	31 and 126
MCH	one of eight (13%)	157

- There was another subrecipient of the MCH program whose single audit had been postponed due to a large number of questioned costs that resulted from a preliminary review by the Department, which initiated a more detailed investigation of the entity. Since the audit hadn't been started and the deadline for submitting the audit report has passed, this is considered an additional exception and is not reflected in the exceptions noted above.

2. SUBRECIPIENT MONITORING (Continued)

We are aware the Department performed certain aspects of subrecipient monitoring but these procedures were limited and generally did not occur until after the Department received the subrecipient's audit report; very little during-the-award monitoring occurred. Furthermore, the Department did not consistently apply its internal control procedures over subrecipient monitoring. The Grants Administration Unit was intended to perform comprehensive, programmatic on-site reviews of subrecipients by county, city, or agency, visiting some subrecipients each year using a three-year cycle basis; however, the unit did not perform any subrecipient site visits during fiscal years 2007 or 2008. Other program-specific units did perform on-site monitoring visits by individual program. Also, the WIC, CDC, HIV, and Grants Administration units had a control to maintain a tracking log for any programmatic on-site reviews actually performed; however, the MCH Bureau of Oral Health Services unit did not have a similar tracking log to identify what on-site visits had been performed or needed to be performed.

The Department has not consistently or sufficiently complied with the federal subrecipient monitoring requirements. If the Department does not receive subrecipient audit reports or conduct managerial reviews in a timely fashion, there is a risk that instances of subrecipient noncompliance will not be identified in a timely manner by the Department, and corrective action may not be initiated within the required period of time. Furthermore, if subrecipients do not respond to the Department's findings and/or initiate appropriate corrective action in a timely manner, the Department is at greater risk for not complying with federal subrecipient monitoring requirements. If the Department is not in compliance, federal funding could be reduced or taken away, or sanctions imposed by the federal grantor agency.

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, many subrecipient personnel are not familiar with the administrative and audit requirements associated with federal programs, in spite of training and education provided by the Department. Limited resources have also contributed to this condition.

We recommend the Department continue to review, develop, and improve its subrecipient policies and procedures to reasonably ensure compliance with the federal requirements, particularly for monitoring the receipt of subrecipient audit reports, rendering management decisions, and determining if subrecipients initiate corrective action; all on a timely basis. Specifically, we recommend the Department be more proactive in contacting the subrecipients, reminding them of the compliance requirements and the consequences of noncompliance, inquiring if difficulties in completing the audit have occurred, and recommending the subrecipients request an extension if the circumstances require. We recommend the Department pursue these actions, and document it doing so, before instances of noncompliance occur. We remind the Department that copies of audit reports for subrecipients that are governmental entities may be obtained from the Auditor of State's website. If certain subrecipients continue to not comply with the federal audit provisions, we recommend the Department consider withholding future awards to subrecipients or other sanctions, as permitted by Circular A-133. Moreover, we recommend the Department apply their control procedures consistently and in a timely manner so as to achieve their intended purpose. Management should periodically monitor the established procedures to help ensure they are being performed timely, consistently, and effectively.

Official's Response and Corrective Action Plan

This is a repeat finding; corrective actions have previously been addressed, completed or, at least, begun. However, results are not timely enough to fully impact the findings for Fiscal Year 2007. These actions include:

2. SUBRECIPIENT MONITORING (Continued)

A. Enhancing the ODH Single Audit (SA) review process. Quantity and quality of the reviews and follow-up should steadily improve as CAU staff continue to familiarize themselves with the procedures:

B. Additions of CAU staff:

From August, 2008 through April, 2009 the increase of CAU staffing to ten full-time employees will allow for timely processing and elimination of back-log.

C. Currently, there is a greater effort to support reported findings; require and enforce corrective actions; and, when necessary, apply sanctions to non-compliant agencies. Technical advice and training for the subrecipients has also increased. [Current and on-going].

CAU has begun use of a database to streamline the reviews and follow-up. i.e. pop-ups/ticklers to alert staff of upcoming deadlines; automatic generation of reminder letters; etc.[in-process, begun by June 30, 2009]

Anticipated Completion Date for Corrective Action

All corrective actions (except for those labeled "on-going") are expected to be completed by January 1, 2010.

Contact Person Responsible for Corrective Action

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3. EARMARKING – MCH

Finding Number	2008-DOH03-014
CFDA Number and Title	93.994 – Maternal & Child Care Health Services Block Grant to the States (MCH)
Federal Agency	Department of Health and Human Services
Compliance Requirement	Matching, Level of Effort, and Earmarking

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

42 USC 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 received a Notice of Award for the MCH program covering the award period October 1, 2005 through September 30, 2007, (account 17H7) in the amount of $22,296,772. The Award did not identify percentages different than those cited above. The final Financial Status Report, submitted on

3. EARMARKING – MCH (Continued)

March 28, 2008, for this award shows the Department spent the entire $22,296,772 award amount. The Department was able to provide quarterly spreadsheets that calculated the quarterly expenditures for each of the three earmarking requirements. However, these spreadsheets included quarterly expenditures for all active awards, not any one particular award. Using the detail data provided by the Department, we were able to isolate the expenditures for the 17H7 award. Based on this data, the Department spent $2,310,669 for preventive and primary care services for children and $1,497,315 for children with special health care needs. These amounts are less than the required 30% earmark amount of $6,689,032 set for each activity; thus, the Department did not comply with the earmark requirements.

Noncompliance on the part of the Department could subject the Department to sanctions or other penalties and a repayment of part of the grant award amount. In addition, future funds could be reduced or eliminated. Management agreed the quarterly expenditure reports for the period October 1, 2006 through June 30, 2007, included more than one award and so the results calculated by the spreadsheets about whether the Department met the earmark requirements were misleading.

We recommend the Department implement appropriate procedures to reasonably ensure it complies with all the MCH earmarking requirements. One way this may be accomplished is to modify the quarterly expenditure spreadsheets and track costs by grant award rather than in total for all awards or to prepare separate spreadsheets for each active award. Another way may be to set up separate accounts or coding structures to capture exclusive costs related to each of the individual earmark requirements.

Official's Response and Corrective Action Plan

The department has established a quarterly report which provides information to track progress made towards meeting earmarking requirements. The report breaks out total Block Grant expenditures by cost center. These expenditures are then allocated to the earmarked program areas according to the application budget. There is no report for the maintenance of effort requirement.

In response to the assertion that the department did not meet the earmarking requirements, the program staff indicated that the test period included transition period from CAS to OAKS and this limited their ability to demonstrate compliance.

Anticipated Completion Date for Corrective Action

All fiscal processes are now fully transitioned to OAKS; no further corrective actions are deemed necessary at this time. Follow-up actions on this finding are considered complete as of September 15, 2009.

Contact Person Responsible for Corrective Action

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4. CASH MANAGEMENT

Finding Number	2008-DOH04-015
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
Compliance Requirement	Cash Management

SIGNIFICANT DEFICIENCY – MATERIAL WEAKNESS

U.S. Treasury regulations, 31 CFR part 205, which implemented the Cash Management Improvement Act of 1990 (CMIA), require state recipients to enter into agreements which prescribe specific methods of drawing down federal funds (funding techniques) for selected large programs. The WIC program is covered by such an agreement. The FY 2008 CMIA Agreement between the State of Ohio and the United States Department of the Treasury, paragraph 6.3.2, specifically requires the WIC program to use the Pre-Issuance technique of drawing federal funds. Paragraph 6.2.1 states this funding technique requires "The State shall request funds such that they are deposited in a State account not more than three days prior to the day the State makes a disbursement. The request shall be made in accordance with the appropriate Federal agency cut-off time specified in Exhibit I. The amount of the request shall be the amount the State expects to disburse. This funding technique is not interest neutral." The CDC, HIV Care, and MCH Block Grant programs are covered by 31 CFR 205.32 Subpart B, which states, in part:

> A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

During the fiscal year, the Department drew down $254,774,309, $20,942,803, $24,040,539, and $28,863,344 in federal funds for the WIC, HIV, MCH, and CDC federal programs, respectively. At the beginning of the fiscal year, the State of Ohio implemented the revenue and expenditures modules of the new accounting system, Ohio Administrative Knowledge System (OAKS). Under OAKS, the Department did not have a method whereby it could determine the daily cash balances of funds and add these to estimated federal draws and correlate them with disbursements to determine if it met the respective cash management requirements of the federal programs. Thus, the auditors could not test the Department's compliance with the cash management requirements for any of these programs.

Failure by the Department to track available cash balances, receipts, and disbursements could result in the receipt of funds such that they are deposited into a state account prior to the allowed period for making a disbursement. The untimely expenditure of funds and not limiting draws to the Department's immediate need could result in noncompliance with the CMIA compliance requirements. This condition could subject the Department to sanctions or other penalties and a repayment of part of the grant award amount. In addition, noncompliance could subject the Department to paying interest charges on these draws.

4. CASH MANAGEMENT (Continued)

Department management stated the new OAKS system does not produce a Daily Cash Balance Report, which the Department previously used to track and correlate federal draws with disbursements. Since this report is not available and the Department has not determined an alternative source of data, it lost the ability to track compliance with cash management requirements.

We recommend the Department develop an in-house system that allows the Department to track cash balances on a daily basis, or work together with OAKS personnel to develop a system that will allow the Department to obtain the necessary information to reasonably ensure federal funds are drawn only for immediate cash needs and are disbursed timely.

Official's Response and Corrective Action Plan

Although at the inception of OAKS, the system did not offer a Daily Cash Balance report to assist the Department in determining the estimated federal draws, it now has a report in place. Cash Management was logging into OAKS and getting fund balances from the Commitment Control page in SFY 2008 but it was not a documented process. Cash Management began documenting balances on June 4, 2008. Daily, the Cash Management Coordinator logs into OAKS Financials and pulls up the Commitment Control Budget Detail report for each federal fund. This report shows the available cash balance. The available cash balance for each fund is then recorded on an Excel spreadsheet. This spreadsheet along with daily vouchers is then used to determine the amount of federal cash that should be drawn. In addition to utilizing the data in the excel spreadsheet and vouchers, federal cash draws are done three days a week to ensure that the department is not requesting more than what is needed to cover the outlay of cash for program costs as dictated in the Cash Management Improvement Act.

OAKS also generates an Agency Daily Cash Balance Report (OHGLR052) at the close of each month's general ledger. The monthly reports are only maintained in OAKS for a 90 day period. As a result, the monthly reports are printed, scanned and saved each month and kept on a local network drive for easy access. Fiscal year end Daily Cash Balance reports are also maintained in OAKS. In addition to the OAKS fiscal year end Cash Balance Report, an internal report can also be generated out of Cognos (ODHFIN035) that captures the same data.

Some discrepancies have been found in the internal report (ODHFIN035) and Revenue and Cash Management will be working with the Office of Management Information Systems (OMIS) to determine corrective actions for this report since it pulls its data from two different sources. Both reports are limited in the fact that they do not report cash balances at a lower level of detail (reporting/grant level) like the report that was generated out of the old Central Accounting System (CAS). The Subsidiary Cash Balance Report (H6618075-01) out of CAS provided the level of detail needed for analytical review. As OMIS resources become available, a similar report will be requested.

Anticipated Completion Date for Corrective Action

Daily Cash Balance by Fund Spreadsheet implemented on June 4, 2008.

Contact Person Responsible for Corrective Action

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5. LACK OF MONITORING CONTROLS FOR MATCHING AND LEVEL OF EFFORT – MCH

Finding Number	2008-DOH05-016
CFDA Number and Title	93.994 – Maternal & Child Care Health Services Block Grant to the States (MCH)
Federal Agency	Department of Health and Human Services
Compliance Requirement	Matching, Level of Effort, and Earmarking

SIGNIFICANT DEFICIENCY

Office of Management and Budget Circular A-133, § _.300 requires recipients of federal awards to maintain internal controls over federal programs that provide reasonable assurance they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs. It is management's responsibility to design, implement, and monitor these controls to reasonably ensure compliance with the applicable requirements.

The Department has identified state funds to meet the matching and level of effort requirements in the grant application process, but has not established any formal monitoring procedures to determine whether it has met those requirements in the MCH program during the award. The prior two audit reports commented on the lack of controls in this area. The Department stated it anticipated a corrective action plan would be implemented in January 2008; however, it did not have any related control procedures evident during the fiscal year. The Department asserted that it has the capacity to verify if it meets these requirements through its Agency Reporting Database (ARDB) and the replacement program, the Business Intelligence Connection (BIC) system, (both programs are direct downloads of multiple-year data from the state Central Accounting System and its replacement, Ohio Administrative Knowledge System, that allows users to view information from both the current and previous years). However, having the capacity to do something is not the same as actually implementing a control to be periodically performed and documented to monitor compliance with these requirements. The Department typically did not use the ARDB or BIC system to determine if it met these requirements unless a need arose. Department personnel indicated they may have checked for compliance during the year, but did not maintain any evidence to document this procedure. Based on our tests, the Department had complied with the matching and level of effort requirements.

Without appropriate internal controls in place and using them on a consistent basis, management cannot reasonably be assured that matching and maintenance of effort requirements are met. The Federal Reporting Chief and Administrator of Operational Support indicated that the capacity to verify if the requirements are met is readily available and compliance can be determined quickly and easily at any given moment. They did not believe that implementing a separate control would be beneficial to the Department.

We recommend the Department devise and implement appropriate internal controls, as required, and utilize these controls on a consistent basis to help ensure compliance with the matching and maintenance of effort requirements. One way to do so would be to track the MCH program disbursements and periodically compare them to the established limits, similar to what is performed with the earmarking requirement. If the information is as readily available as the Department states, then the control could be as basic as accessing the BIC/ARDB system periodically (perhaps quarterly) to determine compliance and documenting the results. As with most control procedures, this process should then be reviewed and approved by an employee other than the person performing the tracking and comparison (preferably by upper management) and evidence should be maintained of the review/approval and comparison.

5. LACK OF MONITORING CONTROLS FOR MATCHING AND LEVEL OF EFFORT – MCH (Continued)

Official's Response and Corrective Action Plan

The department has established a quarterly report which provides information to track progress made towards meeting earmarking requirements. The report breaks out total Block Grant expenditures by cost center. These expenditures are then allocated to the earmarked program areas according to the application budget. There is no report for the maintenance of effort requirement.

In response to the assertion that the department did not meet the earmarking requirements, the program staff indicated that the test period included transition period from CAS to OAKS and this limited their ability to demonstrate compliance.

Anticipated Completion Date for Corrective Action

Needed procedures and evaluation are already in-place as of September 15, 2009.

Contact Person Responsible for Corrective Action

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6. INFORMATION TECHNOLOGY – PROGRAM CHANGE CONTROLS

Finding Number	2008-DOH06-017
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
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs, Reporting

SIGNIFICANT DEFICIENCY

The use of formal, well-documented procedures for computer application maintenance is vital for communicating management's operational goals and intentions to programming personnel as well as training new staff. These 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 must be appropriately delegated and segregated among personnel.

6. INFORMATION TECHNOLOGY – PROGRAM CHANGE CONTROLS (Continued)

During the fiscal year, the Department administered a number of federal programs, including the WIC, HIV, CDC, and MCH major federal programs. The Department disbursed $250,426,246, $18,789,161, $21,529,336, and $24,147,538 in federal funds from the WIC, HIV, CDC, and MCH federal programs, respectively. Many of the activities and data associated with these programs were automated within two audit-significant computer programs used by the Department; namely, the Grants Management Information System (GMIS) and the WIC program application. The latter operates in both PC and mainframe environments. However, formally defined control procedures for emergency changes and corrections of minor program errors were not in place until the last quarter of the fiscal year for these systems. Although the HelpSTAR electronic program change control software was in operation for all changes, the Department did not have formal written procedures to track, monitor, remediate, test, implement, and document all mainframe or server-based program changes with this software or process. Also, the application programmers for the WIC program had the access authorities to modify the application code, complete the testing of the changes, and migrate the changed program(s) into the production environment. Lastly, the approval and status information fields on the Data Service Request form were not completed for two of the nine client server/mainframe program changes tested for the WIC application; no other documentation was available to indicate these changes were approved.

Without formal and approved control procedures to consistently guide the program change life cycle, 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 Department indicated that priority is given to processing daily data from the clinics and to pay vendors on a daily basis for redemption of food, WIC reporting, and enhancements of the system. Resources are limited to update the program change documentation.

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. We also recommend segregation of duties be implemented by modifying the logical access of 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 and be approved by an appropriate level of management.

Official's Response and Corrective Action Plan

Documentation currently exists for the Change Control processes and will continue to be refined over time. Each Application Development Manager is responsible for managing projects that vary in size and complexity. Each project may have different needs that will lead to its success. All Application Development Managers follow some basic processes for all projects they manage. Application Development Managers are required to have a Project Charter, a Scope document, a Project Plan, and Issue Tracking mechanisms / processes. Projects are tracked in either SharePoint, Microsoft Project or in Team Foundation Server (TFS).

Changes for WIC applications and data follow the Department standards for Program Change Control. In addition, WIC application changes are reviewed and approved by the WIC Bureau liaison prior to implementation to ensure they meet the needs of the customers. All changes utilizing the agencies

6. INFORMATION TECHNOLOGY – PROGRAM CHANGE CONTROLS (Continued)

Application Architecture are implemented by the Network staff and meet the recommendation stated above. Starting in June 2008, changes to mainframe programs were implemented by using one of two methods that segregates the development duties from the implementation duties. One process is managed by the ODH Change Control Unit and the second required Production changes to be implemented by the WIC IT Development Manager. These processes satisfy the segregation of duties requirements and help ensure changes meet the requirements of the customer.

Anticipated Completion Date for Corrective Action

Although the agency utilizes a 'continuous improvement' process where the documentation and the processes are considered 'living' where they are periodically reviewed and refined; we believe the modifications necessary to resolve the deficiencies have been successfully completed. Changes are in-place as of June 30, 2008.

Contact Person Responsible for Corrective Action

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1. MMIS – CLAIMS REIMBURSED IN EXCESS OF OAC LIMITS

Finding Number	2008-JFS01-018
CFDA Number and Title	93.767 – State Children's Insurance Program 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs

<u>QUESTIONED COSTS</u> $2,140,644

42 USC 1396 states:

> For the purpose of enabling each State, as far as practicable under the conditions in such State, to furnish (1) medical assistance on behalf of families with dependent children and of aged, blind, or disabled individuals, whose income and resources are insufficient to meet the costs of necessary medical services, and (2) rehabilitation and other services to help such families and individuals attain or retain capability for independence or self-care, there is hereby authorized to be appropriated for each fiscal year a sum sufficient to carry out the purposes of this subchapter. The sums made available under this section shall be used for making payments to States which have submitted, and had approved by the Secretary, State plans for medical assistance.

The Federal Centers for Medicare and Medicaid Services (CMS) indicates the state Medicaid plan is the document that defines how each state will operate its Medicaid program. The state plan addresses the areas of state program administration, Medicaid eligibility criteria, service coverage, and provider reimbursement. The official plan is a hard-copy document that includes a variety of materials in different formats, ranging from federally-defined "preprint" pages on which states check program options to free-form narratives describing detailed aspects of state Medicaid policy. The state Medicaid plan for each state is an accumulation of plan pages approved by CMS since the inception of the Medicaid program.

Ohio Administrative Code (OAC) 5101:3-10-03, which is part of the Ohio state plan, states:

> The "Medicaid Supply List" is a list of medical/surgical supplies, durable medical equipment, and supplier services, found in appendix A of this rule. This list includes the following information as described in paragraphs (A) to (G) of this rule:
>
> (A) Alpha-numeric codes to be used when billing the department for medical supplier services.
>
> …
>
> (F) "Max Units" indicator. A maximum allowable (MAX) Indicator means the maximum quantity of the item 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. The Medicaid Management Information System (MMIS) is used to calculate the reimbursement to medical providers and managed care entities for services rendered to eligible recipients based on these limits.

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 302 Medicaid procedure codes. As a result, Medicaid and SCHIP providers were reimbursed in excess of the limits contained in the OAC in 24,996 instances. However, we were not able to separately determine the amounts that related to each program; therefore, the excess reimbursements for the 302 procedure codes totaling $2,140,644 were questioned for the Medicaid program.

The following table shows the procedure codes/descriptions related to the 10 highest dollar amounts of excess provider reimbursement:

	Procedure Code / Medical Supply	OAC Limit for Unit or Dollar Amount	FY08 Range of Reimbursement Over OAC Limit	Total Questioned Cost	Total Count
1.	A4353: Catheter	60 per month	61 - 420 per month	$ 254,465.46	469
2.	A4253: Blood Glucose Test	4 per month	5 – 500 per month	$ 180,356.03	1,502
3.	A4222: Infusion supplies	60 per month	61 - 700 per month	$ 120,756.69	196
4.	A4223: Infusion supplies	30 per month	31 - 188 per month	$ 101,299.41	530
5.	B4224: Nutrition Admin Kit	1 per day	2-34 per day	$ 89,355.00	689
6.	E0781: Ambulatory Infusion pump	$8.73 per day	$15 - $437 per day	$ 86,924.14	760
7.	A4595: TENS supplies	1 per month	2 - 210 per month	$ 71,611.85	691
8.	A4305: Drug Delivery System	1 per day	2-33 per day	$ 68,058.87	784
9.	Y2076: Oxygen concentrator	$268 per month	$317 - $2,500 per month	$ 53,398.50	224
10.	E0791: Parenteral Infusion Pump	$8.73 per day	$17 - $323 per day	$ 52,683.47	665

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. The Department's Office of Ohio Health Plan (OHP) management indicated that they were not aware prior to the fiscal year 2006 audit that the quantity and usage limits were not prohibiting the over-payment of the aforementioned codes. Since the previous audit, OHP has created, tested, and implemented edits in production during the fiscal year 2008 audit period. However, many of these edits were not in place until late in fiscal year 2008 or after; therefore, some overages still occurred.

1. MMIS – CLAIMS REIMBURSED IN EXCESS OF OAC LIMITS (Continued)

We recommend ODJFS complete the update of their utilization and review edits within MMIS to help prohibit further overpayment of Medicaid and/or SCHIP 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 and operating, as designed.

Official's Response and Corrective Action Plan

The Department disagrees with the questioned cost amount of $2.1 million. After careful analysis, we agree to a questioned cost of $1,251,907.

NOTE: The Department provided an extensive summary of their analysis and a detailed chart related to the various procedures analyzed. However, due to its size, this information has not been included here, but is included in the working papers and can be obtained from the contact listed below.

Our analysis of the AOS questioned costs based on OAC rules and program policy reduced the questioned costs to $1.25 million. The results have been referred to the Surveillance and Utilization Review Section (SURS) for follow-up action and recoveries have begun for providers affected by this issue. An exact figure is not available from SURS as they expanded the recovery effort to 5 years, which included some of the 2008 data that the AOS reviewed. SURS did not separate the 2008 data, and it would take extensive man-hours to go back and isolate just the 2008 recoveries.

During 2007, history/lifetime data elements were updated in the PDD application to assure retention of claim history for the appropriate time frames.

*On November 1, 2007, **183** DME procedure codes with corrected prepayment edits/UR criteria went into production. Prepayment edits were removed from **15** DME procedure codes requiring prior authorization; these procedure codes will now be controlled through the prior authorization process. **1** DME procedure code is no longer covered, so no corrective action was taken.*

*On March 12, 2008, **179** DME procedure codes—codes that previously lacked any prepayment edits—went into production with newly implemented UR criteria. **21** additional DME procedure codes were confirmed as codes that will be controlled through the prior authorization process. **1** DME procedure code is no longer covered, so no corrective action was taken.*

***112** corrected or newly established limit parameters (the MIS edits that contain the prepayment UR criteria) were linked to the 362 DME procedure codes that went into production with correctly functioning prepayment edits on 11/1/07 and 3/12/08.*

*On February 24, 2009, OHP created one more CSR to ensure that properly functioning limit parameters are implemented for the remaining DME procedure codes that lack such pre-payment edits. As a result of this CSR, MIS staff are working to link limit parameters to **32** Type of Service 1 (Medicaid) DME procedure codes and **seven** Type of Service 3 (DMA) DME procedure codes. As noted previously, the Disability Medical Assistance program is funded entirely by the state of Ohio. Additionally, this CSR requests that **six** Type of Service 1 DME procedure codes that have functioning limit parameters be associated with specific procedure code lists in MIS. When the work requested on it is completed, this CSR will ensure that every DME procedure code (not requiring prior authorization) covered by the Ohio Medicaid program is linked to properly functioning pre-payment edits in the MIS claims payment system.*

1. MMIS – CLAIMS REIMBURSED IN EXCESS OF OAC LIMITS (Continued)

Anticipated Completion Date for Corrective Action

*Review, testing, and implementation of appropriately functioning prepayment limit parameters/utilization review criteria for 362 Medicaid DME procedure codes were completed during the 1st quarter of CY 2008. Review, testing, and implementation of appropriately functioning prepayment limit parameters/utilization review criteria for **45** DME procedure codes (both Medicaid and DMA) is expected to be completed by the end of the 4th quarter of CY 2009.*

Contact Person Responsible for Corrective Action

Don Sabol, Ancillary Health Unit Manager, Ohio Department of Job & Family Services, Lazarus Building, 50 W Town Street, Suite 400, Columbus Ohio 43215, Phone: (614) 752-4589, *e-mail:* don.sabol@jfs.ohio.gov

Auditor of State's Conclusion

After our testing was completed, the Department requested we evaluate their analysis in consideration of the questioned costs amount. We agreed, but after several months of delays, the Department was not able to provide the appropriate supporting documentation within a reasonable timeframe, and elected not to have us perform the necessary procedures. This additional information was not included in the electronic system used to make determinations about the allowability of the claims. Therefore, we cannot draw any conclusions about the accuracy or reliability of the additional analysis performed by the Department.

2. MEDICAID/FOOD STAMPS/TANF – ALIEN/REFUGEE MISSING DOCUMENTATION – FRANKLIN COUNTY

Finding Number	2008-JFS02-019
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services
Compliance Requirement	Eligibility

QUESTIONED COSTS $82,677

8 USC 1641(b) states:

For purposes of this chapter, the term "qualified alien" means an alien who, at the time the alien applies for, receives, or attempts to receive a Federal public benefit, is -

(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],

2. MEDICAID/FOOD STAMPS/TANF – ALIEN/REFUGEE MISSING DOCUMENTATION – FRANKLIN COUNTY (Continued)

(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 ali en 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)

(7) an alien who is Cuban and Haitian entrant (as defined in section 501(e) of the Refugee Education Assistant Act of 1980).

8 USC 1612(a) states:

(1) Notwithstanding any other provision of law and except as provided in paragraph (2), an alien who is a qualified alien (as defined in section 1641 of this title) is not eligible for any specified Federal program (as defined in paragraph (3)).

. . .

(3) For purposes of this chapter, the term "specified Federal program" means any of the following:

. . .

(B) Food stamps. The food stamp program as defined in section 3(h) of the Food Stamp Act of 1977 [7 U.S.C. 2012(h)].

8 USC 1612(b) states:

(1) Notwithstanding any other provision of law and except as provided in section 1613 of this title and paragraph (2), a State is authorized to determine the eligibility of an alien who is a qualified alien (as defined in section 1641 of this title) for any designated Federal program (as defined in paragraph (3)).

. . .

(3) For purposes of this chapter, the term "designated Federal program" means any of the following:

(A) Temporary assistance for needy families. The program of block grants to States for temporary assistance for needy families under part A of title IV of the Social Security Act [42 U.S.C. 601 et seq.].

. . .

(C) Medicaid. A State plan approved under title XIX of the Social Security Act [42 U.S.C. 1396 et seq.], other than medical assistance described in section 1611(b)(1)(A) of this title.

8 USC 1612(b) states:

(2) Exceptions. Qualified aliens under this paragraph shall be eligible for any designated Federal program.

. . .

2. MEDICAID/FOOD STAMPS/TANF – ALIEN/REFUGEE MISSING DOCUMENTATION – FRANKLIN COUNTY (Continued)

(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) (I) 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.

45 CFR 206.10(a)(8) states:

Each decision regarding eligibility or ineligibility will be supported by facts in the applicant's or recipient's case record. . . .

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 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.

We selected 60 out of approximately 17,755 case files at Franklin County Department of Job and Family Services (FCDJFS) in which a qualified alien/refugee was deemed eligible to receive public assistance (Medicaid, TANF, and/or Food Stamps). For 19 of 60 (32%) case files tested, the qualified aliens/refugees' eligibility could not be verified. The County could not provide any evidence to verify whether or not the recipient met the Medicaid, TANF, and/or Food Stamps requirements for their particular alien/refugee status (Refugee, Granted Asylum, Permanent Resident, Legal Alien, Applicant for Asylum, or Adjusted to Permanent Resident) for either a portion or the entire audit period. In addition, 15 of 19 (79%) alien/refugee recipients received some form of public assistance during FY 2008.

Therefore, we will question the costs for the 15 ineligible recipients who received public assistance benefits during fiscal year 2008, or $82,677 ($62,544 for Medicaid, $17,039 for Food Stamps, and $3,095 for TANF).

Without consistently obtaining or maintaining the required documentation on file, Franklin County Department of Job and Family Services may not be able to fully support or ensure payments were made only to or on behalf of eligible recipients. The lack of supporting documentation could result in questionable benefit payments and increase the risk of payments being made to ineligible recipients.

According to the Franklin County management, the inability to provide the required INS documents and other documentation used to substantiate the recipient's status as "Qualified Alien", was due to case worker oversight in maintaining the files.

We recommend the Franklin County Department of Job and Family Services' management review current eligibility requirements for Qualified Aliens/Refugees with all staff and perform supervisory reviews of Qualified Alien/Refugee 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 help ensure the

2. MEDICAID/FOOD STAMPS/TANF – ALIEN/REFUGEE MISSING DOCUMENTATION – FRANKLIN COUNTY (Continued)

required documents are submitted by the recipient and whether or not the recipient met program eligibility criteria would be to develop and use a checklist. The checklist could note the documents the recipient is required to submit and how the recipient met the eligibility criteria to receive program benefits.

Official's Response and Corrective Action Plan

The following outlines the action Franklin CDJFS will take to address this finding.

- *We are requesting that ODJFS provide technical assistance so that we can have ongoing internal training that focuses on areas that we are experiencing problems with, such as the various types of statuses and the eligibility associated with those statuses. This will help assure that the required documentation checklist used by case management staff is aligned with the compliance requirements. The technical assistance is to include the specific documentation required for Qualified Eligibility determination for FCDJFS audit staff. Quality Assurance staff, and Opportunity Center case workers, including the correct CRISe screen coding, SAVE, the 40 hours of work requirement and the 5 year bar period. FCDJFS audit staff and any other staff QA, Contracting Unit, Training Dept., or Opportunity Center would require training no later than October 31, 2009 to begin the review of cases by the end of January, 2010.*
- *FCDJFS audit staff will utilize the approved checklist which would include the correct CRISe screen coding, SAVE, the 40 hours of work requirement and the 5 year bar period to primarily ensure that citizenship requirements are met. This is aligned with the FCDJFS QA unit methodology. Case workers with prevalent errors of the criteria for the 60 randomly selected cases will be reviewed via deliberate sample outside of the quarterly reviews monthly. FCDJFS audit staff and management will review the quarterly findings and adjust the sample size accordingly to the number of errors found contingent upon a baseline review to be completed by March 31, 2010.*
- *The implementation phase of our Northwood's Document Management Project is complete as of September 2009. This major agency investment will assist in ensuring that necessary documentation is captured and maintained in our case files. Training for eligibility staff has been completed 8/31/09, and all staff have been advised of documents and procedures for scanning to complete eligibility assessments. We have assured that documents can be linked to cases for financial audit and program review purposes.*
- *In addition, FCDJFS has developed a pilot with the Benefit Bank to assure that correct verification documentation is collected at the time of the initial interview for the Alien population. Community Refugee and Immigration Services (CRIS) is assisting FCDJFS with this pilot due to the anticipated volume of relocating refugees in this area.*
- *The training package from ODJFS will be posted on the FCDJFS Sharepoint internal document sharing interface and will be available to all agency staff.*

Anticipated Completion Date for Corrective Action

- *FCDJFS training will create a training package regarding non-citizen eligibility and processing in CRISe no later than 12/31/09 and submit for approval by ODJFS County Compliance.*
- *Trainers will train all applicable staff no later than 4/15/10.*
- *FCDJFS has designed and developed a review checklist for staff. Pending ODJFS approval, this checklist will be implemented in the quarterly review of a random sample of 60 non-citizen eligibility cases to begin 1/15/10.*

Contact Person Responsible for Corrective Action

Esther Adkins/Cheryl Presley Boley, Assistant Directors, Franklin County Department of Job & Family Services, 80 E. Fulton St., Columbus OH 43215, Phone: (614) 462-4131, E-Mail: eadkins@fcdjfs.franklincountyohio.gov or wcxp25@fcdjfs.franklincountyohio.gov

3. MEDICAID/TANF – MISSING CASE FILES – FRANKLIN COUNTY

Finding Number	2008-JFS03-020
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Eligibility

QUESTIONED COSTS $29,286

45 CFR 206.10(a)(5)(i) states, in part:

> Financial assistance and medical care and services included in the plan shall be furnished promptly to eligible individuals without any delay attributable to the agency's administrative process, and shall be continued regularly to all eligible individuals until they are found ineligible. . . .

45 CFR 206.10(a)(8)

> Each decision regarding eligibility or ineligibility will be supported by facts in the applicant's or recipient's case record. . . .

The Franklin County Department of Job and Family Services (FCDJFS) is responsible for maintaining case files and all pertinent support documentation to provide evidence that control procedures have been performed by the County over the Temporary Assistance for Needy Families-Ohio Works First (TANF-OWF) and Medicaid programs, to provide back-up documentation regarding eligibility and other case activity input into CRIS-E, and to substantiate the agency is complying with federal rules and regulations.

Testing of eligibility could not be performed at FCDJFS for three of the 20 case files selected for testing (10 Medicaid and 10 TANF-OWF). FCDJFS was not able to provide the case files or any other documentation to support the eligibility determinations for these three cases. Therefore, we will question the costs for all benefits paid to the three recipients during fiscal year 2008, or $29,286 (two Medicaid recipients, totaling $28,779 and one TANF-OWF recipient, totaling $507 - projected to be more than $10,000).

Missing case files and documentation increases the risk that amounts and other information reported to the federal grantor agencies may not reflect actual program activities. Without consistently obtaining, maintaining or reviewing the required documentation on file, FCDJFS may not be able to fully support or ensure payments were made only to or on behalf of eligible recipients. The lack of or failure to review supporting documentation could and did result in questionable benefit payments and increases the risk that payments could be made to ineligible clients.

According to the Franklin County management, the missing case files and other supporting documentation were due, in part, to the number of case files maintained by the County and frequent movement of these files. Also, it was caused by the transition of a new imaging system in which all of the documents in a case file may not have been scanned into the system.

We recommend FCDJFS management review current policies and procedures and/or implement new control procedures to reasonably ensure all case files have adequate supporting documentation to support the benefit payments made to eligible recipients. We recommend Franklin County management communicate to their staff these policies and procedures to ensure the proper procedures are carried out as intended. In addition, management may consider performing periodic reviews of the case files to reasonably ensure established controls and record retention procedures are being followed by FCDJFS personnel.

3. MEDICAID/TANF – MISSING CASE FILES – FRANKLIN COUNTY (Continued)

Official's Response and Corrective Action Plan

We maintain that the result of this audit finding is a favorable indicator in part of the corrective action measure we are pursuing with our Document Management Project. With that stated, the following outlines the action Franklin CDJFS will take to address this finding:

- *We have completed the implementation phase of our Northwood's Documentation Management Project. This major agency investment will assist in ensuring that necessary documentation is captured and maintained in our case files.*
- *Training is being conducted to educate all staff on operating policies and procedures for the system.*

Anticipated Completion Date for Corrective Action

The document management project is completed and is being implemented throughout the Agency.

Contact Person Responsible for Corrective Action

Cheryl Presley Boley, Assistant Director, Franklin County Department of Job & Family Services, 80 E. Fulton St., Columbus OH 43215, Phone: (614) 462-4131, E-Mail: wcxp25@fcdjfs.franklincountyohio.gov

4. MEDICAID/FOOD STAMPS – ALIEN/REFUGEE UNDOCUMENTED ELIGIBILITY – CUYAHOGA COUNTY

Finding Number	2008-JFS04-021
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services
Compliance Requirement	Eligibility

QUESTIONED COSTS $19,750

8 USC 1641(b) states:

For purposes of this chapter, the term "qualified alien" means an alien who, at the time the alien applies for, receives, or attempts to receive a Federal public benefit, is -

(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),

4. MEDICAID/FOOD STAMPS – ALIEN/REFUGEE UNDOCUMENTED ELIGIBILITY – CUYAHOGA COUNTY (Continued)

(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)

(7) an alien who is Cuban and Haitian entrant (as defined in section 501(e) of the Refugee Education Assistant Act of 1980).

8 USC 1612(a) states:

(1) Notwithstanding any other provision of law and except as provided in paragraph (2), an alien who is a qualified alien (as defined in section 1641 of this title) is not eligible for any specified Federal program (as defined in paragraph (3)).

. . .

(3) For purposes of this chapter, the term "specified Federal program" means any of the following:

. . .

(B) Food stamps. The food stamp program as defined in section 3(h) of the Food Stamp Act of 1977 [7 U.S.C. 2012(h)].

8 USC 1612(b) states:

(1) Notwithstanding any other provision of law and except as provided in section 1613 of this title and paragraph (2), a State is authorized to determine the eligibility of an alien who is a qualified alien (as defined in section 1641 of this title) for any designated Federal program (as defined in paragraph (3)).

. . .

(3) For purposes of this chapter, the term "designated Federal program" means any of the following:

. . .

(C) Medicaid. A State plan approved under title XIX of the Social Security Act [42 U.S.C. 1396 et seq.], other than medical assistance described in section 1611(b)(1)(A) of this title.

8 USC 1612(b) states:

(2) Exceptions. 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) (I) 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.

4. MEDICAID/FOOD STAMPS – ALIEN/REFUGEE UNDOCUMENTED ELIGIBILITY – CUYAHOGA COUNTY (Continued)

45 CFR 206.10(a)(8)

> Each decision regarding eligibility or ineligibility will be supported by facts in the applicant's or recipient's case record. . . .

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 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.

We selected 60 out of approximately 8,500 case files at Cuyahoga County Department of Job and Family Services (CCDJFS) in which a qualified alien/refugee was deemed eligible to receive public assistance (Medicaid and/or Food Stamps).

- For four of 51 recipients selected for testing, there was no evidence to determine that the recipient met the Medicaid requirements for Refugee, Granted Asylum, Permanent Resident, Legal Alien, Applicant for Asylum, or Adjusted to Permanent Resident for the entire audit period.

- For one of 51 recipients selected for testing, there was no evidence to determine that the recipient met the Medicaid requirements for Refugee, Granted Asylum, Permanent Resident, Legal Alien, Applicant for Asylum, or Adjusted to Permanent Resident for a portion of the period (October 8, 2008 through June 30, 2008).

- For three of 48 recipients selected for testing, there was no evidence to determine that the recipient met the Food Stamps requirements for Refugee, Granted Asylum, Permanent Resident, Legal Alien, Applicant for Asylum, or Adjusted to Permanent Resident for the entire audit period.

As a result, we are questioning the costs of public assistance benefits paid to the five Medicaid recipients ($6,666) and three Food Stamp recipients ($13,084) during fiscal year 2008, or $19,750.

Without consistently obtaining or maintaining the required documentation on file, CCDJFS may not be able to fully support or ensure payments were made only to or on behalf of eligible recipients. The lack of supporting documentation could result in questionable benefit payments and increase the risk of payments being made to ineligible recipients.

According to the Cuyahoga County's Regulatory Compliance Officer, the missing documentation was an oversight by the County's caseworkers. Cuyahoga County's Employment and Family Services department will continue to conduct Alien and Refugee training with all of the County's new caseworkers to ensure proper documentation is maintained.

We recommend the CCDJFS management review current eligibility requirements for Qualified Aliens/Refugees with all staff and perform supervisory reviews of Qualified 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 help ensure the required documents and information are 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.

4. MEDICAID/FOOD STAMPS – ALIEN/REFUGEE UNDOCUMENTED ELIGIBILITY – CUYAHOGA COUNTY (Continued)

Official's Response and Corrective Action Plan

The Agency will continue to review the Alien/Refugee eligibility requirements with staff. In addition, the Agency will continue to reinforce the importance of timely scanning of verifications into the eRIMS system.

June 2009 – The Agency has conducted a review of the Alien and Refugee cases receiving benefits in Cuyahoga County. Currently, cases are being corrected and updated as appropriate based on this review.

September 2009
The Agency continually strives to make accurate eligibility determinations for all programs while providing excellent customer services to our clients. However, the current staffing levels, which continue to decline, limit the ability of the Agency to achieve these objectives in every instance. This situation is further compounded by the State and County fiscal crises and the influx in customers due to the economic recession. With the current environment in mind, the Agency has a four part plan to work towards future improvement.

First, the Agency is in the process of implementing a new imaging system from Northwoods to better manage our case records. Currently, our imaging system is a back-end scanning system which means that the documents must be photocopied and then scanned into the imaging system. The new system is an upfront scanning system. This means that documents will be scanned directly into the imaging system. This will minimize the chance that a document will get lost and will significantly decrease the turn around time between the receipt of a document and when it is available for viewing in the system. In addition, documentation will be indexed at the document level. Thus, documents will be easier to locate in the record because more will be identified by name and will not be housed in large "files" as they are in our current system. Also, the new system will allow some documents to be scanned in color. This should avoid difficulties reading documents, such as the Alien Residency Card. The roll-out of the new imaging system is scheduled to begin in February 2010 and will continue for 12-18 months.

Second, the Agency plans to provide non-United States citizenship training to supervisory and caseworker staff in three phases.

- *Phase I: The Training Department will create tools / tip sheets to assist staff when they encounter non-citizen cases. These tools will be distributed to all staff by December 31, 2009.*
- *Phase II: The Training Department will develop and conduct informational training sessions on non-citizen cases for supervisory and caseworker staff by March 31, 2010.*
- *Phase III: The Training Department will develop and implement an in-depth training on non-United States citizenship cases which will incorporate policy and hands-on CRIS-E training. This training will be completed by December 31, 2010.*

Third, the Agency plans to conduct an annual review of non-U.S. citizenship cases, assuming that staffing levels permit such a review. The CURE staff (internal reviewers) along with the Training Department will develop a checklist to be used in the review. During the review, the CURE staff would review new non-citizen cases to ensure their accuracy and to identify any potential training issues. If the CURE staff discovers missing citizenship documentation, they will make efforts to obtain the needed verification(s) and then take appropriate actions on the case(s) based on their finding(s).

Fourth, the Agency will write procedures records management. Protocols are being developed for the new records management system with Northwoods. As part of the roll-out of the system, Northwoods will train Agency staff on the scanning process and document retrieval in the system. The training will also cover internal protocols and policy. Until this system is ready, a written procedure will be developed for the use of the current eRIMS system by the auditors and reviewers by December 31, 2009.

4. MEDICAID/FOOD STAMPS – ALIEN/REFUGEE UNDOCUMENTED ELIGIBILITY – CUYAHOGA COUNTY (Continued)

Anticipated Completion Date for Corrective Action

Ongoing

Contact Person Responsible for Corrective Action

Jacquelon Ward, Co-Manager of Participant Services, Cuyahoga County Department of Job & Family Services, 1641 Payne Avenue. Cleveland, Ohio 44114, Phone: (216) 987-6387; e-mail: WardJ02@odjfs.state.oh.us

5. SCHIP – INELIGIBLE RECIPIENT

Finding Number	2008-JFS05-022
CFDA Number and Title	93.767 – State Children's Insurance Program
Federal Agency	Department of Health and Human Services
Compliance Requirement	Eligibility

QUESTIONED COSTS $4,685

42 CFR 457.320 states, in part:

> (a) To the extent consistent with title XXI of the Act and except as provided in paragraph (b) of this section, the State plan may adopt eligibility standards for one or more groups of children related to –
> . . .
> (2) Age (up to, but not including, age 19).
> . . .

Ohio Admin. Code 5101:1-40-08 (C) (3) (b) states:

> Children already in receipt of Medicaid under this program at age eighteen will remain eligible through the end of the month in which he or she turns nineteen.
> . . .

It is management's responsibility to implement policies and procedures to provide reasonable assurance that only persons who meet all eligibility criteria are able to receive benefits.

As medical claims from providers are received by the Department, they are uploaded in the Medicaid Management Information System (MMIS). The Department utilizes the Client Registry Information System – Enhanced (CRIS-E) to determine eligibility and MMIS to determine whether payments for medical services are allowable and to verify recipient and provider eligibility. Daily, county workers enter eligibility data into CRIS-E which interfaces with MMIS. In order to be eligible for SCHIP, the individual must be less than 19 years old unless they meet specific exemption criteria. An SCHIP recipient will remain eligible through the end of the month in which he or she turns 19. CRIS-E is designed to generate an alert notifying the county worker of an individual about to turn 19, at which time the worker is responsible to re-determine eligibility. However, there are no subsequent edits or monitoring procedures in place to verify the re-determination was performed timely. One of 60 SCHIP recipients tested was not eligible to receive SCHIP benefits on the date of service. The recipient exceeded the maximum allowable age for the SCHIP program and there was no evidence to indicate they met any of the exemption criteria

5. SCHIP – INELIGIBLE RECIPIENT (Continued)

for all or a portion of the period. Therefore, we will question all costs associated with the services provided for this individual during the times they were ineligible, totaling $4,685 (projected to be more than $10,000).

The lack of sufficient edit checks and controls over the timely review of CRIS-E alerts increases the risk of errors during processing of SCHIP claims resulting in inaccurate payments to providers. Payments on behalf of ineligible recipients may subject the Department to penalties or sanctions which may jeopardize future federal funding and limit their ability to fulfill program requirements to provide benefits to those in need. Management agreed the recipient was not eligible for SCHIP during the date of service. Management indicated they relied on the county case worker responsible for the case to re-determine eligibility.

We recommend the Department perform periodic testing to help ensure the automated controls are functioning properly and the system is appropriately notifying county case workers of SCHIP individuals that are about to turn 19. The Department should evaluate the process at the county level to reasonably ensure case workers are addressing alerts timely and adequately. They should also consider revising the edits within CRIS-E to notify the Department if timely re-determinations are not made and/or automatically terminate eligibility in the month after the recipients 19th birthday unless an appropriate exemption is entered. In addition, we recommend the Department evaluate a sample selection of SCHIP payments to verify that reimbursements are properly computed within MMIS and are reimbursed according to federal regulations and Departmental policy. Any problems noted should be promptly corrected to reduce the risk that payments will be made on behalf of ineligible individuals.

Official's Response and Corrective Action Plan

- *OHP will provide video conference training to all CDJFS offices. Training will include: importance of working CRIS-E system alerts (specifically, those notifying caseworkers a consumer is turning 19 years of age); Pre-termination Reviews; and, other categories of Medicaid appropriate for consumers turning 19. All training materials developed by OHP's County Technical Assistance Unit are posted to the Innerweb and available to CDJFS staff for further training needs, or to be used as desk aids.*
- *OHP will provide information to all CDJFS offices through the Medicaid Matters Newsletter. This newsletter is published on a monthly basis and the target audience is CDJFS caseworkers. The information will include the importance of working CRIS-E system alerts (specifically, those notifying caseworkers a consumer is turning 19 years of age); Pre-termination Reviews; and, other categories of Medicaid appropriate for consumers turning 19.*
- *The OHP County Compliance Unit will review a sample of cases in the CDJFS agencies for which there were findings. The case reviews will be conducted quarterly on cases with consumers who have turned 19 years of age. If further case errors are found, OHP will provide further training and technical assistance to the CDJFS agencies.*

Anticipated Completion Date for Corrective Action

- *Video conference training will be completed by January 31, 2010 with all CDJFS offices.*
- *Medicaid Matters Newsletter information will be available to all CDJFS offices by July 1, 2010.*
- *Case reviews will be completed quarterly through March 31, 2010.*

Contact Person Responsible for Corrective Action

Shawn Lotts, Chief, OHP County Compliance, Ohio Department of Job & Family Services, 50 W. Town Street, 5th Floor, Suite 400, P.O. Box 182709, Columbus, Ohio, 43218-2709, Phone: (614) 752-3585, E-Mail: Shawn.Lotts@jfs.ohio.gov

6. TANF – REFUSAL TO WORK – CUYAHOGA, HAMILTON, AND LUCAS COUNTIES

Finding Number	2008-JFS06-023
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services
Compliance Requirement	Special Tests and Provisions

<u>QUESTIONED COSTS</u> $4,408

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 §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 . . .
>
> . . .

Current procedures require an Assistance Group (AG) to be sanctioned when there is refusal to work by the recipient. Of the six counties tested during fiscal year 2008, three did not properly sanction TANF recipients for refusal to work, as noted below, resulting in questioned costs of $4,408 (projected to be more than $10,000).

<u>Cuyahoga County</u>

We selected 20, out of approximately 56,135, Refusal to Work sanctions from the GWP 518 reports to determine if the Cuyahoga County Department of Job and Family Services (CCDJFS) was properly sanctioning recipients for refusing to work. One (5%) TANF-Ohio Works First (OWF) assistance group was not in compliance with their self-sufficiency contract (employability contract and plan) and did not have good cause for refusal to work. Cuyahoga County did not properly sanction or deny the recipient's TANF-OWF benefits for refusing to work in December 2007. As a result, we are questioning costs totaling $336, the amount of TANF-OWF benefits paid during the time the assistance group should have been sanctioned.

<u>Hamilton County</u>

We selected 20 Child Support Non-cooperation sanctions from the GWP 523 reports to determine if the Hamilton County Department of Job and Family Services (HCDJFS) was properly sanctioning recipients for not cooperating in establishing or enforcing a child support order. Although no exceptions were noted in this test, one (5%) TANF-OWF assistance group was not in compliance with their self-sufficiency contract (employability contract and plan) and did not have good cause for refusal to work. The HCDJFS did not properly sanction or deny the recipient's TANF-OWF benefits for refusing to work in April 2008. As a result, we are questioning costs totaling $1,230, the amount of TANF-OWF benefits paid during the time the assistance group should have been sanctioned (July 2008, August 2008, and September 2008).

6. TANF – REFUSAL TO WORK – CUYAHOGA, HAMILTON, AND LUCAS COUNTIES (Continued)

Lucas County

We selected 20, out of approximately 4,393, Refusal to Work sanctions from the GWP 518 reports to determine if the Lucas County Department of Job and Family Services (LCDJFS) was properly sanctioning recipients for refusing to work. Two (10%) TANF-OWF assistance groups were not in compliance with their self-sufficiency contract (employability contract and plan) and did not have good cause for refusal to work. Lucas County did not properly sanction, reduce, or deny the recipients' TANF-OWF benefits for refusal to work during state fiscal year 2008. As a result, we are questioning costs totaling $2,842, the amount of TANF-OWF benefits paid during the time the assistance groups should have been sanctioned.

Without proper policies and procedures to reasonably ensure compliance with federal requirements, management cannot be fully assured only eligible recipients are receiving benefits. If CCDJFS, HCDJFS, and LCDJFS are making payments during ineligible periods, there is greater risk of potential questioned costs which could jeopardize future funding. According to county management, these overpayments were an oversight and a result of non-intentional errors with their case management process.

We recommend CCDJFS, HCDJFS, and LCDJFS management review current policies and procedures and/or implement revised control procedures which will reasonably 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.

Official's Response and Corrective Action Plan

Cuyahoga
The Agency will continue to reinforce the importance of timely scanning of verifications into the eRIMS system.

June 2009 – The Agency continues to reinforce with staff the importance of scanning verifications in a timely manner into the eRIMS system. Note: For the TANF – Penalty for Refusal to Work (Sanctioned) Testing case, no subsequent Self-Sufficiency Contract or Plan have been obtained from the client because they moved out of Ohio in June 2007 and no benefits have been issued since July 2007.

September 2009
The Agency continually strives to make accurate eligibility determinations for all programs while providing excellent customer services to our clients. However, the current staffing levels, which continue to decline, limit the ability of the Agency to achieve these objectives in every instance. This situation is further compounded by the State and County fiscal crises and the influx in customers due to the economic recession. While the Agency recognizes the importance of case records management, the Agency would like to note that only 6% of the cases had a problem with documents that could not be located (3 cases out of 50, based on Comment 9). It is the Agency's understanding that this result is a significant improvement from past audits. With the current environment in mind, the Agency will take steps towards further improving its case record management system.

First, the Agency is in the process of implementing a new imaging system from Northwoods to better manage our case records. Currently, our imaging system is a back-end scanning system which means that the documents must be photocopied and then scanned into the imaging system. The new system is an upfront scanning system. This means that documents will be scanned directly into the imaging system. This will minimize the chance that a document will get lost and decrease the turn around time between the receipt of a document and when it is available in the system. In addition, documentation will be indexed at the document level. Thus, documents will be easier to locate in the record because more will be identified by name and will not be housed in large "files" as they are in our current system. Also,

6. TANF – REFUSAL TO WORK – CUYAHOGA, HAMILTON, AND LUCAS COUNTIES (Continued)

the new system will allow some documents to be scanned in color. This should avoid difficulties reading documents, such as the Alien Residency Card. The roll-out of the new imaging system is scheduled to begin in February 2010 and will continue for 12-18 months.

Second, the Agency will write procedures records management. Protocols are being developed for the new records management system with Northwoods. As part of the roll-out of the system, Northwoods will train Agency staff on the scanning process and document retrieval in the system. The training will also cover protocols and policy. Until this system is ready, a written procedure will be developed for the use of the current eRIMS system by the auditors and reviewers by December 31, 2009.

Hamilton

No corrective action is required at this time, but the explanation below of this complicated string of events should be helpful.

In response to audit finding on case number 5057110784 sanction error.

Case 5057110784 scheduled to be sanctioned effective for 07/01/2008 for failure to complete work requirements for the month of 04/2008.

Consumer filed timely hearing resulting in fair hearing benefits issued in 07/2008, cash benefit continues without interruption. Consumer failed to appear for scheduled hearing on 07/14/2008 and rescheduled hearing date of 08/07/2008 causing cash benefits issuance to continue for 08/2008 and 09/2008. As stated in CLRC note dated 09/10/2008 consumer was placed on sanction however, benefits received were from fairing hearing filing. Hearing was dismissed due to consumer abandoned appeal process, sanction re-imposed for 10/2008 first tier. Consumer did serve sanction for 04/2008 in 10/2008.

Due to time span on hearing appeal, CRISE state mainframe showing case as being closed and sanction appeared to be served. Case reopened resulting in second check issued for the months July 2008 and August 2008, however September cash benefit was a fair hearing compliance check. On 09/11/2008, a request submitted to overpayment unit to recoup funds.

Lucas

The two non-compliant cases had differing underlying causes and require a distinct corrective action:

1. *Non-compliance for one of the two cited cases was due to an initial failure to re-assign the client after OWF re-instatement following an imposed sanction.*
   - *New sanction regulations were implemented on Oct. 1st 2007, the attached Help Desk Tip went out to staff informing them of the new regulations. The new rules automatically allowed clients to regain assistance after serving their sanction period. In this case the Eligibility Specialist failed to refer the client back to the Work Activities unit to sign a new ECP after the OWF grant was authorized.*
   - *In September of 2008, a standard procedure was issued to inform staff of the process for ensuring clients are placed back on assistance after a sanction as appropriate. In order to make sure that all parties are following this procedure and that the Eligibility Specialist refers all clients as appropriate, the Administrative Secretary to the WA manager will monitor all new OWF intakes to make sure clients are referred to Work Activities for assessment. The weekly application timeliness report will be run bi-weekly to obtain the list of new OWF clients, which the Admin. Secretary will use to match against the weekly WA assessment lists to see that the client was scheduled accordingly.*

6. TANF – REFUSAL TO WORK – CUYAHOGA, HAMILTON, AND LUCAS COUNTIES (Continued)

2. *In the second non-compliant case the worker failed to take the required sanction in a timely manner. Several approaches have been implemented to ensure that sanctions are taken timely.*
   - *Each worker submits their 518 report to their supervisor on a monthly basis for review. Workers review the 518 report and notate any follow up or actions for the supervisor's review and approval.*
   - *In order to ensure that sanctions are applied in a consistent, appropriate and timely manner, the Work Activity Case Management Unit supervisors submit sanction referrals to the supervisor of the Data Services Unit. Data Services personnel review the sanction request to review the correctness of the referral and then enter sanction in CRIS-E/AEOIE. The supervisor of Data Services Unit reviews the sanction referral database for the timely entering of sanctions by the Public Inquires Assistants.*
   - *In addition, four cases per workers per month are submitted to QA for review to ensure that workers are following-up (sanctioning, assigning, updating attendance) on Work Activities cases as appropriate.*
   - *Individual Work Activity Case Manager performance is closely monitored using QA review data, compliance with 518 report submissions, and reviews of "in-unit" case tracking data. Performance Improvement Plans are developed and implemented as required and have resulted in some necessary changes to staffing of the area.*
   - *Community contracted work activity providers notify on a "real time" basis of failure to participate via an electronic referral system.*

Anticipated Completion Date for Corrective Action

Cuyahoga
Ongoing

Hamilton
N/A

Lucas
- *Standard Procedure Distributed and monitoring of BIC reports initiated May 1, 2008*
- *In unit reviews of 518 report are in place and conducted monthly.*
- *Data Services sanction functions and monitoring are in place and on-going.*
- *QA reviews are conducted monthly and are an on-going method to monitor compliance WA regulations.*
- Electronic failure alerts are active and monitored by unit supervisors

Contact Person Responsible for Corrective Action

Cuyahoga
Jacquelon Ward, Co-Manager of Participant Services, Cuyahoga County Department of Job & Family Services, 1641 Payne Avenue. Cleveland, Ohio 44114, Phone: (216) 987-6387; e-mail: WardJ02@odjfs.state.oh.us

Hamilton
Kevin Holt, Section Chief – Work force Development, Hamilton County Department of Job & Family Services, 222 E Central Parkway, Cincinnati, OH 45202, Phone: (513) 946-1840, E-Mail: Holtk@jfs.hamilton-co.org

Lucas
Jamalica Evans, Administrator-Work Activities, Lucas County Department of Job & Family Services, 3210 Monroe St., Toledo, Ohio 43699, Phone: (419) 213-8470, E-Mail: EVANSJ10@odjfs.state.oh.us

7. MEDICAID – PRIOR AUTHORIZATION

Finding Number	2008-JFS07-024
CFDA Number and Title	93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirements	Activities Allowed or Unallowed

<u>QUESTIONED COSTS AND SIGNIFCIANT DEFICIENCY</u> $1,408

42 USC 1396a(a) states that a State plan for medical assistance must:

> (9)(A) provide that the State health agency, or other appropriate State medical agency (whichever is utilized by the Secretary for the purpose specified in the first sentence of section 1395aa(***a***) of this title), shall be responsible for establishing and maintaining health standards for private or public institutions in which recipients of medical assistance under the plan may receive care or services.
> . . .

The Ohio Administrative Code section 5101:3-1-02, which is part of the Ohio state plan, states, in part:

> (A) Most medical procedures are reimbursable within certain administrative limitations; some are reimbursable if approved in advance by the department through prior authorization or pre-certification; and, some are ordinarily not reimbursable.
>
> (B) The following general principles determine whether a particular medical service is reimbursable:
>
> (1) The service is determined to be medically necessary as defined in rule 5101:3-1-01 of the Administrative Code
> (2) The consumer or authorized representative originates all requests for medicaid services.
> (3) Services are provided within the limits of the medicaid benefit package, within the scope and practice of the provider as defined by applicable federal, state, and local laws and regulations.
> . . .

The State's Medicaid program is administered by the Department of Job and Family Services to pay for eligible medical services, some of which require review and approval prior to claims submission. The provider must request pre-approval for these types of services through a prior authorization form. A clinical reviewer, either a Registered Nurse or a specialist contracted by the Department, reviews each prior authorization request for medical necessity, cost-effectiveness, and to verify the requested services conform to commonly accepted community standards of the profession involved. The clinical reviewer uses this information to approve or deny the request. Once a determination is made, a Management Analyst will enter the prior authorization information into MMIS. There are occasions when the prior authorizations are administratively denied due to a lack of basic information, (i.e. patient name, accurate provider address or provider number, etc). These prior authorizations cannot be entered into MMIS.

During state fiscal year 2008, MMIS processed payments related to 331,741 prior authorization claims totaling $113,923,001. In addition, the Prior Authorization Unit processed approximately 75,683 prior authorization forms. For 11 of the 60 prior authorization forms selected for testing, the information within MMIS did not match the information on the prior authorization form or the decision to approve or deny the service was not in accordance with applicable laws and regulations outlined in the State Plan. For seven of these items, the issues identified had no financial impact since no claims were paid for these items during fiscal year 2008. For the remaining four prior authorizations; however, claims were paid resulting in questioned costs, totaling $1,408 (projected to be more than $10,000), as detailed below:

7. MEDICAID – PRIOR AUTHORIZATION (Continued)

a. Two prior authorization requests were approved and entered into MMIS; however, these approvals were not supported by the necessary documentation required by the Ohio Administrative Code (a summary recommendation and current hearing aid status documentation). Therefore, we will question costs for the two claims paid related to these prior authorizations totaling $900.

b. One claim was paid based on a prior authorization request received on 10/25/2007. A service date for the claim of 12/13/07 was entered into MMIS. However, the support indicated the services were actually rendered on 1/26/07, nearly one year prior to the date entered and nine months before the prior authorization. Therefore, we will question the costs associated with this claim totaling $450.

c. One prior authorization request included six services; however, only two were entered into MMIS. Although we could not determine the effect on unentered services, the potential existed for allowable claims to be denied and for unallowable claims to be approved and paid. Additionally, the claim support associated with this request indicated the services totaled $198; however, $256 was approved within MMIS for the service and a claim was paid for $256. Therefore, we will question cost for the difference, totaling $58.

If prior authorization forms are not appropriately approved or denied and accurately entered into the State's MMIS system, the risk is significantly increased that claims could be incorrectly billed to Medicaid for unauthorized services. Management indicated they experienced staffing issues and a hiring freeze during the fiscal year that resulted in a significant backlog of prior authorizations. Every effort was made to reduce the backlog during fiscal year 2008 with the available resources.

We recommend the Department review policies and procedures with personnel responsible for approving and denying prior authorizations, as well as those entering the prior authorization information into MMIS, and stress the importance of accuracy and the need for appropriate supporting documentation. Management should also consider performing periodic reviews of the information entered into MMIS to ensure the information is accurate and complete. These reviews should be documented and performed by an appropriate level of management.

Official's Response and Corrective Action Plan

a. We disagree with this finding. In the clinical judgment of the licensed healthcare professional e.g., the Physician or Registered Nurse performing the reviews, medical necessity for the service was established and the consumer need outweighed any need for additional documentation. Reimbursement for a prior authorized service is not contingent upon preponderance of documentation, especially when medical necessity has been established. Even if the prior authorization was incorrect, the reimbursement for the claim met the requirements of the Ohio Administrative Code.[1]

b. We disagree with this finding. The provider did not enter a date of service or dispensing date in the required box(s) provided on the jfs form 3142. The intermittent staff used the date the prior authorization was entered with a one year window as the default date providing the provider up to one year to bill the service(s). This action was appropriate for the intermittent staff. The provider in this instance had requested a date of service in the special note section of the prior authorization. However, the intermittent staff would not have known to use a date in the special notes section since the appropriate box to enter date of service was left empty. However, the provider may use any date between the date of the earmold impression and the date of dispensing as the date of service. (OAC 5101:3-10-05).

c. We disagree with this finding. There were two services requested, a major repair of a wheelchair and the labor to perform the repairs. There were six procedure codes on the request. Five codes were for the repair parts, and one for the labor as required by the Ohio Administrative Code.[2] *Reimbursement for the parts were calculated and bundled into the all-inclusive major wheelchair repair code in accordance with the Ohio Administrative Code.*[3] *The second procedure code was for the reimbursement for the estimated labor. Any discrepancy associated with the service provider's reimbursement does not lie within the*

7. MEDICAID – PRIOR AUTHORIZATION (Continued)

scope of prior authorization. The DHS 4044 Notice of Approval for Medical Services sent to the provider clearly states that it is not a guarantee of payment, just notification that medical necessity for the service was established. All services approved were listed on the PA Approval Notice. If there was a difference in the amount paid for the claim versus what was billed, as stated in the finding, that issue lies within the claims processing and reimbursement area(s).[4-5]

[1] *OAC § 5101:3-1-31(G) (2005) Prior Authorization.*
[2] *OAC § 5101:3-10-16(J)(9) (2006) Wheelchairs.*
[3] *OAC § 5101:3-10-03 (2008) "Medicaid Supply List" appendix A, Wheelchairs Part II on pages 22-24, and Wheelchairs Part IV on page 25.*
[4] *OAC § 5101:3-1-08 (2006) Coordination of Benefits.*
[5] *OAC § 5101:3-1-60(A)(2)&(D) (2008) Medicaid Reimbursement.*

Anticipated Completion Date for Corrective Action

We plan no action on this audit finding. OHP will continue to administer Prior authorization using consumer's medical necessity as the ruling factor as directed by OAC 5101:3-1-01

Contact Person Responsible for Corrective Action

Trina Hazley, Medicaid Systems Administrator/Nursing Supervisor, Ohio Department of Job & Family Services, Lazarus Building, 50 W Town Street, Columbus, OH 43215, Phone: (614) 752 3809, E-Mail: trina.hazley@jfs.ohio.gov

Auditor of State's Conclusion

a. OAC section 5101:3-10-11 states that a summary recommendation and current hearing aid status documentation are required for approval of this type of service; therefore the questioned costs will remain.
b. Because the services were provided before the prior authorization and prior to the "begin date" for services, the questioned cost will remain.
c. Because the amount paid was in excess of the actual costs, the questioned cost will remain.

8. TANF – EARLY LEARNING INITIATIVE MISSING CASE FILE – FRANKLIN COUNTY

Finding Number	2008-JFS08-025
CFDA Number and Title	93.558 – Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services
Compliance Requirement	Eligibility

QUESTIONED COSTS $1,222

42 USC 602(a) states, in part:

(a) General – As used in this part, the term "eligible State" means, with respect to a fiscal year, a State that, during the 27-month period ending with the close of the 1st quarter of the fiscal year, has submitted to the Secretary a plan that the Secretary has found includes the following:

(1) Outline of family assistance program. –-

(A) General provisions. – A written document that outlines how the State intends to do the following:

8. TANF – EARLY LEARNING INITIATIVE MISSING CASE FILE – FRANKLIN COUNTY (Continued)

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

. . .

The State Plan states, in part:

> In Ohio, the Early Learning Initiative provides early care and education services to young children in order to prepare them for successful entry into school. Eligible participants are preschool children who are part of an Ohio Works First assistance group or preschool children whose parent(s) are employed with income at or below 195% FPL.

The Ohio Administrative Code section 5101:2-23-05 states, in part:

(A) Application for early learning initiative (ELI) benefits.

(1) A caretaker shall apply for ELI benefits for a child by completing the JFS 01155 “Application for Early Learning Initiative (ELI) Benefits” (rev. 7/2008) and submitting the application to the county department of job and family services (CDJFS) in the county in which the caretaker resides.

(2) The caretaker shall reside in the same home as the child.

(B) The CDJFS shall provide the caretaker with the following information during the application process:

(1) State hearing rights and procedures according to applicable rules in division 5101:6 of the Administrative Code.

(2) A copy of the rights and responsibilities section of the JFS 01155 that is signed and dated by the caretaker.

(C) The CDJFS shall document the date an ELI application is received. Eligibility for ELI benefits shall begin on the date the CDJFS receives an application or the date the child is three years of age, whichever is later. Eligibility shall continue for twelve months, and end on the last day of the pay cycle in the twelfth month of eligibility.

(D) If the caretaker fails to provide all information and documentation necessary to complete the eligibility determination within fifteen calendar days from the date the CDJFS receives an application, the application shall be denied.

. . .

45 CFR 206.10(a)(8) states:

> Each decision regarding eligibility or ineligibility will be supported by facts in the applicant’s or recipient’s case record. . . .

Additionally, case files and all pertinent support documentation are to be maintained by the Franklin County Department of Job and Family Services to provide evidence that control procedures have been performed by the County over the TANF program, to provide back-up documentation for the case activity input into the 3299 system, and to substantiate that the agency is complying with federal rules and regulations.

8. TANF – EARLY LEARNING INITIATIVE MISSING CASE FILE – FRANKLIN COUNTY (Continued)

The TANF Early Learning Initiative (ELI) program provides children who are often at risk of school failure with educational experiences that will help them enter kindergarten ready for success and meet the child care needs of working families. Each county is responsible for determining eligibility, processing applications for the clients, entering the appropriate information into the 3299 system, coordinating services to the clients, and maintaining appropriate documentation in each case file.

Testing of eligibility could not be performed at the Franklin County Department of Job & Family Services (FCDJFS) for one (5%) of 20 case files selected for testing. FCDJFS was not able to provide the case files or any other documentation to support the eligibility determinations for this ELI recipient. Therefore, we are questioning the costs of all TANF benefits paid to the ELI provider on behalf of this recipient during the ineligible period, totaling $1,222 (projected to be more than $10,000).

Missing case files and documentation increases the risk that amounts and other information reported to the federal grantor agencies may not reflect actual program activities. Without consistently obtaining, maintaining or reviewing the required documentation on file, FCDJFS may not be able to fully support or reasonably ensure payments were made only to or on behalf of eligible recipients. The lack of supporting documentation could and did result in questionable benefit payments and increases the risk that payments could be made to ineligible clients.

According to Franklin County management, the missing case file and other supporting documentation was due in part to the number of case files maintained by the County and frequent movement of these files. In addition, it was caused by the transition of a new imaging system in which all of the documents in a case file may not have been scanned into the system.

We recommend FCDJFS management review current policies and procedures and/or implement new control procedures that will reasonably ensure case files have adequate documentation to support payments made to recipients and this documentation is reviewed to ensure all payments are proper. We recommend management communicate its policies and procedures to staff to reasonably ensure they are carried out as intended. In addition, management should perform periodic reviews of the case files to help ensure established controls and record retention procedures are being followed by FCDJFS personnel.

Official's Response and Corrective Action Plan

We maintain that the result of this audit finding is a favorable indicator in part of the corrective action measure we are pursuing with our Document Management Project. With that stated, the following outlines the action Franklin CDJFS will take to address this finding:

- *We have completed the implementation phase of our Northwood's Documentation Management Project. This major agency investment will assist in ensuring that necessary documentation is captured and maintained in our case files.*
- *Training is being conducted to educate all staff on operating policies and procedures for the system.*

Anticipated Completion Date for Corrective Action

The document management project is completed and is being implemented throughout the Agency.

Contact Person Responsible for Corrective Action

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9. MEDICAID/SCHIP – THIRD PARTY LIABILITY (TPL)

Finding Number	2008-JFS09-026
CFDA Number and Title	93.767 – State's Children's Insurance Program 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Allowable Costs and Cost Principles

<u>QUESTIONED COSTS</u> $112

42 CFR 433.138 states, in part:

> (a) Basic provisions. The agency must take reasonable measures to determine the legal liability of the third parties who are liable to pay for services furnished under the plan.
>
> (b) Obtaining health insurance information: Initial application and redetermination processes for Medicaid eligibility. (1) If the Medicaid agency determines eligibility for Medicaid, it must, during the initial application and each redetermination process, obtain from the applicant or recipient such health insurance information as would be useful in identifying legally liable third party resources so that the agency may process claims under the third party liability payment procedures specified in §433.139 (b) through (f).

42 CFR 433.139 states, in part:

> (b) Probable liability is established at the time the claim is filed. . . (1) If the agency has established the probable existence of third party liability at the time the claim is filed, the agency must reject the claim and return it to the provider for a determination of the amount of liability. The establishment of third party liability takes place when the agency receives confirmation from the provider or a third party resource indicating the extent of third party liability.

Under the current process, the County Departments of Job and Family Services (CDJFS) process the application and related information for initial Medicaid eligibility and eligibility redeterminations. During the initial application or redetermination process, the CDJFS' are responsible for identifying if the applicant has any third party insurance coverage and noting this in the CRIS-E system. If a potential Medicaid recipient states that they have third party insurance but has no proof or incomplete proof of insurance, the CDJFS is responsible for entering the information into CRIS-E, setting the system to cost avoid, and marking the record as "Client Statement". An insurance verification is automatically generated and sent to the insurance company to verify the information. The verifications are received and processed by the ODJFS Cost Avoidance Unit. If proof of the third party insurance is provided at the time of initial application or redetermination, including the policy name and number, dates of coverage, and insurance types, then the CDJFS enters the information as verified and sets the system to cost avoid. The system is set to cost avoid to ensure that any claims related to the third party insurance coverage are billed to that insurance company before billing Medicaid. The county-level third party liability information uploads from CRIS-E into a TPL database in MMIS to be used in claims processing. The Cost Avoidance Unit offered various training sessions to the counties during the last half of the audit period, which included video conferencing sessions, articles in the quarterly newsletter "Medicaid Matters" accessible to the CDJFS, as well provider updates in the quarterly newsletters mailed to Medicaid providers. In addition, the Cost Avoidance Unit began conducting monthly reviews of the third party liability records from various counties in June 2008; however, during these reviews, Cost Avoidance Unit personnel verified information through applicable CRIS-E and MMIS screens only. These reviews did not include an examination of proofs of insurance for Medicaid recipients maintained at the county-level.

9. MEDICAID/SCHIP – THIRD PARTY LIABILITY (TPL) (Continued)

In addition to the CDJFS and the Cost Avoidance Unit within ODJFS, third party insurance information is also collected in child support cases where a court orders, as part of a court settlement, a non-custodial parent to obtain third party health insurance for a child. For these child support cases, the CDJFS and Child Support Enforcement Agency (CSEA) collect information in SETS, the online database for child support. The child support third party liability information uploads from SETS into the TPL database within MMIS to be used in claims processing. In situations where the child is also eligible for Medicaid, providers must bill the third party insurance company prior to billing Medicaid.

Of the 40 insurance verifications selected for testing from the 60,530 TPL cases entered into CRIS-E or MMIS during fiscal year 2008, 22 cases were identified where the information in the TPL database was not accurate, complete, and/or properly supported. Two of these cases both entered by a CDJFS, resulted in questioned costs totaling $112 (projected to be more than $10,000), as detailed below:

- The recipient had third party prescription drug coverage, however, the case worker did not set the policy coverage matrix to cost avoid prescription drug claims. Therefore, any prescription drug claims paid during the audit period would be questionable. One prescription drug claim totaling $70 with a service date during the audit period was paid, resulting in questioned costs for the Medicaid Cluster.

- The actual begin date of the recipient's third party coverage was 9/8/07; however, the case worker incorrectly entered the begin date of coverage as 10/1/07. Therefore, any claims paid with a service date between 9/8/07 and 9/30/07 would be questionable. Two claims were identified during this period totaling $42 resulting in questioned costs for SCHIP.

The remaining 20 cases were instances in which the insurance coverage dates, the insurance coverage types, or the insurance company policy number was not entered correctly and completely into the system. This also included cases where the proof of insurance on file was not adequate to determine the proper insurance coverage dates or insurance coverage types. These discrepancies did not result in claims being incorrectly billed to Medicaid. Two of these 20 exceptions related to cases where insurance information was entered by the Cost Avoidance Unit; two related to insurance information entered by the CSEA; and the remaining 16 related to cases where the insurance information was entered by the CDJFS.

If third party insurance information is not accurately and completely entered into the State's systems, the risk is significantly increased that claims could be incorrectly billed to the related federal program when they were, in fact, covered by a third party insurance company. In addition, if the cost avoidance actions set up in the system are not properly supported, management may not be able to substantiate decisions to avoid Medicaid and/or SCHIP claim costs which may result in disputes with insurance companies.

Management indicated there is a high level of employee turnover at the CDJFS and this may contribute to increased errors in performing cost avoidance at the county level. They also indicated that some of the issues occurring at the county level may have occurred prior to training opportunities established part way through state fiscal year 2008.

We recommend the Cost Avoidance Unit strengthen policies and procedures related to county training, including making training mandatory for the CDJFS personnel involved in this process and that management communicate to case workers the importance of entering data into the TPL Master File accurately and completely. Management should also perform frequent evaluations of TPL records created by the CDJFS from TPL Master File to evaluate whether the records were entered accurately and completely; this could be done on a sample basis. This review should also include a review of the proofs of insurance maintained at the county level for Medicaid recipients. These procedures should be performed timely, thoroughly documented and reviewed by the appropriate supervisory personnel. In addition, based on the extent of the errors noted at the CDJFS, management should also consider reducing the involvement of the CDJFS in the cost avoidance process.

9. MEDICAID/SCHIP – THIRD PARTY LIABILITY (TPL) (Continued)

Official's Response and Corrective Action Plan

County generated records through the 6612 automation project were included in this year's audit. The errors were associated with county generated transactions. These errors were due to the county caseworker not entering all available insurance coverage, and also entering incorrect begin dates based on dates on cards. To correct this, the Cost Avoidance Unit (CAU) has initiated and completed intensive video conference trainings with the counties. These trainings consisted of properly recognizing, identifying and coding of all insurance coverage types, effective dates and plan options. Specific focus was placed on the importance of entering complete and accurate data into CRISe AEMFC screen. These were very interactive sessions with caseworkers, supervisors and coordinators attending. The presentation was sent to each county for use as a training tool with new caseworkers. Also, as part of our planned corrective action, quality control checks of county generated records was began for this fiscal year period as of August 1, 2008. TPL records entered by the counties the prior month will be reviewed for accuracy at random intervals. Feedback will be provided to the counties via a spreadsheet. Management will ensure that the quality control checks will be maintained.

During the course of this audit, a system update was initiated to update all TPL records containing coverage not yet verified.

Anticipated Completion Date for Corrective Action

June 30, 2010

Contact Person Responsible for Corrective Action

Kristi Walker, Cost Avoidance Supervisor, Ohio Department of Job & Family Services, 50 W. Town St., Columbus, OH 43215, Phone: (614) 752-3775, E-Mail: Kristi.Walker@jfs.ohio.gov

10. CHILD CARE CLUSTER – IMPROPER PAYMENT – LUCAS COUNTY

Finding Number	2008-JFS10-027
CFDA Number and Title	93.575/93.596 – Child Care Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed/Eligibility

QUESTIONED COSTS $95

45 CFR 98.20(a) states, in part:

In order to be eligible for services under Section 98.50, a child shall:

(1) (i) Be under 13 years of age; or,

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

(2) Reside with a family whose income does not exceed 85 percent of the State's median income for a family of the same size; and

10. CHILD CARE CLUSTER – IMPROPER PAYMENT – LUCAS COUNTY (Continued)

> (3) (i) Reside with a parent or parents (as defined in Section 98.2) who are working or attending a job training or educational program;
>
> . . .

It is management's responsibility to implement policies and procedures to provide reasonable assurance that only eligible individuals receive assistance.

Of the 10 Child Care Center invoices selected for testing, totaling $122,320 out of a population of $26,995,860, one voucher was improperly calculated and payment was made on behalf of an ineligible recipient. The invoice for these services was submitted by the provider in March, 2008 for services rendered in the prior fiscal year. Although the payment was made within the allowable time frame, the amount paid included services through January 6, 2007, when the child care recipient's eligibility ended as of December 31, 2006. As a result, Lucas County paid the child care center for five weeks of eligibility when only four weeks of eligibility were allowable due to the recipient's eligibility span. Therefore, we are questioning costs totaling $95, the amount of benefits paid to the child care center during the time the recipient was ineligible (projected to be more than $10,000).

Without consistently monitoring the eligibility of childcare recipients, there is an increased risk the County could make payments to ineligible recipients. LCDJFS stated this was due to clerical error and they will review the incident with their team leader and go over their policies and procedures.

We recommend LCDJFS management review their current policies and procedures and/or implement new control procedures that will reasonably ensure payments to the child care centers are on behalf of an eligible child care recipient. We recommend LCDJFS management communicate these policies and procedures to their staff and ensure the staff carries out those procedures as intended.

Official's Response and Corrective Action Plan

This was a keystroke error. Account clerks have been reminded to pay closer attention to data. Reminder in writing was sent Feb 25th, 2009

Anticipated Completion Date for Corrective Action

Immediate

Contact Person Responsible for Corrective Action

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11. MEDICAID – VOIDED WARRANTS

Finding Number	2008-JFS11-028
CFDA Number and Title	93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Allowable Costs

QUESTIONED COSTS AND SIGNIFICANT DEFICIENCY — Undetermined Amount

42 CFR 433.312 states, in part:

> (a) Basic rules. (1) Except as provided in paragraph (b) of this section, the Medicaid agency has 60 days from the date of discovery of an overpayment to a provider to recover or seek to recover the overpayment before the Federal share must be refunded to CMS.
>
> (2) The agency must refund the Federal share of overpayments at the end of the 60-day period following discovery in accordance with the requirements of this subpart, whether or not the State has recovered the overpayment from the provider.

In addition, in regards to uncashed or voided Medicaid checks, 42 CFR 433.40 states, in part:

> (c) (2) Report of refund. At the end of each calendar quarter, the State must identify those checks which remain uncashed beyond a period of 180 days after issuance. The State agency must refund all Federal Financial Participation (FFP) that it received for uncashed checks by adjusting the Quarterly Statement of Expenditures for that quarter.

It is the responsibility of management to implement policies and procedures which provide reasonable assurance that all voided, canceled, or uncashed warrants and overpayments are credited to the Federal Government timely and accurately.

With the implementation of the State's new accounting system, Ohio Administrative Knowledge System (OAKS), on July 1, 2007, warrants not redeemed within 90 days of issuance are automatically voided within the OAKS system. Cancellations are requested by the Department and entered by OBM; however, these items were not tracked during the period. Once the void or cancellation was initiated, OAKS restores the appropriation and increases the amount of available cash. Therefore, the ODJFS Bureau of Accounting were not required to prepare adjustment letters in 2008. However, they were not able to identify the necessary information from OAKS to separate the voids and cancellations by program, until December 28, 2007. Therefore, for warrants issued after July 1, 2007 and voided between July 1, 2007 and December 27, 2007, the Department was unable to determine the amount of voided or canceled warrants related to any program in order to directly reduce the federal draw. Based on subsequent information obtained from OAKS, we estimated the total amount of voided and cancelled warrants processed during this period was $11,029,621, with approximately $1,574,254 related to Medicaid. Based on the new process in OAKS, the Department believes the amount of voided and cancelled warrants may have been accounted for in their cash draws by default if they considered the available cash balance. However, since there was no documentation to support the cash balance was complete and accurate for any given program, we could not determine if the draw amounts were properly reduced. Therefore, the costs associated with the voids and cancellations for the period July 1, 2007 through December 27, 2007, are questioned; the amounts and programs involved could not be determined.

11. MEDICAID – VOIDED WARRANTS (Continued)

In addition:

- The Department issued one voided warrant adjustment letter during our audit period, on August 1, 2007, for warrants issued during March 2007 and voided during June 2007. However, we could not determine if the coding information was entered into OAKS by OBM; nor could we determine if the cancelled and voided warrants listed on the adjustment letter were used to reduce the federal draw for the Medicaid program. The Medicaid portion on the adjustment letter was $346,272 but should have been $350,927, based on the attached supporting documentation. The Medicaid portion of $350,927 is considered questioned costs.

- OBM issued a letter to all state agencies asking them to submit coding information on warrants that were issued between April and June 2007 and subsequently voided in state fiscal year 2008. However, we could not determine if the information requested by OBM was submitted to them, nor could we verify the voided warrants referred to in the letter were properly refunded to the Medicaid program and used to reduce a draw down. The total number and amount of Medicaid canceled or voided warrants for this period is undetermined.

Beginning on December 28, 2007, the Department was able to create a report of cancelled or voided warrants using information from the State's accounting system. This report was to be used to reduce the draw amounts. However, for 18 of 60 warrants tested, the Medicaid voided or cancelled warrant identified on the OAKS report could not be traced to the draw down support documentation. Therefore, we could not determine if the cancelled or voided warrant was used to reduce the federal draw for the program. The total of these 18 instances was $ 35,863 and are considered questioned costs.

If the Department does not maintain sufficient support documentation to evidence that voided and cancelled warrants are being properly credited to the Medicaid and other programs, the Department significantly increases the risk the amount actually credited is not complete and accurate. In addition, the Department increases the risk that the Federal government will later require repayment of the voided and cancelled warrants. Management indicated that confusion and lack of guidance over the new accounting system contributed to the exceptions noted above.

We recommend the Department update their policies and procedures to ensure canceled or voided warrants for the Medicaid program are properly accounted for and refunded to the Medicaid program accurately and timely, in accordance with laws and regulations. The Department should continue to create reports within the State's accounting system in order to refund canceled or voided warrants by reducing federal draws.

Official's Response and Corrective Action Plan

<u>Part A</u>

We do not agree with this finding. ODJFS was able to determine that the total amount of voided/canceled payments processed during the period 7/1/07 through 12/27/07 (based on information obtained from the state financial system [OAKS] data base), was $10,357,448.24, of which $1,573,834.96 was related to the federal Medicaid grant (FFP $939,019.65). Federal Medicaid Assistance daily draw processes for fund 3F00 include non performance of a federal Medicaid Assistance draw when there is sufficient cash in fund 3F00 to make current disbursements. On December 5, 2007, a Medicaid Assistance payment (dated September 2007, funded out of fund 3F00) in the amount of $1,520,934.50 (FFP $907,389.52) was voided per OAKS. Medicaid Assistance draws into fund 3F00 were not performed on December 7, 2007 in the amount of $1,520,934.50 (FFP), as a result of cash posting to the fund for various transaction types including this voided payment. The federal Medicaid Assistance draw reduction for the remaining $52,900.46 (FFP $31,630.13) in cancels/voids for this time period was processed on February 19, 2009.

11. MEDICAID – VOIDED WARRANTS (Continued)

Part B
We agree that the Medicaid federal draws were not reduced for payments made in March 2007 via the CAS system and voided in June 2007 per the voided warrant adjustment letter dated August 1, 2007 and/or the documentation attached to the letter. The required transactions as they relate to the letter were never posted in the new financial system [OAKS] implemented on July 1, 2007. We will need to review the adjustment letter and documentation before we are able to validate the amount for which the Medicaid draws were to have been reduced.

Part C
We agree that the Medicaid federal draws were not reduced for payments issued April through June 2007 via the CAS system, and subsequently voided in July through September 2007 per the canceled/voided warrant report received from OBM in February 2008. The required transactions as they relate to the items on the report were never posted in the new financial system [OAKS] implemented on July 1, 2007. We will need to review the adjustment letter and documentation before we are able to validate the amount for which the Medicaid draws were to have been reduced.

Part D
We agree that the Medicaid federal draw was not reduced for the 18 canceled/voided payments in question amounting to $35,862.72 (FFP $21,800.95) in a timely manner. The federal draws (FFP $21,422.41 and FFP $378.54) were reduced on September 1 and September 2, 2009, respectively. These items were not handled timely due to human error as opposed to lack of procedures and/or reports or inadequate controls.

Anticipated Completion Date for Corrective Action

Part A
No Corrective Action is planned. Procedures and controls are currently in place for reducing federal draws for payments canceled/voided in OAKS accurately and on a timely basis.
Part B
The Medicaid draws will be reduced at the FFP rate (59.66%) as soon as the amount is validated- anticipated completion date September 30, 2009. Procedures and controls are currently in place for reducing federal draws for payments canceled/voided in OAKS in an accurate and timely basis.
Part C
The Medicaid draws will be reduced at the FFP rate (59.66%) as soon as the amount is validated- anticipated completion date September 30, 2009. Procedures and controls are currently in place for reducing federal draws for payments canceled/voided in OAKS accurately and timely.
Part D
There is no corrective action plan to be developed or implemented as procedures and controls are currently in place for reducing federal draws for payments canceled/voided in OAKS accurately and on a timely basis.

Contact Person Responsible for Corrective Action

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Auditor of State's Conclusion

Although the Department indicates in Part A above that they were able to determine the amount of voids and cancellations for the first half of the fiscal year, no documentation was presented during the audit to substantiate these claims and ensure the information is accurate and complete. AOS personnel met with Department personnel on several occasions to try to obtain this information. Therefore, questioned costs for an undetermined amount will remain.

12. CHILD CARE CLUSTER – CASH MANAGEMENT

Finding Number	2008-JFS12- 029
CFDA Number and Title	93.575/93.596 – Child Care Cluster
Federal Agency	Department of Health & Human Services
Compliance Requirement	Cash Management

<u>QUESTIONED COSTS</u> Undetermined Amount

31 CFR Section 205.15(d) states:

> Mandatory matching of Federal funds. In programs utilizing mandatory matching of Federal funds with State funds, a State must not arbitrarily assign its earliest costs to the Federal Government. A State incurs interest liabilities if it draws Federal funds in advance and/or in excess of the required proportion of agreed upon levels of State contributions in programs utilizing mandatory matching of Federal funds with State funds.

The A-133 Compliance Supplement issued by the Office of Management and Budget (OMB) further explains this requirement for the Child Care Mandatory and Matching Funds of the Child Care & Development Fund (CFDA #93.596) Matching Fund portion of the Child Care Cluster by stating that "the drawdown of Federal cash should not exceed the federally funded portion of the State's Matching Funds, taking into account the State matching requirements..."

During state fiscal year (SFY) 2008, the Ohio Department of Job & Family Services (ODJFS) received reimbursements of $199,033,908 related to the Child Care Cluster, $168,478,931 of which related to the mandatory and matching portion for CFDA #93.596. However, ODJFS was not able to document their compliance with the applicable cash management provisions pertaining to the matching funds. Since the Child Care matching funds are accounted for in the new Ohio Administrative Knowledge System (OAKS) using the same grant number as the Child Care mandatory funds (which are 100% Federal with no State match required), it is currently not possible when drawing down funds to make a distinction between which revenues are intended to cover matching fund expenditures and which are considered mandatory. As such, federal funds are drawn down for the program, as a whole, without a distinction between matching and mandatory. ODJFS management indicated they believed the amounts disbursed at the county level, which are reflected on the Department's federal financial reports, were a better indicator to determine compliance with this particular requirement since benefit payments are made at that level. However, since the drawdown of federal funds is based on the disbursement activity processed through OAKS, and since the amounts shown on the corresponding Schedule of Expenditures of Federal Awards are derived from OAKS, we determined the OAKS figures should be used.

Based on revenue and expenditure information recorded in OAKS for the related federal fiscal year (FFY) grant numbers, federal funds drawn for the Child Care Mandatory and Matching Funds for both the FFY 2007 and 2008 grants exceeded corresponding expenditures, as detailed in the following table. Although other expenditures may have been incurred from pooled costs and allocated to this program, the information to determine these amounts was not readily available. As a result of the coding and documentation issues identified, we were not able to determine the Department's compliance with the specific cash management guidelines stated above, and were not able to identify a specific amount by which draws exceeded federal expenditures for the matching portion of the grant. Therefore, we will question costs of an undetermined amount for the Child Care Cluster.

12. CHILD CARE CLUSTER – CASH MANAGEMENT (Continued)

FFY	OAKS GRANT #	TOTAL AMOUNT EXPENDED	TOTAL AMOUNT DRAWN	Variance*
2007	M963	$ 77,926,071	$ 78,025,164	$ 99,093
2008	CM08	$ 82,237,122	$ 90,453,768	$8,216,646
TOTALS		$160,163,193	$168,478,932	$8,315,739

* The amount could not be separated between the mandatory and matching portions of the grant

Noncompliance with the stated cash management requirement could subject the Department to sanctions or other penalties and/or a repayment of grant funds. In addition, future funds could be reduced or eliminated. ODJFS management indicated that it is not practical to separately identify and track the revenue and expenditure activity in OAKS for the mandatory or matching portions of the grant. They also contend, in addition to the items above, that because they had met the applicable matching requirements for this program, as a whole, they could not be in noncompliance with the cash management provisions cited above. They did not, however, provide documentation to support their contention that all mandatory funds were allocated and all matching requirements were met prior to drawing federal matching funds.

We recommend ODJFS develop a coding system (either within OAKS or internally) that will assist with tracking and monitoring the Child Care funds drawn, and allow them to distinguish between matching fund and mandatory expenditures to help ensure compliance with applicable regulations. This will become even more important during fiscal year 2009 when the counties will be considered subrecipeints of the Department for this program. Based on our review of the actual grant award and other supporting documentation, it appears that each component of the Child Care grants is broken out into separate appropriations and appears to have distinguishing tracking numbers which could assist in the process.

Official's Response and Corrective Action Plan

We do not agree with this finding as our records indicate that the agency had reported and met all matching requirements for the FFY07 grant as of 9/30/07. Therefore, all mandatory/matching federal draws coded to FFY07 in OAKS 10/1/07 and thereafter was earned federal reimbursement (federal under draws). The auditors included earned federal draws for FFY07 in their analysis for the quarters ended December 2007, March 2008 and June 30, 2008, and shouldn't have. The auditors did not include FFY07 expenditures for federal pooled costs for the quarter ended September 2007 and should have. Concerning FFY08 federal funds, OAKS reports and our analysis of those reports support that the mandatory/matching grant was never over drawn for any one quarter during the state fiscal year nor for the entire state fiscal year as a whole. Auditors did not include OAKS state matching costs or federal pooled costs for FFY08 in their analysis but should have. This information was made available. We have developed a new CCDF Cluster analysis report that supports our compliance with the specific cash management guidelines for Child Care Mandatory and Matching Funds for state fiscal year 2008. We will use the new report format to support compliance during audit period SFY09 and forward. We will also create a separate grant code in OAKS to separately track CCDF Mandatory Draws from Matching Draws. However, future audits will continue to require all CCDF Mandatory, Matching, state matching, and federal pooled costs be pulled from OAKS and included in the analysis.

Anticipated Completion Date for Corrective Action

Analysis report for CCDF activity for SFY09 should be completed October 30, 2009. Use of a new grant code to break out Mandatory and Matching draws will be implemented for the federal grant effective October 1, 2009.

Contact Person Responsible for Corrective Action

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12. CHILD CARE CLUSTER – CASH MANAGEMENT (Continued)

Auditor of State's Conclusion

As noted above, this comment is focused on the cash management requirement related to CFDA #93.596; we are not citing the Department for noncompliance with matching requirements which are evaluated for the Cluster as a whole. As the Department indicates, there are certain factors that could have mitigated this issue (such as expenditures from the prior year and cost pools); however, the support provided related to the Cluster, as a whole. As noted in the comment, the coding structure used by the Department during fiscal year 2008 did not distinguish between the two programs of the Cluster and, therefore, we could not substantiate the information noted by the Department in their response related specifically to CFDA #93.596.

13. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – DUE DATES

Finding Number	2008-JFS13-030
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
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs, Eligibility, Special Tests and Provisions

<u>NONCOMPLIANCE</u>

7 CFR 272.8(c)(2) states the following regarding Food Stamps IEVS alerts:

> State agencies must initiate and pursue the actions on recipient households specified in paragraph (c)(1) of this section so that the actions are completed within 45 days of receipt of the information items. Actions may be completed later than 45 days from the receipt of information if:
>
> > (i) The only reason that the actions cannot be completed is the nonreceipt of verification requested from collateral contacts; and
> >
> > (ii) The actions are completed as specified in § 273.12 of this chapter when verification from a collateral contact is received or in conjunction with the next case action when such verification is not received, whichever is earlier.

In addition, OAC 5101:4-7-09 (Q)(4) outlines the following guidelines for Food Stamps IEVS alerts:

> County agencies shall initiate and pursue the actions specified in this paragraph of this rule so that the actions are completed within ninety days from receipt of the information.

45 CFR 205.56(a)(1)(iv) states the following regarding TANF IEVS alerts:

> For individuals who are recipients when the information is received or for whom a decision could not be made prior to authorization of benefits, the State agency shall within forty-five (45) days of its receipt, initiate a notice of case action or an entry in the case record that no case action is necessary, . . .

13. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – DUE DATES (Continued)

42 CFR 435.952(e) states the following regarding Medicaid IEVS alerts:

> The number of determinations delayed beyond 45 days from receipt of an item of information (as permitted by paragraph (d) of this section) must not exceed twenty percent of the number of items of information for which verification was requested.

In accordance with these sections, the Department implemented the Income and Eligibility Verification System (IEVS) and established their own targeting system for processing IEVS matches. The IEVS compares income, as reported by the recipients, to information maintained by outside sources. Information that does not appear to agree is communicated in the form of a CRIS-E alert, which is forwarded to the appropriate county for investigation.

During the fiscal year 2008 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 51% of the nearly 2.7 million annual IEVS high priority alerts issued in state fiscal year 2008. From a sample of 60 IEVS high priority alerts tested, eight (13%) alerts were not resolved by the mandated timeframe and there was no documentation to indicate a third party verification was pending. Unresolved alerts were found in all counties except for Montgomery and Summit. Of the eight delinquent high priority alerts:

- Six were resolved one - 30 days beyond the due date.
- Two were resolved 31 - 90 days beyond the due date.

Not completing the IEVS alerts within the established timelines increases the risk that benefits given to ineligible recipients or for inappropriate amounts will not be identified timely. This condition could adversely affect the Department's ability to comply with Special Tests and Provisions required by the federal programs. Failure to comply with the requirements related to IEVS could also result in federal sanctions or penalties. ODJFS and CDJFS IEVS management indicated these delinquencies were caused by:

- A lack of cooperation and timely response from employers which delays the receipt of information necessary to complete the alerts timely and accurately.
- An increase in the county case load size which makes it hard to manage and work. The increased case load is attributed to the fact the counties are facing staffing shortages (due to funding cuts, retirements, hiring freezes, and lay-offs). An increase in the number of public assistance cases has been occurring this past year due to similar reasons.
- The Department's limited ability to enforce control policies and procedures at the counties. Currently, state and federal policy does not provide for sanctions or incentives to ensure/encourage timely completion of matches.

We recommend the Department work with the counties to implement control policies and procedures to reasonably ensure matches are completed by the due dates specified in the 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.

Official's Response and Corrective Action Plan

BPI will prepare an IEVS CLVB information bulletin to be distributed through the CRIS-E system. The bulletin will be distributed to all county workers and will serve as a reminder of: the IEVS alert processing time lines, the CRIS-E reports (i.e. GDE090RA, GDE089RA, and GDE007RA, DEDT) available for managing the timeliness of processing alerts, and the availability of job tools such as the IEVS processing guide. The bulletin will offer assistance and support through the Fraud Control Unit. BPI will develop

13. INCOME AND ELIGIBILITY VERIFICATION SYSTEM – DUE DATES (Continued)

IEVS training and an IEVS review "checklist" to assist in the processing of alerts. Training will be offered to all counties through video conference and will be scheduled for November. Counties will be monitored through the GDE090RA and GDE089RA reports and will be required to submit a corrective action if the county timeliness rate is consistently out of compliance. The IEVS reviews conducted by the state include a review of the delinquency rates and utilization of the county's supervisory review process. The Fraud Control Unit has a good working relationship with counties and offers assistance through phone support and quarterly meetings, as well as hands on assistance during monitoring reviews.

Anticipated Completion Date for Corrective Action

The CLVB bulletin will be issued with the beginning of the fiscal year, October 2009. The monitoring will likewise begin with the October 2009 alerts and will be reviewed throughout the fiscal year. The video conference training will be scheduled for November and will include handouts and the checklist previously discussed. Additional technical assistance will be provided to counties on an "as needed" basis.

Contact Person Responsible for Corrective Action

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14. IEVS/CRIS-E – ALERT RESOLUTION/INADEQUATE DOCUMENTATION

Finding Number	2008-JFS14-031
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
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs, Eligibility, Special Tests and Provisions

<u>NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY</u>

7 CFR 272.8(e) states:

> Documentation. The State agency must document, as required by § 273.3(f)(6), information obtained through the IEVS both when an adverse action is and is not instituted.

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 . . .

14. IEVS/CRIS-E – ALERT RESOLUTION/INADEQUATE DOCUMENTATION (Continued)

Ohio Admin Code Section 5101:1-1-36(E)(3) states:

> Once the CDJFS completes the IEVS match process, the results will be recorded in CRIS-E history.

The Income and Eligibility Verification System (IEVS) compares income, as reported by the recipients, to information maintained by outside sources. Information which does not appear to agree is communicated in the form of a CRIS-E alert, which is forwarded to the appropriate county for investigation.

26 USC 6103 states, in part:

Returns and return information shall be confidential, and except as authorized by this title -

> ...(2) no officer or employee of any State, any local 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.

We noted the following errors in our testing of the IEVS documentation 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, 45 impacted multiple programs and five of the 45 applicable matches (11%) were not resolved accurately for all programs. For four of these five cases, eligibility was re-determined subsequent to the IEVS match; however, we were unable to determine if the IVES match was considered. For one of the five cases, there was no eligibility for the identified program during our audit period.

- 18 of the 60 matches (30%) were not completed properly and were not documented within the CRIS-E system to provide sufficient evidence for the adequate resolution of the alert. For 14 of these 18 cases, eligibility was re-determined subsequent to the IEVS match; however, we were unable to determine if the IVES match was considered. For four of the 18 cases, there was no eligibility for the identified program during our audit period.

- 13 of the 60 matches (22%) did not have proper result codes.

Additionally, for a sample of 60 alerts received from the IRS, the following errors were noted:

- Seven of the 60 federal return information matches tested (12%) reflected federal return information in CRIS-E's running record comments screens (CLRC) even though federal requirements prohibited all extraneous disclosure of federal return information.

Without adequate documentation, a reviewer cannot determine if an IEVS alert has been resolved in accordance with standards, which may lead to benefits being issued to ineligible recipients or benefits being paid in inappropriate amounts. Additionally, disclosure of federal return information could ultimately result in litigation, including fines and/or penalties.

14. IEVS/CRIS-E – ALERT RESOLUTION/INADEQUATE DOCUMENTATION (Continued)

ODJFS and CDJFS IEVS management indicated the noncompliance is the result of the following:

- The county case load size has increased which makes it hard to manage and work. The increased case load is attributed to the fact the counties are facing staffing shortages (due to funding cuts, retirements, hiring freezes, and lay-offs). An increase in the number of public assistance cases has been occurring this past year due to similar reasons.

- The Department is limited in the extent that control policies and procedures can be levied on the counties. Currently, state and federal policy does not provide for sanctions or incentives to ensure/encourage timely completion of matches.

The Department should enforce policies and procedures detailing specific requirements regarding how county caseworkers should process, resolve, and document IEVS alerts to ensure they are resolved accurately and are documented in accordance with federal and state requirements. In addition, the Department should work with the counties to develop and implement a thorough and consistent supervisory review process for the resolution and documentation of IEVS alerts. This may help ensure supporting documentation is being maintained in accordance with the policies and procedures, and with applicable requirements, and provide evidence the alert has been processed, resolved, and documented.

Official's Response and Corrective Action Plan

BPI will prepare an IEVS CLVB information bulletin to be distributed through the CRIS-E system. The bulletin will be distributed to all county workers and will serve as a reminder of: the IEVS alert processing time lines, the CRIS-E reports (i.e. GDE090RA, GDE089RA, and GDE007RA, DEDT) available for managing the timeliness of processing alerts, and the availability of job tools such as the IEVS processing guide. The bulletin will offer assistance and support through the Fraud Control Unit. BPI will develop IEVS and Federal Tax Information (FTI) training and an IEVS review "checklist" to assist in the processing of alerts. The training will be offered to all counties through video conference and will be scheduled for November 2009.

Counties will be monitored through the GDE090RA and GDE089RA reports and will be required to submit a corrective action if the county timeliness rate is consistently out of compliance. The IEVS reviews conducted by the state include a review of the delinquency rates, documentation, and utilization of the county's supervisory review process. Continuous Improvement Plans are required of counties for areas of substantial non- compliance. The Fraud Control Unit has a good working relationship with counties and offers assistance through phone support and quarterly meetings, as well as hands on assistance during the monitoring reviews.

Anticipated Completion Date for Corrective Action

The CLVB bulletin will be issued with the beginning of the fiscal year, October 2009. The monitoring will likewise begin with the October 2009 alerts and will be reviewed throughout the fiscal year. The video conference training will be scheduled for November 2009 and will include handouts and the checklist previously discussed. Additional technical assistance will be provided to counties on an "as needed" basis.

Contact Person Responsible for Corrective Action

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15. INFORMATION TECHNOLOGY – LACK OF INTERNAL TESTING OF AUTOMATED CONTROLS

Finding Number	2008-JFS15-032
CFDA Number and Title	All Programs Administered by the Department
Federal Agency	Department of Agriculture Department of Health and Human Services Department of Labor
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs, Eligibility, Reporting, Special Tests and Provisions

<u>SIGNFICANT DEFICIENCY – MATERIAL WEAKNESS</u>

Federal regulations allow, and in some cases require, states to utilize computer systems for processing individual eligibility determinations and delivery of benefits. Often these computer systems are complex and separate from the agency's regular financial system. Typical functions of complex computer systems may include evaluating applicant information and determining eligibility and/or benefit amounts; maintaining eligibility records; determining the allowability of services; tracking the period of time an individual is eligible; and maintaining financial, statistical, and other data that must be reported to grantor federal agencies. It is management's responsibility to establish and implement internal control procedures to reasonably ensure program objectives and requirements are met and information (both financial and non-financial) is accurately and completely processed and maintained. Appropriate monitoring is performed to provide assurance the established manual and automated controls are operating effectively.

Additionally, to help meet the conditions under which the Department of Health and Human Services will approve federal financial participation with various programs, 45 CFR 95.621 (f)(2)(iii) requires states to perform risk analyses to ensure appropriate safeguards are incorporated into new and existing systems on a periodic basis and whenever significant system changes occur. Also, 45 CFR 95.621 (f)(3) requires states to review the ADP system security of these systems on a biennial basis. At a minimum, the reviews are to include the evaluation of physical and data security, operating procedures, and personnel practices.

The Department places immeasurable reliance on a number of complex information systems (CRIS-E, MMIS, SETS, SACWIS, 3299, CORe, SCOTI, OJI, WRS, and UC) to record and process eligibility and financial information for 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. Comprehensive independent evaluations of the integrity of financial transaction processing were not performed at ODJFS to provide assurance data was authorized and entered completely and accurately; the automated applications correctly processed all transactions; payments, eligibility determinations, state and federal reporting, or other system outputs were accurately produced and reconciled; and the general computer controls over the supporting hardware and software were designed and securely operating as intended.

Instead, management relied heavily on the Department's Management Information Systems (MIS) personnel who were directly responsible for the maintenance, security, and support of the ADP environment and on external auditors to review, monitor, and troubleshoot problems as they arose. However, the MIS individuals may not have the necessary knowledge of the federal program requirements, and may lack the necessary objectivity and independence because they are responsible for programming, operating, and/or securing these critical systems. In addition, 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. In addition, auditing standards preclude us from considering our audit procedures as part of the Department's internal controls.

15. INFORMATION TECHNOLOGY – LACK OF INTERNAL TESTING OF AUTOMATED CONTROLS (Continued)

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.

MIS management indicated they cannot afford the expense of creating a separate/independent office to do risk analysis on development activities. All development bureaus adhere to an SDLC protocol. MIS acknowledges this is an ongoing challenge that they can ill afford to undertake and are confident the present approach to system development ensures an acceptable level of confidence. Additionally, MIS capitalizes on the use of independent verification and validation reports (IV&V's) as well as audit efforts, such as the state single audit, to validate and verify development/production applications.

We recommend ODJFS management implement a process for conducting internal independent evaluations of significant computer systems (CRIS-E, MMIS, SETS, SACWIS, 3299, CFIS, SCOTI, OJI, WRS, and UC). The evaluations should be designed to provide management with reasonable assurance these large, critical systems are operating effectively and in accordance with program guidelines. Periodic assessments and reviews of the automated controls of these systems, along with key transaction testing, will help provide assurance all components of the systems are operating as designed, payments and eligibility determinations are accurate, and, all financial reports are produced with integrity.

We recommend these evaluations be conducted by personnel with the necessary knowledge of the federal programs in addition to information systems audit and control expertise. All test procedures, working papers, and supporting documentation related to the assessments, reviews, and testing should be maintained. The results and recommendations should be communicated, in writing, to the Director, OIA, and/or other appropriate upper management. ODJFS should evaluate the results and ensure timely corrective action is taken to address risk areas and/or weaknesses identified.

Official's Response and Corrective Action Plan

The last independent audit of internal testing of Automated Controls was completed by Maximus on June 30, 2007. OIS has previously responded that we cannot afford the expense of creating a separate/independent office to do risk analysis on development activities. The Application Development section adheres to an SDLC protocol. Additionally, the Office of Information Systems capitalizes on the use of IV&Vs as well as audit efforts such as the Auditor of State reports and the OBM internal audit programs to validate and verify development/production applications.

Anticipated Completion Date for Corrective Action

The last independent audit of internal testing of Automated Controls by Maximus was completed on June 30, 2007. OIS acknowledge that the efforts to address these federal requirements is an ongoing challenge that we can not afford to address at this time. OIS is working with the newly created OBM Office of Internal Audits to further address these issues

Contact Person Responsible for Corrective Action

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16. INFORMATION TECHNOLOGY – MANUAL OVERRIDES OF CRIS-E

Finding Number	2008-JFS16-033
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – State Children's Insurance Program 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs, Eligibility

<u>SIGNFICANT DEFICIENCY – MATERIAL WEAKNESS</u>

When utilizing and relying upon a complex data processing system with many users, it is vital to address the users' needs and minimize the manual and human input necessary to complete a transaction.

ODJFS uses the Client Registry Information System-Enhanced (CRIS-E) to determine eligibility and benefit amounts for public assistance programs totaling approximately $1.4 billion for Food Stamps, $354 million for Temporary Assistance for Needy Families (TANF), $244 million for State Children's Insurance Program (SCHIP), and $11 billion for Medicaid in fiscal year 2008. To facilitate changes to the programmed criteria in CRIS-E, the Department has implemented a process where the users (caseworkers) notify the appropriate Department personnel of the need for a program modification through Customer Service Requests (CSRs). Until these changes are made, the caseworkers must, in most cases, manually override the CRIS-E flags.

At the end of fiscal year 2008, there were 124 open CSRs requested through the CRIS-E Help Desk to help alleviate manual override situations encountered by county staff statewide. In addition, CRIS-E maintains monthly reports of manual override processing and statistics. There were approximately 209,796 total manual overrides completed in fiscal year 2008. This equates to an average of 17,483 manual overrides completed per month (835 per business day).

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 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.

16. INFORMATION TECHNOLOGY – MANUAL OVERRIDES OF CRIS-E (Continued)

Official's Response and Corrective Action Plan

The FIAT Process was a planned design feature of the CRIS-E system which exists to ensure that correct benefits can be created. It makes good business sense to address many of these FIATS, but some FIATS will always exist. The program area has focused emphasis on functionality prioritization of requests rather than fiats, particularly those that don't have fiats.

Program approach has been that fiats are frustrating to use and counter-productive to the system, but missing or erroneous processing with larger impact (no benefits, wrong benefits, threat of legal action, large numbers affected, etc) are higher in the prioritization

Anticipated Completion Date for Corrective Action

Due to much higher priorities by the customer the status of the items have not changed. This system issue will be reviewed every fiscal year.

Contact Person Responsible for Corrective Action

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17. INFORMATION TECHNOLOGY – ACCESS TO CRIS-E BI WARRANT FILES

Finding Number	2008-JFS17-034
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – State Children's Insurance Program 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs

SIGNFICANT DEFICIENCY – MATERIAL WEAKNESS

Sound IT practices require organizations to establish procedures to ensure that users only have access to computer functions and data necessary for the performance of their job functions. 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, section 3.1.3 indicates the departmental unit-appointed security designees are responsible for performing periodic reviews of user access to ensure that all accesses are appropriate and current. Also, the ODJFS Information Security Policy, section 23.1.1, indicates the procedures for monitoring system use must be established. Such procedures are necessary to ensure that users are only performing processes that have been explicitly authorized. The level of monitoring required for individual systems are to be determined by a separate risk assessment and include:

17. INFORMATION TECHNOLOGY – ACCESS TO CRIS-E BI WARRANT FILES (Continued)

- Access failures.
- Review of 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.
- 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 totaling approximately $1.4 billion for Food Stamps, $354 million for Temporary Assistance for Needy Families (TANF), $244 million for State Children's Insurance Program (SCHIP), and $11 billion for Medicaid in fiscal year 2008. The CRIS-E Benefits Issuance (BI) subsystem is used to process Food Stamp (cash-outs), Medicaid, TANF, and SCHIP payments to or on behalf of eligible recipients. These BI warrant files are protected by Resource Access Control Facility (RACF) security software and were made up of 15 RACF mainframe datasets accessed by seven RACF groups. As noted by the exceptions described below, access to the BI warrant files was not adequately restricted:

- Three of the seven RACF groups (WDEDA, WINC and WSETJCL) should not have any access to the 15 RACF BI datasets.
- Of 25 user IDs in the WDATA group with access to the 15 datasets, two were not appropriate based on their job responsibilities.
- The WCRISE group contained 266 user IDs. Forty-three of 266 (16%) user IDs in the group were not appropriate for the group based on their job responsibilities. Although the WCRISE group had various degrees of access to multiple datasets other than the 15 BI payment files, only 12 of the remaining 223 WCRISE group members required access to those BI datasets based on their job responsibilities.
- A periodic review of the BI warrant files did not occur to help ensure electronic access to these datasets was set according to users' current job functions.

Once the BI files are populated with payment data and ready for transmission to OAKS for payment issuance, these payment files are transferred to a staging environment. The staging environment is where the OAKS Financial Interface System (OFIS) will pick up the BI files for approval and payment processing. One user group had access to this staging environment; however, all 13 group members, including seven developers, had full update access to the BI files, but required only READ access to perform their job functions.

Unauthorized access and inappropriately defined RACF profiles could result in users or groups obtaining extraneous or unnecessary access to program and data files. This could result in the execution of inappropriate application transactions or the alteration of program or data files. In addition, programmers/developers could make erroneous or intentional changes to the CRIS-E payment files. Thus, unauthorized access privileges could increase the risk of asset misuse or misappropriation of state or federal monies. 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 ODJFS and did not have their access appropriately severed.

According to MIS management, a low-level RACF profile was not created appropriately to define the BI datasets. These datasets were placed in a high-level profile due to an oversight by management. ODJFS management also indicated the BI warrant file access was set-up so ample personnel were available for support rotation in emergency situations. In addition, no access review has taken place since OFIS was placed into production in July 2007.

17. INFORMATION TECHNOLOGY – ACCESS TO CRIS-E BI WARRANT FILES (Continued)

We recommend the department review all the RACF BI datasets, attached groups, and group members and limit access to only personnel whose current assigned job duties require it, and to the level of access dictated by those duties. In addition, we recommend ODJFS periodically complete a review of BI datasets to validate employee access in accordance with the ODJFS Information Security Policy. The review procedures should include, but not be limited to:

- An evaluation and verification 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. Documentation of these reviews, and any required adjustments or changes resulting from them, should be maintained.

- The distribution of a report of pertinent mainframe, application, and network-level profiles and access authorities to user management to confirm any access authority changes made. Documentation of these reviews, and any required adjustments or changes resulting from them, should be maintained.

Official's Response and Corrective Action Plan

A list of userids to be deleted has been sent to INFOSEC.

- *Two users will be deleted from WDATA.*
- *Six users will be deleted from WCRISE.*

Due to OIS reorganization, staff work across multiple ODJFS systems, and remaining userids identified for removal from WCRISE must remain in the WCRISE Group.

Anticipated Completion Date for Corrective Action

The review of the users and subsequent removal of the two userids were completed in 2008.

Contact Person Responsible for Corrective Action

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18. VARIOUS PROGRAMS – CODING ERRORS

Finding Number	2008-JFS18- 035
CFDA Number and Title	17.207/17.801/17.804 - Employment Services Cluster 17.225 - Unemployment Insurance 17.258/17.259/17.260 WIA Cluster 93.563 - Child Support Enforcement 93.658 - Foster Care 93.775/93.776/93.777/93.778 - Medicaid Cluster
Federal Agency	Department of Labor Department of Health & Human Services
Compliance Requirement	Allowable Costs, Period of Availability, Cash Management

SIGNIFICANT DEFICIENCY

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, and for each program as a whole.

However, multiple errors/inconsistencies in revenue and expenditure coding existed for state fiscal year (SFY) 2008. The Department identified and corrected many coding errors prior to the end of the fiscal year, but the following issues were not identified and corrected:

Unidentified Federal Programs:
- $38,201,457 of SFY 2008 expenditures recorded in the Ohio Administrative Knowledge System (OAKS) did not contain enough detail to determine if these transactions (paid with state funds and not drawn down from a federal grant) were used as a state match or state maintenance of effort payment associated with a federal program.

Employment Services Cluster (CFDA #17.207/17.801/17.804):
- $47,000 of SFY 2008 expenditures were recorded as disbursements from the Federal fiscal year (FFY) 2007 Disabled Veterans' Outreach Program grant (M954) in OAKS. However, there were no corresponding revenue draws supporting these expenditures so they should not have been coded as federal funds;

Unemployment Insurance (CFDA #17.225):
- $18,813 of SFY 2008 expenditures were recorded as disbursements from the FFY 2007 Unemployment Insurance grant (M950) in OAKS, but did not have any corresponding revenue draws supporting these expenditures so they should not have been coded as federal funds;
- $15,530 of SFY 2008 expenditures were recorded as disbursements from the FFY 2007 Unemployment Insurance grant (M950) in OAKS, but the revenue draws supporting these expenditures originated from the FFY 2008 grant (U108);

WIA Cluster (CFDA #17.258/17.259/17.260):
- $105,117 of SFY 2008 expenditures were recorded as disbursements from the FFY 2005 WIA – Dislocated Workers grant (L456) in OAKS. However, revenue draws supporting these expenditures originated from the FFY 2006 grant (M493);

18. VARIOUS PROGRAMS – CODING ERRORS (Continued)

Child Support Enforcement (CFDA #93.563):

- $2,153,272 of SFY 2008 expenditures were coded as disbursements from the FFY 2007 Child Support Enforcement grant (M959) in OAKS when in fact they shouldn't have been coded as Federal expenditures since they were simply transfers of garnished Federal income tax refunds;
- $1,487,383 of SFY 2008 expenditures were recorded as disbursements from the FFY 2007 Child Support Enforcement grant (M959) in OAKS, but were actually expenditures of state funds and should have been coded as such;
- $151,990 of SFY 2008 expenditures were recorded as disbursements from the FFY 2007 Child Support Enforcement grant (M959) in OAKS, but the revenue draws supporting these expenditures originated from the FFY 2008 grant (CS08);
- $74,553 of SFY 2008 expenditures were recorded as disbursements from the FFY 2007 Child Support Enforcement grant (M959) in OAKS, but did not have any corresponding revenue draws supporting these expenditures so they should not have been coded as federal funds;
- $221 of SFY 2008 expenditures were recorded as disbursements from the FFY 2007 Child Support Enforcement grant (M083) in OAKS, but the revenue draws supporting these expenditures originated from the FFY 2007 grant (M959);
- $114 of SFY 2008 expenditures were recorded as disbursements from the FFY 2007 Child Support Enforcement grant (M083) in OAKS, but were actually expenditures of state funds and should have been coded as such;

Foster Care (CFDA #93.658):

- $138,835 of SFY 2008 expenditures were recorded as disbursements from the FFY 2007 Foster Care grant (M965) in OAKS, but the revenue draws supporting these expenditures originated from the FFY 2008 grant (FC08);
- $127,902 of SFY 2008 expenditures were recorded as disbursements from the FFY 2006 Foster Care grant (M089) in OAKS, but the revenue draws supporting these expenditures originated from the FFY 2007 grant (M965);
- $66,666 of SFY 2008 expenditures were recorded as disbursements from the FFY 2007 Foster Care grant (M965) in OAKS, but were actually expenditures of state funds and should have been coded as such;

Medicaid Cluster (CFDA #93.775/93.777/93.778):

- $354,954 of SFY 2008 expenditures were recorded as disbursements from the FFY 2001 Medical Assistance Program grant (J099) in OAKS, but the revenue draws supporting these expenditures originated from the FFY 2007 grant (M971);
- $213,665 of SFY 2008 expenditures were recorded as disbursements from the FFY 2006 Medical Assistance Program grant (M095) in OAKS, but were actually expenditures of state funds and should have been coded as such.

These items did not result in questioned costs or a period of availability finding because, even though the vouchers may have been coded to an incorrect grant, the corresponding Federal reimbursements claimed were drawn from the correct federal program, program cluster, or related program and thus the incorrect coding of the corresponding expenditures did not have a material effect on the Department's Schedule of Federal Financial Assistance.

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 or the Schedule of Expenditures of Federal Awards, which could subject the Department to fines and/or sanctions or a reduction in future federal funding. ODJFS personnel indicated these funds were coded incorrectly due to the implementation of OAKS and a lack of coordination between various bureaus with the Department regarding the appropriate federal programs associated with the various expenditures and related draws and how to code them within OAKS.

18. 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. Information maintained in the State's accounting system could be exported and organized 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 and ensure those personnel responsible for reviewing and approving the transactions are informed of the proper coding required.

Official's Response and Corrective Action Plan

We agree that there were multiple coding errors/inconsistencies between revenue coding and expenditure coding on documents during fiscal year 2008, that were not corrected prior to the end of the fiscal year. A new state financial system (OAKS) and use of a new chart of accounts was implemented during that time. Even though the grant code on the vouchers were incorrect, the federal reimbursements claimed were drawn from the correct federal program, and there was no effect on the Schedule of Federal Financial Assistance.

In addition to the manual internal control processes and procedures that were already in place for reviewing the grant codes on expenditure documents, new electronic OVS (OAKS Verification system) reports have been developed that identify chart field and chart field coding combinations on OAKS transactions that are not consistent with the agency's chart of accounts and/or the period of availability for grants. OVS reports include coding discrepancies for encumbrance documents and vouchers. A procedures/process document will be developed that will provide guidance on analyzing the OVS report, where to locate the period of availability for grants, how to resolve coding discrepancies, and stress the risks associated with not correcting erroneous coding on OAKS transactions in a timely manner.

Anticipated Completion Date for Corrective Action

The procedures/process document is to be completed by October 23, 2009. The training is to be completed by November 27, 2009.

Contact Person Responsible for Corrective Action

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19. MEDICAID/SCHIP – RECERTIFICATION OF PROVIDERS

Finding Number	2008-JFS19-036
CFDA Number and Title	93.767 – State Children's Insurance Program 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs, Special Tests and Provisions

<u>SIGNIFICANT DEFICIENCY</u>

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.

For in-state physicians, osteopaths, and podiatrists, ODJFS has a process in place to receive information from the Ohio licensing 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 July 2008, 34,031 (32%) of the 105,366 active medical providers on the MMIS provider master file had an expired recertification date. However, the Department's Office of Ohio Health Plans (OHP) does not research or resolve any providers with expired recertification dates.

In addition, certain licensing boards send notification of licensure revocation to ODJFS when the boards take disciplinary action against providers in Ohio. The information provided by the Medical Board on their May 2008 formal action report identified nine actions which required the revocation of the providers' licenses. Of the nine providers, three were enrolled on the MMIS provider master file. However, one of these three providers still had an active status in the provider master file as of 7/8/08.

Without periodic review to ensure providers have met licensure and/or accreditation requirements, ineligible providers marked as active may receive reimbursement from the Medicaid and/or SCHIP programs. Inappropriate reimbursement of federal claims could subject the Department to possible federal sanctions.

OHP management indicated the Provider Compliance manager continues to attend the Board of Nursing public meetings and to access the Board's minutes in order to terminate providers when and if appropriate. ODJFS continues to have a vision of working with all of the provider boards as their human capital resources permit. The oversight related to the formal action report from the Medical Board was the result of reassignment of the responsibility for reviewing formal action reports and completing PMF updates due to pending staff retirements.

19. MEDICAID/SCHIP – RECERTIFICATION OF PROVIDERS (Continued)

We recommend that ODJFS work with the various licensing boards to verify all medical 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 the active status listed for providers in MMIS is verified as correct. We also recommend the Department implement detective controls to regularly report and review all providers with an expired recertification date. Any licensing board updates should be thoroughly reviewed on a timely basis to ensure the most current provider status information.

Official's Response and Corrective Action Plan

OIS

This finding has been addressed with system modifications and implemented in the Production MMIS application. In March 2009, there were a series of application modifications implemented in Production associated with provider recertification. All of these changes were a direct result of HB119 which required providers to recertify every three years and allow the system to automatically revoke any provider that had not recertified before their certification date.

OHP

The State Medical Board data match file containing terminated, deceased, retired providers is received from DAS on a delayed schedule. This data file is pulled from the State Medical Board by the Department of Administrative Services and sent to ODJFS' MIS department and they match the providers on the file with those in our Provider Master File (PMF). The total number of providers on this file, (including physicians, osteopaths and podiatrists) totals in any given month approximately 39,000 providers. ODJFS communicates with the Department of Administrative Services when the file is not sent to JFS in a timely fashion. As soon as the file becomes available in Control D, two staff persons begin to research and correct any problems including terminating providers not caught in the automated match process.

In addition, Bureau of Provider Services (BPS) has access to Control D reports produced by ODJFS' MIS listing lapsed recertification information on all active licensed providers in the PMF, other than the providers addressed above in the State Medical Board file. These Control D reports inform the department of any providers whose recertification has lapsed in the PMF because the provider failed to provide to the department their updated recertification paperwork. The Licensure Lapse Reports are produced on each provider type that requires licensure or certification to enroll in the program, including providers such as RN/LPNs, physical therapists, chiropractors, dentists, optometrists, etc. Recertification duties completed by the departments two assigned management analysts includes accessing the Licensing Boards online license search file, searching each provider on the report, printing the licensure information, updating the PMF and filing the documentation in our files. With in excess of 13,000 providers, most of whom fail to inform the department that their licensure has been updated, this is tedious, time consuming work. It does, however, pay off for the department in that it assures more accurate licensing information is updated in the PMF.

In the last budget bill (HB 119) we successfully proposed that any licensed provider whose recertification lapses as found in the Online License Board files could be terminated from the Medicaid program without benefit of a 119 hearing. Now we terminate the lapsed provider's identification number and send a notice to the provider that we have taken the action, rather than waiting for the lengthy hearing process to take its course.

Anticipated Completion Date for Corrective Action

OIS

These system changes were implemented March 2009.

19. MEDICAID/SCHIP – RECERTIFICATION OF PROVIDERS (Continued)

OHP
The department has been officially working these reports since October 1, 2008. To Implement the Control D reports process, a step-by-step process was written and implemented December 2008. One staff person is assigned to review the Control D licensure reports, another staff person makes the updates in MMIS. This is an arduous process that, with limited resources has been made more difficult to complete in an optimal timeframe. The Bureau is committed to the process of appropriately deactivating providers whose license has been revoked and current staff assigned to these tasks are working on this as a major priority.

With the proposed implementation of the new Medicaid MIS (MITS) the department is anticipating having the capacity to establish an automated interface with licensing agencies. This automated process can hopefully occur directly between the department and the licensing boards, without having to depend upon another state agency to act as intermediary. This should make the process of identifying and terminating ineligible providers a faster and more efficient process. We will continue to update progress towards making this important change in the managing the integrity of the provider master file.

Contact Person Responsible for Corrective Action

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20. UNEMPLOYMENT INSURANCE BENEFITS PAID AFTER BENEFIT YEAR END

Finding Number	2008-JFS20- 037
CFDA Number and Title	17.225 – Unemployment Insurance 17.245 – Trade Adjustment Assistance
Federal Agency	Department of Labor
Compliance Requirement	Activities Allowed or Unallowed

SIGNIFICANT DEFICIENCY

In order to comply with single audit requirements, it is critical that state government agencies responsible for paying unemployment claims to recipients implement internal controls to ensure these payments do not exceed the mandated amounts. Ohio Revised Code (ORC) Chapter 4141 prescribes a number of factors that need to be met before an applicant is determined eligible for unemployment compensation benefits. Ohio Administrative Code (OAC) 4141-27-05 states:

(A) When a benefit year has been established and a claim for benefits filed for a week of total or partial unemployment, such claim shall not be valid if filed later than the end of the third calendar week immediately following such week.

(B) In exceptional cases, when it is shown to the satisfaction of the director that an individual has been deterred by circumstances beyond the individual's control from filing a claim as prescribed in this rule, the director may extend the time limitations to file.

Due to the requirement above, it was expected that benefit payments would be made to recipients within 30 days of their benefit year end (BYE). ODJFS provided us with a file downloaded from the Ohio Job Insurance (OJI) system of all unemployment benefit transactions paid during fiscal year 2008. We sorted the data to identify payments made 30 days or more after the BYE; this analysis resulted in 7,615 claims totaling $1,593,058. There was no documentation included with the claims that established the rationale for the late payments; there was also no systematic way established by the Department to monitor unemployment payments made 30 days or more after the BYE.

20. UNEMPLOYMENT INSURANCE BENEFITS PAID AFTER BENEFIT YEAR END (Continued)

These payments made after the BYE consisted of several types of unemployment benefits, including 68 payments totaling $23,565 of Temporary Extended Unemployment Compensation (TEUC), a program which was suspended several years ago. Sixty-five of the 68 TEUC payments were made to claimants who were not eligible for the TEUC payment. However, ODJFS had already identified 64 of the ineligible TEUC payments and established an overpayment notice within OJI and/or recovered the payments by offsetting the eligible benefits owed to the claimant. The one payment ODJFS was not aware of was $159. Since this amount is not projectable to more than $10,000 and ODJFS was already aware of and acted on the other TEUC payments, these amounts are not being questioned.

In addition, during this BYE process we became aware of a deficiency in the OJI system. When benefits have been paid and later denied via an appeal process that reversed the original decision, the OJI system “moved” or associated the payment with the most recently approved BYE for the particular claimant, instead of leaving the information associated with the BYE to which it was originally paid. For example, we reviewed documentation for a claim where the benefit payment was made on January 28, 2008. The claim was later denied and OJI “moved” the payment to BYE October 12, 2002, setting up an overpayment notice to collect the amount. However, due to the three-year limit on non-fraud claims, the OJI system wrote off the overpayment as of November 28, 2004, which was a little more than three years before the initial benefit payment was made. Based on a sample of 60 payments from the 7,615 claims identified above, the Department unintentionally wrote off nine payments totaling $1,940 to claimants whose initial eligibility was overturned in the regular appeal and adjudication process. The Department was already aware of seven of these nine payments and established an overpayment notice within OJI and initiated the recovery process for those items still within the recovery period. It is uncertain if any other potential collections have been unintentionally written off in this manner.

Without the implementation of internal controls that monitor payments to unemployment benefit recipients, management does not have assurance that appropriate benefit payments are being made within the legally established time frames. This could lead to ODJFS not complying with the activities allowed or unallowed compliance requirements, a condition which could result in federal funding being reduced or taken away, or sanctions imposed by the federal grantor agency. ODJFS management stated there are valid reasons why a warrant could be paid after the BYE, such as reversal of a decision via an appeals process and re-issuance of a payment never received by the claimant. Furthermore, ODJFS management stated they are aware of the move issue and have requested a design change in the OJI system. ODJFS management stated the erroneous TEUC issuances were the result of the OJI pay adjustments on offset weeks and staff data entry errors when adjudicating issues. During an OJI pay adjustment, the system will review all transactions ensuring that they have posted correctly. As the system reviews weeks offset toward overpayments, it will remove the transaction from a prior date and post it again using the date of the payment adjustment. When this occurs after the statute of limitation date of the overpayment, the payment is then released to the claimant. The system needs to use the original posting date of the transaction and not the date of the pay adjustment. This system defect has been identified by management.

We recommend the Department establish internal controls to systematically review all benefit disbursements paid 30 days or more after the BYE and determine the appropriateness of the payments. The Department should document in OJI any valid reason why payments are made after the BYE. In addition, we recommend the Department investigate the cause of why the OJI system is allowing payments after the BYE and associating payments with BYEs other than the one for which payment was made, and then repair any intrinsic deficiency found. Similarly, the Department should seek a resolution for the pay adjustments alterations the OJI system makes. The Department should also pursue collection of the overpayments identified above and any other similar disbursements caused by the “move” week and pay adjustments conditions.

20. UNEMPLOYMENT INSURANCE BENEFITS PAID AFTER BENEFIT YEAR END (Continued)

Official's Response and Corrective Action Plan

ODJFS has the ability to override the move weeks issue by using manual overpayments. This will be the workaround used until a fix is done in the design of the benefit system.

This deficiency was identified during the SFY2007 audit. Since the publishing of those findings, ODJFS discovered the system defect regarding "move weeks" and created business rules for necessary corrective action. We are working with our programmers and scarce resources to establish a timeframe for a system correction that addresses the move week's issue. We have requested supplemental budget funds from USDOL to address the costs of the remedy.

Anticipated Completion Date for Corrective Action

The implementation of multiple extended benefit programs during SFY2008 has delayed the corrective action plan from being completed. ODJFS has requested supplemental budget funding to assistance with addressing this finding. Anticipated completion: September 30, 2010.

Contact Person Responsible for Corrective Action

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21. OVERSIGHT OF COUNTY OPERATIONS – VARIOUS PROGRAMS

Finding Number	2008-JFS21- 038
CFDA Number and Title	10.551/10.561 -– Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.563 -– Child Support Enforcement 93.575/93.596 -– Child Care Cluster 93.658 -– Foster Care 93.659 – Adoption Assistance 93.667 -– Social Services Block Grant 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department Agriculture Department of Health and Human Services
Compliance Requirement	Various

<u>SIGNIFICANT DEFICIENCY</u>

Federal regulations require management to devise and implement an adequate internal control structure capable of providing reasonable assurance that their objectives are being achieved. During fiscal year 2008, the Department operated several programs using a state-supervised, county-administered approach. The Department utilizes their Office of Research, Assessment, and Accountability (ORRA), Bureau of Audits (BOA) to monitor overall compliance with federal requirements and program objectives at each of the 88 county agencies. It is management's responsibility to reasonably ensure county audits are completed and the monitoring provides reasonable assurance the Department is in compliance with federal program requirements.

21. OVERSIGHT OF COUNTY OPERATIONS – VARIOUS PROGRAMS (Continued)

During state fiscal year 2008, the Department disbursed approximately $148 million in Food Stamps funds, $724 million in TANF funds, $174 million in Child Support funds, $243 million in Child Care funds, $171 million in Foster Care funds, $106 million in Adoption Assistance, $128 million in SSBG funds, and $168 million in Medicaid funds to the counties. The counties' activities and responsibilities vary by program and include, but are not limited to, application intake, case file maintenance, determination of eligibility, payment of benefits, and verifying program objectives are achieved. However, the Department did not perform any county audits during state fiscal year 2008 for these programs to monitor their activities and program compliance. This was based on management's decision in June 2007 to discontinue county audits since their relationship to the Department was changing to subrecipient in January 2009. Although some monitoring procedures may have been conducted by the various program personnel, these procedures were limited primarily to programmatic areas and did not typically evaluate compliance with financial or other requirements.

Without performing audits or other appropriate monitoring procedures of the county agencies, management cannot be reasonably assured they are in compliance with federal program requirements and are operating in accordance with management's intentions. If county agencies are not in compliance, ODJFS could incur sanctions and/or penalties which could adversely affect program funding.

According to the BOA Bureau Chief, county audits were not performed in state fiscal year 2008 and all monitoring was performed by the program areas and Office of Fiscal Services. During state fiscal year 2008, BOA was working to finalize and issue the backlog of county audit reports and ORAA/BOA were working to establish the new county monitoring model that would be implemented when the counties became subrecipients.

We recommend the Department reevaluate their monitoring process once the counties become subrecipients, and on a regular basis from that point forward, to help ensure the procedures continue to meet their objectives and address all the requirements and responsibilities of a pass-through entity as defined in OMB Circular A-133. These procedures should include, but not be limited to, ensuring monitoring of the counties (both during the award period and reviews of A-133 audit reports) is performed timely, thoroughly documented, reviewed by appropriate supervisory personnel, and that appropriate corrective actions are taken.

Official's Response and Corrective Action Plan

With the pending inception of full treatment of county agencies as subrecipients of the state, a management decision was made to forgo the county audit component of the department's internal control structure over the county agencies. For the limited period of SFY 2008, county agency monitoring was achieved by program monitoring performed by the relevant ODJFS program offices and fiscal monitoring was performed by the Bureau of County Finance and Technical Assistance.

During SFY 2008, the department developed a comprehensive monitoring, training and technical assistance process designed to address the risks noted by the auditor. This new approach includes 1) the completion by each county agency, with the assistance of monitoring staff, of a Guided Self Assessment (GSA) form to identify and document critical processes and internal controls within each agency; 2) the performance of a Federal Grants Management Review by staff of the newly created Bureau of Monitoring and Consulting Services (BMCS), resulting in a Technical Assistance (TA) Report to communicate significant issues to county agency management; and 3) the provision by BMCS of consulting services to assist county agency management in strengthening their internal control structure.

The conceptual model for the new approach was approved by Robert Hinkle, CGFM, CPA, Chief Deputy Auditor of the Auditor of State's office, and it was implemented in July of 2008. The GSA has been incorporated into the Federal Award Compliance and Control Records (FACCRs) developed for the performance of OMB Circular A-133 audit work in county family services agencies and the TA Reports are provided to the Auditor of State for that office's use in the relevant audit planning process.

21. OVERSIGHT OF COUNTY OPERATIONS – VARIOUS PROGRAMS (Continued)

The revised process is updated on a continual basis as necessary. For example, with the enactment of the American Reinvestment and Recovery Act (ARRA), supplemental GSA have been developed to assure the necessary monitoring coverage of federal stimulus monies. In addition, a supplemental GSA for federal cash management was developed when concern arose as to the sufficiency of county agency internal control in that area.

Pending changes to the new monitoring approach include the implementation of a risk-based assessment of each of the 139 county agencies, development of a structured corrective action plan process for the county agencies to increase the assurance that necessary corrections will be made, and expansion of the process, heretofore limited to HHS programs, to cover DOL programs.

Anticipated Completion Date for Corrective Action

As noted above, corrective action was completed with the inception of the new monitoring approach effective in July of 2008.

Contact Person Responsible for Corrective Action

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22. INFORMATION TECHNOLOGY – MISSING/INCOMPLETE PROGRAM CHANGE FORMS

Finding Number	2008-JFS22-039
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 17.225 – Unemployment Insurance 17.245 – Trade Adjustment Assistance 93.558 – Temporary Assistance for Needy Families 93.563 – Child Support Enforcement 93.767 – State Children's Insurance Program 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services Department of Labor
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs, Eligibility, Reporting

SIGNIFICANT DEFICIENCY

The following requirements are outlined 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:

22. INFORMATION TECHNOLOGY – MISSING/INCOMPLETE PROGRAM CHANGE FORMS (Continued)

- 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.

As noted by the exceptions identified in the following table, program change controls were not in place and/or functioning as required by the ODJFS policy described above:

Application	Number of Changes Tested	Number of Undocumented Changes	Number of Changes With Incomplete Documentation
CRIS-E	19	5 (26%)	5 (26%)
OJI (Back-End)	9	0	1 (11%)
3299	24	1 (4%)	1 (4%)
SETS	17	0	1 (6%)

(CRIS-E – Client Registry Information System Enhanced, SETS – Support Enforcement Tracking System, OJI – Ohio Jobs Insurance, 3299 – Child Provider Information)

When standardized procedures for modifying application programs are not followed, there is a greater risk of unauthorized program changes that are not aligned with management's original intentions, requirements, or objectives. These changes could adversely affect the Department's ability to comply with allowable cost, eligibility, and federal reporting requirements.

According to MIS management, the incomplete program change documentation occurred as a result of time constraints.

We recommend ODJFS complete the change request forms in their entirety before moving changes into production. Appropriate approvals should be obtained and documented at all required stages of the program change cycle to ensure updated applications are operating as intended. Management should periodically verify that these controls are functioning as intended. In addition, program changes completed by contractors must also follow program change standards and procedures set by ODJFS.

22. INFORMATION TECHNOLOGY – MISSING/INCOMPLETE PROGRAM CHANGE FORMS (Continued)

Official's Response and Corrective Action Plan

One of the practices OIS development employs is 'PEER' Review. This process ensures quality and the use of program standards in modification of system software by having system changes reviewed by a development staff member not associated with the specific application modifications. The 'PEER' Review process and the software migration checklist review are stop gates that should ensure that all associated program change documentation is complete and presented for approval before software migration.

To ensure that these established processes are followed, the processes will be review and stressed with the Configuration Management Staff, who have software migration responsibility and the development managers and staff.

Anticipated Completion Date for Corrective Action

The process review with Configuration Management Staff, development managers and staff will be completed before January 2010.

Contact Person Responsible for Corrective Action

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23. INFORMATION TECHNOLOGY – UNAVAILABLE PROGRAM CHANGE DOCUMENTATION

Finding Number	2008-JFS23-040
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – State Children's Insurance Program 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs, Eligibility, Reporting

<u>SIGNIFICANT DEFICIENCY</u>

Effective control procedures require reviews and testing of program changes to provide management assurance that users' requirements are achieved prior to a program being transferred into the production environment. Standard testing procedures are an essential component of the overall program change process, and they 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 fiscal year 2008 audit, ODJFS had a policy in place guiding the program change process for their significant applications, including MMIS, CRIS-E, and 3299 (Child Care). The policies were designed to provide enough detail to adequately control the program change processes and to ensure testing documentation and results were maintained. However, as documented in the table below, the procedures did not ensure program testing controls were operating effectively:

23. INFORMATION TECHNOLOGY – UNAVAILABLE PROGRAM CHANGE DOCUMENTATION (Continued)

Application	Number of Changes Tested	Number of Changes Without Test Documentation or Test Results
MMIS	25	17 (68%)
CRIS-E	19	6 (32%)
3299	24	2 (8%)

Without following standardized procedures for maintaining testing documentation, the Department increases the risk that requested changes are incomplete, unapproved, or do not meet users' expectations. Additionally, this could adversely affect the Department's ability to comply with allowable cost, eligibility, and federal reporting requirements. Also, without maintaining adequate testing documentation, it may be impossible to duplicate or evaluate testing scenarios in the event that problems arise later that require subsequent review of the program change.

The ODJFS MIS Management indicated that MIS bureaus and sections did not consistently follow the established standards for maintaining testing documentation across the Department due to time and resource constraints.

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.

Official's Response and Corrective Action Plan

Recent organizational changes within OIS has strengthened the staff, management support and importance of the System Testing Section. This group is developing application standards for testing plans, testing scenarios and scripts, testing results, traceability matrixes and archival of testing artifacts.

Future testing results and associated documentation will be accessible through the System Testing Section.

In response to finding with 3299 system, there was one single isolated incident where the details about the CSR worked for 3299 changes was not captured at much level of details into Dimensions. The situation was addressed after the finding with the staff making changes to programs and made sure to educate them on the importance of entering details into Dimensions. Going forward all the details will be captured into Dimensions , test data attached and solution completed towards changes.

Anticipated Completion Date for Corrective Action

It is planned that the System Testing Section would be fully trained, staffed and operational across the development environment by June 2010.

Contact Person Responsible for Corrective Action

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24. INFORMATION TECHNOLOGY – MISSING APPROVAL DOCUMENTATION

Finding Number	2008-JFS24-041
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 17.225 – Unemployment Insurance 17.245 – Trade Adjustment Assistance 93.558 – Temporary Assistance for Needy Families 93.563 – Child Support Enforcement 93.767 – State Children's Insurance Program 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services Department of Labor
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs, Eligibility, Reporting

<u>SIGNIFICANT DEFICIENCY</u>

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.

As noted in the following table, final approval was not consistently obtained for program changes transferred into the live environment:

Application	Number of Changes Tested	Number Without Documented Approval Before the Change Was Placed In Production
MMIS	25	11 (44%)
CRIS-E	19	12 (63%)
OJI (Back-End)	9	7 (77%)
SETS	24	24 (100%)
3299	24	23 (96%)

Without following standardized procedures for migrating changed and approved programs into production, the risk is increased that unauthorized, untested, and unapproved program changes could be placed in production (maliciously or mistakenly) contrary to management's original intentions, requirements, or objectives. Additionally, this could adversely affect the Department's ability to comply with allowable cost, eligibility, and federal reporting requirements.

ODJFS' MIS management indicated that there should have been documentation for every change that was migrated into production; however, they acknowledged that the errors occurred due to an oversight by the programmer making the changes.

24. INFORMATION TECHNOLOGY – MISSING APPROVAL DOCUMENTATION (Continued)

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.

Official's Response and Corrective Action Plan

CRIS-E, SETS, MMIS and OJI utilize the office change control product, Dimensions to control software migrations to Production. Dimensions utilizes CSR, (Customer Services Requests) and WRs (Work Requests) to provide authorization to development staff to execute system changes. Multiple like CSRs or WRs are group together into a Release Packet. The work artifacts are tracked through the documented life cycle to completion. When a developer has completed the requested work the CSR/WR is moved to a 'Ready For Baseline' status at this point the software changes can be moved to System Test, User Acceptance Testing or Production. If the assigned CSR/WR is not at the 'Ready For Baseline' status, the Release Packet must either wait until the status is appropriate or the CSR/WR must be removed from the Release Packet.

Dimensions has been implemented for over six years and is an effective tool at controlling and tracking software migrations.

Anticipated Completion Date for Corrective Action

None

Contact Person Responsible for Corrective Action

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25. INFORMATION TECHNOLOGY – MMIS PRODUCTION ENVIRONMENT SECURITY

Finding Number	2008-JFS25-042
CFDA Number and Title	93.767 – State Children's Insurance Program 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs, Eligibility, Reporting, Special Tests and Provisions

<u>SIGNIFICANT DEFICIENCY</u>

Organizations restrict access to their computer systems, programs, and data to help reduce the risk of unauthorized access. Typically, logical access to automated information is restricted by the use of a password associated with access rules. Standard password administration guidelines suggest passwords be a minimum number of characters in length, difficult to guess, contain no repeating characters, and changed at least quarterly. In addition, effective 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.

25. INFORMATION TECHNOLOGY – MMIS PRODUCTION ENVIRONMENT SECURITY (Continued)

The ODJFS Information Security Policy section 19.1 requires passwords 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" requires the number of unsuccessful logon attempts allowed to be limited to three before action is taken to inactivate the account until it is reset by the system administrator.

Also, the ODJFS Information Security Policy section 3.1.3 requires the departmental unit-appointed security designees be responsible for performing periodic reviews of user access to ensure all accesses are appropriate and current. In addition, section 18.1.3 requires effective control over access to the networks and data, such as the Chief Security Officer conducting 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 processes claims for reimbursement to medical providers for eligible services rendered. During fiscal year 2008, MMIS processed over 76 million claims from providers resulting in over $11.3 billion in Medicaid and SCHIP reimbursements to these providers. As described in detail below, multiple computer security issues existed during fiscal year 2008 for the MMIS system.

MMIS was protected at the system level by the RACF security software. MMIS application-level security included a unique five-digit user number and four-digit security code that were automatically assigned to each user. However, the security codes did not have a password expiration or lockout threshold and had to be manually changed. In addition, MMIS security codes had not been changed by ODJFS in over eight years.

By reviewing the MMIS access listing with certain ODJFS personnel, we were able to determine the following instances of individuals having inappropriate access based on their job duties:

- Three of six users with UPDATE access to the Procedure, Drug, and Diagnosis subsystem.
- Three of six users with UPDATE access to the Provider Charge File Subsystem.
- Four of 22 users with UPDATE access to the MMIS Text & Exception Code subsystem.
- Six of 45 users with UPDATE access to the MMIS Provider subsystem.
- Seven of 69 users with UPDATE access to the Recipient Eligibility subsystem.
- Five of the 37 users with UPDATE or DELETE access to the Prior Authorization subsystem.
- Two of the 25 users who had the capability of modifying MMIS production data files did not need it for their job functions.

In addition, the Department attempted to complete the annual access reconciliation for MMIS during fiscal year 2008, during which all of the selected departments, agencies, and counties were to review their MMIS access and provide a response to indicate a review was completed. However, the Department did not send the review request to three of the 15 (20%) departments, counties, and/or agencies selected (Office of the Chief Inspector, ODJFS MIS, and the U.S. Department of Health and Human Services). One of 12 (8.33%) departments, counties, and agencies that were reviewed (Ohio Department of Health) during our audit requested 11 changes or deletions of access that were not made in production. In addition, one of 12 departments, counties, and agencies reviewed during our audit requested a deletion

25. INFORMATION TECHNOLOGY – MMIS PRODUCTION ENVIRONMENT SECURITY (Continued)

of access that was made in production; however, the RACF ID "WGKC57" was re-instated after being deleted from the MMIS application. No documentation could be provided to support the request to re-instate the RACF ID "WGKC57."

Computer security violations of the ODJFS mainframe were captured daily on the RACF Activity Report and were available for review by the InfoSec Unit. The Office of Information Technology (OIT) IBM RACF security administrator placed the security violations report online for a data security analyst to review and resolve any issues on the RACF Activity Report on a daily basis. The report contained RACF security violations, unauthorized attempts to access datasets, and password resets. Although network-level violation reports were reviewed, no application-level security violations reports were generated or reviewed for the MMIS application.

Inadequate password lifetimes and allowing excessive unsuccessful login attempts could allow an individual to learn or guess someone's password and attempt to gain unauthorized access to the system or functions not required to perform their job. This could result in an unauthorized individual gaining access to the system and accidentally or intentionally deleting or altering sensitive data.

Without an accurate periodic review of user access, the risk is increased that unauthorized users have inappropriate access to program and data files because they either were not granted access appropriately, changed job responsibilities and no longer required the access, or were terminated from the department and did not have their access appropriately severed. Also, 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.

According to the Information Security unit, all 11 of the MMIS requests to delete user access from the production MMIS application were on the Ohio Department of Health access review spreadsheet. ODJFS InfoSec received the ODH access review spreadsheet; however, InfoSec overlooked deleting the ODH users from the MMIS application. All of the ODH users have since been deleted from the MMIS application. ODJFS InfoSec could not locate any documentation to support the request to re-instate the MMIS application access for the RACF ID "WGKC57."

When MMIS was implemented, 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.

Ohio Health Plan management indicated that budget and staff cuts at ODJFS OHP did not allow them to have the personnel resources to contact all agencies and counties with access to the MMIS application and have the agencies and counties complete the periodic review of MMIS application access.

MIS management indicated MMIS production data file access exceptions were due to management oversight.

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.

25. INFORMATION TECHNOLOGY – MMIS PRODUCTION ENVIRONMENT SECURITY (Continued)

We 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. Documentation of these reviews, and any required adjustments or changes resulting from them, should be maintained.

- Distribute a report of pertinent mainframe, application, and network-level profiles and access authorities to user management to confirm any access authority changes made. Documentation of these reviews, and any required adjustments or changes resulting from them, should be maintained.

Once periodic access reconciliations are performed, OHP must coordinate with MIS to help ensure updates to the production environment are completed timely.

In addition, ODJFS IT administration should comply with their Information Security Policy by ensuring that computer violation and security activity is logged, reported, reviewed, and appropriately escalated on a regular basis for the MMIS application to identify and resolve incidents involving unauthorized activity.

Official's Response and Corrective Action Plan

Based on our definition of application user numbers and security codes, we believe that this finding is specifically referencing the internal MMIS application security which requires a user to provide the user id and password to enter the MMIS application. Research has been performed to determine an efficient method of forcing expiring application passwords. The results were that the administration of automatic expiring passwords for over 6,000 users would be prohibitive in terms of helpdesk support and a method of reactivation. The internal application security is not viewed as the access control tool for the MMIS application. RACF is the primary access security product for MMIS. Since RACF provides automatic user ID revocation for non-use, automatic password expiration and ID revocation for invalid logon attempts, no corrective action is necessary.

Anticipated Completion Date for Corrective Action

None

Contact Person Responsible for Corrective Action

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26. INFORMATION TECHNOLOGY – CRIS-E PRODUCTION ENVIRONMENT SECURITY

Finding Number	2008-JFS26-043
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 93.558 – Temporary Assistance for Needy Families 93.767 – State Children's Insurance Program 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs, Eligibility, Reporting, Special Tests and Provisions

<u>SIGNIFICANT DEFICIENCY</u>

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 requires 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 requires effective control over access to the networks and data, such as the Chief Security Officer conducting periodic reviews of users' access rights. This review will reasonably ensure that users' access capabilities are reviewed for appropriateness and privilege allocations are checked at regular intervals to ensure that unauthorized privileges have not been obtained.

Also, under section 23.1.1 of the ODJFS Information Security Policy, procedures for monitoring system use must be established. Such procedures are necessary to reasonably ensure that users are only performing processes that have been explicitly authorized. The level of monitoring required for individual systems should be determined by a separate risk assessment. Areas that should be considered include access failures, logon parameters for indications of abnormal use or revived user IDs, allocation and use of accounts with a privileged access capability, tracking of selected transactions, and the use of sensitive resources.

ODJFS uses the Client Registry Information System-Enhanced (CRIS-E) to determine eligibility and benefit amounts for public assistance programs totaling approximately $1.4 billion for Food Stamps, $354 million for Temporary Assistance for Needy Families (TANF), $244 million for State Children's Insurance Program (SCHIP), and $11 billion for Medicaid in fiscal year 2008. However, the following weaknesses existed during fiscal year 2008 regarding IT security of CRIS-E:

- Periodic access reconciliations were not completed to confirm CRIS-E mainframe and network access authorities of employees were commensurate with their job duties.

- Although computer security violations for the ODJFS mainframe were captured daily and available for review by Departmental and Office of Information Technology (OIT) personnel, application level security violation reports were not reviewed for CRIS-E.

Additionally, two users who had the capability of modifying CRIS-E production data files did not need it for their job functions.

26. INFORMATION TECHNOLOGY – CRIS-E PRODUCTION ENVIRONMENT SECURITY (Continued)

When security violations are not detected and resolved, there is a greater risk of unauthorized access to the system. Without a limited number of authorized personnel having access to the CRIS-E subsystems, there is an increased likelihood of incorrect processing of public assistance benefits. In addition, without an accurate periodic review of user access, the risk is increased that unauthorized users have inappropriate access to program and data files because they either were not granted access appropriately, changed job responsibilities and no longer required the access, or were terminated from the Agency and did not have their access appropriately severed. Unauthorized access could result in the execution of inappropriate application transactions or the alteration of program or data files, which could be a misuse or fraudulent misappropriation of state resources or federal program monies.

According to Information Security management, they were not notified of the particular access that needed to be removed. The review of user access privileges is an ongoing effort in the Information Security unit. It is balanced with the actual initial administration of access. Several strides in this area have been achieved. With the staff shortage as well as the increasing workload with regard to functional areas of responsibility, this makes it even more challenging for the unit to dedicate appropriate time for reviews of user access privileges.

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 only. 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. Documentation of these reviews, and any required adjustments or changes resulting from them, should be maintained.

- Distribute a report of pertinent mainframe, application, and network-level profiles and access authorities to user management to confirm any access authority changes made. Documentation of these reviews, and any required adjustments or changes resulting from them, should be maintained.

Once periodic access reconciliations are performed, user management must coordinate with MIS to help ensure updates to the production environment are completed timely.

We also recommend ODJFS IT administration comply with their Information Security Policy by ensuring computer security violations and activity are logged, reported, reviewed, and appropriately escalated on a regular basis for the CRIS-E application to identify and resolve incidents involving unauthorized activity.

Official's Response and Corrective Action Plan

Currently, INFOSEC receives RACF notifications of attempted invalid data and system accesses. These notifications are reviewed by INFOSEC and any necessary follow-up is determined by their internal policies. Development and INFOSEC will establish semi-annual reviews of the RACF security access to ensure that CRIS-E access is commensurate with job functions

Anticipated Completion Date for Corrective Action

Development will establish semi-annual RACF security access reviews with INFOSEC by January 2010.

Contact Person Responsible for Corrective Action

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27. INFORMATION TECHNOLOGY – WRS and UC TAX PRODUCTION ENVIRONMENT SECURITY

Finding Number	2008-JFS27-044
CFDA Number and Title	17.225 – Unemployment Insurance 17.245 – Trade Adjustment Assistance
Federal Agency	Department of Labor
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs, Eligibility, Reporting, Special Tests and Provisions

SIGNIFICANT DEFICIENCY

Organizations restrict access to their computer systems, programs, and data to help reduce the risk of unauthorized access. Typically, logical access to automated information is restricted by the use of a password associated with access rules. Standard password administration guidelines suggest passwords be a minimum number of characters in length, difficult to guess, contain no repeating characters, and changed at least quarterly. In addition, access procedures should provide for the suspension of user identification codes or the disability of the terminal, microcomputer, or data entry device following a pre-defined number of unsuccessful attempts to access the system or applications. To maintain security, organizations periodically confirm that employees' current computer access is commensurate with their job responsibilities.

The ODJFS Information Security Policy section 19.1 requires passwords 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" requires 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 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 users' 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. However, multiple weaknesses existed during fiscal year 2008 regarding the computer security for these systems, as explained below.

- For the WRS and the UC applications, the user's social security number (SSN) was used as the user ID for logging into these applications. The user ID SSNs were displayed on security reports and screens.

- UNISYS security violation reports were not generated for review until August 20, 2007. As a result, there were no reports available for review from July 1, 2007 through August 19, 2007.

27. INFORMATION TECHNOLOGY – WRS and UC TAX PRODUCTION ENVIRONMENT SECURITY (Continued)

- One of the major program processing environments used by these unemployment applications is the Demand system, which is only used by the Information Technology (IT) personnel to gain access to test and production programs and data files. The following weaknesses were noted for the 269 Demand interactive accounts:

  – 25 accounts had the maximum failed logon attempt threshold set at zero, which meant the accounts would never lockout (14 were user accounts and 11 were system accounts). One of these accounts had administrator privileges.

  – Five accounts had a maximum threshold of 999,999 failed logon attempts before the account was disabled (four were user accounts and one was a system account). The four user accounts had administrator privileges.

  – 18 accounts had a 7,300 day (20 year) password lifetime (13 were user accounts and 5 were system accounts).

  – 10 accounts had a 9,999 day (27 year) or greater password lifetime (four were user accounts and six were system accounts). Five of these 10 accounts (4 user accounts and 1 system account) had administrator privileges.

  – 30 (18 were user accounts and 12 were system accounts) accounts had no disabling parameter set, i.e. the accounts would never be disabled due to terminal inactivity. Five of these accounts (4 user accounts and 1 system account) had administrator privileges.

- Whenever a Demand user account was no longer needed, the user ID was disabled, but not deleted. The system disables IDs for accounts that have not been used in over 30 days. Of the Demand accounts on the UNISYS system, 75.8% (204 of 269) were disabled.

- Although network-level violation reports were reviewed for Demand accounts, no application-level security violations reports were generated or reviewed for the WRS and UC applications.

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.

Because security violations are not detected and resolved, there is an even greater risk that fraudulent and accidental transactions or security breaches would go undetected. Unauthorized access could result in the execution of inappropriate application transactions or the alteration of program or data files, which could be a misuse or fraudulent misappropriation of state resources or impact allowable cost and eligibility of federal program monies. Allowing public access to sensitive information, such as SSNs, increases the risk of misuse of the information. Ultimately, this could lead to undue public scrutiny if this information were to be misused.

27. INFORMATION TECHNOLOGY – WRS and UC TAX PRODUCTION ENVIRONMENT SECURITY (Continued)

ODJFS management indicated the majority of the accounts with failed logon attempts and inactivity set at zero or set to other values not recommended in the ODJFS IT Policy were either system accounts or users with system administrator privileges. Many of the accounts were required by the operating system to always stay active in order to keep the system functional. User accounts were disabled instead of deleted because ODJFS felt it was sufficient to disable the user accounts since documentation of the termination was being maintained.

Management also indicated, when the applications were placed in production, application security violation reports were not created. When the WRS and UC systems were designed approximately twenty 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.

We also recommend ODJFS immediately review all Demand accounts and either delete accounts for users who no longer require Demand access or organize them into a group that would identify the accounts as terminated individuals for easy identification by the Information Security unit.

In addition, 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. Management should evaluate and modify the information being used as the key identifier in its WRS and UC applications to reasonably ensure employees' SSNs are safeguarded. All network and application access should be reviewed and reconciled for the WRS and UC applications to ensure accounts for users who are not authorized to have both network and application access are removed.

Official's Response and Corrective Action Plan

(A) For the WRS and the UC applications, a user's social security number (SSN) was used as the user ID.

Response: Programmatic changes were started to address this issue, but were not implemented. The UC and WRS applications are due to be replaced by the ERIC application, the timeline for this is now anticipated to complete Spring 2010. The user-id is not displayed on the SSON screen, it is masked by asterisks, as well as other key fields.

The user-id is displayed on security reports utilized for reconciliation. These reports are limited to the UC Program Services security staff only. Quarterly audit reports for validation of access, routed to managers responsible directly for their respective areas data integrity, no longer contain the SSN number, those numbers are masked so that they are not viewable.

At this time the impact of implementing the removal of the utilization of the SSN as a key identifier out ways the potential impact.

(B) The SECCHK-D job was not run from July 1, 2007 to August 19, 2007 during FY08. Security violations reports were not being produced and reviewed at a system level WRS and UC.

27. INFORMATION TECHNOLOGY – WRS and UC TAX PRODUCTION ENVIRONMENT SECURITY (Continued)

The SECCHK routine is now scheduled on a daily basis out of the automated scheduling system. This occurs seven days a week, each week though out the year. The report is reviewed by Operations staff to ensure no security access are occurring. The report is maintained on file at UNISYS operations.

(C) Demand operating system was set to a maximum of five failed sign-on attempts before the account was disabled. Nineteen accounts had a maximum threshold of five failed logon attempts before the user ID was disabled. Thirty-eight accounts had the maximum failed logon attempt threshold set at zero and eight accounts had a maximum threshold of 999,999 failed logon attempts before the account was disabled. Thirteen accounts had a 9,999 day (27 year) or greater password lifetime and 33 accounts had a 7,300 day (20 year) password lifetime. Forty-nine accounts had no disabling parameter set.

Response: The agency standard for failed sign-on attempts before the account is disabled is five. 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.

(D) Terminated Demand users were being disabled instead of deleted.

Response: The UNISYS operations 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. The ID is disabled rather than being deleted to ensure that the id is not re-used in the future, re-use would not allow for uniqueness of ownership across time.

Anticipated Completion Date for Corrective Action

(A) No action anticipated – ERIC will replace.
(B) Already addressed – Daily Automated Scheduling in place.
(C) No action anticipated – Required System Id's.
(D) No action anticipated – UNISYS operational procedure.

Contact Person Responsible for Corrective Action

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28. INFORMATION TECHNOLOGY – OJI PRODUCTION ENVIRONMENT SECURITY

Finding Number	2008-JFS28-045
CFDA Number and Title	17.225 – Unemployment Insurance 17.245 – Trade Adjustment Assistance
Federal Agency	Department of Labor
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs, Eligibility, Reporting, Special Tests and Provisions

SIGNIFICANT DEFICIENCY

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.

The ODJFS Information Security Policy section 3.1.3 requires 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 requires effective control over access to the networks and data, such as the Chief Security Officer conducting 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.

Typically, logical access to automated information is restricted by the use of a password associated with access rules. Standard password administration guidelines suggest passwords be a minimum number of characters in length, difficult to guess, contain no repeating characters, and changed at least quarterly. In addition, access procedures provide for the suspension of user identification codes or the disability of the terminal, microcomputer, or data entry device following a pre-defined number of unsuccessful attempts to access the system or applications.

The ODJFS Information Security Policy includes the following sections which govern implementation of the controls described above:

- Section 3.1.3, "Security Designees."
- Section 18.1, "Authorized User Registration."
- Section 18.1.1, "Privilege Management."
- Section 18.1.3, "Review of User Access Rights."
- Section 19.1, "Password Use."
- Section 21.1.1, "Terminal Logon Procedures."
- Section 22.1.1 "Use of System Utilities."
- Section 23.1.1, "Monitoring System Use."

The Ohio Job Insurance (OJI) application is a web-based system with a centralized statewide mainframe database. Thus, OJI can be accessed using an Internet browser (for example, Microsoft Internet Explorer) and information entered and retrieved from all call centers, processing centers, one-stop locations, and the central office resides in the same production database. However, management did not complete an access reconciliation in fiscal year 2008 to confirm that employees' network and OJI mainframe access authorities were commensurate with their job duties. In addition, the following OJI password security weaknesses existed during fiscal year 2008:

28. INFORMATION TECHNOLOGY – OJI PRODUCTION ENVIRONMENT SECURITY (Continued)

- 30 administrator and 12 user accounts did not have a minimum password length requirement, history size requirement (the number of previous passwords that could not be reused), automatic lockout requirement, or history expiration requirement (the period of time in weeks that a user would not be able to reuse a password).

- 43 accounts had a maximum password lifetime of 0 weeks or no setting in place, signifying the password lifetime was unlimited. 72 accounts had a maximum password lifetime of 52 weeks (364 days). Of those 115 accounts, 45 were system accounts with an additional control, which required the user to use their own account and associated password lifetime (28 days) to access the system account. The remaining 70 accounts were admin accounts and had inadequate password lifetimes.

Although computer security violations of the ODJFS mainframe and the AIX UNIX server were captured daily and were available for review by the InfoSec Unit, no application-level security violations reports were generated or reviewed for the OJI application.

The weaknesses described all increase the risk of unauthorized access to OJI. With unauthorized access, users could execute inappropriate application transactions or alter programs or data files. Unauthorized access could jeopardize the integrity of departmental data or result in the misuse or fraudulent misappropriation of state resources or federal program monies.

Without an accurate periodic review of user access, the risk is increased that unauthorized users have inappropriate access to program and data files because they either were not granted access appropriately, changed job responsibilities and no longer required the access, or were terminated from the department and did not have their access appropriately severed. Without security violation monitoring, unauthorized access and any resulting accidental or fraudulent transactions may not be detected.

According to the Information Security unit, the review of user access privileges is an ongoing effort. It is balanced with the actual initial administration of access. Several strides in this area have been achieved. With the staff shortage as well as the increasing workload with regard to functional areas of responsibility, this makes it even more challenging for the unit to dedicate appropriate time for reviews of user access privileges. No application security violation reports are generated for the OJI application.

DAS/OIT administers and secures the UNIX servers and accounts for ODJFS. Because of a lack of communication between ODJFS and OIT, password security weaknesses on some accounts were not detected and corrected.

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.

To help ensure access restrictions remain authorized, we recommend ODJFS periodically complete a review to validate employee access in accordance with the ODJFS Information Security Policy. In addition, we 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. Documentation of these reviews, and any required adjustments or changes resulting from them, should be maintained.

28. INFORMATION TECHNOLOGY – OJI PRODUCTION ENVIRONMENT SECURITY (Continued)

- Distribute a report of pertinent mainframe, application, and network-level profiles and access authorities to user management to confirm any access authority changes made. Documentation of these reviews, and any required adjustments or changes resulting from them, should be maintained.

We further recommend ODJFS IT management comply with their Information Security Policy by ensuring that computer violation and security activity is logged, reported, reviewed, and appropriately escalated on a regular basis for the OJI application to identify and resolve incidents involving unauthorized activity. We also recommend the OJI passwords be changed at least every 60 days and all password parameters comply with ODJFS security standards.

Official's Response and Corrective Action Plan

This audit finding was to have been corrected with the OJI / ERIC single sign-on initiative slated for implementation with the ERIC project. As it stands, the OJI code in support of single sign-on is woefully out of date as we have had multiple releases since the software was moved to the system test environment.

Anticipated Completion Date for Corrective Action

OJI/ERIC Single Sign-on to be completed April 2010.

Contact Person Responsible for Corrective Action

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29. INFORMATION TECHNOLOGY – SCOTI PRODUCTION ENVIRONMENT SECURITY

Finding Number	2008-JFS29-046
CFDA Number and Title	17.207/17.801/17.804 – Employment Services Cluster 17.258/17.259/17.260 – WIA Cluster
Federal Agency	Department of Labor
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs, Eligibility, Reporting, Special Tests and Provisions

SIGNIFICANT DEFICIENCY

To help reduce the likelihood of unauthorized use of key computer resources, organizations logically restrict access to their computer systems, programs, and data. The level of access established must be commensurate to a specific user's job responsibilities. Access to special privileges and system utilities which may be used to override other controls are tightly restricted. Computer systems are regularly monitored for possible misuse and periodic reviews of user access are performed to ensure all access is authorized.

The ODJFS Information Security Policy section 3.1.3 requires 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 requires effective control over access to the networks and data, such as the Chief Security Officer conducting periodic reviews of users' access rights. This

29. INFORMATION TECHNOLOGY – SCOTI PRODUCTION ENVIRONMENT SECURITY (Continued)

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.

Typically, logical access to automated information is restricted by the use of a password associated with access rules. Standard password administration guidelines suggest passwords be a minimum number of characters in length, difficult to guess, contain no repeating characters, and changed at least quarterly. In addition, access procedures provide for the suspension of user identification codes or the disability of the terminal, microcomputer, or data entry device following a pre-defined number of unsuccessful attempts to access the system or applications.

The ODJFS Information Security Policy includes the following sections which govern implementation of the controls described above:

- Section 3.1.3, “Security Designees.”
- Section 18.1, “Authorized User Registration.”
- Section 18.1.1, “Privilege Management.”
- Section 18.1.3, “Review of User Access Rights.”
- Section 19.1, “Password Use.”
- Section 21.1.1, “Terminal Logon Procedures.”
- Section 22.1.1 “Use of System Utilities.”
- Section 23.1.1, “Monitoring System Use.”

The Sharing Career Opportunities Training Information (SCOTI) application is a web-based system acquired and implemented to meet the needs of the ODJFS Office of Workforce Development in managing the state’s Federal Workforce Investment Act (WIA) and Wagner-Peyser Act (Labor Exchange) requirements. However, the following weaknesses existed during fiscal year 2008 regarding the IT security controls tested for the SCOTI application:

- Password parameters were not set to ODJFS standards for the SCOTI application for users.
- Four (OIT employees) of the 12 accounts on the SCOTI web server did not have:
  - a minimum password length requirement.
  - the history size requirement (the number of previous passwords that could not be reused).
  - the history expiration requirement (the period of time in weeks that a user would not be able to reuse a password).
  - the automatic lockout requirement.
- Computer security violations for SCOTI on the ODJFS servers were captured daily and available for review by the InfoSec Unit. The OIT demilitarized zone (DMZ) staff monitored any security violations at the HTTP IP layer and notified the ODJFS Chief Security Officer immediately if a security violation was logged. Although network-level violation reports were reviewed, no application-level security violations reports were generated or reviewed for the SCOTI application.
- Periodic access reconciliations were not completed for SCOTI.

The weaknesses described increase the risk of unauthorized access to SCOTI. With unauthorized access, users could execute inappropriate application transactions or alter programs or data files. Unauthorized access could jeopardize the integrity of departmental data or result in the misuse or fraudulent misappropriation of state resources or federal program monies.

Without an accurate periodic review of user access, the risk is increased that unauthorized users have inappropriate access to program and data files because they either were not granted access appropriately, changed job responsibilities and no longer required the access, or were terminated from the Agency and did not have their access appropriately severed. Without security violation monitoring, unauthorized access and any resulting accidental or fraudulent transactions may not be detected.

29. INFORMATION TECHNOLOGY – SCOTI PRODUCTION ENVIRONMENT SECURITY (Continued)

The Information Security unit noted the review of user access privileges is an ongoing effort. It is balanced with the actual initial administration of access. Several strides in this area have been achieved. With the staff shortage as well as the increasing workload with regard to functional areas of responsibility, this makes it even more challenging for the unit to dedicate appropriate time for reviews of user access privileges. No application security violation reports are generated for the SCOTI application.

DAS/OIT administers and secures the UNIX servers and accounts for ODJFS. Because of a lack of communication between ODJFS and OIT, password security weaknesses on some accounts were not detected and corrected.

We recommend the SCOTI passwords be changed at least every 60 days and accounts be set to automatically lock the account after three unsuccessful attempts, in compliance with the ODJFS Information Security Policy. All password parameters must comply with ODJFS security standards.

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.

In addition, we recommend ODJFS periodically complete a review to validate employee access in accordance with the ODJFS Information Security Policy which should include, but not be limited to:

- 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. Documentation of these reviews, and any required adjustments or changes resulting from them, should be maintained.

- Distribute a report of pertinent mainframe, application, and network-level profiles and access authorities to user management to confirm any access authority changes made. Documentation of these reviews, and any required adjustments or changes resulting from them, should be maintained.

Official's Response and Corrective Action Plan

To access SCOTI Staff Assisted, a user needs to create a user ID. In order to do this, they must submit a request to the SCOTI Help Desk. The SCOTI Help Desk will enter the request onto a manual spreadsheet before forwarding it on to INFOSEC. Once INFOSEC creates an account, it is forwarded back to the SCOTI Help Desk. The SCOTI Help Desk will then assign the user ID an appropriate access role (i.e. profile). (Because BISS/INFOSEC is not familiar with the SCOTI profiles, the SCOTI Help Desk is assigning the user profiles to the SCOTI user IDs.) SCOTI has its own internal security system that uses access roles to prevent unauthorized access to transactions.

Once a role is assigned, the user ID and password are given to the user. SCOTI was designed with a top down management approach. Once a user has their role assigned, they may assign privileges less than their own privileges to any other user. The Production Support Role could assign the Central Office Role to the appropriate personnel. The Central Office Role (SCOTI Help Desk) could assign all other State and county user profiles. In addition, the MIS Field Support role could assign Office Supervisor, One Stop Supervisor, Case Manager Supervisor, and Case Manager to other users. In turn, the Office Supervisor and One Stop Supervisor could assign the Case Manager Supervisor and Case Manager. However, the Case Manager Supervisor and Case Managers do not have access to this function.

The Security Manager Role was created for BISS/INFOSEC to create and disable users. A new role was created for the MIS Help Desk to reset passwords and unlock user records. SCOTI Staff Assisted application users can logon to SCOTI via the internet at www.ohiomeansjobs.com/whatsnew/home.do . They will then need to choose the Staff Assisted button. Upon logging in for the first time, the user will be asked to fill in information, including a password reset question, in order to complete their initial login.

29. INFORMATION TECHNOLOGY – SCOTI PRODUCTION ENVIRONMENT SECURITY (Continued)

Then they will be asked to change their password to something of their choosing (following the guidelines listed in the application).

If the user forgets their password, they can change it by answering the question they setup during their initial login. If they need it reset, they will call the SCOTI Help Desk who will contact INFOSEC to reset the password or the MIS Help Desk can be contacted by the user.

OMJ (and OMJ DRC) application users can logon via the internet at www.ohiomeansjobs.com. After accessing the site, a job seeker can setup a unique user ID and password that they can use to store personal employment information. Alternatively, an employer can then use it to setup their account to store their business information for job seekers. This is done through a portal developed by www.monster.com (Monster Government Solutions).

Seekers - All of the account information is stored directly on their servers. We do not have access to it.

Employers – All will be redirected from OMJ to Ohio Business Gateway (OBG). This may be transparent to the user. Employers will log into OBG and complete all logged-in activity in OBG for this phase. OBG will maintain the user accounts. OBG should be contacted for their security is needed.

OMJ Admin Users - OMJ Admin user accounts will be maintained by OMJ. They are stored in the LDAP accounts on our system. These are used by a minimal group of OWD people to access various portions of the OMJ application. (Configuration items).

Anticipated Completion Date for Corrective Action

This plan was put implemented during fiscal 2007.

Contact Person Responsible for Corrective Action

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30. INFORMATION TECHNOLOGY – NOVELL PASSWORD PARAMETERS

Finding Number	2008-JFS30-047
CFDA Number and Title	10.551/10.561 – Food Stamp Cluster 17.207/17.801/17.804 – Employment Services Cluster 17.225 – Unemployment Insurance 17.245 – Trade Adjustment Assistance 17.258/17.259/17.260 – WIA Cluster 93.558 – Temporary Assistance for Needy Families 93.563 – Child Support Enforcement 93.767 – State Children's Insurance Program 93.775/93.776/93.777/93.778 – Medicaid Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services Department of Labor
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs, Eligibility, Reporting, Special Tests and Provisions

SIGNIFICANT DEFICIENCY

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 18.1, "Authorized User Registration."
- Section 19.1, "Password Use."
- Section 21.1.1, "Terminal Logon Procedures."

The Novell operating system is installed on the ODJFS LAN to help ensure a secure environment for all ODJFS LAN transactions. The Novell security system is the primary access control that ODJFS employees use to log onto the ODJFS network and access ODJFS programs and data. However, the following weaknesses existed during fiscal year 2008 regarding Novell network password parameters:

30. INFORMATION TECHNOLOGY – NOVELL PASSWORD PARAMETERS (Continued)

- 47 user accounts, 1,487 training accounts associated with computers in the training labs, and 10 testing accounts did not have the password expiration interval parameter defined. In addition, one user account had a password expiration interval parameter greater than 60 days.

- 78 user accounts had the grace login failure limit parameter set to greater than six and less than 17 and one system account had a grace login limit parameter set to 10.

- 34 user accounts, 102 system accounts, 60 training accounts, and 12 testing accounts did not require a password to login to the ODJFS Novell network.

- 33 user accounts, 103 system accounts, 58 training accounts, and 11 testing accounts had a defined password length of zero. 185 user accounts, 243 system accounts, 255 training accounts, and two testing accounts had a defined password length of five characters.

- 362 user accounts, 442 system accounts, 1,453 training accounts, and 14 test accounts did not have the Password Unique Required parameter set to YES.

The weaknesses described all increase the risk of unauthorized access to the ODJFS Novell network. Not requiring a password, having inadequate password lengths and inadequate password lifetimes, allowing a person excessive unsuccessful login attempts, and not requiring passwords to be unique could allow an individual to learn or guess someone's password and attempt to gain unauthorized access to network functions or data not required by their job duties.

According to Information Security management, all Novell user accounts are supposed to be created using a standardized template. Some of the weaknesses may have occurred because either the user accounts were created without using the template or the user accounts were created before the standardized template was in place. The only other way user account password parameters could deviate from the standard is if an ODJFS employee with network administrator privileges changed the password parameters manually.

We recommend ODJFS IT management comply with their Information Security Policy by ensuring all Novell network accounts are in alignment with the password parameters outlined in the ODJFS security standards. We further recommend ODJFS management periodically review Novell network password parameters to help ensure continued compliance with their information security policy.

Official's Response and Corrective Action Plan

Information Services will deploy Universal Password Policy within the Novell ODHS Organization on the File and Print Tree for non System Accounts. Deployment of the Universal Password Policy will address the Novell network Grace Login Limit greater than 6, the Password Expiration Interval not set or greater than 60 days, the Password Length less than 6 characters, Passwords not required, and Passwords not required to be Unique.

Anticipated Completion Date for Corrective Action

Information Services began the deployment process on 2/19/09 when the communication was sent. The Air Container was changed on 3/24/09. Universal Password Policy will be deployed to the remaining ODHS Organizational containers by December 2009.

Contact Person Responsible for Corrective Action

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OHIO DEPARTMENT OF MENTAL HEALTH

1. MEDICAID, SCHIP, AND SSBG – SUBRECIPIENT MONITORING

Finding Number	2008-DMH01-048
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
Compliance Requirement	Subrecipient Monitoring

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

The Office of Management and Budget's Circular A-133 states, in part:

> §__. 400 Responsibilities
>
> . . .
>
> (d) Pass-through entity responsibilities. A pass through entity shall perform the following for the Federal awards it makes:
>
> (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of the Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.
>
> (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
>
> (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts of grant agreements and that performance goals are achieved.
>
> (4) Ensure that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for the fiscal year.
>
> (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
>
> . . .

It is management's responsibility to implement policies and procedures to monitor subrecipients to help ensure they have complied with the rules and regulations related to the programs and have met the objectives of the programs.

During state fiscal year 2008, the Department disbursed approximately $287.3 million in federal funding for the Medicaid Assistance Program, $22.4 million for the State Children's Insurance Program (SCHIP), and $8.2 million for the Social Services Block Grant (SSBG) to the 50 Community Mental Health (CMH) boards, who are subrecipients of the Department. Currently, the Department requires each CMH board to submit their single audit report to the Community Audit Program Manager. The Community Audit

1. MEDICAID, SCHIP, AND SSBG – SUBRECIPIENT MONITORING (Continued)

Program Manager reviews these audit reports and enters the information from each report, including whether a Corrective Action Plan (CAP) will be required, in an access program. From this access program, the Community Audit Program Manager has the ability to generate various reports, including which CMH boards have not submitted their single audit report and which CMH boards still have not submitted a CAP. The Department is in the process of drafting a policies and procedures manual related to subrecipient monitoring, but has not yet finalized this document. In addition:

- Of the 46 A-133 audits received by the Department, SCHIP was identified as a major program within four reports and SSBG was identified as a major program within one report. By calculating the percentage of coverage for the SCHIP and SSBG programs, the Department identified the amount of assurance that could be placed on the A-133 audits for these programs, 17% and 5% respectively. Although there was a limited amount of coverage for the SCHIP and SSBG programs from these audits, the Department did not perform any supplementary procedures (e.g. on-site reviews) to increase their coverage and ensure the costs associated with these programs were allowable and in compliance with federal laws and regulations.

- Seven CMH boards requested additional Medicaid funding during fiscal year 2008. As a result, the Department indicated they performed on-site reviews at these boards, even though they received approximately 86% coverage on the Medicaid program from A-133 audits. The Department did not, however, maintain any documentation (i.e., audit programs or checklists) of the procedures performed.

- Ten of 10 (100%) CMH boards selected for review were not made aware of the name of the awarding Federal agency for the SSBG program.

- Four of 10 (40%) CMH board audit reports selected for testing were not received within nine months. The Department indicated they followed up with these CMH boards through various conversations; however, there was no documentation evidencing the action taken for these late reports.

  Under these circumstances, the Department may not be reasonably assured they have met the requirements of OMB Circular A-133, or that the CMH boards have met the requirements of the Medicaid, SCHIP, and SSBG programs. If the Department does not perform appropriate monitoring procedures, including on-site reviews, and/or receive subrecipient audit reports in a timely manner, there is a risk that instances of noncompliance by the subrecipient will go undetected.

According to the Community Audit Program Manager, on-site reviews were not performed annually due to insufficient staffing levels for his department. The Manager of Fiscal Operations and Community Funding Services indicated the Department overlooked identifying the name of the federal awarding agency when updating the agreements between the Department and the CMH boards in SFY 2008.

We recommend the Department continue to develop and enhance their subrecipient monitoring process to include, but not be limited to, the following:

- Finalizing a formal procedures 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.

1. MEDICAID, SCHIP, AND SSBG – SUBRECIPIENT MONITORING (Continued)

- Requiring documentation be maintained for all aspects of the monitoring procedures performed, including documentation of on-site review procedures and results, and support for any follow-up and actions taken related to late report submissions by the CMH boards.

- 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.

- Including information within the CMH agreements between the CMH and the Department to identify the name of the Federal awarding agency.

Official's Response and Corrective Action Plan

Although the Department hired an employee in February, 2006 to perform subrecipient monitoring and put into place a comprehensive tracking and desk review system, limited staffing resources have made it difficult to implement on-site reviews of all CMH Boards.

The Department is currently working on developing a series of warning/risk indicators that will identify which Subrecipients and which Federal Awards are at most risk. Once the Department is able to measure the comprehensive risk, then we will be able to concentrate on applying the necessary actions needed to mitigate such risk (i.e. request additional documentation from Subrecipients for further review, perform on-site reviews where possible, etc.).

The Department understands that ideally, on-site reviews would be the standard, and is striving to meet this goal. Additional information provided to Boards regarding the awarding Federal agency and documentation of action taken with regard to the late submission of Board audit reports has already been implemented. The Department will continue to develop more procedures where necessary so we can implement our monitoring processes more efficiently and provide reasonable assurance that our subrecipients have complied with laws, regulations, and the provisions of their grant agreements.

Anticipated Completion Date for Corrective Action

06/15/09

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF PUBLIC SAFETY

1. HOMELAND SECURITY CLUSTER – CASH MANAGEMENT

Finding Number	2008-DPS01-049
CFDA Number and Title	97.067 – Homeland Security Grant Program
Federal Agency	Department of Homeland Security
Compliance Requirement	Cash Management

QUESTIONED COSTS $1,376,143

31 CFR 205.33 (a) states, in part:

> A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursements 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....

An entity's internal control structure is placed in operation and maintained by management to prevent or detect misstatements in accounting records; to safeguard the entity's assets against loss; to help ensure compliance with laws and regulations; and to provide a basis for measuring whether operations are achieving management's objectives.

During fiscal year 2008, the Department received approximately $26 million in federal revenue for the Homeland Security Cluster. Currently, the Department receives a cash request from their subrecipient and records this information on a Departmental Request for Cash Draw form, including the corresponding grant number. Then the Department compiles the request for cash draw forms on an Emergency Management Agency (EMA) Grant Draw and Deposit Information sheet that is used to request funds from the federal government via the Payment and Reporting System (PARS). Two high dollar federal draws totaling $4,224,455 and 15 other federal draws totaling $1,974,769 were selected for testing. For one of two high dollar items, the Department was unable to provide adequate documentation to support the entire federal draw amount/calculation and/or could not identify the corresponding disbursements for approximately $1,376,143 of the draw. Since the Department did not have any supporting documentation to link the federal draw to the amount disbursed, we were unable to determine if the Department was in compliance with 31 CFR 205.33. As a result, we are questioning the costs of $1,376,143.

Without documentation evidencing when the draw was disbursed, the Department cannot be assured federal funding is disbursed properly and in accordance with program regulations. In addition, the Department cannot verify that the corresponding disbursement was made in a timely manner as required by 31 CFR 205.33. According to the Department's Fiscal Officer, the funds drawn were for estimated payroll amounts and proper documentation was not maintained.

We recommend the Department implement and/or strengthen controls to reasonably ensure all federal draw requests for the Homeland Security Cluster are adequately documented, supported by allowable disbursements, and made in accordance with the guidelines set forth within the 31 CFR 205.33. We recommend the Department establish procedures to monitor cash balances to ensure federal funds are drawn consistently, with the Department's immediate cash needs, and disbursed timely. We also recommend the Department maintain all support documentation related to a federal cash draw to adequately document the calculation of the draw and the reason for the draw.

1. HOMELAND SECURITY CLUSTER – CASH MANAGEMENT (Continued)

Official's Response and Corrective Action Plan

Internal controls have already been implemented to prevent an undocumented control from occurring. All federal draws are compiled on a Request for Cash Draw Worksheet providing detail as to why the draw is being made. All supporting documentation for the draw is attached and provided to a fiscal manager for review and approval for the draw to be completed. This documentation is then provided to the Revenue Management Section at the Department for review and draw of funds. The documentation is then attached to the completed and approved pay-in.

Anticipated Completion Date for Corrective Action

Corrective action has already been implemented.

Contact Person Responsible for Corrective Action

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2. HOMELAND SECURITY CLUSTER – INACCURATE FEDERAL REPORTS

Finding Number	2008-DPS02-050
CFDA Number and Title	97.067 – Homeland Security Grant Program
Federal Agency	Department of Homeland Security
Compliance Requirement	Reporting

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

The Department is required to submit the Financial Status Report to the United States Department of Homeland Security (U.S. DHS), Office of Grants and Training (G&T), or to the Office of Domestic Preparedness (ODP) in the past, on a quarterly basis. The FY 2007 Homeland Security Grant Program (HSGP) Award Reporting Requirements obtained from the FY 2007 HSGP Program Guidelines and Application Kit states:

> Obligations and expenditures must be reported to G&T on a quarterly basis through the Financial Status Report, which is due within 30 days of the end of each calendar quarter.

It is management's responsibility to implement control policies and procedures to reasonably ensure the federal reports they submit are accurate, complete, submitted timely, and in compliance with the Homeland Security Cluster's program requirements. It is imperative that all Financial Status Reports be reconciled to supporting documentation to assure accuracy and completeness of the amounts being reported to the Federal U.S. Department of Homeland Security.

During state fiscal year 2008, the Department's Administrative Assistant II prepared the Financial Status Report (SF-269A) utilizing data from the state's current and previous accounting systems, the Ohio Administrative Knowledge System (OAKS) and the Central Accounting System (CAS), and data obtained from the federal draw down system. However, three (20%) of 15 quarterly SF-269A Financial Status Reports tested for Federal Fiscal Years (FFY) 2004, 2005, 2006, and 2007 for the Homeland Security

2. HOMELAND SECURITY CLUSTER – INACCURATE FEDERAL REPORTS (Continued)

Cluster were not accurate. The cumulative outlays for the three quarterly reports varied from the lifetime spending of the grants activity reported in OAKS/CAS by more than 2%. The variances, as detailed below, all related to FFY2006 awards for grants numbers M313-M314 and M465-M467:

- As of September 30, 2007, the total amount of disbursements per CAS and OAKS was $11,999,214 while the amount reported on the SF-269A Financial Status Report was $21,547,128, resulting in the Financial Status Report being overstated by $9,547,914.

- As of December 31, 2007, the total amount of disbursements per CAS and OAKS was $18,222,723 while the amount reported on the SF-269A Financial Status Report was $24,835,936, resulting in the Financial Status Report being overstated by $ 6,613,213.

- As of March 31, 2008, the total amount of disbursements per CAS and OAKS was $23,178,026 while the amount reported on the SF-269A Financial Status Report was $18,258,321, resulting in the Financial Status Report being understated by $4,919,705. This variance was attributed to the Department submitting an adjusted quarterly report for the quarter ending December 2007 that was inadvertently posted as quarter ending March 2008 activity.

In addition, the Department's current procedures require the Fiscal Division's Grants Administrator to review the Financial Status Report for accuracy and completeness; however, the review was not consistently documented. For five of 17 (29%) quarterly SF-269A reports tested, the Grants Administrator did not evidence her review of the report for accuracy and completeness by placing her signature on the report. Furthermore, for nine (60%) of the 14 quarterly SF-269A reports selected for testing, the current "this period" amount reported for the each grant's activity did not trace to supporting documentation maintained by the Department.

The absence of internal controls to reasonably ensure the accuracy and completeness of reports increases the risk that information reported is not representative of grant activity and/or is not in accordance with federal requirements and regulations. As a result, the Department was not in compliance with federal reporting requirements for the HSGP.

According to the Department's Fiscal Officer, the amounts reported in the Financial Status Reports for the "this period" column were plug figures in order to report the correct cumulative outlays for each grant. The Fiscal Officer also indicated the Department is currently utilizing amounts reported in the state's accounting system to prepare the Financial Status Reports.

We recommend the Department devise and implement policies and procedures to provide reasonable assurance the Financial Status Reports (SF-269A) are accurate, complete, and in compliance with the Homeland Security Cluster's federal requirements. This could be achieved by establishing a comprehensive review of the report's information ensuring the data in the report properly reflects the data reported in the state's financial accounting system. Evidence of such reviews should be maintained to provide management with assurance the controls are operating consistently and effectively.

Official's Response and Corrective Action Plan

Several internal controls have been implemented to provide greater assurance on the completeness and accuracy of the quarterly SF269-A Financial Status Reports filed for the Homeland Security Grant Program. A quarterly worksheet was developed to assist in completing the SF269-A Financial Status Reports. This worksheet assists in completing the SF269-A Financial Status Reports as it allows for the compilation and reconciliation of the data retrieved from the accounting system and other pertinent sources. A detailed review of the worksheet, supporting documentation, and SF269-A Financial Status Report is completed by a peer and a fiscal manager which is evidenced by sign-off on the quarterly worksheet. To address support documentation for current quarter activity, we recently revised our

2. HOMELAND SECURITY CLUSTER – INACCURATE FEDERAL REPORTS (Continued)

worksheet to separate current quarter activity from life to date activity. Since performance periods for the Homeland Security Grant Programs typically extend beyond the state fiscal year, it is necessary to keep a ledger outside the state's accounting system when adjustments are identified after the state fiscal year. Since adjustments cannot be made to the state's accounting system after fiscal year end, this ledger is necessary to track proper life to date grant activity. These records external to OAKS will need to be taken into account when reviewing future accuracy of the Financial Status Reports.

Anticipated Completion Date for Corrective Action

Corrective action has already been completed.

Contact Person Responsible for Corrective Action

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3. HOMELAND SECURITY CLUSTER – FEDERAL SCHEDULE

Finding Number	2008-DPS03-051
CFDA Number and Title	97.067 – Homeland Security Grant Program
Federal Agency	Department of Homeland Security
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

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

> . . .
>
> (b) Schedule of Expenditures of Federal Awards. The auditee shall also prepare a schedule of expenditure of Federal awards . . . At a minimum, the schedule shall:
>
> (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs.
>
> . . .
>
> (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
>
> . . .
>
> (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance . . .

It is management's responsibility to implement control policies and procedures to reasonably ensure the Department's Attachment A portion of the Schedule of Expenditures of Federal Awards submitted to the Office of Budget and Management (OBM) is in compliance with the above requirements. Sound internal

3. HOMELAND SECURITY CLUSTER – FEDERAL SCHEDULE (Continued)

controls would require a review of the Federal Schedule be performed and documented in some manner, prior to submission, to verify the information the Department reported is accurate and complete, and that all transactions and adjustments are appropriately reflected on the State's accounting system.

During state fiscal year 2008, the Department utilized the State's new accounting system, the Ohio Administrative Knowledge System (OAKS), to prepare their Schedule of Expenditures of Federal Awards. This schedule ultimately reported approximately $26 million for the Homeland Security Grant Program (CFDA # 97.067). However, the original information submitted to OBM related to this program was not accurate and complete, as detailed below:

- The Department incorrectly reported $26,018,661 of federal expenditures for CFDA #97.067 – Homeland Security Grant Program under other CFDA numbers. Based on guidance from the Department of Homeland Security, funds they awarded for a variety of programs in award years 2004 and prior were to be reported under the old CFDA numbers for those programs. Funds from award years 2005 and after (except for 97.042 starting in award year 2006) were to be reported under CFDA #97.067 as the Homeland Security Cluster. During fiscal year 2008, the Department reported federal expenditures for the Homeland Security Cluster under the old CFDA numbers on the original schedule of federal awards submitted to OBM. Expenditures for award year 2005 and after (except for 97.042 starting in award year 2006) should have been reported under CFDA 97.067 – Homeland Security Grant Program. As a result, the amount reported for the cluster was significantly understated. This issue was brought to the Department's attention and subsequently corrected.

- The Department incorrectly reported $1,687,565 to CFDA #97.004 – State Domestic Preparedness Equipment Support Program. These disbursements were for FFY 2004 and should not have been included in the Homeland Security Cluster, but reported separately as CFDA #97.008 – Urban Areas Security Initiative since CFDA #97.008 did not become a part of the cluster until FFY 2005. This issue was brought to the Department's attention and was subsequently corrected.

- The Department did not record approximately $397,620 in federal pass-through expenditures, coded to accounts 596000 and 596010 in OAKS, on the Emergency Management Agency's Attachment A. These amounts are to be eliminated to avoid double counting transactions processed by both the prime recipient agency and their sister-agency subrecipients. As a result, the federal expenditures reported by the Department for the program were overstated by this amount. This issue was corrected on the final federal schedule.

- The Department recorded seven adjustments within Attachment A's Column E, Other Adjustments to OAKS Disbursements, that were either prior year biennium refunds or adjustments that occurred during the current fiscal year but related to prior year activity. Although the Department followed OBM's instructions when completing their federal schedule, these seven adjustments resulted in an understatement for the program of $170,082. This issue was corrected on the final federal schedule.

In addition to the Schedule of Federal Awards, the Office of Budget and Management requires the Department to prepare a schedule to identify information related to the note disclosure for CFDA #12.005 – Donation of Federal Surplus Property. The schedule submitted by the Department indicated the Donated Federal Surplus Property Inventory Balance as of June 30, 2008, totaled $10,765,758. The Department tracks this information in a system which reflects the current fair market value of the property at any given date. The documentation presented at the time of testing indicated a fair market value of $10,061,896 which did not agree with the inventory balance amount reported to the Office of Budget and Management for a variance of $703,862 (6.5%).

The failure to reflect all expenditures accurately reported on the schedule and the note disclosure increases the risk that the State of Ohio's Schedule of Expenditures of Federal Awards may be materially misstated. This, in turn, may result in a reduction in program funds and/or fines and penalties from the federal grantor agency.

3. HOMELAND SECURITY CLUSTER – FEDERAL SCHEDULE (Continued)

The Department indicated the individual programs were identified separately on the Attachment A to the Schedule for tracking purposes and the totals, when carried forward to the Schedule itself, were inadvertently left as individual grants instead of clustered together under CFDA #97.067. Pertaining to refunds included as adjustment on Attachment A, the Department indicated they felt that refunds received during the current year relating to prior year expenditure activity should be reflected. According to the Inventory Management Supervisor, the inventory balance reported to the Office of Budget and Management was mistyped and the amount reflected in the Department's supporting documentation is the accurate fair market value of the inventory.

We recommend the Department prepare written procedures to document their process for and the resources used to prepare the Schedule of Expenditures of Federal Awards. In addition, management should review the schedule for agreement to OAKS and proper classification of program expenditures. The review should be documented and the documentation should be maintained. We also recommend the Department develop internal control procedures to ensure the amount reported for their federal note disclosure pertaining to the Donated Federal Surplus Property Inventory Balance as of June 30 agrees to supporting documentation. Since the inventory balance is reported on a fair market value, it is imperative that the Department document the amount and maintain this documentation for future reference.

Official's Response and Corrective Action Plan

In completing the SFY 2009 Attachment A for grant activity for the Ohio Emergency Management Agency, a file was maintained with all supporting documentation. The schedule was reviewed along with the supporting documentation by fiscal management prior to submission to the Department's federal schedule coordinator for compilation with the other divisions. The OMB A-133 Compliance Supplement was consulted in compiling the schedule in an effort to reduce reporting errors.

Relating to the Donation of Federal Surplus Property, documentation prepared by Inventory Management will have a review and sign-off from management to check for accuracy.

The Department does disagree with the comments regarding the inclusion of adjustments for refunds of expenditures for prior year items on Federal Schedule for the following reasons:

- *DPS followed OBM's directions for the completion of the Federal Schedule. DPS can not submit a corrective action plan as the only action needed will be for OBM to change the directions they issue to all state agencies if that is determined appropriate.*

- *We believe OBM's directions for handling refunds of expenditure to be in line with federal guidance for reporting financial 'activities' <u>in the period in which they occur</u>. Financial 'activities' would include both disbursements and refunds of disbursements.*

- *Not adjusting disbursements to remove refunds of expenditures will cause overreporting total distributions (as compared to the total grant award) to a single CFDA # over the course of time.*

- *A clear classification of refunds of expenditures into either current year or prior year categories would be difficult and could possibly require the sub-grantee to provide a full accounting timeline to make such a determination. Nor would it address issues for grants where advancements of funds are allowable under the terms of the grant.*

Anticipated Completion Date for Corrective Action

Planned corrective action has already been implemented.

3. HOMELAND SECURITY CLUSTER – FEDERAL SCHEDULE (Continued)

Contact Person Responsible for Corrective Action

Kathy Ludowese and Jeff Shadburn, Chief Fiscal Officer and Chief of Inventory Management, Ohio Department of Public Safety, 1970 West Broad Street, Columbus, OH 43223, Phone: (614) 752-7604 and (614) 466-2890, E-Mail: KLudowese@dps.state.oh.us and JSSadburn@dps.state.oh.us.

Auditor of State's Conclusion

Since the federal schedule is reporting on a cash basis, we believe reporting activity from a prior period misrepresents the activity for the current year. The federal guidance indicates the amounts reported on the federal schedule will not agree to the amounts included on the financial reports for the federal program because the reports are cumulative. We believe these federal financial reports are the proper place to reflect these prior period activities. This information has been communicated to OBM who is re-evaluating their guidance. Therefore, the finding will remain as stated.

4. HOMELAND SECURITY CLUSTER – EQUIPMENT MANAGEMENT

Finding Number	2008-DPS04-052
CFDA Number and Title	97.067 – Homeland Security Grant Program
Federal Agency	Department of Homeland Security
Compliance Requirement	Equipment and Real Property Management

SIGNIFICANT DEFICIENCY

44 CFR 13.32 states, in part:

. . .

(d) Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

. . .

(3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.

(4) Adequate maintenance procedures must be developed to keep the property in good condition.

. . .

4. HOMELAND SECURITY CLUSTER – EQUIPMENT MANAGEMENT (Continued)

It is management's responsibility to implement control policies and procedures to reasonably ensure the Asset Inventory Management System (AIMS) Equipment Inventory Listing they maintain is complete and accurate and equipment purchased using the Homeland Security Cluster's funding is maintained and disposed of in accordance with grant guidelines.

After a Homeland Security Cluster grant is issued to the Department's Emergency Management Agency (EMA), a budget is prepared to document the proposed use of these funds. Within the grant's budget, EMA specifies the allocation kept at the state level that will be used for equipment. The EMA inventories state property as it is received by the Department on an annual basis. Every 24 months, the Department and the EMA conduct a hands-on inventory of state equipment and document the information on a Physical Inventory Data Collection form, as well as update the State's Asset Inventory Management System (AIMS). In addition, the Department must certify their inventory to the Department of Administrative Services by October 1st each year. The following items were noted:

- An inventory listing containing only items purchased with Homeland Security Cluster's funds was not available. Three AIMS inventory listings were provided to the auditors for the Emergency Management Agency, the Office of Homeland Security in the Shipley Building, and the Centre School since a majority of the items purchased in these three locations used Homeland Security funds. A field for the grant number and fund was added to the AIMS system; however, on the AIMS listings provided, these fields were not always complete. As a result, we were unable to verify/ensure the accuracy and completeness of the Homeland Security Cluster inventory listing.

- Eight of eight (100%) items selected for testing from the AIMS inventory listing could not be traced to their designated location. We inquired with the Department, who indicated seven of these items were passed through to local government units and the AIMS was not updated to reflect this change. One of the items was designated in the EMA data management area but was actually located in the EMA secure room.

- Ten items were selected for testing from vouchers for equipment purchases processed during fiscal year 2008; however, two of these ten items did not require inclusion on the AIMS listing. Of the remaining eight items, two (25%) could not be traced to the AIMS inventory listing.

- For two of ten (20%) newly purchased items tested, the invoices were not date stamped or signed by the supervisor or manager to evidence the receipts of goods and services, as required by Department procedures.

- For three of ten (30%) newly purchased items tested, the Fiscal Specialist did not stamp the equipment voucher as "PAID" with the date processed and warrant number to evidence the Department's review of the payment for completeness and accuracy, as required by Department procedures.

If the Department does not adequately document and record inventory transactions and adequately maintain their inventory records, management cannot be assured that equipment records are complete and accurate, items recorded are being used for their intended purposes, or that items are properly disposed of in accordance with the Homeland Security Cluster's federal regulations. Additionally, the failure to provide a complete and accurate inventory listing could result in reduced Homeland Security cluster funding in future years.

The Department's Inventory Management Chief indicated, each division has their own method for receiving equipment and entering the information into AIMS is not always consistent from division to division since the person may not be aware of the equipments' fund and grant number. In addition, each division within the Department has their own method for tracking equipment passed through to local

4. HOMELAND SECURITY CLUSTER – EQUIPMENT MANAGEMENT (Continued)

government units and there was some confusion as to how these equipment items should be handled within AIMS. The Inventory Management Chief also stated a grant field was added to the AIMS system during the fiscal year, but equipment items purchased in the past were not updated with the grant number.

We recommend the Department strengthen their current policies and procedures in order to reasonably ensure their inventory listing is accurate and complete. The Department should ensure staff understands how to handle the receipt, recording, and disposal within AIMS of equipment purchased using Homeland Security Cluster's Federal funds. Also, the Department should ensure any equipment passed through to the local government units is properly and consistently reflected within the Departments records and the AIMS system.

Official's Response and Corrective Action Plan

The Ohio Department of Public Safety has already implemented a grant number field within the Asset Inventory Management System (AIMS) to capture the appropriate federal information directly in the system. The addition of this field allows for an inventory listing to be generated directly from AIMS. A new transaction code has been identified to establish a subset of the active asset inventory consisting only of items purchased using Federal grant money. A change to Purchasing procedures now adds grant information to Purchase Orders provided to Inventory Management Services. Inventory Management Services uses this information to record grant information and to monitor entries by Homeland Security and the Emergency Management Agency (EMA).

Inventory Management Services is improving coordination of asset transfers from Homeland Security and the EMA by providing periodic asset listings of grant funded assets for division reconciliation. Use of the new transaction code to identify items purchased with Federal Grant money adds the new ability to produce needed reports. Inventory Management Services is developing a secondary procedure to annually audit and verify that assigned equipment is still with the responsible agency. Two items tested which could not be traced to the AIMS inventory listing were caused by a direct delivery to the Strategic Analysis and Information Center (SAIC). Inventory Management Services has begun conducting biennial physical asset inventories to verify the accuracy of the EMA and Homeland Security remote delivery asset records as well. Additionally, Inventory Management Services has begun to cross check EMA purchase orders to assist EMA's asset management group in recording items to AIMS.

EMA will develop federal grant asset procedures in their grant Administrative Plan for assets purchased by their division. These procedures will outline how to handle the disposition, inventory, tagging, and tracking of assets purchased with Homeland Security grant funds. Assets purchased by other Ohio Department of Public Safety divisions via a subgrant from the EMA division will be monitored more closely in the future for compliance with the requirements.

Ohio Homeland Security (OHS) will improve communication with Asset Management to ensure all purchase orders using grant funds are provided to Asset Management for entry into AIMS. OHS will reconcile pass through assets with Asset Management at least quarterly to ensure accountability of the assets and the accuracy of the AIMS records.

Anticipated Completion Date for Corrective Action

Complete corrective action is anticipated to be put into place by December 31, 2009.

Contact Person Responsible for Corrective Action

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO REHABILITATION SERVICES COMMISSION

1. VOCATIONAL REHABILITATION AND SOCIAL SECURITY DISABILITY INSURANCE – CASH MANAGEMENT

Finding Number	2008-RSC01-053
CFDA Number and Title	84.126 – Vocational Rehabilitation 96.001 – Social Security Disability Insurance
Federal Agency	Department of Education Department of Health and Human Services
Compliance Requirement	Cash Management

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

The Cash Management Improvement Act (CMIA) Agreement between the State of Ohio and the U.S. Department of Treasury states, in part:

> Section 6.1.4 – Estimate and Reconciliation of Estimates: Where estimated expenditures are used to determine the amount of the drawdown, the State will indicate in the terms of the State unique funding technique how the estimated amount is determined and when and how the State will reconcile the difference between the estimate and the State's actual expenditures.

The Vocational Rehabilitation and Social Security Disability Insurance programs' unique funding technique per the CMIA Agreement is pre-issuance.

> Section 6.2.1 – . . . Pre-Issuance: The State shall request funds such that they are deposited in a State account not more than three days prior to the day the State makes a disbursement. . . The amount of the request shall be the amount the State expects to disburse. . . .

During state fiscal year 2008, the Ohio Rehabilitation Services Commission utilized the pre-issuance funding technique and drew down approximately $125.8 million in federal funding for the Vocational Rehabilitation program and approximately $79.8 million in federal funding for the Social Security Disability Insurance program. Before completing a federal draw, the Fiscal Specialist prepares a cash forecast by obtaining the beginning cash balance for a particular fund from the Ohio Administrative Knowledge System (OAKS). Then the Fiscal Specialist will add any outstanding revenue deposits and deduct any payables and/or intra-state transfer voucher disbursements, deduct any estimated expenses for the next two days, deduct administrative payments, and deduct periodic expenses (e.g., rent, payroll, indirect costs, etc.,) from the beginning cash balance to determine the amount of the federal draw. After determining the cash balance for a particular fund, the Fiscal Specialist will compare the cash ledger from the OAKS commitment control to the summary voucher report from the Case Authorization Tracking System (CATS) to determine the amount of available funding after deducting any single payment vouchers approved and submitted to state accounting for processing. If there is not a sufficient amount of cash on hand, the Fiscal Specialist will prepare a federal draw down request.

The Commission was unable to provide any documentation to support their federal draw calculations and was unable to demonstrate how the estimated expenditures (determined via the process described above) were reconciled to the actual expenditures. Initially, procedures were performed to determine the clearance pattern of federal funds and determine whether or not the Commission was in compliance with the CMIA. However, the Commission did not retain documentation of the funds' daily cash balance and during testing expressed concerns that the cash balances in OAKS may not have been accurate. As a result, alternative procedures were performed by selecting a federal draw and two subsequent vouchers in order to determine whether or not the Commission was in compliance with the CMIA State-Treasury Agreement. The results of these procedures are noted below.

1. VOCATIONAL REHABILITATION AND SOCIAL SECURITY DISABILTY INSURANCE – CASH MANAGEMENT (Continued)

- For 25 of 28 (89%) vouchers subsequently selected from 14 Vocational Rehabilitation federal draws, we were unable to determine if the Commission disbursed the federal revenue within three business days, as required by the CMIA State-Treasury Agreement.

- For 37 of 38 (97%) vouchers subsequently selected from 19 Social Security Disability Insurance federal draws, we were unable to determine if the Commission disbursed the federal revenue within three business days, as required by the CMIA State-Treasury Agreement.

Without timely disbursement of funds by the Commission, interest penalties may be incurred by the State of Ohio for the funds drawn and not disbursed in accordance with federal requirements and the State-Treasury Agreement. According to the Commission's Finance Manager, tying a specific invoice to a specific deposit is not required by the CMIA and none of their internal systems can track this correlation. Management routinely runs low on federal funds and believes the CMIA speaks only in aggregate numbers and not specific invoices.

We recommend the Commission implement and/or strengthen controls to reasonably ensure all draw requests for the Vocational Rehabilitation and Social Security Disability Insurance programs are adequately documented and are drawn/disbursed in accordance with the CMIA State-Treasury Agreement pre-issuance methodology. We also recommend the Commission establish and document procedures to monitor cash balances and reconcile estimated expenditures to actual expenditures to reasonably ensure federal funds are drawn down consistently with the Commission's immediate cash needs.

Official's Response and Corrective Action Plan

The process followed by ORSC for the drawdown of federal funds has not changed over the past seven audit periods, with no prior audit findings or management letter comments. The agency draws federal funds under the Vocational Rehabilitation program an average of two to three times per week. The State Accounting system, OAKS, will not process transactions for ORSC unless there are sufficient funds available (per budget checks in the system) to make payment on those transactions. Frequently, ORSC transactions have "bounced" or rejected in OAKS due to insufficient federal funds as the agency waited for federal funds to arrive in the State treasury as a result of our efforts to comply with the CMIA. Therefore, ORSC would contend that excess federal funds are not being drawn on a routine basis.

To address concerns raised by the Auditor of State, ORSC will adjust its federal drawdown process to better document the federal drawdown calculations and reconcile estimated expenditures to actual expenditures to ensure funds are disbursed in accordance with federal CMIA requirements. For example, ORSC is now processing its BDD Case Service file transfer only once per week. A report is available in CATS the morning the transfer will take place that gives the total of the transfer. A specific draw for that expenditure will be made and the CATS report attached to the draw request as support. This should satisfy both the need for documentation of the amount drawn as well as the reconciliation of expenditure to draw requirement. A similar process will be used to draw specific cash for VR Case Service file transfer expenditures which will soon begin to be done twice weekly. In addition, special draws will be done for large expenditures as they are vouchered, such as quarterly rent payments, bi-monthly payroll, bi-monthly BDD contract doctor payments, Indirect Cost assessments, and other large single or group payments as they occur. This should leave only 'routine' admin payments to be drawn from estimates and greatly reduce the amount of federal funds sitting in the state treasury based on expenditure estimates.

1. VOCATIONAL REHABILITATION AND SOCIAL SECURITY DISABILTY INSURANCE – CASH MANAGEMENT (Continued)

Anticipated Completion Date for Corrective Action

Action will be completed by September 30, 2009.

Contact Person Responsible for Corrective Action

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2. SOCIAL SECURITY DISABILITY INSURANCE – DOCUMENTATION OF INTERNAL CONTROLS

Finding Number	2008-RSC02-054
CFDA Number and Title	96.001 – Social Security Disability Insurance
Federal Agency	Department of Health and Human Services
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs and Costs Principles

SIGNIFICANT DEFICIENCY

An entity's internal control structure is placed in operation and maintained by management to prevent or detect misstatements in the accounting records; to help ensure compliance with laws and regulations, and to provide a basis for monitoring whether operations are achieving management's objectives. To be effective, the performance of internal control procedures must be evidenced in some manner to provide assurance the prescribed procedures are being followed.

During state fiscal year 2008, the Commission disbursed approximately $7.5 million of federal funds, or 10% of total program expenditures, for the request of Medical Evidence of Records (MER) for the Social Security Disability Insurance Program. The Commission is responsible for determining Social Security Disability Insurance claimants' disabilities and assuring determinations are adequately supported and evidenced. In order to perform the disability determinations, the Commission is authorized to purchase consultative medical examinations and medical evidence of record from the claimants' physicians or other treating sources. Once the medical evidence of record is received, the documentation supporting the service is scanned into the Levy Control System along with a Payment Authorization Form which services as the invoice. The documentation Authorization Form which serves as the invoice. The documentation is then forwarded to a Claim Adjudicator who performs a review to determine whether or not the services provided merits payment. However, the Claim Adjudicator does not evidence their review and, unless the payment is stopped by the Claim Adjudicator, the payment is automatically processed at the end of 20 days.

If internal control procedures are not performed and documented thoroughly and consistently, management is unable to provide reasonable assurance their objectives are being met and MER payments are recorded accurately. Additionally, since the Levy Control System automatically approves MER at the end of 20 days, there is an increased risk that unsubstantiated payments may be made using federal funding. Current and future funding received by the Commission could be affected as a result. The Commission's management indicated a similar issue had been brought to their attention and they have modified their process in fiscal year 2009 to begin the 20 day window once the Claim Adjudicator opens the claim for their review and not when the claim becomes available for review.

2. SOCIAL SECURITY DISABILITY INSURANCE – DOCUMENTATION OF INTERNAL CONTROLS (Continued)

We recommend the Commission develop and implement control procedures over the review and approval of MER. These internal controls should reasonably ensure the transactions are accurately recorded and properly approved prior to payment, and be adequately documented to provide management with reasonable assurance they are performed timely and consistently. Additionally, the Commission should implement edit checks into the Levy Control System to ensure all payments are reviewed and approved by the Claim Adjudicator.

Official's Response and Corrective Action Plan

Based on recommendations from the Auditor of State Performance Audit in 2008, the ORSC Bureau of Disability Determination requested modification of the Levy Control System such that payments for MER would no longer be automatically generated after 20 days from the date of receipt of bar-coded turnaround/invoice accompanying records.

The modification requires adjudicative staff to review and validate copies of medical evidence prior to the initiation of the payment cycle. The Levy Control System tracks this by utilizing an indicator on copies of medical evidence that are received. This indicator must be removed by adjudicative staff in order for the payment cycle to begin. During review and validation, if payment is unsubstantiated, adjudicative staff cancel the authorization for payment using specific indicators. This information is noted in the Levy Control System. Payment cannot be made without adjudicative action.

Anticipated Completion Date for Corrective Action

To address the recommendations of the prior Performance Audit, this modification to the Levy Control System was made in January of 2009.

Contact Person Responsible for Corrective Action

Kathleen Johnson, Director, Bureau of Disability Determination, Ohio Rehabilitation Services Commission, P.O. Box 359001, Columbus, OH 43235, Phone: (614).438.1501, E-Mail: Kathleen.johnson@ssa.gov

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OHIO DEPARTMENT OF TRANSPORTATION

1. INFORMATION TECHNOLOGY – PRODUCTION ACCESS TO MAINFRAME PROGRAMS AND DATA

Finding Number	2008-DOT01-055
CFDA Number and Title	20.205/23.003 – Highway Planning and Construction Cluster
Federal Agency	Department of Transportation Appalachian Regional Commission
Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs, Eligibility, Reporting

<u>SIGNIFICANT DEFICIENCY</u>

To maintain integrity of essential ODOT applications and data, access to computer systems, programs, and data must be restricted to only users whose specific job responsibilities require it. In order to reasonably ensure users are authorized, a formal, documented authorization request process must be in place for granting access to new users or modifying existing access rights. Also, a periodic review of user access must be conducted to verify that all access is appropriate and current. In addition, effective access procedures would provide for the suspension of user access capabilities, logical and physical, upon separation from ODOT employment.

ODOT's mainframe computer applications were used in processing more than $2.65 billion in state and federal funds during state fiscal year 2008. These applications included: Construction Management System (CMS), Appropriation Accounting (AA), Current Billing System (CBS), Bridge Management System (BMS), Road Inventory System (RIS), Pavement Management System (PMS), and Equipment Management System/Transportation Management System (EMS/TMS).

ODOT had no authorization process in place during the first six months of fiscal year 2008 for requesting, documenting, and approving access to these ODOT mainframe computer applications. Procedures were implemented for the last six months of the audit period; however, of the new users added during this period, approval documentation was not available for granted access to the mainframe applications for seven of the 30 (23%) new users tested. In addition, ODOT management completed an access reconciliation only during the last six months of fiscal year 2008 to confirm their employees' mainframe access was commensurate with their job duties for the CMS, AA, BMS, and EMS/TMS applications. Although a confirmation was initiated by DoIT (Department of Information Technology), seven district reconciliation reports out of 52 (13%) were missing during the six month reconciliation period. These procedures did not, however, include verifying contractor access. The access of contractors was not being centrally monitored; therefore, it was not possible to effectively review contractor terminations for timely access removals.

Personnel having undocumented, unauthorized, or inappropriate access to the ODOT applications increases the likelihood of incorrect processing of accounting, construction, and inventory data. Without an accurate periodic review of user access, the risk is increased that unauthorized users have inappropriate access to program and data files because they either were not granted access appropriately, changed job responsibilities and no longer required the access, or were terminated from the department and did not have their access appropriately severed. Without documentation from the districts verifying requested access reconciliations, subsequent adjustments or disabling of access rights cannot be performed effectively. If terminated employees' access is not removed timely, the risk is increased that expired access rights could lead to intentional destruction or damage to data or equipment. Unauthorized access could result in the execution of inappropriate application transactions or the alteration of program or data files that could be a misuse or misappropriation of state resources or federal program monies.

1. INFORMATION TECHNOLOGY – PRODUCTION ACCESS TO MAINFRAME PROGRAMS AND DATA (Continued)

According to ODOT management, access is granted and modified by ODOT's individual business units. Because access was decentralized in the past, there is not a central point of control for accounts, modifications, and termination of access for dispersed employees and contractors. DoIT will continue to monitor the business units and educate them on the importance of strong account access controls to administrators and process owners. Management also indicated that ODOT monitors the access of authorized users to the mainframe and applications. The Department has implemented processes to enhance security and improve documentation of user access. The Division of Information Technology continues to hire staff to recover the losses accrued during the last administration, and to lessen both the number of and dependency on contractors. Currently the Division plans on staffing a Chief Security Officer to monitor computer security, access and accounts.

We recommend the Department continue their efforts to help ensure all computer users, including hired contractors, only have the approved access they need to perform their job responsibilities. This can be accomplished through the new formalized access request process and maintained through periodic reviews of both system and application security. In addition, management should monitor the newly implemented controls to ensure that they are operating effectively. Lastly, stringent procedures should be finalized, documented, and followed to help ensure access to both logical and physical resources are removed or suspended within a few days of an employee's or contractor's separation from ODOT employment.

Official's Response and Corrective Action Plan

New user access approval documentation unavailable
Mainframe application access is granted and modified by ODOT's individual business units. DoIT has implemented the MAINFRAME APPLICATIONS ACCESS REQUEST FORM process for all mainframe applications. This process requires the submission of the user request for access and the supervisor approval of that request. This information is then submitted to the individual business units to have that access granted. DoIT management has educated the business units on the importance of strong account access controls and continues to monitor the overall process.

Access reconciliation reports missing
Reconciliation is performed per mainframe application on a quarterly basis. This process is the same as it has been in prior audit periods. Due to the number of missing access reconciliation reports in this last audit period, DoIT management has re-enforced with the business units and districts the importance of responding to our requests for quarterly review. This has vetted us 100% compliance for the coming audit period.

Anticipated Completion Date for Corrective Action

New user access approval documentation unavailable
This was implemented during the last audit period.

Access reconciliation reports missing
This was implemented during the last audit period.

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, 2007 THROUGH JUNE 30, 2008

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Administrative Services	2007-DAS01-001 **IT - OAKS Security**	No	The finding has been repeated in the FY 2008 Single Audit. See 2008-OAKS01-004.
Ohio Office of Budget and Management	2007-OBM01-002 **Cash Management - Interest Payments**	Yes	
Ohio Department of Development	2007-DEV01-003 **HEAP – Inaccurate Reporting**	Yes	
	2006-DEV01-001 2007-DEV02-004 **HEAP/TANF – Tracking and Documentation**	No	The finding has been repeated in the FY 2008 Single Audit. See 2008-DEV01-009.
Ohio Department of Education	2007-EDU01-005 **Charter Schools – Allowable Costs**	Yes	
	2006-EDU03-004 2007-EDU02-006 **21st Century – Monitoring of Subrecipients**	No	A related recommendation for improvement has been included in the Management Letter for the Ohio Department of Education.
	2003-EDU01-003 2004-EDU01-005 2005-EDU01-002 2006-EDU01-002 2007-EDU03-007 **Charter Schools – Monitoring of Subrecipients**	No	A related recommendation for improvement has been included in the Management Letter for the Ohio Department of Education.
	2005-EDU02-003 2006-EDU02-003 2007-EDU04-008 **Reading First – Monitoring of Subrecipients**	No	A related recommendation for improvement has been included in the Management Letter for the Ohio Department of Education.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Education (Continued)	2003-EDU06-008 2004-EDU05-009 2005-EDU03-004 2006-EDU04-005 2007-EDU05-009 **IT — Application Development and Maintenance**	No	The finding has been repeated in the FY 2008 Single Audit. See 2008-EDU01-010.
Ohio Department of Health	2003-DOH01-009 2004-DOH02-012 2005-DOH02-006 2006-DOH01-006 2007-DOH01-010 **Subrecipient Monitoring**	No	The finding has been repeated in the FY 2008 Single Audit. See 2008-DOH02-013.
	2005-DOH05-009 2006-DOH03-008 2007-DOH02-011 **MCH Grant – Matching, Level of Effort, and Earmarking**	No	The finding has been repeated in the FY 2008 Single Audit. See 2008-DOH03-014 and 2008-DOH05-016.
	2003-DOH03-011 2004-DOH06-016 2005-DOH06-010 2006-DOH04-009 2007-DOH03-012 **IT – Program Change Controls**	No	The finding has been repeated in the FY 2008 Single Audit. See 2008-DOH06-017.
Ohio Department of Job and Family Services	2006-JFS01-010 2007-JFS01-013 **MMIS(OHP) – Claims Reimb in Excess of OAC Limits**	No	The finding has been repeated in the FY 2008 Single Audit. See 2008-JFS01-018.
	2007-JFS02-014 **Medicaid - Voided Warrants**	No	The finding has been repeated in the FY 2008 Single Audit. See 2008-JFS11-028.
	2006-JFS07-016 2007-JFS03-015 **Undocumented Eligibility – Medicaid/FS/TANF – Franklin County**	No	The finding has been repeated in the FY 2008 Single Audit. See 2008-JFS03-020.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services (Continued)	2007-JFS04-016 **SSBG - Subrecipient Monitoring - Belmont County**	Yes	
	2007-JFS05-017 **TANF - ELI Unallowable Eligibility - Cuyahoga County**	Yes	
	2007-JFS06-018 **SCHIP - Ineligible Recipients**	No	The finding has been re-peated in the FY 2008 Single Audit. See 2008-JFS05-022.
	2006-JFS10-019 2007-JFS07-019 **TANF Missing Case Files – Franklin County**	No	The finding has been re-peated in the FY2008 Single Audit. See 2008-JFS08-025.
	2007-JFS08-020 **Foster Care - Unallowable Eligibility - Cuyahoga County**	Yes	
	2007-JFS09-021 **Child Care - Missing Files - Franklin County**	Yes	
	2007-JFS10-022 **Adoption Assistance - Unallowable Eligibility - Cuyahoga County**	Yes	
	2007-JFS11-023 **SCHIP - Undocumented Eligibility - Belmont County**	No	A related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
	2007-JFS12-024 **Medicaid/SCHIP - Third Party Liability**	No	The finding has been re-peated in the FY 2008 Single Audit. See 2008-JFS09-026.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services (Continued)	2007-JFS13-025 **TANF - Child Supp Non-Cooperation - Lucas & Hamilton County**	Yes	
	2007-JFS14-026 **SCHIP - Missing Files - Franklin County**	Yes	
	2006-JFS05-014 2007-JFS15-027 **Various Programs – Indirect Cost Allocation Variances**	No	A related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
	2003-JFS20-031 2004-JFS13-029 2005-JFS20-030 2006-JFS13-022 2007-JFS16-028 **IEVS** – **Due Dates**	No	The finding has been re-peated in the FY 2008 Single Audit. See 2008-JFS13-030.
	2005-JFS21-031 2006-JFS14-023 2007-JFS17-029 **IEVS – Alert Resolution/ Inadequate Documentation**	No	The finding has been re-peated in the FY 2008 Single Audit. See 2008-JFS14-031.
	2007-JFS18-030 **Medicaid/SCHIP - Provider Eligibility**	No	A related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
	2004-JFS23-039 2005-JFS26-036 2006-JFS16-025 2007-JFS19-031 **All Applications – Lack of Automated Controls Testing**	No	The finding has been re-peated in the FY 2008 Single Audit. See 2008-JFS15-032.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services (Continued)	2003-JFS37-048 2004-JFS22-038 2005-JFS28-038 2006-JFS17-026 2007-JFS20-032 **IT – Excessive Manual Overrides**	No	The finding has been repeated in the FY 2008 Single Audit. See 2008-JFS16-033.
	2007-JFS21-033 **Food Stamps - SAS 70**	Yes	
	2004-JFS32-048 2005-JFS39-049 2006-JFS22-031 2007-JFS22-034 **MMIS (OHP) – Recertification of MMIS Providers**	No	The finding has been repeated in the FY 2008 Single Audit. See 2008-JFS19-036.
	2006-JFS-02-011 2007-JFS23-035 **CRIS-E and MMIS Eligibility Spans Not Reconciled**	Yes	
	2007-JFS24-036 **Medicaid/SCHIP - Drug Rebate Monitoring**	No	A related recommendation for improvement has been included in the Management Letter for the Ohio Department of Job and Family Services.
	2007-JFS25-037 **Unemployment Insurance Benefits Paid After Benefit Year End**	No	The finding has been repeated in the FY 2008 Single Audit. See 2008-JFS20-037.
	2003-JFS42-053 2004-JFS38-054 2005-JFS36-046 2006-JFS27-036 2007-JFS26-038 **SSBG – Incomplete Monitoring**	Yes	

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services (Continued)	2004-JFS43-059 2005-JFS40-050 2006-JFS29-038 2007-JFS27-039 **IT –Missing Program Change Request Forms**	No	The finding has been repeated in the FY 2008 Single Audit. See 2008-JFS22-039.
	2003-JFS62-073 2004-JFS44-060 2005-JFS41-051 2006-JFS30-039 2007-JFS28-040 **IT – Unavailable Program Change Test Documentation**	No	The finding has been repeated in the FY 2008 Single Audit. See 2008-JFS23-040.
	2005-JFS46-056 2006-JFS31-040 2007-JFS29-041 **IT – Missing Approval Documentation**	No	The finding has been repeated in the FY 2008 Single Audit. See 2008-JFS24-041.
	2004-JFS34-050 2005-JFS47-057 2006-JFS32-041 2006-JFS33-042 2007-JFS30-042 2007-JFS31-043 **MMIS/ CRIS-E Edit Changes**	No	The finding has been repeated in the FY 2008 Single Audit. See 2008-JFS25-042 and 2008-JFS26-043.
	2004-JFS52-068 2005-JFS43-053 2006-JFS32-041 thru 2006-JFS36-045 2007-JFS30-042 thru 2007-JFS34-046 **IT – Level of Access to Production Environment**	No	The finding has been repeated in the FY 2008 Single Audit. See 2008-JFS25-042 thru 2008-JFS29-046.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Job and Family Services (Continued)	2004-JFS54-070 2005-JFS44-054 2006-JFS35-044 2006-JFS36-045 2007-JFS33-045 2007-JFS34-046 **IT – Unauthorized Access to SCOTI & OJI Profiles**	No	The finding has been repeated in the FY 2008 Single Audit. See 2008-JFS28-045 and 2008-JFS29-046.
Ohio Department of Mental Health	2003-DMH01-074 2004-DMH01-074 2005-DMH01-058 2006-DMH01-046 2007-DMH01-047 **Subrecipient Monitoring**	No	The finding has been repeated in the FY 2008 Single Audit. See 2008-DMH01-048.
Ohio Department of Public Safety	2007-DHS01-048 **Homeland Security Cluster – POA**	Yes	
	2007-DHS02-049 **Homeland Security Cluster - Inaccurate/Late Reports**	No	The finding has been repeated in the FY 2008 Single Audit. See 2008-DPS02-050.
	2007-DHS03-050 **Homeland Security Cluster - Equipment Management**	No	The finding has been repeated in the FY 2008 Single Audit. See 2008-DPS04-052.
Ohio Secretary of State	2006-SOS03-049 2007-SOS01-051 **Election Reform/HAVA – Suspension and Debarment**	Yes	
Ohio Department of Transportation	2007-DOT01-052 **Contract Time Extension Approval**	No	A related recommendation for improvement has been included in the Management Letter for the Ohio Department of Transportation.

AGENCY	FINDING SUMMARY	FULLY CORRECTED?	NOT CORRECTED/ EXPLANATION
Ohio Department of Transportation (Continued)	2007-DOT02-053 **IT - Security**	No	The finding has been repeated in the FY 2008 Single Audit. See 2008-DOT01-055.

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
OCTOBER 13, 2009

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